LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

SELECT COMMITTEE ON ESTIMATES 2011-2012

(Reference: Appropriation Bill 2011-2012)

Members:

MR B SMYTH (The Chair)
MS M HUNTER (The Deputy Chair)
MR J HARGREAVES
MR J HANSON
MS C LE COUTEUR

TRANSCRIPT OF EVIDENCE

CANBERRA

MONDAY, 16 MAY 2011

Secretary to the committee:
Ms G Concannon (Ph 620 50129)

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 2 pm.

Appearances:

Gallagher, Ms Katy, Chief Minister, Minister for Health, Minister for Industrial Relations, and Treasurer

Department of Treasury
Smithies, Ms Megan, Under Treasurer
Ahmed, Mr Khalid, Executive Director, Policy Coordination and Development Division
Holmes, Ms Lisa, Acting Executive Director, Finance and Budget Division
Salisbury, Mr Kim, Director, Economics Branch

Actew Corporation Ltd
Sullivan, Mr Mark, Managing Director
Knee, Mr Ross, Executive Manager, Water
Carmody, Mr Ian, Director, Water Security Major Projects

THE CHAIR: It being 2 o'clock and there being three members here, we will commence. Chief Minister, welcome to your first estimates as Chief Minister and apparently as the only minister in the ACT at this stage.

Ms Gallagher: Not for long.

THE CHAIR: First and foremost, on behalf of all of us, we would like to welcome you. As you would know, today we are looking at Treasury with output classes 1, 1.1, 1.2 and 1.3. There will be a tea break at about 3.30. We will continue to work with Treasury until at some stage we move on to Actew Corporation. In front of you—and I am sure you are well acquainted with it—is the privilege card. I would draw your attention to that. Could you confirm, for the record, that you understand the privilege implications of the statement?

Ms Gallagher: Yes, thank you, chair.

THE CHAIR: Thank you very much. I will also remind the witnesses that the proceedings are being recorded by Hansard for transcription. They are also being webstreamed and broadcast live. The Assembly is also trialling Committees on Demand, which allows an audiovisual recording to be accessed on the web after the hearings. That will be there until 30 June. Are you happy to proceed with those things in place? We have got a lot to get through today. Before we proceed to questions, Chief Minister, would you like to make a short opening statement?

Ms Gallagher: Thank you, chair. Yes, I will just make a very brief opening statement about the 2011-12 ACT budget. This is an important budget for the people of the ACT. Obviously, at this point every year we appropriate money to fund services for our local community. This year we have had to take some tough decisions as we return the budget to surplus, but it delivers on our commitment to return the budget to surplus in the timetable we had outlined—that is, in the fiscal year 2013-14, two years ahead of the timetable we had set ourselves in 2009-10.

I think overall you will see that this budget has some very strict discipline in it in terms of the savings measures that we are seeking. Indeed, of the new spending, in the order of $260 million a year, almost all of that is offset by savings measures that we have implemented across government. We are able to do this without cutting back on programs or services. But it does mean that we have had to balance those additional investments with savings from the back end.

This budget allows the ACT public service to continue to grow, as we have seen in previous years, but again you will see a level of discipline there where the new full-time equivalent staffing numbers are offset by staffing reductions that we will be seeking. So overall the staffing numbers only increase by in the order of about 100.

This budget also implements the first step of the new ACT public service. The adoption of recommendations of Hawke are included in this budget. There is targeted new spending in terms of health, education, emergency services, housing and community services. They all get additional appropriations. As I said, though, we are offsetting some of those additional moneys with savings measures as outlined.

In terms of infrastructure, again, it provides a large infrastructure program for the ACT. We believe that this infrastructure is needed to provide the services that our community expects. As our balance sheet is very strong, we are able to support this level of infrastructure development.

We also continue our focus on housing affordability with a very clear land release program and some additional investments to particular projects where we see the benefit in terms of providing more affordable housing. That is through our partnership with Community Housing Canberra, and indeed with the loan and partnership we have created with the University of Canberra.

I look forward to working through this budget with you, Mr Chairman, and your colleagues. I know there will be many questions. I would just like to flag and thank you for your forbearance in dealing with some of the adjustments that have had to be made to the program to deal with the exceptional circumstances that we have been dealing with in the past week. I will just leave it there.

THE CHAIR: Thank you for that. We might start where you finished. Just for the sake of the committee, when will the new administrative arrangements be released so that we can plan for the rest of the sittings?

Ms Gallagher: I am hoping to finalise those today. We should have some information to you as—

THE CHAIR: All right. The budget is on the table; it is here for consideration. Chief Minister, can you tell us what impact the budget will have on the cost of living for Canberrans?

Ms Gallagher: Indeed, we have been very conscious of minimising costs to families—indeed, to all Canberrans—in this budget. You will see that there are no additional new taxes in this budget. Indeed, there are significant additional appropriations targeted to those families who we think are doing it tough and need an extra hand. Indeed, I think it is in the order of $13 million in our concessions regime.

In terms of your question, I presume it is about whether—actually, I should let you ask the question. The focus of this budget, the fact that we are seeking savings from government itself to offset the spending and return the budget to surplus—and it was very much at the forefront of our minds—was on ensuring that families were not paying for this budget, and they are not.

THE CHAIR: Has Treasury done any modelling on what the impact will be on the cost of living as a consequence of this budget?

Ms Gallagher: You would not have done any modelling. Certainly in terms of advice to the budget cabinet—and indeed I think the area we focused on the most was around the concessions regime—Treasury have provided advice to the cabinet. There was no formal modelling on the impact of the cost of living on every person in Canberra.

THE CHAIR: So you do not know what the impact of this budget will be?

Ms Gallagher: Yes, we do know. We know how much rates will go up on average, as they do each year. We have that information. But, as I said, the focus has been much more on how do we support those people who are doing it tough. The emphasis in this budget is around our concessions and our response to, essentially, the utilities increases and meeting some of those increases in costs. We do look to your—I think, Mr Seselja called it a study—"ACT Labor vs the Family Budget". It appears that you have done some of that work—

THE CHAIR: We appear to have done more work than you have done by your statement.

Ms Gallagher: Yes; I have had a quick look at the parking. If we take your study that involves two people driving two cars and parking right next to each other presumably in the most expensive part of Civic, all day, every day—actually, no, five days a week with no annual leave—we can sit here and have a chat about that. I do not think the study took into consideration other elements which should be considered, including wages growth, population increases and other variables like that which must be done if you are going to have a discussion around impacts of price increases and impacts on the cost of living.

THE CHAIR: You said you have done work on things like rates and so on. What is the total tax per capita in this budget?

Ms Gallagher: Do you want to answer that? Over to you, Megan.

Ms Smithies: I do not think we have actually calculated out the individual per capita number yet. We have looked at increases and decreases, but—

THE CHAIR: So we have done no work on the cost of living and we do not know what the total tax per capita will be as a consequence of the budget.

Ms Smithies: We know that the total tax per capita as a percentage of the overall economy is actually reducing. We know that the size of the economy is growing. We know that income per household is growing. We know that income per capita is growing. Tax, in itself, is also growing, but not as much as those. I just do not have with me the actual tax take per capita that you have specifically asked for. We have done a lot of work around this and we do understand what is happening generally in relation to taxation—taxation and the economy and taxation and households.

THE CHAIR: But, having done that work, you cannot tell us what the impact on the cost of living is and you cannot tell us at this stage what the total tax take per capita is?

Ms Smithies: As the Treasurer has said, what we have done throughout this budget is actually examine a number of initiatives that the government has put in place. Through the budget process we have looked at each of those components in relation to revenue taxation. As the Treasurer said, there are no new taxation items in this budget. The only change in the tax base is an increase on average of wage price indexing in relation to the rates phase, which is one of the broader base taxation items that go out across households. Parking is going up in line with the government's announcements of the previous years. We have had a look at those, obviously, in terms of the cost per household.

One of the things that are increasing is utilities costs on each household. They have had a good look at those. That is a sort of journey that was taken through the budget process in relation to the significant increase in the concessions given back to those low income households.

THE CHAIR: I will defer to some of my colleagues. I might come back to that area later. Are you taking on notice what the tax take per capita is?

Ms Gallagher: Yes, sure.

Ms Smithies: Yes.

THE CHAIR: Thank you. Ms Hunter? As per Friday, members, we will just work our way around the circle and keep it going.

MR HANSON: Are we doing supplementaries on the cost of living?

THE CHAIR: Supplementaries are more than welcome at any time. I will keep my eye open for them.

MS HUNTER: I would like to go to budget paper 4. At page 143, it talks about the priorities. I wonder whether you could give an explanation around the gateway reviews for—

Ms Smithies: Sorry, what page?

MS HUNTER: Page 143 in budget paper 4.

Ms Gallagher: Yes.

MS LE COUTEUR: Or page 93 of 3.

MS HUNTER: I will get to those in a minute. It is the sixth dot point. It talks about implementing gateway reviews for large and/or complex projects. The amount of money appears in budget paper 3 on page 93. In the 2011-12 budget, it will be $240,000. I just wondered whether you could explain a little about the scope of these gateway reviews and how they relate to the triple-bottom-line work currently being undertaken by CMD.

I guess another point is that the commonwealth has done a number of gateway reviews or has done a significant amount of work. Are we going to be reinventing the wheel or are we going to be picking up on some of that work?

Ms Smithies: No, we are not going to be reinventing the wheel. The funding in the first year is actually to set up a methodology in relation to gateway reviews. Obviously, as you suggest, the commonwealth has done a lot of work in this area, as have a number of other jurisdictions. Our focus in this instance is really intended to be part of the conceptual development of ideas before they head into the budget process—the conceptual development of projects, be they large capital works projects or major IT projects or projects that bear a degree of risk. Risk may well be defined as either financing risk or implementation risk.

So it will be largely focused on the development of initiatives and projects that enter into the budget process, based on risk identification. It is, again, largely to be focused around review of documentation, project readiness, cost estimates, risk analysis et cetera, in order to target those projects that are moving into a funding process and being able to place sufficient flags on those projects as they are being implemented post funding and through implementation.

It is not our view that that will actually fund those gateway reviews. Obviously, other jurisdictions talk about a number of gateways through the process from conceptualisation to development process—funding, implementation, post implementation review. As I said, most of ours are going to be focused in the beginning.

We will be identifying projects that will need a specific gateway review through their life. We will probably not be undertaking those gateway reviews ourselves but will be including the cost of those in future budgets as those particular projects come into the funding rounds. We may well do some of these reviews ourselves. My feeling is that we will take the skills that come from Procurement Solutions, the capital area, TAMS, Treasury, Chief Minister's. We actually do have a fair array of skills that would be able to be applied to these particular projects. So the initial work for the first review is really around developing some good guidelines and, I guess, a matrix which will identify which projects really do need to have additional consideration as part of the gateway.

The other part of this will also be to put some of those significant engineering projects through some more structured and value management processes so that not only are the costs right but what is being delivered is actually right. Does it hit the right engineering standards or are they, indeed, overly specified in relation to the standards of the day? Are there cheaper ways of delivering it? Have we properly looked at all of the alternative ways of delivery et cetera? So that is about going through much more structured value management processes. The particular project sort of makes its way into it pre the funding round itself.

MS HUNTER: Because part of my question was around the triple bottom line at work, how will you build that in, and the climate change assessment tool, when you are talking about risk identification? I want to know: are those things going to be part of these reviews?

Ms Smithies: An answer to that is that the initial part of the funding is to formalise what those reviews look like, what they concentrate on and how we actually do that risk matrix. Certainly around some of the triple-bottom-line indicators, my feeling is, again, that there will be a strong element of those. But this is all in pre-decision making. So obviously the issue is: what does the project on the table aim to achieve and how is it going to do it, what are the costs to be avoided by actually proceeding with a particular project and how well are they defined and how well are they crystallised through a funding process?

The elements that come out of, I guess, a triple-bottom-line analysis are all probably very good elements that go into any of those risk analyses and good policy development in any case. So they will certainly be picking up on elements of that. That would be my feeling, notwithstanding the fact that we have not got the guidelines on the ground yet.

MS HUNTER: I guess I also wanted to pick up on the issue of priorities. We had recommendation 32 of the Hawke report about publishing annual government priorities in the budget papers or in a formal statement of intent. Has Treasury done any work on a plan to introduce this idea?

Ms Gallagher: Yes, we have—not necessarily Treasury but the government has as a whole, of which Treasury has been involved. Maybe it is around the timing of this budget and the changes. It was not quite finalised to be published in these budget papers but we do expect to be in a position to announce that shortly.

THE CHAIR: Soon.

Ms Gallagher: Soon. Exactly. I think there are some benefits from aligning that with the budget because in many ways the budget is the major outline of your agenda for the next year. So it makes sense that you would have your statement of priorities aligning and being announced at the same time.

MS LE COUTEUR: The government office building is mentioned in a number of places, at pages 151, 156, 157 of 4. Can you tell us a bit about Treasury's role in this project?

MR HARGREAVES: They have got the money.

MS LE COUTEUR: Have they a role, apart from bank manager?

Ms Gallagher: Yes. Treasury have been very involved in this project, particularly around the financial analysis of the project and being a part of the work that was done about determining the best way forward in terms of the decisions taken around the financing of this project. So, yes, Treasury have been very involved.

MS LE COUTEUR: Have they been involved in the cost-benefit analysis? I believe it was in the order of $10 million of potential benefits for the whole of government working together. Has Treasury been involved in deciding whether that is a reasonable figure?

Ms Gallagher: Yes.

Ms Smithies: Yes, we have.

MS LE COUTEUR: Can you elaborate a bit more? How have you determined that that is a reasonable figure?

Ms Smithies: The work that has gone into this budget is probably the combination of two or three years different work. There are two parts to the savings figures that I think have been quoted. The first one is the $20 million per annum, which is the reduction in rent, utilities et cetera. The second amount is around $15 million to $17 million per annum and has, as you suggested, to do with the opportunities to streamline processes and allow agencies to work better but also to, I guess, capitalise on the effects of a reduced downtime from staffing et cetera as the result of a very good, environmentally high-standard building et cetera. So those came out of a consultant's report commissioned by LAPS, and it is probably best to ask LAPS about all of the details of that $15 million.

To us, they looked reasonable savings. They have not yet been exactly landed on or actually hardwired into any of the budget processes. We need to go through a bit more of a process in order to actually demonstrate whether those are savings which can be reaped. That is probably a good way of saying it. You would understand that they have not necessarily been put into the benefits of the project yet. So the net present value or the savings benefit does not include all those extra potential savings, certainly until we have worked through the process of how to actually realise those workforce dollar savings and environmental savings.

MS LE COUTEUR: Do you have an idea how much has actually been put in of those softer savings or whatever would be the word to describe them?

Ms Smithies: Into the financial analysis?

MS LE COUTEUR: Yes.

Ms Smithies: No. At the moment, none. And there are actually positives and benefits on the upside of moving down this proposal. It is not because they have not been considered through the process but it is not unusual when we do a style and financial analysis or an economic analysis that we will actually quantify and hardwire a number of those savings into the financial analysis and then identify a number of other savings which will come with the project, of which the project's success or otherwise is not necessarily contingent and therefore not hardwired into the project.

So they have been discussed. They have been worked through from the perspective of consultants looking at those sorts of workforce management savings. But any benefit that we gain from those, once the project is implemented, will actually be on the upside and will be a further benefit to the project. And that is not unusual for this type of financial analysis where you will actually have a high hurdle for those savings that you allow into a net present value computation versus the other ones that you would recognise but perhaps put aside for more work to be done on firming up their actual implementation and ability to be implemented, I guess.

MS LE COUTEUR: So they will not be savings which will come off the departments' budgets then?

Ms Gallagher: They will, once they have been resolved, once they go through another process, yes. I should say, though, that under the outline proposed in the budget, with the funding for the capital construction commencing in the two final outyears, my understanding is the timetable for delivery of the project would be around 2017.

Ms Smithies: That is right.

Ms Gallagher: So you would not take that money off prior to the building being ready for accommodation.

MS LE COUTEUR: Occupation, yes.

THE CHAIR: Mr Hargreaves has a supplementary. Then Mr Hanson and Mr Seselja.

MR HARGREAVES: Thank you very much, Mr Chairman. Before I go to the supplementary I have, I have to congratulate Ms Smithies on what may very well be the phrase of this estimates process, the upside of moving down. I thought that was sensational. I congratulate you

MS LE COUTEUR: Yes. I thought that was very good.

Ms Smithies: It could have been worse. Thank you.

MR HARGREAVES: It is going into my collection.

MS LE COUTEUR: I was a little lost on that one.

MS HARGREAVES: I thought that was gorgeous. The effect of depreciation on a major capital project like this one would be substantial. And as the value of the building decreases, the benefit, in fact, of moving into it in financial terms will increase substantially, I would imagine. Please correct me if I am wrong because I quite likely am; what I would like to know, though, is: has that differential between the depreciation and the value of the cost, which you are not incurring at the moment, been taken into account in terms of the financial analysis of this building project?

Ms Smithies: Yes, it has, although the focus of the particular analysis that has been done around this particular project is basically an NPV analysis around cash flow in the first instance. So it actually puts aside the issues of depreciation. But it looked at, I guess, a number of different scenarios in relation to the location of government employees—a scenario where we have got employees dotted around the place and we could do absolutely nothing, a scenario where we could upgrade all of our existing buildings to the sought-after environmental standards, a scenario where we could lease a building or a scenario where we could build a building. They were, largely, the four scenarios, I think from memory, that were looked at. Then there was the net present value of the cash flow of all of those. You look at these from a number of perspectives. So the analysis I have just described is on a number of different scenarios compared to each other on a cash basis.

We also had a look at the impact in relation to, I guess, the budget bottom line, which is really more around when you look at depreciation. You have a building that will be depreciated over a certain number of years versus the cost of actually putting cash into a significant upgrade of existing buildings et cetera. So, yes, the depreciation was considered in more of the budget analysis which was complementary to the economic analysis or the discounted cash flow analysis.

MR HARGREAVES: I understand that in round terms this particular option is likely to save the taxpayer about $30 million-odd down the track going forward. Am I correct in assuming that the depreciation figure, which will become more obvious the closer you get to the building of the thing, would in fact increase that $30 million, so in fact the $34 million or whatever it was of saving overall to the taxpayer is on the optimistic side?

Ms Smithies: Sorry, the $30 million savings is on the optimistic side?

MR HARGREAVES: We are talking about the cost of it versus the renting and ownership of buildings that we would sell on because of people moving into this larger building. The net of it all is, in fact, that going forward we are going to save ourselves about $30 million-odd. Am I correct in assuming, therefore, that the depreciation on the building into which people are going will in fact increase that figure over time?

Ms Smithies: The extra depreciation will definitely be a cost to the budget, yes, offset by the depreciation and the operating costs of the existing office rental. That is exactly right. What this proposal does, though, is that it says that the option that the government has chosen is the least cost and generates the most savings of all of the options put on the table. In that analysis depreciation was not taken into account because it was a cash analysis. But you are right: what happens is that the depreciation of the existing buildings drops off as we sell those buildings and bring on board depreciation of a new building. And from that sense there will be an additional impact on the budget bottom line. But that impact is the lesser of all of the impacts moving forward; I guess that is the best way to put it.

MR HARGREAVES: Yes, I understand that—

Ms Smithies: It is the least cost option.

MR HARGREAVES: but I guess when we are talking about a $400 million project that any positive impact that has not been factored into, in terms of dollar figures, and the netting of the depreciation of a new building versus the depreciation of an old building, netting that off, there is still going to be a greater positive effect on the territory's taxpayer than otherwise would have been the case.

Ms Smithies: That is right.

Ms Gallagher: With the savings, yes.

Ms Smithies: Yes.

MR HARGREAVES: Yes. Thank you.

Ms Gallagher: And we also will at the end of the project have a substantial asset on our balance sheet.

THE CHAIR: Sure. Mr Hanson, a supplementary to the question?

MR HANSON: Chief Minister, with the building I wonder why we should believe you. You have stated a cost and you have indicated a time line. But let us look at this government's record on infrastructure delivery—the hospital car park that blew out from $29 million to $45 million, the GDE that has been littered by delay and cost blow-outs and I think most particularly the prison. This is something that was promised by your government that would be $110 million and would deliver 374 beds; in fact it cost $130 million and delivered 300 beds and it is already full. That is $20 million more and 74 beds less. The previous Chief Minister said that this would cost us per prisoner no more than it cost to send prisoners interstate. We know that that figure was $263 million and it is now costing us $440 million.

So on every measure the promise of new infrastructure being delivered within budget has been proven to be in almost every case false. The promise of savings has been illusionary and the promise of infrastructure being delivered on time has failed to be met. So why should we in this case believe you? What is different this time when you got it wrong all the other times?

Ms Gallagher: That is a very negative first question, Mr Hanson. But I am not unsurprised by it. For a start I will not agree with some of the statements outlined in your question—

MR HANSON: Well, the stats are all correct, aren't they? The figures are correct.

Ms Gallagher: that in every case infrastructure has not been built on time or on budget. That is simply not the case. You can pull out the examples that you choose to support your argument. I think we have been through the hospital car park a number of times. The $29 million car park was for a different car park, half the size, at the other end of the precinct. So, yes, it did cost $45 million but we were also building

800 extra car parks—

MR HANSON: Well, let us focus on the prison then, minister.

Ms Gallagher: I am just trying to give you the context and there are logical answers to almost every situation that you can throw to us. But, having said that, I think there has been an issue—I have felt this issue from scoping projects, particularly large projects—years ahead of when they are delivered, making sure that we are adequately building into those costs things such as escalation into those budgets. You will see with the government office building, and indeed some of the commentary that has been around the office building project in the last week, that there has been enormous effort put in to scope this project, to analyse this project, from almost every angle, whether it be through how we deliver it, to the financial analysis, to the needs analysis for this building in the first place.

I think this is perhaps the most scrutinised infrastructure project that I have had anything to do with. What you see from the extra investment in the whole-of-government gateway that I have asked that we are providing with Treasury is to make sure that we are constantly improving our processes in this area. I know you will say, "Is that because they have not been good enough in the past?" It is not about that; it is about making sure that we are constantly improving our systems across government and I think this government office block sets the standard for that.

MR SESELJA: Mr Chair—

THE CHAIR: Supplementary, then a supplementary from Ms Hunter.

MR SESELJA: I have a couple of supplementaries on this area. But just to quickly clarify the answer before in relation to depreciation, were you saying, Ms Smithies, that the $19 million in direct projected savings does not take into account depreciation at this stage?

Ms Smithies: That is right; it does not.

MR SESELJA: Okay. And when it does you anticipate that that $19 million would be less or more?

Ms Smithies: Sorry; I do not have the figure for the net depreciation off the top of my head. The net depreciation will be a cost to the budget, though, so you will expect to see additional costs once this project is in place and fully operating, additional costs moving forward. But this is in relation to the fact that those costs are not in the budget in any case. And should they have been built into the budget this would have been the least cost way of bringing to account those costs. That is probably the best way of saying it.

MR SESELJA: So the $19 million will be lessened by depreciation and the $19 million in savings is not in the budget? Is that—

Ms Gallagher: No.

Ms Smithies: There is nothing in the budget because it—

MR SESELJA: I am not talking about this current budget but once the analysis says, "We are going to build this you-beaut office block and that will save us money," presumably that is going to then be reflected in the budget bottom line—

Ms Gallagher: Yes.

MR SESELJA: and the project at this stage is $19 million in savings—

Ms Smithies: In comparison to the other options, yes.

MR SESELJA: in comparison to other options but that would be lessened once depreciation is actually factored in.

Ms Smithies: Yes. And this is still the least cost way of going about providing accommodation for this body of people.

MR SESELJA: Okay. But we do not know how much less than $19 million it will be at this point?

Ms Smithies: I do not have those numbers with me.

THE CHAIR: So are you taking that on notice, Ms Smithies?

Ms Smithies: Yes.

MR SESELJA: How much does the ACT government currently pay in rent per annum?

Ms Gallagher: We can get that figure for you.

Ms Smithies: We will get that, yes.

MR SESELJA: Okay.

MR HARGREAVES: Sorry, Mr Seselja, but could I just add to Mr Seselja's request for that item on notice, Mr Chairman? I noticed you asked for the amount of depreciation and what the effect of it is going to mean. What I am interested in, on notice also, is whether there is going to be any mitigating increase in the value of the asset on the books as well, by way of mitigation if that is applicable at all?

Ms Smithies: Yes.

MR HARGREAVES: Thank you.

MR SESELJA: Okay. So if we go back to the question about rent, is that one taken on notice as well or are we just—

Ms Gallagher: Yes, we will take that.

MR SESELJA: Okay. And utilities, in terms of its offices?

Ms Gallagher: Whole-of-government utilities?

MR SESELJA: Yes, indeed.

Ms Gallagher: Yes.

MR SESELJA: Ms Smithies, as part of the analysis of the project will the ACT government have to pay out any existing leases and, if so, what will be the amount of that payout?

Ms Smithies: The analysis has been done on moving from government owned into government owned—probably best a question that you ask of LAPS. From my understanding there is no payout of existing leases.

MR SESELJA: Okay. And does the analysis take account of the loss of revenue from, say, the block of land which will be developed as a result of the government not selling it and not getting the stamp duty and the associated revenue?

Ms Smithies: The opportunity forgone on our block of land?

MR SESELJA: Yes.

Ms Smithies: No, it does not.

MR SESELJA: It does not. Okay. And why not?

Ms Smithies: Again because essentially what we are doing is swapping our own asset out. We are retaining ownership of our own asset and then building on our block. So it is not necessarily relevant for the type of analysis that has been done.

MR SESELJA: But the loss of revenue from a $20 million or $30 million site, the loss of revenue from stamp duty, would be then an ongoing, potentially. Surely that should be factored in because that will affect things like the interest bill. If you are having to borrow all of the money you will have a certain interest bill that needs to be factored in. That could presumably be offset, or one of the counter factors obviously is that you will be losing money on the other side. Why isn't that loss of revenue in any way taken into account in the analysis?

Ms Smithies: Because we have never incorporated the gain of that revenue into the bottom line of the budget. So we are losing something—I guess what you are suggesting is that we are losing something that we have never hard-lined into our budget macros in the first instance. So in this instance we are not giving up anything.

MR SESELJA: Except that you presumably at some point were going to get rid of that site. You were not just going to hold on to it forever.

Ms Smithies: But if we do not get rid of that site then we will probably get rid of a different site, so you just get a substitution. In terms of an economic impact it is not something that you would take into this particular analysis.

MR SESELJA: How many sites such as that car park are left in Canberra to that sort of value?

Ms Gallagher: I think Ms Smithies has answered the question. I guess your question is: why don't we flog off that land for the highest price, for the development of that site by the private sector? My response to that would be that it is the community's asset and we will be building a significant community asset on that land. We have not factored the value of the land into the budget. It is not part of our land release program and therefore there is no need to reflect not selling it to the private sector in the budget or the costings for this project.

MR SESELJA: For the record that was not my question—

Ms Smithies: Particularly as we will continue to own that land.

Ms Gallagher: Yes, it was.

MR SESELJA: No. My question was why you do not take into account the potential loss of revenue because presumably you are going to do something with that land; you will either build on it or eventually sell it. Is there another proposed purpose? It will stay as a car park forever? I do not quite understand why that amount of revenue that would be forgone would not in any way be factored into the economic analysis.

Ms Smithies: Because it would be a speculative return. We still own the land. We can still sell the piece of land at any point in time with the building on it if that is what we so chose.

MR SESELJA: But has the increase in value of owning that office block been taken into account in the economic analysis?

Ms Smithies: No, and it was not relevant to that type of analysis.

MR SESELJA: Okay. So the actual ownership of that block of land has in no way been factored in?

Ms Smithies: No.

MS HUNTER: My question is about the analysis that has been done around the proposed office building. A range of different analyses have been undertaken. My question is whether that information was going to be given to the public accounts committee. They had conducted an initial inquiry with an interim report and had been requesting that information. Chief Minister, is it your intention to hand over that information to the public accounts committee?

Ms Gallagher: I am having a briefing with the Chief Minister's tomorrow morning, and this will be an item for discussion. My view is that whatever information we can release to provide all the information that is needed for a thorough examination of this project is appropriate. I just have not caught up with the officials across government around exactly what form that can take. I understand there are some commercial-in-confidence matters included in some of the reports. So I just need to get a briefing on that. But my intention would be to release as much information as I can.

THE CHAIR: Just to follow up on Ms Hunter's point, the interim report made three recommendations. Without having them in front of me and without having them in order, one of the recommendations was that the whole-of-government office strategy be completed before the work on the government office building is proceeded with. Why have you chosen to ignore that recommendation of the public accounts committee?

Ms Gallagher: Well, I do not know that I have. I think that probably falls within the Chief Minister's portfolio, not the Treasury portfolio. I am happy to take that question tomorrow.

THE CHAIR: All right. Well, I am sure we will come back to that. But Treasury has input to the whole-of-government office strategy, I take it?

Ms Gallagher: They have input into everything they can that is humanly possible.

THE CHAIR: Okay. So, with a Treasury hat on, is it not important to have the strategy done before you go to individual items like the whole-of-government office building?

Ms Gallagher: Well, as I said, I am happy to answer these questions for the strategy as a whole. I cannot answer on behalf of what role Treasury has had specifically in the development of the whole-of-government strategy but—

THE CHAIR: Why not? You are the Treasurer.

Ms Gallagher: I will say that—

THE CHAIR: Sorry, Treasurer, why can you not answer what role Treasury has had in the development—

Ms Gallagher: Well—

THE CHAIR: You are the Treasurer—

Ms Gallagher: Well, I know they—

THE CHAIR: Well, you were the Treasurer to that point.

Ms Gallagher: I know they have been involved—

MR HANSON: She still is, Mr Smyth. She is all ministers.

THE CHAIR: Apparently so.

Ms Gallagher: As to exactly how they have been involved, I cannot answer, and I do not know if there is anyone here that can. Treasury are a pretty conservative group of individuals. What I do know is that Treasury have worked very hard on their analysis of this project and the positives and negatives of this project before the government came to the decision to proceed with it. I know that this work has been very thorough and supported by a number of different consultancies.

THE CHAIR: The second recommendation from the public accounts committee was that the government provide the standing committee with an assessment of the opportunity costs of the whole-of-government office project against other significant infrastructure projects, such as Majura parkway or light rail or a convention centre. Has that work been done by Treasury?

Ms Gallagher: I am not certain the government has responded formally to this report.

THE CHAIR: No, it has not.

Ms Gallagher: No.

THE CHAIR: But I am asking: has Treasury had any input into the opportunity costs from going ahead with this project against others?

Ms Gallagher: Well, certainly Treasury has analysed our infrastructure needs over the next few years. Indeed, I think it was our recommendation, mine as Treasurer, that this project be commenced in those final outyears of the budget. That was in recognition of the very large infrastructure work that is underway already. We think by 2013-14 other large projects around town will be winding up and, with a bit of foresight, there may be a need for a large infrastructure project and certainty around that project around that time. The Majura parkway is factored into this budget as well.

THE CHAIR: Well, half of it is.

Ms Gallagher: Well, yes, that is right, half of it is. I do not think it is an either-or situation. This city has infrastructure needs. We have a large public service that needs accommodation, we have roads and hospitals that need to be built. We have to manage all of those infrastructure projects. It does not mean that you just do not do one, because that does not deal with the issues that are going to be before us. I think this budget shows how we would like to balance that and phase that infrastructure work into the future. But we will respond fulsomely to that committee's report.

THE CHAIR: Was the private sector offered the opportunity to prepare a cost estimate for the proposed building?

Ms Gallagher: Again, this is probably a question more appropriately asked of LAPS. I am very aware that they had industry briefings with a number of—

THE CHAIR: Yes, a briefing is different to preparing an estimate. Was the private sector—

Ms Gallagher: But then there were follow-up meetings with a number of those private businesses post that industry briefing. Certainly the private sector was involved in the costings of this project, yes.

THE CHAIR: Well, we might follow that up with LAPS

MR HANSON: I am just wondering if you did any analysis on the impact of this on the broader economy, particularly the commercial property sector and what it will mean for them. They are already experiencing a glut. Did you look at what the vacancy rate is currently for A and B grade accommodation, for example, what is in the pipeline to be delivered and what this means in terms of vacancies for that sector?

Ms Gallagher: Yes, we did have a look at that in terms of this budget as a Treasury. Again, LAPS will be able to go to your question in more detail. We have a pretty good understanding of the breakdown of available office space. Indeed, part of the reason to start this project in 2013-14 and to have some incentives in the budget about redeveloping C and D grade office buildings was to allow the industry time to readjust. That is what they are telling us—that they need incentives in order to upgrade C and D grade buildings, particularly in town centres. So this budget offers them that opportunity. I do not think it is that unusual that the private property industry would be urging us to rent their buildings. I do not think that is too unusual for a—

MR HANSON: Well, that was not my question.

Ms Gallagher: Well—

MR HANSON: I was just wondering whether you had done a study on the impact, and what this will mean for vacancy rates.

Ms Gallagher: Well, the opportunity, I guess—

MR HANSON: We know that we have already got high vacancy rates. What will it mean?

Ms Gallagher: It is not necessarily the government's job to solve vacancy rates. It is not our job. It is not our business. It is our job to look at how we can support industry—

MR HANSON: So you have not done any analysis on it, or you have done analysis?

Ms Gallagher: We have done analysis on what the current vacancy rates are, and we understand that. That is why we have provided incentives for industry to improve or redevelop their own assets. It is also part of the reason why the government decided to wait until 2013-14 to start the project.

MR HANSON: Okay, and appreciating you might not have this information, can you tell us what the number of public servants is in each grade building currently? So, X are in A grade, B—?

Ms Gallagher: It is probably a question for LAPS. It is not really Treasury's job to do that. But the information would be available across government. We will warn LAPS that one is coming.

THE CHAIR: You are going to talk to yourself, are you?

Ms Gallagher: That is not what I meant.

MR HARGREAVES: Whilst in opposition—a very long time ago—I introduced legislation to introduce regulatory impact statements into the processes. I am interested in the ninth dot point on page 143, where you indicate that it is the government's intention to strengthen the territory's regulatory impact statement processes. My curiosity was sparked, and I am wondering how you are going to strengthen this process.

MS LE COUTEUR: Good question, Mr Hargreaves.

MR HARGREAVES: I only ever ask good questions, colleagues. That is because I have been here considerably longer than any of you.

Ms Smithies: It is one of the steps that we need to take as a jurisdiction in relation to our COAG national economy commitments. Part of that is to update all our regulatory impact statement processes and procedures et cetera, which is something that we will go through in the coming months. That forms a number of things: one is clarification to agencies in relation to RISs—when a RIS is required, when it is not required in terms of subordinate or primary legislation et cetera, what is to be included in a RIS, what does and does not get published when we do a regulatory impact statement et cetera.

Certainly other jurisdictions have moved ahead of the territory in terms of how they have done their regulatory impact statements and what gets provided to cabinet as part of those proposals et cetera. So, for us, it is about better guidance to agencies in relation to the content and more clarity in terms of where a RIS is applicable, how you go through those processes of identifying alternative policy options and impacts on different sectors et cetera, and what actually gets put out to the public at the end of the process.

MR HARGREAVES: The legislation indicates where exemptions may be applicable for a compilation of regulatory impact statements. Do you intend to change the legislation governing those exemptions?

Ms Smithies: I will just grab Kim Salisbury, who works in our regulation policy unit.

Mr Salisbury: We are looking at a range of issues and best practice reforms that we might implement. There are seven jurisdictions that are currently sort of working on this and we are working through COAG to work out what best practice might mean in this area.

One of the issues we are looking at is a gatekeeper role. That is a central agency or a central body that would give a tick or a cross to the adequacy of a regulation impact statement. We are currently considering which mechanism might be best, given our decision-making processes in the ACT, to formulate that role. That is one thing we are looking at.

What is important in the context of the Hawke review is that it goes to all of the cabinet decision-making processes and how a regulation impact statement fits in with that. That goes some way to how it fits in with triple-bottom-line issues. So we are looking at this process in the complete cabinet decision-making process and how it best sort of fits in there. I am not sure that exactly answered your question.

MR HARGREAVES: Let me enlighten you, Mr Salisbury—it did not. I would like to know whether or not you intend to change the legislation to reflect the updating. Are you going to increase, decrease or more clearly define, for example, the exemptions which are contained in the legislation around regulatory impact statements?

Mr Salisbury: I guess we may or may not change the legislation and the guidelines around that.

MR HARGREAVES: Thank you, Sir Humphrey; a simple yes or no will do.

Mr Salisbury: I am sorry, sir—

MR HARGREAVES: If you do not know that is fine, and I mean that with the best of intent. If you do not know yet, that is cool. Having put it in your mind, you will go away and think about it?

Mr Salisbury: Sure.

MR HARGREAVES: Could I also ask: was it your intention to put forward the changes that you envisage around regulatory impact statements to the Standing Committee on Justice and Community Safety where the original legislation had its birth?

Mr Salisbury: I am not sure I can answer that question.

Ms Gallagher: Yes, we will take that as a hint.

MR HARGREAVES: It was a bit of a hint, wasn't it? Thank you very much.

THE CHAIR: Ms Hunter had a supplementary on RISs and I think Mr Seselja waved as well.

MS HUNTER: No, I was fine. I pretty much wanted to know what you are doing with RISs.

THE CHAIR: All right; a supplementary from Mr Seselja and then Mr Hanson with a new question.

MR SESELJA: How do you ensure that agencies are properly doing them? I guess it goes to the fact that it does not seem to me that agencies do a lot of RISs at this point, whereas I would think that most legislation has some sort of reasonable regulatory impact—obviously some more than others. Minister, are you satisfied that agencies are doing enough RISs? For instance, is Treasury aware of how many RISs are occurring? Do you keep a centralised register? If so, is it adequate at this stage?

Ms Gallagher: Yes, certainly. As the party in the Assembly that does, I think, all of the regulatory impact statements—I am not sure I have seen one from the Liberal Party or the Greens, indeed, with their legislation agenda. But Treasury, certainly, and cabinet are aware of all of the regulatory impact statements that are being done. I do not know—

MR HANSON: Are they done by the Labor Party or by the bureaucracy?

Ms Gallagher: I do not know whether there is any specific example—sorry, what was that, Mr Hanson? It was some snide remark there that I did not catch—

MR SESELJA: Are we able to—

MR HANSON: Well—

Ms Gallagher: I am not sure—

MR SESELJA: Are we able to have that number in terms of having how many were done in the last financial year, as an example?

Ms Smithies: Yes, I am sure we could.

Ms Gallagher: I am sure we could provide that to you, yes.

MR SESELJA: And is there a reason why RISs are not published?

Ms Gallagher: If I think of the one that I wanted to release around workers compensation, for example, there were some constraints on releasing that information because of the commercial nature of the information contained therein. So there are sometimes issues—for example, when we have done smoking reform. Now, I do not think there is any issue with releasing information out of those regulatory impact statements. I think it just depends on what you are dealing with.

MR SESELJA: And in that case it was released in terms of smoking reform?

Ms Gallagher: I cannot recall, Mr Seselja. I do not know whether we released a formal document. But the information in it was certainly made public, I am sure. But I think the last one I looked at closely was the workers compensation—sorry, it was the compulsory third party, CTP, one. There were some constraints, although I think we have released as much information as we can now on that.

THE CHAIR: Mr Hargreaves has a supplementary to his question.

MR HARGREAVES: With respect to regulatory impact statements, it is my impression that predominantly they are applying the subordinate legislation, not so much to bills as such. It is rather the subordinate legislation which is where the real teeth are within legislation. Firstly, I would like you to confirm that view, or not. Secondly, do you believe that regulatory impact statements ought to apply to all bills which may have a subordinate legislation impact? In that respect, I refer to private members' acts or bills or an act which may have a regulation impact. It may be a political question.

Ms Gallagher: Yes, I think it is probably a difficult one for officers to answer. Look, I think they should be done where there is going to be an impact—whether it be on the community, on the private sector or on government—with any legislative reform. But I am not sure it is something that we can impose either.

MR HARGREAVES: Would it be the government's view that the Standing Committee on Justice and Community Safety ought to consider that when it does receive a view from the government on these regulatory impact statements? Another hint, Treasurer.

Ms Gallagher: I am very happy for the government's member on JACS to pursue that.

MR HARGREAVES: Will do.

MS HUNTER: Along with providing private members with the resources. That would be good, thank you, Mr Hargreaves.

MS LE COUTEUR: Absolutely.

MR HARGREAVES: The government member on that committee has the intellectual resources to handle it.

THE CHAIR: Mr Hanson, with a new question.

MR HANSON: Thank you, Mr Chairman. Minister, just looking at BP3, page 48, and the revenue that we are getting, I have looked back through previous budgets at both the budget revenue and the forecasts of revenue. It appears that the amounts forecast and then the amounts actually receipted vary year to year. But they are in the order, in the last four years, of about $2 billion of extra revenue above that forecast. So I am struggling to understand why we are in deficit. If we are receiving more money now than we ever have and we are receiving more money than was previously forecast—literally in the hundreds of millions of dollars—why is it that we are still in deficit?

Ms Gallagher: The short answer to that question is that the budget deficits are much smaller than were forecast; so some of the revenue and/or increases go to that area. But also the budget continues to grow. If you just stood still and did not pay an extra cent for anything, did not do anything, yes, the budget would be in surplus. But that is unrealistic.

MR HANSON: You previously said it is because of the GFC. But what we can see is that the actual impact on revenue has not been affected by the GFC. In fact, we have got more money than was previously forecast before the GFC hit. So—

Ms Gallagher: Well, that is—

MR HANSON: if you are saying, as you have previously, that the deficits are caused essentially by the GFC then this refutes that. If that is not the case then why are we in deficit? Why is it that the ACT, which has got more money than it has ever had before—hundreds of millions of dollars more than was originally forecast—is still in deficit? I simply cannot understand that.

Ms Gallagher: Are you disputing the fact that the global financial crisis had an impact on our revenues at all?

MR HANSON: What I am saying is that the revenues that we have receipted are more than they ever have been and they are more than was originally forecast. So they do not form a plausible reason as to why we would be in deficit.

Ms Gallagher: I beg to differ with you on that, Mr Hanson. I think my answer previously goes to that. Our deficits are not as big as they were forecast in the 2009-10 budget but our budget continues to grow. If you took—and I think this is a bit of a presentation issue—the nation building and jobs money out of that revenue, it would paint a very different picture.

So what we got—yes, we got some additional revenue that we had not forecast in 2009-10 based on a stimulus program that was designed for specific projects. So the money came in and it went straight out. It was not in any way an additional revenue stream that is ongoing to the ACT budget. If you look at the GST figures alone, I think you will see that we are still not back—I think we have essentially lost four years worth of GST revenue from our budget. You can match that up with the figures.

But, yes, the impact from our own revenue lines has not been as great as we had originally forecast. What you see, I guess, is that the return to surplus has been brought forward two years; the deficits are smaller; the budget continues to grow. That is the answer. Whether it is the answer you want to hear or the answer you will accept is another question.

THE CHAIR: Just as a supplementary to that, you are on record as saying that we have lost billions of dollars. Can you quantify what the losses were?

Ms Gallagher: Yes, we can do that.

THE CHAIR: How much have we actually received in federal government specific payments that you would say adds to this $2 billion of additional revenue that you have received?

Ms Gallagher: I did not use the figure of $2 billion of additional revenue. That is Mr Hanson’s figure.

MR HANSON: Well, that is from your budget documents—

Ms Gallagher: So I cannot answer—

THE CHAIR: No, that is from your budget papers.

Ms Gallagher: Well, I cannot answer—

MR HANSON: It was what was forecast.

Ms Gallagher: I always am a little bit cautious about numbers that are spouted out like that. But in terms of commonwealth payments that could be put towards our ongoing recurrent spend in the budget, we can certainly provide you with that and we can provide you also with the nation building and jobs money, which largely offset the declines. But it was for a specific purpose to deliver a specific non-ongoing outcome. Then you get the true picture.

MR HARGREAVES: Mr Smyth, I have a supplementary on that one.

THE CHAIR: Yes.

MR HARGREAVES: One of the things that I have noticed in the responses so far is the notion that commonwealth assistance to the states and territories, such as the nation building and jobs funding, is time limited. In fact, to consider that this particular figure, which was a very large figure in the last couple of years, is going to be provided in perpetuity would be a mistake. Have you got any idea of the extent to which the revenue projected in the outyears is in that category? Would it be dangerous to consider that in 10 years time the same revenue flow would come out of the commonwealth, such as the nation building and jobs-type funding?

Ms Smithies: The nation building and job funding over the last two years was quite specific. It was specifically aimed at supporting economic activity through the global financial downturn, both in the ACT and across Australia. We have basically seen that come back to—I think the estimates for this budget are probably around $16 million from what was at its height around $200 million. So we had never assumed that that would continue moving forward. Yes, it is $16 million in 2011-12 going down to zero in the forward years.

The rest of our funding in relation to commonwealth funding takes three forms: it is GST revenues, SPP revenues or NP revenues. In the inter-governmental financial chapter I think there is quite a good table which actually outlines particularly all of those sources of funding from the commonwealth. It is on pages 267 onwards. I guess if you had a crystal ball and you were thinking about what was the probability of that not continuing, certainly the GST will remain as a major source of funding and so too will the SPP fundings from the commonwealth to the states.

The NPs, which were largely related to particular projects, will probably over time reduce but they will be substituted with other forms of funding from the commonwealth. So even with that, in and of itself, I do not think it would be a reasonable sort of assumption that they would disappear down to zero. I actually put those in a different category in a way in terms of budget stability than you would funding such as for the nation building or the funding that was given to all of the states through the GFC, which was clearly to do with, as I said, supporting economic activity and did hide what would have been a big slump in our operating result. If it was not there, we would have seen underlying deficits of quite a considerable nature in the plus years.

MR HARGREAVES: On that subject, I take the point that you have mentioned the fact that it is zero into the nation building and jobs programs going forward, and I congratulate you on that. On page 267, which you have pointed us to, I notice that the budget for 2011-12 for SPP is $185 million, growing in the outyear 2014-15 to $254 million, which is a huge growth. Can you tell me what that is all about and who needs to get the Public Service Medal for getting it for us?

Ms Gallagher: That is the health agreement. It is factoring in growth in the national healthcare agreement from the commonwealth side. I think it would have been back in 2010 that they accepted they should factor a reasonable indexation arrangement into the national healthcare agreement.

MR HARGREAVES: $50 million in one period from 2013-14 to 2014-15—

Ms Gallagher: That is a big—

MR HARGREAVES: That is a massive jump.

Ms Gallagher: Yes.

MR HARGREAVES: Did you negotiate that in for us, Treasurer, as health minister?

Ms Gallagher: This was part of COAG; so I was there as Treasurer and health minister.

MR HARGREAVES: Well, you get the Public Service Medal.

MR HANSON: Was that part of the 50 per cent of GST that we were trying to get away with?

Ms Gallagher: No, that is the commonwealth—

MR HANSON: That was different, was it?

Ms Gallagher: Well, it is tied up with that. But that is their payment to us.

MR HARGREAVES: At no loss of GST revenue at all?

Ms Gallagher: Well, there was never going to be a loss.

MR HARGREAVES: How about that.

THE CHAIR: There you go. If we are done then, a new question, Mr Seselja?

MR SESELJA: Thank you, chair. Minister, on page 54 of budget paper 3, it references the change of use tax. It is estimated at $14.2 million for this financial year. Are we on track to receive that revenue?

Ms Gallagher: I believe so. I think the last figure I saw—it might have been earlier this year—was $10 million or $11 million.

MR SESELJA: We might get the exact one if we can. It is forecast to increase in 2011-12 to $22.4 million. When we had this discussion during last year's budget, you told us that rectification should effectively operate in a similar way in terms of the amount of revenue. Why is there that significant increase from when we had rectification to when we had codification?

Ms Gallagher: Khalid, do you want to add to that? I think if you go back to last year's budget—I do not have it with me—it was probably factored in. It was around $20-odd million that we factored in at this time last year.

Mr Ahmed: In answer to your first question, Mr Seselja, yes; the estimate for this year was about $14.2 million, from memory, and we are pretty much on track. As of mid-April, the revenue was about $11.1 million and tracking reasonably well. If that rate continues, we will be close to $14.1 million by the end of the year. There will be some behavioural change happening, because people have heard about potential remissions coming through in the budget process and, by the same token, some people will want to evolve their projects. They will be taking a look at these things. But there seems to be fairly reasonable activity going on.

MR SESELJA: Okay.

Mr Ahmed: Compared to previous years, this year has been reasonably good.

MR SESELJA: And the $14.2 million—what does that amount to on a per unit basis? When I asked this question of ACTPLA last year, that was six months of figures, or roughly six months of figures, and it was around $7,000 per unit. Has that significantly changed?

Mr Ahmed: I will have to put some qualifiers on that mathematics. The $14.2 million does include units, it does include mixed developments and it does include commercial developments also. So you would have to break it up and then look at the various parts. If you look at purely the residential part, the average would be around $10,000 per unit. Once again, you would have to look at that with a couple of qualifiers. In the first case, some of the revenue coming through is from the year previous, before rectification. So you have got some pre-rectified figures. The second part is that in some cases, whilst the development might have, say, 120 units, only 20 might be subject to a change of use charge but that additional charge gets distributed on the whole development. So your average might be lower but the rectification is having success.

MR SESELJA: Treasurer, you said recently in the Assembly, in relation to suggestions by the Property Council that land values could drop in some areas by $100,000, that there is nothing in the reports that would suggest a devaluing of properties to that order. What order of devaluation do you anticipate as a result of the tax?

Ms Gallagher: I will get Khalid to answer that, because he worked very closely with the consultants on this piece of work. If I could just summarise the view of the consultants, bringing in this sort of reform could have a number of impacts which could be offset in a number of different ways. That is, in a sense, the market adjusting to the new regime, which is why they call them transition arrangements. But the issue of devaluing of properties is an important one I think.

Mr Ahmed: I do not think any of the consultants actually predicted devaluation of properties. I think this was suggested by the Property Council in some of the media releases. We have not seen any analysis to that effect. It certainly has been in the media, but we cannot verify that.

As the Treasurer mentioned, there is an issue that was raised vis-a-vis the rectification. If, during the transition period, when the market is adjusting, somebody bought a block of land at an inflated price and the tax is now applied at the proper rate as envisaged by the legislation, where would this incidence happen? The Property Council's submission to that review suggested that incidence would be at the developer's profit line. And Professor Nicholls rightly pointed out that the incidence could be at the developer's profit, it could be passed forward on the price or it could pass backward on the land value. It could go three different ways. How it would be distributed is difficult to determine and would depend on individual cases and the state of the market, and the market would adjust eventually anyway.

MR SESELJA: Is it reasonable from that analysis to say that we could reasonably assume that a portion—whether it is a third, more than a third or less than a third—of the $50,000 or so that will be coming in once it is fully implemented will be passed on and be reflected in the purchase price?

Mr Ahmed: No, it would not—I do not know. There is another way of looking at it. That is to go back and see from the point when the fixed fee started getting applied—$1,500 per unit, $2½ thousand for a townhouse and $5,000 for a dual occupancy—whether we could see a difference between the normal greenfield residential development and the price of units. If there was a pass forward of the benefit to the consumer, you would expect that that benefit would now be wound back. But we cannot see that. We can look at those series and we cannot see any difference. So the benefits have not been passed forward.

MS LE COUTEUR: Can I ask you a slightly different question? Mine is around timing. The government has said that there is going to be a substantial phase-in program. In fact, Ms Gallagher, you quoted from LJ Hooker in the Assembly last question time. LJ Hooker was saying, "Do your development now because it is going to be expensive in the future." I am interested in how much you think that is happening. And probably more than its effect on the single residential market there is the effect on bigger changes, such as the suggestion of changing the lease purpose clause for Pitch n Putt in Woden, the Brumbies et cetera. How much do you think we are having developments moving forward to avoid paying a fuller change of use charge?

Mr Ahmed: I would submit to the committee that there would be no impact whatsoever. The reason is that rectification applies to just the residential zones. If you go back, the commercial areas, non-residential zones or mixed use zones, were being valued properly—reasonably well. There was a bit of a cumbersome process between the review and the private valuer; it would go back and forth and there would be months of uncertainty and negotiations. And the developers wanted to know how to cost their projects. Those were the problems with the process, but the valuations were done reasonably well. It was only on the residential side where the fixed fee was being applied. And that is the sector that would get impacted by this rectification.

THE CHAIR: So there will be an impact on the residential sector?

Mr Ahmed: It has been given—

Ms Gallagher: There has been. Since May last year there has been.

MR SESELJA: If it is the case that residential was the real problem, and that was not being properly valued—and you have said in an earlier answer that it is now about $10,000 per unit this year, although you acknowledge that some of that was brought from the previous financial year—then, if we are getting towards a reasonable value under rectification, how does that compare to a $50,000 eventual tax? If rectification brought us the correct values, how do we go from $10,000 or maybe $12,000 per unit to $50,000? Could you explain that disparity to me? If rectification was about saying, "These are the true values," and codification was to give some certainty to those true values, shouldn't the two numbers in some way match up?

Mr Ahmed: Yes, they would. I tried to explain it a little earlier, but I will have another go. I do apologise that I will not be able to refer to specific developments, for confidentiality—

MR SESELJA: What might help—

Mr Ahmed: I will talk about a generic—

MR SESELJA: What might help, Mr Ahmed, too, is this. This would be on notice. You talked about some of the developments that have been brought over. If the Treasury was able to split those out so that we could get a per unit price under rectification for the ones that have happened in that financial year, that might be useful to assist the argument.

Mr Ahmed: Sure. For 2010-11, the current year, the average is $10,000. But I will come back—

MR SESELJA: I think you said that some of that was brought over from the previous financial year.

Mr Ahmed: Yes. With the $50,000 versus $10,000, say there is a redevelopment where the block has an existing rate of 100 units and the developer wants to increase it to 120—demolish and rebuild. The additional rate is only for 20 units. So $50,000 times 20 units would be a million. That million gets distributed over the whole 120—

Ms Gallagher: The project.

Mr Ahmed: The dwelling site or project. And your average seems small. That is how it gets distributed. You can look at various developments—large-scale developments. That is how it works. But let me go back. This is an important issue. On the commercial side—again it is difficult for me to name specific developments—the ones which were in the commercial zones, close to shops, were being valued properly. We have gone back and looked at what the developers gave previously versus what is in the valuations that are coming through, and the schedules being developed are pretty close.

MS LE COUTEUR: So you do not think there is going to be any impact on timing? No-one is going to bring something forward as LJ Hooker suggested?

Mr Ahmed: There would be—

Ms Gallagher: They will, yes. I certainly get the feeling, from what the developers are saying to me, that they are very keen to see the remissions stay at 75 per cent. So it may influence some of their business decisions. I know that they will probably spend the next 12 months lobbying to have that 75 per cent remain in place.

THE CHAIR: A supplementary, Mr Hanson. And I might have a supplementary.

MR HANSON: Treasurer, despite this being such a good tax, I note that there are concessions involved and there are waivers for transport corridors—

Ms Gallagher: Not yet there are not, but we are thinking about them.

MR HANSON: With regard to these concessions, I note that the cabinet is split. Are you in support of the concessions or do you think they are a bad idea?

Ms Gallagher: I do not really want to talk about what goes on in the cabinet room. I know that the former Chief Minister mused about it last Thursday or Wednesday—

MR SESELJA: He has outed two of you as being for more tax. So which two?

MR HANSON: Which one?

Ms Gallagher: I am leading this work, as Treasurer, around waivers and concessions on the change of use change.

MR SESELJA: Did you get rolled or not?

MR HANSON: Do you support the concessions in that they are a good idea?

Ms Gallagher: Sorry?

MR HANSON: Do you think the concession is a good idea? Do you think it is necessary?

Ms Gallagher: I am the architect of the transition arrangements and the waivers that you see in this budget. This budget is my piece of work. I believe that the change of use charge, or the lease variation charge, should be used by governments now and into the future as a way of facilitating the outcomes that the community seeks, whether that be through where development occurs, what type of development occurs, whether it has good sustainability measures in place or whether it has improvements to public realm. This is one of the very few levers the ACT government now and in the future will have available to it to influence decisions of developers, and I think it should be used accordingly.

THE CHAIR: Ms Hunter; then I might ask a question.

MS HUNTER: I want to go to one of the arguments that are put around revenue. Basically the argument goes along the line that increasing the charge will reduce the amount of development and therefore it will reduce the amount of stamp duty that is taken in by government. What work has Treasury done around this particular issue?

Ms Gallagher: Do you want to answer that, Khalid? We should just put this charge into perspective. It is $20 million. In an overall revenue take of $1.2 billion, it is relatively minor. And in terms of the number of projects, it is in the order of—I do not know how many we have done in the last year where a change of use charge is applicable. If you listened to the development industry, and indeed if you listened to the Canberra Liberals, you would believe that this is going to affect every single purchase of a house in the ACT. It is simply not. I think we do—

MS HUNTER: We know that it is a smaller group of properties that it has an impact on.

Ms Gallagher: It is much smaller.

MS HUNTER: I am just wondering if there has been some work done around the particular issue of stamp duty revenue, which seems to be an argument that is put by some.

Mr Ahmed: Yes, Ms Hunter. We did a fair bit of work and we did commission a fair bit of work as well externally just because that was asked for and it was better to get it done externally. Professor Nicholls, Professor Piggott and Professor Dungey, three external professors, had a very deep look at it. Professor Piggott particularly was asked to look at the impact on the revenue side and on the stamp duties. He could not conclusively say whether there would be an impact.

What we have seen is that this year revenues have gone up as we had modelled, in exact accordance with how we had modelled it. We modelled it at a very difficult time when rectification was coming in and we had no tangible information about the actual behaviour that would come through. It was basically a modelling exercise and that did show us that it had gone up.

The number of planning units that have come through post-rectification is higher than in 2007-08. It is just at par with 2009-10. As for the current year, it still has not finished. What we are seeing is a shift, certainly, in how people are behaving. We are getting more revenue, we are still getting the developments and we are still getting the units.

Rectification has its own problems. The problem is that earlier the low valuations—$1,500 a unit—would go straight through. Now there is a bit of a conversation between the AVO and the private valuers and there is potential for those things to go to mediation and then to ACAT. But once the codification comes in place, those things should go away and the process will become much simpler. We have not seen anything or any information post-rectification to suggest that there has been an adverse impact.

MS HUNTER: Because this scheme is simpler will there be some savings in Treasury? Treasurer, you mentioned that it is a way to provide some levers to get some particular outcomes—policy outcomes and so forth. I wondered if you had anything more to say about sustainable development within that.

Ms Gallagher: The work that cabinet has authorised to proceed with is what we have outlined in the budget papers around C and D office redevelopments. We are now moving to the next stage, which is to examine the opportunities to encourage development along major transport corridors, and we are also looking at group centres. I guess the reason we did not include those in the budget was that we did not want to send the message, without consulting with local communities, around what that might mean. I think there is some work that has to run alongside that decision-making process which will start as well. The Treasurer and the minister for sustainable development, under the Hawke arrangements, will negotiate an agreed set of principles around what principles need to be met in order to qualify for a remission or waiver of government charges.

Meeting adjourned from 3.30 to 3.47 pm.

THE CHAIR: We will recommence. We are resuming on the change of use charge. Is legislation required to change the act?

Ms Gallagher: Yes. I introduced it on budget day.

THE CHAIR: And when is it the intention to go through that?

Ms Gallagher: Obviously that is at the will of the Assembly. I introduced—

THE CHAIR: I am sorry, when do you intend to bring it on?

Ms Gallagher: The intention is to have this in place for 1 July, for codification to commence on 1 July. Obviously the legislation needs to pass. So it would be the intention to pass it in the June sitting period, but if that is not possible then we would have to move to a different commencement date.

MS LE COUTEUR: Chief Minister, what about the regulations? You introduced the legislation, which is all very well, but the body of the issue is in the regulations. When will we see those?

Ms Gallagher: Yes, and I think the schedules.

MS LE COUTEUR: The schedules. When will we see them?

Mr Ahmed: The schedules are being done at this time. They were released with the report. They were done in November last year and they were based on September 2010 values. So they are being updated from March figures and they are being reviewed at this time through the panel.

MS LE COUTEUR: It sounds like you are talking about the schedules in terms of the values.

Mr Ahmed: Yes.

MS LE COUTEUR: I am interested in that, but we have had quite some discussion about potential waivers of charges for developments which we wish to support. That is what I am interested in. I thought there were regulations for those. When will they be introduced?

Mr Ahmed: There are waivers and remissions in new policy initiatives that are in the budget. So the issue for them would be to create the instruments to allow those to happen. The policy has been announced in the budget.

MS LE COUTEUR: It has been announced in a fairly—

Ms Gallagher: General way, yes.

Mr Ahmed: In a general way.

MS LE COUTEUR: Thank you, yes.

Mr Ahmed: That is right, yes.

Ms Gallagher: This is something that—

MS LE COUTEUR: We need something a bit more specific.

Ms Gallagher: Minister Corbell and I are working on. We did not have it available for the budget but we will have it available for the debate and prior to the debate.

THE CHAIR: At the Property Council luncheon last Thursday, you were asked a question by a gentleman from the Independent Group on table 5. He suggested that there are a large number of developments going ahead but there were very few coming through in the future because of the fear of your change of use charge. Do you stand by your statement that you do not believe that this will have an impact on the cost of housing or the cost of rent?

Ms Gallagher: Again, I refer back to the expert reports that we have got and are available for members to read if they are interested in. I think what all of those reports say is that the market will adjust and that appropriate transition arrangements need to be put in place, to which we have responded. But if you are asking me do I believe that a charge like the change of use charge will determine rents and prices of housing in the ACT, my answer to that is no.

THE CHAIR: And what do you base that on?

Ms Gallagher: I base that on the belief that people will sell properties for what they can get for their property, and I do not believe that that is determined by the change of use charge. It is determined by the market as a whole.

MR HANSON: I have a supplementary. You said earlier, minister, that you are going to have waivers and concessions and you are looking at them to encourage development in transport corridors and other areas such as group centres or maybe town centres. So if not having the change of use or having waivers is going to encourage development, does that not accept a premise that this tax is going to discourage development in those other areas where you have the change of use? You cannot have it both ways.

Ms Gallagher: I think governments of all colours accept that there is a time to provide incentives. Indeed, the previous Liberal government provided, I think on a number of different projects, incentives to encourage particular projects to be delivered. This is not about saying that your general redevelopment—

THE CHAIR: Not necessarily in the face of taxes; it was in economic times and circumstances. So the comparison is flawed. But go ahead.

Ms Gallagher: I think it is a pretty standard practice for governments to look at the opportunities to provide incentives to deliver particular outcomes and to deliver particular policy outcomes. That is not to say that your normal, average run-of-the-mill redevelopment will not occur or that there is a disincentive to that occurring. It accepts that it is there for particular types. I think all of us agree that we would like to see redevelopment in particular areas across the ACT and if the government can assist with providing lucrative incentives for business to undertake those projects, then that is something we will consider.

MR HANSON: But we have a status quo at the moment, with the rate of change of use as it is. What you are saying is that if we do not impose that on certain areas that will encourage development. So it is logical that where you are imposing it, then you are accepting that it does discourage development.

Ms Gallagher: No, I am not. I am just saying that you are providing an additional incentive for those property developers to consider and I think the more attractive you make it, the more likely you are to deliver the outcome. And it is a generous—

MR HANSON: The language used is "encouraging development".

Ms Gallagher: consideration of government to look at additional waivers. When you look at this budget, we are providing a substantial subsidy to the property sector already through the remissions we have outlined. So it is generous, but I think if we are serious about delivering and controlling urban renewal and particularly focusing redevelopments on particular areas across the city, this is one way we can add incentive to those business decisions. Ultimately they are business decisions that property developers will say yes or no to.

MR HANSON: At the moment they have got that incentive everywhere.

Ms Gallagher: Mr Hanson, if you think it is adequate and right that property developers receive all of the windfall gain from property development across this city, I would like to see you stand up at a community event and say that, which is what you just said.

THE CHAIR: Can you justify that statement?

MR HANSON: I do not think that is what I just said.

Ms Gallagher: You did. You just said they have got the incentive everywhere to do that kind of development and I presumed from that you were saying that the incentive is there because codification does not exist.

MR HANSON: Yes, but let us see what I have said. You said that removing the change of use in certain areas would provide an incentive for development and I said currently they have got that incentive everywhere. How is that incorrect?

Ms Gallagher: What, by ripping off the taxpayer?

MR HANSON: No, you said that removing the change of use from certain areas would provide an incentive for developers and I said currently they have got that incentive everywhere. It is a statement of fact. So do not try to twist it.

Ms Gallagher: No, it is not. Rectification exists at the moment. So under the rectified—

MR HANSON: Yes, at the current level. We are talking about the current level.

Ms Gallagher: scheme, the property industry is already paying roughly what is outlined in the schedules for this change.

MR SESELJA: That is not true. Mr Ahmed gave very different evidence. He gave very different figures.

Ms Gallagher: Based on the land value, those—

MR SESELJA: An average of $10,000. How is that roughly comparable?

Ms Gallagher: No, Mr Ahmed and I have not contradicted each other. The price being paid for what will be known as lease variation charge is being made on the current land value on that site and that is what is outlined to occur or what is to be used under codification.

THE CHAIR: A supplementary from Mr Hargreaves and then a new question from Ms Hunter.

MR HARGREAVES: Thank you very much, Mr Chairman. Treasurer and Chief Minister, is it not true that when the change of use charge was introduced in the 1940s the sky was going to fall in then and it did not? Was it also true that at some point—

MR HANSON: You would be the only one that remembers the 1940s, John.

MR HARGREAVES: Yes. I will not take up anywhere near the time you guys did. Is it not also true that there were arguments to and from whether it should be 100 per cent or 75 per cent land use and even then the sky was going to fall in and it did not? But it is, is it not, a more important fact that the community is looking towards the government to show leadership around sustainable housing, around sustainable transport, getting people out of their cars and onto public transport, and one of the ways in which the government can do this is to provide incentives, because so far the property industry out there have not responded to building multi-unit developments along major transport routes and one of the ways you can entice the property marketplace to do this is this policy, which you have outlined so far?

Ms Gallagher: That is the idea. The change of use charge, in all its various forms, has had an interesting history of change and amendment and when you follow through, particularly if you look from 1971 onwards, there has been tinkering with this system on and off.

I think there are two issues here. One is around appropriate incentives and being able to use the levers available to the Assembly and the government to promote particular policy outcomes. But the other important issue which I think has been overlooked, particularly by the Canberra Liberals, is the rightful return to the people of the ACT of an adequate amount of the windfall gain from these extra developments.

I know people can twist this, but we will get $20 million returned to the ACT budget so that we can invest in more public housing, more social housing, more health services. Let us not forget what the rights are of the people of the ACT to receive some return—it is not all the return—from the granting of these extra development rights. And that is the policy issue that I have been trying to navigate through over the past 18 months.

THE CHAIR: Just before we go to Ms Hunter, previously you have said—and I know the Property Council came out and said—there could be a reduction in land values. Do you believe that the change of use charge as you intend to implement it will not see a reduction in land prices?

Ms Gallagher: I have no reason—and I have seen no evidence to support the claims of the Property Council. And all the advice to me—and I have taken advice on this—is that that is a statement without evidence and we have just simply no reason to agree with it.

THE CHAIR: Ms Hunter, a new question.

MS HUNTER: I want to go to the first homeowner grant. It is on page 152 of budget paper 4. How much has the ACT government now spent on the first homeowners grant? When I asked you about this last time, I think you said that further research was being undertaken to assess the value of the scheme, and I want to know if any of that work has been completed.

Ms Gallagher: I am trying to recall whether it has been done through COAG or the Treasurers council. I have not seen it yet.

Mr Ahmed: The COAG work was to be done through a working party, comprising treasuries and premiers departments. That was supposed to go to the last COAG, but it did not because of the other agenda being there. So that work is still not yet finalised.

MS HUNTER: So how much has the ACT government spent on the first homeowner's grant?

Ms Gallagher: We could probably take that on notice.

Ms Holmes: I can answer. In terms of the estimated outcome figures reflected in this budget, I can tell you that the figure factored in for the first homeowners grant for 2010-11 is $18.6 million.

Ms Gallagher: Did you want to go back?

MS HUNTER: Yes.

MR HARGREAVES: And none of those are commonwealth funds?

Ms Holmes: No.

MS HUNTER: Some of this was going back as well to get the total of what has been spent to date.

Ms Smithies: Since the inception of the program?

MS HUNTER: Yes, thank you. Treasurer, what is your understanding of what the grant is doing to house prices? Do you agree with the Productivity Commission's finding on the first homeowners grant and its impact on house prices?

Ms Gallagher: From the advice and the discussions I have had with Treasury, there is no reason to believe that the first homeowner grant or the first homeowner boost reduced prices. It certainly saw an incentive for first homebuyers to enter the market, and we saw a very big pull forward of first homebuyers becoming homeowners, but I think the general acceptance is that it increased prices by the amount of subsidy available.

MS LE COUTEUR: I have a totally different question. Page 151 of BP4 talks about the restructure fund and $5 million for the Hawke changes. It seems like a lot of money. What is it going to go into?

Ms Smithies: $15 million for the restructure fund?

MS LE COUTEUR: Yes, which I assume is for the Hawke changes, unless there is another restructure I am not aware of.

Ms Smithies: No, this is around achieving government savings, and there are restructures that will be a necessary part of achieving those savings, for example, any redundancy payments, coordinating staffing through such a process et cetera.

MS LE COUTEUR: So it is not, in fact, Hawke?

Ms Smithies: No, it is not at all, no.

Ms Gallagher: It is a provision made for the costs of reducing our workforce numbers by the 200 sought.

MS LE COUTEUR: Okay. So have you got a costing for Hawke changes then?

Ms Gallagher: There are a number of specific initiatives that go to implementation of Hawke, which is under the Chief Minister's portfolio. So, for example, the performance accountability and evaluation implementation, building and maintaining the APS, the government information office, increased diversity in the APS, workers compensation, actgov 2.0, all of those can be linked to the strategic board secretariat, so it is probably an issue we can reagitate.

MR SESELJA: What is the average cost of those redundancies? What have you factored in as an average projected cost?

THE CHAIR: And, indeed, how many redundancies are you expecting to have to pay?

Ms Smithies: I think it is around 73. The expectation is that, in achieving those savings, there will be churn, so it will not necessarily go to redundancy in the first instance and there will be redeployment, replacement et cetera. Out of the 210, roughly, we assume that, in terms of the costings of that $5 million, there would be around 73 redundancies at around 41 weeks pay. There is a dollar value attached to that, which comes to around $4.5 million with the residual going into workforce management et cetera. So, I think we can just calculate that out in the next five seconds and give that to you.

THE CHAIR: While you are calculating that out, on page 151, Ms Le Couteur asked about the $5 million restructure fund. There is, of course, the other restructure fund which was rolled over. What prompted the necessity to roll that over?

Ms Smithies: There is still outstanding work around the ERC reviews and more work slated for next financial year around efficiency reviews et cetera, so it goes to some of the work that we have been doing with areas like Shared Services and TAMS in order to look at workforce efficiencies. We move into implementation phase with a number of those organisations towards the end of this year and into next year as well, so that is just the carry forward of that.

THE CHAIR: So ERC is now cumulatively $3 million?

Ms Smithies: The number I saw was about $1.8 million spent.

THE CHAIR: Can the committee have a breakdown of that, please?

Ms Smithies: Sure.

MS LE COUTEUR: Given we are talking about numbers of people here, is there a risk that departments—directorates, these days—will reduce their staffing numbers of full-time equivalent public servants and they will just hire contractors? How will you manage that?

Ms Gallagher: We monitor all of that. We monitor full-time equivalents and casuals/contractors. The agencies have had money removed from their appropriations, so agencies manage their own budgets, and those are decisions that directors-general take every year. That money has been removed, as has a portion of the consultancy and contractor budgets as well for each agency.

MS HUNTER: So you think you can clearly monitor to make sure there is not a back-door way of getting in staff that would not show up in the staff profiles of departments.

Ms Gallagher: We do monitor this very closely. Staffing statements come to cabinet monthly with a breakdown of what is occurring across the government. So it is something that we watch.

MS HUNTER: As far as voluntary redundancies go, what sort of processes have you got in place to ensure that somebody who may, for instance, be out on workers compensation does not fall into that category, because we would be paying for them forever? They might be off the books but, obviously, if the payments are ongoing it is not a saving. What have you got in place to ensure that does not happen?

Ms Gallagher: The requirements to be offered a voluntary redundancy are that you have to be fit for work, so there is a safeguard there. I intend to manage this process across government. Agencies have identified and will identify positions, but I will work with the unions in making sure there is a respectful process in place.

Unions at this point in time will always get anxious about people being tapped on the shoulder or unfairly pressured into considering their futures. I know from my union days that these processes have to be managed and have to be managed sensitively. I have certainly said that I will work with the unions around how this is managed.

Obviously if people are found to be excess then there are a range of options available to them—for example, redeployment is the first—and consideration would need to be given to that. There are those that will seek voluntary redundancies. In fact, I know with that any program like this we will be inundated with requests as people see the opportunities before them. But we need to be clear that this will be a targeted process in the sense that, if a number of nurses put up their hands, that would not be something the government would be supporting. So there is some work to be done.

MR HARGREAVES: I refer colleagues to BP4, pages 152 and 167 regarding land rent. On page 152, under changes to appropriation-territorial, the chart reveals, as far as I can see—please correct me if I am wrong—that for the budget for 2011-12 there is a burst of activity of an extra $40 million, almost twice as much as the base budget. Then going to 2012-13, it reduces to a smaller burst of energy. Both have a burst of energy and then tail off to the budget for 2013-14.

What are these bursts of energy in 2011-12 and 2012-13 of $50 million, and what has been the response thus far? I noticed in the first column for 2010-11 that you have an estimated outcome of $46.5 million over a budget of $31 million. That is a pretty good achievement, but you do go down to $22 million in the base level. Can you explain those figures? They look optimistic in two years and not so in the others.

Mr Ahmed: The burst, as you call it, is a sort of push forward of the activity that has been happening in the previous years. If you recall, following the global financial crisis there was a bit of a delay in the start-up of the scheme and then there was a fair bit of activity. Contracts exchanged but they are not yet settled, and we foresee them being settled in the coming year in the large part and then flowing on to the following year as well. This is as land becomes available and people start settling. The profile that is in there is that. Beyond the forward estimate we have estimated about 120, 100-odd blocks being granted. At this time we have got about 800 contracts exchanged.

MR HARGREAVES: 800 what?

Mr Ahmed: Land rent contracts.

MR HARGREAVES: That is a lot better than nil, which was the forecast.

Mr Ahmed: Yes. Some 143 contracts have settled. So we are talking rather large numbers here. So the scheme has sort of settled in reasonably well. What we see in the outyears is just the timing of those exchanged contracts being settled as land becomes available.

MR HARGREAVES: Do you get any feeling from the financial sector that this scheme is particularly attractive to them in terms of the way they can do business, getting people into homes earlier than they would otherwise do, and that it could be part of the standard suite of financial packages available from most institutions?

Mr Ahmed: The scheme is received positively from those who actually benefit from it. We have never said when we were designing it that it will be for everybody. But for people for whom it is suitable, they are quite positive about it. The financial institutions are quite positive about it. From what I understand, the financial institution here—the CPS credit union—are promoting it in South Australia as well, and they are proposing to that government to start this scheme over there.

MR HARGREAVES: With respect to the processes, as I understand it, people negotiate the land rent through the government sector but their money through the banks. Can you walk us through how, if I was a first homebuyer, I would actually go about renting a block of land from you and trying to buy a house at the same time?

Mr Ahmed: Sure. There is complexity in the processes, and that all sits at the back end within the government department. For the land renter, the processes are reasonably simple. Their names come out of a ballot—if it is a ballot—and they can choose whether they want to buy the land outright or whether they want to rent the land. If they want to rent it, then the block is put against them and they can go and negotiate or discuss the matter with their financial institutions—in this case one, but there could be others as well. We are aware that some people actually arrange finance of their own accord. So once they have arranged finance, depending upon the time when the block becomes available, they will settle on the block and build. That is what has been happening.

So that is on the access side. Once, say, a homeowner—we will call them homeowners—wants to sell the property, they have got choices: they can sell it as a land rent dwelling, they can pay it out and then sell it, or the next person can take it as land rent and then sell it. That activity has happened as well. Some people have settled in, stayed there and have sold it again and it has gone to the next homebuyers as a land rent property. So we are aware of at least three transactions that have gone that way. So it is a normal transaction activity that you would see with any other product in the market.

MR HARGREAVES: In terms of that transaction, if I am going to buy a house off you and you own the whole box and caboodle and I have to pay a certain stamp duty on it when I buy it off you, is there a different regime applicable to people in the land rent scheme for stamp duty purposes?

Mr Ahmed: As far as the stamp duty is concerned, Mr Hargreaves, this is treated no differently from a normal nominal lease. So the stamp duty is paid on the value of the lease.

MR HARGREAVES: So if I buy a house and land rental package, I pay stamp duty on the price of the bricks and mortar and then I pay the stamp duty on the lease going forward, like I would if I was renting a property? Is that right?

Mr Ahmed: Yes.

MR HARGREAVES: And are those combined stamp duties cheaper than if I had to pay stamp duty on the whole lot?

Mr Ahmed: For the homebuyers, the whole product works relatively much better compared to a normal product that you go through. It has no up-front entry costs; it has relatively low debt as well. What that means is that they have relatively low housing costs. So, in those respects, it is a better product for them.

MR HARGREAVES: In terms of the impact on low income earners getting into their first homes, have you got any ideas or any figures on what sort of monthly proportion of disposal income people on that type of package would be paying out as opposed to buying their homes at the market value?

Mr Ahmed: We have not really updated our modelling for the last couple of months. But early modelling suggested that this product, along with some of the affordable housing products that are mandated under the affordable housing action plan, would bring ownership to around the 40th percentile. So people who are just outside the eligibility for public housing could get into homeownership without getting into housing stress. I think that is the other part that we need to be mindful of—that is, at that income level, they do not get into housing stress and are not paying inordinate amounts of money of disposable income on housing.

MR HARGREAVES: Could I ask for a chart on that—the latest set of numbers that you have so that we can see that impact on that particular cohort that you are talking about, please?

Mr Ahmed: Sure, we can—

MR HARGREAVES: At your leisure.

THE CHAIR: A supplementary, Mr Seselja, and then Ms Hunter on this issue. Then to Mr Hanson with a new question.

MR SESELJA: Of the 143 that have settled, how many are at the concessional rate of two per cent?

Mr Ahmed: I do not have that break-up but I can give you the rough break-up.

MR SESELJA: Yes.

Mr Ahmed: That is the trend that we have seen all along.

MR SESELJA: Yes.

Mr Ahmed: It is about half and half. About 50 per cent of the—yes, the concessional rate would be about 55 per cent and the standard rate is 45 per cent. So that is the rough sort of break-up. Relatively, just a few more people are getting the concessional rate of two per cent. But there are people who are above the concession limit but they are also accessing it, and they find it a useful product.

MR SESELJA: How many are taken up by builders?

Mr Ahmed: Builders—I will just see. Sorry, I do not have the figure again. Of the total, 30 to 40 per cent of builders will take it and then they will pay it out.

MR SESELJA: So 30 to 40 per cent are being accessed by builders. How many are choosing not to settle on their land rent? How many are taking up the option of the land rent but then never building and walking away?

Mr Ahmed: The Auditor-General's report actually quoted a figure of 12.4 per cent at the rescind rate or the cancellation rate.

MR SESELJA: Has that changed since the Auditor-General's report?

Mr Ahmed: No, roughly it is that. We have gone through the circumstances. We do get the reasons why people are doing it. I think overwhelmingly it would be financial circumstances changing. I think there are a couple of cases where they have changed their mind. But generally it would be their financial circumstances changing. That could be family break-up, that could be illness, that could be job loss—any of those reasons. They would opt not to go ahead with it.

MR SESELJA: What is the total amount of revenue that has been collected from this scheme in the last financial year and what is projected for the next financial year?

Mr Ahmed: That should be in the—no, it is not there. This is the land rent revenue?

MR SESELJA: Yes.

Mr Ahmed: I do not have the figure in front of me.

MR HARGREAVES: Is that the $2 million that is on page 152?

Mr Ahmed: Sorry, I have got it here: 2010-11, $916,000; so close to a million. About $1.3 million is the estimate for 2011-12.

MR SESELJA: And just finally, you said earlier that financial institutions were positive towards it. How many financial institutions are now lending under the scheme?

Mr Ahmed: CPS certainly is.

MR SESELJA: So just the one.

Mr Ahmed: I do not know. I mean, we have not asked other lenders. I am aware in the earlier part, and that was through conversations and briefings to the potential people who were looking for land rent, that some had organised their own finance from elsewhere, but we have not really gone out and asked.

MR SESELJA: Okay, so it is just the one financial institution at this stage?

Mr Ahmed: That we are certain of, yes.

MS HUNTER: This question is more about Treasury's role in the whole affordable housing strategy. You can have certain schemes that provide that affordable housing but, of course, once that purchaser decides to onsell, then it can fall out of that affordable housing category, if you like, and there is a bit of a windfall gain there. I am just wondering whether Treasury has done any broader work on a more efficient way of, I guess, allocation of housing and alternatives to land release that would better address the housing affordability issues we are facing.

Ms Gallagher: Mr Ahmed is the housing affordability guru.

Mr Ahmed: Yes, we have. I think we had a similar conversation earlier. We all look for a silver bullet here. I think the issue that you raised around the windfall gains is a very important one, and whatever policy or scheme we devise or advise the government on, we are very mindful that there are no windfall gains that cannot be recaptured for community benefit later on.

Certainly, there will be instances and circumstances where the government does provide benefits to individuals and households. They target them, and they are fair enough. The issue is really: how do you design a scheme where you can make sure that those do not go away? As far as the affordable housing products are concerned, the general disposition that we have had in devising the proposition is to propose no caps and no floors because they usually cause distortions and they create values that are difficult to recapture later on. The land rent scheme is one example where it is not limited to two per cent only. It has got the standard rate as well applying to everybody and so on.

Similarly, on the supply side the general approach would be to increase supply so that you improve the overall affordability. Having said that, there will be certain areas where you would actually provide specific benefit and make sure, to the extent possible, that that benefit stays either within that household or within that group of people. There are plenty of programs that we could point out.

THE CHAIR: Thank you. Mr Hanson, a new question?

MR HANSON: Yes, I have a new question, Mr Chair. It relates to page 6 of budget paper 3, and the economic forecast and/or average percentage change. If you go to CPI and WPI, WPI is forecast to grow at 3½ per cent and, as we know, that is linked to a lot of the price increases that we will see in relation to utilities and other charges. CPI is forecast to grow at three per cent, but the wage case being offered to ACT public servants is 2.5 per cent. That is one per cent below WPI which, as I said, a lot of prices are linked to and half a per cent below the CPI. Doesn't the CPSU have a point when they say—and I quote what is stated on their website:

> … Does not reflect cost of living increases. Not nearly enough, given the cost of living increases … Why should we accept less than the average pay rises … This is an insult and puts us … behind the real cost of living … Doesn't keep up with the cost of living. Shouldn't use ACT Gov employees to balance budgets.

Ms Gallagher: My response to that would be—and it is nice to see a unionist in the ranks of the Canberra Liberal Party—welcome!

MR HANSON: Well, we want to see fair play for hardworking ACT public servants, minister, so—

Ms Gallagher: Do you? That is interesting. When you were last in government I think it was one per cent that was factored in for wage increases for employees.

MR HANSON: You can spin as much as you like. The point is that you are—

Ms Gallagher: But anyway, welcome. Welcome to the—

MR HANSON: Answer the question.

Ms Gallagher: Welcome to the world of unionists. What I would say in response to that is that wages are the biggest risk to our budget. They constitute—47 per cent of the territory's budget goes in wage expenses. So any increase in wages hits our operating result, not only in wages paid but in our superannuation bills as well; so this is something that we look at very carefully.

We have, I think, had a very good record of paying appropriate remuneration to our public servants when that money was available. As you can see, times are tight for the next couple of financial years. So we have factored into that bottom line a reasonable remuneration—what we believe is a reasonable wage offer that can be budget funded.

Now, I have said to the unions that anything over and above that 2½ per cent the government will gladly consider but it needs to come through productivity savings or current conditions or—it cannot be just a one-way street. The government and the budget cannot afford just to pay a four per cent budget funded pay increase. Therefore, the alternatives are 2½ per cent, no questions asked, factored in; everybody gets it. Or, if you want more than that, let us have a talk about how we are going to deliver that to you.

MR HANSON: But minister you are already imposing efficiency dividends on the departments. You are already asking them to do more with less. Now you are asking them to accept a pay increase which is below the cost of living. So—

Ms Gallagher: No, I am saying that that is what will be budget funded; that is—

MR HANSON: does not this indicate that your spending priorities are in the wrong areas?

Ms Gallagher: No, I do not believe it is. But what we are saying is that this is a disciplined budget. We are having to find savings. If our employees want more than 2½ per cent, which is what the budget can sustain, then let us talk about how we get that to you. And there is a range of ways, for anyone who has sat around a bargaining table where these matters have been resolved. I think it is open and the discussions will be ongoing with all of our employees.

MR SESELJA: Just on this issue, minister, when the wage price index was brought in as the indexation, the rationale put by the government was that because wages are the main cost, therefore the people of the ACT should be paying the cost of wages extra every year on their rates and charges. Given that, shouldn't you now be able to deliver, given that you are charging the people of Canberra that rate? If the rationale is that it is the cost of wages that forces you to charge the cost of wages, doesn't it reflect that your spending priorities in other areas are wrong to the extent that you cannot actually pay public servants what you said you would pay them when you started charging everyone extra a few years ago?

Ms Gallagher: I do not think I have ever said that we will increase wages in line with WPI. I do not think that has been our industrial strategy.

MR SESELJA: What is the rationale for WPI?

Ms Gallagher: I am interested that it is now yours, Mr Seselja.

MR SESELJA: No, it is not, but what is the rationale for your WPI rise then if it is not that the cost of wages constitutes your major cost and therefore you expect to pay something like WPI increases? What was the rationale—was it just extra revenue for the sake of it or was it really because of—

Ms Gallagher: No, and I think you can go back to 2006 to see what our rationale was.

MR SESELJA: Mr Stanhope said that the wage price index—

Ms Gallagher: Funny, you just happen to have it with you.

MR SESELJA: is a far better reflection of the cost of government service delivery than measurements against the CPI. If you are now not paying the staff at WPI then does it not reflect that you are actually spending it on other things and it is not actually wage costs that are leading to your budget blowouts?

Ms Gallagher: No.

Ms Smithies: The cost of inputs into government—it is not just wages but it is also the services that we purchase in order to provide our services. So while salaries certainly make up a large proportion of our total expenses we also purchase a number of services from the private sector which go towards the services that we actually provide or that get provided to the community. So it is a composite of our inputs being our wages plus others and you cannot just look at one stream and try and pin a funding source at wage price against a wage setting policy of whatever it is that government has landed on.

MR HARGREAVES: Can I ask the minister or Ms Smithies this: is it not true that the wage increases which you negotiated in 2010-11 are the ones which influenced the percentages in 2011-12, and the ones which are experienced in 2011-12 are the ones which will be reflected in 2012-13? So what we are actually seeing by this chart is the wage figures on the previous financial year being reflected at the moment.

MR HANSON: Where the public service only got one per cent—

MR HARGREAVES: Excuse me, Mr Hanson. I heard you in silence.

Ms Smithies: There is a lag between what has been negotiated versus what gets paid versus what then works its way through into general economic costs, yes.

MR HARGREAVES: Am I correct in assuming that if you follow the 2011-12 figure then all you do is perpetuate that figure for ever more and government policy is about influencing the whole lot of the basket of costs?

Ms Smithies: Yes, the basket of costs needs to be taken as a whole. That is exactly right and unpicking it—putting emphasis on just one—is probably not the best approach for looking at wage price indexes.

MR HARGREAVES: Thank you.

THE CHAIR: Mr Seselja has another supplementary?

MR SESELJA: No, it is not a supplementary; it is a new area. Going back to the issue of the government office block, following on from the issue of depreciation, what is the projected rate of depreciation that would be applied? Is it the standard 2½ per cent sort of straight line? If that is the case, it would amount, on a rough estimate, to over $10 million. Is that the depreciation that is likely to be applied to the government office project?

Ms Smithies: Yes, a straight line at 2½ per cent.

Ms Holmes: Certainly, as a general rule for depreciation purposes, we do office accommodation as a straight line. It would be an assessment based on what the useful life of the building would be. I could not tell you in terms of this particular building.

MR SESELJA: So at 2½ per cent that would amount to $10.8 million and up?

Ms Smithies: Yes. I do not have the aggregates broken up, but certainly the differential between the buildings that we are giving up that were depreciating versus the new building being bought online is between a $6 million to $7 million additional cost.

MR SESELJA: So it is $6 million to $7 million which comes off the savings that have been identified which make up the $19 million?

Ms Smithies: Yes, the impact to the budget.

MR HARGREAVES: So an increase to the asset value has not been taken into account in these numbers?

Ms Smithies: No. At the end of the day, we still own the land. We own the asset and we will have a residual value in the building. That is exactly right.

MR HARGREAVES: Has there been any forecast on how much that asset will appreciate in value, say, over the first five years of its life?

Ms Smithies: Not to my knowledge, no.

MR HARGREAVES: It is an interesting figure, that.

MR SESELJA: I think it normally depreciates and the land appreciates. That is the point of—

MS HUNTER: Detail, Mr Seselja!

THE CHAIR: Gentlemen? Meredith?

MS HUNTER: Yes, thank you, chair. I wanted to move to that issue of the capital works projects and program because we have a significantly higher spend in the area of capital works than we had in the previous year. Given the current level of inflation and the pressure on wages, particularly with natural disasters and big building programs elsewhere around the country, has there been any evaluation done on the broader appropriateness of this level of infrastructure spend? Is it the right time to be creating that demand, and will we get the best value for money in this current environment?

Ms Gallagher: I think we are in a very lucky position where we work pretty closely with industry around areas of pressure. Where they are getting overheated, they respond and we can slightly adjust our spend, our projects, based on that. When you look at this capital works program, it is a large one, but a large part of it is works in progress already. I think the overall new spend is in the order of $200 million. I am trying to think of the figure.

Ms Smithies: Yes, the cash spend is around 300 for 2011-12.

Ms Gallagher: We were conscious of making sure we had a manageable program, but we are also at a period in time when we are having to significantly increase our infrastructure overall. What you see in the budget is a very much revised-back, cut-down, clipped program of infrastructure priorities. What we do through the year is work with industry and respond where we think there are challenges. Agencies have some flexibility. We saw it in education, I think, in the last year where they brought work on when they had some capacity and delayed other work. So there is some flexibility for responding to areas. I think the big concern around infrastructure, the skills shortage and demand created from Queensland will become clearer in another couple of years.

THE CHAIR: Ms Le Couteur, a new question?

MS LE COUTEUR: This is just a quick one, given the time. On page 150 of No 4 you have got a number of accountability indicators. Output 1.2, financial management indicator d, is “Quarterly Consolidated Financial Statements presented in accordance with legislative timeframes”. We were hoping for four, but we only managed one.

Ms Smithies: Yes, I can clear that up. That was an area that was brought to my attention, I think on Friday morning, so we are yet to correct that. That should be four.

MS LE COUTEUR: So you think you did them—

Ms Gallagher: I have always circulated them on the day they are due, Caroline—always. They go straight to Shane Rattenbury on the day they are due and then are distributed.

MR HARGREAVES: It was just an error.

Ms Gallagher: Apologies for that.

MS LE COUTEUR: It is just a proofreading error. Item e—the policy-service area reviews—could you tell us about what you have actually reviewed this year and what you are going to review next year?

Mr Ahmed: It is the expenditure review committee work. During the year we commenced or completed, and most of them were commenced, about 13 reviews. You can take any one, but the one we started first off was the shared services centre review. The savings from that are incorporated in the budget. We completed that and there was a decision through the budget process on that review as well.

MS LE COUTEUR: If there were 13 of them maybe you could provide us with a list of all 13 or so. You were getting a little bit faint and I was not quite hearing it all, I am afraid. If you could give us a list?

Mr Ahmed: Sure. We have taken that on notice anyway—the list of the projects that we did.

MS LE COUTEUR: Thank you.

THE CHAIR: Mr Hargreaves, a new question?

MR HARGREAVES: Not a new one thanks, Mr Smyth.

THE CHAIR: Mr Hanson?

MR HANSON: We are going to Actew, are we?

THE CHAIR: We are going to go to Actew shortly. Just for information, I have spoken to the Treasurer and at a quarter to we will go to Actew. We will return to Treasury in the morning. If there are any more general questions we can start with them in the morning and then go to the smaller units.

Ms Gallagher: In the afternoon.

THE CHAIR: I am sorry; in the afternoon, I keep saying "morning"; I do apologise. Just in terms of the economic indicators. I note on page 6 of budget paper 3 the state final demand forecast for 2010-11 is four per cent and the forecast for 2011-12 is 1¾ per cent. Why the dramatic drop, Treasurer?

Ms Gallagher: It is still forecasting economic growth but not at the pace that we have seen in 2010-11. Built into the state final demand figures is a view that—I think we went to this in the technical briefing and it is outlined in the graph—there would be negative growth and government consumption, particularly commonwealth government consumption, and that other areas such as household consumption would remain fairly flat.

THE CHAIR: That was the assumption. Following the announcement of the federal budget, does 1¾ per cent still sound valid?

Ms Gallagher: I think the early view is a slight upside and a further quarter of a per cent.

THE CHAIR: The issue of the payments to the community sector is a balance between CPI and WPI?

Ms Gallagher: Yes.

THE CHAIR: This is a two-part question. How relevant is CPI any longer? Some commentators are saying that because CPI has so many different items in it the real cost of living—the stuff you have to buy day to day: the bread, the meat, the vegies, the petrol—is probably running much higher. Some commentators have put it up as high as eight per cent. Are you as a government happy to use CPI, given that the CPI calculation includes things like buying a hi-fi or a fridge et cetera? Then if we could discuss whether the formula that strikes a balance between WPI and CPI for the community sector is still relevant, given the expected target of increases has never been reached.

MS HUNTER: Could we just clarify: is it 20-80? I am just trying to remember.

Ms Gallagher: Yes, 80-20.

MS HUNTER: Yes, 80-20.

Ms Gallagher: We brought in this indexation in the 2006-07 budget. It is the most generous indexation that we provide, even across government. It is more generous than we provide to our own agencies. It is in recognition of the work that the community sector does. We can certainly have an argument about whether it is enough and whether it is relevant, and I know what the community sector will say about that.

I think the other issue that is relevant here is the equal wage case, which has had its first decision handed down today. That, we believe, will come with an additional cost to the budget that will sit outside of this indexation arrangement which actually deals with the wage cost of the community sector. We have been supporting that claim and we are a party to that claim.

THE CHAIR: It was estimated that the formula would provide an average growth of 3.7 per cent. That has not been reached in the last three or four years. ACTCOSS told the committee last Friday that they believed the community sector had been short-changed by about $820,000.

Ms Gallagher: Because it had not grown to that, yes. We went through this, I think, in the global financial crisis when the formula actually went down to below three, or at three, I think, for the first time. Because of our forecast, the NGOs had factored into their thinking that they were going to get this much money and then it did not result and so they felt that we had cut the community sector.

I am not sure what the answer is to that issue, when you link your indexation to this formula, which I note is a formula that other jurisdictions are looking at. Indeed, we took it off WA, I think, and WA still have it in place. I am not sure there is a perfect way of doing this. I guess the real issue for the community sector, though, will be how we handle the outcomes of the equal pay case. Today they have announced that there is a disparity amongst wages between the public sector and the community sector.

Now they have outlined a work program and have scheduled three days of hearings in August to make their additional findings, which will influence our budgets going forward.

MRS DUNNE: On that subject, if I could, Mr Smyth?

THE CHAIR: Very quickly.

MRS DUNNE: The complaint of ACTCOSS, both in the hearings the other day and with me on other occasions, has been that year on year the budget has estimated that the community sector indexation will be 3.7 per cent and it never is.

Ms Gallagher: 3.7?

MRS DUNNE: I think it is 3.7. So what is Treasury doing to address the accuracy of that?

Ms Gallagher: We do not control WIP or CPI. We can forecast as best we can what we believe that will be in the outyears. I think that is the issue. As I just said, I am not sure there is a perfect way. We have tried to be fairer in terms of indexing at greater than CPI, and indeed the share is 80-20, but Treasury cannot control the actual outcome. As I said, in going forward I think the more relevant and bigger risk to our budget is how we factor in the decisions of the equal pay case.

THE CHAIR: We might finish with Treasury there. We look forward to having Treasury officials back tomorrow afternoon, particularly for the minor portfolios—the banking account and the home loan portfolio—and any other general questions that people might have.

Short adjournment.

THE CHAIR: The hearings into the estimates for 2011-12 will resume with the appearance of Actew. I need to draw the privilege card to the attention of those who were not here at the start of the session. I ask whether they understand privilege and have read the document.

Mr Sullivan: Yes.

THE CHAIR: We are, as per normal, recording for transcription but we are also broadcasting and webstreaming as well as doing Committees on Demand, which will leave an audio recording on the web for people to look at later. It will be there for a long time. Are you happy to proceed?

Mr Sullivan: We are happy to proceed on that basis.

THE CHAIR: Chief Minister, would you like to make an opening statement?

Ms Gallagher: No, thank you; I am very happy to just proceed this time.

THE CHAIR: There is an immense amount of work going on at the Cotter Dam for an estimated cost of water projects of $363 million. Are they on time and are they on budget?

Mr Sullivan: The Cotter Dam is certainly proceeding within budget. It is not proceeding according to its original schedule. We anticipate at this stage that it will be three to four months behind, attributable to the flooding and the wet weather that we had from May through until January or February. That has put a threat against the timetable. But if we continue to have the weather that we have had through April and May, particularly over this very critical time, we are probably within a few weeks of actually hitting the bottom of the excavation and, not long after that, starting to come out of the ground. This is the really critical time in terms of weather. The budget is not under threat. We have certainly had to use some of our contingency, but it is, I think, still safe in respect of contingency and safe in respect of budget. The end of the excavation scrape will be a very significant time when we see what the bottom of this thing looks like. Then we will start through a process of laying concrete, and it will be a matter of how quickly the whole process of 24 hours a day seven days a week placing and rolling it back to concrete settles in.

THE CHAIR: How much contingency was set aside and how much have you used?

Mr Sullivan: I will generalise it only because it is nowhere near as precise as that. We had about $30 million or so in contingency. We used about a quarter of it, and it has probably gone down slightly again. Some things have gone the right way. They are imprecise numbers, because it is a rolling risk and opportunity chart, depending on what happens tomorrow. But in the worst case we do not see our contingency being exhausted.

THE CHAIR: In terms of getting to the bottom of the scrape, have we hit where we expected to be? Have we gone further than we expected?

Mr Sullivan: At this stage, I think we are about where we expected to be. The major issue in getting to where we expected to be was basically that we had to completely redo our diversion strategy. We now have a new diversion system in place on the left-hand abutment. We have placed a new three-metre diversion tunnel and encased it in concrete. The dam will basically be built across it. That was necessary because clearly the original diversion strategy was not going to work if we continued to get really wet weather. We do have to protect the site from flooding as much as we can.

MR HANSON: I have a supplementary. The pipeline is included in that in terms of being on budget and already on time?

Mr Sullivan: It is a separate question. We did revise the budget of the pipeline from $149 million to $154 million. That was almost solely as a result of delay in the approvals processes. The single biggest delay in that approval process was with the commonwealth—which we finally did achieve. At the $154 million budget and conclusion by June, I think we are working well in terms of both schedule and budget.

MRS DUNNE: Could I follow up on both of those? Mr Sullivan, can you elaborate more about when you say that you dipped into the contingencies on the Cotter Dam—what that means?

Mr Sullivan: Within the budget on the Cotter Dam, like any construction project, you will have a contingency as a budget item. That basically is an amount in your budget which you use if you strike a circumstance not contemplated in the budget which will see another budget item go out. Then there is a formal process through the alliance, particularly the construction joint venture, to say, “I am willing to allocate some of the contingency budget to your line item.” That would be that they are satisfied that the prospect of recovering to the original budget position is not there, and therefore they allocate some of the contingency. On the reverse side of that, they examine budgets and look for opportunities, and they will take money out of your budget and put it into opportunities. That is what keeps this contingency number rolling around a fair way. So the contingency—which was reviewed both by Deloitte and by the ICRC in their review of Cotter Dam, and was determined to be a satisfactory and industry-standard scale of contingency—is used in that way.

MRS DUNNE: What are the factors that have brought you to consider using contingencies?

Mr Sullivan: Almost entirely wet weather. I think we had about 60 days all up affected by wet weather, and this was at a stage when we were basically doing excavation and haulage and quarry work. For a while there, we had the quarry as a very deep swimming pool and we just could not proceed with excavation and haulage for a lot of those days. So it was wet weather, then resulting in this major issue which has caused us delay, the redefinition and the redesign of the diversion strategy. They would be almost the only items that we have had to go to the contingency about.

MRS DUNNE: How many wet days did you have in your original scoping for the project?

Mr Sullivan: We had wet days scheduled against all sorts of work packages. When I say we lost about 60, we probably had about 20, which was about our seasonal norms for that time. So we lost about 40 above what we thought. I will check that answer and if it is different I will get back.

MS HUNTER: Mr Sullivan, I want to go to page 423 of budget paper 4, where we have Actew Corporation’s priorities for 2011-12. One of those priorities is:

> … continuing to advise and work with the ACT Government to achieve an appropriate sustainable diversion limit for the ACT in the Murray Darling Basin Plan …

What role is Actew playing in this area, and have you done any modelling around the development of SDLs?

Mr Sullivan: We have done some development around SDLs and the guide, but our role has been that we—we do have a lot of water expertise. In terms of assisting the department in its policy coordination, I have made the offer to the department that they may utilise that water expertise as much as they like. As well as that, we have provided our views to the department on what the ACT should seek to achieve in terms of the Murray-Darling Basin plan. I think the department has utilised that expertise and has listened to our views. We are probably quite close to the department's views in terms of what the ACT should be looking for.

The only thing we have used is the basin guide. The basin guide as a living document seems to be as close to dead as you could find a document to be. We wait with expectation for the next phase, which will be the draft plan. For the ACT, that is a very positive thing—that the guide appears to have slipped away and we are now waiting on the draft plan. The guide, it is well known, was going to impose on the ACT a very difficult water scenario. I think that beyond reasonable further conservation of water and targets, it would probably have meant an alternative strategy of accessing the water required to meet the minimum needs of the ACT.

MR RATTENBURY: Can I just follow up on that. One of the key concerns for the government seems to be the definition of the ACT coming up with either a gross or a net water allocation under the SDLs. Are you able to elaborate or do you have any thoughts on what is a better model for the ACT?

Mr Sullivan: It is probably for others to decide what a better model is for the ACT, but I must say that Actew's view and my view would be that a net model is the model that has the ACT looking at the basin system as a whole. It would not have the indirect impact of making uneconomic decisions attractive. One of the great things the ACT can claim in any forum is that in relation to our use of water over many years—certainly since the adoption of the current cap arrangement, which is a net cap arrangement—we can make a very strong case that we have not been part of the problem. We have to be part of the solution still but, as a city and as the largest urban centre in the basin, we have been a very responsible user of water, which has ensured the provision back to the system of as much water as possible.

Gross caps, you could argue, are exactly the same. But a gross cap is probably an encouragement for recycling. If you think of recycling as a local initiative, it does that. But in the broader context of the basin, recycling as a local initiative, which may not be the most economically viable initiative, may not be a good solution. It may be better to say, "No, it is better to allow the net water to return to the basin," and then look at your economic analysis, followed through with other policy objectives, which are validly there, and work out what is the best way to secure what the ACT needs in respect of its water resources.

I want to repeat that that is a Mark Sullivan view with a bit of Actew thrown in. I have not had that view endorsed by my board.

THE CHAIR: What is the ratio? I think Mrs Dunne had a supplementary.

MRS DUNNE: On the subject of the Murray-Darling Basin plan, has Actew done any assessment of the impact of what you call the dead document—of the current guide and the impact that would have on the water that is stored in our current water storage and those which are proposed through the water security projects?

Mr Sullivan: I do not see any impact on storages whatsoever. What you have to look at is the economic viability of the storages. I do not think there is anything in any of the mandate of the Murray-Darling Basin Authority, or the guide or any of the plans, that would impact on our capacity to store water.

MRS DUNNE: But it would impact our capacity to use the water stored.

Mr Sullivan: But that is what I say: it is about the economic utilisation of that water. If you are not allowed to use a lot of it, that makes it hard to justify why you are storing that much. I think that appropriately throws it back at government. For instance, if you took that mid scenario of 3,500 gigalitres of savings and that meant a proposed SDL for Canberra of 23 gigalitres, which would see about a 16-gigalitre reduction in our water allocation, then, if that scenario had become what the minister determines the plan to be, it would have left government with a policy decision. That would be to (1) live within the allocation determined by the plan—and that would see a very large under-utilisation of storage—or (2) find another way of accessing the required additional water to meet the needs of Canberra. I think that almost any way you do that would have utilised the storages and therefore would probably make their economic liability even greater.

What I am saying there is that probably the only way you would be doing it would be that you would need to buy downstream water allocations. You would probably then hand them back to the commonwealth in return for an increase in the cap. And you would say that our water is now held in our dams. You would basically save about 10 gigs at the Murrumbidgee irrigation area and go to the commonwealth water manager and say, "This 10 gigs is added onto my 26 gigs; therefore I have got 36 now and I will be utilising the water in my dams."

But first and foremost government would have to work through it—as they will whenever the plan is determined by the minister under the Water Act. It is appropriate that government will have to work through whatever policy decisions that throws up to them. Whatever decision is made, there still will be policy considerations to be taken in respect of Canberra's water resources.

THE CHAIR: All right. Ms Le Couteur.

MS LE COUTEUR: I have got a slightly more downstream question, I guess. On page 43 again you refer to implementing the recommendations of the Canberra sewerage strategies, including development of strategic plans for the Fyshwick sewage treatment plant and the lower Molonglo water quality. Can you tell us a bit about that? One thing I am also particularly interested in is the draft waste strategy, which I assume you have read, which talks about doing something with bio-solids.

Mr Sullivan: Yes.

MS LE COUTEUR: How does that all fit in? It does seem like a very interesting idea.

Mr Sullivan: There has got to be some interaction between things. What we were keen to do in the sewerage strategy was to basically understand where the ACT's current sewerage infrastructure would take us over the next 30 or so years. We are as a community largely dependent upon one sewage treatment works, lower Molonglo. Whoever was responsible for its planning and location did an enormously good job. So we have got that plant. We have got a minor plant at Fyshwick and we have also got a very small plant at Uriarra, or some treatment at Uriarra, to meet the residents' needs there.

The sewerage plan, which is available on the web, and we would love to give you a copy of it—it is fascinating bedtime reading—basically concludes that lower Molonglo will see through our needs. One of the major issues at lower Molonglo in terms of our environmental compliance is the chimney stacks at lower Molonglo because we incinerate waste. We use the product of that incineration for local fertiliser manufacture and things like that. So that is a good by-product. But certainly there is a fair bit of interest, first, in the heat of the incinerators and being able to harness the energy involved in those. The second is that if we fail in any of our compliance tests as against what comes out of the incinerators it is not a major failing but it certainly is a failing and so we do have to look at what we are going to do around our incineration strategy. We do think incineration is continuing the way to go.

We wonder whether there is a viable future for Fyshwick, whether we could avoid Fyshwick. At the moment about five per cent of sewage is treated at Fyshwick but it is all then transferred to lower Molonglo. But five per cent is a big enough element of your system, so we do not have an issue in respect of Fyshwick and Lake Burley Griffin, although we have had one incident where absolutely treated effluent was released into the grasslands. It would have found its way eventually, I guess, to the lake and would probably have been even cleaner by the time it made it to the lake, but no incidents of untreated or partially treated effluent ever coming into the lake. But we look at Fyshwick and wonder whether or not we need it; that is one of the questions we have been looking at.

We did make an approach to Queanbeyan to look at whether a joint facility was possible and Queanbeyan have rejected that position.

MS HUNTER: How long ago was that approach made?

Mr Sullivan: It was rejected only about a month and a half ago.

MS LE COUTEUR: That is sad. You talked about compliance with the waste from lower Molonglo in terms of air pollution but I am particularly interested in the use of the nutrients. Are you looking at doing something which will enable them to be better utilised?

Mr Knee: We have looked at a variety of schemes with the government as well and none of them stack up to our criteria.

MS LE COUTEUR: And is that just financial criteria?

Mr Knee: Financial and environmental.

Mr Sullivan: We have got a major project. One of the things the other side we have some problem with is in terms of the total dissolved solids in our effluent. We are doing a lot of work in understanding those solids. When it looked like we had a very major total dissolved solids issue it was in the middle of the drought. The drought caused our principal water usage to come from places like Googong and the

Murrumbidgee River, which have higher occurring total dissolved solid limits in them than water out of Bendora, which is our preferred, most efficient and most environmentally friendly water.

We are also looking at just what makes up the total dissolved solids and we have a view which might seem convenient for a utility to have but we are attempting to back it up by science—that is that the greater part of our total dissolved solids may be quite benign environmentally—and we are working through EPA and getting some of the academics involved in understanding what makes up these issues.

When we first tried to think about taking salt directly out of the water, one, that was a very expensive process and, two, we never resolved the issue of what to do with the brine, getting rid of brine. It is very good salt but if we will not drink it it is hard to think of people turning it into table salt, and getting someone to take brine away is very difficult. So that ended "let's mechanically withdraw salts from the effluent" and we are now looking very hard at just what makes it up. Let us define the problem and if there continues to be a problem—I do not think the EPA are suddenly going to say to us, "Forget what the limits are"—they will require of us a plan to get our dissolved solids below the thresholds. Certainly since the rain we have returned to sort of our normal levels underneath the thresholds, but I do not think we can assume that will last forever.

THE CHAIR: A quick supplementary and then a new question from Mr Hargreaves.

MRS DUNNE: There was money from the commonwealth to address the salt interdiction. What happened to that money?

Mr Sullivan: They did not pay.

MRS DUNNE: They did not pay?

Mr Sullivan: Because it was basically money available if delivered.

MRS DUNNE: Okay. Thank you.

THE CHAIR: Mr Hanson, then Mrs Dunne, then Mr Rattenbury.

MR HANSON: My understanding is that the profit that you make at Actew essentially goes to the government and the net profit made becomes government revenue. What is that profit and what is that as a percentage then of the water price?

Mr Sullivan: You have got to understand that most of our profit we make is from our distribution from ActewAGL, so it comes from ActewAGL. Water I think this year will probably come square-on or make a slight loss. Sewerage will make probably about $12 million or so profit and the rest of our profit of some $80 million or so will come from our share of the distribution of profit from the ActewAGL joint venture and that has been the case. The most profitable part of our business is probably in proportion terms the retail side of the joint venture. In purely numbers terms it is probably the distribution side, then waste water and then water.

Actew's history is that ever since it was created it has paid 100 per cent of its profits back as dividend to government in all but two years and in those two years we paid about 150 per cent of our profit back in government as a capital extraction, which is a reasonable thing for an owner to ask for, and there was a capital extraction in the early days of Actew.

MR HANSON: So basically the water that we have residentially is at cost?

Mr Sullivan: At the moment we break even on water.

Ms Gallagher: It has been under.

Mr Sullivan: In the forward years we are predicting that there will be profitability back in water.

MR HANSON: That is right, because the price is going to increase. We have got full dams now and the prices seem to increase. I know that some of that is to cover the cost of the dam and the pipelines and so on, but—

Ms Gallagher: Tantangara transfer.

MR HANSON: you are also anticipating then there will be a cost increase above that to make profit or—

Mr Sullivan: No. The ICRC sets the price of water in Canberra. The ICRC determined in 2008 how it would set the price through to 2013 and its model was based on looking at our regulated asset base. It determined what a reasonable return on investment would be against that, added that part of our operating expenses that it regarded as efficient to do so and then made an assumption around the volume of water that would be sold and that became our denominator. You take that top number, divide it by volume and you get a price for water.

That worked out perfectly. It would have said that Actew would have made money out of water. There was a profit margin in water. Their guide is not to say, "We want this to be a break square device." What has actually happened was that the commission's estimate of water volume was far higher than actual water volumes and that meant that we did not receive the unit price for water across the volume that was expected by the commission and therefore we will come square or lose a little bit of money on our water side of our business.

MR HANSON: Right. And has the rainfall affected your profit with decreased usage?

Mr Sullivan: Rainfall affects that equation because rainfall, even more than drought, affects volume. So what we have discovered is that the only thing worse than level 3 water restrictions and drought in terms of volume of water sold is persistent, heavy rain.

MR HANSON: You can't win it.

Mr Sullivan: No. And the competition people do not regard it as competition.

THE CHAIR: A supplementary, Mr Rattenbury.

MR RATTENBURY: I noticed between last year's budget paper and this year's budget papers there is a very substantial revision of the proposed dividends coming from Actew. Can you take us through why that has changed so substantially?

Mr Sullivan: I think the first level of change occurred with the removal of level 3 water restrictions and the movement to permanent water conservation measures. In the climate of that day there was expected to be a significant increase in the volume of water sold as a result of that change. It was then revised down again as the volume of rain made it clear that we were not going to sell water and then there has been an estimates change as a result of the determination that the ICRC announced a few weeks ago.

We saw the price go up and we still are predicting that, with a return to another weather pattern—I do not think there is normal anymore—taking over, we will see volume increases. The commission's predictions in respect of volume now have an expected uptake in volume.

MR RATTENBURY: If I understood you correctly when you were answering Mr Hanson's question, you said that the water income is not a substantial part of the dividend and the revisions are in the region of $20 million or so. Where is the change coming from? Is it coming purely out of ActewAGL increases?

Mr Sullivan: No. What I was saying was: we do not make profit out of water now. We should make profit out of water and every time the commission is able to recast the price under their model it means that we should return to a return on our investment in water and, typically, water utilities seem to return about two per cent or so on their investment. So we should go from about break-even to somewhere around the $20 million mark profit out of water.

MR HANSON: Can I just ask: why should we make a profit out of water?

Mr Sullivan: We are a corporation who are asked to carry enormous risk in respect of our water business and you need a shareholder who owns a business. In this case, we give back to the people of Canberra through the shareholders a reasonable return. And I think the important thing is what do you do with that profit and basically that profit is made available back to—

MR HANSON: I suppose the point I am making is that the people that are essentially paying for that profit are the people you are then paying the profit to. I am just wondering in the circumstances of Actew, when you are paying money to the same people that have paid for water, why it is logical then to say that you must make a profit.

Mr Sullivan: In respect of our water management and our water operations of course, that is managed by ActewAGL, which has the involvement of a partner, Jemena, who are a subsidiary of Singapore Power. And at the corporatisation of Actew and the break-off and then the creation of the ActewAGL joint venture, of course it had to be on the principle that a reasonable profit in the operation of water would be allowed. So all of the operations in water, which is really in terms of making it potable and making it drinking water standards, are conducted by ActewAGL. Actew owns the assets. We do not make profit out of the assets.

MR HANSON: The statement was that in this circumstance Actew should give a profit back to the government when it has come from the people of the ACT. I am not sure why Actew is still doing that. Maybe the Treasurer—

Mr Sullivan: The other half of the profit from water operations goes to Jemena.

MR HANSON: That is fine.

Mr Sullivan: We cannot have a price for them and a price for us. We have to have one price and it delivers to the business.

Ms Gallagher: It is a business and it is set up as a business. I think that is where the safety for the community comes, through the return. One hundred per cent of the dividend returns to the people of the ACT. I would say the government is looking closely at the ICRC's latest decision around water and some of the work that has been done, I think, by the Productivity Commission, is it, around water pricing just to have a look.

I think there is a concern that what has occurred with the latest price increase is that people have been better, they have reduced their water usage, but also it has rained so that they have not had to use as much. And the ICRC has taken into account reduced volumes, and that is the major component of the price increase for the mid-term update. From my discussions with Minister Corbell, it is something I think that is worth examining closer. It is not really a job for Actew but a job for the government.

Mr Sullivan: I think that is right. There are three very interesting processes going on there. You have got the Productivity Commission draft report into urban water pricing, you have got the National Water Commission's report on urban water and, of course, you have got our own review occurring of what should be the regime for temporary water restrictions, if we are forced back into that. So there are really good reasons for people—and I know from the letters to the editor there are a few people who have very strong views about water pricing—to have those views and we want as many people as possible to start thinking about water pricing.

MRS DUNNE: I want to go to a fairly technical issue. What are the methods and rates of depreciation that would be applied to the new water security projects?

Mr Sullivan: Would you mind if I took that on notice? We have to go through a very long explanation because these days assets and depreciation are not anything that I learnt when I did accounting at university. The major thing that alters our asset values at the moment is around impairment, is a comparison of the revenue base of the asset versus the asset's current value. So impairment is much more something we deal with today than we deal with a direct rate of depreciation.

I think I could put an answer to you in reasonably easy to understand terms. If I can understand it you will understand it. So if I understand a riparian answer, which is easily understood and which I can understand, I would then be very happy to pass it on. But I can very technically tell you this is our standard process of calculation of depreciation.

MRS DUNNE: And would that cover things like the processing and the timing since reassessing the value of the infrastructure?

Mr Sullivan: Yes. It is not so much depreciation but it is impairment issues that drive revaluations because if the underlying issue behind the impairment goes away that will drive an asset revaluation. It would be very blunt. For instance, at the moment a lot of our infrastructure is subject to impairment because the ICRC decision in place was not capable of delivering the revenue that it had promised because of water volumes. The fact we have now had it rebased means that that issue has now gone away gain.

So I think if you looked at last year's accounts you would have seen a $70 million or $80 million impairment on the assets, driven by revenue. That now will be a revaluation in the books. But I really think it is something I can give you. I will keep it to a page and a half if I can.

MR RATTENBURY: I think it might be more to the Treasurer than Actew but we will see how we go. On page 62 of budget paper 3, under "Miscellaneous", it talks about miscellaneous revenue falling due to the completion of the Canberra integrated urban waterways project.

Ms Gallagher: Sorry, 62?

MR RATTENBURY: Yes, under "Miscellaneous". I am not sure whether this is the right place to ask this or not. Do I need to come back to this with Minister Corbell?

Ms Gallagher: Yes. I think this is Minister Corbell's project.

MR RATTENBURY: That is fine. I will come back to that on another occasion.

Ms Gallagher: I think it is being handled through DECCEW.

MRS DUNNE: Actually on the subject, because the proposal is to sell non-potable water out of the urban waterways at a cost, which has not been determined, that will have an impact on Actew's bottom line. The government decision to divert water sales from potable to non-potable will have an impact on Actew's bottom line. Has Actew made an assessment of what that would be?

Mr Sullivan: I can say it is not Actew.

MS LE COUTEUR: Have you thought about how it is going to impact Actew?

Ms Gallagher: I will take some advice on that. I will take Mrs Dunne's point and have a look. I understand this is something that Minister Corbell manages through DECCEW and I think it has a crossover into TAMS.

MRS DUNNE: There is an issue—and this came up in the debate the other day—that the government does not have an idea of what the pricing of that water will be.

Mr Sullivan: I think the policy context of it is fairly straightforward. We have a target of government in the reduction of potable water use. This, through think water, act water, is part of the range of strategies to reduce potable water use in the ACT by transferring it across to stormwater diversion and ponds and things like that. So that is its context. Its delivery is an issue.

MRS DUNNE: Because there is a government policy to divert use from potable to non-potable water, that has an impact on Actew's bottom line. What assessment has Actew done of that impact through the revision of the current think water, act water and any revision that is underway?

Mr Sullivan: All of our planning, going right back in terms of water security planning and that, basically assumes the government will meet its water savings targets and will meet them through demand management activities, will meet them through alternative water supply purposes and other projects. So we have actually reversed the question, I think, in terms of saying, "If the government does not meet its targets or it looks like it is not going to meet its targets it had better tell us, because we are planning our water supplies on the basis that it will."

THE CHAIR: It is almost 5.30 and I am going to ask the last question. Mr Sullivan, where do I find the sale of Actew House?

Mr Sullivan: Where would you find the sale of Actew House? You would find it—

THE CHAIR: Recorded in the balance sheet or—

Mr Sullivan: You will find it in the accounts of ActewAGL. ActewAGL own Actew House. It was ActewAGL House, not Actew House. They owned it and it will be found as an extraordinary item in the accounts of both ActewAGL distribution and ActewAGL retail.

THE CHAIR: So the decision to move from there to there was an ActewAGL decision, not an Actew decision?

Mr Sullivan: Yes. We were a tenant of ActewAGL House and we are a tenant of ActewAGL House.

THE CHAIR: With that, we will close and say thank you very much to all those that attended today, particularly Mr Carmody. Your input was most insightful. You have done very well.

Mr Carmody: Inspiring.

THE CHAIR: We will upgrade it to inspiring. In relation to questions on notice, these will be accepted for four working days following this hearing for Actew Corporation. I would therefore ask members to provide any further questions on notice to the secretary by Friday, 20 May. On behalf of the committee I would like to thank the Chief Minister and officials from Treasury and the director of Actew Corporation for attending today and, in advance, for responding promptly to questions taken on notice.

Tomorrow afternoon the committee will continue with the Treasury portfolio, firstly, with any outstanding questions relating to output class 1 and then followed by the territory banking account, superannuation provision account, the ACT Insurance Authority, the home loan portfolio, ACTTAB Ltd and the discontinued agencies. This public hearing is now adjourned.

The committee adjourned at 5.29 pm.