LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

SELECT COMMITTEE ON ESTIMATES

(Reference: Appropriation Bill 2005-2006)

Members:

MS K MACDONALD (The Chair)
DR D FOSKEY (The Deputy Chair)
MR R MULCAHY
MS M PORTER
MR Z SESELJA

TRANSCRIPT OF EVIDENCE

CANBERRA

TUESDAY, 17 MAY 2005

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

By authority of the Legislative Assembly for the Australian Capital Territory

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

The committee met at 9.34 am.

Appearances:

Mr Quinlan, Treasurer, Minister for Economic Development and Business, Minister for Tourism, Minister for Sport and Recreation, and Minister for Racing and Gaming

Department of Treasury

Dr Paul Grimes, Chief Executive Officer

Ms Megan Smithies, Executive Director, Finance and Budget Division

Mr Neil Bulless, Director, Budget Management and Analysis Branch

Ms Kirsten Thompson, Director, Budget Strategy and Reporting Branch

Mr Phillip Hextell, Director, Accounting Branch

Ms Mon Chan, Manager, Finance, Accounting Branch

Mr Tom McDonald, Director, Legal and Insurance Policy

Mr Peter Matthews, General Manager, ACT Insurance Authority

Mr Roger Broughton, Executive Director, Investment and Economics Division

Mr Patrick McAuliffe, Manager, Central Financing Unit

Mr Lucas Nichols, Assistant Manager, Superannuation Unit

Mr Graeme Dowell, Commissioner for ACT Revenue

Mr Khalid Ahmed, Acting Executive Director, Policy Coordination and Development Branch

Mr Glen Gaskill, Chairman, Government Procurement Board

Mr Michael Vanderheide, General Manager, InTACT

Mr Ross Burton, Manager, Finance, InTACT

Mr Richard Hart, Program Director, Converged Networks Project, InTACT

Mr Mick Chisnall, Director, Service Delivery, InTACT

Mr Ernest Hocking, Acting Director, Solutions Delivery, InTACT

Mr John Robertson, Director ACT Procurement Solutions

Australian International Hotel School

Professor John Walsh, Director and Dean

Mr Chris de Mamiel, Finance Manager

Totalcare Industries Ltd

Mr Mike Harris, Chairman

Exhibition Park in Canberra

Mr Tony Sadler, General Manager

Rhodium Asset Solutions

Ms Deborah Clark, Chief Executive Officer

Ms Paula Edwards, Chief Financial Officer

Independent Competition and Regulatory Commission

Mr Ian Primrose, Chief Executive Officer

THE CHAIR: Good morning. I will read this card for your benefit. 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 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.

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

Members, please identify clearly any questions you want to be taken on notice, plus give any page references and, of course, the number of the budget paper to which you are referring. The proceedings are being broadcast around the building and to specified government offices, and the media may be recording proceedings and taking visual footage. I ask all witnesses and members to ensure that mobile phones are not used in this room. Of course, we are giving a dispensation to Mr Seselja just in case his wife goes into labour. Morning tea will be at approximately 10.30 am and afternoon tea at 3.30 pm. The lunch break is planned for 12.30 to 2.00 pm.

I ask members of the committee to indicate whether we do not need to hear today from any of the areas listed. Today, we have the Treasurer and the Department of Treasury before us and we are scheduled to deal with the overview statements and capital works, financial and economic management, the central financing unit, the home loan portfolio, InTACT, the superannuation unit, the Australian Capital Territory Insurance Authority, the Australian International Hotel School, Exhibition Park in Canberra—Mr Mulcahy tells me that he wants to ask some questions about EPIC, which will be the first time in my experience if it is done—ICRC, Rhodium Asset Solutions and Totalcare Industries Ltd.

Members, I am happy to give you five minutes to think about it. If there are any areas that you think you do not want to deal with, just write me a little note. I think that we will probably need to hear from all of them, though. Please let me know in the next five minutes so that we can let the officials go and spend their time doing some other work. Treasurer, do you wish to make an opening statement?

Mr Quinlan: Just a few words on perspective. I just want to say to the committee that, if we look at the ACT economy at arms length and try to view it as, if you like, a zero sum game, and if we charged about the same taxes as other jurisdictions we would, in theory, be able to provide about the same level of services as other jurisdictions under normal circumstances. The grants commission assessed us before this budget at about 95 per cent of our taxation effort, so we were probably undertaxing by the Australian average. Despite the debates that we have here and there, I think we are rated in most assessments as having a higher level of service.

What that means is that, over the long term, the ACT economy is not going to be easy.

We are very cyclic. Because of our limited tax base and the variability in those areas where we can tax, particularly land-based taxes, we will have fluctuations. It is going to be a considerable amount of time before the enterprise economy within the ACT matures to the point where it will ameliorate to some extent the level of those cycles.

We had a number of deficits back in the late 1990s. We saw, very fortuitously, a dramatic change in the level of commonwealth funding. We went from virtually below a factor of one in the multiplier that the grants commission uses to about 1.14. We have held at about that level since and that actual increase in commonwealth funding occurred coincidentally with the latest upturn in activity in the ACT, which is particularly exemplified by the housing industry and consequent taxes that can be derived from there. So, over the long term, it is still going to be a stretch for the territory to provide services at the level that we are used to and at the same time contain the impost upon the individual taxpayer at about the national average. We will see from time to time, I think, those cycles repeated.

For its part, over the last three years the government has chosen quite deliberately in its economic development to invest in new industry and to invest in new industry at the local level. That is probably to the exclusion of necessarily providing concessions to existing businesses, such as dampening payroll tax impacts and other taxes that might impact upon business. It is problematic as to whether you will get a direct result, direct contribution to the economy, from that particular approach, but if we go through the approaches that we have to the knowledge bank, venture capital investment and NICTA and the approach to small business that we have, we will have a better opportunity of getting a direct impact for the taxpayer dollar that is invested, but the economy will remain cyclic for some time and the major effort will be to maintain the level of services that Canberrans have come to expect while taxing them at a level that they would like to remain at and, at the same time, build and invest in the economy to the point where it becomes broader and more contributed to flattening out the otherwise volatile nature of the ACT economy. So you will see fluctuations in our economy.

One of the differences, I guess, we have with most other jurisdictions is that we incorporate land sales into our revenue and that gives us some advantage and disadvantage; because it is large, it does have volatility in it. But I think that that is legitimate and I think that it is legitimate into the longer term because you have seen the forward plans for Molonglo Valley and those sorts of areas where there is and will be a continued flow of revenue to the city, provided that demand is maintained, and that really is part of the job of all of us. I will cease there.

THE CHAIR: Thank you, Treasurer. We will deal with the estimates in the order outlined in the detailed public hearing timetable. So we will start with the overview statements and capital works and then we will move through to output class 1. I imagine that we will spend the morning dealing with those areas and will not get to InTACT until the afternoon and will deal with those areas later. I will start the questioning, Treasurer. In the budget speech, on page 1, you mentioned the growing cost faced by the territory, including the Vardon, Gallop and McLeod reports. Could you outline those costs? Could you also tell the committee what discretion the government has in funding the recommendations of these reports.

Mr Quinlan: This is a point that we have tried to make. I think that in any rational discussion it should be recognised and accepted that in the space of the last three to 3½ years there have emerged impost requirements on the public purse that simply did not exist before. They did not exist before probably purely through blissful ignorance. That blissful ignorance peaked or became obvious during the last Liberal government when, at the 11th hour, the then minister, Michael Moore, set in place the Gallop report.

That was in reaction to two or three deaths within group houses within the disability sector, which at the time, of course, was a very serious problem. The Gallop report on disability identified requirements that hitherto just had not been recognised but, once recognised, became an immediate obligation. I don't think we could put it any less a level. This is largely not discretionary expenditure. The Gallop report, we estimate, will cost between 2002-03 and 2008-09 about $76 million.

Beyond that, in 2003 we had a catastrophic bushfire. I think again it is agreed that if we had had three or four times the emergency services resources that we had at that stage it probably would not have made any difference to the impact on the city of those bushfires. I have seen the photographs of the walls of fire and I doubt whether another 20, 40 or 100 fire carts would have made a hell of a lot of difference.

Examination beyond the fire in the form of the McLeod report did identify areas where the city should be better equipped to face bushfires and probably face other disaster in this modern age of terrorist activity. Therefore, again, we have a recognition that immediately imposes an obligation. We figure that the McLeod report is going to cost about $45 million over the extended period. We also had, of course, from 2003 the bushfire itself and something of the order of $90 million being spent on bushfire recovery. Although we might make heady politics out of it all, I do not think I can recall any objections being made as to the individual activities that the government undertook and the concessions—

MR SESELJA: Is that $90 million the net figure?

Mr Quinlan: Yes, that is net of insurance and net of disaster recovery arrangements, which sounds a good idea but does not go a great distance in terms of what you might get back. Further, in the course of this government the Vardon report, the examination into child protection, has also identified a crying need and, again, an identification that carries with it an obligation. Our assessment of that over 2002-03 to 2008-09 is about a $154 million requirement for expenditure.

There are quantum steps in obligation that are being imposed upon the public purse, and we would submit that it is obligation that was unavoidable and had to be addressed. So the times they have changed, and they have changed to increase considerably the pressure on the public purse over the longer term. Those services and those needs now recognised represent, as I have said earlier, an obligation, and that obligation just must be met. It is facile just to take gross expenditure figures between now and three or four years ago and ignore those impacts to make adverse comment.

THE CHAIR: Thank you, Treasurer. Dr Foskey, do you have any questions on the first part?

DR FOSKEY: I am not sure as to the appropriate place to ask questions that I want to ask about the new indicators. Would it be now?

THE CHAIR: Yes, questions on the new indicators would be appropriate for now.

DR FOSKEY: All right. This budget uses new indicators that—

THE CHAIR: Sorry, before you ask the question, it has been indicated to me that we do not need to hear from Exhibition Park in Canberra, that all members of the committee are happy with that, so the people from Exhibition Park in Canberra are free to go. Thank you for your time.

MR SESELJA: Or free to stay.

THE CHAIR: Or free to stay if they are really riveted by the proceedings. Sorry, Dr Foskey.

DR FOSKEY: First of all, I wanted to congratulate Treasury and the government for making the effort to try to get a way for incorporating triple bottom line reporting into the budget papers. I have some questions about that. Could you please give me some general information on the process that Treasury went through to develop these indicators?

Ms Smithies: We went through a discussion, consultation certainly, with our Chief Minister's colleagues around the framework that we might want to use in relation to performance measurement in the budget papers and how we might fit that performance measurement into a broader framework of annual reports and the strategic indicators that come out through the Canberra plan, the sustainability report, et cetera. That work was done in consultation with Chief Minister's.

In relation to the development of the individual performance measures, we went through quite a lengthy process with each of the agencies discussing what would be seen as a value indicator to put in the budget papers. We went through two or three iterations of them providing us with indicators and us providing them with feedback on that and the obvious process of presentation and challenge in relation to whether the indicator was meaningful and, if not, what else would constitute a more meaningful measure, et cetera.

The third thing we did was have some consultation with the Auditor General's Office in relation to what the framework might look like, how the framework would be audited, how the new indicators would be audited, and their thoughts on whether this constituted a step forward rather than a step backwards. The last thing that we did in all of this was pretty much done in parallel over the last eight to 12 months. Obviously, it all started with budget paper No 5 presented last budget and also the additional discussion paper that was circulated to the Assembly in about February of this year.

DR FOSKEY: Did you have a look at any other models in developing your indicators?

Ms Smithies: We took a look at other states in relation to their presentation of budget papers and their strategic reporting frameworks as well. I have to say that most other states pretty much use the model that we used in the past, which was quite a detailed model of timeliness and cost effectiveness, and in some cases actually went a lot further in relation to detail than we did. That really wasn't what we were trying to drive at through these reforms. So we looked at other states in relation to their budget reporting. We had a look, obviously, at some more of the high-level strategic reporting around the global reporting initiative and the Minnesota milestones in the work that was done in Ottawa in relation to strategic government reporting as well.

DR FOSKEY: Have you had any feedback at any level on the indicators? I know that Mr Quinlan indicated that you weren't overwhelmed with feedback. You have talked about working within government, within departments, but what about community groups or business.

Ms Smithies: No, not yet. I think partly that is to do with the fact that this is almost an evolutionary stage for us. We have to, in a way, put something on the table and allow people to look at it and provide us with feedback. What we have said as part of this process is that it is a step towards triple bottom line, but it is obviously not the answer in relation to triple bottom line, and part of the first stage for us was to be able to reduce the existing performance measures and get them off quantity or stock measures into something that, hopefully, was more strategically aligned. Now that we actually have defined our first go, we would be expecting particularly our agencies to work with their major stakeholders in relation to getting some feedback around those indicators.

DR FOSKEY: Something that will be working with community organisations, too. You have indicated that the government will continue to develop the financial management framework to incorporate sustainability principles. Is there any other way apart from the indicators that you will do that?

Ms Smithies: Yes. The philosophy for us at the moment is that performance indicators in budget papers are really a reporting tool; it's ex post. What we need to try to do is bring forward a set of performance measures that can be used through the budget process and through the decision-making processes that actually allow a reasonable fleshing out of the issues to be made at the time that decisions are made, particularly around resource allocation, et cetera.

Our hope, once we have identified a good set of indicators, is to try to bring them into the beginning of the budget process, for example, as a decision-making process so that we get a better degree of information in relation to trade-offs on the table up front as part of that process. That is part of our triple bottom line framework and part of that is around developing a more rigorous cost-benefit analysis. Even a traditional cost-benefit analysis is always supposed to take account of social and environmental impacts, but we are working through developing one which will bring those a bit more to the fore so that we can have those as part of major policy development.

DR FOSKEY: The earlier discussion paper noted that it is almost certain that the legislation underpinning the financial management will need to change. Is that still a view held by Treasury?

Ms Smithies: Certainly in a small area of probably more technical issues around the audit of performance measures at the moment it is. One of the reasons that we seemed to be in almost the cyclical rut that we were in with our budget reporting was that we had around 800 indicators, each of which had to be audited to a degree of certainty, and the degree of audit opinion that was put around it was quite a technical audit opinion and related to the audit office actually being able to identify, quantify and verify each of those 800 indicators.

What we have tried to do is to take a step back from that and make a much smaller number of indicators subject to audit, but have a number of indicators that are more strategically driven that you wouldn't necessarily be able to audit on an annual basis included in the documentation as well. So we will need to amend the Financial Management Act to ensure that not every indicator that is put in the budget papers is audited, but only a smaller degree of what we are calling the accountability measures. That's probably the major implication for us at the moment.

Mr Quinlan: I think it would be wise to recognise that the level of reporting is going to be limited. It is not going to solve everybody's problem and, if you like, take all the work away from us in tapping into what is happening within our own community. I do recall in a bygone era the late Peter Wilenski, who was a recognised public administration guru, saying that anything you can measure is, by definition, trivial. I think we have to recognise that. We can only measure so much and quantify so much and, if we actually try to turn an exchange of sentiment, opinion and values into numerical reports, we will probably be overcooking the job. I think that we need to remember that this is an attempt to go part of the way in public administration in portraying the effectiveness of programs—effectiveness beyond just meeting budgets, but effectiveness in terms of delivery of targets—but it is never going to be the complete solution.

DR FOSKEY: It never is, but the process of refining it is an interesting one, it is actually breaking new ground and it is a good place for the ACT to be, I think.

Mr Quinlan: Yes. We put out budget paper 5 over a year ago. We have since put out and circulated to members of the current Assembly some updates on our thinking, and we would appreciate feedback. Criticism of the performance indicators and measures in budget paper 4 are a hardy annual for estimates committees, and in large part with justification, but we have never gone the further mile and said, "This is what we ought to have." We have always said that it is not enough, but we haven't really bent our minds to where we go from there, and that is what we're trying to promote.

DR FOSKEY: Will these indicators be incorporated into the government's proposed sustainability legislation or is that not something that you would know about?

Mr Quinlan: I could not say off the top of my head, but I would just repeat the essence of what I said before: we need to be careful of deluding ourselves that we can prescribe the complete solution and reduce it to legislation. That is not going to be the case.

MR SESELJA: There has been some talk about there being a number of job losses across the ACT public service in 2005-06. Are you able to give us a bit of a breakdown, if any jobs will be lost in Treasury, how many, and then, across the public service, Treasury's analysis of where the expected numbers are likely to be, of the jobs expected to be lost across the public service?

Dr Grimes: We wouldn't have a number for you for Treasury at this stage. We are not factoring in at the moment the need for redundancies within the core Treasury; I'll come back and explain that in further detail in just a moment. When we do further planning, we may identify the need for some job losses in the core Treasury but we are not planning any at this stage from redundancies. Treasury, obviously, also embraces Procurement Solutions and InTACT, our IT and procurement areas. You will have noticed in the budget papers there are quite significant savings being factored in from reforms to IT and procurement. This is greater centralisation of both of those functions, bringing staff who are currently in agencies into those centralised areas.

In order to achieve the savings, there will be job losses in those areas, and they will be achieved through a mixture of natural redundancies and in some cases targeted voluntary redundancies. The exact number of jobs that would need to be shed through that process hasn't been determined at this stage. We have done some rough scoping work—I haven't got the numbers right here with me at the moment—but we need to do much more detailed analysis to identify precisely how many jobs would be lost in both of those areas.

MR SESELJA: Are you able to give us an idea of what the rough figure is at this stage?

Dr Grimes: I haven't got it off the top of my head, but we could take that on notice.

MR SESELJA: Are any of these people made redundant likely to be hired back as contractors or is that not being contemplated?

Dr Grimes: That is not being contemplated because you wouldn't be achieving savings unless you do get an overall reduction in the number of people you are employing.

MR SESELJA: And across the public service, has Treasury done an analysis of where the job losses are likely to occur?

Dr Grimes: As a very rough rule of thumb, and this is a rough rule of thumb, you would pro rata the savings to make a judgment of how many jobs would be lost. Roughly, we are factoring in about 260 job losses in total through redundancies, and that would include areas such as procurement and IT as well, but at this stage it is important to realise that the detailed work to identify individual jobs hasn't yet been completed.

MR SESELJA: So the 260 is through redundancies; that doesn't include natural attrition, so there will be a further scaling back through natural attrition?

Dr Grimes: There will be some scaling back through natural attrition; that's correct. It is also important to focus on total employment numbers as well, because in this budget there is a quite a bit of new expenditure, so there are savings being made in particular areas but there are also new expenditures being made by the government, so there might be job losses in one particular area but they will be offset by job gains in other areas.

MR SESELJA: Is there a net figure for the natural attrition reduction or increase?

Dr Grimes: No. I can take that on notice, but to the best of my knowledge there isn't a single consolidated number for the public service of actual job losses.

Mr Quinlan: The agencies have to manage their own. Some of them may be using contractors, which will cease, as opposed to using staff, so it's down to them. Treasury is not going to micromanage every department.

MR SESELJA: No, but I imagine Treasury would be doing a bit of analysis of where they expect that to come.

Mr Quinlan: Yes, we said that the savings that we set down, if it was all through job losses, would equate to about 260, so it is effectively 260 or less, depending on how it's managed. That's on average level. It is of necessity, as in nearly every budget that any government ever brought down in Australia, somewhat arbitrary. We haven't given them a list of names.

THE CHAIR: While we are talking about that subject, I will ask a question I asked of Mr Harris yesterday as well, in relation to his area, and the answer was yes, consideration was always being given to this prior to separations. There is a tendency within the ACT government—I think, in fact, all governments, so it's not a criticism per se of the ACT government service—to advertise most positions as full-time positions rather than looking to part-time positions. So my question is: is any consideration being given to making savings by offering positions going from full time to permanent part time, because there are savings to be made by transferring?

Mr Quinlan: We can only speak for our department in that regard.

Dr Grimes: In terms of our department there is also an increased demand from workers for permanent part-time work because it fits in more with family responsibilities that some workers have. Ms Smithies has just told me that our revenue branch is actively pursing part-time options at the moment. That's not necessarily being driven by a savings objective, but also through efficiency and providing more flexible working arrangements for staff. But in some cases we may find that we can perform activities more efficiently through part-time staff, so we may be able to make savings as well as offering job opportunities that staff are looking for.

THE CHAIR: I might add—although I probably shouldn't, having chastised other members of the committee for doing this—it does actually mean that you will often keep good workers who might go elsewhere in order to find more flexible working arrangements as well. That's just my two cents worth.

MR SESELJA: Just in relation to redundancies and hiring people back, you have said that you wouldn't expect that that would happen in Treasury. Is there a policy across the ACT government if someone is given a redundancy package not to hire them back as a contractor within a certain period?

Dr Grimes: That policy framework is actually managed by the Chief Minister's Department; it's not something that is managed by Treasury. I will consult with Ms Smithies to see if she is aware of anything. I have just been advised there is a 12-month exclusion policy, but for more detailed questions there you would be better following it up with the Chief Minister's Department.

MR SESELJA: Does a 12-month exclusion includes contractors, not just coming back as a permanent employee?

Dr Grimes: On that detail it would probably be better to direct the question to the Chief Minister's Department, because they have the responsibility in that area.

MS PORTER: The budget paper outlines a proposed timetable for the abolition of a number of business taxes as presented by the federal Treasurer on 20 April. What advantages are there for the ACT in the preferred timetable that you have actually proposed over that proposed by the federal Treasurer? Also, has the ACT received any response from him with regard to this?

Mr Quinlan: In the first instance, treasurers have met and we have had a number of telephone conferences. Those states that have agreed to acquiesce to the request of the federal government—or the pressure, or whichever way you want to define it—decided they would want to put forward a proposal where each state would set its own timetable, according to its particular needs. In some cases, states had intended to either abolish or change those taxes anyway. I guess more importantly some states had decided to change other business taxes and felt that time had rendered the particular collection of taxes not necessarily the most appropriate suite for removal, but I think I have said publicly before that this debate has not been characterised, largely, by reason and logic.

We put forward a solution that said that within this solution our offer is that each state will set its own scale, going out to 2011, of removal of those taxes. All of the states agreed that they would not remove, and would not agree to remove, conveyancing duty on commercial real property, because that would just create inequity: when a business doesn't pay taxes, you pay individually. Besides that, it does represent a considerable amount of revenue.

So each state has set its frame to suit itself, I guess, to ease as best it can the impact upon its annual budgets and to allow for the so-called rivers of gold GST gains to really flow. When you look at the extra money that we've got from GST for the ACT's purpose, it sounds like large lumps, but some of the expenses that I enumerated earlier today—the removal of productivity payments, which the commonwealth has included in its budgets beyond next year; the removal from us of corporate regulatory fees, which flow to all other states and the Northern Territory but because of a technicality don't flow to us—mean that in fact we don't really get a positive benefit out of the GST for some years, beyond the impacts that we've got. You don't agree, Mr Mulcahy, or don't want to?

MR MULCAHY: I find it just incredible; I do find it incredible.

Mr Quinlan: Look at the numbers.

MR MULCAHY: I do.

Mr Quinlan: I've given two presentations. Deny the numbers then, or tell us effectively what you wouldn't have spent, which I think is more important.

MR MULCAHY: I think your statement was that there were no benefits.

THE CHAIR: Okay. The Treasurer will stop baiting Mr Mulcahy and he'll stop responding.

Mr Quinlan: As long as I don't have to put up with the heavy sighs, the gasps and the theatrics on that side of the room, I'm fine.

THE CHAIR: Treasurer, if I could I would control it from all of the members, including me, but there's only so much as the Chair that I'm capable of doing.

Mr Quinlan: Okay. Each state then put forward its own program—and quite openly—to best suit itself. So we've set ours to minimise the immediate impact and to optimise our position. In terms of a formal response, no, we haven't had a formal response. I don't know where the federal Treasurer goes now when he's had six of the eight states or territories combine to put forward a solution, a flexible solution, but two states—New South Wales and Western Australia—have said, "No, we will not accept the Costello interpretation, the new think interpretation, of the intergovernmental agreement, because Costello's reinterpretation is not an accurate interpretation of the original agreement."

People should remember that something like five or so of the states that signed up on the intergovernmental agreement in the first place were Liberal states at the time, and possibly had different philosophies, and different approaches, and did it in a different time. The agreement said "will consider". Now we have eight states and territories, all Labour states and territories, with different philosophies and different priorities and the times have changed. Victoria has abolished some of these taxes already, as we have—a couple of those taxes in question are not applied in the ACT. But each state would like, while we have a federation, to manage its affairs according to its own criteria, rather than those imposed from the outside.

It's not a good sign that we're seeing from the federal government, which is heading towards, in July, an absolute majority in both houses of parliament on the hill. There has been a tendency for federal ministers to boldly state that the states have got all this GST and they ought to be taking more and more responsibility in various areas because they've got this growth tax. It was supposed to be a growth tax; it was supposed to be the states' growth tax. It's a tax that's levied in the states. It's a tax paid by the people here. But, all of a sudden, the commonwealth, which for many years has had an increasing proportion of the gross tax take in Australia, is still not happy, and wants greater control.

Unfortunately, I think we will see some arbitrary imposts, at least attempted, over the states in terms of the money that flows from the commonwealth to the states. That is not gifted money; it's money that is taken from taxpayers in the nation and fed back through the levels of government—and there's an inequity in the way it flows. I think there will be increasing problems on that front with, particularly, the attitude of the current federal Treasurer, and some of the other ministers who just have become more and more arbitrary.

MS PORTER: Treasurer, the budget states that the commonwealth is making greater use of input controls for specific purpose payments, which is mentioned on page 79 of budget paper 3. Can you outline how this is affecting the ACT budget?

Mr Quinlan: That relates to what I've already been saying: there are clear signs that the commonwealth will place further obligations on funding that flows to the states. Quite frankly, I say that it's the obligation of everybody in this room to ensure that in this debate, and in the debates that will follow, we represent the interests of the people of the ACT, because there is likely, as I said, to be an increased propensity on the part of the commonwealth to place conditions on funding.

It can be by way of requiring dollar for dollar contributions or what we've seen happen in recent years, of the federal government putting up so much money and saying; "We offer the states so much money, provided they put in one dollar or two dollars for every one of ours and sign on to do exactly what we want them to do. If you don't do it, then you are robbing your constituencies of this particular benefit."

In fact, it's a process of just tying the states bit by bit. While ever we believe that there should be state governments and while ever the commonwealth doesn't live up to the occasional suggestion that it makes of, say, taking over health completely, or taking over something else completely, we, collectively, are going to have a battle on our hands to maintain our relative independence and discretion in what we spend.

MS PORTER: The special purpose payments would come into that category, too, because they've changed in the last 12 months as well.

Mr Quinlan: Yes.

MS PORTER: So that's another impost.

Mr Quinlan: Yes. It is a growing control being exercised by the commonwealth, and I for one don't want to give it up; I don't know if others do.

MR MULCAHY: It's nice to have an opportunity to question the Treasurer. I'd just like to raise a couple of issues.

THE CHAIR: You've always got an opportunity to question the Treasurer in the estimates committee, Mr Mulcahy.

MR MULCAHY: Yes. It has just taken a little while to get to me, but not to worry.

THE CHAIR: There are five members of the committee, and you were given the opportunity before Mr Seselja.

MR MULCAHY: I understand that. Treasurer, dealing with your preliminary remarks, I must say I was encouraged to hear you put the view that you believe in equity between business and individual taxpayers because I certainly think that that's something the business community will welcome if that is accomplished in this city. But in your introductory remarks you used the term—I've heard you use it three times before—that it would be problematic in terms of business tax relief. You continue to question whether that actually stimulates the economy. Conversely, obviously, business tax increases therefore don't adversely impact the economy on that line of thinking. I'm just wondering what you think are the factors that actually stimulate the ACT economy or retard it, if it's not the imposition of tax measures.

Mr Quinlan: As I said at the outset, our view has been that the best value for the taxpayers' investment, which is what it will be, in business will be in the creation and development of small and medium business in the ACT, particularly out of our strengths. I'm sure you have read our economic white paper from cover to cover and can see the philosophy contained therein. If you look at the suite of objectives, targets, in that paper, we've pretty well got them all in place or on the way now, and quite a considerable amount of money invested in stimulating the enterprise economy in the territory.

This territory has some great assets that have far more potential to build business than maybe attack that cut in payroll tax, which would likely, because of our structure, impact upon large employers and probably flow straight out of the territory anyway. It would not necessarily be stimulatory to the territory, if stimulatory at all. It might be stimulatory to the shareholders of the larger company.

We have elected to foster enterprise innovation in the ACT. We have invested in the knowledge bank, we have created and been part of the creation of enterprise in the ACT and we have invested in the national ICT centre of excellence, which will employ hundreds of people, which will engage and provide research development assistance to something like 100 PhD. students. We are not going to try to quarantine what happens in the ACT specifically, because that would just be dumb.

We need to build the ACT as a centre of research, development and innovation. That is why we have the knowledge bank, that is why we have invested in NICTA and that is why we have invested in a venture capital fund. We put in $10 million and we have had the MPAA come in with another $20 million, so now, for the first time, there is a substantial venture capital fund resident in the ACT to build those businesses, to give them start-up capital.

That is why we have the agreement just signed and starting to bear fruit with the ANU and the development of West Civic and the construction that will take place. We facilitated that, and facilitating that ANU process has also facilitated the investment of a considerable amount of funds that may never have come to the ACT because a lot of the development has been done now under the first building, the student accommodation, with complementary retail and hospitality outlets in it. It probably would not have happened without our agreement; the investors would have taken their money elsewhere.

I do not deny that, if we had some form of lesser taxation on business, or business concession, there would not be a benefit to the territory. The trouble is that I do not know that it would be a one to one; I do not know that we would be getting necessarily a substantial return on the dollar invested; you will never know. But I do believe that we have got much more hope of getting genuine value for the dollar by putting it into something like Perpetual Water, putting it into the other businesses that are now growing in the ACT and, through other programs like the California bridge program that we built, have been introduced to the United States and have a chance of taking their products to the world. That is the election that we have made.

MR MULCAHY: So, obviously, the competitive advantage for business in terms of the tax regime is not in your view a primary consideration for businesses wanting to set up in the territory.

Mr Quinlan: It is, but let me tell you that—

MR MULCAHY: Either it is or it is not, Treasurer, because you have gone on record as saying you do not think it makes much difference.

Mr Quinlan: No, but first of all let us get it in perspective. I just happen to have in front of me a copy of the Australian Business Ltd mid-term report on New South Wales. It's on New South Wales, but in order to put New South Wales in perspective it does a national survey.

MR MULCAHY: Did you count how many they surveyed in the ACT?

Mr Quinlan: No, I didn't, but there are 1,800 small/medium businesses across Australia. In the rating of state/territory government costs and regulatory systems, we are top of the pops. We are the best territory, by Australian Business Ltd standards, now in which to do business, cost and regulatory wise. Would that mean that easing the tax burden on business, or concessions to business, would offer some return? We are the top of the pole.

MR MULCAHY: But not matched by any growth, Treasurer, in terms of people moving into the territory. So, whilst the ABL survey, which I think was primarily focused on your colleagues in New South Wales, might give you a clean bill of health, I would have thought the figures in terms of employment growth, and population growth, which is almost static, sit rather in contradiction to the assumption that this is the place people in Australia want to come and do business in.

Mr Quinlan: Population growth is measured by Medibank cards. We are concerned as to the type of measure, not just because it might put the territory in a bad light population wise, but it has an impact on our grants commission funding because it is one of the variables in the formula. Employment growth in the ACT over the last few years has been dramatic. The participation rate has been dramatic. The growth figures, the business—

MR MULCAHY: The participation rate in the work force has grown in all Australian states and territories. The latest figures show that. Relative to other states, our population growth is almost static. I think it was 0.25 per cent growth in the last set of figures. What I am trying to get across to you—

Mr Quinlan: Yes, if you believe those figures, and if you also discount the overall population growth in what I would call greater Canberra—because around us the growth immediately over the border has been considerably higher, in fact; I think Queanbeyan was rated as one of the highest—

MR SESELJA: Doesn't that suggest something is going wrong here?

MR STEFANIAK: Doesn't that tell you something, Treasurer?

MR SESELJA: Doesn't it suggest that something is going wrong here when people want to move to Murrumbateman and Queanbeyan instead?

MR STEFANIAK: Or Jerrabomberra.

Mr Quinlan: Yes. In some cases it represents lifestyle; in some cases it represents economics. It certainly does reflect economics here. But before you ask whether that represent something going wrong here, consider that in the overall context it is not just black and white. If they live in the ACT, we are better off; if they do not live here but over the border in Queanbeyan, we are not better off, because if they are in Queanbeyan and come to our hospital New South Wales pays us. If they are in Queanbeyan, Frank Pangallo takes out their garbage.

MR SESELJA: Yes, but they pay rego and they pay rates.

Mr Quinlan: Yes, they certainly do pay rates. In preparing the economic white paper, I have had an analysis done. That was a question that occurred to me: how am I better off? Is the territory better off with someone who's going to work here? Look at the economic white paper. It focuses on the region, because it does not have that limitation on our—

MR MULCAHY: What was the conclusion to that question?

Mr Quinlan: We are better off by the land sale. That's it. It is a zero sum game. They pay for their services and someone else gives them their services. It probably comes out about square, doesn't it? So we are better off by the land sale; that's it.

MR SESELJA: So you are happy for people to start moving out—

Mr Quinlan: I am not going to slash my wrists; that is what I am saying. I am not going to slash my wrists over it. I would prefer to see greater growth within the borders of the ACT, and that is a wider question than payroll tax for business. I would prefer to see that. But, overall, it is not the doom and disaster issue that might first occur to people who have not thought it through.

MR MULCAHY: So you do not think that payroll tax impacts on employers' decisions in terms of the numbers of staff they would put on their payroll?

Mr Quinlan: I think all of those costs will have a marginal effect. But what we are talking about is the appropriation, the application, of limited resources. That imposes choices upon one. The choice, as I have tried to explain, that we have made is to build on the smarts of this city, to build this city as a centre of research, development and innovation—to build its repute, to build its capacity and to see less of the smart stuff that is done in this town leave this town. In the last export figures I saw—"ACT" and "export" probably do not occur in the one sentence very often—from a small base we've got by far the highest growth of exports of any other state or territory.

MR STEFANIAK: Do you offer incentives like a tax break, Treasurer—for example, if you set up a new business here, you won't pay payroll tax for, say, three years?

Mr Quinlan: We're still open to those sorts of things but we're far more discriminatory about that than governments of the past.

MR STEFANIAK: Are you actually doing any of that, though? Over the last 12 months, have any businesses been set up here which have been offered some kind of break, such as a payroll tax break for a certain period?

Mr Quinlan: No, I don't think so. Since the good old days of Fujitsu and IBM getting tax breaks, there has been an agreement signed between the states and territories that we don't buy each other's businesses. States and territories don't do that. That was just a way that we were all getting played off against each other.

MR MULCAHY: Can I just take you up on the land tax?

THE CHAIR: No, no, no.

MR MULCAHY: So far, I have just had just one question, Chair.

THE CHAIR: Mr Mulcahy, it's seven minutes past the morning tea break. I'm happy to come back to you when we come back.

Meeting adjourned from 10.37 to 10.55 am.

THE CHAIR: Welcome back. Mr Mulcahy, you had a question.

MR MULCAHY: Treasurer, before we get into the detail of the budget papers—and I do have issues later that I want to canvas with you and your officials regarding the reporting systems or the accounting systems— you said in you preliminary remarks that you were fortunate that you could treat land sales as revenue, as part of your budget process. From a long term point of view, the idea of land sales producing revenue as a balancing feature—in this case we haven't balanced the budget, but to work towards that outcome—if you don't have the level of demand in the community or you don't have high levels of growth, how do you see that working out for the ACT? Do you see issues down the track? You are effectively selling the assets of the territory off and saying, "Well, that's revenue coming in," but there is a finite amount. I know there is a good deal of land that will be there after you, I suspect, have passed on the role of Treasurer, but does it concern you that, in effect, you are living beyond your means, essentially?

Mr Quinlan: I think it is a concern to most people that have thought about it, and I am sure you have as well, that the territory's limited tax base, its limited revenue base, the lack of industry, the lack of any primary industry, the lack of any minerals—any of those industries that other jurisdictions enjoy—is a constriction on where the territory may go. Yes, it is of concern.

We remain concerned that the diversity of the territory economy is going to take one hell of an effort to develop. That is part of what we were discussing before the break. The government is coming to build diversity within the economy, to build enterprise within the territory, to build the enterprise sector of the economy to offset its limitations and its dependence upon land-based taxes.

MR MULCAHY: I would like to raise a broad question. It may be appropriate to deal with it later, but I will ask you now if I may, Treasurer. Last night the committee heard that the Auditor-General's extended request for funding had been knocked back, which in fact was recommended unanimously by the public accounts committee and would have provided her with the resources to do performance auditing at the level that the Auditor-General's Office thought appropriate. It suggests to us that that level of accountability that would have come with that will not be there and that people who raise matters with the Auditor-General's Office now will find that their inquiries may not be actioned at all or may be actioned well down the track. Have you got a view on why the government chose to constrain the requirements of the Auditor-General's Office, given that this is probably the most thorough and independent method of reviewing the activities of departments and accountability?

Mr Quinlan: Someone will correct me if I am wrong, but I don't think there was any agency head that didn't want more money and didn't think they could do a bigger and better job with more resources, and I don't think any of them got all that they requested. This was an annual event, and probably an annual event for everybody. Bids come in for all the agencies. Most of those bids, in and of themselves, sound quite reasonable and quite justifiable but, of necessity, have to be examined in light of everybody else's bids and requirements. So the process of budgeting is exactly that—budgeting. It is allocating a limited amount of resources across all of the agencies. All of those agencies made requests. The Auditor-General, like anybody else, puts in bids and makes a case, and that case goes in with everybody else's case, and it doesn't get any lesser or any more consideration than anybody else's.

MR MULCAHY: Treasurer, I would put to you that maybe it ought to, given that it had all-party support and that the performance of the Auditor-General might well work towards ensuring better management of the territory's resources, protection of the revenue base and, indeed, careful monitoring of the expenditure activity of departments. I would hardly see it in the realm of largesse or empire building. I would have thought it would be a pretty integral part of ensuring you had good management of government, and clearly this is going to suffer now.

Mr Quinlan: I can't give you any relevant statistics but, off the top of my head, I would say that my impression is that the Auditor-General's Office has been fairly well resourced over the years. I have, at various times, chaired the public accounts committee, interacted with the Auditor-General, and seen the amount of resources that can be applied to various inquiries. We have even got the situation now, I think, that the requests coming from members of the Assembly outside government are being given attention by the Auditor-General. The Auditor-General is examining issues that already are a matter of debate, and the statistics, such as waiting lists, are on the table.

So I would have to say, in all honesty, that I think the Auditor-General is pretty well resourced. The resources to the Auditor-General have increased over the years, to the best of my recollection. I would have to double-check that; I won't swear to that. But my impression is, over time, that we provided additional resources to the Auditor-General's Office. At a time when we are looking to cut our cloth and make sure that the government can provide the maximum level of service at the pointy end, service delivery to those that need it, I think the situation the Auditor-General finds herself in is pretty reasonable.

MR MULCAHY: That is obviously a point of difference. Mr Seselja seeks a point of clarification.

THE CHAIR: Just before we go to Mr Seselja's point of clarification, I might actually mention, Treasurer, and ask for your comment on this: when we talked about the issue of three additional performance auditors and about the issue of public interest disclosures, I did actually ask the Auditor-General, even if they had got the additional three performance auditors, whether they would be able to address all public interest disclosures. She was of the opinion no, they would not. Do you have a comment to make on that?

Mr Quinlan: A process like public interest disclosure and addressing it can create its own demands, and I am sure that the vast majority, if not all, of those disclosures are made earnestly. But in any examinations that we have to make in terms of public accountability, you have still got to set priorities; you have still got to actually prioritise and say, "These are the things we'll do; these are the things we can't do."

You just can't give unlimited resources to one, two or more agencies while you are trying to optimise the amount of resources that are available to government overall. I am sure that you could line them up and you would get one after another—chief executives of agencies performing various functions—that would make an earnest case for more resources.

MR SESELJA: So you are not concerned about the fact that the Auditor-General expressed to us yesterday that, because of the lack of resources, the statutory requirement to look into public interest disclosures was being seriously compromised? You don't have any concerns about that?

Mr Quinlan: I have concerns about that, but at the same time I would expect that the Auditor-General would use her resources to address her statutory responsibilities. But it is not a case for any particular area of government to be just given carte blanche and say, "Well, you're okay."

We don't have control over some of the areas we have. Some of the expenditure streams are demand driven. Some of the concessions that we provide are there, and they rack up costs according to those which are accessed, particularly in community services. Nevertheless, I don't think that the Auditor-General process falls under that heading. Let's just be reasonable, for God's sake.

THE CHAIR: Mr Seselja, on a point of clarification; then I am going to go to Ms Porter.

MR SESELJA: Thank you, Chair. I had a brief discussion with Dr Grimes during the break about our discussion before about the 260 job losses across the public service. I was just wondering, Dr Grimes, if you could clarify for us whether my understanding is correct that the 260 are redundancies and there may or may not be additional net losses of jobs in the ACT public service as a result of natural attrition, with no more spending in some areas and less spending in other areas. Are you able to confirm that for us? Is that the case?

Dr Grimes: That is correct. The 260 figure is the indicative figure for expected redundancies. Obviously it is indicative at this stage because much more detailed work needs to go into determining the final figure and obviously there need to be proper consultation processes and so forth followed. There will be some natural attrition as well in the service. But, on top of that, I think I mentioned that the government is investing additional resources in some areas; so there will be some employment gains in those areas.

MR SESELJA: So it is possible, then, that there could be more than 260 job losses across the public service in the next financial year.

Dr Grimes: I don't have a total figure for the public service as a whole so I am reluctant to say that that will definitely be the case.

MR SESELJA: But I am not asking you to say definitely. You are not ruling it out, I assume. It is possible. It could be slightly less than 260 but it certainly could be more than 260.

Dr Grimes: Yes, it is possible that the final job variation could be different to 260. The 260 is an indicative figure on expected redundancies.

MR SESELJA: Is there any addition to that?

Mr Quinlan: No. There are just a couple of points of clarification that I will get later, if I need to give them to you.

MS PORTER: Treasurer, on the subject of revenue raising that we were addressing just a minute ago: as far as you possibly can make a comparison, how does the ACT compare with other states in the total tax take? Are we a higher or lower taxing state relative to other jurisdictions?

Mr Quinlan: I mentioned that in my earlier statement. The last assessment we saw from the grants commission was that, taking our taxation capacity, which is different from other states, we were at about 95 per cent of that effort as measured by the grants commission, which put us at about the third lowest in terms of comparison to other states and territories.

DR FOSKEY: I was just wondering whether there are any funds unspent in this current financial year that are being rolled over to next financial year and what programs were involved there.

Ms Smithies: Budget paper No 4, page 108, goes through three rollovers in particular. One is $300,000 for the budget and finance system funding, which is to do with whole-of-government reporting and the Oracle finance system upgrade. The second lot is $200,000 to do with the social plan evaluation framework.

DR FOSKEY: Tell me a bit more about that, if you could.

Ms Smithies: Funding was provided to do two things, by and large. One is to do some global work on what an evaluation framework would look like for most of our major initiatives so that the major things would get funded through the budget process. The second was to provide some seed funding to take a look at two or three of the key initiatives that were all part of the social plan last year.

A lot of that work won't happen until this year, more because in relation to evaluation you actually need to let some time go past with the program before you can actually effectively evaluate it. Regardless of the fact that there has been a rollover, we have actually done a lot of work on the whole-of-government framework and will be sending that out for consultation across the government shortly. The third rollover relates to the sustainable infrastructure fund, and there is a $2.5 million rollover in relation to that.

DR FOSKEY: I notice that the transfer of gambling and racing to the Department of Economic Development has incurred a very large expense.

Mr Quinlan: That is just shifting money.

DR FOSKEY: One of the issues around capital works, referring to the Auditor-General's report on financial audits for 2003-04, is the large amount underspent, indicating that management and delivery of capital projects need to be further improved. That was her conclusion. I am just wondering what you think of the main contributors to this underspending on capital works.

Mr Quinlan: It is fairly traditional, unfortunately, but it is just the case that, if the project is going to go anywhere, it goes later than expected rather than earlier. So it is a case of really getting on with the jobs. That is something where I registered my disappointment previously.

THE CHAIR: For the benefit of the committee, Treasurer, could you or one of your officials outline what work is being done to address this historical problem of underspending with capital works?

Mr Quinlan: I guess we are asking agencies to get real in their estimates in the first place.

THE CHAIR: Sorry?

Mr Quinlan: We are asking agencies to get real in their timetables in the first place, and then pushing to get projects under way sooner. At the same time, one of the by-products of the changes that we are making in the administration, particularly in relation to IT in purchasing, will funnel far more purchasing through to Purchasing Solutions. I think their track record is pretty good. Certainly I have had representations from people like the MBA, saying, "Can you put more through the centralised purchasing process, as opposed to agencies, in order to streamline the flow and to streamline the process side?" We expect improvement, but I would fearlessly predict that some degree of underachievement will remain a feature.

THE CHAIR: Is there any work being done in terms of analysis of the capacity to meet the demand? It was my understanding that there was in terms of, if you need X number of road builders to build a road, you want X number of roads built. Do you have the number of road builders required.

Mr Quinlan: It is not a total reconciliation of that. The programs are there. Certainly the large contractors and the master builders are quite happy with the amount of work that is out there; they are not screaming for more to go out there. We have got, of course, a massive change in our effort just coming out of the Gungahlin Drive extension. That has been held up by vexatious litigation. That has to run its course. The government certainly has done whatever it can in relation to getting that project done and well under way. But because of the crazy situation we have in the territory where we have different jurisdictions in terms of planning approval between ourselves and the NCA, legal actions are oscillated as against the ACT government versus as against the NCA. We have still got at least one more to run through the Federal Court.

MR MULCAHY: Treasurer, just in relation to your point there about telling your agencies to get real: do you still have a performance monitoring unit in Treasury?

Ms Smithies: Yes.

MR MULCAHY: Then, pursuant to that, could you tell me how you assess the relative performance of the departments, particularly health, in terms of their management and efficiency?

Dr Grimes: This is a typical core function really for a treasury department, and the ACT Treasury is no different to other treasuries. In fact, while we may have a unit in this area, we would expect virtually all of the main policy advising parts of the Treasury to take a keen interest in these sorts of questions. There is not a single answer to how you monitor, because obviously you use a variety of indicators at your disposal. One of the key sources of information is, of course, the annual service provision report that is prepared by the Productivity Commission. It provides quite rich statistics between the performances of states and territories. The Australian Institute of Health and Welfare also provides periodic reports.

MR MULCAHY: Yes, years behind, unfortunately, in their data.

Dr Grimes: Yes. It is always frustrating that the data does lag by a year or two, and it is not something that is particularly special to the ACT. It is something we see nationally. In fact, we often find that we have got good data on how we are performing ourselves in real time but, in making those comparisons with other jurisdictions, the information for other jurisdictions becomes available with the lag.

MR MULCAHY: Within the administration of this territory, this unit must reach certain observations without necessarily relying on external data alone. What observations have you made in terms of the performance of those organisations?

Mr Quinlan: I think you are getting a little bit beyond the role of estimates—

MR MULCAHY: I am just asking about Treasury.

Mr Quinlan: I do not think Dr Grimes is here to give a personal assessment of health. I think you could do that through—

MR SESELJA: But isn't that what Treasury does? Don't they look at the relative merits—

MR MULCAHY: I don't think we are asking for a personal assessment.

THE CHAIR: Order!

MR MULCAHY: We are asking, Treasurer, about the unit which is under your administration, the performance monitoring unit, and I am wondering what sorts of outcomes it has determined. In terms of it being there to monitor the performance of agencies and obviously to ensure good budget outcomes, are there any abiding themes that are emerging from their observations of your agencies?

Mr Quinlan: I can tell you from the figures that I have seen that the throughput in our hospitals is up dramatically. The frequency of separations of outpatient services is up dramatically. The emergency service occasions are up dramatically over the last few years. There has been a lot of discussion regarding waiting lists, but that discussion and debate have largely ignored the question of throughput. We know it is politics.

MR MULCAHY: But you would be troubled by the case mix, the separation figures being by far the highest in Australia, Treasurer, I guess, and your unit would address that or be concerned about that.

Mr Quinlan: Yes, and in fact the health department is on our schedule for the expenditure review committee for the upcoming year.

MR MULCAHY: When you say it is on your schedule, you are looking at all departments, I imagine; or are you giving particular, more detailed focus this year to health?

Mr Quinlan: We have an agenda; we cannot do them all at once. We have already had a rough look at health, and that was advised to cabinet. Arising out of that was a conclusion that we would return to that, which we will. And it will be advised to cabinet.

MR MULCAHY: Also on capital works: in regard to the much-vaunted prison, Treasurer, is there any new set of figures that relate to the estimated total construction cost beyond the $128 million you last notified?

Mr Quinlan: I think there is a figure in the budget, isn't there?

MR MULCAHY: Yes. Things are at that figure still at the moment; they are your projected costs?

Mr Quinlan: As I understand it, there is an agreed escalator—and there always was. There is a figure of $110 million as the base and an agreement on the process for an objective cost escalator. That has taken it, within this budget, to whatever figure you read out.

MR MULCAHY: Right. I have not seen in the forward estimates the operating costs. They may be somewhere but it is not evident. Is there an indication of what the annual operating costs are projected to be for the prison?

Mr Quinlan: Not in the budget, no. We are a fair way from defining what they might be.

MR MULCAHY: So the numbers have not been done at this point.

Mr Quinlan: No. The level of service, if that is the word, that will be provided is not determined at this stage. You can run a prison at various levels of rehabilitation, various levels of support and various levels of involvement care. Those have not been decided as far as I know. You would have to ask the minister responsible for corrective services, because I do not have them.

MR MULCAHY: In Treasury's planning you have not gone into this and said this is what it is going to cost; you have just said, "This is the capital cost and we will work out the operational cost somewhere in the future." Is that the case?

Mr Quinlan: It is not just a case of "we will work it out". That is oversimplifying it. It is saying there are still decisions to be made as to the method, the breadth and the depth of the operation.

MR MULCAHY: The bottom line is that you do not know what it is going to cost though; you have no idea.

Mr Quinlan: I do not think it has been defined to the level that it could be budgeted down to the last buck.

MR MULCAHY: I do not think we are talking at that level of detail. I am just wondering whether you had any clue at all as to what it will be. All right, I will leave those for the moment and go onto some other issues in a minute.

MS PORTER: Do rates and land tax come under general?

Mr Quinlan: If you like.

MS PORTER: Treasurer, do you or your officials want to give a bit of a view on how the rates in the ACT compare with those in other jurisdictions around the country?

Mr Quinlan: I will have to call on officers, if they have that off the top of their heads. Sorry, we will have to take the interstate comparisons on notice. There is a New South Wales comparison.

Dr Grimes: A comparison between the ACT and New South Wales is set out on page 116 of budget paper No 3 but it does not cover all states. There are obviously a number of differences between the tax structures of those jurisdictions.

MS PORTER: I would be interested particularly in comparisons between Canberra and other capital cities—and other similar sized cities, I suppose.

Mr Quinlan: We will try to get you that information but it takes a bit of explaining. There are different thresholds. New South Wales has an exit tax which may or may not survive its next budget. It has aggregation whereby, if you own two properties, they are aggregated for the purpose of taxation and used for thresholds. We treat each property separately. So there are a number of differences in the way land tax is applied. We do not agree with the way New South Wales applies it.

MS PORTER: I was looking more at the rates, though, than the land tax as an issue.

Mr Quinlan: The general rates?

MS PORTER: Yes, general rates. I know that it will vary and it is not always easy to collect that data, and there will probably be changes sometime during the year, but is there the possibility of getting some comparison in rates between Canberra and Wollongong, and maybe with Brisbane?

Mr Quinlan: Yes. I have used some of those in a presentation, so we will give you those on notice as well. It is fair to say that our general rates are more expensive than the large capital cities. We just do not have the economies of scale to do what they do, and provide city services. But in major cities that are more comparable with Canberra, we are in the ballpark. But I will give you some numbers, if you like.

MS PORTER: Okay. I notice as well that the increase in the average land tax take is now to be capped to CPI. I am curious as to how this land tax regime is being changed to achieve this, to achieve the CPI capping.

Mr Quinlan: There is still a formula, and we still have our break within the land tax formula. But it is a case of taking last year’s land tax, escalating it by CPI and physical growth, if there is any, and getting a new gross figure of tax take, which effectively should be more than last year by about the CPI, and then working back through the formula to get your rates. With land values generally escalating at a far greater rate than CPI, you get a reduction in the rate even though you will get probably a marginal increase in the bill. It will not be even. It will take account of differential rates of change in land values across the territory. It is pretty well the same way that general rates are applied.

MS PORTER: Treasurer, can you inform the committee of the history behind the ACT government’s credit rating as assessed by Standard and Poors? Could you also go into what this rating means with regard to the general health of the ACT economy?

Mr Quinlan: Yes. The rating is generally done on the GFS, which is the Australian Bureau of Statistics-adopted system, using the ABS figures collectively. The ACT has a very strong balance sheet. The GFS is not kind to our operations over time, but the last assessment by Standard and Poors was still AAA-plus and it did say that the territory could handle a series of, or several—some term like that—deficits and still maintain its credit rating. They would be GFS deficits. I heard some story, and my officers might be able to correct us here, that they may be changing GFS to toss out land sales. Is that right?

Dr Grimes: Yes, that is right.

Mr Quinlan: So there is going to be an arbitrary change to the government financial system. I have to say that will not help us if they take that on face value and land sales are excluded. We could see some questioning over where we stand. This year will be interesting in terms of our overall rating and maintenance thereof.

MR MULCAHY: Treasurer, Standard and Poors also flags concerns down the track for the ACT economy, particularly the government's finances. Have you made any changes as a consequence of its observations?

Mr Quinlan: I think you can see, through the budget particularly, that we are trying to ensure that we constrain our administrative spending. This government probably lives somewhere between the dry economics that Standard and Poors would apply and real life. Our objective in the long run is to administer a humane community. We certainly want to maintain the maximum credit rating, but it will not be at the expense of our own citizenry and it will not be as an objective in itself. We need to have an eye for the future. This is what the credit ratings and financial assessments and the government's reporting are about—the present versus the future. We have to operate to make sure that we do not compromise the future in what we do, but I think this year will be interesting times.

MR MULCAHY: Did I catch there that you said you are moving to GFS reporting?

Mr Quinlan: We do.

MR MULCAHY: I mean as the main method of reporting.

Mr Quinlan: No, you cannot. We would have to change the Financial Management Act to do so.

MR SESELJA: You have a majority.

Mr Quinlan: I will go on to that. I believe that the accrual accounting method that we have is generally the better method. I am not an advocate totally of accrual accounting as a measure in the public forum. I believe a lot expenditures we make are more sunk costs than assets but we belt ourselves every year with depreciation on stuff where we have spent the money and we are never going to get it back. The principles are changing. I am having a little battle keeping up with them, but fortunately I have people who do.

MR MULCAHY: You have a $356 million deficit if you look at it under the GFS method. Do you think including land sales revenue and re-evaluation of assets is a good way to assess how you are travelling? It is a bit illusory in some respects, is it not?

Mr Quinlan: Yes. What is important is to know where we are at a given point in time in our service delivery capacity—what assets we have to deliver services, what is the condition of our assets. That may be reflected in their value. Overall, I think that the accrual accounting books are closer to the real world than GFS, but I am not totally besotted.

MR MULCAHY: It is not a view of the majority of your state colleagues, is it? Only Victoria parallels our methods of reporting.

Mr Quinlan: Yes. I think a lot of them have talked about it but never got round to accrual accounting. It has been more a case of not climbing the fence.

Ms Smithies: Can I just add to that?

Mr Quinlan: Yes.

Ms Smithies: The Accounting Standards Board is doing a project—it is well under way at the moment—about harmonisation of the GFS standard to the AAS presentation. It will hopefully marry some of the accounting and economic concepts and provide one set of standards that all states and territories can budget and report under. The timetable for implementing that is hopefully the next budget for the territory.

MR MULCAHY: So we will go down that road, you feel reasonably confidently?

Ms Smithies: Yes. Should the Accounting Standards Board release something in time and make it a standard, that is right. At the moment, our legislation requires that we both budget and report along the lines of generally accepted accounting principles. So, until the Accounting Standards Board changes the principles and the gap in the presentation, our FMA requires us to do what we are doing right now.

Dr Grimes: One of the things that are facilitating looking at harmonisation over time is that GFS is an accrual system but it does have technical differences with the accounting standards. On the issue of land revenue, one thing worth keeping in mind when interpreting the financial statements of the ACT is that the ACT does not show on its balance sheet the full value of land holdings. That is because it is very problematic to be able to value those land holdings. There would be quite considerable assets there which are not reflected in our balance sheet. I think the Treasurer was saying previously that the balance sheet is already quite strong. It is for the reason that the land is not shown as an asset on the balance sheet at the moment that those land sales are reflected as revenues when they occur.

THE CHAIR: We will move on to output class 1.

DR FOSKEY: There are some dramatic increases in this budget—a couple of particular spending groups—which is interesting in the light of general rhetoric about reductions.

Mr Quinlan: Not rhetoric.

DR FOSKEY: Well, there are some areas with reductions. While we are talking about cuts and so on it is possible that other things slip through. So I would like a bit of an explanation, please. The table on page 102 of budget paper 4 shows that in 2004-05 the government allocated $7.336 million for output 1.2, that is, financial management. However, in 2005-06 it allocated three times that much, $21.517 million. The very next page says that in 2004-05 the government allocated $1.871 million for procurement support services. However, in 2005-06 it again allocated about three to four times as much, $4,491,000. I am interested to know why there has been such a large jump in the government allocation for these outputs.

Dr Grimes: I can provide a high-level answer to that question.

DR FOSKEY: What does "high-level" mean, in-depth?

Dr Grimes: An overview answer. If you require to dig in further, we have officials here who can answer more detailed questions.

THE CHAIR: As long as it is not a highbrow answer, Dr Grimes, I think we will all be happy.

DR FOSKEY: And as long as it does not just skim the surface.

Dr Grimes: In output 1.2, financial management, there is a very large increase there that you have noticed. That increase is largely driven by the restructure fund. The restructure fund is the fund that the government has to facilitate restructure in government, as its name would suggest, and that includes provision for redundancies. We were speaking earlier about redundancies. Quite significant provisions are made to fund voluntary redundancies in 2005-06. It is over $10 million. The vast majority of that is accounted for by the much larger restructure fund to facilitate the savings process in this budget. From memory, the large thing that is driving the differences in procurement support services is rollovers from year to year, but I might just see.

Ms Smithies: It is the sustainable infrastructure fund that we spoke about before. It is the 2.5 that is coming in and being counted on the GPO or the expenditure line from 2004-05 and now coming into 2005-06.

DR FOSKEY: I have a supplementary question. Is the output 1.2 figure primarily to cover redundancies that are identified as savings?

Dr Grimes: That is the primary driver of the differences. Other things are there as well, but that is the primary driver of the differences in those numbers, yes.

DR FOSKEY: Obviously it is still cost-effective to make those cuts.

Dr Grimes: Yes. These will have to be ongoing cuts that provide ongoing savings for the government, so that savings over time are greater than the redundancies that are paid out.

DR FOSKEY: Does Treasury plan to keep tabs on reconciling, covering the costs of reducing the work force, with the efficiencies gained? That probably means when you have to make up for the loss of particular expertise by contracting someone in. You often wonder about the savings on these things and whether at the end of next year or the year after you will be able to say it was a good idea, it really worked.

Dr Grimes: At an aggregate level, Treasury will keep close tabs on the total amount of redundancies that are paid, because they will be coming out of that fund. So we will be able to identify the total amount of redundancies paid. We will also monitor the achievement of savings by agencies.

DR FOSKEY: Are you able to tell me how much the ACT government has in surplus cash reserves? Is that detailed somewhere here?

Ms Smithies: It is in budget paper No 3, page 237. We go through our total cash investments, almost a $2.2 billion cash investment. We have given a breakdown. On the second line is the territory bank account, which is essentially our measure of unencumbered cash. So, in this sense, this is what we are calling surplus cash. On top of that. it goes through the breakdown of the rest of the cash as well. So, for the end of 2006, there will be $1.6 billion of cash in superannuation and investments. There will be $154 million worth of unencumbered cash. There are significant investments also in Actew and the home loan portfolio and other agencies which are already set aside for other purposes. So the level of cash that is not allocated to any particular purpose at any point in time is our territory banking account and investment, or our unencumbered cash.

DR FOSKEY: On page 110 of budget paper 4 it is indicated that the ACT government will receive $23 million from the federal government in the next financial year to compensate for the effect of national capital influence on the costs of providing municipal services. I am sure this is a very complex equation, but can it be explained to me how this figure is negotiated? Is it based on the CPI or does it have to be renegotiated every year?

Dr Grimes: This is a longstanding arrangement that has been in place with the commonwealth for some time—as I understand it, from immediately after the period of self-government. Mr Broughton will be able to provide a more detailed answer on the background to those payments.

Mr Broughton: Just to follow up on what Dr Grimes said, it is a longstanding arrangement. It does continue on from prior to self-government. Before self-government, there was a study done by the Commonwealth Grants Commission to establish what the appropriate levels of funding for the ACT ought to be. It established that the ACT should be compensated for national capital influences that affect the cost of providing municipal services, as distinct from state services, and that amount has been indexed by the CPI since then. So it has been in place for about 18 years or so.

MR MULCAHY: Treasurer, I have some questions on your forecasting. I understand that for your GST revenue you rely on commonwealth Treasury forecasts for part of that information. One of my observations, and it seems to have transcended both parties in government, is that there seem to have been quite remarkable variations in the forecasting in ACT Treasury with the actual outcomes, quite dramatic differences, both on revenue and expenditure.

Mr Quinlan: Is that overall, do you mean, not GST?

MR MULCAHY: No. The GST, I accept, is due based on external advice. But in the broader issue of revenue and expenditure in the ACT, there seem to be quite remarkable variations year to year from the forecast. Do you do independent econometric modelling on other variables in the government? The second question is: how do you evaluate the quality of the advice you are getting? Part of your main function here under output class 1.1 is obviously that the role of Treasury includes monitoring and providing regular advice on the state of the economy. Do you have any method of evaluating how good the quality of that advice is, given these quite dramatic changes? There might be reasons always advanced why these changes come into being, but there does seem to be quite a difference between what we expect to happen and what actually happens in this territory.

Mr Quinlan: Yes. It has been forever thus, and I think it is probably the same for most other jurisdictions. But the real changes you can see. They are advised to the Assembly in term of revenue changes, and the expenditure changes cannot happen without appropriation anyway. We have had, since coming into government 3½ years ago, several additional appropriate supplementary appropriation bills, all of which have been presented to the Assembly and all of which have been debated. I do not know that anybody jumped up during any of those debates and said, "You should have seen that coming." There has been 20/20 hindsight on revenue a couple of times, but that is about it.

I think that you can only evaluate those when you look at the quarterly returns that come through. The real value of the quarterly return in terms of information content is the revised annual outcome. Because of timing differences, your interim reports can be a bit distorted. It is very difficult to do all of the accruals and make all the allowances and all the compensations for timing differences every quarterly report. But overall the real information content is the annual assessment, and that goes to the Assembly. It is generally a booklet. It generally has those explanations in it.

To date, from the negative side, there have not been any major criticisms about the estimates or, in fact, in large part the rationale behind additional expenditures. They have all been debated. All the supplementary appropriation bills have been subject to Assembly debate, either an estimates committee or a PAC acting as an estimates committee.

MR MULCAHY: I was not doubting the legality of things. I was asking about the quality of forecasting.

Mr Quinlan: We have this very close scrutiny that you are participating in right now.

MR MULCAHY: The issue though, Treasurer, that I do not think you have really addressed is the accuracy in the forecasting, whether you do econometric modelling on these measures that you are bringing in to see what their impact will be on the economy.

Mr Quinlan: These guys have got models. Trust me.

THE CHAIR: More models than you can poke a stick at.

MR MULCAHY: Is that the case, Dr Grimes? Do you do econometric modelling on the impact of these measures?

Dr Grimes: In terms of looking at forecasting accuracy, what you would need to do is to benchmark against other state governments. I have not seen a benchmarking analysis of that sort, but I do know, drawing on my experience in other jurisdictions, including the commonwealth and South Australia, that the ACT is not alone in having experienced quite significant differences between estimated forecast revenues and final actual revenues in recent years. The latest commonwealth budget, you will have noticed, had very substantial upward revisions to taxation revenue. So it does not strike me, just on first impressions, that our forecasting record is that much different from other jurisdictions.

MR MULCAHY: The inaccuracy level, you were saying?

Dr Grimes: That is right.

MR MULCAHY: In terms of econometric modelling, do you do modelling on tax imposts and the like?

Dr Grimes: There is quite a bit of econometric modelling done in the department to try to estimate the best relationships between variables to improve the quality of our revenue forecasting. Mr Broughton might want to add to that.

Mr Broughton: I would like to say that we regularly compare our economic forecasts with those of the key private sector forecasts and our forecasts are proving to be a lot more accurate than theirs.

MR MULCAHY: Than the equivalent external modellers in the ACT.

Mr Broughton: Yes, that is right.

Dr Grimes: That is in terms of economic forecasting.

Mr Broughton: That is in terms of economic forecasts. In terms of the revenue forecasts, the key areas we look at are conveyance duty and payroll tax and we do have econometric models underpinning those. The models are a guide to the final estimate. We do not just take the formulaic approach and whatever pops out is the number, but it does help to guide our thinking. Internally within the Treasury we have a revenue forecasting group, which consists of all of the senior executives within the department, apart from Dr Grimes himself, and that group then reports to Dr Grimes on their view of what they think is likely to happen in relation to revenues.

MR SESELJA: I wish to follow on from that on the expenditure side. Over the past few years, expenditure has significantly exceeded the budget—$166 million in 2001-02 right down to a total of about $688 million over four years, which is an average blowout of about $172 million. Given that it has been difficult for you as Treasurer to rein in the spending of a lot of your ministers, what is going to be done differently to ensure there is not a similar blowout in expenditure in the next financial year?

Mr Quinlan: I do not accept the premise of your question.

MR SESELJA: Do you expect that there will be a $172 million overspend?

Mr Quinlan: We hope not. But, as I have said to you before, nothing can be spent that is not appropriated by the Assembly. So an incident like the 2003 bushfire and the $90 million net that we spent on recovery was not—

MR SESELJA: But that does not add up to $172 million a year, does it, even including the factors you have outlined?

Mr Quinlan: Look at the amount of money that has been necessitated by the Vardon report. I cannot remember them all off the top of my head; in fact, some of the numbers there are not cash numbers.

Ms Smithies: Yes. I was going to add to this. There will be significant numbers in there that relate to things like actuarial reassessments of superannuation in the year but more so, also around our insurance figures as well, the actuarial assessment of our insurance liability. Around the bushfire, a certain number of things will come in on our appropriation, such as the expenditure of the returns that we get through insurance. Also, there are other complications around net appropriations, for example, around the land program, and the expenses incurred in delivering the land program, which, due to market conditions, have caused those expenditure lines to fluctuate as well. So not all of it is cash and not all of it is—

MR SESELJA: When you say not all of it, what proportion of that $688 million? Do you have an idea?

Ms Smithies: I would not know off the top of my head.

MR SESELJA: Would it be 10 per cent, 20 per cent?

Ms Smithies: No, I would not know.

Mr Quinlan: If you look at the appropriation bills that have gone before the place, you will see where the cash appropriations have gone. If you look at the quarterly reports, you will see some of the assets—$55 million worth of assets discovered and entered into the book.

Ms Smithies: Revaluations.

Mr Quinlan: I think at one stage we had an insurance change of 380, 280 or something.

Ms Smithies: I cannot remember that one.

Mr Quinlan: It was a large number.

MR MULCAHY: Are you saying to us, though, that, subject to there not being catastrophic events, you expect you will come in on track with your deficit forecast here?

Mr Quinlan: What I am saying is that there is the budget and there is the connection.

MR MULCAHY: You do not sound very confident.

MR SESELJA: We are trying to figure out whether we can trust the figures.

Mr Quinlan: What you are saying is, "You've just given us a budget. Do you swear by it?"

MR MULCAHY: I do not know about swearing by it. We are asking: are there going to be these variations of $170 million every year over what you actually think will happen?

Mr Quinlan: I have absolutely no confidence that we will come in exactly to the dollar.

MR MULCAHY: I do not think that is the question, Treasurer.

Mr Quinlan: My confidence increases when the margin is a thousand, a hundred thousand or a million.

MR SESELJA: It is $172 million.

THE CHAIR: Let him answer the question.

MR MULCAHY: I do not think he is. He is evading questions.

THE CHAIR: Order!

Mr Quinlan: There is the government's budget; there is the government's estimate and the collective work of Treasury in terms of the estimates. We know that life is going to be different from our expectation. I cannot predict that we will not have another disaster like the bushfire. I cannot predict that we will not all of a sudden have another Vardon report. I cannot predict those things.

MR MULCAHY: Discounting catastrophic events, Treasurer, I have asked you to confirm that you are comfortable with the accuracy of the forecasting. You seem to be very hesitant on that.

Mr Quinlan: No, I am not very hesitant. But if you think I am going to play this silly game and say that I swear—

MR MULCAHY: No, I am not asking that. I am just trying to clarify, based on history.

Mr Quinlan: I am just not playing that game. I am not going there.

THE CHAIR: Just a moment, Treasurer. Mr Mulcahy, you cannot direct the Treasurer as to the way he answers the questions.

MR MULCAHY: No, I am not. I am trying to clarify what he is saying.

THE CHAIR: You cannot direct him. Just because you do not like the answer that he gives, you cannot direct him.

MR MULCAHY: No. I am trying to get him to clarify—

Mr Quinlan: What is your problem? Have you written a press release already? Is that the problem?

MR MULCAHY: No, I have not, Treasurer. What I am keen to know, though, is that you are confident in your figures. I sense that you are not terribly confident.

MR SESELJA: But is the short answer to my earlier question—

Mr Quinlan: What, about a margin within 10, within 20?

MR MULCAHY: Mr Seselja has offered to know whether it is likely to be $170 million off the mark.

Mr Quinlan: I do not have a number in my head. As Peter Wilenski said, “All that you can measure is, by definition, trivial.” I do not have a number in my head that says my confidence level is that or that.

MR SESELJA: It must be a trivial budget deficit, then. So the short answer to my earlier question, then, is that nothing significantly will be done differently to restrain expenditure across government to ensure that we do not see those kinds of blowouts. I take your point on all the external issues, but there are no plans for any changes that would rein in expenditure and vacancies.

Mr Quinlan: With the budget that we have in front of us for the upcoming financial year, I can assure you that cabinet is conscious of the need to ensure that we manage within the bounds of that budget.

MR SESELJA: So they are more conscious than in previous years. The law has been laid down.

THE CHAIR: Mr Seselja—

MR MULCAHY: Chair, that is a reasonable question.

Mr Quinlan: This is childish.

MR MULCAHY: They may not be comfortable questions, but I think a reasonable question ought to be entertained.

THE CHAIR: There have been plenty of reasonable questions entertained and there will be plenty more. I am just trying to keep some order to the proceedings, Mr Mulcahy, in order that we get through as much as possible.

MR SESELJA: It is descending into farce. We are just asking a few questions. If we just wanted one question on everything, we could put them all in writing. This is a discussion. If we cannot have a discussion on it—

THE CHAIR: Mr Seselja, it is not a little discussion get together. We are here to scrutinise the budget.

MR MULCAHY: Chair, that is what we are trying to do.

THE CHAIR: I am trying to maintain some order.

MR SESELJA: Order has been well maintained.

MS PORTER: I have a question.

THE CHAIR: Do you have another question, Mr Seselja? If not, I will move on to Ms Porter and then to Dr Foskey.

MS PORTER: Treasurer, page 105 of budget paper No 4 mentions that the ACT has a small amount of debt in relative terms and that to retire this debt would be a poor financial decision. Could you or one of your officers explain to me the reason that this assertion was made and the background to it?

Mr Quinlan: In relative terms we do have a low level of debt and at this point in time there is no intention to encumber the territory with further debt. All of that can change if the government of the day makes some decisions. I would expect that any decision that the government made in relation to assuming debt would have to do with either investment in a revenue-generating asset or investment in an asset that would reduce expenditures. I think somehow you yesterday got into a discussion on office buildings and that sort of stuff. It may be that the business case for an office block would say it is a worthwhile investment to assume debt and avoid the much higher rental cost and reduce the cost of the building to the operational costs.

Those sorts of decisions are always open and governments will make them from time to time. But other than its unfunded employee liabilities, particularly superannuation, which is being addressed, the territory, particularly the general government sector, does not have a huge amount of debt at all. Who knows? If, some day down the track, there is a decision somewhere to build a $200 million dam, that may be debt funded and again the business case would need to stand up. At this point in time, we are not flush with the unencumbered end of cash. The projections are that we will be, four or five years out, in about the same position as we were in 2001 in terms of unencumbered cash, without incurring significant debt.

DR FOSKEY: I note on page 102 that an output for the coming year is a review of vehicle fleet funding arrangements. Could you advise me as to what this entails?

Mr Broughton: Yes. The current financing of the ACT light vehicle fleet is done through a leasing facility with the Macquarie Bank. That leasing facility expires on 28 June 2006. So what we will have to do is to put in place an alternative financing arrangement. The nature of that financing arrangement is yet to be determined and it will be part of the review process.

MR MULCAHY: You have not got much time left, I would have thought. This issue has been on the table for some time, has it not? I think it was a matter the Treasurer spoke on in the Assembly earlier this year. What is the state of negotiations? Are you still having difficulty finding and funding a provider?

Mr Broughton: The state of the review is that it could be that we decide to finance the fleet internally or we could decide on a further leasing arrangement. If we do, it most likely will not be with the Macquarie Bank, because I understand they are moving out of this type of leasing arrangement, but there are other providers within the market.

MR MULCAHY: What is the dollar value of that, if you have to provide it from territory funds?

Mr Broughton: The current valuation of the fleet is somewhere around $35 million.

MR MULCAHY: Are you close to finding a provider?

Mr Broughton: We have not even started looking for one.

MR MULCAHY: And it expires in about 45 days or thereabouts.

Mr Broughton: On 28 June 2006.

MR MULCAHY: It is not 2005; it is June next year.

Mr Broughton: Yes.

DR FOSKEY: You can rest assured, Mr Mulcahy.

MR MULCAHY: Chair, where do you want to move to from here? Where are we up to?

THE CHAIR: We are currently at output class 1. Do you or Mr Seselja have further questions on it?

MR SESELJA: I do not.

MR MULCAHY: I do not on 1.1, no.

THE CHAIR: Before everybody goes, apparently Dr Foskey has a question of the central financing unit.

DR FOSKEY: I am sorry about this. I was not aware that this question went under this output. This question concerns the rate increases and the poverty proofing process. Referring to the Canberra social plan, which is one of the documents that the government says is guiding its decision making, action 8.2 states, "The government will trial a poverty proofing process based on the Irish model to ensure that government decisions do not act to increase the levels or causes of poverty."

Has this process been applied to the 2005-06 budget and, if not, why not? I am particularly concerned that it may not have been because I do think that the major revenue initiative of the budget, namely, the increase in land rates, has the potential to be socially regressive and may have a relatively harsh impact on many low income households that are not eligible for pensioner concessions. What has happened in some of the inner suburbs with the highest rates, Ainslie and other inner areas, is that we have the highest concentrations of the elderly, many of whom are asset rich but income poor. I am concerned that, at a time when the government is claiming to have a commitment to addressing housing affordability, this could be a move in the wrong direction. Did the Treasury undertake any analysis of how this tax increase will impact on housing affordability in the ACT?

Mr Quinlan: Certainly the decision, when taken, examined the impact, through to the point of making sure that the concessions that were available were also adjusted to suit. Further, I trust you are aware that, for those particular people that you talked about living in the inner suburbs, the asset rich, rates deferral is available so that, in fact, they can defer their rates and therefore—

DR FOSKEY: Until they are dead?

Mr Quinlan: Sorry?

DR FOSKEY: Defer until a later year or until it comes out of their estate?

Mr Quinlan: Yes, until it comes out of the estate. We have actually adjusted the concessions to be commensurate with the change in the general rate.

DR FOSKEY: Right. I am sorry, I should have given you time to answer the first question at the time. The question was about poverty proofing, which the social plan indicates will occur. Has that process been applied to the 2005-06 budget; if not, why not?

Mr Quinlan: When we changed the rating system, we took into account those principles. We have made sure, first of all, that the deferral system remains in place and that the concessions associated with general rates are adjusted in tune with the general rates. Certainly the general rate has gone up, yes. Certainly there will be a net impost. If people are in the situation that you describe, then they do have the option of rates deferral.

THE CHAIR: We will move on to InTACT. Thank you to all those people in the central financing unit, financial and economic management and the home loan portfolio. I have a few questions for InTACT, but I am happy for somebody else to start, if they want to, while I get my head together.

MS PORTER: I notice that on page 141 of budget paper No 4 a number of initiatives are mentioned. I am interested in the initiative with regard to the private fibre network. I was wondering if you could let us know what benefits that project will bring once it is completed, that rollout of the private fibre network.

Mr Vanderheide: The private fibre network is a project that we've had under way for approximately nine months. It is a project basically to replace the telecommunications network that we have been leasing from Telstra for quite a number of years. Basically, we are laying fibre to connect up ACT government offices all around Canberra. The network will provide data communication services as well as voice communication services. The project is running on track in terms of budget and time. We expect to have it complete in about four months. The primary benefit, aside from pretty much unlimited bandwidth, is the significant savings—savings in the millions of dollars—over what we were paying Telstra for leasing lines.

MS PORTER: There are a number of other initiatives mentioned there where considerable savings apparently can be made by refining InTACT's costing and pricing models, continuing to enhance IT security across government, bringing payroll services for all government staff in-house, and I think that there is another one there somewhere I've missed that. But each of those is purported to bring considerable savings in the upcoming year, is that right? Do you have any idea of how much the savings will be?

Mr Vanderheide: Not all of those initiatives are intended to drive savings. For example, our focus on security isn't likely to drive a saving; it may bring costs down by avoiding security incidents. Certainly bringing payroll in-house will deliver a saving to government. As part of the process of implementing a new human resource management system, we are also implementing a new payroll system. Payroll is currently provided for the ACT government by an organisation in Queensland called CITEC. We will be finishing up with CITEC when the new system is implemented, which will be in about two months—in fact, the end of this financial year—and we expect to see savings across government of about $500,000 a year by doing it ourselves.

MR MULCAHY: Just confirming, Mr Vanderheide, that the telephone system is within budget and that the roll-out is on time. What date have you got that scheduled for roll-out?

Mr Vanderheide: There are a couple of different elements there. The private data network, which is really just putting the cables in the ground, is running to budget and time and I think we are due for completion in October. Sorry, I'm speculating a bit, as I don't have the actual end date in front of me, but it is running to budget and time.

The second element of that project is something called Voiceover IP, which is basically swapping our telephone providers from Telstra to TransACT. That project is under way now. We will be implementing a pilot within InTACT itself next month and at this stage it looks like it will be completed on time—that's over the next nine months. I'll know more once we've completed the pilot within InTACT.

MR MULCAHY: So on time and within costs, again, within budget.

Mr Vanderheide: That's my expectation at this stage, yes. But we are doing a pilot specifically to make sure that our estimates are correct.

MR MULCAHY: In terms of your charge out to agencies, what, on average, has been the rate of increase to services provided by agencies over the last fiscal year?

Mr Vanderheide: There's not an average increase to agencies that I could describe. They pay us for the services that they consume, so largely where there is an increase it's because the demand for services has increased.

MR MULCAHY: I assume you have a unit cost per agency. If there is provision for a certain number of services and a certain number of support services, there is a fee basis. I'm trying to get at what that rate of increase is compared to the previous year. We saw, for example, in the annual reports that the Chief Minister's Department recorded quite dramatic increases in the provision of InTACT services. They said it was to do with the new method of charging or something. Can you expand on that so that the committee can understand it?

Mr Vanderheide: I can. One of the initiatives that Ms Porter identified was the work we're doing on our costing and pricing model. Our costs have not actually increased by much at all this year; in fact, our budget is within CPI. There are a number of areas where we have made savings. How we allocate those costs has been swapped around amongst the services that we offer. The primary means by which revenue is gained is through something called the desktop environment support charge or the DES charge. That is allocated to agencies on the basis of their desktops and that charge includes the cost of supporting the desktop, but it also includes those costs that we can't easily apportion amongst agencies. For example, with my five-member security team, the cost of that goes into the DES charge because there is no easy way to charge that on a consumption basis for agencies. That cost has gone up compared to last year, probably by about eight per cent, but other costs have come down, so that the net increase for InTACT's budget is within CPI.

MR MULCAHY: Right, I understand you're talking about InTACT's budget going up by CPI, but I'm still trying to get to the point of the charge-out to agencies. To make a simple scenario so that we have apples being compared with apples, what is the cost to an agency for the provision of the same services—I understand they will change—in terms of the increase that you are passing on to agency customers?

Mr Vanderheide: The cost increase, if we were looking at apples with apples, if that were possible, would be below CPI.

MR MULCAHY: Below CPI.

Mr Vanderheide: Yes, or around CPI—it's around two per cent.

MR MULCAHY: So, with a department like Chief Minister's that had a dramatic increase in costs, is it because they asked for a whole lot of new services from InTACT?

Mr Vanderheide: That's a different thing. If an agency's consumption goes up, say, they've got 100 more PCs than they did—

MR MULCAHY: But that's likely to be the scenario rather than because you've recouped more charges.

Mr Vanderheide: Absolutely.

MR MULCAHY: In terms of the security, there is obviously great focus on IT security here, and this is a bit of an issue with the Assembly. I understand with things such as health records, maybe education records, and for various other agencies, there might be a particular importance in high-level security. Is it technically possible within government to have less levels of security for less sensitive agencies or areas? Obviously it hampers a number of operations, not the least being in the Assembly. The members do not have the capacity to use modern wireless technology because of the security that is, I understand, inserted for other agencies. Is that something that can be addressed in the future to improve the efficiency of agencies?

Mr Vanderheide: Yes, I think the point you are making is that security is always a trade-off in terms of ease of doing business. If you've got no security, then it is very easy to do business but your business is more at risk. The answer to your question is not so much whether it's possible to have less security but whether there are areas where we could have more security—for example, health records may require a greater level of security than a database of information that wasn't particularly sensitive. We are looking at wireless at the moment to see if we can incorporate that into our technical environment because there is business demand for it.

There is a base level of security that applies across all government and we take that extremely seriously. It's multilayered and it's multilayered within multilayers. So there's a technical element of security, there's an organisational element of security and there's a procedural or process element of security. Technically, we have software in place to manage our security. We also have our network established from a hardware perspective to improve or to enhance security. Procedurally, we have a range of procedures within InTACT and we also have a range of procedures that agencies apply themselves to ensure that security is maintained. For example, one of the things we ask our customers not to do is to put their passwords on yellow sticky notes on their screens, which is a procedural issue, not one that we can deal with, particularly from a technical perspective.

Organisationally, we also take security extremely seriously in the sense that I have five people focused on it on a full-time basis, which is a very significant increase from previous years, and the security team reports directly to me, because it's that important to my organisation. Where there is a business need to do something that tests security, and it happens every single day, we look at that. There are obviously funding implications. The more consistency we can have in our environment, in theory, the more economies of scale we can drive. But where there are business requirements we're very keen to meet them, and I've got a very pragmatic security manager, a very intelligent security manager, who's very keen to ensure that security actually enhances business as opposed to interferes with it.

MR MULCAHY: In terms of external access to the network, do all agencies, wherever any of the employees of those agencies require external access, pay a fee for that extra service?

Mr Vanderheide: I think you're referring to our virtual private network or VPN service.

MR MULCAHY: I don't know what I'm referring to. I'm referring to being able to access the network externally. What the description of that is, I'm not sure.

Mr Vanderheide: There are a couple of different options. There is the VPN service, which is basically a full service external access. You can only do that using ACT government equipment; so it is primarily used either via a laptop connected to the Internet, if you're interstate, or ACT government equipment in the home. There is a cost associated with that. I think it's around $300 a year, but I'm speculating a little bit. There is also the ability to access your email through a service called Outlook web access, which is available to just about any ACT government employee and, off the top of my head, I can't tell you whether there's a charge for that. If there is, it's nominal. That allows you access to email, but not your Word or Excel files, from any internet enabled computer in the world.

THE CHAIR: On page 3 of the ownership agreement there is a reference to InTACT's business continuity and disaster recovery strategies and initiatives. Could you give a bit more of an outline of that?

Mr Vanderheide: Yes, let me talk about business continuity. We drive business continuity from an infrastructural perspective, so we work closely with agencies that currently have a responsibility for their applications and maintaining there own business continuity plans around those applications. We have a business continuity plan and we have a business continuity manager. We have two data centres, one at Callam Offices and one based at Macarthur House in Lyneham. Those two centres serve as a backup facility for each other. We also have a capital initiative in this year's budget for data centre refurbishment, which is basically going to be used over the next two years to disperse the equipment in those two data centres over what we expect will be five data centres around the ACT, with the intention being that if we were to lose one of those data centres the capacity would exist in the remaining four to minimise the disruption to government.

THE CHAIR: Also on page 4, under business and corporate strategies, you refer to the development of a model for partnership of management between InTACT and the agencies. You might have addressed some of this in the answer to the questions that you gave to Mr Mulcahy a moment ago, but I'm interested to know what the progress is—obviously it's a future plan—and how you plan to develop that.

Mr Vanderheide: I think I can; can you tell me where it is?

THE CHAIR: It is at the top of page 4 of the ownership agreement, the second dot point at the top of page 4, development of a model for partnership management between InTACT and the agencies.

Mr Vanderheide: Thank you for the opportunity to expand on that because it touches on some of the things that Dr Grimes was talking about earlier. We've been working with a number of agencies over the last 12 months to break down the barriers or boundaries that exist between the IT services our organisation provides and the IT services that the agencies' IT organisations provide. A great example is the Chief Minister's Department, which has a small group of staff who have responsibility for maintaining the applications within the Chief Minister's Department and basically meeting local needs. They rely on us to provide infrastructure services and sometimes the boundary between our two organisations gets in the way of good business, from the end customer's perspective.

With those staff, we have implemented a model where they have become InTACT staff, so we've gotten rid of that boundary entirely. We are having the same conversation with a number of other agencies. To some extent it has been overtaken by the review work that was done as part of the expenditure review committee process and we will be looking at merging IT staff from ACT government agencies across government into one organisation rather than multiple organisations.

THE CHAIR: Are you looking to do that at CIT, for example? I know that several years ago—obviously lots of changes have been made to InTACT and the way InTACT services the different agencies across government—there was a great deal of dissatisfaction at CIT. The comment was made to me four years ago that people who were working at CIT weren't allowed to touch the network even though they had more of an understanding of what was going on than people within InTACT. I suppose that is a roundabout way of asking whether you are looking at CIT.

Mr Vanderheide: Yes, we are. As Dr Grimes indicated, there is a huge amount of work to be done in terms of consulting with agencies. What I would say is that InTACT's establishment in 1996-97 was a very painful birthing process. We expected to learn lots of lessons, and we have learned lots of lessons, from the way that was done in terms of how we may make changes into the future, so we are working very closely with them.

THE CHAIR: I would say from a personal level that there have been lots of changes made within the Assembly. Having Nathaniel Jones on site has, I believe, made a great deal of difference. The rest of the committee obviously is new to the Assembly and no doubt they have their own frustrations but, in comparison with what it was like 3½ years ago, it's a great improvement.

Mr Vanderheide: That is very nice feedback, and I think Nat does a very good job.

THE CHAIR: Yes, he does. Recently there have been a number of times that the internet has not been accessible or has been very slow. Can you tell us why, and what is being done to address this problem?

Mr Vanderheide: That is in large part a reflection of the fact that some of our equipment has reached the end of its life—primarily on the network side of things—and that is largely being addressed with the swap over to the private data network associated with that network, which is basically the cable. We're also replacing all of the active equipment. I can't make you a promise that it won't happen again, but you should have seen an awful lot less of it over the last two or three months than you had prior to that.

THE CHAIR: All right, I have to say that it's more of a complaint from my office than from me. They use it more than I do, looking up things for me.

Mr Vanderheide: We take the availability of our network and services extremely seriously.

MS PORTER: Page 144 of budget paper No 4 mentions funds previously allocated to a capital injection as being earmarked. This appears to be a return of unrequired capital injection. I am not quite sure what that means.

Mr Vanderheide: Historically, we received a capital injection primarily to cover the cost of IT equipment. When InTACT was created it inherited an awful lot of IT gear from around government and over time we have had to replace that. We are generally leasing our IT equipment now, so there is much less requirement for capital injection. We do not need it so we are returning it.

THE CHAIR: Thank you very much to all those people who attended this morning. We will resume the hearings at 2.00 pm with those questions that were overlooked before.

Meeting adjourned from 12.34 to 2.03 pm.

THE CHAIR: Treasurer and Dr Grimes, welcome back. We are going to return to output class 1 briefly.

MR MULCAHY: Treasurer, there are a couple of issues here I want to raise with you. I am struggling to locate one, but that may be because it has not been actioned yet; that is, the increase in charges for outdoor dining that your colleague Mr Hargreaves has raised. Is there a provision within your budget where these increased fees are going to be reflected?

Mr Quinlan: Yes, but I don't know that we get to that detail. You will have to ask the agency, but it is generally in grossed-up figures where you have taxes, fees and fines back into fees. I don't know how far down you want to go.

MR SESELJA: So we do not know what the increase will be.

Mr Quinlan: It is not 300 per cent; I know that much. I think it is 100 per cent over four years, something like that.

MR MULCAHY: Was that a decision, Treasurer, that you agreed to?

Mr Quinlan: It was not a decision that got a whole lot of attention at cabinet; more the relevant minister explained it to us. We said, "What the hell's all this about?" Apparently some form of initial consultation turned into a media stunt and, all of a sudden, 300 per cent has been waved all over the place.

There was some information, I think, distributed maybe to the AHA, maybe just some of the cafe owners, that said, "Here are the relevant rates elsewhere, and these fees haven't been looked at for years. We're consulting with you about it." There should be some fee for taking up public space, I would have thought. I understand that it was then beaten up a bit.

There has been further consultation. I think last evening there was some gratitude expressed by the AHA president to Mr Hargreaves for resolving the matter, and I understand that that matter is combined with a matter of public liability insurance. A lot of those outlets may be better off in the long run, with the fee going up but some rationalisation of the public liability insurance limits for those that are not hard up against busy streets. But you are probably better off to talk to Mr Hargreaves. Let me say that Mr Capezio of the AHA, I think last night, registered his gratitude to Mr Hargreaves for the work that has been done. We got past the beat-up and Chris Peters inevitably turning up on television.

MR MULCAHY: That leads me to probably one that you are a bit closer to, that is, the city heart levy—reference, budget paper 3, page 115, for those who are interested. Treasurer, this obviously was the new initiative after the parking space tax or levy was decided to be all too hard.

Mr Quinlan: Yes.

MR MULCAHY: You talked this morning, and you have talked previously, about creating a business friendly environment—

THE CHAIR: Sorry, Mr Mulcahy, to interrupt your flow. Which page of budget paper 3?

MR MULCAHY: Page 115, I think. Do you really feel that it is fair to be imposing, effectively, a tax on the victims of either inadequate services or illegal activities such as graffiti?

Mr Quinlan: It is not in the mind that it is a clean-up tax. That is an invention for political convenience at the doorstops. It is about the city heart process. It is about the philosophy put forward by, amongst others, Manny Notaris, who says, "Why don't we form a unified approach to dressing up the city?"—not cleaning up the city, dressing up the city. I have spoken to other retailers about that and road-tested it while I have been in a couple of shops, and they have said, "Yes, we'll have a look at that." It is there on the basis that if we can make it work we will make it work.

If the business sector says, "No, we're not interested in that; that's an impost; we don't want it," then there is a good chance we will say, "Okay, that's not on. But don't come to us and say, 'Dress up the place and make it all nice and cart the customers through the doorway for us.'" We want to work with them.

MR MULCAHY: But you are saying that if there is opposition you are willing to reconsider the whole tax measure.

Mr Quinlan: It is not only opposition. You have actually got to have the business sector wanting to be involved in this. You cannot just impose it. I would like to think that in the future a future budget will allocate some of the urban services budget, match it, put the matched funds into a trust administered by a combination of government and the business sector towards whatever activities they believe will enliven the city, whether they be permanent or temporary activities.

MR MULCAHY: Is that a model you intend to roll out into other areas of Canberra?

Mr Quinlan: In other areas?

MR MULCAHY: In the provision of, for example, municipal services at—

Mr Quinlan: I would expect we would start with Civic. This matter was kicked around in cabinet and it got to the point where we said, "That's a good idea. Let's make sure we put that in there." But now we have got to work out who is going to carry it, whether it is a planning activity or an economic development activity. But I have instructed my department to start working through the proposition and working it up.

MR MULCAHY: If I hear you correctly, there is a possibility that the scenario of these services being provided in other areas may end up being on a matching basis with the local communities for municipal services.

Mr Quinlan: Yes. I would think that, in the long run, if you are going to have the positive step—the over-and-above cleanup and basic services which you pay for in your rates; you have actually a pursuit of vibrancy, whether it is vibrant activity or dressing up the place with street art; and whether that be temporary in terms of garden pots and things like that or whether it is actually firm concrete or at least fixed street art, then all of those are all of the above. But it is not a proposition that you could describe in absolute detail that this is what you will get for it. This is something we want to work through with the business community.

MR MULCAHY: What is the basis of the tax, Treasurer? How do you expect to apply this method? Is it on meterage, frontage or—

Mr Quinlan: I don't know.

MR MULCAHY: You haven't got to that detail?

Mr Quinlan: No, I haven't got to that, sorry.

MR MULCAHY: When will these measures come in?

Mr Quinlan: Because it is more than a year away now, we have effectively got 12 months to work it up, to road-test it, to see whether it is worthwhile or whether the business sector is interested or not. A lot of them are, quite frankly, interested in the proposition but we will see, in the long term, whether they represent a majority and we can have a system that is fair. It has got to be beyond voluntary and generally accepted.

MR MULCAHY: You may also get a different perspective, I imagine, from people who are landlords versus those who are retailers who may find the fees are reflected in the rents.

Mr Quinlan: That is right.

MR MULCAHY: So it can be a more courageous position to take if you are an owner than if you are the tenant.

Mr Quinlan: Absolutely.

MR SESELJA: Just going back to the cafe dining increase: you talked about vibrancy. In all the plans that we have seen lately in terms of City Hill or whichever one you put, you always see people on the street, dining and all that sort of thing. How does the 100 per cent increase in tax on that add to that outcome? Have you done an analysis of how that might discourage people from having outdoor dining businesses?

Mr Quinlan: I haven't done an analysis; you will have to ask the Minister for Urban Services.

MR SESELJA: So Treasury hasn't done any such analysis?

Mr Quinlan: No, we don't analyse it at that level. If it turns into some sort of monster that requires deep economic analysis, then we might involve ourselves in it. But I think it is pretty straightforward. The fees have not been charged for a long time. I think the people of Canberra have got a right to expect that, if businesses are being afforded the use of public space, making money out of it and doubling the size of their businesses, their floor area and their capacities, the taxpayer could expect a reasonable fee for that.

MR MULCAHY: I think the issue is the 100 per cent, Treasurer. Most people would find—

Mr Quinlan: Over four years.

MR MULCAHY: It is still 25 per cent per annum. Last time I checked we weren't at that rate of inflation.

Mr Quinlan: But I think we are starting from way behind what is a reasonable fee, apparently or comparatively. But I haven't got it up front; I couldn't tell you; you would have to ask the minister that. I do understand that after sensible consultation, beyond the media beat-up, it is a solution that people are ready to accept.

MR SESELJA: So you are saying the cafe owners are quite happy with a 100 per cent increase.

Mr Quinlan: No-one is happy; no-one wants to pay tax. I don't particularly. Most mature people accept that they have to pay tax. Because we are working with the industry on this issue, combined with their public liability issue, many of the businesses will be paying less at the end of the day.

MR MULCAHY: The public liability issue, though, Treasurer, as I understand it, is that urban services, back when Mr Smyth was minister, tried to bring the requirement up to $20 million and kept going back and attempting to move this up from the $10 million mark; so it is a case of not increasing the figure rather than extending some major concession.

Mr Quinlan: I don't know the history but the best I understand it is that it is $10 million inside, $20 million outside; and therefore a requirement for, effectively, two policies. Given that it is a requirement, a differential requirement—and a lot of those businesses use public space that is not, say, near heavy traffic, road traffic, whatever—the necessity for $20 million might not be there. There may be still some who opt to occupy space near motor traffic that might still be required for $20 million, but most of them could be in a better position, net, overall, than they are now, as I understand it.

MR SESELJA: I have a question on rates. BP3, page 111, talks about an increase of about 15 per cent. That is an increase, I understand, to both the fixed charge and the variable charge. The Rates Amendment Act makes rural properties subject to the fixed charge as well as the variable charge whereas, in the past, only the variable charges applied. I understand that the Rural Landholders Association weren't advised or consulted on the change. Is there a reason for that?

Mr Quinlan: In fact, no-one was consulted on the change. This is, in fact, a taxation levy and we don't actually consult on the change in tax levies. The rationale behind the application of the fixed charge was explained when the bill was brought down; it is in the tabling statement. Because you have got the pool for rurals to actually recover it equitably in terms of total volume and not apply a fixed charge, it means that the rural properties of higher value would have to pay the lot. In fact, there are lots of rural properties that haven't paid rates before at all—none, zero, zip.

THE CHAIR: If you are done, I will move to Dr Foskey.

MR SESELJA: I am done on rates.

Mr Quinlan: Where are we now? We are back to this morning, are we?

THE CHAIR: Remember we said just before the lunch break, Treasurer, that we would concentrate briefly again on output class 1 because there were a couple of areas. You should appreciate, Treasurer, that we have four new members on this committee and it is only day two; so we are giving them a little bit of leniency at the moment.

DR FOSKEY: Just relax and enjoy it, Mr Quinlan.

Mr Quinlan: I would like to think that all the agencies that are scheduled are seen pretty well according to the timetable and we are not getting called back and running on forever.

THE CHAIR: Rather than calling people back in two weeks time, it is better that we do it now.

Mr Quinlan: All right.

Dr Grimes: Could I just clarify, please, Chair, on output class 1: is the committee now finished with output class 1? I am just thinking of officers—

THE CHAIR: No. Dr Foskey is about to ask a question in relation to output class 1. From memory, it is on home loan portfolios.

MR SESELJA: We have still got a couple of questions on output class 1.

DR FOSKEY: Where is the reference to home loan portfolios in there?

THE CHAIR: It is in output class 1. Is that what you want to ask about?

DR FOSKEY: Thank you for reminding me of what it was. I was going to go back.

THE CHAIR: Before you ask your questions: for clarification for the officials, we are going to deal with the rest of output class 1 in relation to, I believe, home loan portfolios with Dr Foskey. I think there might some questions from Mr Seselja on that area. I don't think there was anything else on output class 1.

MR SESELJA: Not on that area, not on home loans. There were some other questions on output class 1 in terms of some of the cross-border health stuff and general health explanations.

THE CHAIR: I am going to allocate 20 minutes to getting this done, and then we can let the rest of you go. Then we will move on to the superannuation unit.

DR FOSKEY: I am putting a couple of my questions for output class 1 on notice, cognisant of not wanting to look like a total novice. On the home loan portfolio, Mr Treasurer, in your budget speech, at page 9 of budget paper No 1, you said:

> A range of indicators support the view that housing affordability … has been improving since the middle of last year.

Can you provide a breakdown of those indicators and tell me whether any of those indicators measure housing affordability in the private rental market? Also, do you have any evidence that private rental housing is becoming more affordable in the ACT?

Mr Quinlan: I will take that on notice. I cannot do that off the top of my head.

THE CHAIR: Is that the whole question?

Mr Quinlan: Yes. It starts with a range of indicators and goes from there.

THE CHAIR: Okay. Anything else?

Mr Quinlan: Mr Broughton thinks he can answer it now.

Mr Broughton: In relation to housing affordability, one key measure that is generally accepted is the AMP and Real Estate Institute of Australia home loan affordability measure. That measure is based on median weekly income, the average monthly loan repayment, and the monthly repayment as a percentage of the median weekly income. As of December 2004 the index that they used for the ACT was 48.6, which meant that over the year to December 2004 it had fallen by 7.4 per cent. A fall in the index is a good sign. That means housing is becoming more affordable.

DR FOSKEY: Is that to purchase?

Mr Broughton: To purchase, that is right.

THE CHAIR: Does that impact on rentals?

Mr Broughton: The rental market is a little bit different from the purchase market. The rental market is very much subject to supply and demand. Rentals have been relatively high in the ACT compared to the rest of Australia because demand has been very close to supply, which meant that there was a low vacancy rate. That vacancy rate has moved over the past 12 months from about two per cent to five per cent. Although the median rents have not declined as yet, we expect that if those vacancy rates remain at about that level they will decline.

THE CHAIR: Because purchasing housing will become more affordable and therefore it will free up some of the rental market.

Mr Broughton: It could reduce demand for that very reason. The other thing is quite a lot of supply is coming onto the market with apartment developments and the like. If you are faced with the possibility that you may have extended vacancies within your investment property, then your obvious means of correcting that is to reduce your rent.

THE CHAIR: It forces it down, yes.

MR MULCAHY: I have some questions on health and efficiency effectiveness reviews. One of the highlights cited for Treasury in 2005-06 is to undertake efficiency and effectiveness reviews, and we discussed that briefly this morning. Obviously you have a keen interest in the health expenditure area; it is of significance in our budget.

Mr Quinlan: I am the Treasurer and I have an interest in the overall budget, but I do not manage health.

MR MULCAHY: No, I understand that we have a minister for that.

Mr Quinlan: Let us not define me into a corner.

MR MULCAHY: No, I would not dream of doing that, Treasurer. I wonder whether you have looked at the Australian Institute of Health and Welfare's Australian hospital statistics for 2002-03. That document contains fairly crucial information on health.

Mr Quinlan: I have not. I have previously looked at health cost relativities and accept that the unit cost in the ACT is the highest in the nation. I would submit it is also the best service in the nation. I think they are the ratings.

MR MULCAHY: But you would acknowledge, would you, that the institute's calculations, which show the case mix adjusted separation at $4,128 compared to the Australian average of $3,184, basically mean our hospitals are 30 per cent more expensive for doing the same job?

Mr Quinlan: I cannot claim an intimate knowledge of how it does the cost blanket separation, and so on.

MR MULCAHY: The general consensus is that it is fairly soundly based.

Mr Quinlan: I do know that on average the ACT would have the more complex cases. We get our full spectrum in the ACT and then all of the external treatments and patients would have the more serious ailments and illnesses.

MR MULCAHY: Does not the case mix adjust the separation and take into account the complexity?

Mr Quinlan: I know it is supposed to, but I do not know how good that is.

MR MULCAHY: I think most health economists accept it is pretty accurate. So it is the best that is available under the circumstances. It is interesting, Treasurer, that that data shows that the administrative costs of Canberra's public hospitals were about $14 million per annum more than the average comparable hospitals. Have you a thought on that?

Mr Quinlan: Yes. I do not have the detail in front of me and you should be talking to the health minister about this anyway. But certainly our expenditure review committee has already said we expect administrative savings. In the previous version and the ongoing version, we expect there to be economies in the administration process. We are happy as a government to see those savings remain within the health system as opposed to getting a fall in the immediate bottom line of the economy, because of the pressure within the health system. Health costs—the cost of procedures and the cost of pharmaceuticals within the system—all add up to a six per cent, seven per cent or eight per cent annual increment. We have said that we expect more efficiency within health administration but we also anticipate that those efficiencies once wrought will accrue to the health and hospital system as opposed to the overall budget. If you want to get into the detail, I think that is health minister stuff.

MR MULCAHY: I will just stick with the broader picture because roughly 25 per cent of your budget is going in this area. What is staying in my mind is something that has been reflected on earlier, that is, your budget speech. On page 2—I am sure you remember it—your estimate of a health cost escalation was around seven per cent or eight per cent each year, yet your forward estimates for health are only averaging around four per cent a year. I do not understand how we are going to achieve those rather modest projections.

Mr Quinlan: If you look back at what we have put in over the previous three years and average it out, it probably averages out at about 11 per cent. So we are looking for administrative costs to flow through, and we are expecting that that seven per cent or eight per cent will not continue year in year out because it is going to be an impossibility for all of us to manage if it continues. The seven per cent or eight per cent is not my number; it is a number used by a fellow called Tony Abbot when he was justifying the permitted increases in health insurance premiums, up from 18 per cent to 20 per cent.

MR MULCAHY: I do not doubt that figure is pretty accurate.

Mr Quinlan: So this year there are not huge increases in the health budget. There is an expectation, though, that they will pursue those efficiencies in administration that you were talking about with a view to it going through into the health costs. There is an expectation that there will be some form of levelling. We have put in over the past—I cannot remember the numbers—three budgets before this a huge amount of money and funding.

MR MULCAHY: I do not doubt it. I am just puzzled.

Mr Quinlan: We discussed this morning that we have increased the throughput. It is to the point where it is creating its own demand. We are getting an increase in the number of people from outside the territory going into the health system. I can recall—it is a couple of months ago now—a radio interview with a neurologist saying, “This hospital is not good enough because 40 per cent of my patients come from outside; do they expect me to go up to Sydney to treat them?” It was looking at it through the prism of a individual surgeon. It is a genuine difficulty that the government has to and will continue to address and is addressing.

MR MULCAHY: I wish you luck in that, Treasurer. I cannot help but be very sceptical when you are talking about, typically over recent years, 11 per cent growth and you are saying that you will make savings through administration. If you reach this target of four per cent growth per annum, when you have expressed in your budget speech to be expecting seven per cent or eight per cent growth, you are going to be well off the mark.

Mr Quinlan: But the compound influence of eight per cent per year is just astronomical over more than five, six or seven years. It has to level out some way or another. They are all estimates and they are all predictions, but it is also a case of saying, “We have put this much into health. This budget is now being framed with the prospect of what I would say is normal or average economic activity in the ACT in the future. We are going to have to manage within that.” That is part of the address that I gave to start with. You are just enumerating the very difficulties that we are going to have to face.

MR MULCAHY: Yes. I am just troubled that you will even get to those figures simply by administrative cost-saving measures. It is great to see those areas of administration that are statistically regarded as $14 million over the national average, but I am not sure that is going to achieve the figures that your budget would suggest will be achieved based on those figures. But that is as much as I have on that.

MR SESELJA: Can I just follow-up on that? You talked about a lot of the cross-border activity playing a role in health expenditure. In 2005-06 the expected revenue from cross-border payments is around $52.8 million. Are you able to give us a rundown of the estimated cost for the ACT of providing health services to people who live outside the ACT? What is the value of the subsidy to New South Wales of treating non-ACT residents in ACT hospitals?

Mr Quinlan: You have to qualify that question. What is the cost—unit cost, average cost or marginal cost?

MR SESELJA: I am looking at the total cost.

Mr Quinlan: Yes, I know. But I could give you the averages and I could tell you with one set of accounting that for every interstate instance we have in our hospital we lose money. I could also tell you for every one of those instances we are in front. It depends on whether you take the absolute cost, the average cost of every treatment or the marginal cost. The health system has, like every large enterprise, a significant amount of fixed costs. I do not know the health system that well and, as I said, you should be talking to the health minister about it.

We have in the ACT a cardiothoracic unit which provides an essential, necessary service in the territory, but it is only possible for that service to be provided in the territory when we take into account the throughput. Keeping our surgeons up to scratch and informed is the throughput of both internal and external patients. So if we no longer took on those external patients the unit cost of the internal patients would go up, because you have fixed costs spread over fewer patients. So, without being able to give you direct figures, I would suggest to you that our average unit cost would produce a loss and our marginal cost would produce a gain. The real benefit of cross-border service is the economy of scale that accrues to a relatively small jurisdiction.

MR SESELJA: So you are saying you cannot measure in real terms whether it is a financial benefit or a financial loss for the ACT health system to be having the cross-border traffic?

Mr Quinlan: At this point in time there are national agreements that effectively pose an obligation on us to do it anyway.

MR SESELJA: I understand we have to do it. It is a matter of whether there are costs.

Mr Quinlan: I have a few accountants behind me. I reckon I can get you any answer you like. But you will notice in this year's budget that through negotiations the level of payment for cross-border health services has increased—we have increased that—but it will be below our average costs, and I would be pretty certain in my mind above our marginal costs.

MR SESELJA: To finish, then, when you negotiate with New South Wales—

Mr Quinlan: I do not negotiate—health does.

MR SESELJA: When those negotiations take place, will you be asking for more money, or will you be saying that we are doing really well?

Mr Quinlan: We ask for more money all the time but at the end of the day it is an arbitrated decision. There is agreement on an independent arbitrator and it is an arbitrated assessment. It is not a negotiated assessment at the end of the day. What is negotiated is the form of arbitration and then it is arbitrated.

MR SESELJA: And you cannot say definitively whether we are being short-changed or not, from what you are telling me, because it depends on the measure.

Mr Quinlan: In the overall sense, I would be very confident that we are not losing. I would like to be getting the unit rate, the average rate. I would like the arbitrator to give us the average rate, but at this stage we have a series of rates that are arbitrated. I would expect that whatever sums you did you would find that we are better off to have that volume. We are better off to have a hospital that puts through about 30 per cent or 40 per cent more patients than we would otherwise put through. That means the maintenance of the skill base within the hospital, the use of facilities is maximised, and the marginal costs of that will be quite reasonable.

MR MULCAHY: I want to ask something about revaluation of assets. It is probably for Dr Grimes, but maybe the Treasurer will take it. I refer to budget paper 3, table 5.2.8 on page 123 and the text on page 124. Treasurer, can you explain the reasons for the dramatic reduction in estimated revenue from revaluation of assets from one year to the next?

Mr Quinlan: We are not going to revalue as many assets.

MR MULCAHY: Why this change in direction? Has it been dropped as a source of revenue? Has revaluation of assets been dropped as a source of revenue?

Mr Quinlan: It is not a source of revenue. It is a source of surprise from time to time.

MR MULCAHY: That does not really clarify the situation.

Dr Grimes: The officers here may have more detail on the specific transaction but accounting adjustments of this sort tend to be lumpy from year to year.

Ms Smithies: This is simply an adjustment that was held over from the 2003-04 audited outcome and the adjustment was found as part of the audit of the accounts. As part of consolidating the accounts, there’s a lot of bringing together of transfer of assets, gifted assets, from the Land Development Agency to Actew and between the LDA and, from memory, urban services or ACTPLA, et cetera. It’s part of the consolidation; we’ve been bringing them together as part of the audit process. The auditor said that we’d been bringing them together in a way that underestimated our total operating result and this is essentially reversing—

MR MULCAHY: A one-off correction, is it?

Ms Smithies: Yes, reversing and getting rid of that adjustment.

MR MULCAHY: Okay, that clarifies it. Thanks.

MR SESELJA: Ms Smithies has just quickly touched on land sales. I have a very quick question. The projected figures for land sales are $3 million less, I think, in 2005-06 than 2004-05. Given that we've heard a lot about a fairly soft property market, what's the basis of that essentially remaining steady? Is it likely that more land will be put out onto the market to make up for lower prices?

Dr Grimes: It's probably better to refer that detailed question to the Land Development Agency. They actually prepare their forward estimates for 2005-06 but there are a number of components to it—their expectations of commercial sales, for example, as well as residential sales, and the rate at which they're expecting to sequence their property developments. I think that the LDA would be the better people to ask detailed questions of and they would be able to explain those to you.

MR SESELJA: But you would need to be comfortable with those rates, I assume.

Dr Grimes: Yes, they would discuss them with officers and Treasury to ensure that we were generally comfortable with them and—

MR MULCAHY: The general principle of whether you are freeing up more land to achieve these figures as opposed to expecting to get better sales figures in a declining market: you wouldn't know the answer to that?

Dr Grimes: No, I think it's probably best, because of these compositional changes, to direct the questions to LDA.

THE CHAIR: Is there anything that Ms Smithies needs to add to that?

Mr Quinlan: Because we've got different figures in here pre consolidation and post consolidation, I had a look some time ago at lease sales and they dropped from 2003-04 so we need to look back to the previous year to watch them drop.

MR SESELJA: All right. We'll have further questions for the LDA on that, then. Thank you.

THE CHAIR: Thank you, officials. I think we can now say that we are done with output class 1, so any further questions that spring into people's minds will be placed on notice. I'm sure that there will be plenty of those. That takes us to the superannuation unit.

DR FOSKEY: Superannuation appears to be a large concern for the Auditor-General, as mentioned on 6 December concerning the 2003-04 financial audits report. She says:

> According to the Budget Papers, unfunded superannuation liabilities are expected to grow by $121m from $851m in 2004 to $972m in 2007.
>
> … the Territory will have to fund its superannuation commitment to ensure that the current shortfall does not grow to a size that will create significant financial difficulties.

Is this a problem that's broader than the ACT, is the ACT the only jurisdiction dealing with this problem and what is the ACT government doing to tackle the problem?

Mr Quinlan: In 10 seconds I'll get over what I know and then hand over to people that do know what they're talking about. This government has set out to fund the unfunded liability. Previously, the government before 2001, their main thrust at funding the liability was just to rip some money out of Actew and put it into the fund, rather than out of the operations. But since that time there has been a program in place to fund our liability up to 90 per cent by 2040, I think.

We have been on and off track on that—that liability shifts somewhat—and we've seen some of the impacts of the liability shifting around in those grossed-up figures that others believe we went outside and frittered. At this stage, because of changes in the superannuation scheme, it is anticipated that we will reach our target much earlier now, by 2023. With any efficiencies gained, and reductions in the overall staff numbers, that also accrues as a benefit to the overall superannuation liability, because the employment of a few people can turn into telephone numbers 20 or 30 years out.

In terms of how we stack up against other states and territories, I think all states and territories have funded, or are trying to fund, their liability. They're all having a crack. They are at various stages. Some of them are not as far down the track as we are, and I guess the tail-end Charlie in all that is the commonwealth. You've probably heard the federal Treasurer talking about it and some debate in relation to the last budget that was brought down. But the figures in the audit report, in the context of what's really happening in the longer term, are somewhat dramatic, as auditors can be from time to time. But we're very happy, at this stage, with the prospect of having a 90 per cent funding well inside the 2040 target, from pretty well a zero start—pretty good. Was there anything else?

Dr Grimes: I was just going to add one thing. A very important development recently has been the introduction of the PSS accumulation scheme. That scheme will be starting to take effect from 1 July this year. That would be a fully funded scheme, and the budget papers show that the projections of unfunded superannuation liabilities based on the current estimates have changed reasonably dramatically as a result of the introduction of the PSS accumulation scheme. There's a diagram in the budget papers, on page 245 in budget paper No 3.

MR MULCAHY: Just on that point, Chair: given that the defined benefits scheme has closed, why would the liabilities then start not producing, or at least the rate of increase slow down? According to the budget papers, the increase in superannuation expense is the result of the latest actuarial estimates. Can you provide any information?

Dr Grimes: That would be largely because all of us here in the room are members of those schemes and our service is continuing, so liabilities in respect of us will be growing.

MR MULCAHY: But your forward projections haven't taken into account that life cycle.

Dr Grimes: The actuarial assessments will take estimates of life expectancy, wages growth over time, investment earnings over time—all of those things would factor into the actuary's determination. The actuary does a regular review. The next major review of our superannuation liabilities will be towards the end of this year. It will be as of 1 July 2005; there'll be an update in the liability estimates by the actuary.

MR MULCAHY: Are you doing that annually or triennially?

Dr Grimes: There's a major triennial review and in between those major reviews there will be partial updates.

MS PORTER: A number of my questions have actually been answered through that discussion. Obviously, we have been very successful—you were saying more successful than the other states—at actually getting on top of that so, unless the Treasurer would like to enlarge on any strategies that we have been using to lower that liability—

Mr Quinlan: We've been attacking it, and we have a program to continue to fund the liability. You'll see that our investments are heading up towards $2 billion now in grossed-up figures. That is to cover all of our liabilities, and most of that does cover existing liabilities. The projections are good.

THE CHAIR: As there are no more questions on superannuation and we are not dealing with the insurance authority, we will move on to the next area, the Australian International Hotel School.

MR MULCAHY: Chair, I have previously declared a possible conflict in relation to this institution, so I won't be involved in questions or comment on the final report.

MR SESELJA: Just a quick question: what is the total amount of hotel school debt which has been written off by successive ACT governments? Do you have a figure on that?

Mr Quinlan: I don't think there has been any debt, but there has been some operational subsidy.

MR SESELJA: So there have been no debts written off; okay. What has been the total amount for operational subsidies, then?

Mr Quinlan: I could not tell you off the top of my head. I'm told there was some debt written off, but we'll take that on notice.

MR SESELJA: Okay. I assume you don't have that off the top of your head, either.

Mr Quinlan: No. We set out at the election to address the problem with the hotel school. With great assistance from Professor Walsh here, and with some cooperative effort with the commonwealth, we now own the Hotel Kurrajong, which we purchased for pretty well a nominal figure. The school is running pretty well at break even at this point in time, and we have in place negotiations to ensure its long-term viability and an absolute assurance that it is not a drain on the public purse.

MR SESELJA: Okay, if we can just have those two questions on notice, that would be helpful—the debt and the operational subsidies. This might need to be taken on notice as well: could we have an indication of whether the debt is growing? You may even have answered that as you seemed to be saying it's at break-even point now, so the debt is not growing?

Mr Quinlan: Yes.

MR SESELJA: Just a further question on debt: to whom is the present debt of $317,000 owed?

Prof. Walsh: With the Treasurer's permission, our financial officer can answer that question.

Mr de Mamiel: The existing debt is owed to Cornell University, and it will be repaid before December 2006.

MS PORTER: I refer to page 461 of budget paper No 4. Can the committee be updated on the workability of the ANU-AIS agreement, whereby excess residential capacity of the hotel school is used by ANU students, rectifying at least in part the residential student accommodation problems faced by the ANU? Can you tell us how this facilitation has been going and the likelihood that it will be renewed in the long term?

Prof. Walsh: We entered into an arrangement for 40 student places in residence, complete with meal plans, to be made available to the ANU. Those students are from Ursula College and I've been in contact with the dean there to ensure a smooth facilitation and entry into the school by those students. We have ongoing communication with the students through residence assistants, and all indications so far are that that arrangement has worked to the benefit of the students, to the ANU, and has certainly provided a welcome revenue stream to our school. That current arrangement will expire in November and we are currently discussing with them their wish to renew that for a further six months, or possibly a year, at approximately the same rates and number of beds.

THE CHAIR: There being no further questions of the hotel school, I thank you for your attendance today. We will now move on to Rhodium Asset Solutions.

DR FOSKEY: The government set a target for its second term to ensure that 10 per cent of the government fleet will be fuel-efficient, low-emission vehicles by 2008. Currently, 25 electric-petrol hybrids are being trialled. Apparently, that's the highest proportion of such vehicles in any Australian government fleet. I'm interested to know if the target will be met, and is it possible that it could be increased?

Ms Clark: In fact, Rhodium does not have the official capacity to generate the departments' responses as to how many of those environmentally efficient vehicles they utilise. We only put into place the orders that are given to us via the various departments. So we have no ability to do that. We work with people and try to talk to them about the value add, but it is really individual departments, and led from a Chief Minister's initiative.

DR FOSKEY: Okay. It is supplementary.

THE CHAIR: While we are talking about that issue, I know that there is quite a lead-up time in terms of purchasing the Prius, as opposed to the Honda Civic hybrid vehicles.

Ms Clark: Actually, there has been a large concentration on the development of the Prius and that lead-up time has minimised substantially.

THE CHAIR: That is good, Treasurer, because I drive one. I was having a conversation the other day with Barry Schilg and comparing the Toyota Prius with the Honda Civic hybrids in relation to holding their value. I think Mr Schilg expressed the view that the Priuses may hold their value better. Can you comment on that?

Ms Clark: Certainly this second tranche of Priuses, much more than the first, are holding their residual value. They are actually gaining substantial resale on the market and generating good returns to those people selling them. The first Prius was the first hybrid model. There was some scepticism about hybrid vehicles, but I think that has been overcome now.

THE CHAIR: And in comparison to the Hondas?

Ms Clark: In comparison to the Hondas, much more so, I think, as a much more refined piece of equipment.

DR FOSKEY: Mr Schilg just "sold" me a Honda.

THE CHAIR: He did not sell it to you. He is leasing it for you. Mr Schilg has been known to push certain models over others.

Ms Clark: I think the Prius that came was because we actually gave the Rhodium Prius to you to swap with the Focus.

THE CHAIR: Yes, and I do appreciate the fact that I have it. It is a great little car, I have to say.

DR FOSKEY: I am interested in what percentage of your services is to government because I understand that you do provide fleet services to the private sector. Could you give me a ratio between the two functions that you have? Are there any measures in place to encourage the non-government sector to use fuel-efficient vehicles?

Ms Clark: It depends on whether you refer to government as ACT government or commonwealth government as well. If you look at ACT government, we are 39 per cent. If you look at ACT government plus ActewAGL, we are 60 per cent. If you look at ACT government plus Actew plus commonwealth departments nationally, we are 85 per cent. So there is only 15 percent private sector.

DR FOSKEY: In relation to the private sector, how does it occur that that 15 per cent has become your clients or however one might term the arrangement that you have?

Ms Clark: There has been a series of arrangements predominantly put in place with our major funding bodies. There are arbitrage arrangements where Rhodium does not actually wear the risk. We have third party risk takers on that business and that business has come to Rhodium on an operating or finance lease ratio and we have entered into those. They have been referrals or people coming to Rhodium to seek business from us.

DR FOSKEY: Would you hope to expand your dealings with the private sector?

Ms Clark: Rhodium, as you know, was only formed officially on 1 January. We, together with a new board, have developed a business plan that is sitting with our shareholders at this time and we will be doing some further work with the shareholders to determine where Rhodium takes its business in the future. So no set direction as yet.

Mr Quinlan: Overall, if I can add to that, the government is not interested in taking on Avis or Hertz Rent-A-Car, but we did have out of Totalcare Industries, out of the ashes thereof, an organisation that was not working. We had a very successful operational and fleet management process and it seemed the smart thing to do to continue to operate that on a commercial basis, to take a commercial attitude with a good solid core customer, ourselves, with some additional opportunities at the margin, whether they be the private sector or whether they be other equipment that is purchased and then leased to government agencies in the main and therefore take an opportunity to optimise the process of provision of fleet and other lease services. We have discussed it. As Ms Clark said, the customers carry the risk. We are not interested in getting out there and taking a huge risk in the market, but we are interested in making sure that we optimise something that was previously set up and working, not throw it away but enhance it, and that is what Ms Clark and her people do.

Ms Clark: That is certainly right, and with that comes some economies of scale, which are obviously going to benefit ACT government. It is really a risk mitigation strategy.

MR SESELJA: I have a few questions. Firstly, thank you for coming in. Page 279 of budget paper No 4 talks about the highlights of 2005-06, and one of the highlights is to continue to contribute to the local community through sponsorships and donations. Firstly, are you able to give the committee an idea of how much Rhodium will be contributing and some of the activities that it will be supporting?

Ms Clark: The board have recently formalised that arrangement. We are looking at $100,000 for the year. One of those is a continuing sponsorship of ACTAADS, which has been in place for nine years.

MR SESELJA: Which was that, sorry?

Ms Clark: ACTADS, ACT athletes with a disability through the Academy of Sport. We are continuing that relationship, and that has been secured for a further five years. We also have this year committed to the naming rights of the ACT and region tourism awards. Then we have some smaller areas of ACT local organisations, charitable organisations, that we contribute some smaller amounts to.

MR SESELJA: Does the government require that you make community contributions or is that a voluntary thing? I guess a follow on is: does the government have any influence over where the donations go?

Ms Clark: It is really made at a board level.

MR SESELJA: Does the government have any requirements, though?

Ms Clark: No. I think they expect us to take a community role, to be a strong community leader.

MR MULCAHY: I have a couple of questions. Your projected growth in assets is substantial over the four years, which is encouraging. I see growth in revenue figures spelt out. I am just wondering, in terms of profitability, what those projections look like for you.

Ms Clark: Do you want a figure or do you want an explanation?

MR MULCAHY: Both, if possible, please.

Ms Clark: I might let Paula Edwards, our CFO, give you a figure, but I will give you an explanation. One of the interesting things about this business is that revenue lines and cost of goods lines run parallel. The only way to increase your profit margins is to actually increase your level of economy of scale, and that is by the size of the fleet. With that comes further economies and it is about putting into place effective and efficient systems in order to generate profit margins. They are some of the things that we will be aiming for over the next four years. It is interesting that most people would see revenue going up and think that with that would come a substantial profit margin. As I have said, the two track parallel and it is only if you can get some other system efficiencies in the year that you actually bring some—

MR MULCAHY: Yes, even a boy from Tasmania can work that out.

Ms Edwards: Perhaps you could reiterate the question for me.

MR MULCAHY: I am interested in your actual profit projections over the next several years and the factors that might cause those.

Ms Edwards: On page 480 of budget paper No 4 are set out the budgeted operating statements for the years out to 2008-09. The lines included there are revenue, expenses and the resulting profit before tax. As Ms Clark said, the growth in revenue and cost of goods sold parallel each other. However, we are looking at having revenue increase at a faster rate than expenses because of the growth of efficiencies. Basically, we have a fixed-cost base to run and the more the fleet grows, the more of that growth goes straight to the bottom line.

MR MULCAHY: All right. In the legislation that was brought in, as I recall, in December there was a provision for a dividend.

Ms Edwards: Yes.

MR MULCAHY: It does not seem to kick in, unless I am misreading it, till 2008-09. Is that correct, or are you looking to make a dividend earlier to the government?

Ms Clark: Could I just say that our dividend policy still has not been finalised as we are working through the business plan at this stage. It would depend on our final outcomes around that as to when our dividend policy would come in. Some of that may come in earlier, depending on whether we are able to secure our enterprise architecture system solution, Earlier.

MR MULCAHY: Your what, sorry?

Ms Clark: Our new enterprise architecture system solution, Earlier. It is a whole new IT system, an integrated IT system with client interfaces, so you can decrease staffing numbers, manual staffing numbers, who are really just doing data entry.

MR MULCAHY: I guess, to be quite direct about it, the benefit to the ACT at the moment is largely confined to whatever benefit they can achieve through leasing savings on their fleet. Is that a reasonable observation if there is not a dividend?

Ms Clark: No. There are some other benefits at this stage, too. Obviously, as we develop our economies of scale, we can offer better pricing. We can also start to add some value add around at what their fleet should be tracking to. In addition, we are contributing some substantial money in taxation every year directly into the ACT government, for example, a range of commonwealth government departments that operate outside of the ACT, that are located in the surrounding regions. If their central offices are located in the ACT, all vehicles must be registered here in the ACT, therefore actually giving taxation benefits to the ACT. I think that is a very real issue.

MR MULCAHY: That would arise, surely, irrespective of whether Rhodium was there?

Ms Clark: No, it would not because—

Mr Quinlan: How many Victorian number plates do you see on rental cars in Canberra?

MR MULCAHY: I am not sure what the point of your question is.

Ms Clark: The fact of the matter is that if you had an external provider, if you had, say, a lease plan or a custom fleet, for want of a better example, that predominantly operated out of some of the capital cities—they do their major purchasing from manufacturers in other states—you would not realise the taxation benefits from the sale of those assets. You would not realise the revenue from the registrations, from the taxation and revenue of those registrations, because it would not be necessary to actually do it. They do their deals directly with the manufacturers. Rhodium actually deals here within the ACT with a range of suppliers in the ACT.

MR MULCAHY: I will come to that in a second, but in terms of registration, my only question there was that if you are a federal department with vehicles in Canberra, whether they list through Rhodium or whether they do it in some other way, they would still have to pay registration fees, or not. Is that not the case?

Ms Clark: Yes.

MR MULCAHY: They are privately plated.

Ms Clark: But the difference is that the vehicles that they have in New South Wales and Victoria are also registered in Canberra.

MR MULCAHY: Even though they are not home-based here?

Ms Clark: That is exactly right, which has a dramatic impact on the revenue line. We are registering substantial vehicles through there.

MR MULCAHY: Just a couple of other questions on the supply side. I think you are aware of my less than happy experience with aspects of that, which I do not necessarily consider are the problems of Rhodium management. But we have previously discussed the fact that you are an important benefactor to the local car industry in Canberra. You could directly purchase and make substantial savings for the taxpayer by going direct to manufacturers, but it stimulates the local economy.

Ms Clark: It does.

MR MULCAHY: In relation to, first of all, say, truck operators, tow truck firms that provide a service, the recommended list that you have, and then in terms of maintenance service companies, being new car dealerships, do you have any measures in place to measure their performance or review that performance, or is it a bit of a case of take it or leave it?

Ms Clark: With the tow truck providers, although we have a list of tow truck providers, they are actually Lumleys, our insurance agency, so we do not have any direct measures over tow truck providers. In relation to all of those industries performing maintenance, servicing, fuel, we have full contracts, full service level agreements that are biannually reviewed and put into place that they have to perform to.

MR MULCAHY: So you have checks on them?

Ms Clark: We do, and they all sign a master lease agreement with us, which binds them to performing.

MR MULCAHY: So I guess it is too early, since you are a new entity and forgetting the performer entity, to really have had to come to a renewal editing of those.

Ms Clark: What we have been doing is reassigning the Totalcare deeds, and we have had to reassign every single contract and master lease agreement to Rhodium. During that process we have been visiting with each of the suppliers and going through our expectations of doing business with Rhodium.

MR MULCAHY: Can we feel comfortable that they will be rigorously observed and look after the ACT fleet?

Ms Clark: They will be. They certainly will be.

MR MULCAHY: Thanks for that. That is all, Chair.

THE CHAIR: My questions are slightly less intellectual. I am just curious to know how you derived the name Rhodium?

Ms Clark: I suppose I was fairly intimately involved in that. We were basically looking for a name that did not typify any particular asset or piece of business, but something that related. Rhodium is probably the most precious part of the platinum metal. It is meant to be highly sustainable, durable, high value, giving good value. We saw that as strong and giving good value, and hopefully it will be around for a long time.

THE CHAIR: I am sure it will.

DR FOSKEY: It is lovely to hear about the absolute thought that went into the name itself. I did not know what Rhodium was. Thanks for that.

THE CHAIR: I knew it was a metal, but I did not know exactly what it was used for.

Ms Clark: It seems to be in fashion now. At most of the jewellery shops you go to, rhodium is the new metal of choice.

DR FOSKEY: It is probably because they are running out of everything else.

THE CHAIR: We would expect that comment from you, Dr Foskey!

DR FOSKEY: What percentage of the fleet are four-wheel drives?

Ms Clark: We have been doing some work on that. Are you talking about ACT government specifically?

DR FOSKEY: Yes, I am.

Ms Clark: We did do some figures on that previously. They were predominantly in forestry and DUS. The percentage was not very high. As to the actual percentage figure, I would have to take that on notice and get back to you.

THE CHAIR: In relation to that, the new Ford Territory vehicles are not classified as four-wheel drives, are they?

Ms Clark: No, they are not.

DR FOSKEY: But are they?

MR SESELJA: They are all-wheel drive, as my son keeps telling me.

Ms Clark: You are right. They are not classified as four-wheel drive.

THE CHAIR: I am sorry, Dr Foskey, for I interrupting.

DR FOSKEY: I think my next question is irrelevant because I think you are indicating that you provide four-wheel drives in response to government—

Ms Clark: Departmental needs. That is exactly right.

DR FOSKEY: Yes, where they are required to be used, and all-wheel drives do not fit into that ratio.

Ms Clark: The all-wheel drives, predominantly our fleet of those would be through novated leases, and that is really at the choice of the individual, not through departmental requirements.

MS PORTER: Going back to page 479, the highlights, it is stated that there is a plan to complete a work force skills gap analysis and implement a plan to address the gaps. I just wondered if you had a sense of where those skills shortages may be at the moment, where you might find them.

Ms Clark: As I said before, one of the issues about the Rhodium business to date has been that we are a high volume, low margin business. A predominant amount of our work, because we do not have the sophistication of our enterprise architecture systems, has been data entry and manual processing. We have undertaken the first part of that audit. The area where we need to increase our expertise is in finance and people that are actually proficient in leasing business. We have started to put some work into doing that and attracting the right people to those positions.

MS PORTER: Are you having any difficulty with doing that?

Ms Clark: It is a difficult industry to try to find that work force and to attract them to Canberra. We really are the only firm in Canberra that undertakes this range of business. Yes, we have had some difficulty, but I think we are proceeding along very well with that.

MS PORTER: I have a second question. It really seeks clarification, because I am not familiar with these budget papers. On pages 482 and 484 a capital injection of $1.5 million is mentioned, and I was just wondering what that would be designated for. Can you give me an explanation of what that is?

Ms Clark: Rhodium, being a new company that is establishing itself, obviously had to put in place a considerable amount of infrastructure and needed working capital for ongoing liabilities that it had transferred across from Totalcare Industries—$500,000 as working capital towards those liabilities and $1 million as the first tranche towards the enterprise architecture solution.

THE CHAIR: There being no further questions on Rhodium, we will move on to Totalcare. Do you want to break 10 minutes early for afternoon tea?

Mr Quinlan: Is this the last for today?

DR FOSKEY: I was under the impression that the ICRC was going to be here this afternoon. I did not think we ruled them out. I certainly did not.

THE CHAIR: I have them ruled out on my page. I think we said that they were free to go, Dr Foskey.

DR FOSKEY: I must have been the only person to say no.

THE CHAIR: I am sorry about that.

MR MULCAHY: I think I said they could go, because the one question I had I said they would not have an answer on.

DR FOSKEY: Is there anyone here from ICRC?

Mr Primrose: Yes, there is.

THE CHAIR: We might deal with ICRC, then take a break.

DR FOSKEY: Good. Thank you for being here, Mr Primrose. First of all, I am interested in whether there is any relationship between the ICRC and the Office of Sustainability, given that so much of your work appears to overlap in terms of greenhouse and so on.

Mr Primrose: There's no formal relationship in the sense that the commission is statutorily independent and, whilst we have a role in the greenhouse gas abatement arrangement, it's not directly an overlap with what either IPART, as the administrator of that scheme, or the Office of Sustainability so it's complementary rather than a duplication. There is informal correspondence about a range of issues, not only greenhouse gas issues but also energy issues, water issues and so forth.

DR FOSKEY: On page 473 of budget paper No 4, it states that one of your objectives is to "facilitate an appropriate balance between efficiency and environmental and social considerations". I'm interested in some initiatives that you might have undertaken in this regard.

Mr Primrose: It's not really about initiatives so much. In the course of particularly, say, price enquiries, in arriving at a view about energy prices, for example, we consider a range of issues relating to the environment, and social impacts of pricing and so forth and try to balance those against economic efficiency. They're not necessarily always a contributor to one another. Very often those things are in conflict and so it is necessary to arrive, at the end of the day, at a balanced judgement. There are a number of areas where those issues are prominent. The water abstraction charge is one. We have a role in providing advice to government on the water abstraction charge. That's one area, as well as pricing generally, where those three areas often come into conflict. They are resolved, generally speaking, not by initiatives so much as by a wide consultation with as many of the stakeholders as are able to be drawn into the process.

DR FOSKEY: In relation to the water abstraction charge, I notice that the increase that was announced on May 3 is essentially based on CPI plus 2.5 per cent for water, and one per cent for waste water services. I was wondering how you determine those percentages?

Mr Primrose: The water abstraction charge is not determined by the commission. The commission provides advice to the government when the government requests it. Essentially the charge is a matter for the government to determine.

DR FOSKEY: Did the charge that the government determine reflect your advice?

Mr Primrose: In terms of the additional 5c per kiloliter, we weren't asked to specifically address advice on that issue. Last time we were asked for advice was in respect of the increase from 10c to 20c.

DR FOSKEY: During the annual report hearings, I was told that the water abstraction charge might be the final sort of step for a while. Is that the case?

Mr Primrose: I'd have to defer to the government, I'm afraid. We don't set the charge. We provide some advice about—

DR FOSKEY: So you could keep, you know, your—

Mr Primrose: Well, it's a matter really for the government, not for the commission.

DR FOSKEY: Yes, right. Do departments have to provide annual information to the commission on their costs or actual forecasts of the costs of supplying water? Do the roles of the different departments—for instance, those managing the catchment and others such as the health department and so on—feed into the commission's recommendations?

Mr Primrose: No, is the simple answer. Departments don't report to us about their water use. That's an issue that might be—

DR FOSKEY: It is really about their costs in relation to managing the supply of water for the ACT.

Mr Primrose: It's really not an issue for the commission. It is more an issue for the budget.

DR FOSKEY: Okay. In relation to energy, page 135 of your report for 2003-2004 states that the use of green power is down by about five per cent. Page 235 of budget paper No 4 suggests an accountability indicator of 17 per cent for use of green power by Property ACT. Will there be an assessment of the likelihood of increasing the use of green power? Is that something you see as part of your work on greenhouse abatement and other issues around electricity?

Mr Primrose: No, simply.

DR FOSKEY: No?

Mr Primrose: We're a regulator and administrator; we have no policy role. Determining who should access or how much green power should be accessed by government agencies is a matter for the government and those agencies rather than us.

DR FOSKEY: Do you look at ACT electricity consumption?

Mr Primrose: We look at consumption in terms of determining the network price for electricity, but no wider than that.

DR FOSKEY: Okay.

Mr Primrose: Unless we were asked for an opinion, or advice about a range of energy consumption issues. But to date that's not been the case.

DR FOSKEY: But you would be well equipped to provide that information, I take it.

Mr Primrose: We have processes that would allow us to provide reliable advice but how well positioned we are, I'll leave to others to judge, I think.

DR FOSKEY: Okay, that completes my questions.

MR MULCAHY: Can you confirm for me that when you determine utility pricing, you aren't willing to or don't take into account capital reinvestment on the part of the utility provider? In terms of price increases, that isn't an acceptable part of the equation; is that right, or am I misinformed there?

Mr Primrose: In a general sense, in determining prices the commission looks at prudent investment in capital works, and what constitutes ActewAGL's investment program is reviewed therefore. It depends on what they put to us as to whether we ultimately would have a view about capital reinvestment.

MR MULCAHY: I am not necessarily advocating high utility prices, but I am curious as to what the rationale is. I understand you have not accepted that as being part of the equation when you are determining pricing, is that correct?

Mr Primrose: Normally we have not, no. In the past we have not.

MR MULCAHY: Could you explain to the committee why that is the case?

Mr Primrose: I think it is just that we regard that as not a part of prudent capital expenditure.

MR MULCAHY: To make provision for maintenance and improvements in the network?

Mr Primrose: To a degree, in terms of the opex, provision is made for maintenance. But the capex and opex numbers are scrutinised at our direction, generally speaking, by consultants with expertise in those two areas. We are keen to make sure that prudent investment in capex and opex is allowed to flow through and that there is an appropriate return of a non-capital, but no more than that, so excessive provision would not be considered prudent by us.

MR MULCAHY: What would you typically consider excessive provision in terms of capital investment?

Mr Primrose: I don't think there's a rule.

MR MULCAHY: Do you have any guide, to help us understand that?

Mr Primrose: No, there is no framework guidance, other than looking at each submission on its value. Just by way of expansion, it is not only the commission's internal views or the advice of consultants that are taken into account when reaching a judgment. There is considerable debate with ActewAGL about the details of their submissions. The commission, in those major pricing enquiries, as in a lot of enquiries, has that extensive public process to allow those issues to be aired. So a range of views about the prudence of expenditure, both for opex and capex emerges, sufficient for us I think to have a view as to what should be allowed and what should be excluded.

MR MULCAHY: I'm just not quite sure that I understand why you do not allow capex to be taken into account.

Mr Primrose: We allow capex. It is just that we do not allow all capex that is claimed.

MR MULCAHY: So it is just this excessive one, but you are not able to give us an indication on what's excessive.

Mr Primrose: The issue is what is prudent investment and what is not. We would not, for example, allow a capex program that included works that in the view of the commission could not be achieved. So we would not be giving them money simply to put it on a shelf and earn a return on it without any hope that those projects would be delivered.

MR SESELJA: With the water abstraction charge, has the ICRC, in advising government, ever looked into its legality?

Mr Primrose: Yes.

MR SESELJA: And what was the advice received?

Mr Primrose: The advice we received on two occasions—one by way of the government solicitor through the Treasury and one advice in the most recent examination of water abstraction charge from our own and contracted council—was that the charge was legal, insofar as it reflected the cost of the services for the catchment management and so forth.

MR MULCAHY: Are those legal opinions available to the committee?

Mr Primrose: I think we have already provided them, but they are referenced, I think, in the report. We have provided them, with the minister's agreement, to others. So, presumably, if we were requested, we would endeavour to provide them—at least we would endeavour to provide the advice that we sought. I am not sure that we could volunteer the advice that belonged to somebody else.

MR SESELJA: It is it possible to get the advice that you sought? When you say the advice belongs to someone else; do you mean the minister?

Mr Primrose: No, I can't recall who requested the original advice in 1999. It was provided to us in the course of our consideration of the water abstraction charge at that time, but the advice didn't belong to us. Whilst we had regard to it, it wasn't until we did the advice in 2004 that we got our own advice.

MR MULCAHY: And that confirmed the view that it wasn't an excise?

Mr Primrose: Yes, and that view was sought at a number of levels including senior counsel on that constitutional issue.

MR SESELJA: Yes, if you could provide the advice that you do have on that, that would be most appreciated. On a different issue, Dr Foskey mentioned page 473 where it talks about "facilitating an appropriate balance between efficiency and environmental and social considerations". Can you tell the committee exactly what those social considerations are? In looking at all of these factors, does the commission look at the effect of price on, say, families and the like or does it just look at households in total? Does it look at numbers in households and the like and any expansion on what those social considerations are?

Mr Primrose: Generally, it is the impact of prices on consumers. There's little information available about families directly so, generally speaking, it's at a reasonably high level—although the commission does look at the impact on consumers within a range of consumption. So we are getting a reasonably good view about the impact on customers within a band and there is some correlation between those bands and ability to consume, and the ability to pay. However, we do acknowledge there are some large families who have low income who would be disguised in that process and, to the extent that we are able, we identify those people and give that set of circumstances some consideration. If we are unable to determine what happens to individual families, the Utilities Act provides a mechanism through the Essential Services Consumer Council to take those circumstances of those individual families into account and work out arrangements with the utility to allow for time payments or other sort of remedial action.

MR SESELJA: So a family would have to apply in those circumstances to the council, is that right?

Mr Primrose: That's true, yes.

MR SESELJA: So what you're saying, in summary, I guess, is that you try and take it into account but often it gets missed in the modelling.

Mr Primrose: Well, we try and take it into account. Often the information simply isn't available. It's very hard to distinguish one family with a large consumption that has a low income from a small family with high consumption that has high capacity to pay. There is an assumption, not an unreasonable one, that lower consumption bands are roughly equated with lower economic capacity but, if the question is how do we distinguish between one family and another or identify who's in straitened circumstances or not, we don't have that capacity, and I don't know that anybody in the territory does.

DR FOSKEY: And you don't have the capacity to determine whether consumption is low because they're living in an energy efficient house either?

Mr Primrose: No, there is some evidence from ActewAGL about that or housing, for example, might give us advice about their clients. But generally that level of fine grain is not available to us. So we are often confined to fairly high levels of aggregation.

MR SESELJA: So the assumption—let us stick with water—is that, if it's high use, it's going to be high income, and that is not taking into account that a family with four or five kids would obviously need to use a fair bit of water on bathing their kids and the like. So the assumption is that basically they would have a high income, or high capacity to pay?

Mr Primrose: Yes, basically, you're right. I mean, we acknowledge that in that high consumption band there are people who have a low income. There are large families with low income in that group; there's no doubt about that, but they are obscure to us.

Mr Quinlan: I'll just tell you from my own experience, back when I was working in electricity and water, I instituted a program of free energy audits so that people could have those houses. The free energy audits were offered to people in receipt of a pension or rebate who had high levels of consumption. Now, our people spent the first month trotting across Red Hill and Forrest—people who managed their assets well. They were very happy to see our chaps, and would get them to come in and give them a cup of tea in bone china. It really took us some time to get through to the people that we wanted a target.

MR MULCAHY: I don't think everyone in Red Hill is affluent, Treasurer. That's a lot of people.

Mr Quinlan: No, let me tell you that by the time we had been doing this for a month, the people who were doing it were bloody well disenchanted, saying, "What the hell is going on?"

MR SESELJA: So you weren't getting to the families, the big families?

Mr Quinlan: No. As Ian was saying, you've really got to get particular information to identify that.

MR SESELJA: The second part of my earlier question on families was about the other social considerations. Just broadly, what are they?

Mr Primrose: I think that's pretty much where we landed. It looks at whether or not people are going to be disadvantaged by the level of energy prices. But there are also considerations about equity and intergenerational issues, and particularly in water where we are now looking at a three-step tariff, which is an additional step to what it was a year or two ago to allow us to address some of those issues. The structure of the tariff at the moment provides for a low-level fixed charge and a very low-level of volume charge in the first step, which includes most people—as far as we're aware—who are in that low socioeconomic group.

As I said to you, I think the ESEC sees the results of that, and our information is that the numbers of people who are low income but high consumption is very small. That doesn't wipe them away but our capacity to get that fine grain is constrained by our resources, as much as anything else, to find out that kind of information. To maintain it over a five year cycle of the price determination would be vastly expensive and labour intensive.

DR FOSKEY: Just a supplementary to that, wouldn't more water be used on gardens and lawns, in general, than in the house, regardless of how many children there are? The volume of water used, in keeping lawns green, for instance, would far exceed what a larger family might use, even if they bathed twice a day.

Mr Primrose: That's very true.

MR SESELJA: They might want the kids to run on the lawn too.

DR FOSKEY: Yes.

Meeting adjourned from 3.45 to 4.00 pm.

THE CHAIR: We'll now move to Totalcare. Welcome Mr McDonald.

Mr McDonald: Thank you, Chair.

MR MULCAHY: Treasurer and Mr McDonald, you talked a bit about the Totalcare industry entity when we had the briefing on Rhodium. From the balance sheet at page 489, in budget paper 4, Totalcare's liability of $17.3 million seems to consist entirely of employee benefits. Can you indicate what this is about and how the liability is to be met. Is it settled or finalised and who's going to pay for it?

Mr McDonald: I'd be glad to, Mr Mulcahy. The amount of $17.28 million is an estimated liability arising from a superannuation liability owed to former Totalcare employees as a result of an administrative error made by the company somewhere between 1996 and 1998, wherein employees of the corporation were either discouraged from or denied the right to join the public sector superannuation scheme. In 2003, the board of Totalcare Industries Ltd, and I am a member, were brought in to effect the transfer of Totalcare Industries business units back to government and to deal with fleet, as the government wished; speakers before have articulated that.

During our administration in December 2003 we commissioned a forensic audit to look into superannuation issues relative to the company and this anomaly was revealed. We immediately took legal advice, and that legal advice was provided by the ACT government solicitor. That advice was that, as a matter of law, all of these employees were deemed by law to be members of the PSS. As a result of that piece of advice, it was then necessary to begin the calculation process to identify who these people were, and to proceed.

My policy was and is to identify every single Totalcare employee who was potentially a member of the class. That involved assessing some 2,207 employee files. The nature of the case is that you have to do it individually—file by file, folio by folio—and we were impeded by the fact that, until 1999, all staff records were paper and not electronic. Presently, with Totalcare, we've got 1,069 former employees whom we regard as being potential beneficiaries in relation to this matter, and about 900 whom we regard as not being potential beneficiaries. I have written personal letters to all 2,207 employees, advising them of what is going on. We've set up a national advertising campaign, we had a Canberra Connect hotline and we received about 700 calls on the hotline. We've since provided updated and continuously updated information to all of those individuals involved as we have moved towards the assessment phase and through the assessment phase of this particular issue.

The current timeline I've got is that, for all terminated Totalcare employees who are in a class of employees to which benefits might accrue, we will have that completed and ready for our actuaries by December this year. We are using a representative cohort of current ACT government employees who are former Totalcare employees in a government agency and I expect that by the end of June I'll have that cohort settled to the point where I can refer them to the actuaries.

Meanwhile, given how difficult it's been to obtain this information and in a sense do the determinative work, we retained the services of the Australian Government Solicitor as external counsel, because they represented the Australian Broadcasting Commission who had the same problem as Totalcare in relation to all of their staff. The AGS has been very helpful to us and set up decision profiles and determinative mechanisms. I put in place a determinative formula in July 2004 when I took this problem over which, fortunately, has been confirmed to the letter by Chief Justice Higgins in the case of Cornwell v the Commonwealth, which Mr Seselja decided on 4 March 2005.

The determinative issue decided by the court, which is the same issue that we put in place, is that "the entitlement is the difference between the benefits now payable or paid and the benefit that would have accrued, less the expense of contributing to it had the person entitled joined the PSS fund in the year the entitlement accrued." That's the formula that I put in place and, fortunately for me, that's the formula that the ACT Supreme Court has also used in a totally unrelated matter.

So that's where we stand. Treasury put this $17.28 million estimate as an estimate of potential liabilities. I've done a trial run of a small cohort of folks for the actuaries that we retained, basically to validate the information system—we actually invented one internally to speed up the process. That series of programs that I had built inside my own unit has enabled us to save about 500 hours, about 25 per cent, of the assessment time for looking at these files, so we've been able to automate some of that.

The feedback from the actuary has been excellent on the data stream that we've been able to put together, but we've done no calculations that would enable us to make any meaningful judgments in regard to these liabilities at this time. We will adjust them when we get further down the track and we get a more concrete picture.

MR MULCAHY: Do you expect that will extend beyond the 2005-06 fiscal?

Mr McDonald: Indeed it will. The timeline for the terminated staff—when I say terminated, those who left Totalcare prior to the joining of the ACT government—I would expect that we would have documentation for them by June 2006 but after that of course we've got to prepare deeds of understanding with them. We've then got to interact with whatever third-party superannuation providers they may have retained. Our lawyers have to then make legal judgments and we have to make business judgments in relation to what the contribution rates might have been, and then we have to plug that through the actuarial system again. My estimate is that it will take us two years to wrap this up.

MR MULCAHY: Thank you for the most comprehensive briefing, Mr McDonald. Terrific.

MR SESELJA: Thank you, Mr McDonald for coming in. I've got some questions in relation to the Williamsdale Quarry, which I understand was one of Totalcare's investments. Some of them are reasonably detailed and what I might do is put a couple of them to you and, if you've got that information here, that's great, but if not I can put the rest on notice.

Mr Quinlan: We might take them together because the Totalcare quarry sort of predates to a large extent Tom's involvement in Totalcare. It was an inherited balls-up.

MR SESELJA: Yes, that's fine. I'll put a couple to you and if it looks like you don't have any of them to hand, I'm happy to give them to you on notice. Firstly, what was the sale price of the Williamsdale Quarry and did that price cover all the liabilities arising from ownership and operation of the quarry?

Mr Quinlan: If you want the numbers, we'll crosscheck them.

MR SESELJA: Yes, the other questions you're less likely to know so I'll put them on notice.

Mr Quinlan: Yes. There probably is an answer to those questions already on record somewhere.

MR SESELJA: There will be.

Mr Quinlan: They have been over the coals a couple times.

MR SESELJA: Sure.

Mr McDonald: Without going into detail, Mr Seselja, I believe that that particular question may well have been previously asked by Mr Brendan Smyth MLA on notice some time ago.

THE CHAIR: In fact, I believe it was asked while he was chair of the public accounts committee and it came up as a subject of discussion in the public accounts committee.

Mr Quinlan: Yes, but we'll find the answer anyway.

Mr McDonald: Yes, we'll troll the archives for you, Ms Seselja.

MR SESELJA: Wonderful, I'd appreciate that. So there will be no more questions on notice on that. Other than that, I have nothing else.

Mr McDonald: Thank you, sir.

Mr Quinlan: Before we close, I'd like to present to you a summary of the changes in expenditure lines over the budgets that go to make up this $600 million that the government has blown. You will find that about $450 million of it is pure accounting, actuarial changes. There are six supplementary appropriation bills, which add up to about $180 million. That's the extent of change and one of those is very substantial—$111 million of that was to do with the Vardon report into child protection. So, as you prepare for the budget debate, I'd hate to see you putting "$600 million squandered" all over *Hansard*, when it is far from the truth.

THE CHAIR: Thank you for that, Treasurer, and we will distribute that to members of the committee. Thank you, Mr McDonald. Thank you to all the other officials and to you, Treasurer. We'll see you tomorrow with your other hats on.

The committee adjourned at 4.14 pm.

Ted Quinlan MLA
DEPUTY CHIEF MINISTER
TREASURER
MINISTER FOR ECONOMIC DEVELOPMENT AND BUSINESS, MINISTER FOR TOURISM
MINISTER FOR SPORT AND RECREATION, MINISTER FOR RACING AND GAMING
MEMBER FOR MOLONGLO

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20 MAY 2005
ACT LA

Chair
Select Committee on Estimates
Appropriation Bill 2005-2006

Dear ~~Ms MacDonald~~ Karin

I am writing to you to correct evidence given by a Treasury official during hearings conducted on 17 May 2005.

In response to a question from Dr Foskey on housing affordability, Mr Broughton indicated that housing affordability had improved over the past 12 months. This information was not correct.

Housing affordability has improved over the most recent quarter for which data are available, December 2004, however, over the full twelve months to December 2004 housing affordability declined by 7.4%. The increase for the December quarter was 4.2% and was driven by an increase in the median weekly family income, and a small reduction in the average loan size resulting in a corresponding decline in the average monthly loan repayment over the quarter.

I apologise for any inconvenience this may have caused.

Yours sincerely

Ted Quinlan MLA 20.5.05
Treasurer

ACT LEGISLATIVE ASSEMBLY
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Phone (02) 6205 0001 Fax (02) 6205 0135

THE CHAIR: Mr Broughton.

Mr Broughton: Okay, thank you. Roger Broughton, ACT Treasury. In relation to the housing affordability there is one key measure that's generally accepted in relation to housing affordability, and that's the AMP and Real Estate Institute of Australia Home Loan Affordability Measure. And that measure is based on median weekly income, the average monthly loan repayment, and the monthly repayment as a percentage of the median weekly income.

And as of December '04 the index that they use was - if you bare with me. For the ACT, was 48.6, which mean that over the year to December 2004 it had fallen by 7.4 percent. A fall in the index is a ~~good~~ bad sign. That means housing is becoming ~~more~~ less affordable. The reason - - -

DR FOSKEY: That's to purchase?

Mr Broughton: To purchase, that's right.

THE CHAIR: Does that impact on rentals?

DR FOSKEY: Yes, what evidence?

Mr Broughton: The rental market's a little bit different than the actual purchase market. The rental market's very much subject to supply and demand. Rental's have been relatively high in the ACT compared to the rest of Australia because demand has been very close to supply, which meant that there was a low vacancy rate.

That vacancy rate has moved over the last 12 months from about 2 per cent to 5 per cent. Although the median rent haven't declined as yet, we expect that if those vacancy rates remain at about that level, that they will decline.

THE CHAIR: Because he ability to purchase housing will become more affordable and therefore it will actually free up some of the rental market?

Mr Broughton: It could reduce demand for that very reason, the other thing is there's quite a lot coming - quite a lot of supply coming onto the market with apartment developments and the like and if you're faced with the possibility that you may have extended vacancies within your investment property then you're obvious means of correcting that is to reduce your rent.

THE CHAIR: It forces it down, yes okay.

DR FOSKEY: Thanks.