LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

SELECT COMMITTEE ON ESTIMATES 2009-2010

(Reference: Appropriation Bill 2009-2010)

Members:

MR Z SESELJA (The Chair)
MS C LE COUTEUR (The Deputy Chair)
MS A BRESNAN
MR B SMYTH
MS J BURCH

TRANSCRIPT OF EVIDENCE

CANBERRA

MONDAY, 18 MAY 2009

Secretary to the committee:
Ms G Concannon (Ph: 6205 0129)

By authority of the Legislative Assembly for the Australian Capital Territory

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

APPEARANCES

Privilege statement

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Amended 21 January 2009

The committee met at 9 am.

Appearances:

Gallagher, Ms Katy, Treasurer, Minister for Health, Minister for Community Services and Minister for Women

Department of Treasury
Smithies, Ms Megan, Under Treasurer
Bulless, Mr Neil, Executive Director, Finance and Budget Division
Ahmed, Mr Khalid, Executive Director, Policy Coordination and Development
Broughton, Mr Roger, Executive Director, Investment and Economics Division
McAuliffe, Mr Patrick, Director, Investment and Economics Division, Investments Branch
McDonald, Mr Tom, Director, Investment and Economics
Dowell, Mr Graeme, Revenue Management Division, Commissioner, ACT Revenue

Actew Corporation
Sullivan, Mr Mark, Managing Director
McIlwraith, Mr Kerry, Chief Finance Officer
Wallace, Mr Simon, Chief Accounting Officer

Rhodium Asset Solutions Ltd
Moore, Mr Ken, Acting Chief Executive Officer

ACT Gambling and Racing Commission
Jones, Mr Greg, Chief Executive

ACT Insurance Authority
Matthews, Mr Peter, General Manager

ACTTAB Ltd
Curtis, Mr Tony, Chief Executive
Wheeler, Mr Simon, Executive Manager, Wagering and Sports Betting
Snowden, Ms Kayelene, Executive Manager, Finance and Business Services

THE CHAIR: Good morning and welcome, Treasurer and Treasury officials, to this public hearing of Select Committee on Estimates 2009-10. Today we have the Treasurer and departmental officials. Now, first and foremost, have you had the opportunity to read and do you understand the privilege card on the table before you?

Ms Gallagher: Yes.

THE CHAIR: That is a yes? I will just mention a couple of housekeeping matters. Mobile phones are to be switched off or put in silent mode. Witnesses should speak directly into microphones for Hansard. One person should speak at a time. When witnesses come to the table, they need to state their name and capacity in which they appear.

The other thing that the committee has discussed and agreed is that if officials or ministers give inordinately long answers we will ask them to wrap up. Now, I do not think that has been your practice in the past, Treasurer. Some of your colleagues will, no doubt, have to change their habits. Before we proceed to questions, would you like to make an opening statement?

Ms Gallagher: Thank you, Mr Chair. You have made me nervous now. I have got a bit of an opening statement to make, which I normally do not make either, but if you bear with me I will keep my answers short following that.

Thank you very much for the opportunity to appear before you this morning. Members will recall that when we handed down the budget I said that this budget had been formulated in unprecedented economic circumstances. The latest update to the estimates of the national GST pool contained in the commonwealth budget just confirms that.

From July last year to April this year, a period of just nine months, the forecasts for the global economy were revised downwards by more than five per cent. In short, the global economy has entered the most synchronised and severe downturn since the Great Depression. The commonwealth budget forecasts the Australian economy to contract by half a per cent over the next year.

It was inevitable that the ACT would be affected by those external factors and where the most severe impact has been seen is on our budget. The magnitude of the fiscal shock is quite extraordinary. The territory had lost $289 million over five years in GST revenue and with the forecast published in last week's federal budget that loss has been exacerbated by a further $200 million. The loss of interest income is $322 million, the drop in conveyance revenue is in the order $247 million and the loss on return of superannuation investments totals $193 million. These factors have combined to put the ACT budget into a net operating deficit position and deficits are forecast over the outyears.

Such was the challenge confronting the government in putting together this year's budget. We carefully considered all the options available to us. We decided that it was not time to make an immediate adjustment of the magnitude required to sufficiently compensate for the contraction. To do so would require a massive adjustment through savings or increased taxes. It would have meant slashing vital community services. It would have meant tax increases through either new taxes or by raising the existing ones. It would have meant drawing back on our capital commitments and scaling back our infrastructure, building and maintenance programs.

We believe such measures would be counterproductive. They would adversely impact on the economy, services and consumer sentiment. What is important at this time is to ensure stability—stability of services, stability in the economy and stability of the public sector. That is why we have continued with our investment in the Canberra community through quality services and public infrastructure. We are able to do this because of the strength of our financial position. Given our strong balance sheet, we also resolved that we could sustain some debt and therefore are flagging, in this budget, our intention to borrow to deliver on the capital works program we are committed to rolling out over the coming years.

We remain committed to our financial policy objectives but we believe that a recovery task needs to be undertaken over a longer term. Such an approach ensures that we continue to provide high quality services that our community expects and needs and it will allow us to continue to meet the growing needs of the community. Our budget plan was designed to be flexible enough to adjust and continue to be relevant to changing economic and fiscal circumstances.

A consideration of the impact of the commonwealth budget confirms, once again, that this was the best approach for these times. The budget plan is placed so that we do not overcorrect. Times such as these demand stability, rather than sharp reactions, and the government has recognised that the recovery task will be difficult and will require tough choices. We will work with the community, with business, industry, unions and, indeed, Assembly members to determine what choices to make. Our budget plan is measured, transparent and responsible and it provides the blueprint of our goals and the steps we will take to achieve them.

Members will know that an expenditure review committee will be chaired by the Under Treasurer and Chief Executive of the Chief Minister's Department. It will report to the budget committee of cabinet with options on savings, efficiencies and resource allocations. Agencies will also provide implementation plans on their internal savings strategies well before the commencement of the 2010-11 budget. The budget committee of cabinet will meet every two months to consider budget positions, emerging cost savings and efficiency plans. But further savings will be required and these will be the subject of further community consultation.

The new initiatives in the budget demonstrate that we are prepared to invest in Canberra at this time when the private sector is experiencing upheaval and uncertainty with regard to financing and security. The budget also delivers on a range of commitments we made to the people of Canberra and, indeed, through the parliamentary agreement post the election.

While the economic environment has made us review closely the sequencing of delivery of our commitments, we know that now, more than ever, investment in our community is needed. New services and programs will be delivered in health and education, in supporting Canberrans to live more sustainably, in enhancing community safety and in supporting those most vulnerable in the community. Our programs are measured and targeted and our recurrent spending is largely offset by the savings program. In this budget we make further investments in services to meet the growing needs of the community. New spending initiatives include a modest annual average spend of $49 million. This budget invests in our community—in supporting jobs and building the productive capacity of the economy.

I now turn to the impacts of the commonwealth budget on the ACT. Since it was handed down on 12 May, there has been much discussion about the effects on the ACT budget of the commonwealth's economic forecast, particularly those around GST. Ordinarily, the government would update its budget through its mid-year review. However, I have previously indicated that I felt it important to inform and update the community on the impacts of the ACT budget given these changing circumstances.

The estimates for GST revenue from the commonwealth budget indicate a further decrease of $44 million in 2009-10; $54 million in 2010-11; $46 million in 2011-12 and $9 million in 2012-13. The headline operating balance has deteriorated further to deficits of around $35 million in 2009-10; $159 million in 2010-11; $211 million in 2011-12 and $205 million in 2012-13.

So what does this mean for our budget plan? Obviously, this increases the magnitude of the task to return the budget to surplus by 2015-16, but I wish to make it clear that the target remains the same. There appears to be some misunderstanding or misconception around the savings task and what this decline in revenue means for that task. It would be wrong to suggest that savings targets will need to increase by $200 million.

The update paper that Treasury have prepared over the last week—we can provide that to the committee now—includes an update to the budget plan target. In essence, the saving task has increased from $153 million to around $178 million, and that is the final year, 2012-13. In the published budget the task was identified as $51 million in 2010-11; $112 million in 2011-12; and $153 million in 2012-13. The updated budget plan savings targets are $59 million in 2010-11; $118 million in 2011-12; and $178 million in 2012-13. Once again, this highlights the prudence of our approach and the robustness of our budget plan. We can adjust to changing circumstances. I am not in any way suggesting that the increase is insignificant or that the overall task is insubstantial, but it is phased in over a period of time. It allows for deliberation, consideration and, importantly, discussion with the community. It allows us to work together to deal with the unprecedented events for the benefit of the community.

In my budget speech I said that these are times when we must work together to support our community and to engage in a conversation about how we work towards recovery. This is as true for the government as it is for the opposition and crossbench, for industry, the community sector, workers, business owners, unions and academics. We all have a stake in this territory’s future and we must all work together at this time.

I have to say I have been disappointed by some of the responses. The government’s offer of working cooperatively has been ridiculed and presented as the government not being able to make tough decisions. It has been painted as a weakness on my part as the Treasurer. This government has demonstrated that we can make tough decisions for the benefit of the community, but what is more disturbing is that there appears to be a campaign to misinterpret, misrepresent or mislead on the budget and the financial and economic circumstances.

Not only that, deterioration in the territory’s financial position, something that we should all be concerned about, seems to be met with a sense of rejoicing and glee. As one example, a media release put out by the shadow Treasurer last week—one that we would assume had been endorsed by the chair of this committee—was put out after the federal budget full of mock ridicule—indeed, some glee. The media release claimed additional savings of at least $233 million over the next four years and cuts of at least $386 million over four years. Presumably, the cumulative loss of revenue had been added to the original final year’s savings target.

The task of returning the budget to surplus by 2015-16 has increased, but nowhere near as much as claimed in that media release. In the published budget the task was identified as growing from $51 million to $102 million to $153 million. Under the updated plan that you have before you savings now required will be increased by $59 million, $119 million and $178 million. This is an aggregate increase of $50 million and nowhere close to the claimed $233 million.

The statement goes on to claim that the disastrous budget of 2006 supposedly found around $100 million in savings and that we need now to find four times that amount. Once again, there appears to be some confusion between the annual and the cumulative. The 2006 budget found more than $100 million in savings per annum. The four times that amount, which is actually incorrect, is the figure over four years.

The media release points to the aggregate underlying deficit of $778 million blowing out to $1.2 billion. The underlying deficit is irrelevant to measuring the impact on the financial position or the balance sheet. The headline deficit is the relevant measure, as prepared under the accounting standards. The government has presented the underlying deficit to provide further transparency and to highlight the impact of the stimulus initiatives. The stimulus funding nevertheless creates assets on the territory's balance sheet and it would be wrong to exclude it from an analysis of the territory's financial position.

The media release also states that this is a staggering turnaround that has been brought about by a combination of guesswork, years of reckless spending, a failure to diversify the economy, a slavish dependence on federal government spending and inaction from a Treasurer who was simply not up to the task. The turnaround has been brought about by a $1.3 billion loss in revenue due to factors outside this government's control—indeed, any government's control. Either the media release is misrepresenting and misinforming or the author of the release simply does not understand. It is perhaps relevant for members of the committee at this point to understand that if the opposition had been successful at last year's election they, too, would be facing deficits of the same order as we have published today.

Another sign of the opposition's excitement at the economic landscape and further proof that they are willing to misrepresent the budget is a media release issued on 8 May which claimed that the 2009-10 budget cut $3 million worth of funding from assistance for business. There has been no reduction in funding for the government's business assistance program. In fact, business assistance has been increased through this budget.

The point I am trying to make is that this is not the time to play games with the budget or with the economy or with the community's confidence. The budget includes modest recurrent new expenditure and a significant injection of capital funds. It does this for a purpose. My ministerial colleagues will appear and discuss the specifics of these initiatives and my Treasury colleagues and I appear before you today ready, willing and able to assist the committee to the best of our ability. I urge members of the estimates committee to give this appropriation bill an honest and considered examination. That is all the government asks. Thank you.

THE CHAIR: Thank you, Treasurer. No doubt with so much focus on Mr Smyth's media release, you will have the opportunity to respond at some point. I might get you to start by talking us through, in your own words, the strategy to get the budget back into surplus

Ms Gallagher: The strategy to get the budget back in surplus, as you can see from the budget papers, is a seven-year plan. That seven-year plan acknowledges that the budget is going to continue to grow. It is going to continue to grow at about 4½ per cent. We expect the long-term revenues to return to just above trend, outside the forward estimates period, and we are going to have a considerable savings task to implement along the way. We felt that this was the best approach in terms of the continuation of quality service provision to the people of Canberra, but that we did need to return the budget to a surplus position as soon as we possibly could. We could have made it a four-year plan, we could have made it a two-year plan or we could have made it a six-year plan. All of those would have had variations on a theme of expenditure restraint, revenue growth and savings targets being achieved by government.

In the end, when we looked at the different formulations of what that would mean, we felt that a seven-year approach protected the community and quality service provision to the community and allowed a return to a surplus position in a more gentle way. Perhaps at this point I would say also that we have learnt lessons from the 2006 budget. This was a budget where we did make some very significant decisions in that budget process which did, I guess, change the financial position of the budget very quickly. I think all of us sitting around the table here will acknowledge that there were concerns and fallout from that process. So when we looked at what we could do and how we could bring the community with us and the magnitude of the shock, we felt a longer-term recovery was a wiser approach.

If, through the estimates process, you are inundated with people who want their taxes raised or their services slashed and are prepared to do that and return the budget to surplus in a much shorter position, then I certainly will have very open ears to that. I will be very happy to consider that in terms of next year's budget, but I have to say that since the budget has been released I have not had one person raise a concern with me around the seven-year plan. I have not had one person say they want their taxes raised. In fact, the feedback I have got is: why didn't my initiative get funded? That would lead me to think that, as best as we can, a measured longer-term approach that can be adjusted, as required, is the right way forward.

THE CHAIR: You have talked about—you did not mention it there but I think you have mentioned it before—some of the key initiatives, which will obviously be spending restraint; wage restraint was the other part.

Ms Gallagher: Yes, I mean that in government—

THE CHAIR: Indeed.

Ms Gallagher: That is part of the 4½ per cent.

THE CHAIR: Indeed it is. I want to touch on both of those issues, spending restraint and wage restraint in particular. On Friday, a number of groups appeared before the committee. One was the Property Council. I forget the exact number that they pointed out but it was in the vicinity of eight per cent increases in spending over recent years, and with a task of getting that down to about 3½ to four per cent.

Are you able to talk us through that? That is a pretty dramatic cut in terms of how things have been done before. So it is not just about, going forward, how much there will be to spend; it is also about how it has been spent in the past. How will things be done differently, other than with the expenditure review committee, to turn that figure around so dramatically?

Ms Gallagher: I do not have the actual annual figure of growth in the budget. I am sure Treasury can have a look at that. If anyone has said it is a do nothing budget, which I think I have heard being claimed, you can see that setting ourselves a target of restraining government expenditure—that is, growing the budget to 4½ per cent—is going to be a very difficult thing to achieve. That is primarily because of our health system. Health systems right across Australia are growing on average at around eight per cent. Health is a third of our budget. We know it is going to continue to grow. We try to fund as much as we can, and have built that into our forward estimates, but it is going to be a hard task. Essentially, it leaves very little room for new initiatives over the next few years.

That is the challenge for the cabinet. They have signed up for four per cent growth in expenditure. That does require restraint. Ministers are going to have to be mindful of that with what they bring back to budget cabinet. It is going to have to be offset by current spending, new ways are going to have to be looked at from agencies, rather than just coming to the budget every year and seeking additional appropriation. This is no secret to the agencies. They are very well aware of what containing budget growth to 4½ per cent means. The government will be prioritising services within that, making those decisions, and these are things we do every year in the budget cabinet process.

THE CHAIR: With regard to the establishment of the expenditure review committee, I was surprised at that announcement in the sense that I would have thought that was something that would have existed. Is this just a rebadging of what has already been there? What will be different?

Ms Gallagher: It has existed in one form or another in previous years. I do not think we have had a formal process set up since the 2006 budget, from memory, other than the fact that we have an annual budget process which seems to go for the entire year, anyway. It starts in October-November and goes through to May. So for six months of the year, in a way, it does exist.

What we are doing through this process is starting it now. It will convene right through in the lead-up to November, which is when the budget cabinet usually starts considering the budget appropriation. So we are formalising it in that sense, putting those structures in place and really ensuring that, by the time budget cabinet meets or the budget committee meets, we have information from our agencies about what options there are for savings and that we also have time to work through those savings ideas, to choose which ones we think we can do and which ones we think we cannot.

THE CHAIR: So in the past, when have those savings been presented by agencies?

Ms Gallagher: It actually happens every year as part of cabinet's requests. I wrote to ministers this year, saying, "When you're bringing forward your ideas, bring forward a list of savings from within your agencies to have a look at how we can offset that." I think our public service is pretty lean, I have to say. I think we have sought savings in the past which are still being built into this forward estimates period from the functional review.

What is needed, and that is why you see it reflected in this budget, is a year to work through with agencies and budget committee to get a package of savings. We are only after one per cent in this year. That is what we are asking agencies to look at. I do not think that is too onerous a task. That one per cent can be delivered with minimal job losses, if any, and minimal disruption to service delivery, if any. That is the job that agencies have been tasked to give. We need that to come back to cabinet and for cabinet to start considering what options that are on the table are the ones that we want to go forward with.

THE CHAIR: If I can just pin it down on that expenditure review committee, the fundamental difference is that it will be starting earlier than previously and looking for savings?

Ms Gallagher: It is a more formal structure, yes, and it has our two most senior public servants heading the work. Budget committee is going to meet every two months to work through this next 12 months, so it is different in that sense. Normally, budget committee does not meet until later in the year. We have about six months off budget committee. Cabinet still meets. But this time we are having a much more focused process whereby agencies are going to have to come to us and give presentations around their ideas for savings, so that it does not turn up in the budget mix with a list of things that we have not had time to work through, we do not understand what it might mean in terms of impact on services, and we have not had time to talk to the community about whether that is something they would accept as a reasonable savings adjustment. In this sense, we believe the one per cent can be found within agencies' appropriations without too much pain.

THE CHAIR: Finally, before I move on to other questions, Treasurer, wage restraint: what strategies will you be putting in place to impose wage restraint?

Ms Gallagher: This is another hard part of the budget. I have met with all of the unions. I have told them basically that if it is not wage restraint it will be job losses, because the budget cannot carry the wage outcomes that we have been paying in the past. We simply do not have that money anymore.

We have given commitments. I have given commitments to unions about maintenance of conditions. In fact, in this budget there is an improvement in conditions for women and new fathers. I am genuinely asking them to work with us in a reasonable and sensible way as we go through their EBA processes. It is difficult in the sense that we have staggered EBAs. I think we have the nurses and the teachers—the nurses are almost underway; the teachers have started. We will have the ambulance and firefighters and then the clericals finish up.

Our bargaining unit will be established, as it has been. Individual ministers have responsibility for their own portfolio industrial relations, so I have responsibility for the nurses, Andrew Barr has responsibility for the teachers, and we will be pretty up-front with them about what the budget can fund for wages. I have said to them that it is not a cut. We are not asking them for a wages freeze but we are saying that the pay that we have offered in the past cannot be achieved. We simply cannot afford it. Forty-seven per cent of our budget is wages, so any failure to deliver on this front will jeopardise the budget position.

THE CHAIR: What is the ballpark figure for a percentage point increase for teachers, for instance, and for nurses?

Ms Gallagher: We would not normally sit here—

THE CHAIR: No, I am not talking about you giving away your bargaining position, but with respect to the cost of a one per cent wage increase for teachers, you must know what that is?

Ms Gallagher: I do not know what a one per cent increase for teachers is. I have a feeling—and I think we can get it; it is probably better than me speculating on what that is. From memory, one per cent for nurses is in excess of $2 million. But we will check that.

THE CHAIR: Thank you. Ms Le Couteur?

MS LE COUTEUR: Keeping on the theme of saving money, given that you are already doing the expenditure review committee et cetera, is there a chance of starting some of these savings this year rather than waiting for next year?

Ms Gallagher: On the wages front, we do have a small amount of savings outlined in the budget, just from the timing of our wages, our agreement processes. We could have done. We could have just removed appropriations from agencies' budgets this year. I took a lot of advice on when was the right time to do it and to what point. Maybe we are still a bit burnt by 2006 in terms of some of the reactions, but we genuinely felt that if we were to do it properly and to get a reasonable buy-in, it was fairer for one year to do that detailed work with our agencies and, indeed, with the community. I will be leading up a lot of that work.

With respect to the time that we are in, there is the fact that there were very strong views that this year was the year to invest in the community rather than cut back. If we imposed a 1 July one per cent efficiency saving on a department, that would have meant job losses, because that would have been the easiest way—on 1 July, which is when the money would have been removed, to actually live within your budget. Cabinet felt that was not the outcome that we were after, that one per cent does not necessarily mean job losses, and we will actually maintain employment through this budget. But we genuinely want to find savings through those agencies' appropriations. We think they are there but we just need time for those to come back to cabinet and be considered.

All of these angles were looked at and examined around what was the best way forward. What you can see in front of you is a view that this was the year to consolidate, to ramp up some capital programs, to have some modest new expenditure targeted, and over the next 12 months to do a piece of work about how we start our savings target. Maybe that will be delivered without any pain to the community. That is my hope, anyway, through that one per cent.

MR SMYTH: Just to follow up on that, you said earlier that you needed a year to work it through, but then you said it is not an onerous task and you thought it could be achieved without too much pain. If it is not onerous and there is not much pain, why would it take a year to determine that?

Ms Gallagher: It goes back to the point I just made: if a one per cent saving was hit on a department now, on a large department—I think in Health it is around $6 million—if that was done on 1 July as a result of this budget, I do not think there is time between the budget being tabled and July to find $6 million in savings without looking for job losses. It would be an easy response from an agency, when we want a longer—

MR SMYTH: So therefore it is onerous?

Ms Gallagher: Sorry?

MR SMYTH: So therefore it would be onerous? You have said it is not onerous and there is not too much pain.

Ms Gallagher: It would be onerous if it happened straightaway. If it was imposed crudely on 1 July, without any opportunity to have a long, measured look at your agency's budget and where spending currently is, as opposed to giving them a year to work through that and look for savings, yes, I think that is onerous.

Giving them a year to work through, that changes it. It becomes less onerous, because they have got time to work through it. The CFOs have time to meet and discuss and look at areas where there are some capacities for savings. It also enables agencies to manage their staffing allocations in different ways, to look at the structure of their organisations, to take into account things such as natural attrition and whether they can shape their structures around opportunities there. That is what it allows agencies to do. If it came in on 1 July, they would not have any of those flexibilities.

MR SMYTH: But you have had six months. We have been talking about this since December. Are you saying there has been no serious attempt to look for savings since you have started the formation of this budget? It is easy to say, "We can't hit them on 1 July," but we are in May, and I think I read somewhere that the budget had gone to the printers in April or March.

Ms Gallagher: No, you are wrong on that.

MR SMYTH: Well, you can correct me. I said that is what I thought.

Ms Gallagher: Cabinet finalised the budget on 27 April.

MR SMYTH: 27 April, okay. So in that process, in the lead-up to 27 April, there was no attempt to look for savings?

Ms Gallagher: Certainly, in terms of the discussions, yes, there were. It was very clear that savings would need to be made. But I have to say that, gee, I wish we were back in December. Our budget looked a lot different in December. It was only a $100 million deficit. By February it had deteriorated and by May it has deteriorated further. So, yes, there was engagement on that level, but as to whether we had set a one per cent target, or whether we actually knew what the fallout from the continual revising back of forecasts from the commonwealth was going to mean for our budget, those decisions and that information come pretty late to cabinet—by March. The commonwealth updated their last figures in February, so cabinet, probably for the first time, was looking at a pretty ugly bottom line in March. That bottom line has become uglier.

Yes, agencies are well aware, but if we are trying to maintain employment and services, which is everything the community wants at this point in time, to impose an efficiency dividend from 1 July would not have delivered maintenance in jobs, it would not have delivered maintenance in services, and I think a year to allow the cabinet to be fully informed of what those efficiency dividend results are is a fairer way forward. I accept that there are different views on this but this is the view the cabinet has taken.

MR SMYTH: So will a year allow a maintenance of jobs and a maintenance of services?

Ms Gallagher: That is our hope. I cannot give you a 100 per cent guarantee. We have informed agencies that we do not think job losses are necessary through this. That is just from looking at our normal voluntary redundancy program, which happens every year, as you would know, and the turnover in our staff. This budget certainly will not impose another redundancy program. We have not got to the point where we are being briefed about what one per cent means. For some of the smaller agencies, the 0.5 per cent acknowledges that they are smaller and that they would have more difficulty in finding an efficiency dividend of one per cent. If you look at the job that is required in Health and Education, it is a big job that those agencies are going to do, and I think it is fair that they have one year to do it, and that cabinet is briefed on what that actually means.

THE CHAIR: Ms Burch?

MS BURCH: On savings targets, can you explain how the unallocated savings targets have been affected by the reduction in GST coming through the commonwealth budget?

Ms Gallagher: In the budget update, I think we updated another table. It is on the last page. The unallocated savings, instead of being $97 million in that final year, are now $122 million. So it has risen by $25 million, which does not sound hard but it is going to be very hard work to get there.

MS BURCH: And this is because of the rejigging of the GST from the commonwealth?

Ms Gallagher: Yes. In fact, that is why in this update we have just reflected the GST changes, but there is some information in there about our SPP payments as well, which have changed, largely because indexation rates have changed and that has impacted on those SPPs. Again, the Health SPP is the largest one affected there.

MS BURCH: It came up on Friday, given the impact the commonwealth budget has on ours. It has a significant effect on our budget, so why do we release the budget before the commonwealth budget?

Ms Gallagher: I am not sure there is an easy answer to that. It seems that since self-government it has been delivered in the first week of May more than at any other time. I do not know whether one of our forefather or mother legislators decided that the first week of May was to be our budget week. The only other times it has gone out is when we have had late elections. It has been in June a couple of times. I am not aware of the reason behind it.

We did think about delaying the ACT budget until post the commonwealth budget, but it was pretty late in the piece when Wayne Swan started talking about the further revisions. That was probably a week or two weeks before we were due to do ours. To have changed at that point, when we could see that there was some other bad news coming, would have been just too late for preparations that had been put in place for estimates and the sitting pattern for the year. The decision I made at the time was that we would just go with what we knew and then as soon as that changed and the commonwealth budget was out, we would provide an update as soon as we possibly could so that people knew the full story.

I do not know if members have a view on when the budget should go in. I think the Northern Territory and Victoria went the same day as us. Western Australia went two days after the commonwealth and I think they all trickle in now. I think Tasmania is the last, on 14 June. I am not really sure I can help much further than that, Joy.

MS BURCH: That is all right.

THE CHAIR: Ms Bresnan?

MS BRESNAN: Thank you, Chair. Just going back to the efficiency dividend, I am presuming that in this process which has been set up there has been some thought given to having a continuous improvement in efficiency, because you have mentioned normal voluntary redundancy and staff turnover. You have also said there should not necessarily be any job losses or losses to programs. I am just wondering whether some thought has been given to having that continuous improvement and also applying that across government. I guess it is just improving the efficiency of the way programs are run so that, in a way, you actually free up staff to do other things or to maintain their employment.

Ms Gallagher: We have been looking at that. I do not know if it had a percentage figure in 2006. It did not really, did it, because it hit different agencies in different ways. Since 2006 we have not sought additional savings from our agencies in terms of continuous efficiencies. I am not sure if I am going to your point here, but other jurisdictions have inbuilt efficiency dividends in their budget that they do not really talk about. They exist, so every year agencies have to find them. Indeed, I think the Commonwealth's efficiency dividend at the moment is 3¼ per cent. That is something the government will give consideration to. It probably does focus people's minds on the need to make sure that every dollar they spend is spent in the best way possible. But that will be part of the work that we do this year.

MS BRESNAN: Will that apply to looking at how programs are run across government so you are not having a silo effect in looking at that?

Ms Gallagher: Yes, absolutely.

MS BRESNAN: Which I presume would have improved the way programs are run and save funds that way.

Ms Gallagher: Yes. That has already been put on the table.

MS BRESNAN: The one-year consultation period—that is something that could probably start rolling out soon as well?

Ms Gallagher: Those changes?

MS BRESNAN: Yes. If you are looking at the way things are run across government—

Ms Gallagher: Yes. I know there will be mixed views about this, but what we are trying to do here is ensure that, with the one per cent, we can do it in a way that protects services and jobs but delivers a return back to the budget. If we can do that in six months time and it is all pain free and everybody is happy and over the moon then we will do that. But my feeling is 12 months goes very quickly when you are doing work like this and it is probably a fairer way—I think it is a fairer way—to get genuine buy-in from agencies and have them have that time to genuinely look at their business processes and where there is scope for improvements without just going to labour and saying, "We're not going to refill that position."

MR SMYTH: On page 57 of budget paper 3, the Treasury document says:

> The actual expenditure in the ACT continues to be well above the national average, at around 21 per cent above its assessed level of need.

The purpose of the 2006 budget was, of course, to restrain spending above the national level. So has the 2006 budget, therefore, failed? And, if this continues, what is the long-term outlook for the ACT?

Ms Gallagher: Your question is: did the 2006 budget fail?

MR SMYTH: The 2006 budget was premised on reducing expenditure, and in recognition of our spending above the national average, but by this statement it would appear we have just continued to spend above the national average.

Ms Gallagher: Depending on where you sit, everyone has different views about the budget of 2006. Certainly, in delivering savings to the budget, those have been achieved, so on that level the budget has been a success. The expenditure above the national average was higher than 21 per cent above the assessed level of need, so it is coming down, but we are still paying more than other jurisdictions for the same types of services. Khalid can probably answer in more detail than I can. I know that in health, for example, our costs were in excess of 130 per cent. They have come down, and the latest data I have seen is that they are now well under 110 per cent. We are doing hard work on this. It is coming back, but it is taking time.

Mr Ahmed: Going back to 2005-06 and 2006-07 and the ACT's expenditure relative to the national average, our comparable figure to 21 per cent now would be in the order of 30 per cent. So it has come down relative to the national average since the 2006-07 budget, but it is still above the national average, of course.

MR SMYTH: Yes. And if you turn over the page and go to page 58, I note that this year expenditure is going up seven per cent. Why would you allow it to grow seven per cent? What is your growth forecast this year, half a per cent?

Ms Gallagher: I am sorry?

MR SMYTH: What is the growth forecast for this year?

Ms Gallagher: For the economy?

MR SMYTH: Yes.

Ms Gallagher: Three-quarters.

MR SMYTH: So why are we allowing expenditure to rise seven per cent then?

Ms Gallagher: To be frank, we had a number of election commitments that we had told the people of Canberra we would be pursuing. We had a number of other initiatives, including those with the Greens and the parliamentary agreement, but we had another area of cost pressures. You can see those from the budget papers, particularly for people requiring individual support packages for children in out-of-home care—things that we had not seen in the lead-up to the election and we certainly had no commitments around.

What we have tried to do this year, noting that those outyears are going to be really difficult, is deliver on as many election commitments as we can, deliver on a number of parliamentary agreement items and fund a number of significant areas of government service delivery where, had we not done it, it would have been on our heads and it would have been the wrong thing to do not to fund it. That has resulted in a seven per cent growth for this year, which supports my point that 4½ per cent is going to be a really tough job.

Ms Smithies: If I could just add a bit more to that. The compound average growth rate of expense across this budget and forward estimates period is 4.9 per cent. If we take out the rollovers between 2008-09 and 2009-10, we get a growth in expenditure of 4.9 per cent as well. So there is a significant amount of funding that is driving that. The difference driving that, the 7.1 per cent, is essentially that rollover where you get a double hit. You actually get the expenditure not being incurred in 2008-09 while it is being incurred in 2009-10. So it hits both sides of those two financial years and doubles the difference.

MR SMYTH: Yes, but the government, in previous years, has had a string of rollovers. That is not likely to improve.

Ms Smithies: Yes, but your question was not in relation to 2007-08, 2008-09 and 2009-10. I think if you actually looked back and looked at those figures, you would also see a similar profile happening.

MR SMYTH: So you are saying there will not be any rollovers in the outyears?

Ms Smithies: We are not budgeting for rollovers, no.

MR SMYTH: You might like to take this on notice. Can you give us the rollovers for the last three budgets?

Ms Smithies: Sure.

THE CHAIR: Treasurer, you mentioned that you are meeting most of your election commitments. Which are the election commitments that are not going to be funded as a result of revenue shortfalls or for other reasons?

Ms Gallagher: In this year’s budget, when we looked at what we have, I have to say that our election commitments were pretty modest compared to some. We have completed just under 50 per cent of them. Some of them do not have money attached. Some of the election commitments do not have money attached but, of the ones that do, we are well on the path of funding them. But there are some that we have not got to this year. Had our revenue not disappeared we would have been in a better position to do it. That is just the reality. We have had to put some things on hold.

THE CHAIR: What are some of those election commitments that are not being funded that do require funding?

Ms Gallagher: Do you want the whole list?

THE CHAIR: Maybe just some headlines for us, Treasurer?

Ms Gallagher: This is just a table I put together.

THE CHAIR: If you wish to, you could just table that document for us.

Ms Gallagher: No, I do not want to; it is my own working document.

THE CHAIR: Then take us through them.

Ms Gallagher: I can if you like. It is quite significant. There is 50 per cent to go. We have done the big ones. We have done health and education mainly, but there are the rest of the health ones to come, which are already factored into our forward estimates. What do you want? Do you want the most interesting one or the most expensive one?

THE CHAIR: If you can just table the document for us and then we can take a look.

Ms Gallagher: No. It is my own private document that I have made myself for my own information. Someone in your office can sit down and spend the 18 hours it took me to do that.

THE CHAIR: Okay.

MR SMYTH: So you spent 18 hours doing it yourself?

Ms Gallagher: In my office, another person and I did, yes. It took all weekend, I am happy to announce. You have got our election commitments. You can just run down and see which ones we have not done. There is a lot that we have not done, but there is a lot that we have done. In the context of the budget position we faced, I think we have done a pretty good job this year. And in terms of the next question, how we are going to fund the next load, that is for a budget committee to consider in the next years.

THE CHAIR: So of the ones that are not funded, is it the intention of government to fund all of those election commitments, or are there some that will not be funded in the next three years?

Ms Gallagher: At this stage we stand by our election commitments, but we will be looking at ways to fund them that do not necessarily just assume a comeback to the budget for additional expenditure. That is the position we are in at the moment. We have done as much as we can this year. We think all of our election commitments were very good ideas and over the next four years we intend to deliver on them.

MR SMYTH: Could you explain the process, for the committee, as some members might not know? What are the negotiations with the federal government in the lead-up to the delivery of the budget? Does Treasury estimate what the GST payments will be, or is there communication with the federal government in that regard?

Ms Smithies: In relation to the GST revenues we are given, obviously, the GST updates when they release their formal updates. This financial year it was obviously their budget, their midyear economic review and their updated midyear economic forecast, which was in February this year. We are given monthly details of the year to date revenues against the GST revenues. Obviously we get these revenues in our bank account as well, so we keep track of where those revenue forecasts are going. We have some conversations about the GST pool and where the GST pool is going, particularly in light of emerging economic circumstances. Those conversations are usually heads of Treasury discussions and at the working group committees that support those discussions. Treasury obviously only issues formal forecasts around the GST pool.

MR SMYTH: Treasurer, when did you find out that we had had the significant cuts and the decrease in GST revenues? Is that something you found on budget night, or were you given prior warning of it?

Ms Gallagher: This latest one?

MR SMYTH: Yes.

Ms Gallagher: I went to COAG—I cannot recall the actual date COAG was, but I think it was the end of April, the 30th—and we had a private briefing with the Treasurer, but he was just talking in global figures about where things were going for them. So you could not take from that an individual figure for the ACT. I was certainly given advice that GST receipts were going to be revised down again in the budget, but we were not given any specific figures or ideas on what that would actually mean for the ACT. On budget night it was pretty clear. So that is why I think you would be aware that post COAG and in the lead-up to the budget I made several statements. Mr Swan was on TV and *Sunrise* talking in a similar global context. I made several public statements in which I said, "Once that becomes clear what that means for the ACT we'll be making that information public."

We have done that today. I do not think Victoria or the Northern Territory have done that yet. I do not know whether they intend to update their forecasts as well. For example, I think one of the reasons I wanted to wait and see was that we were dealing with exactly the same information that the commonwealth had, but also there had been no mention of the SPP reductions in that briefing from the Treasurer. Probably the right thing to do was to wait, get the exact details and then issue this update. I am trying to be helpful to the committee more than anything.

THE CHAIR: So when did you actually find out about the updated numbers?

Ms Gallagher: On budget night, at about 9.30, reading through the budget papers.

MR SMYTH: So in relation to the $180 million less GST that we now have over the four years, you have said, I think, that it is about $30 million worth of extra savings you will attempt to find. How do we make up the rest of that shortfall?

Ms Smithies: What we have done, and it is actually in the paperwork, is that we have also redone the modelling on the longer term plan. In the longer term plan, we have revised upwards the revenue trajectories from what was five per cent to 5¼ outside the forward estimates period and across the planning period. That is consistent with the commonwealth's own forecast of growth in GST revenue and the national GDP forecasts.

What that actually allows us to do, keeping the expenditure side at 4.5 per cent and maintaining the expenditure side of the budget, with the revenue trajectory growing at a slightly steeper rate, or the increase in revenue growth, it actually allows us to bring down that trajectory a little bit, offsetting the impacts of the loss of GST revenue over the first four years.

MR SMYTH: The major criticism of the federal budget has been that nobody, apart from the federal Treasurer, believes that these forecasts are achievable.

Ms Smithies: And your question is?

MR SMYTH: On what basis do you base the extra growth? Are you just blithely accepting the commonwealth forecasts?

Ms Gallagher: Only for that portion of our growth around the GST. We had it already growing at five per cent. We have now in this document revised it to 5¼, so we have taken the GST growth rate from the commonwealth budget. When you look at this document, we are revising down all our numbers because of the commonwealth's forecast on GST; so it naturally flows that if you are going to do it for one end, you pick up the other end, which is what we have done. It does just slightly increase the growth forecast that we have got in those outyears.

Also, we will be managing our deficits through our balance sheet, but these additional losses may require us to borrow a bit more than we had intended. I think in the budget we flagged $400 million. In this update we are flagging a further $150 million, if required. In discussions that I have had with Treasury, we are only going to borrow as much as we need and not any more. We have built some conservatism into that $400 million anyway, but we are just flagging again that we may need to borrow some more in June.

Ms Smithies: On the criticism of the commonwealth, the comeback is that they have actually been done by the most professional people who can do these forecasts in Australia. Taking that aside, I understood the criticism more to be around the figures for next financial year and not necessarily across the planning period and outside that period. I guess there is going to be a fairly considerable pick-up in growth as the economy picks up. I don't think that those forecasts are unrealistic.

Mr Ahmed: Perhaps I could give some more information about the planning assumptions, and this is for the period from 2013-14 to 2015-16. We are talking about a period beyond the forward estimates. What we are assuming is revenue to grow at 5.25 per cent. Just by way of comparison, if you look at the household consumption with regard to the GST pool, the average over 10 years is 6.3 per cent going back. Over 15 years it is 6.1 per cent, over 20 years it is 6.3 per cent. This seems to be quite a reasonable assumption. I guess the question is: is the planning assumption reasonable? It seems to be quite reasonable at 5.25 per cent.

If you look at our own source revenue going back 10 years—and that does include periods of dips as well—compared to that it appears quite reasonable. The component annual growth rate over the last nine to 10 years is in the order of a bit over five per cent—5.1, 5.2, depending on what year you pick. Once again, to test our assumption you could break our own source revenue up into various parts. You could break it up into our taxation, fees and charges, GST revenue and combine all those; 5¼ seems to be quite a reasonable assumption beyond the forward estimates period, bearing in mind that we will be coming out of recession and that normally the growth rates, starting from a lower base, are higher than that anyway.

THE CHAIR: Anything else on this, Mr Smyth?

MR SMYTH: There's plenty more, but I'll come back to it.

MS BURCH: You mentioned borrowing. Can you tell us a little bit about the borrowing program, what the borrowings will be, where from et cetera?

Ms Smithies: Yes. Probably the best answer to that is, given that we are two years out from possible borrowings, we will take a good look at it when it gets much closer to the date in terms of what the market is actually doing and how best to form that borrowing program. It may well be that a lot of that borrowing program might just be done on 90-day commercial paper or something like that, just rolling it over as liquidity. The profile of the numbers underlying that was that we might not need the full 550 all the way through that period, so we will probably just do some short-term borrowing for maybe a middle layer, and then for the top we will probably go to the market for maybe a five-year borrowing. It will really depend on what the market is offering at the time. Between now and that point there could be an awful lot of movement in the market in terms of what is going to give us the best value for money on that borrowing. I guess it is really just going to be a wait-and-see approach between now and then.

MS BURCH: With those borrowings and our budget deficit, what impact is that having on our AAA rating?

Ms Gallagher: Again, in relation to this budget, Standard and Poor's have come out and said that they don't think it will have any impact on our AAA credit rating, I think for reasons that probably they can best explain, but essentially it is because our balance sheet is strong and our borrowings are very low. These are pretty modest borrowings when you are looking at what other jurisdictions are looking to borrow over the next four years. We don't even get a look in really when you are looking at some of the figures that Queensland, Western Australia and Victoria are looking at borrowing. So I think the short answer is that the decisions we take around borrowing—no doubt we will be talking about this in estimates to come in the next years particularly—will be whatever is the best deal for the territory in terms of interest rates.

MR SMYTH: And the purpose of the borrowings? They will be used for what?

Ms Gallagher: For our infrastructure.

MR SMYTH: Just for infrastructure?

Ms Gallagher: Yes.

MR SMYTH: There will be no recurrent funding out of the borrowings?

Ms Gallagher: No.

MS LE COUTEUR: I am going to move to a totally different subject—superannuation. Clearly the territory has lost money over the last year.

Ms Gallagher: Yes.

MS LE COUTEUR: Given that, have you gone back and looked at how you would have done had you actually followed more in the way of the UN principles which you signed up for? I understand from questions at the annual report hearings that no change to investments was made as a result of them. Is it still the case that no changes have been made, and have you looked at the financial impact in the field of this?

Ms Gallagher: Caroline, that work is going to be done this year as well. You are right; our superannuation has taken a very significant hit. I think at 30 June 2008, 65 per cent was funded and it is now down to 47 per cent. We could have taken some decisions to put some more cash into super this year and some further investments to meet some of that shortfall. But the decision the cabinet took was not to do that, particularly given the continued volatility of the markets. This year we will take a report back to budget cabinet around a superannuation investment strategy, what is the best thing to do, how much more money do we need to put in and also whether to have the plan fully funded by 30 June 2030 is something that we can achieve. I am not flagging that to say that we are walking away from that time line; not at all. But if we are to meet that time line, considering we have lost the amount that we have, we need to know what that will actually mean for our budget. We will have a look at the profile of those investments within that.

MS LE COUTEUR: Yes. The thrust of my question is not so much when you are going to make a capital injection—clearly you are going to have to—but what you actually invest the money in.

Ms Gallagher: That is what I said at the end. We will be having a look at the profile of those investments.

MS LE COUTEUR: Yes, because it is—

Ms Smithies: One of the things we did look at when we went through the superannuation issue was the number of ways of actually making up for lost ground in the superannuation account, so to speak. One of those would actually be to seek a higher rate of return, so seek investments that actually offer around a seven or an eight per cent return rather than the five per cent that we actually get now in order to try and rebuild those reserves. To do that would have meant us going into higher risk areas, chasing higher risk portfolio returns, which is obviously not something that we were particularly keen on doing.

Mr McAuliffe: There are a couple of things. We had announced in the previous budget we were going to review the actual investment strategy of the SPA. That was done. The decision that was taken was actually to reduce our exposure to equity. The decision that we took—that is articulated in budget paper 3—this year was to actually reduce our exposure to equity investments, to reduce that risk. That has happened. We actually have not had to go and do any rebalancing. The market has taken care of that for us this year. So in terms of our equity exposure, we are down around about where we want to be.

What we will be looking at over the coming months is to have a bit of a revisit of that underlying investment strategy that we have articulated. Obviously things have changed. The outlook that we based this current strategic allocation on for all the various asset classes has changed a lot since mid-2008, so we have to have another look going forward. As Megan just said, I do not think we are going to be trying to chase high yield and therefore go back and reallocate a much higher exposure to equities. We think that over the long term—we are talking long term here—we can still achieve a five per cent real outcome around about that SPA that is articulated.

Another point to make I guess is in terms of the PRI. I think probably you need to understand what the PRI is about, and it is about setting up a framework of actually integrating in the investment decision process some consideration of social, environmental and governance issues when we are making that investment decision. Nothing has changed in that; that is what we are doing now. We engage with our managers. We subscribe to a couple of research houses, one of them being the Centre of Australian Ethical Research and another is Ethical Investment Research Services based in the UK. They provide us with information about our actual holdings and the types of exposures that they see some of those companies having in terms of some of those ES and G issues.

We do not just leave it at that. We write to our investment managers and ask them to come back to us to at least articulate how they have incorporated those issues in that investment decision-making process and to come back and justify to us why they continue to hold that particular company that might be identified. The company may well have something, but if there is still a sound base for them continuing to hold that then that is what the decision will be.

Have we looked back and thought, "Well, applying PRI to our current strategy going back, would that have changed things"? That is not an exercise that you can actually do. The PRI is not a values-based process. It does not tell you that you have to go and divest yourselves of stocks because you might not like them or the underlying product or something. It is about actually making sure that all those issues are incorporated in the entire process. That stands alongside the other financial-type assumptions that you would also take into account.

MS LE COUTEUR: So you have not made any change in investments as a result of that. I note that you have got accountability indicators on page 168 of budget paper 4, but none of those seem to relate to PRI; they are purely financial. If you are going to be serious about this, I just think it needs to be part of your accountability indicators, and it does not seem to really be integrated.

Mr McAuliffe: Our portfolios and the holdings in some of our equity portfolios change all the time. They are not changing just because of an ESG factor that has gone into the process. That could well be a part of it. These things stand alongside all the other assumptions that are taken into account in the investment process.

THE CHAIR: I have some more questions on this; I do not know if other people have more questions around super. Just briefly on the ethical investments part and then moving on to some of the underlying assumptions, I know it was highlighted in the *Canberra Times* some time ago about investments in a company that makes cluster bombs, for instance. We still have investments in that particular company?

Mr McAuliffe: Well, we have got investments in companies for which a small part of their business may well be producing that type of line of product. If we were to put a screen in place in our portfolio to take away anything to do with armaments, you would screen out just about the entire portfolio. It depends how far you want to take that line.

THE CHAIR: Sure. I am just clarifying where we are at the moment.

MS LE COUTEUR: I do not think that statement is actually true.

Mr McAuliffe: But just to give you—

MS LE COUTEUR: I do not think you are that badly invested that it would get rid of everything if you got rid of all the armaments.

Ms Smithies: This was the company whose major business in Australia was training though, was it not?

THE CHAIR: I do not recall the details.

Ms Smithies: Yes, I think that was right.

MS LE COUTEUR: I think they have still got it, because I asked about it at the annual report hearing, and the government has not made any divestments as a result of the ethical—

THE CHAIR: Well, we might get that confirmed. If it is not available to hand, that might be confirmed out of session.

MS LE COUTEUR: Yes, if you could just confirm you have not made any divestments.

THE CHAIR: Just moving on but still on super, page 11 of budget paper 3 looks at the long-term capital gains on super. I know this is a discussion we have every year, but I think it would be worthwhile just going through that again briefly. It obviously improves the bottom line. Perhaps the Treasurer or Ms Smithies could just talk us through the assumptions in those numbers going forward and how they actually have improved the bottom line.

Ms Smithies: I can certainly do it. The reason why we do that is because every other jurisdiction has a superannuation program or scheme, which we do not. As a jurisdiction, basically our superannuation, certainly for the defined benefits, is held by ComSuper. In the way that all of the other jurisdictions account for it and under the accounting principles and plan assets, they actually take a net figure back into their financial statements, which is a net figure of both the long-term expenditure—so the net present value of the long-term liability—and basically a crunch down or the equivalent figure in the revenue earnings. So that net figure goes back into their financial statements and their general government sector year on year as the actual amount that gets incorporated into their net operating balance.

Because of our institutional arrangements, because of the arrangements prior to self-government and the way that we have set up our superannuation fund and because we do not have that superannuation fund—we do not have the ACT superannuation fund, we have no such thing—we have an account which holds a liability and some revenue. We actually do not have a fund. Because of those arrangements, to get a like-with-like assessment on our bottom line, we actually need to make some adjustments to how we do our accounting. That is why we bring back in the expected long-term gain on superannuation investments. This is the line that other jurisdictions will be bringing back into their general government sector as well.

It really is to get a like-with-like figure, because at the moment we have got all of the expenditure. We have got the annual or the recurring expense—the difference between the liabilities year on year on year—coming into our operating statement, and under the way that we provide our accounts through GFS accounting, we do not actually include any of the revenue. We get all of the expense and not much of the revenue above the line. So it really is about trying to make the adjustment to get us onto a like-with-like assessment where we look at the net operating balance in comparison to every other jurisdiction, so we do not have all of the expense and none of the revenue and so we have got an equivalent amount.

THE CHAIR: But in simple terms for the committee then, what do the numbers we are talking about here, $53.9 million in 2008-09 and $88.9 million in 2009-10, represent? Is that the figure above expected long-term capital gains—long-term capital gains being roughly what you would need to fund your superannuation liability—or is it something else?

Ms Smithies: No, it is just the long-term rate, at 7½ per cent.

THE CHAIR: If it grows at 7½ per cent, this is the net effect on the balance sheet, the $88.9 million?

Ms Gallagher: For this year.

Mr McAuliffe: When we calculate the investment return we calculate it using 7½ per cent nominal. And that is made up, I guess, of three elements. There is an interest component, a dividend component and then there will be your capital gain component. When we put those numbers through the operating statement, dividends and interest will naturally go directly above the line because that is the way you account for them. Depending on what our estimates are for dividend and interest, the dividend and interest component of that 7½ per cent—say, hypothetically, it might be five per cent—the difference, being two per cent, represents the estimate for the capital gain component. That is the bit that gets added back in to keep it at 7½ per cent.

THE CHAIR: That is essentially what makes up those figures going forward, the $88.9 million and the $100 million?

Mr McAuliffe: That is right.

MS BRESNAN: Again on super, we have been talking about the reduction in funded super liabilities from $65 million to $47 million. You mentioned that you are going to be looking into that. When will the review of that actually start and have you identified what scope that will take?

Ms Gallagher: It is going to start as soon as possible.

MS BRESNAN: So there has not been a set time frame for it?

Ms Gallagher: No, not yet.

Mr McAuliffe: We use an external advisory board as well as part of our structure. We are actually meeting on Thursday of this week. One of the items on the agenda will be starting discussion about the strategic asset allocation and that will be the first step towards looking to see how we then apply that to the broader issues that we are facing.

MS BRESNAN: It is not actually going to be a formal review; it is just going to be part of a normal process report?

Ms Smithies: It will be a part of the normal process that will go into providing a series of options to the budget committee of cabinet. One will be to have a look at the time frame of that adjustment, the 2030 time frame. One will be to have a look at the earnings rate. Then one will be to have a look at the strategic asset allocation in the investment side of things. Another one could be to have a look at whether we are actually going to target 100 per cent of the liability covered by a particular time frame rather than 95 per cent. They are the sorts of things and they will be looked at in a number of different processes to provide some options to the budget committee of cabinet in terms of how to allow it to make the decision about how it might want to actually have that strategy.

Ms Gallagher: I am happy to give the committee, once it is finalised, the terms of reference and, considering the committee's interest in superannuation, take on any additional terms of reference on that.

MR SMYTH: On page 11, under the table, it talks about—

Ms Gallagher: Page 11 of BP3, yes.

MR SMYTH: BP3, yes—the long-term expected rate of return of 7½ per cent. Is that rate expected to remain consistent? And if it varies, what effect does that have on the bottom line of the budget?

Ms Gallagher: This is all about 7½ per cent, page 11.

Mr McAuliffe: We assume, for the budget purposes, 7½ per cent each year. We do not try to guess whether it is going to be higher or lower.

MR SMYTH: What is that based on? What is the assumption of 7½ per cent based on?

Mr McAuliffe: That is our long-term objective in the way the underlying investment strategy we have built is based on modelling to achieve, basically, the five per cent real to make up the gap between the funding that is going into the SPA through the budget and the component we need to achieve through investment return.

MR SMYTH: If the 7½ per cent is not achieved, though, what happens then?

Mr McAuliffe: In terms of the budget result?

MR SMYTH: Yes.

Mr McAuliffe: The budget result will always report, in terms of the operating result, anything different. If we achieve 10 per cent, the extra does not go through the operating result. It gets provisioned for down in reserves.

MR SMYTH: And if you only got five per cent?

Mr McAuliffe: It goes the other way if there is a loss. For the last couple of years prior to these last couple of bad years we have had, we have always had some very good double-digit returns. To the extent they are being carried is provisioned below the line, they will be offset.

MR SMYTH: What is the rate of return for, say, the next four years covered by the forward estimates?

Mr McAuliffe: 7½ per cent.

MR SMYTH: That is the assumed balance. What is the actual rate that you are looking at over the next four years? You have said the last couple of years we have had double-digit figures?

Mr McAuliffe: We expect that minus 13 per cent this year, for example. We have assumed that we will revert back to a 7½ per cent return over the 2009-10 year, for example.

Ms Smithies: Our long-run average so far has been the 7½ per cent or the five per cent real.

Mr McAuliffe: That is right, yes.

Ms Smithies: So that is our long-run average. We assume that we will get that. We assume that the markets will return to some degree of normality.

MR SMYTH: It is minus 13 for the current financial year but you are assuming it will go back to double digits next year, 2009-10. Is that what you are saying?

Mr McAuliffe: To 7½ per cent is what we have assumed in the budget.

MR SMYTH: Based on what? I know this was covered earlier. As we recover from the recession—but does someone actually know when the recession will end?

Ms Smithies: The commonwealth Treasurer has predicted it to end at the end of 2009-10, is it? I think the issue here is more the financial markets, the performance of the financial markets and how it is that you can actually do a forecast of financial market performance in 12 months time or 24 months time. Given that, I think the only reasonable thing to do in these points is to actually have a look at what has happened in the past. You look back at history and have a good look at what long-run averages in the financial markets have been achieving. Financial markets have lost 10 years growth in the last 10 years, I guess, as a whole—the whole market. But if you take out the effect of the years preceding the last 18 months, the growth in the financial markets was absolutely phenomenal. So the financial markets over time will always grow; in the long run they will always grow.

What happens is that they were growing; they had these huge returns and then this absolutely huge crash; but now they are starting to return back to normal growth. That is what we think. That is what we see happening in the last two or three months. We see a reasonable return to normality in the financial markets. If you just basically plot that from back here and take out the effect of the huge up and the huge down, essentially you will still be getting growth in line with long-run average. So we are again taking a long-run average approach for our planning assumptions across the forward estimates.

MR SMYTH: You are taking the long-run approach. Fine, I understand that. We do the averages, but what is the actual expected return? Have we determined a figure for the next three years beyond the minus 13 per cent for this year?

Ms Smithies: We are planning for 7½ per cent.

THE CHAIR: You spoke, Treasurer, before about looking at the underlying deficits versus the actuals and you seemed to be expressing some concern about the focus on the underlying. Do you want to talk us through in a little more detail on that? My understanding of why the Treasury certainly emphasised those underlying deficits was that there was a little bit of an artificial change due to the commonwealth stimulus in the next couple of years, which would then phase out. My understanding was that that actually gave us a reasonable picture of where the finances were, notwithstanding that there is extra cash coming from the commonwealth, which actually does prop up the bottom line.

Are you able to talk us through what your concern is with that? Is the underlying deficit not a reasonable reflection of where the finances sit, notwithstanding short-term stimulus?

Ms Gallagher: I outlined my concerns at how it was being used, which was for the purposes of a media release to scare and shock the community. But I was the one, in fact, in discussions with Treasury that wanted to make very clear the net impact the stimulus initiatives were actually having on our budget.

Again, I do not think any other jurisdiction has done that, from what I have read of their budgets. They have included it through their budget papers but they have not gone to the lengths that we have gone to, to say, "This is our budget and this is the money that is coming in from the commonwealth."

My concern is that we cannot ignore that money from the commonwealth. We cannot just pretend that it does not exist. It is coming in; it is coming in through our budget; and it is going to create an asset for our budget. So my point is: yes, we can all see the underlying operating result but just to ignore that fact that that money is coming in, pretend it does not exist and pretend it will not have an impact on our balance sheet, is what I was concerned about.

THE CHAIR: But is not the flipside that, if you accept that as the real picture, then revenue has not actually gone down, and a big part of the argument has been about revenue going down. We know it has gone down significantly in some parts but that in the short term has been counteracted by commonwealth stimulus. So if you accept that that is not the real picture then the real picture is that revenue is growing.

Ms Gallagher: But if you actually have a look, the underlying balance and the net operating balance, once you get to 2011-12, 2012-13, are actually the same thing and the efficiencies and the savings actually address those years. So our revenue is going down. Yes, it has been. This year, once you take out the commonwealth stimulus money, we actually have less money coming into our budget than we had last year. I think I agree with you on that.

But I guess my problem was the way this information was being used in a media release. I was not arguing with the figures. The savings target and the recovery to a surplus position really and the work that needs to be done kicks in in 2011-12, which is when pretty much all of the stimulus money has gone.

MR SMYTH: Why treat it differently then? Table 3.1.6 on page 46 of BP3 lists all the commonwealth moneys. Why just take the stimulus money out? There are a number of choices on which reporting technique you want to use. There are three that are mandated and you have added the fourth. Why do we do it that way in the first place?

Ms Gallagher: Why did we put the stimulus money in there as a separate line?

MR SMYTH: Why did you put it in that way?

Ms Gallagher: Because I was trying to be open and transparent. I was trying to tell you that. Maybe I had the wrong strategy. Maybe I should have come out and said: “Do not worry, everybody. The deficit is only $82 million this year and then it will only go to $112 million. We are all fine. There has been no big change since December.”

MR SMYTH: But if you put it there, why would people not use it? Why would people not say, “Hang on, this is the underlying deficit”?

Ms Gallagher: So you are just ignoring the fact that that money is coming in and will come through our balance sheet then? That is your preferred way: just ignore the stimulus?

MR SMYTH: No, I am just asking for the rationale for the way you have presented the different numbers.

Ms Gallagher: It was in the interest of being open and transparent and giving the community a good picture of the state of our budget. But then to say—

MR SMYTH: But then you are upset when people quote it. Why would you be upset?

Ms Gallagher: You are minusing out the stimulus initiatives to use the underlying result, and you know why you did it. You did it to shock and scare and I think that is unfair.

MR SMYTH: No, I just quoted your document.

Ms Gallagher: I would have had no problem with you using the net operating balance. But you chose to use the line that presented the scariest option for the community, for the purposes of political gain. You disagree with things I put in my media release. I pretty much disagree with every single thing that goes in your media releases and this is just another one of them.

THE CHAIR: We are due to break; so we will break until about a quarter to 11.

Meeting adjourned from 10.30 to 10.49 am.

THE CHAIR: We will commence again. I want to give a reminder which I neglected to do before. When new witnesses come to the table, could they indicate that they are aware of the privilege statement—that they have read it and they are aware of its contents. Ms Burch has some questions.

MS BURCH: Thank you. It is a question on conveyancing revenue. In the papers there is a forecast reduction in June that is coming in, across the forward estimates. Is there an explanation for that?

Ms Smithies: Yes, there is.

Ms Gallagher: Just to begin, let me say that the reduction that we are expecting is just the weaker results that we are seeing in both residential and commercial property markets.

Mr Broughton: Could you repeat the question? I did not catch the whole lot.

MS BURCH: Just an explanation for the forecast in reduction of conveyancing duties that is coming through the forward estimates.

THE CHAIR: Mr Broughton, I will just get you to indicate whether you have read and understand the privilege statement.

Mr Broughton: Yes, I have. There are two elements to conveyance duty. Firstly, we have the residential conveyance duty. Our forecasts for that are based on estimates of the turnover of properties and estimates of the average price of those properties. You are probably aware that the turnover of properties, in particular for 2008-09, has dropped quite dramatically from previous years. That is a direct result, I think, of the uncertainty and lack of confidence in the market in relation to the global fiscal crisis. We expect turnover to gradually improve over the forward estimates period and, hopefully, by the end of the forward estimates to be somewhere near what the long-run average for turnover is. We expect prices on residential dwellings to stay roughly where they are—with perhaps a slight increase over the forward estimates period.

The other component of conveyance duty relates to commercial property. We have seen quite a dramatic drop-off in turnover in commercial property. That is particularly a direct consequence of the global financial crisis; it is to do with institutional investors not wishing to invest in the property market. There is a great deal of uncertainty about property nationally, not just here in Canberra. We expect that aspect of the market to remain subdued for some period of time.

MS BURCH: So you are saying that you are looking for the turnover to increase from its rate now to what it has been but for costs to remain—

Mr Broughton: For prices on residential—

MS BURCH: For prices not to grow that much. Is that what you are saying?

Mr Broughton: To grow slightly, yes.

MS BURCH: So more people in cheaper houses?

Mr Broughton: Well, growth is positive; that is an increase. It does not necessarily mean cheaper. If the growth is at a level at CPI then in real terms the prices will stay about the same.

THE CHAIR: On this area, the comeback over the next few years—it is projected to come back in conveyancing fairly strongly. Where is the comeback going to come from? Obviously we are seeing a $22 million increase from 2009-10 to 2010-11 and almost another $30 million the year after and the year after that. Is it going to come from the commercial sector? What is the analysis that has been done on that, particularly with projected fairly high commercial vacancies over the next 12 to 18 months?

Mr Broughton: We expect most of this growth to come from residential turnover.

THE CHAIR: So commercial will remain flat over the next few years? Is that the projection?

Mr Broughton: It will not be growing at the same rate residential does, no.

THE CHAIR: What sort of analysis has been done with the first homeowner grant? Obviously, that has led to more turnover at that lower end of the market, that first homebuyer end. Has that had any impact on that bottom line in terms of conveyances?

Mr Broughton: We have certainly taken that into consideration. Yes, you are quite correct that there is a lot of first homeowner interest, driven in particular by the increase in the first homeowner boost that looked as though it was going to end in June but is now continuing until September or December, depending on the level. We took that into account in relation to developing these estimates, but the other thing that you need to bear in mind is that a lot of the first homebuyers qualify for at least some conveyance duty concession. So yes, they are buying at the cheaper end of the market, which means that the total amount that is dutiable is lower than, say, a top-end property, but also they get concessional treatment. So the amount of conveyance duty you get from a first homebuyer at the low end of the market is considerably less than at the opposite end of the market.

THE CHAIR: How will those estimates change with the announcement of the extension of the scheme? Will these figures need to be updated in terms of conveyances, given that we were expecting that rush and now it will be extended into the next financial year so presumably there will be a spreading out at least of some of those purchases?

Mr Broughton: We think that a lot of the rush has already happened; until last week most people thought it was likely to end at 30 June, so a lot of the first homebuyers have come in. That is evidenced through the housing finance statistics, where a very high proportion of new finance is going to first homebuyers. When you take a long-term view, to some extent the first homebuyer boost is actually a pull forward rather than a creation of extra demand. The timing might change at the margins, but I do not think this will affect the estimates to any significant material extent.

MS BRESNAN: My question is in relation to that. On page 138, the figures there that there be processing—

THE CHAIR: This is BP4?

MS BRESNAN: BP4, yes; output 1.3 refers to "processing 1,200 homebuyer concession scheme transactions and processing around 2,700 first homeowner grant applications". Is that likely to decline given what was announced in the federal budget? Will it affect some of those figures you were talking about? It is the last two points on the page. It is just the last two dot points.

Mr Broughton: I do not think these figures will change dramatically on the basis of what happened in the commonwealth budget.

MS BRESNAN: When you say dramatic, you think it will stay at about that so it will not have an impact on what is being proposed in the budget?

Mr Broughton: No.

MR SMYTH: Minister, on the impact of the federal budget, has Treasury done any analysis of what federal spending will do and what effects it will have on your budget over the next four years?

Ms Gallagher: In terms of their own spending within their own departments and things?

MR SMYTH: And particularly cuts to staff and cuts to suppliers and contractors.

Ms Gallagher: In terms of what was announced on Tuesday, Treasury have just been working on this paper which you have got before you. I do not think we have done any detailed analysis line by line at this point. We have been preparing something for the estimates committee but—

MR SMYTH: You are aware that significant cuts are foreshadowed in the federal public service?

Ms Gallagher: I am not sure I am understanding where you are coming from. I understand that they are going to constrain growth to two per cent, which worries us, but it is not clear what that means. In terms of numbers of staff, the detail I have seen is that there is actually a modest increase overall in commonwealth public service employment. But we are unpacking it all. It is just a bit hard to have done it in three days.

MR SMYTH: Sure. For instance, the *Australian* reported over the weekend that spending on contractors is expected to decline by 11.9 per cent over the next four years. A fair whack of those work here in the ACT. For instance, the department of communications has been able to cut its staff costs by 23 per cent; infrastructure staff costs are budgeted to fall by nine per cent; in education staff outlays will drop by seven per cent. There are only four departments—PM&C, Defence, industry and immigration—where there are not direct cuts to staff, and they are being offset—

Ms Gallagher: Treasury and finance have got additional employment.

MR SMYTH: Treasury will cut its staff budget by 6.9 per cent. What impact will this have on our economy and have you factored that into the figures you have in the outyears?

Ms Gallagher: We are currently working through the impact of the commonwealth budget. As I said, we have not gone through it line by line. Our priority this week was to provide something to the estimates committee on Monday, with an updated bottom line for ourselves. In terms of—

Ms Smithies: Sorry, can I just interrupt there?

Ms Gallagher: I will just finish. In terms of the staffing numbers and the numbers that I have seen, overall there is a net increase in employment across the commonwealth public service. I would have to match up what you are reading from with some of the details that I have been given from Minister Tanner's office, which I specifically asked for.

Ms Smithies: Sorry; I was just going to say that is exactly it. We have got an increase of 2,700 staff nationally from the ASL tables that have been put into the budget papers.

MR SMYTH: Yes. It jumps this year. They have adopted a similar strategy to you, which is to spend additional money this year. It is expected to grow by, I think, nine per cent. Spending on contractors this year will jump by 9.7 per cent, but in the outyears their staff allocation will cut and spending on contractors will cut. For instance, the Property Council told this committee on Friday that they had very serious concerns about what they call the triple whammy—the global financial crisis, the decline in property and the federal cuts. What is your strategy to address any cuts to the federal public service?

Ms Gallagher: I have been pretty up-front with my comments around this. We did lobby the commonwealth government strongly around not slashing and burning in Canberra in this budget. From what I have seen—again, we are unpacking the reams of information that we got last Tuesday—to a large extent, for this year things are okay. But I have also been pretty up-front about the outyears, particularly their target to contain government expenditure to two per cent. That all sounds very nice, but what that says to me is potentially a hit to Canberra.

I guess my worries have not crystallised in terms of any detail from the commonwealth. But the commonwealth government's role and their own budget pressures did factor into our decision to have a longer term recovery and a smoother, gentler return to surplus rather than a sharp shock now. Let us face it: in three years time, I would prefer that we could get this budget back into surplus before you are out there telling the whole world that I have run deficits and got 10 more to come or three more to come.

MR SMYTH: I thought you said seven.

Ms Gallagher: Let us face it: I would prefer that. But that would have been a political response to a budget. The right response to the budget was to have a gentler, smoother, longer term approach. Some of that has been around uncertainty around the commonwealth government's decisions for Canberra. It has very much influenced decisions that we have taken.

If you are asking me whether I can protect Canberra from a commonwealth budget cut—I cannot do that, and you know that. I can lobby against them and I can give good arguments about why they should not do it, but we have got to look after our own budget and make sure that, if we are spending, it is going to the right places. For example, in health this year we have got a $90 million e-health initiative. I remember sitting before you, Brendan, I think at the second appropriation, when you said: "What's in it for the IT sector? What's in it for consultancies? You've done nothing for them." In looking through some of the initiatives here, you will see that we are trying to support a whole range of businesses across the private sector in the ACT as part of our response.

But we are limited. Our budget is small. We are a small government and a small territory. We will do what we can. At the moment, it appears the commonwealth have not attacked Canberra, and I am thankful for that, but I think there are going to be some difficult years ahead, from what I can see. We will continue to lobby and protect Canberra's interests, but in a real world I can do only so much.

MR SMYTH: The Business Council were talking after the Property Council and went on to say things like it was quite a worrying time for business and they saw the federal clawback of their deficits and the cuts that must occur coinciding with yours. Indeed, they went on to describe it as the potential for a perfect storm for ACT business and the ACT economy. What will you do to ameliorate that impact on ACT business and where do we find it here in this budget?

Ms Gallagher: In terms of in years to come?

MR SMYTH: Yes.

Ms Gallagher: In terms of supporting business in this year's budget, certainly that was again at the forefront of our minds as we were putting together a budget which was very difficult. But you will see initiatives in there for business. You will see incentives for business to support them. I think they have all been largely welcomed by the business community. I have attended a couple of round tables with the Business Council. They are doing a discussion paper at the moment around their views of inequities in the ACT tax system, and they have certainly given us their draft discussion paper. I have told them and the Property Council that I am very happy to sit down with them again over the next 12 months and listen to their concerns around tax. I think there is a genuine understanding that our revenue pie needs to stay the same, but how that is carved up and the decisions that are taken around that are probably appropriate for further discussion with them.

In terms of our capital spend, all of that is about supporting our local economy, but at the same time providing to the Canberra community good quality public assets. They are all the decisions around our capital spend. We have looked for capital spending that does not just assist construction industries. Even though that is clearly one of the easiest ways; when we are building up our capital program that is the obvious beneficiary of those spends.

So, on balance, whilst I understand that there are concerns in the business community, particularly around government processes and the ability to deliver the capital works, again, we are putting in processes in this year's budget. The Chief Minister and I have already met to talk around improving our capital works delivery to make sure that we get as much of this money out the door and it is actually helping private businesses or the private sector. We have looked at changes around procurement. You know, there is a genuine level of engagement going on between government and business. That is not to say that it has not happened in the past, but I think the issues of the global financial crisis crystallised everyone's focus and everyone is genuinely wanting to work together not only to look after their own interests but to look after the territory as well.

I think overall the budget is pretty supportive of business. Again, there is a lot of work to be done over the next year in terms of how we respond and how we allocate those unallocated savings. I am not going to say that once we reach that end point everyone is going to be happy with those decisions, but I think if we take our time and we are measured and we respond to submissions and talk to people as best we can to offset some of their concerns, we will. We will look at doing things differently. I am happy to do all of that this year. Basically, all I am going to be doing this year is having meetings and meetings and meetings about next year's budget.

MR SMYTH: So do you accept or reject the notion of a perfect storm and that your delay in actually having a proper strategy to address our expenditure and the federal government's delay will create a problem for the ACT economy in the outyears?

Ms Gallagher: I have to say that that has not been put to me by business, that our delay or our failure to have a proper strategy—those words have not been said to me. I do not know whether you are paraphrasing comments—

MR SMYTH: The final paragraph of the press release the Business Council put out was on your plate, as it was on my plate, at the budget breakfast. It said, "We are concerned at the inability to address deficits in the outyears."

Ms Gallagher: Right, so that does not say mention the lack of a proper strategy at all?

MR SMYTH: The Property Council in this place on Friday said, "We can't trust the figures and we are concerned at the deficit."

Ms Gallagher: In fact, the Business Council has had to provide information to me about misrepresentation of their evidence to estimates in a media release to you.

THE CHAIR: Which bit is that?

Ms Gallagher: I do not have the detail, but Chris Faulks—

THE CHAIR: Do you want to outline it for us? If there is a misrepresentation, you should probably correct it.

Ms Gallagher: Well, I think the term "worst place to do business in Australia" was used, and they are not standing by that claim.

THE CHAIR: So that is not a quote from the Business Council?

Ms Gallagher: No, it was a quote from one of your media releases, which—

THE CHAIR: But it was not an accurate quote of what was said?

Ms Gallagher: Well, you might want to speak to the Business Council because they have spoken to us, concerned about the insinuations claimed in that media release which were not quite—and they certainly were not saying they were giving us the big thumbs up, but they were concerned at the way that evidence had been used in a media release.

THE CHAIR: Okay. Perhaps—

Ms Gallagher: Anyway, going back—

THE CHAIR: Well, if there is any misrepresentation of evidence, it should be put forward as to correcting it.

Ms Gallagher: Well, that is not my job. All I am saying is—

THE CHAIR: Well, you have raised it.

Ms Gallagher: Well, I am saying it because Brendan is asking me a question saying, "The Business Council is saying this," and then, when I press him further, they are not actually saying that; they are saying something else.

MR SMYTH: No. I have given you—

Ms Gallagher: Similar, I agree.

MR SMYTH: No. Sorry, you asked for an example. I told you exactly what—

Ms Gallagher: Similar, I agree, but "failure to have a budget strategy" was not one of them.

MR SMYTH: Well, they said in this place on Friday afternoon—

Ms Gallagher: And I was following up from that—

MR SMYTH: that there was a perfect storm approaching.

Ms Gallagher: that Mr Smyth does have a reputation to twist and tweak the words to suit your own argument at the time. I am saying business has not said to me that they do not think that there is a budget strategy. Now, I am not saying that they say that they agree with the budget strategy, but there is a strategy, and the strategy is to cushion any sharp shock which would impact on the private sector by immediately returning our budget to surplus in a quicker time frame with either tax increases or cuts to services. The business community, when I have explained it to them, actually say, "We think you are doing the right thing. It was a good budget." But I am hearing something different from you, Brendan.

MS BURCH: Could I go back to the first point of Brendan's question around staffing? I am looking at the back end of budget paper No 4, which is the whole of government staffing. Can you tell us a little bit about where the growth areas are and why those areas were targeted?

Ms Gallagher: Can you give me—

MS BURCH: That is page 553.

Ms Gallagher: Usually one of the biggest areas is ACT Health, and that is clearly shown in the table. That really is around the growth and new initiatives contained in this budget for health services. Education has a fairly modest increase there as well, but that goes to the smaller class sizes initiative. They would be the two single major beneficiaries of this budget. I think when I look at the rest, they are all within pretty modest growth.

MS BURCH: So those growths alone with the new initiatives across health and education?

Ms Gallagher: Yes, very much.

MS BURCH: You were responding to Brendan around the capital works. Can you just explain to us some of the measures that you have put in place to deliver capital works within budget and in time?

Ms Gallagher: Look, I think there has been a frustration at times with underspending of capital works program. This year I have been given the job of meeting with chief financial officers once a month to listen to them directly about how their capital works programs are going, whether they are seeing any delays, what those delays are caused by and are there any ways to address those delays. This again will feed into the budget committee of cabinet meeting every two months. So I will meet them every month. We will then get presentations from agencies on their capital works budgets about where they are up to and, if there are significant delays, what is being done to address them.

I think at times there are some very good reasons for delays. Some of those are due to approvals and planning requirements and, indeed, community consultation if communities are being part of it. Some of it is to do with when the bills come in even if the work is being done. But I think, certainly from the cabinet's point of view, we are going to take a much stronger approach to managing this through the cabinet process than has been taken before. Normally capital works programs are dealt with within agencies to the minister, and on big projects we would get reports to cabinet. But this time the whole capital works program will be managed pretty closely by cabinet and we are determined to get an increase on what we have seen delivered.

I have to say, though, that we are seeing an increase in the funds delivered every year, and that is good, but we are still spending only around two-thirds of the capital budget and we would like to see that increase. I do not think we will ever get to 100 per cent, only because of some of those things such as planning requirements and people disagreeing with work that you are doing and the appeals processes that you go through. But we would like to see a big improvement on 63 per cent for this year.

THE CHAIR: Ms Bresnan?

MS BRESNAN: It is not in relation to this.

THE CHAIR: Were there further questions on this particular line or do we want to move on?

MR SMYTH: I will just get some quotes and I will come back to it.

THE CHAIR: No problem. We will come to that. Ms Bresnan?

Ms Gallagher: Some quotes?

MS BRESNAN: It is actually an entirely different question. Just regarding triple-bottom-line accounting and reporting, I know a few years ago Treasury was doing some work on that, but it appears that it has been dropped. I guess you can correct me on that if it has not, in fact, and Treasury is still, I guess, looking at what is happening in some other progressive jurisdictions around this type of reporting.

Ms Smithies: I will just get some details on this, but I believe that that work is now being rolled into what is being done in the Chief Minister's Department. So the work got to a certain point and is being rolled into—they are doing the work on triple-bottom-line reporting and decision making.

MS BRESNAN: Is there any input from Treasury on that? I imagine there would be, given that it will affect the work you do.

Ms Smithies: Yes. We certainly gave them all the work that we have done to date, and I think that there is ongoing dialogue between the two departments and across a number of departments about the whole-of-government frameworks that sit behind that.

MS LE COUTEUR: Are you talking about the annual report directions specifically here?

Ms Smithies: I think it goes broader than that.

MS BRESNAN: It would be good to get any information you can provide.

MS LE COUTEUR: If there is more information, yes, because the annual reports are giving a few indicators, but they are not consistent. They are not giving a lot on it.

MS BRESNAN: And the budget papers are not giving anything.

Mr Ahmed: The work is much broader than just the annual report or just reporting; it covers the decision-making process and the assessment framework. We have progressed the work significantly. I think we have gone through two rounds of consultation with our agencies on the assessment framework. The function has been transferred to the Chief Minister's department for wider coordination across government. Treasury is certainly involved in that process. It includes assessment and reporting as well. The Chief Minister's department is going through another consultation with the agencies to finalise this framework.

MS BRESNAN: Do you have any time frame of when that will be completed?

Mr Ahmed: I am not sure about that. I think it would be best to ask them.

MS LE COUTEUR: I guess this is a follow-up on one particular line—the triple bottom line. I think it was last week that Minister Corbell announced the government's intention to move to zero net CO_2 emissions, which obviously is a very positive goal. Given that, what elements of this budget are moving towards that?

Ms Gallagher: I am sorry?

MS LE COUTEUR: Minister Corbell just announced that the government's goal was zero CO2 emissions so, presuming that, how is that then part, or has it been part, of framing the budget?

Ms Gallagher: It has not in terms of this year's budget. That is in relation to a submission that is before an inquiry of a standing committee. Any response to that would be done in next year's budget.

THE CHAIR: But it is the government's goal now to do that?

Ms Gallagher: That is right, but the decisions around that—how to get there, what that means—have not been part of this budget.

MS LE COUTEUR: Have other climate change issues been part of forming this budget, even if not going to quite the same goal as Minister Corbell's statement last week?

Ms Gallagher: Simon will appear, no doubt, to talk about the environment areas, but next to health and education I think environment and initiatives for environment were certainly, if not the second, the third biggest recurrent spend.

MS LE COUTEUR: It is more than just the environment. Every bit of money that is spent has some environmental impact. If we are going to do this it needs to be a whole-of-government approach rather than just saying it is the environment department.

Ms Gallagher: Yes. I am not sure what your question is, though, in terms of how—

MS LE COUTEUR: I think I have got the answer. My question was: was this one of the things you took into account in framing the budget? I guess the answer is you say yes, but only in terms of the environment department. It is not part of the overarching things that you look at in framing the budget.

Ms Gallagher: In terms of our capital works program it is. For example, the big project in health is very much going to be looked at for environmental sustainability in terms of the materials. All of that is part of the work that is being done and has been discussed. So it is not something that we are saying just to the environment department. It is, but I think there probably can be ways that we had better pull it together and articulate that through budget papers. I think there is a sustainability chapter in the budget papers as well. We are certainly happy to take on recommendations from the committee in that regard.

MS BRESNAN: I imagine that work that is happening with Chief Minister's on the triple-bottom-line accounting, which would take in not just climate change but social aspects as well—so it is not just environmental—would be built into future budgets.

Ms Gallagher: Yes.

MS BRESNAN: Thank you.

THE CHAIR: We are moving on to another area—some of the economic assumptions in the budget going forward. Page 136 of BP3 looks at employment growth and the predicted rise in unemployment. It predicts 3.5 per cent by the end of the next financial year. The Chief Minister said in March in the Assembly:

> Access Economics and the ACT Treasury accept that unemployment will grow and grow significantly in the ACT over the next 18 months, potentially doubling, potentially growing to around five per cent, perhaps to 5.2 per cent.

What has changed since March 25 when the Chief Minister made that statement and when this budget was put to bed on 27 April?

Ms Gallagher: I think the Chief Minister, in making that comment, was right in the sense that unemployment is projected to grow and to grow significantly, particularly when you see where we have been sitting for some time. I presume the figure he gave at the end of that statement relates to the Access Economics figure?

THE CHAIR: He put them together and I read the sentence verbatim to you.

Ms Gallagher: You may need to ask him further about that.

THE CHAIR: We will.

Ms Gallagher: Because I am not sure. When I read it I can hear him saying, "Look, unemployment is predicted to grow, grow significantly, and perhaps exceed five per cent." Certainly, that is what Access Economics is saying. Treasury have a lower outcome predicted. Their view is that Access Economics is too pessimistic. We can certainly explain the reason behind that 3½ per cent.

THE CHAIR: Could you confirm for us, Treasurer, or Treasury officials, that since 25 March when that statement was made nothing has changed significantly in terms of forecasts for unemployment?

Ms Gallagher: That is my understanding.

Mr Broughton: If I can just add a little bit to the conversation, the Access Economics unemployment estimates were based on a much stronger population growth than what we have in our forecast and, in my view, it is a quite unrealistic estimate.

THE CHAIR: That is fine, if nothing has changed. The other statement that the Chief Minister made, which I might get you to comment on, Treasurer, is this:

> The great challenge for all of us is to seek to protect jobs to the greatest extent possible. It will be a great achievement if we can keep unemployment below five per cent over this next two years.

It seems that the achievement has already been claimed by Treasury in its forecasts. What has changed? Was the Chief Minister simply wrong when he said it would be a great achievement? Was he far too pessimistic? Was he focusing too much on the Access forecast?

Ms Gallagher: I think that is the figure. From just hearing it back, he must have been using the Access Economics figure in those statements. Every one per cent growth in unemployment is about 2,000 jobs. We are predicting about 0.7 of a per cent, so that is still quite a few jobs in the territory and quite a few families without an income. Three and a half per cent is good—it sounds good—but it is still going to mean that some families are going to lose their major breadwinner. That, of course, is a concern for us.

MR SMYTH: Just on that, is that figure now realistic, given expected cuts in expenditure by the federal government on the employment of staff and contractors?

Ms Gallagher: Our advice is that there will be a net increase in employment in the commonwealth government in the ACT. What I have been saying, though, is that containing growth to two per cent in the recovery period is what worries us—how that impacts on Canberra.

MR SMYTH: But they are doing that by not expanding staff budgets. The lead paragraph of an article in the *Australian* states:

> Huge cuts to public service staff budgets and government contractors are expected, to help pay for the continuing blowout in family and welfare benefit payments.

A large percentage of those restrictions must have an effect in the ACT, surely?

Ms Gallagher: These are things we revise all the time, as and when we need to. Based on the information we had when putting this budget together, this is Treasury's prediction about unemployment. We have not seen—and I certainly have not been advised yet—that the impacts of the decisions in the commonwealth's budget of this year, 2009-10, are going to change those forecasts. I do not have my head in the sand. I am not pretending that things are not going to be tough in the next few years. What I am saying to you is I do not know where they are going to come and how they are going to come.

THE CHAIR: Just to round this out from my perspective: on the issue of the difference between the two forecasts—and perhaps Ms Smithies could answer this—have Treasury provided any advice to the Chief Minister suggesting that unemployment will potentially double in the next 18 months or grow to around the five per cent mark?

Ms Smithies: We never provided any advice on growing to five per cent, no.

Ms Gallagher: I think in the Access Economics report it was above five. I think they have revised that down to 4.7 in their latest economic outlook.

MR SMYTH: While Mr Broughton is still at the table, I want to refer to the indicators in the table on page 6 of budget paper 3. Access Economics have proved to be a fairly reliable forecaster of economic development. In their business outlook for the March quarter of 2009, Access forecast that the ACT's gross state product in real terms will fall in 2008-09 and then recover quite slowly. Your forecasts differ significantly from those of Access. Could you give us the basis of your assumptions and why you feel the trend in GSP will be up?

Mr Broughton: Can I start by saying that we do not believe that the Access Economics forecasts of the ACT economy are that reliable. The use a national model and to some extent the ACT pops out of that as a bit of a balancing item. They also attribute to the ACT what they see happening nationally. If they see, for example, a major decline in the manufacturing industry, they will attribute a proportion of that to the ACT, even though manufacturing is not an important industry for us per se. Our experience has been that our estimates are more reliable than what you get from Access Economics. You will also find that their estimates are quite volatile too. From one quarter to the next they will change quite considerably.

Having said that, why do we think our economy will grow? We have got some modest growth forecasts in our budget and these are mainly built around the fact that we now expect two key components of the economy to be positive for us going forward. One is household consumption. The rate of growth has been declining for some time. We are seeing a little bit of a turnaround happening now as a result of the impact of the low interest rates and also the renewed interest, particularly through first home buyers and the consequence of that, for consumption. As you know, when people buy houses they also buy a lot of durable goods and other furnishings and the like to fill up those houses. So, looking forward, we are expecting household consumption to pick up.

The other component is public consumption. When we put these forecasts together I think the commonwealth's estimates of their consumption were quite low. We picked those up out of the MYEFO. At that stage I think the commonwealth were far more pessimistic and had not really put in place their planning through this sort of crisis period. If you look at the current estimates of their consumption, the rate of growth beyond 2009-10 is not terrific, but their overall outlook is much better than it was at MYEFO time. That has given us some encouragement that these estimates are pretty solid and we are relatively comfortable that they will be met or exceeded.

MR SMYTH: And does the same apply for state final demand?

Mr Broughton: I have been talking in terms of demand. The demand side of the equation is much easier for us to forecast and much easier to monitor as well because we get state final demand figures on a quarterly basis, whereas we only get gross state product figures on an annual basis and quite a bit delayed from the actual figures.

MR SMYTH: Minister, I have now got that document that the Business Council provided on the budget breakfast. I quote the last paragraph:

> The Council expresses concern over the magnitude and duration of the forecast ACT Budget deficits. This concern is amplified by the fact that the 2009-10 Budget does not clearly outline how the ACT Government expects to eliminate the deficit by 2015-16. Given the amount of pain the ACT suffered to generate savings of $100m in 2006-07, the target of $153m in savings identified over three years in the current Budget seems alarming. The announced actions, which include an efficiency dividend … public sector wage restraint; and unspecified programs of expenditure reviews, are unlikely to be sufficient to return to a balanced Budget without the need to resort to extreme measures. This situation is

> likely to be further compounded by steps taken by the Federal Government to bring its Budget into balance over a similar period.

They are clearly saying that what you have outlined will not address the problem.

Ms Gallagher: I have not said that everybody has liked all aspects of the seven-year plan, but the area that you came to was that you said that we did not have a plan. I was responding to that. She is right in the sense that the wages and the efficiencies alone will not return the budget to surplus. That is why we have unallocated savings. As I have said, I am not sitting here and saying that is going to be pain free: it is a hard job ahead of us. But I do not know what the alternative is.

MR SMYTH: But the Business Council is saying that, despite the target of $153 million in savings, it is not enough.

Ms Gallagher: Because of the commonwealth's forecasts, $153 million is not enough; it is now $178 million.

MR SMYTH: And one would assume that it implies that a larger amount now is not enough either.

Ms Gallagher: That what is not enough?

MR SMYTH: If $153 million was not enough—keep it relative. It was not enough when it was $153 million. What would you be giving me now that it is $178 million?

Ms Gallagher: I do not understand. I have to say that I have not spoken to Chris about that. I do not understand her point. Some 153 at that point in time, now 178, is the savings that are required in order to return the budget to surplus by 2015-16, along with trend growth in revenue returning and government expenditure remaining at 4½ per cent. That is the figure, and that holds up.

MR SMYTH: The Business Council is saying that the announced actions are likely to be insufficient to return to a balanced budget without the need to resort to extreme measures. So you stand by your case that it is okay.

Ms Gallagher: Yes.

MR SMYTH: That it will be enough?

Ms Gallagher: The $178 million will be—yes. And that is a big job, a massive job. It will be enough if we stick with the seven-year plan, if we contain expenditure to 4½ per cent and if revenue grows or returns to normal, to trend, in the outyears. It is enough. We have done the work on that. It is enough.

THE CHAIR: Okay. Ms Le Couteur?

MS LE COUTEUR: This is a totally different question. A large part of our budget is commonwealth stimulus money, and that is true for New South Wales, which we are in the middle of. I understand that basically the stimulus money is a use it or lose it situation. If we do not get the things built in time, then we do not get the money. Given that I assume that there will be competition for people with the relevant skills to actually build the buildings, how confident are we that we have got the tradespeople with the relevant skills to enable us to take advantage of that money—given the competition from New South Wales, which, I understand from the press, are not confident of being able to use it, and may end up losing it?

Ms Gallagher: The commonwealth money, the stimulus money, is not a large part of the budget. It is a considerable part. I think it is about $160 million this year; I cannot remember the second outyear figure off the top of my head. From my discussions with industry—certainly there are many in industry that say that there are still skill shortages in particular areas within the construction industry—the downturn in work that they have seen will mean that we have people to do this work. Small to medium builders in particular are genuinely worried about the next 12 to 18 months.

I do not know if we can provide more detail, but they are the discussions I have had with the MBA—and, indeed, just your average small to middle builder around the town. They say that last year work just continued; there was no let-up. This year, past March, I think—around February or March—gaps were starting to appear and people were actually having to tender for jobs, which had not been seen in this city for some time. Certainly the anecdotal evidence is that there will be the companies around to do this work.

Ms Smithies: The other thing that we can add is that in 2006-07 the economy was running at around 10 per cent state final demand, so the economy was doing an awful lot back then. We assume that there is capacity in the economy to keep on—that can be absorbed to produce this outcome.

MS LE COUTEUR: The flipside of that question is this. You mentioned that in some areas there were skill shortages. Have we got a plan to actually match our training with the skill shortages so that we do not have skill shortages?

Ms Gallagher: It is probably best to ask the minister for education about that, in the sense that he will have much more detail for you. But yes. A year and a half ago we were talking about the Skills Commission; this time around we are talking about trying to keep people in work. Within that industry, there are particular trades where there are still shortages.

MS BURCH: My question is on a different theme, but it goes back to an underlying theme of the long-term plan and community engagement. How do you see that rolling out, outside the agencies, into the budget review committee? How do you see that process with community and community organisations?

Ms Gallagher: The Chief Minister and I, and indeed the cabinet, are still discussing how we would embark on that in the most efficient way, where we engage people—we are mindful that people are genuinely busy—so that we make it easy but genuine around how they can involve themselves. In my head, and this has not been ticked off through cabinet, there are two stages to this. There are our own internal savings—that is, our efficiencies and our wage restraint. That allocates for some of the savings—by no means all of them, but some. And in that final year, when we need to find

$122 million, that is part of the community conversation.

There are many ways we could do this. It is just not clear in my head as to the best way forward at the moment. I am putting some effort into it to try and come out to the Assembly with a preferred model of engaging the community. Obviously, there are ways you could do it through websites and through targeting particular interest groups and matching that up with areas of government, having a person lead that work and report to government. There are some variations which I am currently working through, but we will definitely have an answer on that by the time we are debating the budget.

MR SMYTH: Page 105 of budget paper 3 refers to the investments of the GGS. In the line "Territory Banking Account" there are significantly smaller numbers than there have been in previous years. Does this line need to now be updated as a consequence of the drop in federal funding?

Ms Gallagher: Table 5.1.1?

MR SMYTH: Table 5.1.1.

Ms Gallagher: The territory banking account.

Ms Smithies: I would say yes. Yes, it does.

MR SMYTH: Do we have those numbers yet?

Ms Smithies: We have not redone the table yet, no.

MR SMYTH: Will that be available before the budget is debated?

Ms Smithies: Yes.

MR SMYTH: Clearly the amount of interest we earn is—Treasurer, you were saying that every percentage point drop in interest was equivalent to a $15 million loss. Is there an offset in that in that we actually get to purchase our money cheaper now? Is it that what we lose on the swings we make up on the roundabouts?

Ms Gallagher: The borrowing costs?

MR SMYTH: Yes.

Ms Gallagher: No. The borrowing costs are going up. It is getting more expensive to borrow money.

MR SMYTH: How much more expensive is it getting?

Ms Gallagher: It would be dependent on—

Ms Smithies: On what borrowings we undertake.

Ms Gallagher: And what time—long term, short term.

Mr McAuliffe: In the last year, with interest rates, the overnight cash rate was falling. It fell from 7¼ and it is down to three per cent now. At that time, the actual yield curve interest rate structure right across, from overnight to long term—talking about 10 years—was relatively flat. In recent times it has started to become more of what we call a normal yield curve. So if we look at 10-year money at the moment, you would probably be looking at borrowing costs of around six per cent, whereas short-term money—if you want to borrow for three months or something—is still a bit over three per cent. What sort of borrowing strategy you might want to undertake will depend on your cost of funds.

MR SMYTH: So even though interest rates are coming down, we are paying more for the money we borrow?

Mr McAuliffe: No. We have not got new borrowings out there at the moment, so we have not had to undertake any borrowings and therefore incur the higher costs.

MR SMYTH: With the money that may be borrowed in the outyears, you would expect to get that at a better rate?

Mr McAuliffe: It depends what happens to interest rates over the next couple of years.

Ms Smithies: And the availability of credit on the market.

MR SMYTH: What is your expectation regarding the availability of credit?

Mr McAuliffe: We think that, with the guarantee systems that have been put in place by the federal government, not only for bank funding but also for state governments, that is certainly going to assist that, but the guarantee system has not started yet, so it is a bit hard to tell what sort of an impact that is likely to have.

MR SMYTH: Going back to the territory banking and on the issue of cash, with the Treasurer's advance, can you inform the committee how much remains unused for 2008-09 at this time?

Ms Gallagher: The last figure I saw tabled in the Assembly was around $24 million, but we are starting to get advice from agencies as to where there are cost pressures.

MR SMYTH: What is your expectation for the end of the financial year? How much will be left, come 30 June?

Ms Gallagher: We do not have that information available.

MR SMYTH: Is the government inclined to use it or will the government attempt to husband that as a—

Ms Gallagher: Just because it is there does not mean that you get it. We will work though agencies' requests for that money very rigorously. We do not intend to spend it because it is there to be spent.

MR SMYTH: Have any of the agencies advised Treasury that they have blown their budgets and they need a Treasurer's advance before the end of the financial year?

Ms Gallagher: I think there would be a number of agencies that have contacted Treasury. In fact, Treasury contacts them and asks them, "Are there pressures?" They try to get advance notice of what the call on the Treasurer's advance is, and that information is coming through now.

MR SMYTH: Which agencies have asked for assistance?

Ms Gallagher: I think we can provide that to you. None of mine have, and that is a big one—Health. I am sure we can provide you with an outline of who they are.

MR SMYTH: In recent years, Emergency Services, including when it was an authority, overspent significantly. Indeed, there was pressure on ESA this year because of the assistance to Victoria. TAMS has regularly blown its budget. Are they some of the agencies that have difficulties between now and the end of the year?

Ms Gallagher: I have not seen a list, Mr Smyth, so I cannot help you with that. But I am happy to provide it to the committee. It is all tabled; it is all public information eventually, anyway.

MR SMYTH: Eventually, yes.

Ms Smithies: Bear in mind that there is a process that we go through when we get the claims, in terms of trying to figure out whether they are valid claims or not, how they can be managed, if they can be managed in a different way, if they are actually going to crystallise by the end of the financial year, whether they are cash claims or just expenditure claims. There is a difference between what might hit the bottom line and how it can be handled in cash, so there is a lot of detail behind it.

Ms Gallagher: With respect to the question that I have responded to, and just providing the agencies that have approached, I do not think that we need to go—

Ms Smithies: Yes, that is right.

MR SMYTH: Okay, I will look forward to seeing the list.

THE CHAIR: I have a broader question, Treasurer. A lot has been made, obviously, of the impact of the global downturn on the budget. In the first couple of years in particular that is quite noticeable, but moving to the outyears there is a pretty strong projected recovery in revenue, leading to, in the fourth year of the projections, roughly $3.8 billion in revenue. We are then out of the cycle, as we discussed before, of offsetting commonwealth stimulus money and the like, and the underlying deficit is the real deficit. Could you give us an explanation as to why that is? I think people can generally understand that when there is a short-term hit in your revenue, that is going to affect things, but as revenue comes back, and it is projected to come back very strongly, why are we still projecting pretty hefty deficits in that fourth year?

Ms Gallagher: Because the budget continues to grow. It grows at 4½ per cent a year.

THE CHAIR: Okay, so—

Ms Gallagher: This is the thing: you could change it. You could completely fix this and say, “Right, we could have a return to surplus,” but it would mean taking out the $550 million we factored in to the forwards for Health. It would not take away the pressure. What we have given to you in this budget that you see is the fact that, as a government, we cannot have zero growth in our budget. Health will grow, wages will grow, and Health and Education are 51 per cent of the budget—51 or 52 per cent—and wages are 47 per cent. When those large parts of your budget are going to continue to grow and, in Health’s case, grow at 6.2 per cent per annum, that will give you the deficits, even after your revenue has returned to being more normal, which will still be backwards from where we were projecting.

THE CHAIR: But not much backwards. Essentially, from my reading of the budget papers, in those years you may be a year behind. You are projecting to be there, I think, a year quicker than where you get to in the fourth year. So you are almost back to the projected revenues of the real boom. I suppose I put it to you—

Ms Gallagher: But you have had years and years of growth. You have had—

THE CHAIR: But you have had years and years of massive growth, in fact, in government, both in revenue and in expenditure. I put it to you that an ordinary person would look at it and say, “Okay, in the short term when there are hard times we understand it.” But moving back to real boom revenues, where revenue is going to be not quite but almost double what it was in 2001, wouldn’t it be reasonable for the community to expect that you would have your finances in order to the extent that you would be able to balance the budget in those very good times that you have projected?

Ms Gallagher: It would be reasonable if the budget did not continue to grow. What you are saying would be reasonable if your expenses were not growing, and continuing to grow, over a period of reduced revenue. That is the problem that we are facing now. We have got reduced revenue. We have got revenue slowly returning, but even in that final year, in our conveyance revenue, we are still $17 million less than what we projected in last year’s budget, and government expenditure—services, wages—is continuing to grow.

That is essentially the seven-year plan—to get the trajectories to meet, to get revenue and expenses to meet. On our plan, they will meet in 2015-16. It is not through any wilful spending or lack of ability to control our budget; it is because of the fact that we are projecting very conservative growth in government expenditure, a realistic return to revenue and a longer term to recover. If reasonable people want this to happen earlier, it can happen earlier, but we are just going to have to be more savage about the cuts that we make.

THE CHAIR: We have experienced pretty extraordinary boom times in the last few years right across the nation in terms of economic growth and in terms of revenue for government. The position you are putting seems to be, “Unless those unprecedented times continue indefinitely, we can’t balance the budget.”

Ms Gallagher: No, that is not what I am saying.

THE CHAIR: "Only when we are seeing that kind of boom revenue do we balance the budget."

Ms Gallagher: That is not what I am saying. Indeed, the fact that we have put away a lot of that money, our surpluses, strengthens the position we are in now. We do not have to borrow for another couple of years. We are maintaining cash surpluses throughout the forward estimates period. That would not be a fair assumption to make. We are merely being realistic about growth in government expenditure and about a recovery which, without another sharp shot to the budget, will take seven years to come about. It is certainly not about building a budget on boom times; it is about building a budget on where revenue matches expenditure.

MR SMYTH: Just on revenue, one of the changes, of course, is to reduce the change of use charge, which we would compliment you on, Treasurer. For years, we have said it should go altogether. Will the government consider getting rid of things like change of use charge long term, if it is effective in the short term?

Ms Gallagher: That has not been a decision of the government. It is still a revenue stream to the government. At this point in time it would be hard to get rid of a revenue stream. But we are looking at it and codifying it and we hope that gives more certainty to industry about what those charges are. As I said, the Business Council and the Property Council have said they want to talk with us about maintaining the pie but carving it up differently. I have told them both that I am very happy to have that discussion with them. So I am not ruling it out entirely, but I am saying that we would have to find, in some other charge that we lay, the replacement revenue.

MR SMYTH: For instance, in the late nineties the change of use charge was waived on converting excess or old office accommodation, particularly into residential. The example is the old Westpac building across the road. Will the government consider that option as well? The Property Council raised this on Friday in their submission.

Ms Gallagher: They raised it with us too. I think our response was the green building fund. Is that the actual name of it?

Ms Smithies: Tune-up Canberra.

Ms Gallagher: Tune-up Canberra. It has had a few different names. That was our response to that. In terms of waiving charges or providing funding in this case, we would like to see a good quality outcome out of it. This was something the Property Council was after as well. We think we will try this model first. We have put it in for this year and we will see how it goes. When you do have the challenges that we have got at the moment, waiving revenue for things that do not necessarily give a return to government or the community in some way have to be weighed up pretty carefully. As I said, I am happy to have that discussion with them over the longer term, the next year, but this is the decision we took in this budget. They were asking for some support to provide assistance to private commercial property owners to tune up their buildings. They wanted $2 million from us and a copayment to encourage it. We will see how it goes. If it is good, we could look at continuing it.

MR SMYTH: David Hughes prepared a document for Treasury on change of use charges. Is it possible for the committee to have a look at that document?

Ms Smithies: I have been told that by the Property Council too. I have been looking for that document. I am not convinced that it was a David Hughes document, so we will continue—

MR SMYTH: All right. Does Treasury have documents—

Ms Smithies: We will continue to look.

MR SMYTH: evaluating the effectiveness of the change of use charge?

Ms Smithies: We will continue to look for it. I suspect, though, that it will be cabinet-in-confidence and it will be held up in the government of the day's cabinet files.

THE CHAIR: Could we get that confirmed as to what advice has been provided to Treasury on that issue, and we can seek further advice?

Ms Smithies: Yes. We will continue to look.

THE CHAIR: Ms Le Couteur?

MS LE COUTEUR: Thank you. On page 133 of budget paper 4 there is a line which I would like to know some more about: "implementing the mortgage relief fund". It is one of your priorities. Could you just tell us more?

Ms Gallagher: Page 134, is it?

MS LE COUTEUR: Page 133, budget paper 4. It is fourth from the bottom on your list of priorities, implementing the mortgage relief fund. I am showing my ignorance here—what is it?

Ms Gallagher: It is one of our election commitments, actually.

Mr Ahmed: Would you like me to—

Ms Gallagher: Yes, go ahead.

Mr Ahmed: Yes, this was one of the election commitments of the new government. The objectives of the mortgage relief fund are to assist those households who are at risk of entering into mortgage stress and at risk of repossession. There is a recognition that there are a whole range of processes that financial institutions and banks go through as people get into financial or mortgage stress. Nevertheless, there are people who end up in a situation of forced repossession. So the objectives of the fund are to assist those households to stabilise them either by providing short-term assistance, which allows them to stabilise their financial circumstances, or to allow them to go through a more ordered sale so that they do not go through the pain of a forced repossession. So those are the broad objectives of the fund.

Where the process is at is that we have developed a discussion paper and it has been sent out to community organisations who deal with people in financial or mortgage stress as well as to the financial institutions and the professional bodies like representing accountants and so on. We would be hoping to get feedback from them or comments on the discussion paper. Following that, depending upon the comments that we get, we would like to sit down with them and have a whole discussion and then finalise the design of the scheme.

MS LE COUTEUR: So how much do you estimate it is going to cost? I could not work out from this what money you were putting into it, or is it that you do not have that yet?

Mr Ahmed: Yes, the number of repossessions in the territory compared to other jurisdictions is not very high. We have a relatively low number of repossessions; nevertheless, they are there. The latest data that we had was from 2005-06, and that suggested that they had jumped up from about 50 to 80, but that was a really high interest rate environment as well. Nevertheless, we would expect something like 30 people to be supported through this. That is just an estimate at this time. We do not have any more detail than that; it is based on history. The main issue there is that you want to have early intervention. You want to find out and get those people at the right time rather than at a time when they have gone into the spiral and the repossession process has started. So our estimate is about 30 people at this time.

THE CHAIR: This promise was sold at the time as a fairly urgent response to the global downturn. Is there a reason why it has been delayed in its implementation?

Mr Ahmed: No, we are going through a process to develop the scheme properly. Some of the issues that sit around developing a fund or a scheme like this is what you would call moral hazard—you would not want to change people’s behaviour, nor would you want the financial institutions to change their lending practices. You would not want to interfere in the processes that they go through. They have got some reasonably robust processes that they go through around supporting and assisting those people.

So the real issue is to have a scheme that is designed in such a way that it complements the existing systems and processes the financial institutions have as well as assisting the households. They have a degree of responsibility as well around managing their financial affairs. So it is really about designing a scheme that works well and sits side by side with all the other services that are in place. That means a good design and good consultation as well, and that is what we are going through.

Ms Gallagher: The other thing I would add is how short time is, but the mortgage relief fund was announced in an interest rate environment which is quite different from what we are seeing at the moment. That was some of the urgency, and so that is another reason why we did not do it in the second or third appropriation and why it has come in through the budget. I think there have been views about whether the community sector should manage this fund or whether it should be managed through

Treasury. At the moment we are leaning with Treasury; this is our first time. It would provide loans of up to $10,000; I think that is the limit. You will find it in budget paper 3 at page 75; there is just a capital appropriation of the funds for that. It does not really give you any detail, though, so I am just pointing to where it is rather than any further information.

Mr Ahmed: Just to follow up on that, we have had discussions with some of the financial counselling services in the community sector to see whether it would be rightly located there, whether it would work effectively with them or whether it would work more effectively within some arm of the government. Our earlier discussions suggested that it would work more effectively within government, and certainly that was the view coming from the community sector as well. However, we have gone out again with the discussion paper just to see whether there are any further comments on that.

THE CHAIR: Thank you, Mr Ahmed. Ms Bresnan.

MS BRESNAN: With budget paper 4 at page 140, we talked earlier about rollover figures from previous budgets. I note in this table that there is a range of rollovers from 2009-10. Some have figures for the outyears and others do not. I am just wondering if you could explain this a bit more and what it means in terms of the budget overall.

Ms Gallagher: I am sure we can.

Ms Smithies: Yes, just briefly, most are being rolled from 2008-09 into 2009-10. The office projects are actually being moved from 2008-09 into 2010-11, which I think more appropriately reflects the time frame when the project advising role will be necessary. In relation to the capital asset plans, again, it just more appropriately reflects the time when the work will be geared up, bearing in mind that for both of those projects there is a little bit of money in 2009-10 which exists anyway.

MS BRESNAN: So it is the assumption that the whole-of-government capital improvement program would have ended by then?

Ms Smithies: The whole-of-government office building?

MS BRESNAN: Is that the assumption?

Ms Smithies: No, there is some money in 2009-10 for it already, but the bulk of the work will be necessary in 2010-11. So we are just changing the phasing of it.

Ms Gallagher: Are you talking about the capital?

MS BRESNAN: I just note that there are a number of figures which basically do not have figures there for the outyears. There is not a lot of detail there about it. Again, it might be that I am not able to find it in the budget papers, but it does not explain what—

Ms Gallagher: Yes, the presumption is that they will finish in that year.

MS BRESNAN: Yes. So where there are not any outyears for those figures, that is the assumption we should be making—that is when the work will be finished?

Ms Smithies: Yes.

MR SMYTH: Just on the rollovers, is there a reason for the delay to those projects?

Ms Gallagher: There will be a reason for the delay in each of those projects.

MR SMYTH: Might we be privy to those reasons?

Ms Gallagher: I have got a list of reasons. Which ones are you after? The capital improvement program?

MR SMYTH: I am quite happy to have them all.

Ms Gallagher: Yes, no worries. We will just provide that on notice.

MR SMYTH: You will provide a list of the rollovers?

Ms Gallagher: Yes.

MR SMYTH: Thank you.

THE CHAIR: Thank you. Ms Burch has some questions.

MS BURCH: On Friday a number of community groups were here and a number of community groups wrote in. A theme is their indexation. In budget paper 3 at page 61, there is a formula that you use for indexing funds to the community sector.

Ms Gallagher: Yes, that is right. It is a combination of CPI and wage cost index in that 80-20 arrangement, with wages being 80 and CPI being 20.

MS BURCH: Is that a new issue or has that been the standard indexation for the community sector for a while?

Ms Gallagher: Since 2006. It is a much more generous way of indexing the community sector when times were good, as they have been in the last few years. It has really delivered them around four per cent per annum indexation. This year it is 3.15, and that is based on a reduction in the indexation rates, which is actually what we are getting hit with as well. It is still growth, but it is growth at 3.15 instead of what we had previously forecast, which I think was 3.7 for this year. So the community sector are unhappy that there is a shortfall between what we had forecast and what they are getting, but there is not much I can do about that.

MS BURCH: How do we compare with federal funding to NGOs or other jurisdictions?

Ms Gallagher: I think Western Australia index as we do, or they used to. I am not sure if they have kept that up in this budget. I think Victoria have a similar approach as well. But other than that, I think other jurisdictions either index at CPI or through some other historical arrangements. But WCI-CPI is the most generous way of indexing the community organisations. I do acknowledge that it is not as much as they thought they would get, but this is the formula that we have all agreed upon. I just saw Victoria's rate, and they are indexing their community organisations at 3.14, so we are 0.01 ahead. It doesn't get much closer than that.

MS BURCH: No. The other issue that has been a thread when talking with the NGO sector is the portability of community sector superannuation.

Ms Gallagher: Yes, of long service leave?

MS BURCH: Sorry, long service leave, yes.

Ms Gallagher: Yes, that has had a long and tortured process behind it. There have been mixed views from employers and employees around long service leave, as we have seen in every debate around long service leave. Indeed, the construction long service leave scheme was the same. It is just really in the early days of getting the scheme up and running. An actuarial report is being completed; it is coming to me, and you will see good progress on community long service leave. We are expecting to have a bill in the Assembly in June, if we can, to implement a scheme. We funded the start-up of that scheme a couple of budgets ago. It is around $600,000 per annum, and the real question now is how far in the scope we include employees in that. So there is the community sector that we fund and then there are other sectors such as aged care and childcare. Those sectors would, no doubt, be beneficiaries of a scheme like that, but we do not have a direct funding relationship with them, and they are just the final policy decisions that we have to take.

I think it will be a great outcome for people, because what it means for anyone who stays in the community sector and works in it is that they will get their long service leave entitlement, which they have not in the past. Unless they have stayed in the same place for seven years, they have not been able to get that. There is high portability in that industry, so we are working hard on it.

MS BRESNAN: Sorry, this is the point that I was going to make in relation to the indexation: ACTCOSS said in the other groups that there was some expectation about the level they were going to get, but it was more about the fact that they are starting from a lower base when it comes to the wages and the funding they have and that it was actually affecting their core funding. They referred to the fact that demand was increasing and that they know they are going to experience an increase in demand over the next couple of years because of the financial circumstances here and that it is at that base core funding where they are experiencing a lot of the problems as well, because they are starting from a lower starting base, for example. In terms of getting employees—obviously they can't compare to government agencies and even national peak bodies—that is very difficult as well. I think that is the point they were making.

Ms Gallagher: Yes, I understand that. But this is 3.15 per cent growth on every grant that we give at a time when we are taking back one per cent from every one of our agencies and, if that was passed on into wages of staff, they would certainly be getting more than the public service is going to get. We could have made an efficiency dividend on that and we chose not to because we are mindful of the role the community sector plays. We are passing on the full rate of indexation as it is and we are expecting it to return to 3.7 next year and, I think, in the forecast outyears.

I do not deny that it is hard out there. There are a number of initiatives that provide more resourcing to the community sector. I think for the next year and a bit we are going to have to be sensible about what we expect can be delivered for the grants that the community sector have.

MS BRESNAN: Yes, and understand the values and that they are experiencing a lot of pressure on what they already give. Then there is going to be that increased pressure on what they have to deliver because of the second stimulus.

Ms Gallagher: We tried to meet some of that with the $2½ million that went out in the second appropriation in emergency payments for people that volunteer and carers. I understand that the volunteers' money has all gone very well but there has not been the big uptake of the carers' money by some of those agencies, which I do not really understand completely because I am sure the money would be needed. We have got to allocate it. We have tried to inject some funds to address the particular demand areas of carers and to recognise the work of volunteers. That money is still flowing through.

It is a hard year for everybody but I think, to the greatest point that we have been able, we have protected the community sector in this budget in the sense that we are not seeking anything in return from them. There is also the work that we are doing on the new school sites and co-locating organisations and freeing up their rental money, exorbitant rental money that they are paying. We will start to see some progress or quite a bit of progress on that this financial year for a number of organisations, including ACTCOSS.

We are not taking that money. We are not asking them to return that money to budget either, the money that they will save. We are dealing with fit-outs and all the rest of it. I am hoping that there is a bit of flow back as accommodation and support services get fixed up through the school rebuilds as well.

MS BURCH: One of the realities for NGOs is the cost of insurance for small groups. Are there any options for NGOs, in regard to facilities and volunteer groups, with insurance?

Mr McDonald: One of the concerns that we have had is the global financial crisis and its impact on the public, particularly public liability premiums. We are also very concerned about professional indemnity premiums which we think will go up by a significant amount.

I have commenced discussions with community organisations already, with a view to pooling insurance obligations among groups that categorise into particular risk pools and, in that respect, groups that have differential risks as well. Last week I had a meeting with five out of the seven Canberra community councils and at that meeting they were unanimous in authorising us to approach a community insurance provider to build a pool arrangement for them.

We have done this once before with the community sector groups that occupy space in the North Building. There were 46 organisations. We built a single insurance pool for them. We were able to reduce their premiums from an average of $700 per organisation to $100 per organisation. That was for one year, $10 million public liability cover.

I am not saying we can achieve the same level of saving now but I have had a chance to see some of the insurance profiles that at least the community council groups have. Some of them are overinsured; some of them have professional indemnity cover when they do not need it; some of them have directors and officers cover; some of them have libel and defamation cover. It is totally outside their risk profile. Their only risk profile really is the prospect of somebody tripping over when coming to a meeting and suffering a public risk injury. They would be better served by public liability insurance. We have begun that conversation with them.

I am looking forward to further discussions with Volunteering ACT. I have had three meetings with them about the differentiated risk project that I mentioned at the annual report hearings. You cannot compel people to go into pooled insurance arrangements, you cannot compel insurance companies to create pooled insurance structures and, of course, you cannot tell them how to make their money. But we have had success in the past in a crisis period. The good news is that all the hard work that the community sector did in relation to risk awareness and risk management at that time has now spilt over and insurers are amenable to innovative products to help them make ends meet more easily.

MS BURCH: That would filter across to their insurance, like you say, of their facilities and their activities?

Mr McDonald: Absolutely.

MS BURCH: It matches their risk rather than a blanket insurance?

Mr McDonald: Yes. It is, in effect, helping them to understand what their actual risks are; tailoring the product to suit the particular risk profile that they have got; seeing whether we can, as it were, pool similar risks and, in some cases, pool different risks; and derive single product or insurance solutions around that.

For the next few months, we are going to be intensifying our contact with the community sector through Volunteering ACT because they represent a significant array of volunteer organisations that have different types of activities and different types of risk profiles. But every single one of them relates back to public liability insurance.

As I say, we have had success previously in arranging these things. We are only too happy to react to the community's needs. They have to contact us, though. If they do not do that—

MS BURCH: We can encourage them to contact you?

Mr McDonald: Yes.

MS BRESNAN: Will they know to contact you? How is that going to be the best communication?

Mr McDonald: It has been communicated in three ways. It has been communicated through the community engagement unit at the Chief Minister's Department to the sectors that they administer. I have had talks to the other areas of Chief Minister's that deal with grants for artistic and other types of activities; and through ACTPLA, which is responsible for 50 per cent of grants to community organisations.

I had a combined meeting with those people last week, including Volunteering ACT of course. We have invited community groups to, shall we say, invite us to give them risk refreshers—that is, a refresher on their risk awareness and risk management strategies. It will be through those media that we are able to communicate with them. Unfortunately, I cannot use money.

MS BRESNAN: That sounds like a good way to do it.

MR SMYTH: On the issue of supporting the community sector, the head of ACTCOSS was in on Friday as part of the community consultation and said things like she has been approached by organisations who have said that their callouts are up by 60 per cent; another one says their call-up service was up by 35 per cent; another community organisation says they have a shortfall issue of $30,000. Ms Dundas did say some initiatives were welcome but she went on to say she thought there was an opportunity missed and they did lament what they saw as a low outcome on the increase in wages. What will the government do to help these groups that are clearly under stress?

She also said that, in her submission to the third approp, they were seeing new business from areas that they had not encountered before; they have been coming forth from various sectors. There is clearly stress out there in the community sector. Can you outline what the government has done to assist, in this budget, that part of the community?

Ms Gallagher: Sure. There are a number of initiatives in the budget that will go to community organisations. As I said, the $2½ million still has not all been accessed. A large portion of the money that we provided for emergency relief for families under stress is still with agencies available for handout; so we need to have a closer look at that.

In the examples that Roslyn has given, I think I am aware of a couple of those organisations. We will do this year what we have done in previous years: where we can, we provide additional support to those agencies where they can demonstrate that their workload has increased to such a point. One that I am thinking of, which I was approached about last week as well, was the Rape Crisis Centre. They said that their growth is getting to the point where all they are doing is sitting with the police doing police statements; they are not actually getting to do other parts of their business. I have asked DHCS to go and have a look at whether there is capacity for any further support to that organisation.

You would know this from when you were a minister, Brendan: you do manage those from time to time. I could go through each of the initiatives in health, in DHCS, where large proportions of that money will flow to the community sector. A target brief of those that are disadvantaged and under stress certainly fall within those initiatives.

I think the flipside is that we have just got to be perhaps a little less demanding on what we expect to be delivered for some of those through their contracts. I think we can do that and be sensible about that in terms of the amount of time they spend reporting to government.

MR SMYTH: On the $2½ million in the second approp, do we know how much is still unspent?

Ms Gallagher: I appear on Thursday as community services minister; so I am very happy to have that ready for you on Thursday. From my understanding, the volunteers' component of it is all gone but the—

MR SMYTH: And how much was left?

Ms Gallagher: The carers' component. I think the volunteers' component was $1 million, yes.

MR SMYTH: The carers, that was $2½ million?

Ms Gallagher: It was $2½ million combined, yes.

MR SMYTH: We will get a reconciliation of those?

Ms Gallagher: Yes.

THE CHAIR: We are just about to adjourn for lunch. Are there any short questions before we go?

MS LE COUTEUR: I think this is a short one. We talked about, at page 140, the technical rollovers. I may be confused; I want to check. What is happening with the government office building? You said something about some money in fact being spent on it. Is Treasury running this project and is something happening now?

Ms Smithies: No, it is being run by the Chief Minister's Department. The money that was put into the Treasury budget was for, once a decision has been made, depending on the method of how that building gets away, the financial arrangements that sit behind that advice and the technical advice on bringing those financial arrangements together and supporting those roles.

MS LE COUTEUR: That makes more sense.

Ms Smithies: Yes, sorry.

MS LE COUTEU R: It was a technical question only.

Ms Smithies: Yes.

THE CHAIR: I ask members to stay back for a moment for a quick private meeting. I ask people to clear the room so that we are able to have that. Thank you.

Meeting adjourned from 12.26 to 2.00 pm.

THE CHAIR: Welcome back. Is it possible to ask a few questions around the land rent scheme now? I understand that the LDA and others have had part of the running on that, but obviously Treasury has been involved from a modelling point of view.

I want to go through some of the modelling. Obviously, some aspects have been provided through questions on notice, and I think through freedom of information. I want to go through Treasury's processes on the land rent scheme, and particularly in terms of external advice that was sought on the scheme. When was that sought and what did that external advice tell Treasury and government?

Ms Gallagher: This was when the scheme was being put together?

THE CHAIR: When the scheme was being put together, yes.

Ms Gallagher: I might hand over to Khalid. He is probably better at the detail as he was there at the time.

Mr Ahmed: In relation to the processes that we went through in developing the land rent scheme, we had consultations. This was before the final policy was developed and before the final legislation was developed. We had consultations and discussions with the property sector, the construction sector and industry. We had consultations with the financial institutions. We had discussions with the valuers; we had internal discussions within the various agencies. So it was quite an involved process. We also had discussions and consultations with the Law Society and we got quite valuable feedback through those discussions and consultations.

The first policy paper that we developed was the basis for further discussions and then we sent it to two external reviewers. One was Professor Brian Roberts and the other was the Australian Housing and Urban Research Institute, and they put two people onto it, Vivienne Milligan and Peter Phibbs. I think they are professors as well. Vivienne is an associate professor. They reviewed the paper, reviewed the modelling. We provided them with the financial modelling as well. They reviewed that and provided comments and feedback to us that we took into account in developing the paper further. The legislation was developed concurrently with that, before going to the Assembly. So that was broadly the process that we followed in the lead-up to the presentation of the legislation in the Assembly.

THE CHAIR: What were some of the concerns that were raised through that external process when the paper was reviewed?

Mr Ahmed: If you are asking for specific issues raised, I will have to go back and look at the minutes and so on. Broadly, from what I recall, the Law Society pointed out the risks of sharp spikes in land values and asked how we would cover that. That was a very valuable insight that they provided. The design of the scheme actually takes that into account now—the rents are capped and so on.

I cannot recall any substantial concern that would prevent the creation of this legal and property rights system. It is basically the creation of a lease, a crown lease, under our existing leasehold system. I cannot recall any concern that would prevent that. I should add that land rent leases already operate in the territory. There are about 300 leases already. I cannot recall any concern that would prevent issuing a crown lease under a leasehold system.

THE CHAIR: Did Treasury consult the Australian Prudential Regulation Authority about the land rent scheme and, if so, when?

Mr Ahmed: No, we did not at that time. We did not think that we needed to at that time. The reason is that the Australian Prudential Regulation Authority regulates the financial institutions. It sets up a framework for them to operate. It sets up a framework for them to hold adequate capital on their balance sheets, consistent with the risk profile that they have. We did not consult with them on the basis that what we were creating was a legal and property rights system to issue crown leases.

THE CHAIR: In terms of the other third parties, obviously, a concern has been the issue of security for financial institutions. When was that issue first raised with Treasury or the government?

Mr Ahmed: I cannot recall. Is there a specific issue that you are pointing to?

THE CHAIR: You cannot recall those issues being raised?

Mr Ahmed: Through the development, no, not that I can recall.

THE CHAIR: So nothing was raised with Treasury that you are aware of?

Mr Ahmed: No.

THE CHAIR: Okay.

Mr Ahmed: Not in the lead-up to the development of the scheme. With some of the concerns that we have heard since then, we are still trying to understand the basis of them. With respect to the security for the financial institutions, if that is what you are referring to, these are crown leases. Financial institutions lend on crown leases now.

THE CHAIR: From what I have been able to ascertain, obviously the modelling was done by Treasury which indicated that the value of the house would go up over time. I understand that a number of financial institutions queried that modelling. Are you able to talk us through your response to their concern, because I know that has been put to Treasury at some point—that perhaps the modelling that was done which showed house values going up was done in a period of particular boom, and there was a query raised by one of the financial institutions as to whether or not that was reasonable. Maybe you could talk us through your response to that concern.

Mr Ahmed: Sure. We undertook two types of analysis on this common perception that the values go down. One was a cross-sectional analysis, and I think we provided that analysis in response to questions on notice.

THE CHAIR: I believe you did, yes.

Mr Ahmed: We did a longitudinal analysis as well, a reasonable sample size, starting from about 2,000. Putting aside the technical jargon around longitudinal, basically it looked at new house and land packages, dwellings, and, assuming that they were under the land rent system, what would happen to them? That includes a subdued period or a drop in the housing market. So there was a housing cycle in there.

Both the analyses gave us a reasonably consistent picture that, if the property market is going up, the general perception was that all the appreciation in the house and land packages come from appreciation in land values and that, in fact, it is larger than the overall appreciation. That was the premise that had been put forward—not directly by financial institutions, I must add, although it was mentioned quite late in one of our discussions, well after the legislation had passed.

So our analyses showed that that is not the case. Depending upon the analytical method that you use, around 45 per cent of the appreciation relates to the dwelling itself. And that is understandable when you think that the construction cost index goes up. If you were to construct a house, say, which is three years old, in that condition, it is going to cost you more rather than less. Both pieces of analysis showed that both the dwelling and the land value appreciate, and they roughly contribute equally—not entirely. I think there was one financial institution that asked for it and we provided that to them. They have not come back with any other concern or issue.

THE CHAIR: That appears to contradict, certainly, the way the tax office treats dwellings in that they depreciate over time. Perhaps that is part of what the financial institutions are querying. It does not seem to me to follow logically that, because it costs more to build over time, the value of a house that was built several years ago will increase over time, given that that is an ageing asset and there are maintenance costs that go with keeping that up. I am not quite sure why the fact that it costs more to build three years later means that the house that was built three years ago is now worth more.

Mr Ahmed: That is one of the reasons for the common misunderstanding. This is a common misunderstanding. The tax office allows depreciation and you are able to write that against your tax, for people who are investing; that certainly is the case. But let us look at it the other way. For a dwelling that has been depreciated on the basis of the depreciation schedule by an investor, if that dwelling were sold in the market, they would expect a lot more.

THE CHAIR: I suppose it is difficult because dwellings are not sold individually at the moment.

Mr Ahmed: You can actually extract—and certainly we can do that in the territory system, anyway—the land value, because we value land every year under this system, and the dwelling value.

THE CHAIR: How much revenue does the Treasury expect will be collected from land rent over the next five years?

Mr Ahmed: I do not have the figure in front of me. It would be consistent with the estimates that we had. I think it would probably reach close to a million dollars, but I will not hazard a guess. I can take that on notice.

THE CHAIR: Okay. Could you also take on notice—presumably this has been done as part of the modelling—over the same time period what the expected impact is on the price of the houses on the land. What is the modelling saying going forward, in terms of increase in price of land, increase in price of dwellings?

Mr Ahmed: We will not be forecasting that. We would not be forecasting price—

THE CHAIR: But did the modelling—

Mr Ahmed: four years out, or whatever.

THE CHAIR: Over the outyears then. Did the modelling that was done also look forward? In looking at what has gone before, did you look forward to what was going to happen with house and land prices?

Mr Ahmed: The modelling would be based on long-run averages. Yes, that is right.

THE CHAIR: So if you could get that for us, that would be great. On the issue of negative equity, we have talked about that and you have talked about the misconceptions as you described them. When was the issue of negative equity first raised with Treasury as a potential concern?

Mr Ahmed: Again, this is a very specific question about time and so on. I will have to go back—

THE CHAIR: If you would like to take that on notice, that would be fine.

Mr Ahmed: Yes. I will have to go back and look at our notes. It is a specific question that you are asking. I know you raised it; you asked that question. We have looked at it in detail.

People go into negative equity for a variety of reasons. They can relate to the conditions in the market; they can relate to how they have maintained their property; they can relate to what is the loan to valuation ratio that they started with. So there are a whole range of factors that determine or impact on why, how, when and if people go into negative equity. In relation to land rent, if you really want to look at whether this, in itself, would put people into negative equity, you would have to hold a number of factors constant, all else being equal. If you really want to see how land rent works, you would have to say all else being equal.

THE CHAIR: Sure.

Mr Ahmed: Our analysis tells us that, all else being equal, land rent does not—all else being equal—pose additional risk for households. In fact, it provides greater protections for them. If their financial circumstances change, if their income drops, there is a protection there for them. They go onto a lower rental rate. That does not happen if they have borrowed against that land, and so on. All else being equal, our analysis also tells us that it carries less risk for the financial institutions as well.

THE CHAIR: I am aware of that modelling. The specific question that I will get you to take on notice is: when was the concern around negative equity first raised as an issue with Treasury? If you are able to get back to us on that, that would be great.

Mr Ahmed: Yes.

THE CHAIR: I think Ms Bresnan and then Mr Smyth had some additional questions.

MS BRESNAN: I do not know if it is appropriate to ask Treasury or Housing this question. In budget paper 4, one of the top priorities is about implementing commitments under COAG and also—

Ms Gallagher: Can you tell me what page you are looking at?

MS BRESNAN: Sorry, 133. I know that, in relation to housing, FaHCSIA is revising the formulas which are used to determine the amount of funding which then goes to each state and territory, and that is under the national housing agreement. Will that have an impact on the budget if that does happen, if there are other areas which come under COAG and national agreements where that may also happen?

Ms Gallagher: I am pretty sure we have factored those new arrangements in. They were determined when the national partnership payments and the special purpose payments were finalised, and they did shift in housing, didn't they, to equal per capita—

Mr Ahmed: That is right, yes.

Ms Gallagher: arrangements. So we have had to factor those in.

Mr Ahmed: The reform under the COAG actually amalgamated or combined around 90 SPPs into six large SPPs. Out of that process, within Housing, the old commonwealth-state housing agreement and the supported accommodation assistance program were combined, as well as a couple of other small programs. They became the national affordable housing agreement.

In developing the funding formula, COAG agreed to progress towards equal per capita funding. That means all states and territories would simply get a share of the SPP based on equal per capita. There are some movements underneath because of that. It is a transition over a five-year period, as I understand it. Out of that, there was a shift in the SAAP, but SAAP no longer exists. So there are ons and offs in these. On top of that, there are national partnerships coming in that deliver a certain amount of funding for particular projects. Certainly, in the homelessness sector there is a fair amount of funding coming through the national partnerships. All up, there is an increase in funding for the national affordable housing agreement.

MS BRESNAN: I guess, though, with the housing—and that is about the ongoing funding; obviously there is the stimulus money which is coming in, and that is coming in a couple of tranches, but the housing agreement which you have referred to is about the ongoing money—

Ms Gallagher: That is right.

MS BRESNAN: which the territory receives for housing. Has that been factored into the budget?

Ms Gallagher: Yes.

MS BRESNAN: Has it resulted in a decrease—the amount the ACT gets?

Ms Gallagher: Under SAAP it did, because we had always been overfunded from the commonwealth in SAAP.

MS BRESNAN: Yes.

Ms Gallagher: But in other areas—in the end, it sort of corrected out. The national partnerships money which is coming in for recurrent services means that overall we are better off, and SAAP does not exist any more. We believe we can shape the new arrangements around that. That has been factored in, yes.

Mr Ahmed: I should confirm that we are getting more funding for housing under NP and SPPs combined.

THE CHAIR: Mr Smyth.

MR SMYTH: While Mr Ahmed is there, before he goes back to the benches, can I ask this. This morning I asked you about the actual expenditure in the ACT being well above the national average of around 21 per cent of its assessed level of need. I know that you were just recalling this: you said you thought it was about 30 per cent in the 2006-07 budget. I went back and checked the 2006-07 budget. The relevant quote on page 63 of BP3 for 2006-07 is:

> The actual expenditure in the ACT is considerably above the assessed level of need, and has remained so (in the order of 20-25 per cent) since self-government.

I know you do not have it here, but is it possible to get, say, the last three or four years of the exact percentage?

Mr Ahmed: Yes, we certainly can do that. The text that you are referring to was really talking about over a longer term—20 to 25. I have just been reminded that in 2004-05 it was 33 per cent above the national average.

MR SMYTH: So you would have calculated that number for each year?

Mr Ahmed: No, we do not. It is the Commonwealth Grants Commission that does it. That is probably the most robust source of information.

MR SMYTH: So you would have access to them over the years. Can we have as many years as you have got. Can you take it on notice?

Mr Ahmed: Going back?

MR SMYTH: Yes.

Mr Ahmed: Yes, we could.

MR SMYTH: Thank you. Treasurer, when I look at the revenue and the expenditure figures, I see that on page 33 of budget paper 3 it says, under "Revenue and forward estimates":

> Over the Budget and the forward estimates period, aggregate revenue grows at an annual average rate of 3.9 per cent.

So the revenue will grow throughout the four years. But when you go to expenses and forward estimates on page 57 of Budget Paper 3, it says:

> Across the Budget and forward estimates, the total expenses are forecast to grow at an average annual rate of 4.9 per cent.

That is a point higher—one per cent higher—than revenue. Why do we continue to spend more than we earn?

Ms Gallagher: The short answer is that that is based on what we know and growth that we are seeing already. We believe that 4½ per cent, which is what we are going to try and constrain growth to, is realistic for the ACT budget. We do not think it can be reduced any further. The revenue is 3.9 over the forward estimates, but we expect that it will return to a higher figure outside the forward estimates. All of these point to why we have chosen a seven-year plan to return to surplus: our revenue is not growing as fast as our expenditure, and we need a longer time in order to get those two lines to meet.

MR SMYTH: The expenses this year grow seven per cent; the revenue grows five per cent. Next year, expenses grow three per cent, revenue two per cent. The following year, expenses grow five per cent; the revenue grows four per cent. Does it not still indicate that the fundamental problem with your style of budgeting is that you spend more than you earn?

Ms Gallagher: This year we have gone through an explanation about the seven. The five is primarily due to the commonwealth money coming through. Then it does drop down. But this is our plan.

MR SMYTH: Sure.

Ms Gallagher: This is my plan to return the budget to surplus. There are a whole range of things you could do to change that around. We could have expenditure less than revenue, but it would hurt and it would mean cutting back on services or raising revenue to get those lines to meet. They are the options.

I have no doubt that you will come up with your own plan. I look forward to hearing how you would view this challenge and how you would change it. And if it is about ensuring that expenditure remains under revenue—that is, that you would contain government expenditure to under three per cent or under two per cent next year—then tell us how you are going to do it. It would be almost impossible to do it without causing a massive shock to the services that we deliver to this community. It would, and you know it would.

They are the choices we as the government have had before us, and they are the decisions we have taken. It is there for you to form a view on. The view I am hearing from you is that you do not think it is acceptable.

I have to say that it is in terms of trying to return to surplus, minimising the shock, maintaining services and having realistic and tight expenditure to grow into for government services that we know will come. Government services will not stop. They will not go to zero next year; they will not go to one per cent; they will not go to two per cent. If we were realistic about what people want to see in terms of growth of government services—it would be well in excess. I do not even know if you could put a number on it. If you funded what everyone wanted to fund through the government—and you would get as many requests as I get, I imagine—you would have to acknowledge that trying to contain it to 4½ per cent is going to be pretty hard. The forecasts around revenue are forecasts that professionals have analysed and determined. I stand by those forecasts for revenue as well, but it really goes to the heart of the seven-year plan.

MR SMYTH: At the budget breakfast you were asked about staffing increases. You said that you would go away and check my number of 970, which I was given at a briefing. How many additional staff are there over the coming year and can you break them down? We were told at a briefing that there were three categories. Could you please tell the committee—

Ms Gallagher: You have got three categories?

MR SMYTH: There are three. There are staff coming on board because of last year’s budget; there will be the staff for this year’s initiatives; and there are, I understand, some people being converted from consultants to permanent staff. Can you give a breakdown of the additional staff?

Ms Gallagher: With your 970, I worked it out. It takes me a while, but your 970 related to the 2008-09 budget.

MR SMYTH: No, no. My 970 came from an official briefing between—

Ms Smithies: Which was the 2008-09 budget to the 2009-10 budget.

Ms Gallagher: Yes.

MR SMYTH: Okay.

Ms Gallagher: But the estimated outcome for 2008-09—and that does show growth, particularly in health, where we have seen big increases in activity. The difference is—I have not got it with me; I am just trying to do the maths while I am here.

Mr Ahmed: About 600 occurs from budget to estimated outcome; the rest is estimated outcome to the 2009-10 budget. It is on page 553.

Ms Gallagher: Yes, I think it is.

MR SMYTH: Sorry, say that again? Oh, that is the big chart in budget paper 4. Yes.

Mr Ahmed: Yes.

MR SMYTH: But can we have a breakdown? We were given a breakdown. Perhaps the official might like to come forward and give the same briefing to the committee. Some were carried staff from initiatives that started last year; some were new initiatives in the coming year; and some were consultants or—

Ms Gallagher: The new initiatives are just over 300, as I understand it. But yes, we can give you that breakdown. That would be comparing 2009-10 with the 2008-09. That would go to your answer, yes.

MR SMYTH: All right.

THE CHAIR: Thank you. Ms Burch you had a question?

MS BURCH: I touched on capital work just before the break. In budget paper 5, on page 11, there is a comment about revising the capital works call tender schedule. It says:

> … Procurement Solutions will develop a methodology to provide forward information to the business community …

Given that capital is a significant part, through the commonwealth stimulus package over the next couple of years, can you tell us a little bit about what that methodology would be and what benefits it will bring?

Mr Bulless: Could you just repeat that question again?

MS BURCH: I was just going to the last paragraph in budget paper 5 at page 11.

Mr Bulless: Page number?

MS BURCH: Budget paper 5, page 11. Given that the capital component is quite a major part of our activity over the next few years, how you will go about developing a method for forwarding information to the business sector and how that will come back in to benefit?

Mr Bulless: The question would be better addressed to the minister responsible for TAMS, because procurement sits under Shared Services. However, I will cover off on what they have done over the last couple of years. Over the last couple of years Procurement Solutions have engaged in a number of community stakeholder business liaison activities as a way of developing a better understanding about the industry's needs and how they can deliver the services and the capital projects by the government into the industry.

As part of that process, about a year and a half ago they published for the first time a call tender schedule on their website. That basically listed the forthcoming projects that the territory was going to deliver into the market, and it gave the industry a feel of what type of projects we were going to deliver. It gives them a bit of a sense of what resourcing is required. I guess it is very consistent with the things that were done in the third appropriation around getting information to the industry about what the government is planning to do. You might recall that in the third appropriation the government announced the capital initiatives in part of the capital upgrades program, and that was about giving advice to industry about what the government is doing.

Since Shared Services initially published a call tender schedule they regularly updated that schedule as the package of projects has moved through its life. So you go from the initial process of scoping the project, you then go into a process where there is a functional brief given to Shared Services about what needs to be delivered, how it is to be delivered et cetera, and you then move through into the tendering process for the labour or the materials, whatever. So, effectively, it lives with that project time frame as things progress. That has been updated a number of times. I think it was recently updated a few months ago, and I think it was updated specifically as a result of the local initiatives package announced in February this year.

As to the actual details of what procurement is doing with industry, I am aware that they have regular engagement with industry about what the government is doing, about ways to improve its processes, the supporting paper material that sits behind contracts and payments and that sort of thing. As I said, though, I think those questions are probably better addressed to Shared Services.

Ms Smithies: My understanding of this also was to extend the work that they have done on the call tender schedule around capital works to the major components of other goods and services as well, which may well provide some information on upcoming tenders on IT, in particular, large contracts that are coming out, in a way very similar to capital works. But you should clarify with them, yes.

MS BURCH: Okay, thank you.

THE CHAIR: This question is probably more for Treasury officials than the minister, but we have talked a lot about some of the estimates in the budget. Last year we had the issue of educational policy come up during the election campaign prior to the caretaker period, and there were some Treasury estimates quoted by the Chief Minister in relation to the policy on smaller class sizes. The Chief Minister said that the Liberals' education policy would cost in the vicinity of $93 million, and that that was based on Treasury estimates. Are you able to take us through the process for developing those estimates which were quoted by the Chief Minister?

Ms Smithies: The ones around the education ones in particular?

THE CHAIR: Yes.

Ms Smithies: Neil, do you want to do that?

Mr Bulless: This is Khalid's area.

Ms Smithies: Khalid, sorry. The education ones in particular, though, are your interest?

THE CHAIR: Yes. I am referring to the Chief Minister's press release of 22 July last year where he quoted Treasury estimates.

Mr Ahmed: I do recall that figure, and I think that was based on some initial information that was put out at that time. The costing goes down in conjunction with the department and, from memory—I would need to go back and look at the detail—it did include recurrent and capital amounts.

THE CHAIR: So the initial information that was used, where did that come from—the Chief Minister's office?

Mr Ahmed: I cannot recall.

Ms Gallagher: I imagine it would have been in response to a statement you had made or something and then costings were done based on that.

THE CHAIR: It was.

Ms Gallagher: Yes.

THE CHAIR: If we can just put it in a context, in the final costings it was shown to be totally wrong. So I just want to get to the bottom of how that occurred and whether that was on the basis of information that was provided by the Chief Minister's office in order for Treasury to do their costings or whether it was done in some other way.

Mr Ahmed: I think it is fair to say that you do the costing on the basis of information available, and there is never full and perfect information available. You still make estimates. Even when the final election costing would have been done, there would have been some assumptions made. There are always assumptions made when complete information is not available. All I am saying is that it was the right figure at that time. It was based on the information available, and the costing was done for the department in discussions with Treasury.

THE CHAIR: In discussions with the—

Mr Ahmed: Treasury, yes.

THE CHAIR: Sorry, the department in discussion with Treasury?

Ms Gallagher: Education.

Mr Ahmed: The education department, yes.

THE CHAIR: Okay, the education department. The figures were $60 million out, so I am just wondering about the integrity of those numbers and the usefulness of putting out Treasury estimates without any of the facts underpinning them.

Mr Ahmed: We were asked to provide a costing on a policy. We provided that on the basis of the information available. As I said, the costing was done by the two departments in discussions with each other and based on the information available. It did make assumptions as well around capital of additional classes being built.

THE CHAIR: Was there input from the Chief Minister's office or the education minister's office on that?

Mr Ahmed: Not directly, not that I can recall. This was a Treasury exercise.

THE CHAIR: Sure, but in terms of the inputs, in terms of the assumptions that go to doing those costings?

Mr Ahmed: No. The assumptions are Treasury assumptions. That is what treasuries do.

THE CHAIR: Okay, so Treasury did it independently and it was based simply on media reports, is that correct?

Mr Ahmed: That is right. As I said, there is never complete information. You are making assumptions around various things. In that instance, I have to say that the information available at that time was used. When the formal election policies were launched, there was more information available and we were able to cost it at that time with that information. Whenever policies are put out, depending upon the amount of information and indications of how the policy will be implemented, that does impact on costs.

THE CHAIR: But if costings are going to be published, would it not be more useful to actually get some more information, particularly from those making the announcement?

Ms Gallagher: I think that is difficult. In the situation you are talking about, you make an announcement and the Chief Minister says, "I wonder what that costs," and asks Treasury to cost it. Treasury is there to provide advice to the government. Presumably, if you wanted a better costing done you could have released more information at the time that you made the statement. That would have clarified Treasury's assumptions about what the cost was.

In your election costings when you had announced intensive care beds I looked at the way that Treasury costed them, and I nearly fell off my chair, saying, "That is not the cost of an intensive care bed; they cost over $1 million a year to run." But the devil was in the detail, you see. The detail was that you were not actually going to run them as intensive care beds; they were going to just be there for surge capacity, obviously only on one day of the year or two days of the year. So Treasury do their job based on the assumptions they are given, and if the assumption changes, so will the costings. I do not know what point you are trying to make here, that someone did you a disservice in the costings or—

THE CHAIR: No. I think the point is that if we are going to have Treasury numbers published, they should be somewhere near accurate, and these ones were $60 million out. Now, I suspect that it was political interference. I do not blame Treasury; I suspect that the inputs were totally wrong. That is one of the things that we get from time to time.

Ms Gallagher: We can go back and revisit all that, look at what you said, look at what was asked for and all of that. I am not sure it is a really good use of the committee's time when we are facing this sort of budget but—

THE CHAIR: So I am now told that there is no communication or no input from the Chief Minister's office in relation to that so—

Ms Smithies: We made an assumption based on the public statements that you had announced at the time. That is what we did.

THE CHAIR: Sure.

Ms Gallagher: That is what the Chief Minister would ask for. Certainly if there was a policy announced in health, for example, I would say, "Get Treasury to cost that." I mean, that is the extent of the—

Mr Ahmed: I should again stress that we were not given any assumption from any of the ministers' offices. We did the costings on the basis of the public statement, and obviously there were assumptions to be made in there. All policies, even the budget policies, need some assumptions to be made. Whatever the public information was available at that time, we used that and made some assumptions, and we stand by that.

THE CHAIR: Ms Burch and then Mr Smyth.

MS BURCH: No, I will come back.

THE CHAIR: Mr Smyth.

MR SMYTH: On page 134 of budget paper 4 is the staffing profile of the Department of Treasury. I notice that it was meant to be an outcome of 184 and that the estimated outcome is 173 staff. The note says that the decrease of FTE is due to temporary vacancies that existed as at April 2009. Given the new temporary rate now is somewhere between five and seven years, do you expect to fill these vacancies at any time? More importantly, is there a particular reason why Treasury has temporary vacancies to this magnitude?

Ms Smithies: They are simply jobs that have not yet got around to being recruited, to being filled et cetera, where we have just not caught up with our staffing from when people have left or moved on.

MR SMYTH: So it is just the processing. It is not that we are having difficulty getting people; we just have not got around to it?

Ms Smithies: No, we are having difficulty getting people still, so it is still about going through our processes and ensuring that the people that we get have the right skill bases for what we need or changing backwards some of our processes so that we can make best use of the skill bases that are available. All of that does take time so, yes, there is a bit of understaffing in Treasury still.

MR SMYTH: On page 157, under the home loan portfolio, the second dot point of the strategic priorities is to continue to review and monitor loans and arrears. What percentage of loans and arrears?

Ms Smithies: I might get Graeme to answer that.

Mr Dowell: We review and monitor the loan arrears because as part of the home loan portfolio—and it is quite a large part of maintaining it—when people's incomes fluctuate their repayments are actually restricted to 27 per cent of their income and the rest falls to deferred assistance. As loans get older and people's circumstances change, it is not uncommon for them to find problems or not know that they should be getting an income test and things like that to get the payments changed. In terms of the whole portfolio, that is always an important aspect of managing it going forward. For example, if there are no problems with the loan and there are no arrears then clearly it will just be paid off in due course.

MR SMYTH: Of the 230 loans, how many are in arrears?

Mr Dowell: I do not have the actual number on me. There are two ways of counting arrears. One is when you look at the deferred assistance and where the arrears payments are going. The number is relatively low, but we will provide it to the committee.

MR SMYTH: All right. The recent trend is to get better or to get worse in terms of arrears?

Mr Dowell: It is going down because of the close monitoring. The loan-to-value ratio is going up, meaning the securities held are better.

MR SMYTH: They are going down. Currently there are 230 and next year there will be 195. When is the expected finalisation of the portfolio?

Mr Dowell: The expected finalisation is in about 2020. I cannot give an exact date because a number of people will refinance because they will get a better arrangement in the commercial market. They can get all their banking and everything tied in because the rate on the home loan portfolio is the same as the Commonwealth Bank rate.

MR SMYTH: Is there an estimate of how many will have to be written off, or is it expected that all will be completed?

Mr Dowell: The bad and doubtful debts take account of that. That amount has been reduced as the number of loans has reduced. The impairment rate for the portfolio will slowly build as the number of loans decreases.

MR SMYTH: On page 160, investments under non-current assets are currently estimated at $104 million while interest-bearing liabilities are estimated at $89 million. What does the difference of $15 million represent?

Mr Dowell: The interest-bearing liabilities would be the loan to the commonwealth. The investments would be the amount of cash held in it. Out of that cash we need to pay the annual interest payment as well as the principal. That is why there is more cash in the portfolio.

MR SMYTH: How can the funds, the excess, be used—the difference?

Mr Dowell: Every two years there is usually an external review of the loan portfolio. That will assist us in making estimations of the amount of available capital. That would then be looked at through the budget process. The moneys in the home loan portfolio can only be used in public housing, as the source of the loans is commonwealth housing assistance related.

MR SMYTH: So when all the loans are repaid and there is money left in the account they can only be committed to public housing?

Mr Dowell: That is correct. It is quite a long time before the outstanding loan to the commonwealth is repaid. Because the interest rate on that is so low it is unlikely that they would be looking at repaying that early.

MR SMYTH: And the interest rate on that is?

Mr Dowell: I think it is 4½. If that is incorrect, I will advise the committee.

MR SMYTH: That is what I thought it was. Both of us may be wrong.

Mr Dowell: I will let you know if we are.

MR SMYTH: The superannuation provision account—how many managers of funds are there?

Mr McAuliffe: The number of investment managers is set out on page 108 of BP3 in table 5.1.3.

MR SMYTH: That is the sum total of the funds we use—the different accounts we have?

Mr McAuliffe: That is right.

MR SMYTH: What fees do we pay annually for this management service?

Mr McAuliffe: I would have to check to see whether we can disclose what they are, but they range from a very low basis point for our index manager, which is Vanguard, up to 60 to 70 basis points for our active equity managers. They range from about five basis points up to around 60 to 70. Those fees vary on a scale of how much money actually comes under management within the particular portfolio.

MR SMYTH: Is there any potential for saving fees?

Mr McAuliffe: We are always looking to save fees with them. It is part of our ongoing assessment of those managers to make sure that their fees remain competitive.

MR SMYTH: So the review you undertake looks at the value for money we are getting and the return from it?

Mr McAuliffe: That is an ongoing review that we do all the time, yes.

MR SMYTH: Have any funds managers been removed recently?

Mr McAuliffe: Not recently. The last of the removals was around the middle of last year, I think it was. It was not so much because of bad performance; it was more that they changed their style. We had mandated them to manage money in a certain way and they had a change of process so we terminated them on that basis.

MR SMYTH: BP3, at page 166, paragraph 3, notes that additional capital injections may be required or, alternatively, higher investment returns will have to be realised. Why is this an either/or? Can we not have both?

Ms Gallagher: What was the question? I was reading the wrong paper.

MR SMYTH: Paragraph 3 of page 166 states:

> Based on current projections, further capital injections will be required to meet the target of 100 per cent … Alternatively, higher investment returns would need to be realised.

Can we not do both? Can we not get higher returns and at the same time need capital injections? It seems to be phrased as an either/or.

Ms Gallagher: Yes. I think that is because we have had such a dramatic fall we are behind where we were, and I think that is the paragraph above.

Ms Smithies: Chasing greater returns will mean greater risk as well, which means we start to go into probably a bit more of the active portfolio, which is also high in cost. They are the things that we need to consider.

Ms Gallagher: That is a review that we have talked about today, which I am happy to consult with further on the terms of reference.

MR SMYTH: Regarding the numbers in the account, what changes have taken place in the liability? When was the estimate of 65 dropping to 47 or 63 dropping to 47 made? At what point in time was that made?

Mr McAuliffe: The 65 per cent was as at 30 June last year. That was based on actual asset holdings at 30 June and was based on the most recent actuarial assessment at that time. We have just completed our wages actuarial assessment and the 2009-10 budget reflects the results.

MR SMYTH: What date did you receive that?

Mr McAuliffe: We received the numbers in time for the budget and we have only last week received the completed report.

MR SMYTH: Did the numbers between what you received from the budget and the final report change?

Mr McAuliffe: They aligned. We get the numbers done first and then we get all the various tables updated.

Ms Smithies: We had gone back a number of questions as well through the process et cetera.

Mr McAuliffe: Yes. This year we did what we call a triennial review. It was not just having a look at the financial assumptions that sit around the liability assessment; we were also looking at all the demographic assumptions. The actuary looks at all the membership experience that has happened over the last 12 months. We have to keep in mind that this is based on membership data as at 30 June 2008. That is the most recent data that becomes available to us. The actuary looks at all the activities of members—how quickly members are leaving the scheme, whether they are taking a pension as opposed to a lump sum payment—all those types of things.

MR SMYTH: So the 47 per cent is at what date? It is a date prior to 27 April?

Mr McAuliffe: Yes, it was based on what we knew the actuarial liability outcome to be and our assessment of where we expect our investment portfolio to be as of 30 June this year.

MR SMYTH: Was the report you received qualified in any way? Did it say this was within certain bounds or that this was their expectation?

Mr McAuliffe: The report is qualified to the extent that it is done based on using actuarial standards and the boundaries within which an actuary has to operate. It is no different to the accounting profession in terms of how far they can move on assessments of assets, liabilities—those sorts of things. In terms of looking at our funding strategy, it does not do that. The actuary purely looks at our liabilities. It is not a superannuation plan. They are not doing that same full assessment looking at assets and those sorts of things; it is purely the liability.

MR SMYTH: Is that report available to the committee?

Ms Smithies: We should probably have a look at it in terms of our arrangement with whoever has provided it to us and discuss that.

MS LE COUTEUR: This morning you said you have a number of ESG advisers. How do they relate to your actual managers? Are they doing a screen first or a screen afterwards? How do the two roles relate?

Mr McAuliffe: It is quite possible that our managers use the same service providers as part of their own research that they undertake. There is no three-way relationship. For example, with Care and one of our managers, there is no relationship there. We take information from the research provider and we then inform our manager. We ask them to go away and look at the information that we have been provided and then come back to us and explain how they are incorporating that information into their investment process.

MS LE COUTEUR: So the ESG people say X, Y and Z is doing whatever and you then go and talk to the manager and say, "Well, we're not totally happy about that," and they get back to you?

Mr McAuliffe: Essentially that is the process; that is right.

MR LE COUTEUR: Is that basically what you are saying?

Mr McAuliffe: Yes. You have got to remember that this is a risk-based framework that we are operating within. There may well still be a company that has had some slight exposure to something that some people in this room may not like. But to the extent they have considered and have taken account of that in the full assessment of holding that investment, that is what we endeavour to try to find out. We are still working through the full implementation of this process and have not quite got to the point where a common issue and a common company might keep popping up, and we might then get to the stage of asking whether we need to take that a step further. I guess that is the process we are trying to establish.

THE CHAIR: Just wrapping it up, I think Mr Smyth had a question to be taken on notice.

MR SMYTH: I have probably got a couple. Is it possible to get a list of all the programs under each of the output classes inside Treasury and the staff attached to them?

Ms Gallagher: Yes, like an org chart?

MR SMYTH: Yes, like an org chart, but it will have different programs and the number of staff attached.

Ms Gallagher: Yes.

THE CHAIR: Is it possible to get that sooner rather than later because that would assist with our framing of questions on notice? If it is just given to us at the end of that period then it would not allow us to do that.

Ms Gallagher: How about we get you the org chart. I do not know how long it will take to put the staffing numbers behind it, but we can get you the org chart today.

MR SMYTH: Leave the numbers. Can we have the org chart but also the programs that each of the areas is responsible for?

Ms Gallagher: Yes.

MR SMYTH: I have a couple of last questions on Rhodium—the obligatory Rhodium questions.

THE CHAIR: We are dealing with Rhodium separately so we will come back to Rhodium.

We now welcome Mr Sullivan from Actew Corporation. Mr Sullivan, can you confirm for us that you have read and understand the privilege statement?

Mr Sullivan: I have read and understood the privilege statement.

THE CHAIR: Would you like to make an opening statement or should we move straight to questioning?

Mr Sullivan: I think we should move straight to questions.

THE CHAIR: Fantastic. Members, who would like to start?

MS LE COUTEUR: I am going to start at the top of my list. Could we look at budget paper 4, page 437. It is talking about Actew's borrowings and says that the amount and type of borrowing are as yet uncertain. I am wondering: what impact could this have on the budget and what impact could that have on consumers who, I assume, ultimately will have to pay the cost of these uncertainties? What is the impact of the uncertainty on the ACT and the impact on the people?

Mr Sullivan: I will ask Kerry McIlwraith, the chief financial officer, to join me. In general terms, you have got it right in terms of it being an impact on the consumer in the end in that our borrowing costs will be reflected, as they go through the system, in our regulatory base and that will flow into our water prices; so the major impact is in respect of prices. The uncertainty is purely around timing and the uncertainty is around the sorts of borrowings that the market is willing to offer us at this time.

MS LE COUTEUR: You know the amounts; you just do not know—

Mr Sullivan: We know what we would like to borrow. There is a timing issue and then it is an issue of the financial institutions offering us our preferred borrowings. We do our borrowings through the ACT Treasury. That is the other involvement but it is also very good, I think, that the Treasury are able to organise the borrowings for us.

MS LE COUTEUR: It will not make any impact on our credit rating, however much was—

Ms Gallagher: No, we really only facilitate Actew's borrowings in that sense.

Mr McIlwraith: I have read the statement this morning. The top balance sheet is the basic answer. That was the point. It is not on the balance sheet of the ACT; so it will not impact directly there. Actew could borrow, itself, with the ACT's credit rating, but it is the ACT government's decision that we borrow through the ACT Treasury, which has worked very well.

MS LE COUTEUR: Could we then go on to what we are spending the money on?

THE CHAIR: On the borrowings, just briefly, I think there was some analysis done of the relative borrowings in response to a question at the annual reports hearings of the public accounts committee. Could you remind the committee whether Actew's relative borrowings benchmarked against similar utilities puts you at about the Australian average, for want of a better term? Is that correct?

Mr McIlwraith: Yes, it is a bit of a mixture. There was a document produced by the Productivity Commission which looks at water authorities across Australia and New Zealand. However, there can be very different authorities involved in that. The Sydney Catchment Authority, for example, is a source-water provider whereas Actew is a complete-water provider. The average, from memory, is about 22 per cent. We are about 37 per cent. The range is two per cent to 94 per cent; so it is a very wide range of debt holdings.

MR SMYTH: On that, I noticed, on page 438, you have got special notes on Actew's 2009-10 budget and you talk about the targeted out-turn cost numbers. What are they and what do they actually tell you?

Mr Sullivan: Target out-turn cost number is a price determined by the water security projects alliance as to how much that alliance will deliver a particular project for. It is a binding price. It is no longer a price estimate. After all the work has gone into design and procurement and construction methodologies, they then determine what is called the TOC, which is the total out-turn cost.

MR SMYTH: Obviously the budget went to bed before you got the TOC. However, it says there that they will be determined late in 2008-09. We are getting fairly late in 2008-09. Have they been determined?

Mr Sullivan: Some of them have; some of them have not. The dam has not been determined. That is the largest one. The Murrumbidgee to Googong pipeline is currently under consideration by the board. While we have got a draft TOC, it has got some process to go through before it is an agreed TOC. We, of course, had a TOC in place for the Googong dam spillway construction and we are also winding up the TOC in respect of the water purification demonstration plant. Even though it has been deferred as a project, it went to the TOC stage. They are all about to come out.

MR SMYTH: If they are available before this committee reports, can you make them available?

Mr Sullivan: When is that?

MR SMYTH: First sitting day in June.

Ms Gallagher: Middle of June.

Mr Sullivan: I doubt they will be. I think they will be very public numbers as soon as they come out.

MR SMYTH: That would be good.

MRS DUNNE: Before I go to my questions, could I ask: what is the water security alliance?

Mr Sullivan: The alliance is a consortium which is headed by Actew and ActewAGL and includes John Holland Engineering, Abigroup engineering. In respect of water purification, there are other groups. It is a design and construction alliance for the water security projects announced some two years ago.

MRS DUNNE: Getting back to the borrowings, by the time we get to 2010, Actew's borrowings will be approaching the billion dollars. It seems from the statement of corporate intent that you borrowed $300 million last financial year, $300 million this financial year and intend to borrow $50 million next financial year. Is that still the case? You were saying there was uncertainty about the quantum and the make-up of the product.

Mr Sullivan: The quantum is right. The profiling in terms of time may vary slightly. We are in the market at the cusp of an end of financial year/start of financial year and we are not going to take just what is offered. We are in a position to stay in the market for probably a few months without any worries; so we will wait and see what is in the offing. The profiling of the debt could change slightly.

MRS DUNNE: How much of the $300 million that was projected to be borrowed in 2007-08 has been borrowed?

Mr McIlwraith: In 2007-08, the whole lot was borrowed.

MRS DUNNE: But not the $300 million for this current financial year?

Mr Sullivan: No.

MRS DUNNE: Are you in a position to tell us how much of that you borrowed or if you tell us that—

Mr McIlwraith: We have not borrowed any of that at this stage. We are in the market at the moment.

MRS DUNNE: If I could, on the general capital expenditure, it says, on page 16 of the statement of corporate intent, that the borrowings are $300 million for water security and $300 million for general capital expenditure, amongst other things. What is the general capital expenditure which is not water security?

Mr McIlwraith: For instance—

MRS DUNNE: The Googong spillway, presumably.

Mr McIlwraith: Yes, the Googong spillway, for example; the major redevelopment or the additions to the lower Molonglo; the new infrastructure for new suburbs—all come under our general capital works programs. We can give you—

MRS DUNNE: A breakdown would be good.

Mr McIlwraith: We can give you a breakdown of the capital works programs.

MRS DUNNE: That would be good, thank you.

MS BURCH: My question follows on; it is on capitals, on page 103 of BP5. There was $300 million-odd for capital works. I was curious whether they are on track. We are not in that year yet but we should be well into planning on delivering those.

Mr Sullivan: Our general capital works program is on track fully to be delivered. In terms of product, we expect it to be delivered and money to be spent on it. That reflects a tremendous amount of hard work by ActewAGL and by some people in Actew. Our major security water projects are on general track. They are at a different stage, of course, because we are working through, largely, the approvals processes. As long as the approval processes come in around when we expect them to, we would expect them to be on track. But they are in another person's hands; so I am not always the one who says, "I am sure they are going to."

THE CHAIR: On track, for instance, with Cotter, what is the time frame we are looking at now?

Mr Sullivan: On track for Cotter would hopefully see all the approvals by July, to have us on the ground in Cotter in September.

THE CHAIR: With a projected completion of?

Mr Sullivan: 2011, mid to second half.

MR RATTENBURY: On page 113 of budget paper 3, it makes reference to borrowing since 1999-2000 of $630 million for capital works. When you said you could provide a breakdown of the capital expenditure to Mrs Dunne, is that the—

Mr Sullivan: No, I was going to give you a list of our current year's general capital works.

MR RATTENBURY: Because I am a newbie, can you indicate to me what that

$630 million has been spent on in the last seven years?

Mr Sullivan: I will take that on notice. It will be a range of major capital works programs. For instance, the biggest single piece of it would probably be the lower Molonglo water treatment works. That would be the single largest thing but new suburbs, reservoirs. We will see what we can put together in respect of it. I do not think it would be hard to put our capital works programs together for the last—

Mr McIlwraith: Other items are the major upgrade of the treatment plants at Googong and at Mount Stromlo. These are very expensive items that were required as we move through the drought.

MR RATTENBURY: Similarly, on page 113 it talks about the capital expenditure program for the coming year for Cotter, the Googong pipeline transfer et cetera. Are they the figures you are going to provide that Mrs Dunne asked for?

Mr Sullivan: No, they are the water security projects, which have been covered in our report to government of December. I can do a list of them for you again—

MR RATTENBURY: That would be good.

Mr Sullivan: but the general capital works exclude the water security projects and are, as I say, dominated by Googong spillway, lower Molonglo and new suburb development.

MRS DUNNE: If we could end up with essentially three lists, that would be good.

MR RATTENBURY: Thank you.

MRS DUNNE: On the matter of water security, the future water options report of 2005 sort of pointed the way. I noticed that when the most recent re-announcements of the Murrumbidgee to Googong pipeline were made—it now seems to be a project of, if I refresh my memory, $100 million, whereas in the future water options this was recommended as immediate action at the cost of $35 to $40 million, to be completed within the next two to three years, so probably completed by the end of 2008. What have been the factors that seem to have caused this big blow-out in cost between April 2005 and when the minister made his most recent announcements, which was March, I think, this year?

Mr Sullivan: I do not want to use the word "blow-out". I will have to go backwards in history. The number I was focusing on as a benchmark when I took over my responsibilities was that the ICRC, in its water regulation decisions of 2007, allowed $96.5 million for the Murrumbidgee to Googong pipeline. That was after some detailed design work and the regulator running through that design work and applying some of his standards against that. That came in at $96 million. In the report to government, we said that we expected that the final price would come in within about 30 per cent of that. I think I have said before here that I expected it to be up on the 96, and that is the number we are now moving towards.

The biggest single thing is this. This is a steel pipeline. Between 2005 and 2008, the price of steel rose by about 120 per cent. It is now stabilising. Hopefully, it may fall. But steel is major. Labour was also a major escalator—again stabilising, which is good.

Since I have been here, one of the things that we have been working hard at is to—we even thought we would benchmark ourselves. In benchmarking ourselves against others, we do pretty well in terms of initial lack of detailed design estimate versus final estimates versus final cost. We tend to always have a low estimate at starts, despite people trying to encourage it to be as reasonable as possible. We have a peer review to have it confirmed. Then, by the time we get to this target out-turn cost, the TOC, we generally see a fairly large increase.

Then we run from there, sometimes, understandably, fully. For instance, with the dam, when you look at two abutments and say that we are going to put a concrete wall between those two abutments, at that stage you do not understand the geology of those abutments as well as you will before you build them. You will see escalation, for instance, in dam prices as a result of the geology of the abutments.

With Murrumbidgee to Googong, the other major cost that we are incurring is that we do have an aim to have a 100 per cent voluntary acquisition regime in Murrumbidgee to Googong. We have seen three major variations to the design of the pipeline as a result of that. That gets costs. I think that when the TOC comes out that will probably be the best time to give you an analysis of the price movement over the years of that project.

THE CHAIR: What is the particular geology with, say, Cotter Dam that is causing price increases?

Mr Sullivan: It is basically an understanding of the nature of the rock and its capacity to stay remarkably stable, as you must, which determines how far you have to strip it back. We did our estimates on the basis of about four bore holes, which is a reasonably normal way of doing an estimate. We are now up to 38 bore holes. We understand it a whole lot more, and we are going to dig back a lot more rock probably.

MRS DUNNE: Could I just follow up on that question? One of the things that struck me about the announcement in March was that there did not seem to be nearly the price movement in the dam project that there appeared to be in the Murrumbidgee to Googong. Going back to the costs in the future water options, it was about $120 million, and it seems still to be at about that mark. I think it has gone up to about $130 million, according to the announcements in March. Why has there been such a comparatively big increase in the Murrumbidgee to Googong pipeline as compared to the sorts of increases that we are seeing or anticipating seeing in the enlarged Cotter Dam?

Mr Sullivan: I would love for us to have kept the price at the suggested figure. The dam prediction was 145.

MRS DUNNE: It was 150, sorry.

Mr Sullivan: In early 2008, the ICRC accepted an estimated cost of 145. We are working on an estimate of costs that we warned in that report could be 30 per cent higher than that again. I do think it is going to be something that the Actew board, which I am very interested in—is just trying to understand where the movement in costs occur across these major projects and taking it forward to understand and to work through where the answers are and, if there are deficiencies, where the deficiencies were in terms of the planning process. When we see these TOC numbers in the not-too-distant future, we will be able to do that work. Part of commissioning the TOC—and a request that I have made—is to seek some form of a reconciliation between the initial estimates, the ICRC estimate and the TOC.

MRS DUNNE: That would be very useful information.

THE CHAIR: Ms Burch.

MS BURCH: Going to budget paper 4, page 437, there is a list of priorities down there and building water security outside of capital works. The second dot point is "progressing arrangements for purchasing water from the Murray Darling Basin". How is that progressing and how will that—

Mr Sullivan: In their most recent decision, government gave us the go-ahead to proceed with what we call the Tantangara scheme, which involves the purchase of water—downstream Murrumbidgee water—the storage of that water in Tantangara, the release of that water from Tantangara down the Murrumbidgee and the transfer of that water from the Murrumbidgee to Googong across the Murrumbidgee to Googong pipeline.

We have purchased about 12½ gigalitres of general security water licence. We are still in the market. We anticipate that in the next short time, a few months, we will have the water licences that we want. The market is a bit crowded at the moment; we are just assessing whether we hold off a little bit longer and wait for it to settle down a bit or whether we pursue. We are also progressing the commercial arrangements with Snowy Hydro about the storage and release of the water. So that project is progressing well.

MS BURCH: If I may just follow on that page, the next dot point is around investigating and implementing appropriate carbon abatement strategies, including the major projects. Can you tell us what that is?

Mr Sullivan: Yes. Again, the Actew board made a decision, endorsed by the government, that we would compensate for greenhouse gas emissions caused by the construction and operation of the new water security projects. We have done a lot of work on that. We have committed to a number of greenhouse gas abatement measures, particularly around forestry, around the use of biofuels and around hydroelectricity within the Murrumbidgee to Googong pipeline. We believe that we can produce the full greenhouse gas emission abatements at a reasonable price, about $12.50 a tonne of greenhouse gas. We are proceeding to implement that policy so that we will abate.

We are a business where, as we build more infrastructure, we create emissions. And we are in an industry where—Canberra, ACT, has a very efficient water delivery mechanism in its traditional delivery processes: it uses gravity a lot, and pumps not so much. Everything we do new uses pumps, and everything we sometimes have to contemplate uses membranes and pumping through membranes. So the emissions from our water processing are much higher than those from our traditional ways of delivering water. But this will ensure that at least that increase as a result of these new projects will be neutral after our abatement measures.

MS BURCH: Would you propose then to put that thinking across all your future work?

Mr Sullivan: The board has asked for us to put that thinking across future works and to look at our existing operational footprint. To be honest—we had a good discussion about this at a committee inquiry on greenhouse gases the other day—it is hard work to get verifiable abatement strategies at a reasonable price. But you can do it. I think it comes as no surprise to everyone that the best dividend we got was getting the designers and the constructors to focus on the greenhouse gas emission result of their work and see what they could do to reduce it. That was probably our best abatement strategy, with about a quarter of a reduction in the emissions coming out of good design, good operation.

MS BURCH: So at that first point.

Mr Sullivan: That was at first point. That reduced what we had to abate. It is one thing to abate, but you should not just jump in and say, "Whatever it costs we will try and abate." It should be designed first to get that right—and then abate in ways which are good ways to abate.

THE CHAIR: Mr Rattenbury has a question before we break.

MR RATTENBURY: I want to follow up on something. You made a comment earlier that there have already been three variations to the pipeline design for the Googong transfer pipeline. Can you take us through what those have been?

Mr Sullivan: On the New South Wales side of the pipeline, there are a lot of landowners, a lot of small blocks. We had a first proposed pipeline, which I would describe as the engineers' preferred route, which probably did not worry too much about which properties it went through: it worried a lot about what impact it would have on environment, but not too much about the names on the properties.

There was then an approach by the community which asked us to rethink and see whether it could go closer to the road. We rethought that and we have then gone a route which goes closer to the road—still through a lot of properties, but closer to the road. Then, in respect of one of the major land holders, a compromise position appears to have been reached which does involve a different route through their property—in fact, sometimes into others' properties. That is probably part of the compromise, but we are working through that now. And as well as that there has been a call by a number of members in the community for us to consider the discharge from the pipeline to be further upstream in Burra Creek. We are working through the implications of that.

MR RATTENBURY: Upstream or downstream?

Mr Sullivan: Upstream.

MR RATTENBURY: I understand that the original thinking was to build the pipe underground. Is it now over ground?

Mr Sullivan: The pipe is underground.

MR RATTENBURY: It will be underground?

Mr Sullivan: Yes. There is a bit of mischief around this. The pipe is underground.

MRS DUNNE: Is it cut and cover or is it bore? Is it bored through?

Mr Sullivan: No, it is cut and covered.

MRS DUNNE: Okay.

MR RATTENBURY: And the reason for going upstream? You said the community raised that with you. On what grounds?

Mr Sullivan: We are considering it on the basis of an approach by the community in association with Palerang Council. Basically, there is a view that that section of creek upstream to our current discharge point is a degraded part of the creek. They believe that possibly the water discharging will, one, require us to upgrade the creek, and that it would have—I need to be careful here; I think these are their words: lesser environmental damage than downstream. That is rather than saying it is better. It is a lesser issue.

There have been some members in some public meetings you go to who said, "This is a unanimous view," and no-one spoke against it. We warned them that as soon as we got out of the meeting there would be some who would speak against it, and there have been some who spoke against it. But it is a response to a community view upstream that we are investigating that route as well.

MR RATTENBURY: Does that save you money, in building less pipe?

Mr Sullivan: It would save us a bit of money.

MR RATTENBURY: How much?

Mr Sullivan: I do not know yet. About the same cost as the third variation would cost us—probably, hopefully, come square.

MR RATTENBURY: Have you considered the option of piping all the way to Googong Dam?

Mr Sullivan: We have considered the option of piping all the way to Googong Dam. We dismissed it fairly early. One was on a cost basis: it is probably another $30 million to pipe it all the way. A second would be that that pipeline would in some way have to follow the course of the creek, and our early advice was that an underground pipe near the creek flow would probably cause far more damage than the flow of the water in the creek.

THE CHAIR: We will break for afternoon tea and continue with Actew Corporation before moving on.

Meeting adjourned from to 3.31 to 3.48 pm.

THE CHAIR: We will recommence with Actew Corporation. Do members have questions?

MRS DUNNE: Yes, please.

Ms Gallagher: Can I just table something before I forget it?

THE CHAIR: Sure.

Ms Gallagher: It is in relation to that table 5.1.1.

MRS DUNNE: I just want to go back to the debt that was being discussed, and it is outlined in the statement of corporate intent. It is not so much the debt, but the moneys that end up coming back to the ACT government. There are a couple of things that I wanted to question you on. Page 13 of the statement of corporate intent talks about net profit after tax, and the premise is that, by 2011-12, net profit after tax will increase because we will be on stage 2 water restrictions. What is the basis of that assumption? For the most part, Actew seem to be of the view that they want to have worst-case scenario planning. So why are we planning that by 2011-12 we will be on stage 2 water restrictions?

Mr Sullivan: We look at forward years levels of restrictions against the forecasts that we are getting—and these are not the forecasts for the immediate year, but out—the measures that will be in place or have been put in place to assist in terms of water supply and the proximity of time that we are getting closer to the delivery of the major water security projects. So while we look and say that if we saw average rain start now and continue for some time the prospect for 2009-10 would still be level 3 water restrictions. I do not think there is a basis to say that 2010-11 would be level 3 water restrictions, but we do not see them moving below level 2.

If you go back a year, you will see that we used the same assumption. For 2009-10 our assumption was level 2; it has moved back now to level 3. If we do not see an improvement in rain and, more particularly, inflow, we could easily find ourselves in a situation this time next year where we are saying, no, we will be staying on level 3. That does have implications for the ACT budget as well as for our own profit line.

MRS DUNNE: Okay. But at the moment your best advice is that by 2011-12 we should be at stage 2 water restrictions? That is a combination of functions of weather, inflow, runoff and engineering works that will increase our water supply?

Mr Sullivan: Yes. Some works have already helped us in terms of our water supply.

Our capacity to pump from the Murrumbidgee at Cotter, our capacity to take water out of the existing Cotter Dam, has certainly been one of the reasons why we are still at water storage levels supporting level 3 restrictions and not level 4 restrictions.

MRS DUNNE: Yes.

MR SMYTH: Just refresh my memory. When does level 4 kick in, at what point?

Mr Sullivan: We would start worrying about level 4 at about 30 to 35 per cent storage capacity. We would start really worrying about then. We would probably start worrying about level 4 when we got into any number with a 3 in front of it.

MR SMYTH: All right. What is the dam storage now, 43.6?

MRS DUNNE: 43.8.

Mr Sullivan: 43.6

MR SMYTH: Yes, and it seems to be going down point one of a per cent.

Mr Sullivan: Basically, if we had 90 days of rain-free winter, which would be you know, a pretty bad scene—and certainly the current forecasts are still slightly better than neutral for average rain—if we saw 80 or 90 days of no rain, no inflow, we would go down to levels which would certainly have us worried about level 4 restrictions.

MR SMYTH: All right. And the forecast for winter?

Mr Sullivan: The forecast for winter is slightly better than neutral.

MR SMYTH: And the forecast for spring?

Mr Sullivan: I do not think they have got one yet.

MR SMYTH: They do not? Okay. So what does that do for the dividend? For every per cent that it drops, what does that do to the dividend that you pay? Is there a corollary between the volume—

Mr Sullivan: No. It is between the restriction levels. Basically, while we are in stage 3 we know the volume of water that we will use. Stage 4 reduces that volume considerably. The price remains the same under the regulatory regime and the revenue will go down.

MR SMYTH: If we got to stage 4, how much would the revenue go down?

Mr Sullivan: I do not know it offhand, Brendan. I will take it on notice.

MR SMYTH: Certainly. Okay, that is fine. On page 51 of budget paper No 3, in the revenue under the dividends, the estimated outcome for 2008-09 against the budget is $69 million against $76 million, but that is because of activity, other activity undertaken and not reducing use of water?

Mr Sullivan: Water revenue is a very technical and difficult subject. It depends. I mean, we currently have the regulator's decision, which we work against. It incorporates assumptions on volume which, so far in this regulatory period, are overstated. The regulator's decision assumed a greater volume of water being available and sold than has been available and sold. That is certainly having an impact on our profit line in that if the actual amount of water that was available had been factored into the regulator's price decision the price would have been higher and the profit line would have been higher.

MR SMYTH: All right. Then, in 2009-10, it drops from an estimated outcome this year of $69 million to $55 million next year, or a drop of $21 million.

Mr Sullivan: Yes. That is a move from an assumption of level 2 to an assumption of level 3.

MR SMYTH: Okay. In the notes on page 52 it says that it is primarily due to lower interest income and lower forecast joint venture profits. Why is the income lower, and which part of the joint venture is not delivering?

Mr Sullivan: I will ask Simon Wallace, who works in our finance area, to help here.

Mr Wallace: With the joint venture, this year it actually included the sale of ActewAGL House, which would be classified as an abnormal item. That was probably a profit of about $5 million, Actew's share of that. Then also, just in terms of their forecast versus, they have had a very successful performing year in 2008-09, the ActewAGL joint venture. If they overmeet their targets or not next year, we still have to wait and see.

MR SMYTH: Right. So only getting $5 million for ActewAGL House was—

Mr Wallace: That was Actew's share of profit.

MRS DUNNE: That is $10 million.

MR SMYTH: But it says in the notes that the outcome is due primarily to lower interest income.

Mr Wallace: Yes. We borrowed $300 million in June last year, so we have had a full year this year of $300 million. Then we have got another $200 million, which we forecast to borrow at the end of this year.

MR SMYTH: All right.

Mr Wallace: So there is another full year of interest borrowings in 2009-10, but we are still under stage 3 for both years.

MRS DUNNE: Mr Chairman?

THE CHAIR: Yes, Mrs Dunne and then Mr Rattenbury.

MRS DUNNE: I want to go back to Actew Corporation’s priorities, both as they are expressed in the budget papers and in their statement of corporate intent. I want to ask Mr Sullivan why there appears to be very little emphasis on the energy side of Actew’s interests in any of those statements of corporate intent.

Mr Sullivan: ActewAGL basically cover most of the energy needs of the ACT, rather than Actew directly. Our interest in energy is our interest as an owner of the ActewAGL partnerships that form the joint venture. We basically talk about our responsibilities as a holding company, as an owner, which encompass all sorts of things. Through that we do not have an overly ambitious mandate in respect of energy, although we get involved from time to time.

MRS DUNNE: I suppose that is the flavour that you get from especially the statement of corporate intent, because the only mention really of energy is in relation to the joint venture partnerships and there does not seem to be the emphasis on energy efficiency in the same way as there is on water efficiency. Why is that?

Mr Sullivan: We are not asked to. I mean, we do water efficiency partly as part of our role as the owner of the water assets and the distribution of water in Canberra but also partly because of the fact that government has asked Actew to assume some responsibilities in respect of water conservation and to participate in its whole-of-government work in respect of other water projects.

So, one, we have the water conservation office as a function which has been given to us by government and, two, we do a lot ourselves in terms of the saving for life campaigns and in terms of how you can reduce your water consumption, including the garden workshops and that sort of thing, but we also work with the various government departments and agencies in terms of pushing forward in respect of demand management, in respect of permanent water conservation measures, in respect of water reuse, in respect of sewage reuse or whatever and even in respect of storm water, but they are an ancillary interest to us.

In terms of Actew involvement with ActewAGL, we have board members who participate fully in terms of the governance and strategy of ActewAGL, but it is really that corporation who looks after the energy side of things, not us.

MRS DUNNE: But the government have foreshadowed that they will be bringing out an energy policy. If there is a move towards energy efficiency, will there be a role for energy efficiency measures and education and participation similar to the water efficiency program that Actew currently undertakes?

Mr Sullivan: I think the government is already into measures around electricity and energy efficiency generally. I think they chose us for water because of our direct engagement in the supply and distribution of water around the ACT. We do not have direct engagement in the supply and distribution of electricity or gas around the ACT; we have an owner’s interest. So I would doubt it.

MRS DUNNE: You would doubt it?

Mr Sullivan: But if they did, we are always in the business.

MR RATTENBURY: You spoke earlier about purchasing water out of the Murrumbidgee irrigation area. You said you had already purchased 12.5 gigalitres. Can you tell us the price per gigalitre?

Mr Sullivan: I will tell you that the market price for water is around $1,200 to $1,400 for a megalitre of water and we are operating within that market. There is an intense market out there at the moment. The commonwealth is a big player. South Australia is a big player. I do not think any buyer is actually declaring the exact price, but we are operating in that range. We have got less than 10 contracts. They vary across that range. The market moves at about five to eight per cent up or down each month.

MR RATTENBURY: You say the market is very crowded at the moment. I presume that is pushing the price up?

Mr Sullivan: On general security water, it does not seem to be pushing the price that much. General security water licences do not buy you water; they buy you a licence and then you need an allocation. In the current drought, there is not much allocation going on. Probably the more vibrant markets are the temporary water market, where you buy current, existing water off a licence holder, and the high-security water market where the allocation rates are very high. I think temporary water is currently costing $450 or so a megalitre; high-security water is around $3,000-$3,500 a megalitre. Where we are, of course, is: we are looking for water which we would hope to utilise in 2010-2011. We are a few years out and—

MS BRESNAN: Sorry, the permits you have are secure permits for that water from Tantangara?

Mr Sullivan: No, we are buying general entitlements.

MR RATTENBURY: I thought you said you were buying high-security entitlements.

Mr Sullivan: No. We are going to convert. There is a scheme in New South Wales which has currently a moratorium on till the end of June which allows you to convert a general water security licence to a high-security licence.

MR RATTENBURY: And presumably you pay more when you make that conversion?

Mr Sullivan: You reduce your licence quota. Pre-moratorium, you needed about two for one. For every two megalitres of general water security, you got one gigalitre of high security. That moratorium remains in place and until it is lifted we cannot convert. But, as I say, we are probably one of the longest players in the water market in terms of when we want water. It is not like South Australia, whose immediate need is now, and it is not like some horticulturalists who are still buying water off licence holders.

MR RATTENBURY: But you aim to have 20 gigalitres of high-security water permits?

Mr Sullivan: We aim to have 10 gigalitres of high security.

MR RATTENBURY: The other 10 is—

Mr Sullivan: Currently we have got 12½ of general security licence. That is equivalent to about six high security. We want to buy another eight general security, which is the equivalent of four high security, taking us to 10 high security. We want 10 gigalitres of water.

MR RATTENBURY: Is that per annum?

Mr Sullivan: Yes. The licence is a perennial, a forever, licence. You hold that entitlement. It is a once-off payment.

MRS DUNNE: The $1,200 to $1,400 that you are currently paying per megalitre—

Mr Sullivan: Is forever.

MRS DUNNE: That is a one-off cost?

Mr Sullivan: No. That gives us that entitlement. It is a one-off cost and that gives us that entitlement for an ongoing future.

MRS DUNNE: But then you have to purchase the water every year under that—

Mr Sullivan: No. If you get the allocation, you do not purchase. So if it rains—

MRS DUNNE: Sorry, but you do not have an allocation?

Mr Sullivan: No, we have no allocation yet. But if you get an allocation, which is depending on rain and flows, in general security, you can either sell that water or use it. If we had an allocation right now, we would probably sell the water. There is a willing market out there and we would sell the water.

MRS DUNNE: You do not have the means to pump it to Googong at the moment?

Mr Sullivan: No. We could, for instance, release it from Tantangara and pump it from Cotter but that is not a very satisfactory answer.

MRS DUNNE: Let me clarify that. Once you convert this to a high-security licence and you obtain an allocation, is it axiomatic that you will, if you convert it to a high-security licence, have an allocation?

Mr Sullivan: History says so.

MRS DUNNE: History says so?

Mr Sullivan: The law allows for an allocation to take place and, even in the harshest years so far of drought, those allocations have been in the mid-90 per cent of your entitlement.

MRS DUNNE: And how much do you pay on an annual basis for that entitlement?

Mr Sullivan: No, you do not pay.

MRS DUNNE: So it is only a one-off charge?

Mr Sullivan: It is a one-off charge. You have then got your water.

MRS DUNNE: Once you have converted to a high-security licence?

Mr Sullivan: Yes. To manage your water, you have to pay. We have to pay for it to be managed out at Tantangara. But no, that is the capital cost of our water.

MRS DUNNE: And what are the management costs to manage it out at Tantangara looking like?

Mr Sullivan: The management costs of Tantangara, as reported in the 2008 report, were up to $6 million a year to manage 10 gigalitres of water—to store and manage. That cost is largely a lost opportunity cost for Snowy Hydro because, if the water goes down the other side, it goes through several hydro-plants; and if it comes down our side, it does not. So Snowy Hydro forgo revenue. The largest management cost is basically a forgone revenue cost to Snowy.

THE CHAIR: We will be finishing up in a couple of minutes. Mr Rattenbury and Mr Smyth have questions and then Ms Burch.

MR RATTENBURY: If I can quickly turn to page 441 of budget paper 4, there is a reference to property, plant and equipment as a line item. Could you quickly outline what that line is about, particularly the significant increase between 2010 and 2011?

Mr Sullivan: That is basically the water security project coming on line. When you build a very large plant, your property in the plant goes up by, hopefully, at least the same amount of money as you have borrowed and spent.

MR RATTENBURY: The other thing I want to ask is: where in the budget papers is Actew's advertising budget detailed?

Mr Sullivan: It is in our annual report. Our annual report is lodged and subjected to scrutiny here. There was a question answered in the last hearing which outlined our advertising budget but it is not in the ACT government's budget papers; it is in the Actew Corporation annual report.

MR SMYTH: Just before we went to afternoon tea, we were talking about the pipeline. I have a couple of questions. Why does not the pipeline follow the existing easement for the TransGrid power line?

Mr Sullivan: I did not think the TransGrid power easement went that way.

MR SMYTH: My understanding is that there is a power line about a kilometre, a kilometre and a half, south of where you are proposing to put it.

Mr Sullivan: The TransGrid power line is an ActewAGL issue. I will get the answer but—

MR SMYTH: That is the next question. Have you had discussions with ActewAGL about—

Mr Sullivan: We are in continual discussions with them over the various easements. We have three easement issues currently down there. One is the transmission lines into the TransGrid substation. Two is the transmission lines called the southern feeder out of the substation; and three, the water pipeline. We have added into that equation the possibility of the property on the ACT side being a suitable one for solar; so we are also talking about how to manage the various elements of that property to ensure that we have as much ground as possible available to a solar proponent.

MR SMYTH: Has Actew had discussions with ActewAGL about the gas-fired power station?

Mr Sullivan: Actew is as aware of gas-fired power stations as probably anyone is in terms of the history of it, it being about five years that they have been talking about one and then they announced a feasibility study. Clearly, we have been engaged with them in recent discussions, which were really saying that a gas-fired power station must be, in the end, a possible result from an energy policy of government rather than a corporation going ahead and saying, "You need one of these." Effectively, our perspective and that of ActewAGL is that they are looking forward to the energy policy of government and seeing whether there is a need for a gas powered or a generation capacity using fossil fuels in the ACT.

THE CHAIR: Going back to that previous question—I am not sure whether you took it on notice or not—in relation to the easement for the TransGrid power line, will you get back to the committee in relation to—

Mr Sullivan: As far as it relates to a possible usage in terms of the Murrumbidgee to Googong pipeline, yes.

THE CHAIR: That would be great.

MR SMYTH: At some stage, a pipeline would come from the eastern distributor to the gas-fired power station. Has ActewAGL asked Actew whether they can see—

Mr Sullivan: No. There is no plan for a gas-fired power station on the books of anywhere. This is very important. What I have been reassuring Burra residents about is that basically the view of Actew and ActewAGL is that there is no on-the-table plan for a gas-fired power station until such time as we see the outcome of the energy inquiry, the energy policy review that the government is doing.

THE CHAIR: When did this get shelved? When did the plan get shelved?

Mr Sullivan: There has been a view that it has had a life greater than its life. It went from a feasibility. I think a gas-fired power station is basically feasible almost anywhere but clearly the primary intention of that land is to utilise it, one, for easements in respect of the power lines and the pipeline; and, in more recent times, we have announced that we intend using the land as a possible solar site and certainly as a site for both compensatory and greenhouse gas abatement plantings.

THE CHAIR: I just wanted to clarify that because there were media reports last year, in June, I believe, of a plan for a gas-fired power station in the Williamsdale region.

Mr Sullivan: Again, it is something—

THE CHAIR: When was that shelved?

Mr Sullivan: Actew has never had plans for a gas-fired power station. ActewAGL announced a feasibility study. Actew now owns two blocks of land in that area. As soon as we bought those two blocks of land, we articulated what they were going to be used for.

THE CHAIR: So it is your understanding then that ActewAGL does not have any plans for such a power station in the ACT?

Mr Sullivan: They may have aspirations but currently I know the agreed position is that it would be subject to the identification of a policy need for power generation other than solar.

MR SMYTH: Of the two blocks of land, there is the old Nash property. Does that mean you have acquired some more property as the second?

Mr Sullivan: Yes.

MRS DUNNE: That site as a solar-powered station is in addition to the two sites announced last week by the government. The sites announced last week are crown properties, I understand.

Mr Sullivan: I think the government announcement made it clear that here are two options which are crown land and the proponents would also have the opportunity to select their own sites. We are basically saying we believe we have a very suitable site for proponents to consider.

THE CHAIR: Ms Burch, then we will hear from Mr Smyth and we will finish.

MS BURCH: They are very quick questions. At page 437 of budget paper 4, the fourth last dot point is on investigating and implementing a smart metering pilot. Can you tell us a little bit about that?

MRS DUNNE: That was my question as well. Thank you.

Mr Sullivan: Yes. We have got the determination from the price regulator in respect of the smart metering project. It was not what we asked for but we have gone back and re-scoped what we can do. We are in the process now of selecting equipment and choosing a pilot group to test the smart metres. I believe a thousand homes will be the trial.

MS BURCH: And it makes the user smart of their usage or what? Is that what the "smart" is?

Mr Sullivan: Yes. It helps us and helps the user. The piece of equipment that we are leaning towards—we have not selected it yet, so I will not name it—basically looks a bit like an iPod. They have largely been used for electricity rather than water. It is being adapted for water and will give the user an immediate understanding of when water is being used and an indication of the variation in the use of water as various uses of water are put into play.

You will be able to see why an eight-minute shower uses as much water as it does and why you should have four-minute showers and you will be able to tell why you should have trigger hoses, why you should not overwater and why you should wait, if there has been some rain or if there are some cool temperatures, and not have to water every second night because the restrictions say you can. I think it will be very good for consumers; it will be good for us.

THE CHAIR: It will include usage and cost?

Mr Sullivan: No, I do not think the screen will give you a cost but it will certainly give you a usage.

THE CHAIR: You had one more, Ms Burch?

MS BURCH: It is an unrelated question but it is my last one.

THE CHAIR: We are wrapping up. Go ahead and then we will finish with Mr Smyth.

MS BURCH: The second last dot point was on contributions to community organisations and supporting events and initiatives. That will continue?

Mr Sullivan: Yes.

MS BURCH: We have heard from community groups that there is a general squeeze on; so you will be maintaining your support?

Mr Sullivan: Certainly in our forward budget we are holding that support and I have not heard anything, certainly from the board or the shareholders, to suggest that they do not see Actew playing its part. Ours is not a huge role but it is significant for those whom we support. I think it will continue.

MR SMYTH: In terms of the financial statements in the annual report, I notice there is a section called team management personnel remuneration. Can you tell me how many people are covered by that section?

Mr Sullivan: It is the directors plus executive plus a few others. I could not tell you the precise number.

MR SMYTH: Do you want to take that on notice? I am intrigued—noting that Actew is a public, unlisted company—about the requirements set up by ASIC that Actew detail the remuneration—

Mr Sullivan: I will get you a copy of the reporting requirements which cover Actew.

MR SMYTH: Do the shareholders have a role in determining the salary of senior executives?

Mr Sullivan: No. My salary is determined by the board of directors acting as a remuneration committee of the board. The salaries of senior people in the organisation are determined by me in consultation with the board. The directors' salaries, including the chair, are decided by the shareholders, with a reference to a remuneration tribunal to assist them.

MR SMYTH: Could you repeat that last thing about the shareholders?

Mr Sullivan: Yes. The directors' fees, including the chair of Actew, are determined by the shareholders, with a reference to a remuneration tribunal to guide them.

Ms Gallagher: And they are published in the—

MR SMYTH: I understand. Probably this is more for the minister. If the shareholders are not involved in agreeing to the remuneration of the senior management, what capacity is there for the ACT community to scrutinise these decisions?

Ms Gallagher: I think the role of the shareholders is to ensure and, indeed, make appointments to the board. It is the board's job then to manage the affairs of Actew. Shareholders get frequent reports through the board on the management of Actew. We presume, if and when there are issues on it, that it is raised with us. That is our responsibility as the shareholders, not to micromanage the appointment process and employment arrangements of individuals within the corporation. I thought we had answered this as a question on notice for you but maybe—

MR SMYTH: No, not to me.

THE CHAIR: I think you refused to answer, which is perhaps why Mr Smyth is asking the question.

Ms Gallagher: I do not think that would be the case. I do not think I have ever refused to answer a question, from memory.

THE CHAIR: I think you did. You refused to give the details. I am not quite sure why this is a secret.

Ms Gallagher: No, I did not refuse to give the details. I think, in response, we indicated that there was not a requirement, outside of publishing the directors of the board's remuneration, to report, in addition, on the employees at management level within the Actew Corporation. I think I did go back and have a look at the requirements under the act. I actually remember this. This was a media release, I think, that you put out.

MR SMYTH: No, not that.

THE CHAIR: This is quite separate from a requirement.

Ms Gallagher: I am pretty sure there was. There was something that was done.

THE CHAIR: This is a question of when a committee asks a question—and we are asking about taxpayers' dollars—why this needs to remain secret. You are putting that position that, because you legally do not have to publish, you should not publish. We have asked the question and the question is why it needs to remain secret.

Ms Gallagher: Yes. I did get some advice on this at the time. I am just trying to recall what it was but I was comfortable with the advice when it was given. I might try to get somebody to run that down and we can go through it. It is not about being secret. My view on these matters is that we always provide whatever information we can to the community to ensure that they have that trust and—

THE CHAIR: So you are telling us that you cannot provide that information, that it is actually unlawful in some way for you to provide it?

Ms Gallagher: Let me get it. Let me pull it back down. This is about a month ago. I just cannot recall the specific details but certainly, once I read it, I was comfortable with the answers that I have given about why we do not report.

Mr Sullivan: I think largely it was to do with a very interesting debate on the corporatisation of Actew and why—led by another government at another time—and it contains many of the answers. If you want to set up an unlisted, public corporation and you ask it to report, ASIC provides the framework of reporting and it seems to be a question of whether you go outside that framework, having decided that and using quotes like: "We do not want this to be a public service organisation. We want it to run under commercial lines." Commercial lines of an unlisted public company are that boards set remunerations and shareholders at an annual general meeting, if they are concerned about issues within that corporation, including remuneration, can raise them. I think for an organisation which has delivered as Actew has delivered, it would be one of the minor issues that the concerns of a shareholder are whether you are managing your senior salaries budget well.

THE CHAIR: Sure. But I think the point, from the committee's point of view and certainly from my point of view, is that the shareholders represent the people. The two shareholders of Actew do represent them, and ordinary Canberrans do not get to go to these meetings and find out and it is our duty to try to scrutinise what you do.

Ms Gallagher: Yes, sure. If the committee has—

THE CHAIR: I put it again to the Treasurer why you would not be able to release this information.

Ms Gallagher: If the committee has a view about this, I will gladly respond to a recommendation. But I should say, in the history of Actew—which is what, now 15 years old, 1994 was it?—this has never been reported. And it has never been an issue.

THE CHAIR: I am not sure that is true.

MR SMYTH: But it has been made public in the past.

Mr Sullivan: No, it has not been reported. I can confirm. We have done the history.

THE CHAIR: In terms of it being made public through committee hearings, I have a recollection of previous estimates hearings, I believe some years ago—

Ms Gallagher: Of every single staff member in the organisation?

THE CHAIR: No, not necessarily, but certainly some details were given in relation to this. We need to wrap it up. Perhaps, minister, you can come back to the committee as to why you do not believe it is reasonable to give out this kind of information. Thank you very much, Mr Sullivan, Mr Wallace.

Mr Sullivan: Thank you.

THE CHAIR: We will now move on to Rhodium. We welcome Mr Ken Moore from Rhodium Assets Solutions. Mr Moore, would you like to make an opening statement? And could you just indicate that you have read and understand the privilege statement.

Mr Moore: I have read and understand the privilege statement. No, I do not want to make an opening statement.

THE CHAIR: I will throw it open to questions. Mr Smyth, and then Ms Burch.

MR SMYTH: Minister, in the Assembly in May you tabled an amended strategy for Rhodium. It mentions a modified statement of corporate intent. What was the modification between February 2009 and May 2009? Or is that the statement of intent that was just tabled?

Mr Moore: The original statement of corporate intent for 2008-09 that was tabled in February did not fully reflect the current position with the wind-down of the company. Because we are making significant progress, we felt it worth while to table a modified statement.

MR SMYTH: What are the significant changes in the modified statement?

Mr Moore: Since the government announced in the middle of last year that they were winding Rhodium down, a number of events have occurred in that wind-down. The biggest challenge we have got is finding an alternative provider or alternative providers for all the equipment leases that are on our books. When they made the wind-down decision in July, we had a bit over 4,000 leases, and they went out to the year 2018. No-one wants the wind-down of Rhodium to take that long, so there has been a strategy of looking at those leases in different categories and coming up with a solution as to how we can either early terminate those leases or have them refinanced through another provider.

The progress we have made in recent months is reflected in the modified SCI. For example, we stopped writing new business towards the back end of last year. That has meant that the number of leases under management has, naturally, declined because we have not been writing new business—except for a few categories such as the ACT government fleet, both passenger and light commercial, and also some operating leases, particularly for TAMS. And we are still writing a limited amount of business for ACT public servants for salary sacrifice vehicles.

In recent months, the territory has found another provider for the ACT government fleet of passenger and light commercials. That contract was signed in late April. We are working with the territory and the buyer to transition those vehicles across, hopefully by the end of May. A few things have to happen before that, but we are all reasonably confident that about 1,000 vehicles will go across to another provider at the end of May or shortly thereafter. Rhodium will keep a limited number of those ACT government fleet vehicles, because their leases mature within the next three months and there was no point in moving them. If this timetable can be met, Rhodium will cease providing fleet management services for ACT government fleet vehicles completely by about the end of July.

Another major customer has been ActewAGL. We have provided finance and fleet management services historically for about 440 of their vehicles. In late 2008 they moved their new business to another provider. We continue to service their existing leases through Rhodium. We are in the process of moving those existing leases—most of them—to another provider as well. We have moved two tranches of vehicles—about 150 of them to date—and we have got two more tranches to go at the end of May and the end of June, which will move the majority of the ActewAGL fleet across to another provider. With the remaining vehicles, it is a little bit like the ACT fleet: their leases mature by about October or November this year and they will remain with us until then.

The last remaining category of leases we have is the rest, which are the remnants of our novated leases and about 200 operating leases that are mainly for TAMS and the ACT government. We would expect by the end of October to have about 1,200 of them left. We have just released a tender to the market seeking a buyer for those 1,200 leases.

The last remaining categories—there are about 100 miscellaneous leases where we will need to do direct negotiation with the individual lessees rather than put them in the RFT. They include the Brumbies vehicles, for example—the sponsorship we have that runs through to the end of the year. Those vehicles will be returned to Rhodium at the end of that period; obviously there was no point in putting them in the tender.

The whole intention of the strategy is to try and enable the wind-down to be completed in terms of the company trading by the end of the calendar year—do completion accounts, have them audited, do the annual report and, hopefully, complete the wind-up by about March next year. That, obviously, relies on this tender process that we have just started being completely successful. We have had reasonable interest from the market. We released an expression of interest to 18 leasing companies. Nine of them expressed interest in coming into this process. As I said, we released the RFT to the industry last week. That process will take some months to complete.

MR SMYTH: Okay. The new provider is who?

Ms Gallagher: For which one? For government or for Actew?

MR SMYTH: Let us run through them all. For approximately the first thousand?

Mr Moore: That is for the ACT government fleet. That is a company called sgfleet Australia.

MR SMYTH: And the new business for ActewAGL?

Mr Moore: Toyota Fleet Management.

MR SMYTH: And the 440 vehicles, the first 150?

Mr Moore: That was Toyota.

MR SMYTH: The rest?

Mr Moore: Open to the market.

MR SMYTH: And the miscellaneous is open to the market?

Mr Moore: Yes.

MR SMYTH: The emergency services vehicles, the fire trucks et cetera—are they leased or owned outright?

Mr Moore: We generally do not provide them to the Emergency Services Authority. I think we have got about two operating leases for four-wheel drives with ESA, from memory, and that is it.

MR SMYTH: Thank you.

THE CHAIR: Ms Burch?

MS BURCH: My question was “when?”, but I think you have explained that. So you are looking at the end of the calendar year to have the various new providers in place in that transfer and a wind-up by about March next year.

Mr Moore: That is right.

MS BURCH: Will your staff be displaced out of Rhodium in the wind-up over the next nine months or is there significant staff loss already?

Mr Moore: We have had a huge turnover of staff, because of the uncertainty of the future of Rhodium, over the last two to three years. There has been a regular turnover, and that has continued. It has been a key risk for us, to keep enough corporate memory going for business continuity. But, because of that uncertainty, all the employees of Rhodium bar a handful have been on fixed-term contracts. The contracts have been extended to 31 December 2009. That is when they will have an expectation of them not being renewed, unless our tendering strategy is unsuccessful. To date, we have had to make only one person redundant through this process.

THE CHAIR: You said sgfleet have purchased—is it the first 1,000?

Mr Moore: They have won the contract for the ACT government fleet of passenger and light commercial vehicles. That number is close to 1,100, and we will transfer about 1,000 of those vehicles, hopefully, at the end of May. We will keep the responsibility for about 100, because their leases mature by 31 July, at which point we will be out of the ACT fleet business and sgfleet Australia will be supplying all those vehicles. So there is a transition period of a couple of months. While the leases mature for these old vehicles—100 of them—we will keep doing that. Their replacements will be provided by sgfleet during that period.

THE CHAIR: And the value of that transfer?

Mr Moore: Probably a bit over $20 million in terms of what we owe ACT Treasury, because these vehicles are internally funded by government—and what sgfleet Australia will have to pay us out for the transfer of those vehicles. That represents the 1,000, not the 1,100—that have actually been transferred.

THE CHAIR: Thank you very much, Mr Moore. We will move to the ACT Gambling and Racing Commission. I welcome Mr Greg Jones. Mr Jones, could you firstly indicate that you have read and understand the privileges statements for us?

Mr Jones: Yes, I have read and understand the privilege statement.

THE CHAIR: Would you like to make an opening statement?

Mr Jones: No; I am just happy to answer questions.

THE CHAIR: Ms Le Couteur?

MS LE COUTEUR: I want to go to budget paper 4, page 415, describing your key priorities. You have got “developing and enhancing the Commission’s community education program relating to problem gambling”. I have got two questions. One of them is no doubt due to my lack of understanding of how to read these papers. That question is: how do I work out how much money you are actually spending on this? I have failed to do that. Secondly, can you tell me a bit more about the program?

Mr Jones: Certainly. One of the commission’s functions under its control act is to provide education to the community. That can be through problem gambling issues or it could be to the licensees that we regulate.

In terms of problem gambling issues, over the year we run several campaigns educating basically the community, which is the gamblers. Last year, if I could perhaps start where our current campaign commenced, we identified, through consultation with Lifeline counsellors, that a lot of people were not going to counselling who perhaps needed to do so. We started a self-help campaign. We developed, in consultation with Lifeline, a range of brochures which would help people to assist themselves, or to assist a family friend or member who may have a bit of an issue with gambling, on how they could perhaps reduce their issues or problems.

This year we launched—just last week; in fact, the Treasurer launched it—Responsible Gambling Awareness Week. We issued a series of television commercials based on the self-help principles, giving some information to gambling patrons on how they could perhaps reduce their losses or control their behaviour in terms of excessive expenditure on gambling.

In terms of the level of expenditure, the brochures we developed last year cost in the order of $6,000 to $8,000. The TV campaign—the development of that campaign cost about $47,000 and the running of the three ads over the next month is in the order of about $45,000.

MS LE COUTEUR: This is probably a question to the minister rather than to you. Where would I find that financial in the budget papers? I have shown my ignorance of them, but I just do not understand how I can do that.

Mr Jones: In the budget—

Ms Gallagher: In terms of how much is spent on gambling assistance and support?

MS LE COUTEUR: Yes. There are lots of things I cannot find, and this is one that I was particularly looking for. You also give money to Lifeline, I believe.

Mr Jones: No, we do not. The commission does not. That is done through the community services department.

Ms Gallagher: Through DHCS, yes.

Mr Jones: The budget papers do not go into that level of detail in terms of expenditure on problem gambling. It is just part of our ongoing costs. Our annual report provides a lot more detail of exactly what our activities are and what our detailed expenditures are. In terms of the budget papers, no, that level of detail is not there—but it is in our annual report.

MS LE COUTEUR: Okay.

THE CHAIR: Ms Bresnan?

MS BRESNAN: In relation to that, and you may have already answered it, because we have also got there, I see, that one of the objectives is to monitor and research the social effects of gambling, problem gambling. Is that something that you can do in conjunction with groups like Lifeline? I think you have noted that you spoke to them in developing the education programs. Is that the sort of activity that that encompasses?

Mr Jones: Yes. There are related but two separate exercises. We monitor all research undertaken by organisations, particularly tertiary institutions, pretty well around the world. There are a lot of very good websites which we monitor on a weekly basis. But even with research within Australia, there is significant research being conducted there. Gambling Research Australia, an organisation sponsored by each state and territory in Australia, including the ACT, is established under the Ministerial Council on Gambling. It funds, through the states and territories, regular research into gambling and problem gambling. We are actually participants in that. Of course, we have our arrangement with ANU where we get specific research which we, the commission, ask—and pay for, obviously—ANU to conduct on our behalf. That is ACT-based research, so it is very specific to our needs and what our requirements are.

THE CHAIR: What has been the latest in that research? Obviously, now, we are a reasonable way down the track with a number of measures aimed at reducing problem gambling, for instance, note acceptors and the like, changes there. What has been your assessment in terms of what has worked and what needs to be looked at in the future?

Mr Jones: We, the commission, in combination with Lifeline and other groups that we consult, obviously monitor what happens in the community fairly closely. I guess of more specific relevance is that the Ministerial Council on Gambling about 12 months ago commissioned three specific national working parties to look at a national approach to gambling and problem gambling. The three working parties were due to report in February of this year, but the meeting was actually postponed and is now scheduled for July. So we are actually waiting on the outcome of those three official working parties to report through ministers.

They looked at three areas. One is access to cash, for example, ATMs or other ways of getting cash while at the gaming venue. The other working party looked at gambling environments, which is the way a system is set up, for example, the lighting, the layout, that sort of thing. The third working party looked at the technical design of the gaming machine and whether there is a way of reducing problem gambling through the machine’s design, such as slowing down its spin rate, that sort of thing.

So, really, to get a global—meaning a national—look at some of those research results where there has been a lot of work done in these working parties, we are just waiting on those reports to come out. We will be looking at the results of those reports, which will be coming out through ministers in July, and also the Productivity Commission, which is undertaking a fairly significant study into the prevalence of gambling and problem gambling. We would obviously be sweating on the results of that report, which were due at the end of this year, but that is likely to be in the first half of next year now. They are running a bit late with that because of the complexities.

THE CHAIR: Well, minister, if I can—

Ms Gallagher: I think, in 2004, when the note acceptors were banned here, clubs reported about a five per cent drop in gaming revenue, but that it reverted back a year after. So if you talk to clubs, they will say note acceptors have nothing to do with it, and they should be reintroduced. Data I saw in New South Wales said that problem gamblers are eight times more likely to use $50 machines if they are available. So, as Greg said, I think it is waiting for some broader research. I think the biggest single decline we have seen in gaming revenue has happened with the smoking bans. The revenue went down by just over nine per cent, and if you talk to clubs they will say they have not recovered from that.

THE CHAIR: This is where it gets tricky, and I am interested in your views, minister, because simply a slowdown in revenue does not speak to how we are going with problem gamblers necessarily. It simply speaks of a slowdown in revenue. So what extra analysis has been done to look at the effectiveness of some of this, putting aside, you know, whether revenue goes up or down, how it actually impacts on problem gamblers?

Ms Gallagher: Yes. I think the latest local figure we had was around a population of 6,000 problem gamblers. I know the commission is doing some extra work to update that figure, which we think is a bit old now, so some local analysis, rather than just waiting for that national view.

Mr Jones: Yes. In the national context the Productivity Commission will come up with a national average, if you like, which we can benchmark against. The latest prevalence study we had done in the ACT was published in 2001, which found something like 1.9 per cent were problem gamblers, which equated then to around about 6,000 people. We have just commissioned the ANU to do an updated prevalence study in the ACT with a fairly significant sample size so that we can get proper, decent data. That will be available early next year so we will have a much more accurate view of what the rate of problem gambling is. Obviously that survey will be a fairly detailed one, so it is going to take a while to put together. They will be asking questions of ATM use, how often do they visit, where do they visit and what their preference is. I think that updated prevalence study will answer most of your questions then, and that will be able to be benchmarked against the Productivity Commission report as well.

THE CHAIR: All right. Thank you. Ms Burch?

MS BURCH: Following on from that discussion, also on page 415 there is talk that the commission, in discharging its responsibilities, undertakes broad community consultation and performs its functions in the best way to promote public interest. The third dot point talks around community engagement strategy. Can you talk to us a little bit about how you go about your community engagement strategy and your key stakeholders?

Mr Jones: Sure. If we are having a review of legislation, for example, we engage the community directly and, through our business, the business stakeholders—Clubs ACT or whatever the lobby groups are. In general terms, we have a consultation group called the Gambling Advisory Reference Group. We meet at least once a year at the request of the members of that committee, which include ACTCOSS, Lifeline, multicultural groups, Council of the Ageing and the Churches Council. If they want an extra meeting, then we are always happy to meet with them.

We run down what our program is for the year in terms of research and what is coming up. We get feedback from that group on what is concerning them at the moment and where they see issues are coming up. We also go down other areas which they have identified which they may wish to pass on to us, given their experience—it is a fairly diverse group—which we feed into our research program with ANU in future. That group is our primary consultation group.

I guess in broader terms we have regular meetings with industry lobby groups such as ClubsACT and directly with the casino. I think we have a monthly compliance meeting with the casino on how they are going. So it is obviously not just problem gambling issues, but it is also on compliance with their statute and how they are going with that. Also, on both a national and—where it is relevant, at conferences—international level we speak with our colleagues from interstate and things like that in terms of issues which we can then feedback into our local community to make sure that we can benchmark against what we are doing from a regulatory and a problem gambling perspective with our local area so that we are always on top of that.

Ms Gallagher: In the next 12 months or so one of the big pieces of work we will be doing is discussing with the industry a reallocation scheme for gaming machines and also a possible reduction in the cap. We are at cap virtually now—5,200. A draft discussion paper is almost out or a discussion paper is almost out, if not already.

MS BURCH: And that is on maintaining the cap, but then moving them around?

Ms Gallagher: We are putting in there the idea of a reduction in the cap as well. A review of the cap, which was done by the commission, recommended that the cap just be maintained, but the government is seeking views from industry around reducing the cap, possibly to 5,000. There will be mixed responses to that. Canberra is still growing and there will be more clubs established in Gungahlin and Molonglo that will want access to licences, so we are putting it out there and awaiting views. There is a lot of interest in a reallocation scheme.

THE CHAIR: What kind of options are you looking for in terms of reallocation?

Ms Gallagher: I have not formed a view on it and I understand that there will not be a unanimous view from the club industry either. There are obviously clubs with lots of machines. There are clubs with lots of machines which are not being used all the time. If you look at their, what is it, utilisation rate, is that how you measure these things? There are other clubs that would like more machines. There are smaller clubs that would like to retain their machines and do not want to be preyed upon by larger clubs. I understand that there are some mixed politics going on here. I do not think there will be a unanimous view about how we could look at that, and that is why, in a way, I would like to link a discussion of transfer with a reduction in the overall cap.

THE CHAIR: Mr Smyth?

MR SMYTH: Just looking at the priorities, clearly problem gambling occupies a fair proportion of your time. Minister, this is probably more for you, but when we look at both the strategic indicators and the availability indicators, there is no measure as to whether or not we are winning the war against problem gambling. Why is problem gambling not seen as an important update and indicator of a strategic accountability to gauge our progress against it?

Ms Gallagher: I think it is, and everything we have just said explains that. If there is not a strategic indicator that covers off that, maybe it is difficult to measure that on an annual basis, and the quality is in the analysis that is done across the country that Greg is talking about doing as far as further research. That would probably be my response. It is not lack of concern around problem gambling. It is probably a lack of an ability to have an annual strategic indicator that would measure the effectiveness of that.

You could choose anything, I guess—the club, the amount of club contributions that go to problem gambling and whether that is increasing—but that would not necessarily measure whether people were having their gambling issues addressed, just that there were more resources into it. You could look at how many people are calling Lifeline's gambling care. I just think it is probably more difficult to report in this sense, but again I am happy to—

MR SMYTH: How, then, do we gauge whether we are having an effect and whether the money that is being spent is effective?

Mr Jones: We monitor what we do. For example, with our current campaign we will get feedback from Lifeline on what their level of counselling has been. Last year we established a specific problem gambling website and we monitor the hit rate. In fact, I picked upthis morning what the hit rate was since the campaign started, and it picked up from an average of about five hits per day to about 30 per day in the last week. So we monitor that.

We will get more anecdotal feedback from the Lifeline counsellors over the next month or so when we do a bit of a debrief of the campaign—what they thought and what the reaction was. The people that come in and talk to their counsellors often give feedback because they are always asked, "Where did you hear about us, how did you come to us?" That is always very valuable, which is why we keep in touch with Lifeline. But it is very difficult to measure. A lot of it is anecdotal feedback that we get, sometimes from the industry, but mostly from the counselling or the welfare organisations, including ACTCOSS.

We talk to the Salvation Army people fairly regularly as well, which we are developing as a very useful source of information. So, number one, it is difficult to measure, and, even though we spend a reasonable amount of time and it is important to us, it is only a relatively small part of our functions and our role. Our primary role is as a regulator, and we do that. I guess as a percentage of our budget it is quite small, although, perhaps, time-wise from some of our staff we do spend a bit more than what is indicated in expenditure such as on campaigns or brochures.

MR SMYTH: Just a quick question. The cap at 5,200 you said is almost used.

Ms Gallagher: I think it is 5,140 or something, is it?

Mr Jones: Yes. We are about 41 under.

MR SMYTH: How many of those machines are actually in clubs, how many are in storage and how many are allocated but are awaiting installation in the new premises?

Mr Jones: None are in long-term storage. There are roughly 80 machines in either hotels or taverns. They are class B draw poker machines. The rest are in clubs.

THE CHAIR: Are there any further questions on that? I have just one final one. Has the government been approached in the last 12 months to change the arrangements in relation to poker machines, particularly to put them in the casino, as opposed to just limiting them to clubs?

Ms Gallagher: I think we are approached every three months with that request, as I am sure you would—

THE CHAIR: So it is a regular meeting you have?

Ms Gallagher: I have not met with them. In fact, I have replied saying, "No, we have not changed our view on it," to which they have responded, "Can we at least talk to you about it?" to which I have responded, "Okay, come and see me." I think that meeting is due in the next month or so. I am sure you get a similar approach from them.

THE CHAIR: We will leave it there. Thank you very much, Mr Jones.

THE CHAIR: We now welcome Mr Peter Matthews from the ACT Insurance Authority. Mr Matthews, can you indicate for us whether you have read and understand the privilege statement?

Mr Matthews: Yes, I do understand it.

THE CHAIR:. Would you like to make an opening statement?

Mr Matthews: I will just move to the questions, if that suits you.

THE CHAIR: Sure.

MS BURCH: On page 425 under "Priorities" the second dot point talks about assisting agencies in the analysis of their operations and assets to improve risk assessment and management. Can you tell us how you do that and what is the outcome—what is the gain for the agencies?

Mr Matthews: That is probably the core of what we are trying to work on at this point. In some of the other papers you will see what we term our cost of risks project. We are trying to work with agencies to decrease the total cost of insurable risk to government. It became fairly clear to us that the financial information we had and our knowledge of exactly what generated the losses was not the same understanding as the agencies had. So the idea is to work with the agencies. It gives them the benefit of our knowledge of what is costing them money. You take the benefit of their knowledge of the business that they are running and put those two together to try and analyse, in particular, those things that will respond to risk management.

Not all losses will respond to risk management, but many will. Let me cite the two extremes. Let us look at a bushfire. A bushfire is a bushfire and there are some things you can do, but it is not a repetitious-type loss that really responds to risk management. At the other end of the scale, one agency that we have selected to work with is ACTION buses. The nature of their losses is confined to a fairly small number of repetitious-type losses. When we went out there we found they were actually a step or two behind where we thought they would have been. We got them to build a database to record incident information and then to populate that database. The step we are at now is going through and starting to analyse that data to see what we can do to cut down the losses.

With 400 buses on the road, there are going to be incidents. You cannot help that. You start from driver training all the way through. When an incident occurs it is the other actions you take then that may minimise your loss and help your defence of a case if you find yourself in court. It is very detailed stuff. It is not only us; it is the agency. We have got to combine the knowledge of the two to try and minimise the costs.

MR SMYTH: Referring to page 428, your cash flow statements, what is the reason for having such large amounts in “Other payments”? It is $104 million, $63 million and so on.

Mr Matthews: Under “Payables”?

MR SMYTH: “Cash flows from operating activities”. It is about the fourth line down. You have got “Other”. It starts at 104 and then it drops to 63.

Mr Matthews: The things that influence large movements are reinsurance recoveries. Most of the other factors are constant. If we look, once again, at things like bushfires, where we are receiving moneys back from reinsurers, they come in intermittently and often well out of phase with our other operations. That is the one that is the variable.

MR SMYTH: So what is the reason for the reduction in reinsurance recoveries in the current receivables and the increase in reinsurance recoveries in the non-recurrent?

Mr Matthews: It is basically just a timing issue. I know they are big dollars, but they are timing issues.

MR SMYTH: Could you give me an example of how that works—when you just say it is timing issues?

Mr Matthews: Timing issues with submitting a claim and recovering that money. Bushfires is probably a good example. We are still to come to grips with any claims. All of the moneys that have been paid out and recovered, or some recovered, have been legal costs. There is a huge time discrepancy between some of those things coming through.

MR SMYTH: You mentioned the example of the bushfires. Are there still outstanding payments due from the 2003 fires, or has that all been resolved?

Mr Matthews: The property losses and the standing timber losses were resolved within two years of the actual loss itself. We are now into the early stages of the liability claim against government for actions or inactions in the fighting of the fire. We have moved through the coronial inquiry, which was financed by our reinsurers, into ongoing preparation for what looks like an action to take place next year.

MR SMYTH: Is there any idea of the exposure from that?

Mr Matthews: The exposure is considerable. There are two factors there. Firstly, it is before the court and, secondly, we are not really certain of what the figure is at this point in time. It is large.

MR SMYTH: Thank you.

MS BURCH: I also refer to page 425, the last dot point, and it is around transferring risk to contractors. Can you tell us a bit about that?

Mr Matthews: One of the things that we spend much of our time on is day-to-day inquiries from both agencies and, in particular, Procurement Solutions—working with them to look at contract terms where we are seeking that an external provider carries a fair portion of the risk. So that is one part. The other part is to make sure that where that external provider has their own insurance it is with an acceptable body, so in the event of a claim that would likely result in some money coming back. Some of them are very defined areas. For instance, we work with Health on clinical trials. Many clinical trials are sponsored by drug companies. We want to make very sure that we stay away from that exposure. The drug companies are international companies and the paperwork they provide us with often requires quite a bit of research to see if the company is supporting our security requirements for insurance.

THE CHAIR: Just in terms of that dot point, the appropriate level of risk, you talk about the Health example and drug companies. Are you finding, though, that in other parts of government, particularly with office-type arrangements where a contractor is coming in and essentially being in-house, the level of professional indemnity and public liability and other insurance required is too much or too little or is it about right? Where are we at with that?

Mr Matthews: It seems to have stabilised from where we were a couple of years ago. Generally, the public liability issue is no longer a problem. For example, you mentioned offices-type risks. A $10 million limit there is acceptable to us. It is quite reasonable, both cost-wise and in terms of availability to a contractor. Those issues are fairly much under control. Professional indemnity is a very difficult one, depending on what service or advice is being delivered. Generally, what is put to us is low, in our view, and we try to get that up to something we are more comfortable with.

THE CHAIR: What is an appropriate level in terms of professional indemnity for an ordinary office environment?

Mr Matthews: In an office environment, for professional indemnity, it may, in fact, be zero. It depends on the service being delivered. Taking the lowest common denominator, the cleaner in the office will need public liability but certainly no professional indemnity. If we get through to somebody that is perhaps providing an IT service, professional indemnity is very important because it is not just about the service they are providing. If they are coming onto InTACT's platform, the damage they could cause through that whole network could be considerable. There are many variations.

THE CHAIR: As there are no further questions on insurance, Mr Matthews, we thank you very much for your time.

Mr Matthews: Thank you.

THE CHAIR: We now come to ACTTAB, which is the final agency today. We welcome Mr Tony Curtis and officials from ACTTAB. Mr Curtis, would you like to make an opening statement? Could you also indicate that you have read and understand the privilege statement?

Mr Curtis: I have read the statement. I do not wish to make an opening statement.

THE CHAIR: Thank you. One of the discussions we were having with the Gambling and Racing Commission was in relation to problem gambling. I note in your 2009-10 priorities on page 447 it also has the dot point, "Continuing to ensure that the harmful effects of gambling are minimised". Are you able to take us through in more detail some of what is being done to counter the harmful effects of problem gambling?

Mr Curtis: It is an issue that is taken very seriously by the ACTTAB board and the ACTTAB organisation. At the moment we have, I think, 15 people that are excluded from the organisation. It is an issue that concerns us—how big a problem it is. When the code of practice was introduced, the focus was on gaming machines. It is probably accepted that the bigger problem is with gaming machines, but it is that anecdotal evidence that you pick up being in the industry that there are people that fall through the cracks.

We have partnered with Lifeline in the clubcare program with ClubsACT. We are a significant partner in that arrangement. We have appointed a responsible gambling and compliance officer whose principal responsibilities are exactly that—dealing with problem gambling, ensuring our compliance, ensuring that our staff are trained. Training is a big part of our addressing the problem. All our staff are required to undergo training and undergo refresher training. The fact that 15 people have been excluded and self-excluded is probably evidence that what we are doing is having some effect.

THE CHAIR: When you say "self-excluded", this is people not being able to go into a TAB as a result of identifying themselves as problem gamblers?

Mr Curtis: Either identifying themselves or having been identified by staff. I think the breakdown is somewhere in the order of nine to six that have self-excluded or been excluded by us as a result of our staff having indicated something in a person's behaviour which would be indicative of a problem.

THE CHAIR: You talked about being a major partner in some of those programs—clubcare and the like. What is the level of contribution to that?

Mr Curtis: We contribute $30,000 per annum in cash to Lifeline for clubcare. However, we also do all of our training through Lifeline. I do not know what we are spending on training. I could get that on notice.

THE CHAIR: If you could, that would be great.

MS BURCH: Also on page 447, the second dot point reads, "Purchasing and implementing a new integrated betting system and selling terminals." Has that planning been done? Is it being purchased soon? Next year? What is that?

Mr Curtis: For those who were around last year, this was in our budget last year. We have progressed in the latter part of last year to the extent of undergoing a procurement process. However, two things came into play that have delayed that process. One was the fact that we had some indication we might not have pooling arrangements. It would have been quite sensible, I think, to delay the procurement process until that was sorted, and we have now done that. But the other issue that has come into play is the global financial crisis. The market for supply of totalisator machines or systems is quite limited. Generally, these companies are based overseas. We have identified a preferred supplier, and we are currently completing due diligence in relation to the supplier's parent company, who is based in the United States.

MS BRESNAN: I am not sure if my question is in relation to that. The dot point before that on page 447 discusses the ongoing pari-mutuel pooling capacity and maintaining that beyond the expiration of the agreement in 2012. I think the Victorian TAB were seeking to withdraw from the agreement and there were some difficulties with that. I am wondering how you are progressing with that.

Mr Curtis: Yes, I am pleased to say that the negotiations with Tabcorp in relation to pooling have been finalised. A new agreement has been signed that takes us through to the end of 2012. The situation with Tabcorp is that they cannot commit beyond 2012 because their licence expires in Victoria in 2012. The Victorian government, the Department of Justice, has undertaken a registration of interest process, and it is expected that at the end of this year we will know who the licensee in Victoria will be beyond 2012. Then we will be able to negotiate an ongoing agreement.

MR SMYTH: Just following up on that, what was all the kerfuffle with Tabcorp telling us we were getting the heave-ho? Was that just a ploy to further their own ends in Victoria and their negotiations?

Mr Curtis: One could only speculate as to what their motive might have been. They were getting out of sports betting, and, as you are aware, they terminated that agreement. We have since entered into a new agreement with Centrebet Ltd. Both these new agreements that we have entered into are before the ACCC at the moment for authorisation. There was only one negative submission to do with the sports betting agreement, and that was made by Tabcorp, which probably summarises their position as regards our commercial future and the future of other TABs.

It is a difficult industry at the moment. There is a lot of rationalisation going on. There is rationalisation going on in the racing industry itself. From my perspective, at least, it is difficult to work out where the end play is going to be. But I am hopeful, after the discussions with Tabcorp about our future beyond 2012 and the indications they have given me, that we will have a future. That is about all I can say.

MR SMYTH: The Centrebet contract is until when?

Mr Curtis: That is a 10-year agreement with Centrebet.

MR **SMYTH**: Is that 2019?

Mr Curtis: I will take that on notice. I think it is 2019.

MR SMYTH: All right. And with Tabcorp, we will not find out what the future is likely to be until Victoria makes a decision.

Mr Curtis: Yes, at the end of this year.

MR SMYTH: If Tabcorp loses the current contract, we will have to negotiate with the successful tenderer or find another pool?

Mr Curtis: I have had discussions with Tabcorp, who also have a licence in New South Wales, about as an alternative perhaps pooling in New South Wales. I have had discussions with a number of other people in the industry—for example, about a pooling arrangement with Western Australia and Tasmania, who are also partners in the supertab pool and who will also be in the same position as us. That is another scenario.

THE CHAIR: On the final dot point on 447, it talks about growing ACTTAB’s community profile through targeted partnership and sponsorship arrangements. What is the total value of the projected partnership and sponsorship arrangements for this year? Are you able to, perhaps on notice, give us a breakdown of some of the groups that are supported?

Mr Curtis: It is probably best that I take that on notice, as our list of sponsorships is quite detailed.

THE CHAIR: Sure, if we could get that list. The other one you talk about there is enhancing the functionality and usability of the website facilities. What is the budget this year for web design, hosting and other website-related activities?

Ms Snowden: The budget for that is sitting at $55,000.

THE CHAIR: That is the total for web design and management?

Ms Snowden: For the 2009 year, yes, it is.

Mr Curtis: That is external contractors. We have, of course, staff internally that are working on that process with the contractors.

THE CHAIR: Sure. Ms Burch, do you have some questions?

MS BURCH: I always get worried when I go into a money question on 449. There is a line there for "intangibles", which starts off at zero to 214 and then jumps up to 2,000 and something. What is that?

Ms Snowden: That change in budget is our new betting system for next year. Basically, that's our software that we would be buying under this contract. So that's the potential cost of that.

MS BURCH: Okay.

THE CHAIR: Mr Smyth.

MR SMYTH: On page 448, the operating result, it was to be $1.8 million this year and it is going to end up at $713,000. But next year it dives by 81 per cent to $139,000. Why is that?

Mr Curtis: Principally, this could be attributed to the changed environment where we are now paying product fees to every other jurisdiction bar Western Australia and Tasmania. That equates, with Victoria being the only exception, to 1.5 per cent of our turnover.

MR SMYTH: I notice on page 51 of budget paper 3 that the dividend also takes a bit of a dive next year, oddly enough by exactly the same amount—81 per cent. Are they related?

Mr Curtis: They are related.

MR SMYTH: Okay. I notice then in the outyears, though, that the dividend dips even further in 2010-11 to $43,000, but then it recovers to $59,000 and then $91,000. Why is there that recovery?

Mr Curtis: We are anticipating that there will be strong growth in sports betting turnover as a result of our arrangement with Centrebet. We are currently experiencing, and have for a number of years, growth in the order of 25 to 30 per cent annually with sports betting or fixed odds wagering. We think that there may be a movement of a significant amount of moneys from paramutual wagering to fixed odds wagering, so we are anticipating some growth.

MR SMYTH: And the dip in the dividend this year from $933,000 to $356,000?

Ms Snowden: The dividend is related to our net profit.

MR SMYTH: Yes.

Ms Snowden: This is our first year of the product fees, and they have been gradually introduced over this period. Next year we will have the full effect of our product fees, which really will impact on our bottom line.

MR SMYTH: The effect of equine influenza this year was negligible?

Mr Curtis: Turnover is up, surprisingly. We had a discussion at the previous estimates committee about the sorts of things that impact on wagering turnover. I think history has shown that during periods of depression and recession people tend to increase their gambling probably with the hope of solving all their problems or the hope of winning something for a small outlay. We have noticed, particularly over the last three or four months, that there has been growth particularly through our agency and subagency branch network, but that there has been a decline in VIP turnover. We have a significant proportion of our turnover that comes from the high end of the market. But at the moment we are tracking at about growth of six per cent for the year. It had been as high as 15 per cent in the recovery process coming out of EI, but I think the way it's shaping up we are probably going to have growth of four per cent for the year as a final outcome.

MR SMYTH: Did I hear you say there was a decline in VIP gambling?

Mr Curtis: Yes.

MR SMYTH: But on page 451 of BP4, the second dot point, supply and services, it says the increase is due to additional VIP turnover.

Mr Curtis: Yes, this is something that has just taken place in the last three weeks.

MR SMYTH: What? The increase or the decrease?

Mr Curtis: No, the decrease. Three of our major clients have halved their turnover. We suspect that what is going on is that the increased competitiveness amongst providers has probably persuaded some of them to move turnover to a particular supplier for a short period of time to meet a target before the end of the financial year in order that they might receive an increased rebate. But having spoken to those persons, I'm sure that it will be business as usual from 1 July.

Ms Snowden: There's not that many.

Mr Curtis: No.

MR SMYTH: Do we offer increased rebates? Do we indulge in the same activities?

Mr Curtis: We do.

MR SMYTH: So is our offer not as good as somebody else's offer?

Mr Curtis: Look, it's difficult. We could match what other people do, but it's very questionable how long you would survive doing that.

MR SMYTH: You are looking a bit worried here. What is it that other people do that we may or may not do?

Mr Curtis: Well, it's reported that some organisations are offering 50 per cent more than what we are doing. How they do it, I've got no idea.

MR SMYTH: But we won't be following that path?

Mr Curtis: No.

THE CHAIR: Advertising and marketing, what has been spent this financial year? What was the expected spend, and what are you budgeting for in the 2009-10 financial year?

Mr Wheeler: Our budget for 2009-10 is $1.1 million.

THE CHAIR: Yes, and the expected spend in the 2008-09 financial year?

Mr Wheeler: It is $1,040,000.

THE CHAIR: You have also talked about one of the objectives being investing in people through succession planning, performance measures and training and development. What has been the training and development budget for this year, the expected spend and going forward for 2009-10?

Ms Snowden: The training and development budget for this year has been $55,000. Going forward, we hover around that with a three per cent growth, so it will be three per cent on top of that for the next financial year.

THE CHAIR: What does that $55,000 largely consist of? Is that a single contract?

Ms Snowden: No. One of the programs we offer is called the Felton scholarship, and staff can apply for that and we will support them through either a university degree or a certificate IV or something like that. We also have our responsible gambling training. We have ad hoc management training and supervision training, but we use quite a few different providers. We are performance-management driven, so we engage with our staff on a six-monthly basis to identify what their needs are and then base our training around that.

THE CHAIR: Just going back to the marketing and advertising, you may or may not have it here, but are we able to get a breakdown of how much is spent on each of the different mediums?

Mr Wheeler: I don't have that here, so I will take that on notice.

THE CHAIR: Thank you.

MR SMYTH: Just on page 450 in the cash flows, under "Payments", there is a category called "Other". What is involved in other payments?

Ms Snowden: The other payments are our payments to ACT government and our payments to the racing development fund, our product fees and our licence fees.

MR SMYTH: Is it possible to get a breakdown of those payments?

Ms Snowden: Yes.

MR SMYTH: That's me.

THE CHAIR: We are coming up to 5.30 and I think members are done. We thank you very much, Mr Curtis, and ACTTAB officials. We thank you, Treasurer, for your time today. We will be reconvening at 9.30 tomorrow morning with the Minister for Health.

The committee adjourned at 5.27 pm.