

**LEGISLATIVE ASSEMBLY FOR THE
AUSTRALIAN CAPITAL TERRITORY**

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: revenue raising in the ACT)

Members:

**MR B SMYTH (The Chair)
MS K GALLAGHER
MS K TUCKER**

TRANSCRIPT OF EVIDENCE

CANBERRA

WEDNESDAY, 16 OCTOBER 2002

**Secretary to the committee:
Mr P McCormack (Ph: 62050142)**

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

The committee met at 1.35 pm.

BRETT JAMES ODGERS was called.

THE CHAIR: Mr Odgers, I welcome you to this hearing of the Public Accounts Committee on revenue raising in the ACT. 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. If you would like to start your presentation by giving us your name for the record.

Mr Odgers: Brett James Odgers.

THE CHAIR: Would you like to make an opening statement or do you just want to talk to your submission?

Mr Odgers: I am sure that there will be a few questions, too, but I was going to suggest that jointly we go through the so-called 10 principles. Just as a preface, I should say where I am coming from, to a certain extent. I have a degree in history and political science and economics from the ANU and I worked for two Commonwealth departments—Immigration for 17 years and seven years with the ACT administration in lease management. I was director of non-residential leasing for the best part of those seven years.

I became the inaugural director of economics in the Commonwealth Department of Environment for five or six years and then I went over to New Zealand to help establish the Department of Environment in 1985-86, where again I was chiefly concerned with protocols and guidelines with respect to environmental economics and liaising with the other main economic departments in the New Zealand bureaucracy in Wellington. I returned to the Department of Environment, where I worked in environmental impact assessment, and was then with the Prime Minister and Cabinet Department with the working groups on ESD, and returned to the Department of Environment and retired at the end of 1997.

I have been alerted by Brendan to the two motives I had, essentially, in putting together my submission. I wanted to proceed from two topics, that is, the proper role of the state and, secondly, the structure of taxation, even though we are dealing with just a state/local government jurisdiction. The public debate in these two areas, the proper role of the state and the structure of taxation, I do not think has been particularly fruitful or particularly well managed by the powers that be in the last five or six years, although there have been opportunities to do so.

I want to say, under principles 1 to 4, some things about these matters. I might just begin with principle 1. I have a seat, actually, on the Chief Minister's expert reference group on sustainability. We have met once and we will meet tomorrow for the second time and then Friday. On principles 2 and 3, in conjunction, I think there is evidence around that

the proper boundaries of where the state can intervene compared to shifting to the private sector are not just confused, but perhaps pushing too far away from the proper role of the state. One can instance the areas of education—all levels of education at the federal level—and all levels of health in the three spheres of government.

I did want to refer to Fred Argy's work. He has published text in which he distinguishes between hard liberalism and progressive liberalism. I believe that he will be bringing out another book early next year called *Crime—the Retreat from Egalitarianism in Australia*. It is a particular theme that is here. But what is of interest to your inquiry, I believe, is the evidence which he adduces in this book—I refer to page 217 and pages 227 to 229—that, one, professional economists think that the attenuation and withering away of state agencies have gone too far and that there is no inherent economic merit in balanced budgets, balanced external accounts or balanced internal accounts, or in reducing public debt, or, for that matter, in having a minimal state. Professional economists say that these things have to be discussed on an ad hoc basis and evaluated accordingly.

Secondly, and perhaps more interestingly, governments haven't quite hypothecated taxes, but they have taken it up to a certain extent, and this is principle 4. He was using evidence of, say, 1990 to 1995, where surveys in Australia showed the willingness of Australians to pay more taxes if they knew the social benefits of where these taxes were going and if they were fair and equitable in the broad sense of fairness and equity. I have spoken to Fred Argy about his forthcoming book and he is even more insistent that Australians are willing to pay more in taxes—not income taxes, indirect taxes. Some of the evidence that he is using was published by Professor Withers in the *ANU Reporter* of October. It is not the current issue; it is the last but one, No 13, October 2002, about public support for increased spending from government, the corollary of which, as Professor Withers says, is the willingness, if there is leadership, advocacy and education, of people to pay earmarked taxes.

I cite as one other source an institution that is quite important to Canberra, that is, the Independent Pricing and Regulatory Tribunal. They have instanced water and sewerage as being an area where people in the past have been prepared to pay higher taxes in the Sydney metropolitan area and in Canberra, particularly in the current climate.

Principle 6, which is about a comprehensive inquiry into profit sharing which should take account of the incidence and effectiveness of subsidies in the existing system, is where we get into the nitty-gritty of just doing a cost-benefit cost analysis of incentives, a social cost-benefit analysis which is based on externalities. I am going to suggest seven headings where I believe increased taxes can be accommodated—can be contemplated, at least, and evaluated, with a view to perhaps adjusting existing taxes or introducing new taxes. But it is partly based on the fact that there are deep-seated subsidies already in the system with respect to full cost pricing.

These areas are, firstly, land rates—the land rate itself—and, secondly, the betterment tax. I would advocate a 100 per cent betterment tax, because it is consistent with the leasehold system which is so important to the development of Canberra as a national capital and as a metropolitan area and a regional centre. There is flexibility in using land rent. Secondly, the betterment tax. Thirdly, parking charges can be increased. Fourthly, motor vehicle registrations provide scope. Fifthly, the energy sector, and there has been

some good public debate recently about that, including the Independent Pricing and Regulatory Tribunal.

I have mentioned water and sewerage. Seventhly, development costs. We cover administrative costs for the processing of development applications, but there is nothing quite like the recent New South Wales government or at least Sydney metropolitan area innovation of a percentage charge on all development applications which are designated for public space—not just the traditional immediate public space, but broad structural expenditure, environmental expenditure, infrastructure and public transport. I have a press clipping on it. It is a quite recent introduction by the New South Wales government.

In addition, we have at different levels and different stages of development applications an environmental impact assessment and there is never any charge for this, even though the guidelines and the framework for environmental impact assessment confer benefits on developers, as well as on the community generally. There has been no charge and I think that there is scope for additional charges in the development application process.

What typifies all of these is that they are not income charges and they are not charges on labour; they are taxes on resources and services. I am not here concerned exclusively with environmental matters, either. There are quite a few services in the community where one could contemplate people paying, particularly when only identifiable groups in the community are the beneficiaries of services. I really do not have any immediate examples here. The traditional one is libraries, of course. I am sure that there are others. I confess that I have not given a lot of thought to that side.

Principle 8 is where I refer to the integrity and importance of the ACT leasehold system and then just predictions about prospective demands. From personal experience, I refer particularly to the health area, where it is important to the community to restore confidence with respect to some services, say, in mental health. It has been run down somewhat. Otherwise, I do not have any comments to offer in addition to my submission.

THE CHAIR: That is fine, thank you. I have a couple of questions for you, and I am sure that other members will have them as well. In principle 9, you make the statement that the revenue base for the ACT is manifestly inadequate. On what judgment is it inadequate and, in reality, what should it be?

Mr Odgers: My language is a bit colourful there. I think that that is an a historic comment with respect to the running down of the revenue base. There are so many things that we are not doing. If you take it in a global context, our overseas aid budget is a good example. If we take tertiary education, research and development, and health, there has been a deliberate running down of government's capacity to meet expectations and demands being made. This has all been in the interests of balancing budgets and this and that, which, as I argue, are pretty artificial rationales, putting at risk lots of important things that need to be done in the public domain.

THE CHAIR: Do you have a suggestion, then? The ACT budget is about \$2 billion a year. What is your estimate of what it should be?

Mr Odgers: I have a great deal of respect for the ACT, its Legislative Assembly and budget, and I have been party to submissions from the environment sector where we have identified needs. They are quite marginal in the whole context of the total budget. I have observed that the present government has been able to put a lot of money into what I would call sustainability in the economic sector, the seeding of sustainable industries, which is interesting, but in health and education there are quite significant shortfalls in the revenue base. I believe that there are significant shortfalls. I cannot put figures on that, but it is why I have advocated here, I think, the need for Canberra to argue strongly with the grants commission for a really fair measure for the ACT. I have looked at the grants commission's reports for the last couple of years and, at least in terms of its rationale, it falls lamentably short of even recognition of the important things Canberra does for the national capital.

MS TUCKER: Thank you for your submission and presentation.

Mr Odgers: A pleasure.

MS TUCKER: I do have a couple of questions; I am just trying to find them.

MS GALLAGHER: I can ask one in the meantime. In your presentation you refer to Australians becoming more willing to pay taxes if they are informed about why those taxes are being imposed. Apart from the articles you cite, is there something that you think the ACT government can do in this regard in terms of better educating the average person about where their money is going as part of an ongoing campaign?

Mr Odgers: Public transport is one. I mentioned earlier to Brendan that social capital money has been put to district and town and community councils to enable them to carry out what they think are public interest activities. I think that the Woden Community Council has initiated an education campaign with respect to the trade-offs between private car transport commuting and public transport, to put more information into households about the costs and benefits of the choice they have with public transport, because there is a fair degree of interest here.

As we know, federally, when there was a sense of crisis—like East Timor, where they were going to put on a Timor tax—the government was confident they would get away with it. I think there is probably a crisis of some significance in the overall health area. I think also Canberra's burgeoning national capital and regional responsibilities require more money to be coming through in the land planning and management area. There is so much unrest in this community about the inadequacy of the regulatory system for guaranteeing community satisfaction, broadly speaking, in the whole development and garden city areas. But it costs money to set up planning systems and changes in infrastructure—a broad-based land tax. I think also there is a greater awareness now of road transport, with respect to paying the full costs of road transport in terms of, say, safety. Lots of additional costs are coming through now in road behaviour and road usage, where a little more differential taxing of the vehicles, maybe at the registration stage, would be acceptable, except to a few groups, like owners of off-road vehicles.

THE CHAIR: Kerrie, did you find your reference?

MS TUCKER: Yes. I was interested in that issue, too, and I was interested in your statement that people are not necessarily prepared to pay more in income tax, but if it is hypothecated they are more willing. Treasury do not like hypothecation at all. I am wondering whether they have got good reasons for not liking it. As someone who has worked in that area, do you understand the argument of Treasury?

Mr Odgers: I certainly do.

MS TUCKER: Is it mainly just to enable it to control spending? Obviously, if it is hypothecated, it has got to be used for a certain thing. The water extraction charge actually was not used for water here; it went into consolidated revenue.

Mr Odgers: That did not happen in Sydney.

MS TUCKER: It went straight to the actual function in Sydney, did it?

Mr Odgers: Yes, for a while, and then they quietly put it into general revenue.

MS TUCKER: People get angry about that.

Mr Odgers: In the areas of the environment and, I think, now with sustainability, even though it embraces social, health, planning and environmental issues, despite that the Treasury would probably adhere now more strongly to that view because they are striving for efficiency and simplicity. At least the Commonwealth Treasury does, partly because with the GST enough money is being put, so they think, to the states and territories and local government to enable them to carry out the services of government. So they would feel even more strongly at the Commonwealth level. But at the state, territory and local government level you are closer to people and you can effect policy changes more easily than one can do where, effectively, you are using big systems at the Commonwealth level. I do not think it is justifiable at the ACT Treasury level. I think the ACT Treasury is going to have to come to the party on a number of sustainability challenges.

MS TUCKER: But we are limited as a territory in terms of the taxes we can actually impose by the introduction of the GST.

Mr Odgers: Yes.

MS TUCKER: Do you know whether we can impose these particular levies by calling them by another name? The committee may need to follow that up.

Mr Odgers: I read Senator Vanstone's comments very closely the other day when she spoke of the general level of taxation as to state and local government, but that was an ideological, hard Liberal statement, because she did not detail the taxes. I looked closely to see what specific taxes she was objecting to, but it was just the general level of taxation and trying to shift a bit of blame, I suppose, from the Commonwealth, where a lot of the income tax is drifting upwards as incomes increase, not so much through taxation but increasing incomes. The taxes I have in mind are essentially more of what we have at the moment, what we are able to get away with at the moment. It would seem that the legal objections have been solved and we seem to have entered most of these

areas of taxation I am referring to. We are there and just need more of it, justifying it as we go.

MS TUCKER: Another issue you brought up—it is mentioned in quite a few of the submissions—is the competitive bidding between states to attract business and the giving of subsidies or the forgoing of revenue, et cetera. I am interested in how you think you could stop that happening. One submission—I do not remember whether it was from you—suggested that you get the Council of Australian Governments to agree not to do that, but I cannot quite understand how it would work.

Mr Odgers: My response is that the ACT has many advantages and has capitalised on these advantages with respect to encouraging industry here. Canberra is blessed, and has been since before the First World War, in some respects with having science-based industries, defence-based industries, parliament-based industries, publishing and services-based industries, and academic, intellectual and teaching-based industries which constitute a very broad and sustainable investment and employment base. I have never been particularly worried, except in those early days when we had sharp cycles of government presence in Canberra and then government walking out of Canberra, but we have got beyond that stage now and I am more confident than ever that Canberra is actually quite well placed. We can be quite discriminating in industry because we have these existing intellectual, natural and institutional resources.

MS TUCKER: In your opening statement you spoke about the capacity of the state to ensure that services are available for the citizens. Do you have any comment to make on the capacity of governments to continue to do that if we go further into the General Agreement on Trade in Services, if we are opening up services, including environmental services, to liberalisation through World Trade Organisation rules and, in particular, GATS, which is now being discussed? I wonder whether you have a comment there.

Mr Odgers: It is a very dangerous period we are in at the moment. That is my assessment. I sit on the contact group of the Treasury which is monitoring the new version of the multilateral agreement on investment. I also represent the Environment Institute in round table consultations with respect to inputs to GATS discussions, and there will be a major one in Australia in November, as a matter of fact. These are very dangerous times. I would see a strengthening of international capital and multilateral corporations in pushing for freer trade and classifying environment and health, for example.

As I heard last week, intellectual resources and libraries feel gravely threatened. Carolyn Allport, who is secretary of the Tertiary Education Union in Australia, is participating in a lot of these international negotiations. It will be dangerous. People talk about states withering away in the face of international governance through movements of international capital and corporations, but still governments have the powers to protect their sovereignty, to frame laws and to participate in international treaties and protocols so that they protect their interests, if their interests are regarded as important enough.

If you translate that to the ACT level, we also have powerful positions. We have equal standing with the other states with respect to negotiations over Australia's adherence to international treaties and participation in international negotiations. We have the leasehold system with respect to some of those services. There are just times when

governments have to participate fully in not only their own domestic jurisdiction but regionally and internationally, which puts additional responsibilities on government to be aware of the global environment as it is. Locally, I would like our Treasury and our legal people to protect our standards and our statute book. Our sources of revenue need to be making an input to national and intergovernmental negotiations. This all means that governments have to be smart and you can't outsource a lot of this because it is diplomacy and participation in intergovernmental bodies. This applies with great force, of course, in the areas of water and air pollution, where things like emission standards, the conservation of ecological systems and biodiversity are largely national responsibilities.

THE CHAIR: With that, I thank you, Mr Odgers, for your presentation and your submission.

Mr Odgers: Thank you. I enjoyed the discussion.

KATHRYN MAXWELL was called.

THE CHAIR: Good afternoon. 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 very serious matter. I would like to welcome you to the Public Accounts Committee and thank you for your submission. I would ask that you identify yourself and perhaps start with your presentation.

Ms Maxwell: My name is Kathryn Maxwell and I am the President of the Conservation Council of the South-East Region and Canberra. I would like to start by giving just a brief overview summarising some of the key issues in our submission and perhaps refer to a few other issues that have come up between then and now.

First, I would like to thank the standing committee for undertaking this inquiry into revenue raising. As you would probably know, the Conservation Council has been very interested in at least looking at the issue of whether we can diversify the revenue base, and also where there are potentials for additional or alternative revenue raising measures. We think it is imperative that we ensure that these initiatives do not result in perverse outcomes or unsustainable behaviour. So what we try to look at is, I suppose, the sorts of incentives that are going to result in, certainly from our perspective, improved environmental outcomes.

In recognition of this important principle, the revenue measures suggested by the council for consideration are as much about behavioural change as they are about revenue raising. We have always had the dual purpose of saying that if we are going to look at measures of increased revenue to give us more options in terms of expenditure but also just even in terms of raising revenue, the measures that you could bring in place could actually result in behavioural change.

We think fees and charges can act as an important policy instrument to influence behavioural outcome. We know that, for example, fines on speeding are as much about reducing speeding as they are about generating revenue. Environmental taxes and charges can also be an important incentive to change behaviour and are seen by many to be amongst the most successful instruments in the government's toolbox.

The Conservation Council is, of course, the first to argue that the ACT government needs to increase its investment in environmental services. We know that there is also a need to increase spending in a number of key areas. However, the current expenditure on the environment, while we welcome the funding increase in the budget which has just been brought down, is still insufficient to address a number of environmental challenges in the ACT. And I just want to cite a few: there is loss of species; there is climate change; air pollution; and, of course, the big issue that has been in the media quite a bit, which is the whole issue of water quality of our rivers and streams, and even water quantity.

As a result, we believe the ACT government does need to diversify and broaden its revenue base. We also believe it is very important to reduce our dependence by the budget on land sales. The dependence on land sales for revenue we believe results in increasing pressure to develop land of very high conservation value—that is, greenfield sites. We all know that east O'Malley is an example, but there are others where we would argue that pressure to gain revenue means that these actions do actually contravene the ACT government's higher goals of sustainability. So it is almost like this pressure to gain revenue is overriding these other considerations.

If it is going to broaden its revenue base, the ACT government, we believe, also needs to permit more hypothecation. In survey after survey, ACT residents have shown a strong willingness to support environmental taxes and charges if the funds raised are actually used to provide environmental services. It is just commonsense—people are happy to pay if they know what they are paying for.

As you will see in our submission, the council believes there are a range of options available to the government, despite the changes that the Commonwealth brought in a few years ago with its tax package which actually did constrain to some extent our revenue base. We think there are still options within that environment to broaden our base. And the first one is the environment levy. I have brought in today to table an article by Tom Connor, which was in the *Canberra Times* of October 10, in which he argues very strongly for an environment levy. What we are obviously talking about here is an environment levy on rates, and we argue that a 5 per cent environment levy on rates would give us an additional \$5 million approximately to spend on environment programs.

We believe social equity concerns can be dealt with in two ways. Firstly, the council supports ACTCOSS' position that valuation should be based on the value of the house. Secondly, the council recommends that a percentage of the revenue raised be used to benefit low income households. Examples of this would be insulation programs for low income and public housing.

The second one is greenhouse performance penalties for electricity suppliers. Greenhouse benchmarks have been introduced in New South Wales as a retail licence condition for electricity retailers. The benchmarks require that per capita greenhouse gas emissions be reduced by 5 per cent of the 1989-90 level by 2006-07, and then be held constant at this level till 2012. There is a financial penalty for non-compliance. This penalty is set at higher than the marginal costs of the compliance in order to encourage emission reductions over merely paying the fines. The penalty in New South Wales is expected to be around \$12 per tonne of required abatement not met. New South Wales conducted an extensive modelling exercise, the results of which showed that the benchmark requirements will only have a minimal effect on the costs of electricity at about 0.001c per kilowatt hour. The average household can expect to pay about \$3.60 extra per annum. Such a scheme could be very effectively introduced in line with full retail contestability in March next year.

I suppose another issue that has come up recently is the whole issue of plastic bags, and we very much support Ireland's solution of imposing a levy. They have a levy equivalent to 26c a bag, which has resulted in a 90 per cent reduction in the use of plastic bags, and we think this could fairly easily be introduced in the ACT. So it has a double benefit: you

get revenue through the levy but you also get a change in behaviour. It is amazing how once people have to pay for something at least a large percentage of them will pretty innovatively and pretty quickly find alternatives, and I certainly think the example in Ireland has shown that.

The other one is to increase the betterment tax to 100 per cent. We believe recent years have shown there is no shortage of private investment for re-development in Canberra. There is certainly an argument that reductions in betterment could be provided as incentives for best practice development. But currently all re-development incurs an across-the-board 75 per cent betterment, and so basically all developers get a discount, whether or not they are doing best practice, whether it is socially desirable or whatever. So we are saying: set the base at 100 per cent and provide your discounts where you actually want to influence good practice.

The other one was further increases in car parking charges. We think that we should return to at least the \$8 fee per day that was charged in the mid-1990s. We are probably the only jurisdiction in Australia that actually cut the cost of car parking, and we think this has really been to the detriment of making alternatives more attractive. It also means you are getting a far lower return on what one would argue is prime real estate that is locked up in your town centres for an enormous amount of car parking. So we see it as being beneficial if you are getting better return on that land, and you are also creating an incentive to encourage people at least maybe one day a week or even more to leave the car at home and use alternatives where they exist.

We believe that the way to get public support for the revenue you raise is to say, "We're going to use these funds to enhance public transport and improve our facilities for cycling and walking." We all know if we wander down any pedestrian ways or cycle paths these days that an enormous amount of maintenance work really is required to bring them back to a good standard.

We also think they should introduce road use charges. At the moment bus users pay 25 per cent of the cost of running the bus service. The council suggests that car users could also pay for a portion of their service. There have been moves to user pays in most of our government service delivery except roads, resulting in a perverse incentive to increase usage of the private motor car.

Just as an illustration, we say road tolls are one means of educating the community to understand that our road system is no longer free. They have also proved a very useful way of funding road building programs. But there are other means. We have had discussions about whether, instead of having a flat registration fee, you could actually have one that is based on the number of kilometres that you travel. So, in fact, people who choose to leave their cars at home Monday to Friday and only use them on weekends are not paying the same registration as those who are using the roads all the time, using up the services that are provided for road users and causing congestion and so forth.

Other options that the council believes are worthy of consideration are: increase land tax from investment properties to the levels charged in New South Wales; increase fines for those that break the law, and I suppose a lot of these really are about straight revenue raising; and increase gambling taxes with more revenue directed towards social and

environmental services. We have examples in Western Australia with the Lotteries Commission. We also have an example in Queensland where quite substantial amounts of funding are made available to then be distributed to a range of community organisations and a range of community services. So we think there are some good examples in other jurisdictions to have a look at.

That basically concludes my presentation.

THE CHAIR: Thank you very much.

Ms Maxwell: I will pass the newspaper article over to you to table.

THE CHAIR: Kathryn, let's work backwards. You finished with the gambling tax. You note that there is, with increases in and the introduction of gambling taxes, the possibility of government dependence on taxes. It is very rare that a government gets rid of a tax in its entirety. Is that an appropriate thing to do, where we know that there are people with problems in gambling?

Ms Maxwell: Well, I suppose what we would like to see first is that even the existing gambling taxes need to be better redistributed back into the community. So leaving aside that issue of whether they should be increased, certainly from what we have seen in other states there has been more channelling of funds back into the sorts of organisations that can assist people with their debt problems.

I suppose the whole issue of whether it should be increased is really one of "Well, this would not be one of the first things that we would like to see", because we are concerned about the social implications. But, I suppose, again it is that thing of how the funds will actually be used. It is a very difficult philosophical discussion. You may say, "Well, look, people are gambling anyway." And you are right: they will become dependent on it. But I suppose the whole thing is: is there any evidence of any jurisdiction that is actually walking away from a gambling revenue source anyway, whether they have got poker machines or whatever?

I have watched what has happened in Victoria and I have been pretty appalled because I grew up without poker machines and actually have seen the impact of them going in. But I suppose that is one that is really outside our league. We are not experts on the social implications and we would certainly take advice from ACTCOSS about whether they felt that the government promoting gambling more widely was going to cause more gambling problems, and we obviously wouldn't want that outcome. But if they felt that should be hypothecated and those taxes were used to support some of their services then we would concur with that. So I suppose what I am saying is that perhaps ACTCOSS, as the peak body that has the greatest understanding of those issues, should be asked to give advice on that one.

THE CHAIR: All right. In the conclusion to your submission you make the statement that it is the council's experience that there is insufficient revenue available to ACT governments to adequately fund a range of programs. Is there any thought on what would be an adequate level of expenditure by the government? We have got a budget of more than \$2 billion at the moment. How much larger does it need to be?

Ms Maxwell: In environment we are actually starting from a pretty low base. It is a bit hidden in different areas, but there is about \$22½ million going to Environment ACT. There is some funding going in under waste and there are some other pockets—you have got the Office of Sustainability and Chief Minister's. But when you look at a total budget of over \$2 billion, it is a fairly small percentage. In our last budget submission I suppose we put in proposals for about another \$10 million of expenditure. In the grand scheme of things it is not going to result in anything but a fairly small overall increase in revenue required by the government to fund these initiatives. But what is quite clear and what certain people in the park service are telling us is that if they went from, say, \$10 million up to \$12 million, which is about a 20 per cent increase, it would make an incredible difference to their ability to meet the expectations that we as a community have.

So I suppose all we are saying is you will get a very big bang for your buck. It is not a lot of money in the grand scheme of things; but you can imagine, if we have got an extra \$10 million for the environment, that would translate to about a 50 per cent increase in their current budget. So what we are really saying is if we could be a bit innovative with some of our revenue measures, hypothecate a bit more, it is not going to be a big taxation burden on the community, but they are going to see commensurately a much better improvement in environmental service delivery. And we have all talked about the comparative advantage that Canberra has with its natural environment. Well, we will really capitalise on that.

It is that whole thing about flow-on effects. We talk a lot about looking at things in silos. I suppose one of the things we did in our last budget was show how some of the better and increased investment in environmental services will actually result in a reduction in health expenditure in the future. There is no doubt that if we make, just in the transport arena, cycling, walking and public transport much safer, we are going to have a commensurate reduction in obesity, diabetes, heart disease and so forth.

I suppose one of the things that have been quite frustrating to us with governments is they look at everything in their silos. It is a bit like the wood heater thing. We say, "Look, we need half a million dollars for a wood heater rebate scheme. We are pretty confident, and certainly the evidence from other jurisdictions is showing that within a few years you're going to more than make that saving in less respiratory and other illnesses that come from high air pollution at just certain times of the year."

So I suppose we try to think laterally and look at the extra expenditure that we are asking for, the extra revenue measures, as having a multiplier effect through the community in terms of improved quality of life but also, at the end of the day, some potential savings down the track. I know it is hard because you have got short-term economic constraints. But certainly we think that if we don't tackle a lot of things, like making it safer for people to walk and ride, down the track and even now we will be facing some fairly hefty health costs. But there are other examples as well of just a better lifestyle—if you feel safe and you walk around your neighbourhood more you are going to feel more connected to community.

So we think the amount of money we are talking about is pretty small. We think there is a very strong community support there. But what we have found with government's budgets year in year out is that whenever there is a cut they cut across-the-board. So even though environment is this tiny little bit in the grand scheme of things, they always get

cut by the same percentage as the bigger departments, which are much fatter and much more able to cope with it.

In the '80s and '90s, when you really had a growth in the expectations from the community about what the government would provide in environmental services, we faced cuts from government. So unlike health and education, which had the benefit of the '50s, '60s and early '70s when government revenue was growing and they got the big budgets, environment has never had it. It has always been a poor cousin. Now they are trying to manage 53-54 per cent of the ACT with a budget that is just totally inadequate to the task.

It has just been an unfortunate coincidence of timing that we have got more and more expectations. "Yes, we want you to have a greenhouse strategy. Yes we want you to have the water rights legislation." We have got all this incredible and comprehensive legislation and we just don't have the rangers, we don't have the environment protection officers, we don't have the inspectors. It all falls down in the implementation because we just do not have the people to put these things into place.

I think what the community is saying is if it is really only going to cost us this amount and we can spread the pain through things like a levy and other bits and pieces, then the benefits to the community will quite outweigh that, and there is a strong community support for it. I think what they are very much alienated by are things like the water extraction charge. They see this and they say, "Oh, that must be going into improving water quality management" and then they find out it goes into general revenue.

So there is a real difficulty. If we ever do implement any of these environmental taxes and charges, I think it is absolutely critical for community support that we do at least try to hypothecate. I know that when the water levy in Sydney—I think there was an environment levy on the water rates—didn't get spent on the environment, people were pretty pissed off.

I have said to Bill Wood and to others that you don't have to say to Treasury that \$5 million raised will exactly go into this activity, but that what you might say is "in the budget we're going to bring in an environment levy which will increase revenue by \$5 million, and at the same time we're going to enhance these projects or initiatives equal to \$5 million". So you don't actually have to have a line across the budget saying these funds are being used specifically, but you show the community that a commensurate increase has resulted in an increase in those services so they can see that what they thought they were paying for they are actually getting.

MS GALLAGHER: You have more or less answered the question I was going to ask. I have another question which you didn't address, which is why would you choose to put it on rates? Is that just the easiest place to locate it?

Ms Maxwell: Well, it is one. When you have a look at where we get our revenue from, ideally you want all households to pay for it but obviously rates are paid by the owner, although they do get passed on to those renting. I suppose it is that recognition that as a householder in the ACT you are going to directly benefit from an improvement in environmental service delivery. You only have to look at the fact that as almost a quasi thing we have a recycling service. Instead of having just one bin, we have a system of

multiple bins and such. There has been a cost associated with that but the residents are seeing a direct benefit.

I suppose what we are saying is a lot of these initiatives that we are calling for will directly improve the quality of life of households in the ACT. So we think it is quite equitable that all households contribute to that. And because it is a percentage levy, if you are in a big expensive house in Red Hill, your 5 per cent will be a bigger amount in dollar values than someone in a lower income house. So rather than a flat fee, which we see as regressive, we see a percentage fee as actually being a bit fairer, reflecting people's income and capacity to pay.

MS TUCKER: I have a couple of questions. The ACTCOSS submission to this committee has stated fairly strongly that we need to compensate for the GST because it is such a regressive tax and, therefore, any taxes or fees that we impose here need to try to compensate for that because it has an unfortunate impact on people who are on low incomes. So a couple of your proposals here are quite regressive. I guess I am a bit interested to know whether you have thought about that and how you balance those concerns. The first one I could ask you about is the road user charges. Do you know whether that has happened anywhere else, apart from private tollways. Have you seen public roads charged for in that way? The committee could follow this up.

Ms Maxwell: Sydney Harbour Bridge is a public toll.

MS TUCKER: Yes.

Ms Maxwell: There are others. The one in Brisbane is a public toll—the big one that goes over the river. So there are a few. You are right: there has been a big increase in investment recently. Governments have made the decision to get a private operator to run the whole show. They don't have the up-front investment and then they inherit the infrastructure down the track. But there have been examples of government-provided infrastructure.

MS TUCKER: So that's the toll. And what about the road user charges based on average distances? Have you seen that anywhere?

Ms Maxwell: No, not as yet. It is one of those things where our transport experts are saying this is a much fairer way to go if you're really going to try and change behaviour. What they are saying at the moment is, "You have a perverse incentive to take your car to work every day because you've just paid your high rego and your insurance and all the rest of it." People are saying, "If I'm paying for seven days a week then I'm going to use it seven days a week." I suppose what we are saying is that in that situation we need to look at a better way, a fairer way.

We have been told recently by Peter Moore that 40 per cent of all cars that are in the commuting traffic are company cars. They are actually cars paid for through salary packaging. So there are a lot of people who need a bit of an incentive. If they are going to have that privilege then they should pay more than those who actually make the effort to leave the car at home and take the bus or leave the car at home and cycle to work. Even if they do it one or two days a week, I think there should be a reward for that.

On the issue of social equity, one of the things that we have felt along with all of this—and I think we have canvassed it quite well—is the need for an environment levy of 5 per cent. Let’s say you are a low income household and you are currently paying \$600 to \$700 a quarter for your electricity because you have got no insulation in your roof; you have basically got a house that is probably a half star or one star rating if you’re lucky. Our argument would be they would be far better off if we actually had more funding to do these sorts of projects, which not only have an environment benefit but will actually have a social benefit. So I suppose what we are saying is it really depends on what you spend it on.

I suppose our argument is that we should actually use the revenue to be a bit innovative and to give some preference. It is like the solar hot water heaters. At the moment, if you can afford it you can get the rebate. What we would like to see is a scheme for low income households where perhaps we provide them and maybe we allow, if we have to get any money back, a bit of a fee on their electricity bill over time. But at the moment, you and I know that the people who are going to take up a lot of these schemes are going to be the more well off. So what we would like to see is, through this process, people being told, “Yes, we are going to gain a bit more revenue but we are going to target some of this. The overall impact on your income and your quality of life will be much greater because, although you may be paying a bit more in your taxes you are going to be paying a lot less in your electricity bills and your water bills.”

There are a whole lot of things we could do to help households with water usage. Again, you have got these subsidy schemes but you have got to pay a bit. Again, it is probably going to the environmentally aware and the more well off who can say, “Yes, I can pay the up-front expense of all these things.”

So, again, I think it’s how you use it. But I suppose the argument that I would have for ACTCOSS is: “Okay, you keep their rates down to a minimum but they’re going to be spending the money paying on utilities and other things.” And so, what we are saying is you have got to look a little bit more broadly at what revenue is coming into the household, what expenditure is going out. What you want to do is get a better balance. You want to have the overall expenditure being less than the increase in the revenue, which means they have more money to spend on other essentials.

MS TUCKER: There can be concerns about water—people on low incomes with lots of children, whatever.

Ms Maxwell: Yes.

MS TUCKER: Over 50 per cent of our water use is still on gardens, and I think you pay less for a certain amount. Is that right?

Ms Maxwell: The first 250 kilolitres.

MS TUCKER: Is it a matter of leaving that but then perhaps increasing the charge above that?

Ms Maxwell: Yes, you could do it that way.

MS TUCKER: So shower heads aren't necessarily going to solve the basic requirements for a family, and there are equity issues.

Ms Maxwell: Yes. Well, you could do it two ways. You could do it that way and that would certainly be something we would support. Your other alternative is to bring it in from the first kilolitre but, again, use the money that has been raised to get the water efficient shower heads, the dual flush toilets, the front-end loaders. The really big critical issue in households is how much water is used on the top-end loader versus a front-end loader. I suppose what I am saying is that if you did that and you brought in all those water efficiency measures, what you would find is their overall water usage would decline; just because they were paying 10c a kilolitre instead of 5c a kilolitre for the water extraction charge, their total water bill would actually fall.

I think this is the difficulty a lot of low income households are in. They have got teenage kids, they have got lots of clothes to wash, and a lot of those households don't have water efficient appliances. So they are really paying through the nose. In fact, a lot of the time even the 250 kilolitres isn't enough because if you have got full flowing taps and showerheads and toilets and everything else, you can use an enormous amount of water.

So, as you say, you could do it two ways. You could have it go from the 250 kilolitres up or you could do it from the base, gain more revenue, and then from the revenue make sure you channel it into that. There is no doubt that, even as a drought measure, we should be doing this. It is all very well to have ads saying "Stop using water, the glass is half empty". It would be, I think, far more helpful if someone could convince Actew to actually start getting a bit more innovative and maybe start looking at some of these schemes.

We have talked a lot about utilities providing this infrastructure and letting people pay off over time. But on water there has been very little. New households get dual flush toilets and shower heads, but for retrofitting there has been very little and certainly there has been no real thought about appliances like washing machines, which are a big user of water. So that is where I think you have got to be a bit innovative.

I think what we have got to convince ACTCOSS of is that in the overall equation their constituents will be better off. I think we have got to be very careful about how we do it but I think there will be much more acceptance if, as I said, you have two levels of schemes. You have the schemes that target low income houses, where you are more generous, and then a bit less generous to the higher income houses because, really, you are just trying to encourage them on that behavioural change, which they were probably going to do anyway. And that is the case with solar hot water heaters. A lot of them are saying that they are just bringing forward their intentions and, "Oh, yes, I was thinking about it and now that you've got the rebate, I'll definitely do it." But it is not low income households because they just don't have the other \$2,000 to put in for setting it up.

MS TUCKER: I think there was a Commonwealth energy card system under which low income earners were going to be able to purchase energy saving appliances and pay it back through their bill with low interest or no interest. Do you know about that one? Do you remember that?

Ms Maxwell: No.

MS TUCKER: Okay we can follow that up.

Ms Maxwell: There has been a lot of those proposals put forward. The difficulty has been, I think, that Actew has, I suppose, really been taking a much more commercial short-term horizon. A lot of this requires a bit more of a long-term horizon because you are going to have to provide some of the infrastructure up front and you will get your returns over time. But it has been a hard one for utilities to really grab onto. And also, let's be honest, there is often a financial incentive for people to continue to use high quantities of water and high quantities of electricity when that is how you make your revenue. That is why I think it has got to be a government decision.

It often won't be a utility that will do it: it will be a government saying, "Look, I know Actew would like to sell as much electricity and water as possible but we're going to make a decision to actually enable less water to be used." I think the drought would be a very good lever to say to the government, "Look, we've got to do more because clearly, even if we do a little less watering of our gardens, we are facing quite a crisis in terms of getting through this dry period."

THE CHAIR: In regard to the watering of gardens, there are grass seeds that need less water.

Ms Maxwell: Yes. And there are drippers versus sprinklers and—

THE CHAIR: There is a species of grass—micro something—that uses 90 per cent less water. However, the grass seed is impossibly expensive. Nobody buys it because it is expensive and there is the chicken and egg argument.

Ms Maxwell: Yes.

THE CHAIR: Maybe we just promote people using a different grass.

Ms Maxwell: Yes. But I do think there is a lot that can be done, and I think if we had a little bit more revenue we could start to do more promotion. One of the hardest things we find is that every time we talk to the government and say, "Why don't you promote this legislation?" and "Why don't you promote this?" it is always, "We don't have any money for our education campaigns." So the main message that people get in the ACT about environment issues is from New South Wales EPA and New South Wales National Parks. So again, you're right: there is a lot of awareness and that sort of change required. But it not free. Any awareness, any campaign work, any public awareness and education, has a cost. So, again, this behavioural change may be something that you would want to put some of your increased revenue into—things that they are probably totally unaware even exist. I was.

THE CHAIR: We're now moving into the time of the next contributors. Are there any further questions?

MS TUCKER: I have asked my questions.

THE CHAIR: Kathryn, thank you. I also thank the Conservation Council for having put in their submission. We are very grateful.

Ms Maxwell: Thank you for the opportunity.

JOHN MACKAY and

MARIA STORTI

were called.

THE CHAIR: Good afternoon, and thanks for offering to appear before the committee. I need to read you something so you know about your rights. 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 very serious manner. On behalf of the committee, I welcome you here this afternoon and ask you to address your submission. Give us your names before you start.

Mr Mackay: I am John Mackay, CEO of ActewAGL. With me is Maria Storti, Chief Finance Officer.

THE CHAIR: John, would you like to speak to your submission?

Mr Mackay: Firstly, We provide a great deal of money to the government by way of dividends and capital repatriations, so one would expect that the government would use some of that money to do the sorts of things the last speaker talked about. I'm not talking about small amounts of money. Since I've been CEO, which is five years, we have sent the government over \$800 million, which is north of 10 per cent of all government revenue over that five-year period—certainly about that. To some extent, it is a government responsibility, and the government has at least some wherewithal to deal with these matters.

Secondly, the regulator has a very large impact on the way in which we price electricity, water and gas. Whilst we make submissions and provide all sorts of assistance in economic modelling and all the rest of it, the regulator has total impact on water pricing and, even under a deregulated system, has a large impact on electricity and gas prices, because the regulator sets what they call the network prices, the cost of using the wires and the pipes. So the regulator is the second leg of the trifecta.

Thirdly, there is our own approach. There's no doubt that one of the strong drivers of ActewAGL is the profit motive. But I would certainly argue that we seek to do that in a socially responsible way. Even though over the last two years there has been some scepticism and a belief that we'd be bailing out of all sorts of environmental responsibilities and community responsibilities, we're spending more now than we were two years ago.

We are still sponsoring just about everything that moves in town and assisting just about every charity. We're still very actively pursuing a whole range of green initiatives. We are still pushing very hard, for example, our green energy. We set quite ambitious targets

last year and increased targets again this year. We're still very actively pursuing wind power, solar power, mini-hydros and further initiatives in recycled water, et cetera.

They are three broad areas that I would say are relevant to the committee's work.

THE CHAIR: Thank you, Mr Mackay. The government has announced that deregulation will occur next March. Will you be ready for that?

Mr Mackay: Yes, we will. We spoke to the regulator in about March this year and explained in some detail all of the work that we would need to go through to get ready. He said, "You should start now, despite the fact there's no final decision." That's exactly what we did.

THE CHAIR: I recall that you needed nine months to get ready. You'll be ready for next March?

Mr Mackay: We needed nine months, and he's required to give us three months. The three months is really not for us; it's for the community, because he is now required to embark on an education program and to set what they call default tariffs, which are tariffs people will end up on if they choose not to enter the deregulated market. They will remain as ActewAGL customers and they'll be on the default prices, whatever they are, that he might set between now and then.

THE CHAIR: You mentioned \$800 million paid back to the ACT government over five years through repatriation or capital dividends. What effect will deregulation have on that. Will we as a community receive less money from ActewAGL?

Mr Mackay: I think it will be a two-way thing. If we are successful in this deregulated market, and I believe we will be, then one would expect that our dividends would continue to hold up. I don't think the community can lose, because if we are unsuccessful it will be because, by definition, prices have gone down and therefore people will be paying a lot less for their electricity than they are now. From that point of view, you've got a safety net. You've got the Essential Services Committee to look after people who are having difficulties at any time under this market or any other. We've been seeking to sell domestic electricity in Queanbeyan, Yass and places like that, and we've been incredibly successful in a profitable way. The profits we make out of so-called retail electricity are not a huge proportion of the total dividend. I think it will be okay.

MS GALLAGHER: In your submission there's a reference to the fact that the government provides electricity rebates to pensioners through a community service obligation agreement but not natural gas rebates. There's a line that says you are to progress the issue with the government. Is there anything you could add on that? The planning committee had a very good presentation from Actew on Friday in the renewable energy conference. It was clear from the statistics that Actew provided there that electricity is the biggest cause of emissions and concern in terms of energy usage in the ACT. It would seem to me that not providing gas rebates to pensioners would be a disincentive to using gas.

Ms Storti: The gas rebate that's given to pensioners is approximately \$15 per bill. It's about \$60 per annum.

MS GALLAGHER: For gas?

Ms Storti: For gas. The rebate for electricity is more substantial than that. But there's a difference in approach, and we're trying to reconcile that, since both electricity and gas are under the control of ActewAGL. We've been discussing it with one of the government departments, but I'm just not sure where they're at with that discussion. It's something that we have spoken to the government about.

Mr Mackay: There is a bit of an assumption—I'm not sure I necessarily share it—that electricity is super-essential and gas is not quite so essential. If you're relying on gas alone for heating, then it's pretty important.

Ms Storti: It's a historical trend, and we're trying to address it to get a bit more equity between those two rebates.

MS TUCKER: I have trouble understanding one sentence, so maybe you can explain it to me. On that last page, talking about green initiatives, you say:

Traditionally such research and development initiatives have been difficult to assess via the price regulation review process due to the range and extent of factors that need to be considered by the commission in assessing allowed revenue caps.

Can you explain that sentence to me?

Mr Mackay: I've got no idea what that means.

MS TUCKER: That makes me feel much better. I did struggle with that. I read it several times.

Mr Mackay: It certainly should have been at least three sentences, not one.

Ms Storti: I think the next sentence explains it.

THE CHAIR: You have to read the previous page.

Ms Storti: It says that if you try to assess research and development initiatives on just a commercial basis then sometimes you cannot justify that expenditure.

MS TUCKER: But what has the commission got to do with that?

Ms Storti: The capital works program is reviewed by the commission, and it's taken into consideration with a number of factors. We need to try to work out our revenue caps.

MS TUCKER: It's to do with the revenue cap?

Ms Storti: Yes.

THE CHAIR: The cost of everything that Actew does is considered by the commissioner when he sets the charges.

MS TUCKER: No, the revenue cap.

THE CHAIR: He takes into account everything they do before he makes his determinations, but it's often very hard to assess what the cost of some of those projects is.

Mr Mackay: It's very difficult to get those things back.

Mr Mackay: We always try to do them on a commercial basis, but some of them you can't. You just say, "Dash it. I'm going to do it anyway." When we put the first mini-hydro in, we said, "Whether we can make the economics stack up exactly or not, we're just going to do it."

MS TUCKER: What will happen with total deregulation? Will you be freed from that?

Mr Mackay: No. It'll be exactly the same issue under total deregulation.

MS TUCKER: The role of the commission?

Mr Mackay: Yes. He will still decide the wires component, and that's where this revenue cap would come in anyway. Usually he sets a price—we argue he should set a price—which will compensate us for all the repairs, extensions and whatever else, including some of what we spend on green initiatives. Where they don't make commercial sense, he may not give us the opportunity to get our money back through that mechanism.

I don't think that point alone is a really big deal. Our behaviour inevitably will continue to do some good things, some nice things and some non-commercial things. But the thing that will drive us is the regulator telling us we've got to do it or compensating us in some way for doing it. The regulator isn't going to do that unless the government says, "That's how I want you to behave." I think our behaviour would be more community orientated and greener leaning than that of any other utility in Australia. I'd stack us up against any of them, but there are limits.

MS TUCKER: Can you comment on a proposal from the conservation council that the ACT adopt greenhouse performance benchmarks for electricity suppliers as in New South Wales. Benchmarks have been set to achieve a 5 per cent reduction in per capita greenhouse emissions from 1990 levels by 2007. Annual interim targets have also been set. Electricity supplies must meet the targets or pay a penalty per tonne of emissions above the target. The penalty is set at an amount at least as high as the marginal cost of abatement so there is an incentive to meet the target, but it is capped at \$15 per tonne. This system encourages compliance and hence positive environmental change.

Mr Mackay: Given that we are an island within New South Wales, I'd have no real problem. Given that we all accept that coal-fired generation is the most damaging thing you can do to the environment, then you can't sustainably do what we're doing. I'd have no problem with the government setting something that affected us the same as any of

our competitors. Whether this would be good news or not, in New South Wales I understand that they accepted a percentage of gas-fired generation towards that target. I would hope the ACT government would do the same. That would certainly help the case for us to put in a gas-fired generator or to buy some more gas-fired energy.

MS TUCKER: Or produce more green energy.

Mr Mackay: Or produce more green energy, which we will do. Don't worry about that.

MS TUCKER: I do worry about that. That's my job.

Mr Mackay: I worry about it too.

MS TUCKER: I know you do. We won't get critical of each other. We both want more green energy.

Mr Mackay: I know comments have been made about a gas-fired generator. It's indisputable that gas-fired energy is more green friendly. New South Wales has recognised that in the policy you're talking about.

MS TUCKER: But it's not a renewable resource, so that's an issue. You said you are working in Queanbeyan and somewhere else. What component of the bill is fixed? Can you explain that to me?

Ms Storti: In respect of—

Mr Mackay: The wires charge, the regulated part, not on electricity. There's the retail bit and the—

Ms Storti: I'm sorry, I don't know exactly—

THE CHAIR: So you're talking electricity and water?

Mr Mackay: Could I get back to the secretary on that? You can assume it's fifty-fifty. I'll correct that with the secretary if it's wildly wrong.

MS TUCKER: You have a rate per hour, which you can change according to the market, and you're competing with other rates per hour, obviously trying to do the best. I'm interested to know the component that is a fixed charge.

You heard the last witness. I'm interested to know whether or not Actew is still looking at supplying water out of Canberra.

Mr Mackay: I'm not here to represent Actew as I used to. I'm responsible for the joint venture.

MS TUCKER: So you're not the right person?

Mr Mackay: No.

THE CHAIR: Paul Perkins is coming to see us in early November. I suspect it's probably in his jurisdiction.

Mr Mackay: But certainly we have no proposal in front of us.

MS TUCKER: You would know, wouldn't you, if ActewAGL—

Mr Mackay: I most certainly would know.

MS TUCKER: Good. So I don't think we have to wait for Paul.

Mr Mackay: I can assure you that the only water that we've ever taken outside the territory was a very small development called Weetalabar, which is on the outskirts of Queanbeyan. As you go towards Bungendore, on the left there's a development of about 200 houses. I was CEO of Actew at that time. We filled about 10 files trying to get the approval to do that.

MS TUCKER: There is talk of it coming from out of Canberra—from Murrumbateman, Yass and places like that.

Mr Mackay: Yes. When I was running Actew, we had a low-level look at that. It was very difficult to make it work on a commercial basis. Secondly, you had to get the approval of the ACT government, the federal government, the New South Wales government and a couple of shires. It was a nightmare. The only discussion I know of in recent times was about the possibility of getting recycled water out there, which would be the equivalent of sending our waste to Murrumbateman via a pipe rather than via the river.

MS TUCKER: We could be using it here for watering.

Mr Mackay: Yes, that's exactly right.

MS TUCKER: Has that idea progressed at all?

Mr Mackay: Ken Helm mentions it every time I bump into him.

MS TUCKER: Yes, he does.

Mr Mackay: But I don't think there's a great chance of that. The other area is Queanbeyan. We provide the water to Queanbeyan, effectively out at Googong. We are required to provide water for Queanbeyan City. If Queanbeyan City convinced the New South Wales government and whoever else that the city limits ought to be bigger, then I think that issue would arise again. They've talked about that satellite area south of Queanbeyan.

MS TUCKER: We'd have a role in that decision and the Commonwealth would?

Mr Mackay: I'm not too sure, to be perfectly honest. I don't know of any role that we would have in it, but that would be an issue, as are all of these things. It clearly has to do with use of water in the territory. It impacts on just about everything you think about—

what sort of a city we want to have in 10 years, 50 years or 100 years, how big it will be, how dense it will be, how green it will be and how we treat the waste. All of those things start to come into focus.

THE CHAIR: In your submission you talk about charges for government services consistent with those in neighbouring New South Wales. How much of a dilemma is that? As you say, we're an island in New South Wales and we have different charge structures.

Mr Mackay: I think it's reasonable that they ought to be as close as they possibly can, certainly sufficiently close so that there is not confusion or unintended behaviour. The day when people move into Canberra or back to Queanbeyan because something is cheaper or dearer I don't think will be too good for any of us.

THE CHAIR: You go on to talk about payroll tax exemptions in other jurisdictions. How much of a threat is that to ActewAGL?

Ms Storti: I don't think it's a significant threat right now. The point was about whether, if payroll tax exemptions were going to be offered within New South Wales, it could have an impact on businesses that would have normally relocated or located to Canberra. It's just something to be aware of.

MS TUCKER: It's a claim that's made, but I don't know if there's any evidence. A number of submissions to this committee say it's a problem, and maybe it is, but I don't know where that's coming from.

Ms Storti: I don't have any evidence to support that. I think it's just a general comment about equity in policies between New South Wales and the ACT.

THE CHAIR: Thank you for attending this meeting, and thank you for your submission.

JOHN MILLER and

CRAIG SLOAN

were called.

THE CHAIR: I welcome to the table the Canberra Business Council, represented by Craig Sloan, the vice chairperson, and John Miller, the executive director.

I have riding instructions for you, gentlemen. 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.

Thank you for your submission and thank you for your attendance here today. Tell us your names as you speak.

Mr Miller: I am John Miller, executive director, Canberra Business Council. Thank you for having us here today. The Business Council is pleased to have the opportunity to make this oral presentation following our written submission to your inquiry.

Our written submission contained a number of key messages, these being that a broad set of principles be established by which governments can be guided on the adequacy of revenue raising; that the ACT government should be a jurisdiction with lower than national average taxing arrangements; that the government should not take risk on behalf of taxpayers that is more appropriately taken and managed by private investors; that tax incentives should not be used in encouraging business relocations; that government should ensure that its own activities are sensitive to, and set in accordance with the needs of, local economic cycles; and that a tax-by-tax detailed analysis be undertaken to examine their administrative and compliance costs.

The partners of Business Council are most anxious to ensure any measures relating to revenue raising for the ACT do not place further direct or indirect financial impost on business. Rather the Council believes that government must exercise restraint in its spending and create an environment that is conducive to attracting and retaining business and increasing population employment that add to the revenue base of the territory.

Our submission acknowledges that there is little scope for the ACT government, through its fiscal policy settings, to significantly affect the short-term economic performance of the territory. Federal government fiscal policy and Reserve monetary settings weigh more heavily on our economy. Notwithstanding this, the government must ensure that local economic cycle sensitivities are addressed in considering its own activities.

Our budget submissions have always promoted measured and prudent expenditure levels in many areas by government, and this is something that we will continue to pursue. The continued growth of the private sector in the ACT is critical to future success and development of the territory.

The recent decision of the government to take back land development in the territory is a risk activity that we consider best undertaken by the private sector. The decision, we believe, will make it difficult for many businesses in the ACT, and creates uncertainty across a number of areas.

Payroll tax is an area the Business Council has long expressed concern over. Forecast revenues for 2002-03 are approximately \$150 million, representing about 28 per cent of government's taxation revenue. Whilst we acknowledge that most small businesses are exempt from payroll tax, the spectre of that threshold on enterprises with significant payrolls, obviously in excess of \$1 million but nearing \$1.25 million, will see many forgo the opportunity to increase or potentially increase employment levels. Notwithstanding that, once that threshold has been broken for enterprises, they will find themselves in a payroll tax environment, and of course capital investment will then be under pressure.

At this point I'm going to hand over to Craig Sloan.

Mr Sloan: I am Craig Sloan, vice-chairman of the Canberra Business Council. This submission has been put together by the Business Council and/or its kindred organisations, which are listed in the back of the submission. There are a number of comments in respect of which John and I may not be the experts to answer questions. If there is anything which we are unable to answer here today, we'll certainly take that on board and get something back to you as quickly as possible.

To reiterate what John said, we appreciate the opportunity to put this submission in. It was a difficult one, given the timing and the broad scope of the terms of reference. We didn't see it as being just about how we're going to raise money. It is a lot broader. We looked at it as being about responsible financial management as opposed to revenue raising. That is the view we took in presenting this submission. Some of the recommendations look at where we currently get revenue through fees, charges, rates and taxes. It looks at each of those and makes assessments of risk, as well as cost and efficiency not only to government but also to business.

I'm more than happy to open it to the committee if you've got questions of us before we make other comments.

THE CHAIR: You mention on page 3 of your submission that the government should have a medium term perspective of their overall financial position. What is medium term? Is it three to five years, or five to 10?

Mr Sloan: I think the general view is three to five years. Even in business a one or a two-year forecast isn't that great. It's very hard to set up good strong business practices based on a one or two-year outlook, because too much can go wrong.

Medium term for government is not simply a government term to enhance policies. We are looking at a broader period. It could be your government or it could be the next government carrying on your policies, if they so deem. It's certainly getting out of that immediate reactionary period and being more proactive in setting policies that will benefit us down the track, not just here and now.

Mr Miller: Also to create greater certainty, as opposed to uncertainty through something that's too short term in its outlook.

THE CHAIR: You talk about us being a low-taxing economic environment. A couple of the earlier submissions spoke about increased taxation to meet social need. How do we balance those two perspectives? What's the advantage for us as a community in having low tax?

Mr Sloan: It's more than just revenue. It's very easy to simply say, "Let's increase taxes and raise the revenue." In a session similar to this, I remember Kerrie making the comment, "How do we afford all of this?" This probably came from those very light comments. They are very good questions, and ones which often are very hard to answer. Simply increasing taxes to pay for things can harm the business community, in that you will make the territory a non-attractive place in which to do business. Being the Business Council, our main focus is on keeping business and growing business, and therefore employment and economic conditions here in the ACT. We are not supportive of increased taxes.

Most people would say, "Let larger businesses pay for it by increasing payroll taxes." As John mentioned in his opening remarks, those close to the threshold for payroll tax would be even more concerned about increasing and growing their business. It's a two-way street. We can have the income by increasing the taxes, but will we have the businesses here to tax?

MS TUCKER: Evidence we've been given says that surveys have consistently shown that people are prepared to pay a higher tax rate for a particular purpose, if it's hypothecated. If it's for health, education, water, the environment or whatever, people are prepared to do that. They don't have confidence in just paying higher income tax, because they don't know where that goes. If that is the consistent feeling coming out of surveys, why is it such a problem for business? If people feel comfortable with paying that, why would that make it a less attractive environment?

Mr Miller: Business traditionally doesn't have a problem with paying its way with taxes. As Craig said earlier, you can't increase your expenditure at a greater rate than you increase your revenues. Businesses would believe that they're already paying a reasonable level of taxation. It's just a matter of how much is enough.

THE CHAIR: Brett Odgers, one of the gentlemen who spoke earlier, said that taxes—service taxes, not income tax or labour taxes—should be resourced.

MS TUCKER: It wasn't income tax. It was hypothecated tax for particular functions, a health levy or—

Mr Sloan: I hadn't heard.

MS TUCKER: I thought you'd be interested. I have heard it before, but it's quite consistent in a number of the submissions that there is a community willingness to pay higher taxes if they know where the money is going. I'm just letting you know that.

Mr Sloan: I appreciate that.

MS TUCKER: It wouldn't necessarily mean that it was a problem for the business community if the people of the community were willing.

Mr Sloan: That's something I'm more than happy to take back to our members to get their voice on. I agree with you. If it is a tax for the sake of just increasing taxes, I'd be the first to stand up and say no way. It's not fair on businesses that are growing and doing well to keep hammering them. It's always those on the fringe that you want to encourage to grow. You don't want to stifle them by just doing a general increase.

MS TUCKER: Income tax is a federal issue anyway, but compared with other OECD countries we're a low-taxed nation. There are comparisons to make there.

THE CHAIR: The council say in their submission that they support the imposition of taxation as part of the overall policy mix to reduce the harmful effects of alcohol, tobacco and gambling. How heavy should we tax those things?

Mr Miller: It's probably a personal thing.

THE CHAIR: Do you smoke, drink or gamble?

Mr Sloan: I don't smoke, so go for your life. I'm not in a position to answer that. Some of our kindred organisations are probably in a better position to comment on that. In fact, that's where that one came from. As long as it's fair. I don't think you'd tax it out of existence just for the sake of raising money.

A large portion of the community will use those services or goods. You don't want to tax them to the point of being unjust, for the sake of simply raising money. But it is a fine balance. I think some of our kindred organisations would do better in providing an answer to that.

Mr Miller: Their industries would determine their response.

MS GALLAGHER: John, in your verbal submission, you mentioned that the Business Council thinks that the government should exhibit restraint in its spending. Is that just something you think government should keep in mind, or do you think there are areas where it has not shown restraint in its spending. Leave land development aside.

Mr Miller: It's a general comment that's within the paper as well. It's a business view. As I said to Kerrie a short time ago, there's so much income within that revenue base that you have to exercise restraint. Any sensibly business—and government is operating a business—would restrain their expenditure so that it is within their revenues.

Mr Sloan: It's a matter of government, like any business, getting smarter and looking at where the dollars are going. Our budget submissions in the past has always said we need to look at health, education and a whole wish list. The government probably gets that from a whole range of other organisations.

Health and education are extremely important to everybody in this community and the surrounding region. It adds a different perspective when the government has to provide health and education services to another third of the population sitting around the border of the ACT.

We've always endorsed looking at reform rather than throwing money at something. Have a good look at it, and say, "Are we doing it smart? Are we doing right?" You don't keep throwing the money in and hoping that it will fix itself in time. You have to say, "Let's have a good shake-up of this particular area and see if we are doing it in the most efficient and effective manner possible."

It is all about being smart. When dollars are tight, you've got to watch where the dollars go. I'm not saying governments don't do that. That's part of the budgetary process. But it is also a matter of looking at reforms in three to five years, the medium term, to make sure we do things now that will lessen the burden for us in future years.

MS GALLAGHER: But acknowledging that health and education will always be costs regardless of any efficiencies that you find.

Mr Sloan: They will always be a net cost. You're not going to get away from that. The business community would be the first to say, "Yes, we're there to support that." Any government in the territory is going to have that issue. You've got communities operating just on the other side of the border coming in and using our facilities. What does the ACT government get from the other states for providing services?

People from Queanbeyan, Jerrabomberra and Tralee use our hospitals and schools. We don't get rates and taxes from those people, but we have to fund them in the use of those facilities. That's something that the ACT government may well want to take up with the New South Wales government or councils. It may have already been done in the past—I'm not too sure.

THE CHAIR: We have argued with them long and hard, and I suspect we'll continue to do so.

Mr Sloan: It is becoming a huge issue. Decisions like that on land create uncertainty, and uncertainty leads to people making pretty rash decisions and jumping over the border. It used to be just Queanbeyan, but it's now getting a lot more severe than that.

MS TUCKER: I'm looking at your budget submission, which you attached. You wanted a commitment from the government that regulation will be confined to those areas of market failure which warrant such intervention. Could you explain what you mean by that?

Mr Sloan: That was in this year's—

MS TUCKER: Yes, that was in April 2000. It was a comment on regulatory behaviour.

Mr Sloan: Kerrie, would you mind saying that again?

MS TUCKER: You said that the government's recently announced business regulation review was welcome but the business sector sought a commitment from the ACT government that regulation would be confined to those areas of market failure which warranted such intervention.

Mr Sloan: From memory, we were stressing that the government should not over-regulate business. Where we knew that an industry or market had problems, we would welcome regulatory intervention. But I think we were saying, "Let's not create red tape and regulation for the sake of having regulation."

MS TUCKER: So how do you define market failure? Would you include in that a failure to provide a product that is safe? It's a very big statement. Surely you don't quite mean that.

Mr Sloan: I can't recall how it was intended, Kerrie. It is a good question. We can take in on notice.

THE CHAIR: Take it on notice and get back to the committee.

Mr Miller: We can look at that and examine where we're coming from.

Mr Sloan: We'll go back to our budget committee on that one.

MS TUCKER: Thank you. You talk about compliance costs for businesses with taxation and other regulation. But I was interested in your comment on outsourcing, which you say in your budget submission has already successfully occurred in a number of areas of the ACT government. Compliance and monitoring apply equally to outsourcing. I'm wondering whether you considered those costs when you decided that outsourcing has been successful. The evidence seems to me to be not clear at all because of the costs of ensuring that standards are acceptable. The costs of compliance for the providers as well as the costs of monitoring for the government have never been properly looked at. The Auditor-General has had a look at one example only. I'm raising that as a point.

Mr Sloan: On outsourcing, I think you're right, Kerrie. We had an outsourcing committee meeting yesterday. We are looking at outsourcing generally, whether it has been successful and what the future of outsourcing in the territory is.

MS TUCKER: I'd be interested to see what you come up with on that one.

Mr Sloan: It's quite timely. It hasn't been a sleeper for us. Outsourcing is an area of concern for businesses in the territory. We're looking at ways of reinvigorating it, finding out where the federal government sit on it and assessing how successful it is and what its future is.

Mr Miller: There is acknowledgment in certain areas where outsourcing occurred that the costs were far greater and may have outweighed some of the benefit, but in some other areas that wasn't so.

MS TUCKER: Are you looking at it industry by industry?

Mr Miller: Not so much industry by industry. We're reconvening a group that has an interest in outsourcing to get a feel of the current state and the lie of the land. We'd be more than happy to keep you informed.

MS TUCKER: You said that payroll tax creates a disincentive to expanding businesses past a certain point. Do you have evidence for that, has data been collected on that, or is that just a feeling, an anecdotal thing?

Mr Miller: We don't have quantified data. Obviously there's a certain amount of anecdotal evidence regarding that.

MS TUCKER: You're being told that businesses will stop at a certain point rather than pay that tax?

MS GALLAGHER: Stop employing.

MS TUCKER: Stop growing, stop everything, stay where they are rather than pay that tax. Is it such a problem?

Mr Miller: I can comment from a previous business life. In a business I was involved in we stopped employing before we got to that threshold. That's better than anecdotal from my perspective. That's telling you how we were. I don't say that as a matter of convenience. I say that as a business operator who wasn't able to justify the cost of further employment.

Mr Sloan: As a partner of KPMG and dealing with private business, which is predominantly what I do, I can say that when we look at the results of companies and work with them in managing their business one of the clear things we look at on costs is how close they are to the \$1 million threshold and whether they need to employ another one or two people or not. The threshold becomes a very important trigger for business, because it adds straightaway to the bottom line cost. As I said before, they're the ones on the cusp. There would be a number of them in this town.

MS TUCKER: Do you have a profile for businesses? How many small to medium-sized businesses are there in Canberra? What proportion of them would be in that position? Is that a small business or a medium-sized business?

Mr Sloan: We may be able to get that information.

Mr Miller: We can give you the exact information. The Business Council is representative of what is found here. It's predominantly small business and medium business.

MS TUCKER: I was just interested in Canberra. I was interested to know how critical this is for the business community.

Mr Sloan: With the average salary in Canberra being higher than the national average, you eat into your threshold a lot quicker than in neighbouring states. It depends on the nature of the industry which the business is in. That threshold can get eaten up fairly quickly in IT or an innovative business. When you are establishing a business, one of the very first things you've got to look at is your initial start-up cost and the growth for the first two, three, four years and when you believe you're going to start triggering costs like payroll tax.

THE CHAIR: So that threshold becomes critically important?

Mr Sloan: It certainly does.

THE CHAIR: The failure to go from \$1.25 million to \$1.5 million on 1 July was disappointing for the council?

Mr Miller: That was the general feeling. We believe the threshold should have been raised. There has to be some raising. You have other inflationary costs as things move up, and salaries are part of that.

THE CHAIR: You get that bracket creep.

Mr Miller: Yes, exactly right. Exactly so.

THE CHAIR: All of the states are trying to offer better concessions. The Business Victoria website announced something like \$750 million worth of payroll tax concessions in the Victorian budget this year. Does it shift business from the ACT if Victoria offers incentives we can't match?

Mr Sloan: I think it depends on the nature of the incentive and whether it's short term or long term. We have said for some time that we don't believe in having tax incentives to attract business. It can be a very short-term thing. When outsourcing was the flavour of the month, a lot of businesses rolled into town to take advantage of that. They probably got some good concessions. Look around now. Some of those businesses may no longer be here.

It also disadvantages existing businesses in the territory. Why should businesses that are loyal to the territory and have been established here for some time not be able to get the incentives when new players, their competitors, come to town and start getting handouts straightaway?

THE CHAIR: In your submission you ask that the ACT government raise with COAG the possibility that states and territories not compete with each other by offering tax breaks. How realistic is that? I think we've all got an opinion on how realistic it is, but how important is it that we stop this bidding war?

Mr Sloan: It's an interesting question. I have not sat around here myself and had a discussion with some of these people, but I think there's always going to be competition between the states to attract business. That's just the nature of it. In some ways you'd be silly if you didn't. You need to do that. You've got to keep your economy going. If not, those who can offer greater efficiencies and economies scale will gobble up businesses. The Adelaides and the Brisbanes, as we're finding out, are becoming branch economies very quickly.

The powerful states continue to get more powerful. In a perfect world, it would be nice to stop that. It would allow businesses to have an equal playing field and operate where they want to operate. If other governments offer incentive packages, will we find people rolling out of Canberra? You'd like to think not. You'd like to think that we have a good lifestyle and a great environment in which to live.

MS TUCKER: We've got competitive advantages.

Mr Sloan: We have got a lot of competitive advantages. It's not all based on dollars. In our business we might look at incentives and say we can go and set up in Sydney, but why? Canberra is a great place to live. That becomes a very important factor. There are a lot of very successful businesses in Canberra. The reason they haven't moved their head office out of Canberra is based purely on lifestyle.

Mr Miller: That sort of thing occurring in very close regional proximity is a difficult one. You've got a business here one day and the next day they're 200 metres across the road because the border happens to be there. It needs to be looked at in a regional perspective too.

THE CHAIR: Your submission has taken a slightly different tack to most of the other submissions, which have suggested increased taxation. You mentioned tax on alcohol, tobacco and gambling. Are there other areas where we should be increasing tax or are there other opportunities for new taxes? The population of the ACT is ageing. The infrastructure is getting a little bit older. They both bring an extra cost even if you don't offer any new services. Maintenance of the existing service costs money. Apart from general efficiency and spending the money more wisely, are there opportunities for other taxes?

Mr Miller: If you canvass our businesses and suggest that they pay more taxes, you might have difficulty in finding people putting their hand up. It's not something that came forward as we were calling for information. There were fairly broad terms of reference, but no-one said, "We think we should be increasing taxes." The clear message coming from business was: "We have this revenue base. Let's exercise restraint or let's look at our expenditure and make sure we keep revenue and expenditure matched fairly closely.

Mr Sloan: This paper was prepared, reviewed and commented on by all the kindred organisations listed. I'm not aware of anyone saying we should increase taxes across the board. That's not to say there aren't businesses that would say that. Businesses are quite prepared to pay their way and pay taxes. To raise taxes generally would not be supported, but I would go back to probably—

MS GALLAGHER: Outside of business tax?

Mr Sloan: Outside. That's why I would probably go back to Kerrie's earlier comments. If there was a tax for a particular purpose, perhaps a short-term tax, that is something we would definitely canvass our members and kindred organisations on to get their views. It's an interesting angle we may look at.

THE CHAIR: Gentlemen, thanks very much for appearing before the committee. On behalf of the committee, thank you for your submission.

Mr Miller: On behalf of the Business Council, thank you very much for your time as well.

DANIEL STUBBS and

KAREN NICHOLSON

were called.

THE CHAIR: The committee has now called ACTCOSS to speak to their presentation. Thank you for your submission to the committee. I just need to read the following to you before we start.

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 very serious matter.

I welcome ACTCOSS to the PAC to speak to their submission. I would ask that when you first speak, you identify yourselves.

Mr Stubbs : I am Daniel Stubbs, Director, ACT Council of Social Service.

Ms Nicholson: I am Karen Nicholson, policy officer for the ACT Council of Social Service.

I realised this morning that there have been some announcements you might want to follow up. The ABS has released its new stats on small business. There has been an increase. It is a four-year trend series, so it will have some interesting data in it. I am not quite sure what it says. It just says that it increased it by 2.3 per cent per annum over the last—

MS TUCKER: In the ACT?

Ms Nicholson: No, it is the national data that they are leading with.

MS TUCKER: Right. Do they break it down?

Ms Nicholson: They do.

THE CHAIR: I have already asked Patrick to get on to the ABS statistics, and we will get you a breakdown of what they are exactly.

MS TUCKER: Thank you.

Mr Stubbs : Thank you for inviting us to come and speak today. I just heard the last bit of the Business Council's presentation, which might be worth quickly clearing up. I am not sure if they quoted who their kindred organisations are, but they certainly quote ACTCOSS as being one of them.

They would be right to say that we did not tell them that increased revenue is needed. But that is not because we do not believe that; it is simply because we did not bother. I think it is important to know that. We have a good relationship with the Business Council. Don't get me wrong. But—

MS GALLAGHER: They do not actually list you, Daniel. They have listed the kindred organisations, and I cannot see ACTCOSS on there.

Mr Stubbs : I'll have to be offended or something.

THE CHAIR: So now you're offended?

Mr Stubbs: I am going to start off by talking about payroll tax. I will raise some highlights of our submission, and I am happy to discuss other things.

Some issues have been identified in the recent past around payroll tax. There is a problem with large corporations having a high number of contractors and the ability to capture payroll tax from those contractors. Whether they really are contractors or not is an issue. That has been identified as one of the areas in which there is some "leakage" from the payroll tax collection.

There are also some indications in the last budget that there are ways of better capturing that. We are not completely across how that might happen but, if Treasury and, indeed, the Revenue Office are suggesting that there are better ways of identifying who should really be paying payroll tax and which contractors are or aren't truly contractors, then we would urge the Revenue Office to pursue those methods.

Interestingly, the Treasury submission to the Commonwealth Grants Commission has identified the fact that the ACT is the only jurisdiction that does not collect payroll tax from its police force. Much as it might be seen as an issue whether you would or would not collect payroll tax from the police force, it is a revenue issue for the ACT. We are missing out on a whole lot of payroll tax in the ACT, given all of those employees in other jurisdictions who would normally have payroll tax collected against them. I would commend to you that submission by Treasury to the Grants Commission.

In regard to some of the comments that have been made in the past by some employer organisations with respect to payroll tax, we understand that some believe it can be a disincentive for business to employ. Work has been done around this, and surveys of employers put payroll tax way down the bottom of the list of reasons not to employ.

It is not really on the radar for businesses when they are making employment decisions. Training, quality of the work force, demand for their product and a whole range of other issues come way further up the list, where employers do not register payroll tax as a reason for their employment planning. That is worth bearing in mind.

The other issue is that it is a very efficient tax. It has been identified as such because it is not collected by transactions right at the coal face. In fact, it is collected by fewer individuals than the GST type tax. The GST is a very inefficient tax because its compliance is done by every single individual, employer and seller of goods and

services, whereas a payroll tax is very efficient because it is done at a slightly higher level, which makes it easier to collect.

In relation to gambling taxes, we have some concern about the level of reliance. It is around 8 per cent in the ACT. Despite what some federal politicians might suggest, it would be completely inappropriate to increase the amount of gambling tax we collect. Increasing gambling would increase the problem. Last year we collected about \$43 million worth of gambling taxes. Some on our gambling reference group would suggest that we did about \$43 million worth of harm through gambling at the same time. So increasing the gambling tax taken will just increase the harm.

It is not a sustainable tax, and it is not good for the long-term viability of the ACT community. It is a regressive tax. Even Treasury, again, in their submission to the Grants Commission, and a lot of other research indicate that it is a tax on people on low incomes. It taxes poor people much more than it taxes wealthy people, and that needs to be borne in mind as well. We see it as a completely inappropriate way of collecting revenue. In fact, we would suggest aiming to raise less taxation from gambling rather than more.

Moving on to land tax, first of all, we think it is important to have a broad tax base like a land tax in the ACT. It is one of the few things we have that we can raise revenue through, and it is an important mechanism to use to raise taxation. We laud the fact that, since coming in, the government has ensured that corporations and trusts are covered in land taxation.

What should also be introduced is a premium land tax—if you like—some way of capturing very high value land and taxing that more highly than we currently tax land. That might be done by a multiple of the average land value to ensure that, as the value of land increases in the ACT, we do not see the creep-up of everyone into a luxury or premium land tax. It is done very successfully in other jurisdictions, so we would urge this committee to look at taking such a recommendation on. We talk about it in more detail in our submission.

At the same time that we talk about tax, it is worth considering the issue of concessions. We have done a fair bit of work on and provided you with a detailed submission on concessions. The ACT government is currently continuing its review of concessions. In the broad, we think that, particularly when the ACT government is charging for the provision of different government services, we need to consider hardship.

That is not just hardship of the individual; sometimes it is hardship of a family member. We often get families who are supporting, say, a person with a disability, whether that be an older or younger person in the family. So we need to consider hardship whenever we look at taxation. We need to consider how we create concessions, which in many ways are to create greater equity in the system.

Parking is an interesting issue, particularly in regard to the last budget when we had an increase in charging for parking, which I just wanted to highlight. We believe we need to have a charging system that charges for all dedicated parking—for example, when employers provide parking for employees.

Ms Nicholson: It is called a parking space levy interstate.

Mr Stubbs: That, we believe, is consistent with environmental perspectives as well, as far as it discourages people from using their cars too much.

However, there is potential for inequity, and we need to consider this in the light of concessions. For example, the recent move to charge for some public parking in Tuggeranong at the last budget means that people trying to access community services and health services are penalised, and that creates difficulty.

We need to recognise that and create some sort of CSO or concession around that. We need to think a bit more broadly so that, when we look at ways of raising revenue and encouraging environmentally friendly behaviour, we also consider people in hardship circumstances.

In conclusion—and we have indicated this in our submission—we urge this committee, when it looks at future taxes for the ACT, to do it by way of criteria and not just say, “This is a tax that we think will be palatable to the electorate.” There need to be the criteria of both vertical equity and horizontal equity for the people of the ACT.

We also need to consider why we raise tax. Any government needs to look at the services it wishes to provide to the community—and we would say, particularly for people living in disadvantage—and then look at the most appropriate and equitable way of raising taxes to meet the cost of those services. At the moment most governments look at it through the looking glass of what tax people will bear and what services people will then bear, and that is not necessarily the most appropriate way.

Finally, we also think that there needs to be a significant improvement in the level of transparency of taxes. People do not really understand how or why so many taxes and charges are being levied in the ACT, and there is no easy way for them to find out how they are being taxed on many things. A great example would be gambling taxes in the ACT. I will go back to that one.

If we actually stated on poker machines, “This is how much of your gambling dollar is being collected in tax revenue,” or even went one step further and said, “This club collected \$X million last year and paid only a small proportion of that in taxation,” we think that would be even more transparent.

There needs to be much more information, so that people can very clearly know that in the ACT these are the tax regimes and these are the rates they have to pay. It is very unclear at the moment, and that is inappropriate. Other jurisdictions here and, more interestingly, overseas provide very clear information for their citizens about the taxes they pay and see it as a right of their citizens. Thank you very much for this opportunity.

THE CHAIR: Daniel, thanks for your presentation and thank you for the work that has been done and the approach that you have taken, not just in how we raise extra revenue but in the issue of concessions as well, which is important.

On page 3 you say: “However, ACTCOSS views the tax base as inadequate, given that there is a high level of unmet demand in the community sector.” How inadequate is the base? How much extra tax should we be collecting? What is the expenditure level? I know that is a hard question to answer, but what are we targeting? Surely that must affect the taxes we should levy.

Mr Stubbs: I go back to my statement that any government needs to make a decision about the sorts of service it wants to provide. And I would say this government is a reasonable way down the track on that, given that it has done a needs analysis of homelessness and has a range of recommendations to implement around homelessness. It has an affordable housing task force, which is about to report, and there are a range of other review processes—disability is another good example.

It would not be hard to go to those review processes that this government has undertaken and say, “Here’s a great first step for the unmet need.” We would look at that. That would give us a very good example. There are going to be gaps because it is silo based, and that is unfortunate.

But it would be a wonderful first step to keep together the costs outlined in those needs analyses and reviews to give us an idea of what we need to collect. As you can tell, I am unwilling to give a dollar figure. But I think the information, at least the first step of it, is very much there.

THE CHAIR: I do appreciate that it is hard to put a figure on it. But in the government’s response to the Gallop inquiry into disability services they actually said that the department must now live within its existing mean because there are no extra dollars—although to give them credit, there were extra dollars in the budget earlier in the year. But, having delivered a report, to then say, “We need to make all these changes and implement all these new services, but the department will live within its existing means” seems somewhat contradictory.

Mr Stubbs: Yes. It is not good enough. The government’s response and the Disability Reform Group’s response to the Gallop report is quite clear. There is work to be done, and that will cost resources—just as creating a new department with no extra resources requires extra money; just as trying to make cost savings by not indexing some community organisations in their ongoing funding is completely inappropriate. It is not a cost saving. It is a false economy.

THE CHAIR: Sure.

Mr Stubbs: All those things mean that we have information out there about the sort of money it would cost.

Ms Nicholson: We are also making submissions on community facilities. There is a grave run-down in community facilities, which is another case of false economy. It is no use paying to deliver a service to people who are unemployed and are living in poverty—or whatever their circumstances—or to have those staff spend half their time fixing leaks, being out of the office or having their computers go down because of inadequate accommodation. There is a lot of looking at figures upfront, without looking at the actual costs of these things not functioning properly.

The government has done a very good job with all these inquiries. There is one example I can think of in the education sector, which is the development of what they call a “needs analysis tool” for assessment of students with disabilities. That is a revenue-neutral exercise, which says we are going to go out there and find out what these kids need and then not fund it.

The snowball effect of all of these assessments of unmet need will eventually cause some problems, unless there is tailoring of resourcing to those needs. I do not think anybody is asking for all needs to be met tomorrow, but there needs to be a plan for how they will be met as they are identified.

THE CHAIR: On page 5 of your submission you concentrate on payroll tax, which you also spoke to. Yes, payroll tax is easy and it is an efficient tax to levy, but is it a desirable tax? In your submission you go on to say that unemployment is costly. Is it acceptable that we have a tax on employment to start with?

Mr Stubbs : I do not think it is a tax on employment. There is clear evidence that it plays very little role in employers’ decisions about employing people. We also have a very high threshold in the ACT for payroll tax. If anything, it is very generous. There are head offices that are based in the ACT saying that their employees are employed in Queanbeyan because of the difference in the threshold.

We submit that it is not an issue. We have found reports and clear surveys that show, as I said in my presentation, that it is not a tax on employment. It barely affects employers’ employing decisions.

THE CHAIR: The Business Council, which appeared before you, would beg to differ.

Ms Nicholson: I can actually trump them with an ACTU survey of three electorates in Sydney, which says that it is down the bottom.

MS TUCKER: That is what I am interested in: some evidence.

Ms Nicholson: It is not even a marginal decision. In economic terms, it is not even a decision they make on the margin. People were given five things to identify that affected their employment transition from a non-paying to a paying organisation, and they did not even identify it in that. They put in other things: GST came top of the list, and other taxes and other forms, business red tape and government red tape all came in far higher than payroll tax.

In some cases it probably works as a brake on businesses expanding. If it is quoted as something that they consider before they expand, it is as a brake on businesses getting too big and then collapsing.

THE CHAIR: I have not seen your survey. Is it possible for the committee to have a copy?

Ms Nicholson: Certainly.

Mr Stubbs : We have a copy here.

Ms Nicholson: I have only got the first three pages. I am fairly sure it is available via the web as well, but I will definitely get that to the committee.

THE CHAIR: In your recommendations on payroll tax, you recommend that further exploitation of the payroll tax base be investigated. Given that most jurisdictions are moving to reduce payroll tax, have governments got it wrong?

Mr Stubbs : Are most jurisdictions moving to reduce payroll tax? We are certainly ahead of them if they are.

THE CHAIR: The Victorian government has just put out a number of concessions, and I think the New South Wales government is going to do the same.

Ms Nicholson: Are they coming up to our threshold? The New South Wales threshold is \$600,000.

THE CHAIR: No, we have gone the threshold route, and most of them are going the rate route, so it is very hard to compare them. On their web site, Business Victoria lists about \$750 million worth of concessions that appear in this year's budget.

Mr Stubbs : In some ways, I think that might be a different issue. Concessions for certain types of business—is that where they are going?

THE CHAIR: I would have to go back to the website.

Ms Nicholson: The Productivity Commission report—I know it is from 1998, which is probably out of date in terms of talking about what the levels are now—talks about it very clearly, saying that a payroll tax regime where you get into discounts and all the rest of it, becomes inefficient. They create inefficiencies in their own tax base if they are doing that.

From my point of view, it would be better to lower the threshold and go gung-ho and then talk to individual companies. But the Productivity Commission points out that, when you do not have a payroll tax on some companies and those companies manage to organise their costs to be under the threshold, they are actually disadvantaging larger, possibly more efficient companies, who have to then pass on that cost through to their clients.

THE CHAIR: It has got to be applied equitably.

Ms Nicholson: Yes. The route ACTCOSS has gone down in most of its submission is that of applying taxes equitably and then creating concessions where there is need, rather than trying to pick winners or trying to pick points at which you have a cut-off.

Mr Stubbs: It comes back to an issue that we raised, not necessarily directly in our submission, about not making taxation around political expediency. If states are reducing payroll tax, it might be more to do with politics than the efficiency, equity and appropriateness of the tax.

THE CHAIR: God forbid that politicians are politically expedient! Your final recommendation in the payroll tax section is that the ACT not focus solely on high skills based job creation but look at widening the region's employment base, which I assume means not concentrating on the white collar jobs but creating blue collar jobs as well. Like what? What areas should we be shifting into?

Mr Stubbs: There is one that relates to the region. We give very little recognition to the fact that we are not only the national capital but also a regional centre and, as a result, provide a wide range of services to this south-east region. There are opportunities around agribusiness, whether it be education provision in that area or services around that area that we would charge for. This would make a lot of sense, given that, as a regional hub, we also provide a lot of hospitalisation and community services.

So it is that kind of thing. We have an employment task group at ACTCOSS that looks into employment issues, and we have discussed this at length there. It also comes out of our work on and thinking about the fact that we should not focus just on high-end employment but need to create more entry-level employment in the ACT.

Ms Nicholson: Including in the community sector, I might add. That is another big part of growth. It is a great place to bring people into entry-level jobs and help them progress to higher level jobs. There is some capacity there to give them skills that take them into other areas.

THE CHAIR: Any further questions?

MS TUCKER: I do not think I have a question. It is such a comprehensive submission. I appreciate it very much.

Ms Nicholson: It has almost been a generation in the coming. It actually started about three policy officers before me.

MS TUCKER: I know one of them. I have seen a draft of one of the papers.

MS GALLAGHER: I have got a question. Daniel, I like the idea of the right of citizens to know where their tax dollars are going. I do not think it is something we do particularly well, unless your average reader reads the budget in overview paper No 2, like I did this year.

Mr Stubbs: The average reader, of course, can't read budget papers.

MS GALLAGHER: Yes. It is targeting particular people. You said there are places where this information is given. Have you got any examples of that, other than the pokie one? And is there a quick and easy way to do it?

Mr Stubbs: I meant other jurisdictions where this is done well.

Ms Nicholson: I'll go back to the development of those papers I was talking about. With the submission I photocopied some Treasury revenue drafts that they had done—they were never actually implemented—which told you how much was collected and how

much was actually put back in. There are turnover figures and then revenue figures on there.

THE CHAIR: Is that in the chart at the back?

Mr Stubbs: On the fact sheets that we attached.

Ms Nicholson: Gambling tax is an obvious one. It is almost like smoking warnings. For example, one particularly well-heeled club in town reported in its annual report that it collected, in profit, \$22 million from its poker machines in the last financial year. To have on its poker machines, “Of \$22 million in profit, X amount went to the government, and X amount went to the community,” would either be an incentive, a disincentive or cause for a riot. I am not quite sure. Like all things, more information—and clear information—is best.

Mr Stubbs: I seem to recall that we did find some examples of other jurisdictions, probably overseas. I couldn’t tell you off the top of my head.

Ms Nicholson: They are just reporting ones.

THE CHAIR: You’ve got Alberta in your—is it in the submission?

Mr Stubbs: Alberta was one of them. It is on our website.

Ms Nicholson: If the committee doesn’t mind—this is just Queanbeyan City Council’s. This tells you what comes in and what goes out in a very simple way. I actually did my masters thesis on clear and coherent budget papers and the inability of audited financial statements to speak to people who need the information.

I find that something like that is far clearer and gives people who need this information in a simple form an idea of what they have got. If you can go to a resource like a spreadsheet that tells you something about each individual tax—how we collect it, how much we collect and how much is in the revenue stream—it is much easier to understand what the contribution is.

Mr Stubbs: Currently, we really only focus on the change in the year. In the budget papers it says, “This is how much we increased expenditure by in this area.” It certainly doesn’t say how much we decreased it by in other areas. It is a marketing document.

MS GALLAGHER: Yes—that budget-at-a-glance thing, with the pie chart and stuff.

Mr Stubbs: There is some information, but there is no clear “This is the total amount of money we spent on home and community care services last year, and this is the amount this year,” so that we can see the increase and say, “Okay. That is just CPI or indexation,” or, “Okay. We have put some serious new money into that because of a need.” There is no ability to make any commentary like that, and that is why ACTCOSS spends 24 hours—

Ms Nicholson: Or 240 man-hours.

Mr Stubbs: or several hundred ACTCOSS-person hours, trying to pull together our budget analysis. It is very difficult.

Ms Nicholson: We actually have training on budgets before we do that. I take everybody through budget papers and show them where to look and what they are looking for. It is a very intensive exercise for a community organisation. We try to do it so that smaller groups do not have to try and figure it out for themselves.

Mr Stubbs: As far as the rights of citizens of the ACT go, we think they are flouted.

MS GALLAGHER: We have had some evidence today saying that, if people know their money is going on particular things, they are more willing to pay.

Mr Stubbs: Absolutely.

MS GALLAGHER: So there is a link between educating and being able to increase your revenue base if you have to.

Mr Stubbs: We approached the Revenue Office a couple of years ago—that is where some of this work came from—to develop an education campaign for greater understanding on the part of the ACT community about what revenue is collected, so that people would be more engaged and willing to contribute. People aren't going to walk up to the Revenue Office and give them \$5 bills, but there is some clear evidence, as you say, that people will do less to avoid it, which is really powerful.

Ms Nicholson: It should be a powerful incentive for people who are on the margin and are about to pay payroll tax to have the ability to make that profit in the ACT—they might also step up and pay their taxes.

MS TUCKER: I have something I would like to run by you. I do not know whether it is the ACT that can do this or the federal government but, since we have quite high taxes on things that are harmful and taxes which represent a cost to the environment—resource-based taxes and carbon taxes, which is not really something we can do in the ACT—what do you think about the idea of taxing, for example, producers of food that is harmful to society, such as junk food?

The Health Committee is getting a lot of evidence at the moment about the amount of junk food that is consumed by Australians. We know it is a significant issue for the health of Australians, as we know cigarette tobacco is and gambling is. I thought it would be interesting to see if anyone has ever thought about putting a higher tax rate on food that is clearly harmful. There would obviously be arguments because chocolate is nutritious—a bit. I wondered if anyone has ever seen that happen?

Ms Nicholson: It is a good idea, as long as they start with caffeine-based drinks.

MS TUCKER: Kids themselves have asked those questions: “Why is it that people are allowed to sell us these drinks which have stimulants in them?” It is interesting to think about using that money to fund education campaigns. It would make the price of the product go up, which is a disincentive in some ways.

Ms Nicholson: I have got to be very sceptical, though. We have said about the gambling revenue that \$43 million worth of harm is probably done in terms of what happens with gambling. Smoking and drinking campaigns are not fully funded out of their tax revenues either. So I am very sceptical about the return.

Mr Stubbs : We need to be very clear—and in a way it goes back to transparency—about why we tax things. When we tell the public about taxation rates, we need to be very clear about whether we are taxing something for environmental reasons or social reasons. We need to inform people about why we are taxing it. That is one issue.

Taxing as a disincentive, as Karen says, doesn't always work. I know this isn't an issue that just affects women, but the Women's Centre for Health Matters is doing a bit of work on what you eat and why people eat certain things. It might be worth finding out what the Women's Centre for Health Matters is doing in that area because it is quite useful and innovative. It is a fabulous idea to explore in the first instance. There are certain limitations to it, but it is worth exploring.

One of the biggest difficulties in the last speaker's comment about raising the revenue and then putting that into campaigns to educate around it—and we really support that kind of thinking, in other areas as well—is that treasuries hate hypothecation of taxes. Treasurers, in particular, hate it.

If you are going to recommend hypothecation of taxes, you should be very strong about it because the Treasurer, and any future Treasurer or Treasury officials, will argue about it until they are blue in the face. Anything that reduces their discretion to fund things as they see fit will be met with a brick wall. I am sorry I cannot answer your question directly.

MS TUCKER: That's okay.

Ms Nicholson: Can I make a comment? It is not exactly on that, but it is about the land tax base that we raised in our submission. We were just tossing it around because we are going through this sustainability submission process as well.

When you read the documentation from the Productivity Commission, you will see that the ACT is in a really great position. Other states that want to raise land tax have to go and revalue the land on top of their municipal valuations. We have it all in one office, and it is there at the flick of a button.

We only started talking about it this afternoon, but there is possibly some space there for some sort of innovation in land tax for the ACT—not based on our leasehold, but based on the efficiencies that we have by being a single jurisdiction across local and state boundaries.

We certainly do not have the problems that Queanbeyan has fighting the New South Wales government or that Yarrowonga shire is having as it ramps up its small broadacre developments for rich people who want to put \$2 million worth of house on them. I think we have got room there for innovation in the land tax area as well as room for expansion of that tax base.

THE CHAIR: You mentioned concessions in your submission and again when you talked about establishing a new tax. How critical are the criteria for the concessions and the public knowing them?

Mr Stubbs : Absolutely critical. We lay out criteria for that, and it is the same. We need to be very clear about how and why we do this. It is part of making sure you apply it across the board, are appropriate about it and do it in an equitable way. In some ways it can mitigate political expediency a little bit as well.

Ms Nicholson: Also based on hardship measures. We are having trouble ourselves with our own poverty measurement, in that it uses an income based measure. FACS have done some work recently on hardship indicators. Where they go with that I am not necessarily comfortable with, but it is a better indicator in some cases.

Your income can be quite high but, if you have a child with a disability or you are a carer of somebody who is dependent on you physically and financially, those things mitigate your ability to pay for things. So, concessions should be based around broader criteria than just income. Income should be a part of it because it is an easy measure, but there should also be other considerations for hardship that make that concession necessary.

Mr Stubbs : And there are efficient ways of doing that.

THE CHAIR: ACTCOSS, on behalf of the committee I would like to thank you for your presentation today and for your submission to the inquiry. It was very useful.

Ms Nicholson: I have a New South Wales fact sheet on parking space levels which we only mentioned in passing, but you might like some information. I will make sure that the ACT submission is emailed through.

MS TUCKER: The Women's Centre for Health Matters was doing that stuff on food. We should look at that in the Health Committee.

The committee adjourned at 4.42 pm.