LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

SELECT COMMITTEE ON ESTIMATES 2010-2011

(Reference: Appropriation Bill 2010-2011)

Members:

MS M HUNTER (The Chair)
MR Z SESELJA (The Deputy Chair)
MR J HARGREAVES
MS A BRESNAN
MR B SMYTH

TRANSCRIPT OF EVIDENCE

CANBERRA

MONDAY, 31 MAY 2010

Secretary to the committee:
Dr S Lilburn (Ph: 6205 0199)

By authority of the Legislative Assembly for the Australian Capital Territory

Submissions, answers to questions on notice and other documents, including requests for clarification of the transcript of evidence, relevant to this inquiry that have been authorised for publication by the committee may be obtained from the Legislative Assembly website.

APPEARANCES

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Amended 21 January 2009

The committee met at 10.32 am.

Appearances:

Stanhope, Mr Jon, Chief Minister, Minister for Transport, Minister for Territory and Municipal Services, Minister for Business and Economic Development, Minister for Land and Property Services, Minister for Aboriginal and Torres Strait Islander Affairs and Minister for the Arts and Heritage

Department of Treasury
Smithies, Ms Megan, Under Treasurer
Broughton, Mr Roger, Executive Director, Investment and Economics Division

THE CHAIR: Welcome to this public hearing of the Select Committee on Estimates. The Legislative Assembly has referred to the committee for examination the expenditure proposals in the 2010-11 appropriation bill and the revenue estimates in the 2010-11 budget. The committee is due to report to the Assembly on 22 June 2010 and has fixed a time frame of five working days for the return of answers to questions taken on notice.

This is a recall hearing and the proceedings today will focus on the economic forecasts contained in the budget and the assumptions that supported these forecasts. The committee has noted that forecasts related to employment have already been adjusted, as indicated in the answer to a question taken on notice, E10-199, and would like to clarify the implication of this adjustment for the revenue estimates within the budget.

Can I remind witnesses of the protections and obligations afforded by parliamentary privilege, and draw your attention to the yellow-coloured privilege statement before you on the table. Could you confirm for the record that you understand the privilege implications of the statement?

Ms Smithies: Yes.

THE CHAIR: Can I also remind witnesses to keep their responses to questions concise and directly relevant to the subject matter of the question.

Before we proceed to questions from the committee, minister, would you like to make a short opening statement?

Mr Stanhope: Thank you, Madam Chair. I am more than happy to attend today as Acting Treasurer. Of course, officials from Treasury are more than pleased to be here to seek to further assist the committee in its inquiry into this year's budget.

I might say, too, that we appreciate the fact that the committee has, through one of its members, Mr Smyth, this morning released a press release on behalf of the committee, outlining the issues that the committee proposes to address today. We do regret, of course, that it is a very political release. I have to say, Madam Chair, I think it colours today's proceedings significantly. It leads me to suggest that the purpose of today's hearing is more about point scoring and information gathering, and I do wonder whether or not the decision by the committee to recall Treasury today was really simply to allow the Liberal Party to put out a press release of this overtly political, quite naive and immature approach that the committee adopted through this release.

I am surprised, Madam Chair, that you did not put the release out on behalf of the committee and that you left it to one of your members to actually outline what it is that the committee proposes to achieve today—other than, of course, to seek to embarrass the Treasurer.

THE CHAIR: I do assure you, Chief Minister, that the committee has not endorsed any media release from the committee. I am not sure when that media release came out, but certainly there is no endorsed—

Mr Stanhope: Well, it was released this morning.

THE CHAIR: There is no media release from the committee that has been endorsed at all, other than just an alert that the hearing was being held today. So I will need to investigate that.

MR SMYTH: I am happy to give the committee a copy.

Mr Stanhope: I am happy to table this. I just assumed that the press release purports—

MR SMYTH: No, it does not purport at all.

Mr Stanhope: to be an explanation of why it is that Treasury have been recalled today. It says: "Treasury called back to estimates but Treasurer on holidays." I presumed that this was actually approved by the committee.

THE CHAIR: Certainly not, Mr Stanhope.

Mr Stanhope: My understanding was that normally in the procedures that estimates committees or all standing committees pursue, only the chair speaks on behalf of a committee and that otherwise—

MR SMYTH: No, you will see it is on my letterhead.

Mr Stanhope: Well, it actually purports to be a statement of why estimates have been recalled today. My understanding was that there was a standing rule, protocol, that only chairs spoke on behalf of committees, and that for any member to do otherwise essentially was a contempt of the Assembly.

MR SMYTH: Does it hurt that much?

Mr Stanhope: I table—I must say, Madam Chair—

MR SMYTH: Give the committee a copy.

Mr Stanhope: I am relieved to hear that it was not authorised by you or by the committee, but it was Mr Smyth really just deciding to be political, seriously affecting the way in which hearings such as this can be held or conducted when they commence with an aggressive, adversarial, political attack on the Treasurer—

MR SMYTH: And you have never been aggressive, adversarial, political!

Mr Stanhope: particularly by, of course, a person who, I think in his last two overseas trips, two weeks, taxpayer paid, in India, followed most recently, a few months ago, by a trip to Florence and Venice—

THE CHAIR: Mr Stanhope.

Mr Stanhope: A two-week, all expenses paid trip by Mr Smyth—

THE CHAIR: Mr Stanhope.

Mr Stanhope: to Florence and Venice, all expenses paid by the taxpayer. The Treasurer, of course, is on a private holiday—

THE CHAIR: Mr Stanhope, we will need to move on.

Mr Stanhope: privately paid for—

THE CHAIR: I note that you are tabling that press release.

Mr Stanhope: and it is very different, of course, from an all expenses paid, two-week trip by Mr Smyth with his wife to Venice and Florence.

THE CHAIR: Mr Stanhope, thank you. I note you are going to table—

Mr Stanhope: I table that. I must say, Madam Chair—

THE CHAIR: that press release. We will be moving on from there.

Mr Stanhope: that I am enormously relieved that it was not approved by you. It was actually seriously affecting my very strong support for you and the way in which you have, to date, managed to chair these hearings. It was a little chink in my concern.

MR HARGREAVES: Madam Chair, before you get off this—

THE CHAIR: We will now move on—

MR HARGREAVES: I would like the record to show that I have seen this press release this morning. I do not endorse its contents.

MR SMYTH: Because it is on Liberal Party letterhead.

MR HARGREAVES: And Mr Seselja, you can sit there and smirk your little head off, and the day you put in a full day's work—

MR SESELJA: You don’t endorse what Brendan says? Hold the phone!

MR HARGREAVES: during a full year, you can say something. Otherwise be quiet.

THE CHAIR: Order, members!

MR HARGREAVES: I am entitled to put something on the record if I want, without interruption from a buffoon like you.

THE CHAIR: Order!

MR HARGREAVES: Madam Chair, I want the record to show not only do I not endorse it, I think it is a completely low act which brings this committee into contempt.

MR SESELJA: Are we going to get on to questioning, chair?

THE CHAIR: Okay, thank you, Mr Hargreaves. That has been noted. We will move on to questions now. We have recalled the Acting Treasurer and Treasury officials. I want to start with—

Mr Stanhope: Before you do, Madam Chair, the Under Treasurer has informed me she would like the opportunity to, if not correct, to explain or provide some context to a remark which you included or incorporated in your opening remarks which the Under Treasurer has informed me does not entirely reflect the Treasury’s position.

Ms Smithies: Madam Chair, in your opening statement and in the letter you provided to the Acting Treasurer on Friday afternoon, you alluded to the fact that Treasury had revised the employment figure or the employment forecast. We actually have not made any revisions to our economic forecast provided in the budget papers. In fact, the answer to the question that we gave—I think it is question 199—simply stated that it is likely the budget forecast would be exceeded, given where the latest employment update figures are up to. I just wanted to outline that.

THE CHAIR: Thank you for that clarification and that correction. Going to that issue around the question taken on notice, that Treasury does not expect employment to fall over the remaining months of 2009-10 and therefore the budget forecast is likely to be exceeded, which is the sentence that was sent back in the question taken on notice, I was hoping you could provide some complementary information around this on aggregate hours, the real wage rate and the most recent figures that you have.

Ms Smithies: I will pass this over to Roger Broughton to see what we have handy in relation to aggregate hours.

Mr Broughton: I do not have the figures on aggregate hours with me or the real wage rates. I can give you a figure on the wage price index when I find the relevant section.

Ms Smithies: I think the figure we can add, though, is that in relation to hours and hours worked, my understanding is that the increase in the employment figures is actually coming through increases in largely part-time work. While the labour force figures are improving or the employment figures are improving, it is coming through part time.

Mr Broughton: In terms of the full-time average weekly ordinary time earnings, as at February of this year the annual increase for the ACT in seasonally adjusted terms was five per cent.

THE CHAIR: You were saying that the figures had not been revised. When does that process normally happen? When would you revise those figures?

Ms Smithies: Our next update of our economic forecast and our budget forecasts will be provided in the budget review. That process will occur before Christmas this year.

MR SMYTH: So we do not revise these figures from February this year until the document that appears in February next year.

Mr Stanhope: That is normally what we do. That is standard practice. It always has been in every parliament and with every government in Australia.

MR SESELJA: Going back to the question that was taken on notice, I have a couple of questions that flow from that. You say in the answer that: "Yes, it is now the case that the employment level would need to decline in the remaining months of 2009-10 to match the budget forecast. Treasury does not expect employment to fall over the remaining months. Therefore, the budget forecast is likely to be exceeded." To what extent would employment have to decline for the Treasury estimate contained in the budget to be correct?

Ms Smithies: We are saying that we do not expect—we expect our forecast to be exceeded.

MR SESELJA: I understand that this is a forecast that we have in the budget. It is the only official forecast that we have from Treasury. How much would employment have to fall between now and the end of the financial year for that to be correct?

Mr Broughton: I do not have that figure in front of me.

MR SESELJA: Why not? You have made a forecast only a few weeks ago that says that employment will fall in the remainder of the financial year. You now acknowledge that that is wrong. What are the numbers? When you put together the budget and you made this forecast you had figures probably up to about March which showed—

Ms Smithies: If I can—

MR SESELJA: Could I just finish the question? The figures showed trend growth. You would have had to make assumptions then to get to the end of the financial year with negative growth. What are those assumptions in terms of what happens for the rest of the financial year?

Ms Smithies: The forecast that we base our employment numbers on was a February figure of minus 0.7 per cent. We estimated that there would be improvement in the employment figures between that point and the end of the financial year. At that point we forecast employment for the ACT to be negative 0.25 per cent. Obviously, the ABS has come out and updated those figures. We have actuals for April to hand which show a greater than expected improvement in our employment growth.

Mr Stanhope: Hear, hear! Strongest economy in Australia. It is still growing.

Ms Smithies: So what we are now saying is that do not—

Mr Stanhope: Congratulations!

Ms Smithies: expect that our employment forecast will be exceeded.

MR SESELJA: Sure, but when you made these forecasts for the budget, you had the March ABS figures. When the budget was delivered you knew what the March figures were. You have said that since the budget was delivered you have received the April figures. You did not have those. But you had March. Up until then, employment was growing very strongly. Your figures in the budget show that it will drop. I want to know the difference between all of the numbers you had going forward and what you are basing the assumptions for the last quarter or so of the financial year on. Where would employment have to go for that figure that you put in the budget to actually be achieved?

Ms Smithies: The number that we put in the budget was for employment growth to be at minus 0.25 per cent. It is going to be a number that is better than that minus 0.25 per cent. Now that we have the updated figures to hand, certainly that will be exceeded. The April figure we had was minus 0.2 per cent. So we are going to exceed the minus 0.25 per cent.

MR SESELJA: Going back to what you had, you had March figures when you delivered the budget.

Ms Smithies: We set our estimates on the February figures.

MR SESELJA: But you did have March figures when the budget was delivered. So you had March figures; you had most of the financial year in terms of trend. That showed strong employment growth right throughout the financial year. Is that correct?

Mr Broughton: Not completely throughout the financial year but through the latter part of the financial year, that is correct.

MR SESELJA: Based on that, where would the numbers—you were doing your assumptions. You were looking at where things had been and where you expected them to be in the financial year for us to get the figures in the budget. How much did employment have to drop in those last three or four months from when you had the updated figures before the budget in order for your estimated outcome to be correct?

Ms Smithies: We had not done the calculation because we were already saying that our estimate based on the outdated data is likely to be exceeded.

MR SESELJA: But when you did it you would have known that you had all these other figures. You had an estimated outcome that you came to. The only way you could get from what you knew to what you were predicting would be to make assumptions about where employment would go for those last few months. So what did you predict in making those assumptions on where employment levels would go in the last few months of the financial year?

Ms Smithies: When we put our budget estimates together, our economic estimates, we based them on February employment figures. At the time it was minus 0.7 and we assumed that we would get to minus 0.25. That was what we did when we put our economic forecasts together. So we assumed—

MR SESELJA: Based on that—

THE CHAIR: Just wait for the witness to finish.

Ms Smithies: That assumes that employment would come back—would grow in the last few months. We were assuming an upturn in the employment figures, yes.

MR SESELJA: But we have seen employment growing right throughout the financial year. We went through those figures. This is where the answer came. It showed that employment had grown and that, in order to get to the figures that are in your budget, things would have to go backwards significantly.

There is only a month difference in figures from the discussion we had in estimates to when the budget was delivered. What changed so dramatically in one month's employment figures which, from what I can see, show a similar trend to what had happened in the months before? What happened so dramatically that took you from a position where you believed that employment would drop at a time of the budget to a position now where you do not believe employment will drop from in between when the budget was delivered and the end of the financial year?

MR HARGREAVES: Madam Chair, before Ms Smithies answers, can I get a clarification, please? Did you say that it was minus 0.7, growing, in fact, to minus 0.25?

Ms Smithies: Yes. We based our budget on—

MR HARGREAVES: So the thing has not actually dropped; it has actually increased, has it?

Ms Smithies: We were forecasting an improvement.

Mr Stanhope: It has got better. We underestimated it.

MR HARGREAVES: The question from Mr Seselja just now was: can you show us where the employment level has dropped? If he was talking about the unemployment level dropping, sure, but I did not hear that. So it is actually an improved position.

Ms Smithies: That is right. We forecast an improvement—

MR HARGREAVES: So what we are hearing here is people complaining because you have got an improved position.

MR SESELJA: Well, I have asked a question—

Ms Smithies: The improvement has been better than we forecast; that is right.

MR SESELJA: When we looked at this original question, we looked at the average figure for 2008-09, 195,800 in terms of employment levels, and then the estimated outcome for 2009-10, which would have to be 196,500. Given we were up to 199,000 in March, what would employment have had to drop from between March and June in order to get to that 0.4 per cent or 196,500 figure?

Mr Broughton: I do not have that figure in front of me. I would need to clarify that at no stage when we put the budget forecast together did we expect employment to drop between then, when we were relying on the February labour statistics, and the end of June. We expected an improvement. We had an average level of employment for that 12 months that was 0.7 per cent below the previous 12 months. We expected that to improve to negative 0.25 per cent below, which was an improvement. We anticipated an improvement. What has actually happened is that the labour force has improved even better than we expected.

MR SESELJA: On your year-on-year average, you acknowledged, I think, in our questioning that in 2008-09—when we are talking about the budget and the estimated outcome, the estimated outcome will be compared at the end of 2009-10, or the average of 2009-10 versus the average of 2008-09—

Mr Broughton: That is correct.

MR SESELJA: The average of 2008-09 in employment numbers was 195,800 on ABS stats. We were at an average, come April, of 196,500. How could we have got to the figures that you have predicted in the budget based on those numbers without there actually being a drop?

Mr Broughton: As of the release of those April figures, I did not expect to achieve the negative 0.25, but I did at the time I put the forecast together, which was based on the February information.

MR SESELJA: But as of the March ones, which were available—

Mr Stanhope: Which they did not utilise; they utilised the February figures.

MR SESELJA: But they were available at the time the budget was delivered. They were available well before the budget was delivered. They were showing this trend and they were showing the average employment level having grown more significantly. On the numbers, clearly the figure is wrong. You have said that you do not expect that it is going to fall, but the only way the number could be right is if it does fall. It is still not clear to me how you were making these assumptions when all of the data that you had up until March 2010 was showing the opposite. So I ask the question again, and perhaps you will have to take it on notice: from March 2010, with the numbers we had, in order to get to the budget figures for employment how much would employment have to drop in those final three months?

Mr Broughton: I have not done that calculation.

MR SESELJA: Will you do that calculation?

MR HARGREAVES: Could I find out when the date was on that? It is a clarification again. On what date were the March figures actually available?

MR SESELJA: I am sorry, I am still asking a question. Have you taken that on notice, Mr Broughton?

MR HARGREAVES: The question was based on the March—

THE CHAIR: One at a time.

MR HARGREAVES: The question Mr Seselja is asking is based on people having the March figures. I just want to know when that date was.

MR SESELJA: Can I finish the question? Are you able to take that question on notice? If you say you do not have those numbers here, I am not—

Ms Smithies: We have not calculated that number because essentially what we are saying is that we no longer think that we will get to minus 0.25. It is a hypothetical calculation.

MR SESELJA: Okay. So what was the number you were working on?

MR HARGREAVES: Madam Chair, can I ask—

THE CHAIR: We will be moving on, Mr Seselja. Mr Hargreaves just wants to clarify some information.

MR HARGREAVES: It is relevant to Mr Seselja's question, which was: to produce the budget, the numbers that you predicated a forecast on were the February figures. I want to know when the February figures were available on which you could base that predication and also when were the March figures available. Did you have any time in which to do that between then and the compilation of the budget?

Ms Smithies: Thank you, Mr Hargreaves. The February figures became available mid-March and the March figures became available mid-April. With such a large process as a budget, there are so many variables and moving parts that go into doing a budget that you have to close your assumptions off at some point in order to land a budget and get it published. Obviously, using end-February figures which came out at mid-March was acceptable in terms of the time frames that it took for us to actually settle our economic variables and then go through our budget forecasting and our revenue forecasting. Had we waited till mid-April it would have been extraordinarily difficult for us to have been able to advise cabinet in relation to our revenue forecasts and the bottom line of budget aggregates in order to make all of the decisions that would have needed to be made through a budget process.

MR HARGREAVES: This process has been the same for the previous years, I would assume. You have to have a close-off time some time in March—mid-March. What we are hearing is that the close-off time came before you could usefully use those particular figures because of the flow-on effects of those calculations through the rest of the budget.

Ms Smithies: That is correct, Mr Hargreaves.

MR HARGREAVES: Thank you.

Mr Stanhope: This whole issue really is about the nature of the methodology—the robustness of the methodologies that Treasury use. Treasury draw a line at the time. Now, with the benefit of hindsight, you say, "Why didn't you do that?" The point is they did not. So you can say, "Well, should they have tried to utilise the March figures?" I believe it would have been unrealistic and would actually represent a misunderstanding of the complexity and the enormity of putting a budget together.

Treasury drew a line on a date and said, "Consistent with our usual methodology, and our methodologies are robust, we will take into account our forecast data as of this date." That is what they did. The data is always volatile; it always moves. In this particular instance I am grateful that it moved in the right direction. It is something that gives me significant comfort that the economy is growing more strongly than Treasury anticipated on the basis of the February figures. The March figures showed it growing more strongly than anticipated in February, and thank goodness for that.

But in the context of a whole range of indicators, you could apply this sort of analysis to every budget delivered by every government. You could apply it to the commonwealth government now. You would have to accept that the commonwealth's numbers will have changed significantly as a result of variables over that same time period in relation to company tax—

Ms Smithies: The Australian dollar.

Mr Stanhope: Yes, something as fundamental as the value of the Australian dollar. These numbers always move. The issue for government and the Assembly, and for the estimates committee, is whether the methodology is appropriate and robust—rather than saying: "It moved. You cut it off. Should you perhaps have had a different methodology? Why didn't you take into account the March numbers?" Treasury did not take the March numbers into account essentially because they had drawn a line in mid-March—in fact, by April—in relation to the data that was available that they could reasonably take into account. It is as simple as that.

THE CHAIR: Ms Bresnan?

MS BRESNAN: Thank you. The year average state final demand forecast is 3¾ per cent for 2009-10; is that right?

Mr Broughton: The state final demand was 3¾ per cent for 2009-10, yes.

MS BRESNAN: Were there any expectations that that could potentially be exceeded, even if that might just be moderately? Again, it is that basis of what figures you use at what time, but could there be an expectation that that could possibly be exceeded if employment figures were going to be slightly impacted?

Mr Broughton: The latest state final demand figures we have got available to us are of December 2009. There is quite a time lag between when they become available. At that point in time, the year average growth was 2.7 per cent. What we have built into these forecasts is a reasonably positive outlook for the last two quarters of this financial year.

MS BRESNAN: So there were not any expectations that that could potentially be exceeded—even if it was just moderately, if there were modest outcomes in March and June?

Mr Broughton: There is no particular expectation that it is going to be exceeded.

MS BRESNAN: Thank you.

THE CHAIR: Mr Smyth.

MR SMYTH: Thank you, Madam Chair. Ms Smithies, you said that you realised that you would not make the minus 0.25 target. When did you know that?

Ms Smithies: The April figures came out—

MR SMYTH: On, I think, 8 April, not mid-April.

Mr Broughton: It is 13 May.

MR SMYTH: Sorry; the March figures come out on 8 April.

Ms Smithies: On 13 May.

MR SMYTH: So you knew on 13 May that the estimate was not going to be reached?

Ms Smithies: I would say, based on probability, yes, given that—when the April figures came out on 13 May, based on probability, probability would work that those figures would be exceeded.

MR SMYTH: And when the March figures came out?

Ms Smithies: When we looked at the March figures, obviously for us what was important was the trend, and the trend was still trending towards an improvement in employment. That was what we were looking at towards the end of the budget process, to ensure that there was no hiccup in the trend—essentially that the trend was still continuing the way that we expected it to be. I would say that, even when the March figures came out in April—as I said, our feeling was that the direction was in line with the way that we were expecting it to head, but I do not think that we did any particular calculation as to whether we thought that we would exceed or otherwise at that point.

MR SESELJA: So when did you do that calculation?

Ms Smithies: What calculation?

MR SESELJA: You said that you did not do any calculation when the March figures came out as to whether they would be exceeded. When did you do that calculation?

Ms Smithies: We have not done the calculation. We have not mathematically crunched through the figures as to whether we would or would not exceed. But this is not rocket science. It does not take all that much to look at a minus 0.2 on the April figures and the trends—to know that we will overachieve on that forecast.

MR SMYTH: If it is not rocket science, why was that not reflected in the numbers? If you knew that it was going up, if you knew that you were not going to meet the minus 0.25, why wasn't a more effective figure put into the budget papers?

Ms Smithies: The April ones came in after the budget was published. The February ones came out mid-March, and they were the ones that we used to set all of our macroeconomics on and then run them all through into our revenue forecasting models and then run them all through into our budget figures. The rest of them came out mid-April. The trend was in line; the direction was positive; the impact ultimately would be marginal on the bottom line of the budget.

MR SESELJA: Why is it marginal? Why do you say that? On the numbers we are looking at, it appears that, in order for the figures in the budget on employment to be met, it would mean a dramatic fall in the last few months of the financial year.

Ms Smithies: From what point?

MR SESELJA: If you take it from April or March, you would need a significant fall in order to get to that minus 0.25 per cent. That is why I am surprised that we do not know what that figure would be, but clearly, on those numbers, there would be significantly less employment at the end of the financial year than there was in March or April. Given that that is significant, what impact does that have on revenue estimates? You say that it is marginal, but we are talking about quite a major change here. What kinds of impacts could we see on other estimates, particularly things like payroll tax?

Mr Broughton: What we need to understand here is that our forecasts are based on growth rates, not on levels. Even if we were to see that the average level of employment in 2009-10 exceeded what we put in the budget as our expectation, that does not necessarily imply that there will be a different growth rate in 2010-11. If we are predicting, as we are, one per cent growth in employment on a year average basis in 2010-11, I see no reason to change that estimate at this stage.

MR SESELJA: Talk us through that. Why don't you see a need? If a lot more people are employed than we had thought in April or whenever the figures were finalised—if a lot more people are employed at the end of June, presumably that will affect how many people are paying payroll tax and a number of other economic indicators and revenue forecasts. Is it your position that it would not change it?

Mr Broughton: As I said, I do not expect to change the growth rate. However, if you assume the same growth rate, and that is based on a higher level of employment in 2009-10, then yes, the average level of employment in 2010-11 would be higher. How does that translate into our payroll tax estimates? We do base our payroll tax estimates on consideration of the growth in employment. I will just simplify the numbers, but let us say, for example, that history shows that a one per cent increase in employment is equivalent to approximately a seven per cent increase in payroll tax. That is on average across a number of years. If you are predicting a one per cent employment growth, as we are, you would expect a seven per cent increase in payroll tax collections.

To get your payroll tax estimate for 2010-11, you would apply the seven per cent to 2009-10. The interesting thing about 2009-10 is that, even though the employment numbers have exceeded our expectations, our payroll tax collections have not responded. If we apply a seven per cent increase to our payroll tax collections as we expect them to be in 2009-10, we will come up with pretty much the same figure that we have got in the budget at the moment.

How can that happen? What it suggests, what it implies, though we do not have enough evidence yet to know this, is that the employment growth is happening for employers who do not pay payroll tax. That could either mean the commonwealth, which does not pay payroll tax, or the small business sector, which fits below the threshold for payroll tax.

MR SESELJA: So the updated figures on payroll tax to this financial year—are they up on what is forecast for the estimated outcome or are they tracking at the same levels?

Mr Broughton: Actually, they are tracking slightly below.

MR SESELJA: So we are expecting less payroll tax this financial year than what is actually in the budget?

Mr Broughton: We may get less, but at the moment it is still difficult to say. I have only got the March revenue figures available to me at moment.

MR SMYTH: So that is—

THE CHAIR: Mr Hargreaves.

MR HARGREAVES: Thank you, Madam Chair. Can I ask this question now, please? I want to get something right in the numbers stuff. In February, the figure was minus 0.7?

Ms Smithies: That is right.

MR HARGREAVES: So on that basis, Treasury made a prediction that at the end of the financial year it would be 0.25. In other words, you predicted nearly a 0.25 improvement?

Ms Smithies: That is right.

MR HARGREAVES: Nearly a 0.45 improvement, actually, which is considerably greater than half of what it was already. And, as it turned out, it actually came in at minus 0.2?

Ms Smithies: It is now minus 0.2.

MR HARGREAVES: So you were out by 0.05—

Mr Broughton: Half a per cent.

MR HARGREAVES: on the positive side of the ledger? In fact, if you were looking at it in terms of the accuracy of your assumptions, would you expect that 0.05 was within a reasonable margin of error for the prediction going forward?

Ms Smithies: I should clarify it is at minus 0.2 now, and there is another two months to go until the end of the financial year, and two more releases for the ABS catalogue. When we get the outcome, we will know—

MR HARGREAVES: I accept that, but as I understand the processes to be going on at the moment, this committee is actually looking at and judging the processes and predictions and the assumptions as at today. Therefore, would you consider a margin of error of 0.05 to be a reasonable one at this point, given that you have predicted there would be an improvement, and I have assumed there was not all that much around. If it was 0.7 back in February, you would have had to have had a very strong indication that things were going to change, to predict something as dramatic as an improvement in the employment position in the ACT to negative 0.25, and to be only 0.05 out. You would be congratulating yourselves on that margin of error, I would have thought—with the caveat that, when the next set of figures come out, it may bring it back to your 0.25 again. You just do not know. Is that right?

Mr Stanhope: I think the point is well made, Mr Hargreaves. A 0.05 difference at this stage, accepting that there are two months to go, means we are talking about 50 jobs, are we, as of today? We are talking about 50 jobs here, so far, accepting that there are still two months to go.

MR HARGREAVES: Plus or minus.

MR SESELJA: No, significantly more than 50 jobs.

Mr Stanhope: What, at 0.05? Do the maths for me.

MR SESELJA: I do not think anyone is going to get hung up on the 0.05.

Mr Stanhope: Well, you have.

MR SESELJA: No, you have. You have made up some bizarre formula—

MR HARGREAVES: You have.

Mr Stanhope: I was just trying to do the mental arithmetic.

MR HARGREAVES: You don't recognise an improvement of 0.45.

Mr Stanhope: It was a challenge to Treasury to correct me, but nobody has yet.

MR HARGREAVES: It is an improvement of 0.45 on the prediction, isn't it?

Mr Stanhope: Yes, but the difference between the predicted outcome and the actual outcome as of today is, as you said, and I am accepting your maths, Mr Hargreaves, 0.05.

MR SESELJA: That is your first problem.

Mr Stanhope: The difference between the Treasury anticipated end of year and the current is 0.05.

Ms Smithies: 100.

Mr Stanhope: I am sorry; we are arguing here about 100 jobs.

MR SESELJA: I don't think we are.

Mr Stanhope: There are 100 jobs more at this stage than—

MR SESELJA: What a ridiculous conclusion. You are basing your conclusions on Mr Hargreaves's maths, are you?

MR HARGREAVES: Well, you show them they are wrong.

MR SESELJA: His back of the envelope—

Mr Stanhope: I have based my conclusion on the Under Treasurer's mental arithmetic.

MR HARGREAVES: I will back my 29 years of doing budgets against your 15 minutes of it.

MR SESELJA: We have got figures that are completely wrong.

Mr Stanhope: At this stage of the financial year, accepting there are two more months—

MR SESELJA: Can we go back to—

Mr Stanhope: we are arguing about 100 jobs—probably all in the commonwealth, where payroll tax is not paid.

MR HARGREAVES: You can't argue with the numbers, mate.

THE CHAIR: Mr Seselja, you have another question?

MR SESELJA: Yes, I do. Can we go back to the relationship between employment numbers and revenue. Looking at other aspects of revenue, we have touched on payroll tax. Given the numbers now are showing that the outcome will be significantly different from the employment forecast, how will that affect other areas in the budget—for instance, stamp duty, the amount of land that needs to be released? How does this play into those assumptions?

Mr Broughton: The only revenue line that we use employment for as an indicator of the prospective revenue is payroll tax.

MR SESELJA: So nothing else gets related to the number of people in employment?

Mr Broughton: Not directly, no.

MR SESELJA: Okay, indirectly then, how does it relate?

Mr Broughton: Indirectly, we have got a good employment outlook for the ACT. One would expect that things like population growth may in fact be better than we expected. I am not saying that is the case but one might hope for that.

MR HARGREAVES: One for the country, Roger, is it? One for each of us and one for the country?

MR SMYTH: What is the relationship between employment and land release?

Mr Broughton: There is no relationship whatsoever.

MR SMYTH: Is there a relationship between employment and GST payments?

Mr Broughton: No direct relationship. GST payments are based on our population.

MR SMYTH: So what is the relationship between the rate of growth of payroll tax and the rate of growth of employment? How closely are they linked?

Mr Broughton: They fluctuate over the years. There is a relationship. I understand the correlation between employment growth in aggregate and payroll tax is about 0.5, which means that total employment explains roughly a half of the movement in payroll tax from one year to another. The reason that it is not as strong as you might expect is because a lot of our employment happens in areas that we do not tax.

MR SMYTH: What explains the other half?

Mr Broughton: The half that is not explained by the aggregate employment level would be wages. The growth in wages from one year to the next has a significant impact on the total payrolls. The rest of it would be general economic impacts—for instance, retail industry performance, whether or not they are hiring or firing temporaries and that sort of thing.

MR SMYTH: The numbers as presented that you went away and looked at, and you have confirmed in your answer that the budget forecast is likely to be exceeded—for your original forecast would it not have required an unprecedented event in that there would have had to have been a continuing downward trend over the last three months of the year or a dramatic fall and then a flat line for that to be achieved?

Mr Broughton: To achieve our budget forecasts on employment from the time that we did it, no, we were expecting good growth in employment numbers.

MR SMYTH: Chief Minister, when did the budget go to the printers?

Mr Stanhope: Ms Smithies? It is interesting when the budget went to the printer—

MR SMYTH: Yes, it is.

Mr Stanhope: The department made its assumptions in relation to its methodology and the data that it would rely on in March. It is entirely academic. You can thrash around, Mr Smyth, looking for some justification for your press release, but, quite frankly, Madam Chair, this hearing is really becoming a little silly. That question has been answered, I think, five times now by officials.

MR SESELJA: It is the first time it has been asked.

Mr Stanhope: We have to call a halt at some point to multiple questions on the same issue, which is actually satisfied by a simple acceptance, whether you like it or not, of the Treasury methodology. We can sit here now in retrospect and say, "Oh, wouldn't it have been nice if Treasury, when choosing as part of its methodology for determining how to determine all of the information contained in its budget, had had the liberty or the luxury of taking into account ABS data from March." It took a decision, accepted by this government, that it had to draw a line at some point, accepting the enormous amount of work and computation and effort that goes into an annual budget.

The line has to be drawn somewhere. In this budget the line was drawn in March and February data accepted. The data changed. I am more than happy with the rigor of the approach and I am more than happy with the level of change in the outcome. We are talking here about, at this point—accepting there are two months to go—a difference between the Treasury estimated outcome and the current understood outcome of 0.05 of a per cent in terms of employment, which translates into 100 jobs as of this moment. That was the basis on which Treasury made its assumptions.

MR SESELJA: No, we are not. That is just totally wrong. You will have to come back and correct that. You are basing it on John's dodgy calculations.

MR HARGREAVES: Because the figures are right.

Mr Stanhope: There is no sense willing it away or wishing it away.

MR HARGREAVES: You calculate it. You have got a computer. You have got 10 fingers and a computer.

MR SESELJA: Can we get an answer to the question, Chair?

Mr Stanhope: It was the methodology that was adopted. You can make any sort of commentary that you want—

MR SESELJA: Ms Smithies was asked a fairly simple, direct question.

Mr Stanhope: It is a rephrasing of the same question that has now been asked five times.

MR SESELJA: It is not.

MR SMYTH: No, it is as basic as when did the budget go to the printers.

THE CHAIR: The question that I believe has been asked is what date did the budget go to the printers. Is that right, Mr Seselja?

MR SESELJA: That is the question.

THE CHAIR: Ms Smithies, are you able to answer that? Then I do think we do need to move on. There has been an explanation about the methodology that has been used, but could you answer that question?

Ms Smithies: From memory, the budget papers go progressively in the last week of budget. Budget paper No 4 went finally around the Thursday before budget, then 3 went very early Saturday morning and the rest went slightly after that. These are the final proofread, gone through 10,000 times, copies.

The decisions that went into those budget papers were closed a long time before that because once government makes those decisions, they go through each agency's financial statements. They get put through a big system process. They have to be consolidated within Treasury. It is a very lengthy and very complex process. Then, not only do we need to put the general government sector accounts together; we also need to do a consolidation based on GFS concepts as well. It is an extraordinarily intensive process between final decisions and when we can finally get the papers to the printer.

MR SESELJA: Given that you—

THE CHAIR: Thank you, Ms Smithies. I want to ask a question. We have heard the methodology that is used. They are the April figures. The explanation is that that gives the time to be able to put all of the other processes together. Has this been a regular practice of not just this government? Has this been regular practice over the years by different governments to use up to the April figures?

Ms Smithies: I would probably be remiss if I said that it definitely is based on that. But in relation to putting out a May budget, the thing that we do in the budget process in the first instance is formulate our economic parameters. They are the first things that get done and they get locked in.

The need for that is largely around getting some CPI figures and a few of the other figures throughout our revenue forecasting models so that we can actually set the macros for the cabinet to understand when it goes through in conjunction with all of its expenditure decisions, its fiscal capacity, and to take a look at budget sustainability.

It is the normal approach of every budget that I have been involved in to lock off those economic forecasts as one of the first things in the process and follow through, whether it has been based on the February figures that come out in March or something slightly different. It might actually depend on when the budget has actually been tabled. It may well be June.

Mr Stanhope: But the methodology is essentially the same.

Ms Smithies: But the methodology and the processes are the same, yes.

Mr Stanhope: This is no radical departure from what we have ever done before.

MR HARGREAVES: Can you tell me when the line is drawn around the assumptions about whether an expenditure will be rolled over into a capital program or satisfied by 30 June? Is it before March or is it before February?

Ms Smithies: For capital rollovers?

MR HARGREAVES: I am referring to when a decision is taken that a program or a project will be rolled over or whether it will be satisfied by 30 June. There are a number of months in between, I would imagine. I would like to know roughly when is the line drawn to say that this thing will not be satisfied by then because we know that this is based on what we know. When is that line drawn?

Ms Smithies: In order to get those figures updated through cabinet and put into the budget papers, in most cases it would be based on the decisions taken very early April. So end of March figures, but more likely trends during February.

MR HARGREAVES: So trends during February are what indicate across the board to Treasury when something should be a rollover or not.

Ms Smithies: Yes.

MR HARGREAVES: So there is a consistency here in the methodology and the approach to the things that will happen between then and 30 June.

Ms Smithies: That is correct.

MR HARGREAVES: Thank you.

THE CHAIR: Mr Seselja.

MR SESELJA: Given that the figures that we have got in the budget on employment were incorrect by the time the budget was delivered, and by the time we had estimates they had moved on again, are there other economic assumptions in the budget that are significantly wrong also?

Mr Stanhope: I do not know a single assumption in a single budget that has ever come in exactly—

MR SESELJA: They do not normally get disproved before the budget is delivered, though.

Mr Stanhope: Of course they do.

MR SESELJA: That is the difference here.

Mr Stanhope: Yes, they do.

MR SESELJA: They do not normally. Things change after budgets are delivered, often, but normally we expect that they are accurate at the time. Looking at other economic assumptions, were any other assumptions in this budget incorrect as at the time of the budget actually being handed down?

Ms Smithies: I do not think that we have conceded the point that at the time this budget was handed down our employment forecast was going to be incorrect.

MR SESELJA: For it to be correct at the time, how much would employment have had to drop from that date to the end of June?

Ms Smithies: It is not a calculation that we have done.

MR SESELJA: So you have not conceded the point but you are not able to offer what the numbers would be?

Mr Stanhope: No, because the line was drawn after the February figures.

MR SESELJA: We are talking about the numbers.

Mr Stanhope: Why would you waste your time doing a hypothetical?

MR SESELJA: Because we want to try to get accuracy. You have said that you have not conceded the point. We had April figures showing growth. Given that you have not conceded the point, what would be the drop in employment from the day the budget was delivered until the end of June that would be required for those figures to be correct?

Mr Stanhope: That question has been asked and answered five times.

MR SESELJA: It has not, because Ms Smithies has just said that she has not conceded the point that it was wrong at the time the budget was handed down.

Mr Stanhope: But she has also said that she has not actually done that calculation; nor would she. And why would she? That is the answer that has been given.

MR SESELJA: In order for us to have some accurate forecasts before we vote on the budget, perhaps.

Mr Stanhope: The question has been answered, Madam Chair.

MR SESELJA: It has not.

Mr Stanhope: Repeatedly, ad nauseamly.

MR SESELJA: Ms Smithies was looking at her notes. I note that she has been overruled again. We are seeing this on a day-to-day basis from the Chief Minister. He overrides officials and stops them from answering. Ms Smithies was in the process of answering the question.

Mr Stanhope: With the focus on nausea, the nausea part of the ad nauseam.

MR SESELJA: Are you shutting Ms Smithies down from answering that question?

Mr Stanhope: She has already answered it.

MR SESELJA: She has not. That is why she was consulting her notes.

MR HARGREAVES: Madam Chair, it is for you to determine whether the situation is resolved or not.

THE CHAIR: Is there one more question? Then we will be reaching the time limit.

MR SMYTH: What is the link between employment and state final demand?

Mr Broughton: Employment does have some impact on state final demand. Obviously, levels of employment, levels of wages income, impact on the ability of people to spend money, which assists in determining state final demand. Certainly, when we sit down to forecast state final demand, we do take into account our employment expectations.

MR SMYTH: So if employment was greater than expected, it would be reasonable to assume that state final demand would be greater than expected.

Mr Broughton: That is in relation to 2009-10. But, as I said, at the moment there is no reason to expect that employment growth is going to differ from the one per cent we forecast in 2010-11, so right at this stage, based on that, I have no reason to expect state final demand to differ from what we forecast for 2010-11 as well.

MR SESELJA: So Treasury still believes that the 3¾ per cent that you forecast for state final demand is the figure that will come in?

Mr Broughton: That is 2009-10.

MR SESELJA: Yes, for 2009-10.

Mr Broughton: I could not say for sure that 3¾ is going to be the figure that is going to come in.

THE CHAIR: Ms Bresnan did ask that question earlier.

Mr Stanhope: Who is going to win the Melbourne Cup?

MR SESELJA: How much, on a quarter to quarter basis, has state final demand grown year to date on the most recent figures?

Mr Broughton: On the most recent figures, I think I quoted 2.7 per cent a short while ago.

THE CHAIR: Yes. Mr Broughton did answer this question earlier.

Mr Stanhope: Just before we conclude, Madam Chair, could I take the opportunity to record the government's great appreciation of Treasury's stewardship of the strongest growing economy in Australia. It is a great credit to our Treasury that we have the strongest economy in Australia, reflected through this budget.

MR SESELJA: Still can't deliver a surplus.

THE CHAIR: As mentioned at the commencement of the hearing today, there is a time frame of five working days for the return of answers to questions taken on notice at this hearing. On behalf of the committee, I thank you, Chief Minister, and officials from the Department of Treasury, for attending today.

The committee adjourned at 11.30 am.