LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

SELECT COMMITTEE ON ESTIMATES 2012-2013

(Reference: Appropriation Bill 2012-2013 and Appropriation (Office of the Legislative Assembly) Bill 2012-2013)

Members:

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

TRANSCRIPT OF EVIDENCE

CANBERRA

MONDAY, 18 JUNE 2012

Secretary to the committee:
Ms S Salvaneschi (Ph 620 50136)

By authority of the Legislative Assembly for the Australian Capital Territory

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APPEARANCES

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Amended 9 August 2011

The committee met at 9.02 am.

Appearances:

Barr, Mr Andrew, Deputy Chief Minister, Treasurer, Minister for Economic Development and Minister for Tourism, Sport and Recreation

Treasury Directorate

Smithies, Ms Megan, Under Treasurer

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

Bulless, Mr Neil, Executive Director, Finance and Budget Division

McDonald, Mr Tom, Director, Legal and Insurance Policy Branch, Finance and Budget Division

Brown, Mr Scott, Director, Treasury, Accounting Branch, Finance and Budget Division

Swanepoel, Dr Abrie, Senior Manager, Economics Branch, Investment and Economics Division

Wilesmith, Mr Brett, A/g Director, Economics Branch, Investment and Economics Division

Marina, Mr Angel, Manager, Revenue and Accounts, Revenue Management Division

McAuliffe, Mr Patrick, Director, Treasury, Investment Branch, Investment and Economics Division

Doran, Ms Karen, Executive Director, Treasury, Investment and Economics Division

Salisbury, Mr Kim, Commissioner for Revenue, Revenue Management Division

Independent Competition and Regulatory Commission

Buckley, Mr Mike, Commissioner

ACTEW Corporation Ltd

Sullivan, Mr Mark, Chief Executive Officer

Wallace, Mr Simon, Chief Financial Officer

ACT Insurance Authority

Fletcher, Mr John, General Manager

ACTTAB Ltd

Curtis, Mr Tony, Chief Executive Officer

Snowden, Ms Kaylene, Chief Financial Officer

Kourpanidis, Mr Con, Chair, ACTTAB Ltd Board

THE CHAIR: Good morning and welcome to the second public hearing of the Select Committee on Estimates 2012-2013. The Legislative Assembly has referred to the committee for examination the expenditure proposals for the 2012-13 appropriation bill and revenue estimates for the 2011-12 budget. The committee is due to report to the Assembly on 14 August 2012. I welcome Mr Barr, Treasurer, to this hearing today.

The committee has resolved that all questions on notice will be lodged with the Committee Office within three business days of receipt of the uncorrected proof transcript, with day 1 being the first business day after the transcript is received. Answers to questions on notice will be lodged with the committee office within five business days of receipt of the question, with day 1 being the first business day after the transcript is received. Answers to questions taken on notice will be returned five business days after the hearing at which questions were taken, with day 1 being the first business day after the question was taken.

Proceedings this morning will commence with the examination of the Treasury Directorate's expenditure proposals and review estimates for output class 1, financial economic management. The committee will examine this output class commencing with output 1.1, economic management, followed by output 1.2, financial management, and concluding with output 1.3, revenue management.

This will be followed by examination of the expenditure proposals and revenue estimates for the Independent Competition and Regulatory Commission. Because there is quite a bit of crossover with 1.1, 1.2 and 1.3, there probably will be quite a bit of a flow-over with questions. I ask members to ask questions across the output classes. I will start with 1.1 but it will probably go across all three.

I remind witnesses of the privilege statement, which will be on the blue card in front of you. I am sure you are very familiar with it. If everyone can indicate, however, that they have read it and are aware of the information implications in that.

Mr Barr: Yes.

THE CHAIR: Excellent; thank you. Just so everyone is aware, the proceedings are being broadcast today. Before we go to questions, Treasurer, would you like to make an opening statement?

Mr Barr: I am delighted to appear before the committee. This is my first time in the capacity of Treasurer. I will give some brief opening remarks in the context of framing this year's budget. I am sure members are familiar with most of the circumstances that confronted the territory and the government in preparing this budget, but it is worth just briefly revisiting some of those circumstances.

Certainly we have been living through a period of unprecedented economic turbulence on a global level. And in Australia and in the ACT we have not been immune to those particular global circumstances. This year's budget, like all state and territory budgets, has been planned against the backdrop of a commonwealth budget that sought to return and did, indeed, return to surplus, but it would be fair to say that one of the means by which that surplus was achieved involved significant change in timing of commonwealth government payments to the territory. And you can see that reflected in the budgets of other jurisdictions as well, most notably New South Wales just last week.

So in the context of preparing this budget, we certainly were aware that there were going to be some significant shifts in the timing of commonwealth payments. Changes in the size and nature of the GST pool also impacted upon the revenue side of the budget. We felt, in this context, given that the commonwealth, who are a major player in the territory economy, were contracting their spending in this coming fiscal year, it would be prudent for the territory government to maintain a strong capital program and to maintain a steady hand in relation to our recurrent expenditure. The rationale for that was to support the territory economy through the next 12 months, noting that no major player was in fact going to contract and that it would fall to the territory government and to the private sector to continue economic growth in the territory in the coming 12 months.

A combination of the policy settings within this budget, the tax reforms that are at the heart of the budget and the policy work undertaken in both the business development strategy and the housing affordability strategy certainly provide opportunities for further economic growth, further support of jobs in our economy and, I believe, represent the right combination of policy settings for the territory at this time. We do recognise the importance of the tax reform agenda that we have—a journey that we have just commenced. It is nation leading, picks up on very clear recommendations, both of Ken Henry's national review and the local review conducted by Mr Quinlan and colleagues, and represents one of the more significant changes, in terms of public finances, in Australian political history, certainly in territory political history.

Having said that, I am happy to take questions.

THE CHAIR: I will go to the first question. It is in relation to headline cost. I note that the estimated outcome for 2011-12 is about $3.4 million less than the figure in last year's budget. This year's budget proposes a 30 per cent increase.

Mr Barr: Sorry, which page are you on?

THE CHAIR: I will get to it. There is a reference to it on page 164 of budget paper 4. This year's budget proposes a 30 per cent increase in total costs for the output. I am wondering whether we can get a bit of a description about that. I noted there is some explanation of overall changes on page 164, but it is not broken down on that page. I wonder whether you can give us some information on why this is the case.

Ms Smithies: I assume you are talking about the estimated outcome for 2011-12 for the Treasury portfolio and the 2012-13 budget?

THE CHAIR: Yes.

Ms Smithies: The increase is due to a number of things. Just flipping to changes in appropriations, the Treasury portfolio carries the restructure fund; so there was a $6 million underspend in the move of that funding from the 2011-12 budget into the 2012-13 budget, plus future years. Because of the rollover of that and a number of our IT upgrades and whole-of-government banking and our Oracle business funding, plus rollover of funding for the national seamless economy et cetera, what we have is money being taken off 2011-12 and we are giving back $1 million in 2011-12 that was allocated for the government office block, should it have gone ahead.

So what that actually does is bring down the 2011-12 budget and then increase the 2012-13 budget accordingly. You get the double whammy with 2011-12 being brought down and 2012-13 being taken up and the difference between the two years is accentuated in that respect.

THE CHAIR: In terms of the breakdown, can you describe again what you have broken down, what that accounts for?

Ms Smithies: Sure.

THE CHAIR: Is it anywhere in the budget papers? I could not see it.

Ms Smithies: Yes, it is in the note. It is against all of the expenditure lines on pages 164 and 165 and in the revenue lines for the government payment for output on page 164, which talks about the changes around appropriations. And if you have a look at the changes to the appropriation table on 157, you can see the changes that have been made between the two years in relation to those appropriations.

THE CHAIR: When you say "in the breakdown"—it says "cessation"—is that what you are talking about there, some of those payments there?

Ms Smithies: Sorry?

THE CHAIR: In that table it has got "cessation". You mentioned the seamless national economy and those other things there. Is that what it is related to?

Ms Smithies: That is right, the one on 157.

THE CHAIR: Ms Hunter.

MS HUNTER: If you go to budget paper 4, page 153—it is about revenue forecasts—we have dropped to eighth, well below the target. You say, in the explanation, that this is largely because of conveyancing revenue in 2010-11. You say, in the explanation of this, that conveyance revenue was stronger across all states, apart from New South Wales, and we were the only jurisdiction not to improve the mean percentage error, taking the 2010-11 year into account. Is Treasury doing anything, apart from the tax reform, to improve the accuracy of the forecasts?

Ms Smithies: This is a table that talks about a five-year rolling average. So we have fallen down in the pack in this set of assessments. We were, I think, fifth last year, but we were in the top four for the two years before that. In 2009 we had an independent consultant come in and have a look at not only our revenue forecasting models but our governance and all things that relate to revenue forecasting. So we have had a good look at how we forecast revenue within the Treasury.

This year—and you have picked it up—is really around the fact that, particularly around the housing market and our conveyance duty, we have done better than other jurisdictions and relative to other jurisdictions. We have actually fallen to the bottom of the pack because we have done better than expected.

You have also picked up that in this respect it is our conveyance line, which is the most volatile line in our budget, and our tax lines that are actually driving that particular variance in terms of our forecasting. And certainly the reduction in reliance on conveyance duty will assist in the predictability of these revenue lines and these tax lines.

MS HUNTER: Who was the independent consultant?

Mr Ahmed: It was Dr Nicholas Gruen from Lateral Economics, who had a pretty good look at all the forecasting models and global forecasting as well as those here at the Treasury. But just adding on to what the Under Treasurer said, the measure that we use is a percentage error, positive and negative. What has happened over the past couple of years, as it has started rolling in, in relation to the post-GFC forecasts from other jurisdictions and ours as well, is that ours did not fall that much but other jurisdictions' actuals were well below the forecast. And that added negatives to the cumulative growth that we had picked up in the previous years. What that does is improve their forecasting relative to us, whereas it is purely an external factor.

Ms Smithies: Can I also add that this particular measure measures our tax forecasting accuracy. Taxes make up roughly a third of our budget; another third is, broadly speaking, to do with the GST and commonwealth own grants; and the other third is to do with fees and charges and our commercial returns from land and our PT sectors et cetera. So this only covers a third of our revenues. As to the third that is the commonwealth payments—and I think we have been through this before—we rely on commonwealth estimates of the size of the GST pool, and we refer to commonwealth budget documentation in relation to the revenue lines that relate to them. Then the other lines are really dictated by what the top PTs or the government's affordable housing or land release strategies are doing as well.

THE CHAIR: Mr Smyth.

MR SMYTH: Could we go to the table on page 6 of budget paper 3, the economic forecasts, and just run through some of those. The forecast for employment in 2011-12 was half a per cent, and zero growth in 2012-13. What is the analysis of the breakdown or decline in either the public or the private sector that leads to that?

Ms Smithies: I might ask Dr Swanepoel to come up and answer that.

Dr Swanepoel: In terms of the employment forecast, we do not forecast it in the aggregate, so we are not clearly able to forecast for the private sector and public sector per se. In the overall moderation, of course, in 2012-13 in particular, they are impacted significantly by the policy decisions in terms of the reduction in commonwealth expenditure. We estimate that at around 1,400 jobs, and that that is a significant impact that we also took into consideration. So we do expect, at least in terms of the public sector employment growth, that that will be very low or actually can go a little bit backwards, given what is happening at the commonwealth level.

MR SMYTH: All right. You have said 1,400 jobs. Most estimates have it at a much larger percentage. There are something like 4,000 jobs going from the federal public service just in the coming year. How did you determine the 1,400 jobs for the ACT?

Dr Swanepoel: The total level is a 1.2 per cent reduction in that specific year nationally, so taking our share of around a third, the rough estimate is just 1,400. Of course, I am talking 2012-13 here. That is the estimate just for that specific year. It will not be possible to say directly what it will be; we have to see how it plays out. But that is some estimate that we took into consideration. That is obviously a further implication, apart from the moderation in economic growth, that we would see that employment is flat rather than seeing any significant strong growth, as we have seen in earlier years, given the specific shock.

MR SMYTH: What is your estimate for job losses, then, in 2013-14?

Dr Swanepoel: 2013-14 is just a projection year. We did not factor anything in at the moment; we just put that as a projection here. As we put together the next budget, we will have a forecast for that general projection, for example, based on a long run average.

MR SMYTH: So you have not put in any reduction of federal public service in the 2013-14 year?

Dr Swanepoel: When the federal government put the 2013-14 budget together, they will have an estimate once again of what they think will happen to the commonwealth staffing levels. Then we will have a closer estimate of what will happen. If we look at budget papers in the past as well, there is a difference compared to what they forecast and what actually happened. It is very uncertain, to this extent, to speculate in terms of the job losses that will come out in 2013-14. That information will only be available next year, when they do their next budget.

MR SMYTH: All right. In state final demand there is two per cent growth in 2011-12 and half a per cent in 2012-13. How did you come to those numbers?

Dr Swanepoel: State final demand is built up of various components, being household consumption, government consumption and investment. Of course, that forecast is dependent on what we think will happen to individual components of demand. As we clearly put in the budget papers here, the story about 2011-12 is positive contributions from all components, but still moderation, and what we see in 2012-13 is that there is a negative contribution from commonwealth consumption but at least a positive contribution from investment and household consumption. So the moderation in growth has been moderate in 2012-13 and it is a matter of moderating investment growth in particular, but specifically a reduction in real payments or real commonwealth government expenditure.

MR SMYTH: Right. In the June quarter for 2011-12 it appears that state final demand will decline by about $135 million using the latest ABS figures. What effect does that have on this year and then next year?

Dr Swanepoel: The June quarter results? These are the March quarter numbers.

Mr Barr: We are still in the June quarter.

MR SMYTH: Sorry, that is right. March; I do apologise.

Dr Swanepoel: Ask your question again, please.

MR SMYTH: There was a decline of about $135 million. What effect does that have, how do you see that turning around, and when will it turn around?

Dr Swanepoel: Our forecast is for two per cent growth for year average, and we still think that is achievable. If we look at total SFD for the September quarter last year up to the March quarter now, so we are talking nine months of data, that is up in original terms, 1.97 per cent compared to last year, which is still in line with our forecast of two per cent.

MR SMYTH: Fine. In 2012-13 growth is anticipated to be just half a per cent. Where will that growth occur, what segments will decline, and what are the implications for the budget?

Dr Swanepoel: The only component that will decrease is the real government consumption expenditure, public consumption. That is illustrated in a chart as well that shows the contributions. We still think household consumption will grow at a low to moderate rate. Investment will still grow at a moderate rate. But there will be a contraction in public consumption, and that is driving the moderation overall in SFD growth.

MR SMYTH: Thank you.

MS HUNTER: Mr Coe.

MR COE: Turning to budget paper 3, with regard to the tax reform measures and conveyancing duty, the budget in table 3.2.1 on page 46 has proposed conveyance duty rates for the next five years. Given that you have said that this is a 20-year plan, are you in a position to release what those rates will be for the next 15 years after this five-year period?

Mr Barr: No. What we will undertake to do is have a rolling five-year program. So we will be able to update a year ahead—or add an additional year, I should say, to this process in subsequent budgets—to give marketplace certainty of rates over that five-year period. The reason, of course, is that there are a number of other policy decisions that can and will need to be taken in the context of completing the tax reform project. I will be up front: I do not anticipate still being Treasurer in 20 years time when this process is complete. If I am and you are still sitting on the other side of the chamber, Mr Coe, I think we will both be in need of some assistance, but it is my view that we should keep a degree of certainty in the marketplace by way of a rolling five-year program.

MR COE: Given that it is unlikely that you will be here in 20 years time, wouldn't that be a better reason to actually stipulate, or at least give some certainty or some advice to the market, that this is what it is likely to be for the next five, 10, 15 and 20 years? We all know that people who are investing in property do so for the long term.

Mr Barr: That is why we have chosen a—

MR COE: And they are going to be doing it in more than five-year blocks.

Mr Barr: That is why we have chosen a five-year program initially; we will update that progressively through the course of coming years.

MR COE: What certainty can you give anybody in Canberra about what you have said, insofar as there will be no stamp duty in 10, 15 or 20 years time, if in effect you are refusing to go more than five years in advance?

Mr Barr: We have a democratic process every four years whereby people get to determine the government, the make-up of the Assembly for the ensuing period. We have indicated a long-term commitment to reform and have begun that process. It will be, obviously, up to the people of Canberra, in a few months time, to cast their verdict on their first part of this journey. Beyond that, of course, there will be subsequent elections. But the long-term commitment from the government, and the reform process that we have outlined, is to see a phase-out of conveyance duty over 20 years so as to ensure a smooth transition from the old inefficient system to a new, more efficient system.

MR COE: If you are going to make a statement such as that, which is also bullet point 2 on page 46, "phasing out Conveyance Duty over 20 years", surely you should be backing that up with something other than partial phase-outs for five years. That is really what the bullet point should be.

Mr Barr: No. We have committed to a long-term policy position. It would require a change of policy position for those circumstances to change. That ultimately, as you would be aware, will be determined by the government of the day over the ensuing years. The policy commitment that we have given is to institute this reform at this time on these time frames.

MR COE: Have you actually done the work for 20 years and are you just refusing to publish it?

Mr Barr: Sorry?

MR COE: Have you actually done the work for 20 years?

Mr Barr: I refer you to the Quinlan tax review.

MR COE: Has Treasury, separate from Mr Quinlan, actually done modelling?

Mr Barr: The Under Treasurer was on the panel, yes.

MR COE: So is that—

Mr Barr: I would refer you to the tax review. If you read the tax review—

MR SMYTH: So you have not done it? You have not done it yourself? ACT Treasury has not done it?

Mr Barr: Yes. The Under Treasurer was on the panel.

MR SMYTH: Yes; that is fine.

MR COE: It is quite separate from the department.

Mr Ahmed: If I could address the committee, Treasury was providing the secretariat services for the review. In effect, Treasury did that work.

MR COE: Why is there a government response to the review if Treasury did the review?

Mr Ahmed: Treasury provided the secretariat services to the review so Treasury did the work. I am just answering the question as to whether Treasury have done—

MR COE: If Treasury did the work, why is there a government response?

Mr Barr: Why is there a government response to—

MR COE: To the Quinlan tax review?

Mr Barr: Because there is a panel, and there is secretariat support for that panel, in the same way that secretariat support for virtually every review of this kind in the history of Australian politics is undertaken by a supporting department. The organisation that undertakes that secretariat support and the cabinet and elected government of the day are different. This is a pretty clear separation. I thought you would have understood—

MR COE: So why is it called an independent tax review?

Mr Barr: Sorry?

MR COE: Why is it called an independent tax review then?

Mr Barr: Because it was structured with a panel of three—a chair; the Under Treasurer; and a third party, an economic modeller, I understand, from the University of Canberra—to provide independent advice to the government of the day.

MR COE: With regard to the rates table, table 3.2.2, as they started out, the figures for properties up to $200,000 see very little change. Up to $100,000 there is no change. From $100,000 to $200,000 it has fallen by about 0.2 each year. How many properties are likely to be in that bracket in the next financial year and in five years time?

Mr Ahmed: Mr Coe, there would be very few property transactions in relative terms at the lowest bracket but it serves a purpose in setting out a marginal tax rate, and an effective tax rate, and that can be made progressive. But I can draw your attention to less than $100,000. By the way, that bracket has been abolished now, clearly for that reason; it has been combined and taken up to a $200,000 tax bracket. But looking at $100,000—your duty payable currently is $2,750. By 1 July 2016 it drops to $1,480, so there is a saving over this period. Even in the first year there is a $300 saving. But as you increase the property value the savings increase. It is not in dollar terms but in relative terms.

Mr Barr: I was just going to observe that for every property part of the value will fall within this element. It is how many are wholly contained below that threshold that I think was the intent of your question. We can get that figure for you but, given that these are progressive marginal rates, every property is under that threshold.

MR SMYTH: If you are getting the number of properties in that first category, can we have a breakdown of each of the properties in the seven categories, please?

Mr Barr: As in wholly contained within?

MR SMYTH: Yes.

Mr Barr: Okay. Yes, I imagine so.

MR SMYTH: And it will fall under 100, 100 to 200, 200 to 300?

Mr Barr: But you do understand that it is progressively?

MR SMYTH: I do understand marginal tax rates, yes.

Mr Barr: Yes, I think you do.

THE CHAIR: So that has been taken on notice?

Mr Barr: Yes; we are going to take it on notice.

THE CHAIR: Anything further on that?

MR COE: Please proceed.

THE CHAIR: Thank you. My question is in relation to whole-of-government staffing and saving initiatives. I have got a couple of references here. The first is in budget paper 4, page 587. There is also a reference to this in budget paper 3, pages 27 and 28. The reference in budget paper 4 indicates that total employees in the ACT government will rise from 18,020 in 2011-12 to 18,165 in 2012-2013. The reference in budget paper 3, page 28, states that the public service will reduce in size—I know this has been discussed already—by 180 FTEs in 2012-13. When you reconcile these numbers, it indicates that there will actually be an increase in public service staff by 325 staff in 2012-13. The reference in budget paper 3 states:

> … these savings will be achieved through normal staff turnover, reduced contractor expenditure and targeted redundancies.

Given that 325 staff will be added to the public service, I just want to get some clarification of why redundancies are being offered rather than staff being redeployed across directorates. And will this have any effect on front-line services?

Mr Barr: I think the first point to note is that a significant portion of the increase relates to Actew bringing staff back in. Those who were at their lunch last week will be aware that they are bringing back in house their water and sewerage component. That is, as we said, a reintegration of 342 FTEs. That and the growth funded in the health growth envelope account for the two largest components of increase in staff. In relation to the second part of your question around front-line services—no; they are protected. The 180 FTE saving occurs in administrative roles and through the cessation of some programs that you see in the savings initiatives as well as some policy changes in terms of how particular programs are delivered.

THE CHAIR: How many staff do you say Actew will bring back in?

Mr Barr: Actew will bring back in 342.

THE CHAIR: So that is basically, with the 180 again, 342 coming in. How are you getting the 325?

Mr Barr: It varies by directorates. The biggest increase is in health, which relates to the health funding envelope in large part, but then there are a range of other ons and offs in each directorate. In education, for example, the annual enrolment adjustment sees 50 additional teaching staff. There are transfers between directorates. For example, Territory and Municipal Services see an increase in staff because they now have responsibility for the National Arboretum.

THE CHAIR: So some staff are being redeployed?

Mr Barr: Exactly. There is movement of staff across directorates. There are some increases of staff associated with new initiatives, funded within this year’s budget and initiatives funded in previous years. There are a number of staff that are funded through commonwealth programs, either through national partnership funding or through particular commonwealth grants that are targeted in certain areas. Then this is offset by reductions in the number of SES staff across the ACT service, together with, as I say, the cessation of some programs and some administrative savings across agencies. As you see in the budget papers, the net impact is that there is a net increase in the size of the territory public service. But were we not to have made those administrative savings—not sought to reduce the total number of FTEs by our savings initiatives—the total increase in the service would have been even larger.

THE CHAIR: I understand.

MR SMYTH: Sorry—just on that increase, there is an increase of about 325, isn’t there?

THE CHAIR: Yes.

Mr Barr: Are you including or excluding the ones that have been brought in house by Actew?

MR SMYTH: No, not including Actew. If you are losing 180 jobs, as page 28 of BP3 says, and the total on 587 on BP4 is an extra 145, excluding government business, Actew et cetera—if you are losing 180 and it is going up, there is a net increase of 145, so that is an extra 325 new jobs.

Mr Barr: Yes, across all of the new initiatives—and the commonwealth funded programs and the capital works, positions applied to capital projects. Yes, that is right.

THE CHAIR: I have a further question. Contractor expenses are normally recorded as suppliers of services in directorate budget operating statements and in directorate financial statements, not billed against salaries and wages. I am wondering if you could explain how reducing contractor expenses increases savings in employee expenses.

Mr Bulless: The actual concept is that there are two separate savings there. One is if we were to engage a firm to do work for the ACT government. There is a cost there, which is supplying a service. The territory actually reducing staff through voluntary redundancies or natural attrition is making a direct cost reduction in employee expenses across the various elements of those expense lines such as direct salaries and wages, superannuation and other on-costs, such as those related to administration. So they are two separate concepts, but they still contribute to the savings effort.

Mr Barr: I think it would perhaps also be worth observing that through the life cycle of your average ACT public servant, when they exit the service they tend to be on a significantly higher salary than when they come in. So there are two impacts, two things you need to look at—not just the FTE count, but also the average salary level of staff. So the two—

THE CHAIR: I understand. There are things that go along with that. I just wanted to get some explanation about whether you were including the contractor expenses and how that then translates to increases.

Mr Barr: And fewer SES staff; clearly there are more significant savings for the average SES salary than for a non-executive staff salary.

THE CHAIR: Yes, great.

MR SMYTH: Just on the staff and their costs, the expenditure is on page 98 of BP3. Employee expenses go up six per cent or about $80 million. Why is that? What is the breakdown of the $80 million?

Mr Barr: It is a combination of the EBAs and staffing numbers.

MR SMYTH: Yes, and the EBAs are averaging what, about 3½?

Mr Barr: Some more. General service, yes. But some of the specialist areas—teachers for example—significantly more. Health.

MR SMYTH: Right. So how many contractors are converting to full-time staff?

Mr Bulless: From my recollection, Mr Smyth, about 230 in Health have moved from a contract basis to permanent.

MR SMYTH: And is that included in the numbers that we talked about previously, the extra 325?

Mr Bulless: Yes, in that reconciliation between budget 2011-12 and budget 2012-13 staff numbers, part of that increase in Health relates to the conversion to permanent staff.

MR SMYTH: So of the extra 325, how many are conversions and how many will be new employments?

Mr Bulless: We would have to take that on notice and get an accurate response to that one. Off the top of my head, though, broadly the increase, budget to budget, was about 1,040. That is in terms of FTEs reported in budget paper 4. Of that 1,040, about 250 were related to staff funded through the 2012-13 budget. A component of that was offset through the savings, about 180. 340 came from Actew moving the water business in-house. 230 of those related to Health staff moving from an agency basis to permanent.

Across the rest of the public service, the residual component of that was a combination of staff moving to permanent positions, new initiatives and differences in the way the numbers were counted in the last budget compared to this budget. Usually there is a seasonal effect in terms of education and CIT.

It depends at what point in time you want the estimate of staff on salary being paid by the government. There were some corrections to estimates from this budget to last budget across a couple of directorates as well, which accounted for some of that increase. As the Treasurer indicated, there is a range of positions funded through the capital works program, and also national partnerships, which have been picked up in that 1,040.

MR SMYTH: All right, but you will give us that breakdown?

Mr Bulless: We can give you a breakdown.

THE CHAIR: So that’s been taken on notice?

MR SMYTH: Yes.

THE CHAIR: Okay. Thank you.

MR SMYTH: But if we then go to the next year, 2013-14, the growth in employee expenses is only about two per cent. How could it grow six per cent for the coming financial year, but the year after it only grows two per cent?

Mr Barr: That would be a combination of factors again, including the reduction in some expense lines through the savings indicated in this budget and in previous budgets and the exclusion of some of the one-off factors, in terms of bringing staff in. I think the final element would be the second year of EBAs. I think there were some EBAs that had, certainly on the education side, a big first year jump. In the case of teachers it was to catch up to what was seen to be the New South Wales salary position, but then you did not have a jump of that significance in the second year, because you had parity. You were then maintaining with where New South Wales were.

In the context of teachers—although this is a fairly significant part of the budget overall—it would depend on where in the salary progression they stood. But deputy principals had a 16 per cent pay increase, for example. Some at the top of the classroom scale were seven or eight per cent in the first year, but then that returned to more normal levels of salary growth that are around three and a half, from memory.

MR SMYTH: Could you provide the committee with a timing of the EBAs and a percentage increase each year?

Mr Barr: They are all publicly available.

MR SMYTH: That is okay, but can you provide it anyway?

Mr Barr: Can we do the legwork for you?

MR SMYTH: Yes, that is good.

Mr Barr: I am sure that through the industrial relations minister you could, and the relevant portfolio minister—

MR SMYTH: So you, as Treasurer, cannot provide that, even though you take it into account when you do this?

Mr Barr: All right. For the sake of compiling all of the information and saving you asking all of my other colleagues, I will do that administrative work for you.

MR SMYTH: That is very kind, minister. But if we then go to the next year, the next year the employee expenses—

THE CHAIR: Actually, is this in relation to—

MR SMYTH: Yes, it is all supplementary to your question.

THE CHAIR: Okay.

MR SMYTH: Employee expenses then go up 3.4 per cent and the following year they go up 2.8 per cent. Could we have a breakdown of the elements that give it over the next three years as to why it varies so much? Your WPI factor for each of these years is 3½.

Mr Barr: Certainly, yes. You would have seen wage policies written into previous budgets. EBAs have different outcomes with different expiry dates, yes.

MR SMYTH: Okay. It is just that it varies so much.

THE CHAIR: Sorry, what was that, Mr Smyth?

MR SMYTH: The minister is going to provide a breakdown of why the employee expenses go up about two per cent in 2013-14, about 3.4 per cent in 2014-15 and 2.8 per cent in 2015-16.

THE CHAIR: That has been taken on notice. Ms Hunter, a question?

MS HUNTER: Yes, thank you. I wanted to go to budget paper 4, page 154. It is to do with CTP. It is the fourth dot point and it is about consolidating reforms in the CTP scheme. I wanted to ask about those reforms, those consolidating reforms. I am wondering whether it is referring to the 2008 reforms rather than the ones that recently were attempted to get through and it did not happen. Is that what that is referring to?

MR SMYTH: They have not brought the bill on.

Ms Smithies: Sorry, what was that, Mr Smyth? Yes, that is right. There is still—

Mr Barr: You never know your luck in a medium sized city, Brendan.

MR SMYTH: That is right.

Mr Barr: Sorry.

Ms Smithies: Sorry, do you want me to—

Mr Barr: Yes.

Ms Smithies: Yes. There is still work that we can do under the 2008 reforms in relation to guidance and guidelines in terms of how claims are handled et cetera and building on our database and our understanding of claims in relation to the information that we now keep as a regulator. There are potentially other parts of the legislation that we may well need to have a look at over time. This is really to do with cleaning up the legislation from when it was first brought in and then reformed in 2008. We will have to have a look at that over the coming year. Yes, I think I will stop there.

MS HUNTER: On page 149 there is a list of priorities for 2012-13. The third dot point from the bottom talks about the national injury insurance scheme.

Ms Smithies: Yes.

MS HUNTER: Could you tell us what is happening with this?

Ms Smithies: Yes, I might ask Mr McDonald to come up.

Mr McDonald: Thank you, Ms Hunter. We had a federal-state meeting in Sydney on Thursday of last week, which was the costings workshop. The position is that we are moving forward under the auspices of the state finance ministers conference and the outlying work that goes with that through the heads of treasury.

The position in the ACT is that we have only just received our initial actuarial review of potential costs of what participating in the scheme would be. Those costs are relatively okay in terms of the preliminary look in relation to cost of injury per year, that kind of thing. As a matter of fact, compared with the Productivity Commission's model, if you put the New South Wales model as a comparator with that there is only, by our actuary's calculation, $2 difference in what would be effectively a premium levy to cover that cost.

Those costs are not insignificant but you must consider that with a catastrophically injured person the cost of providing reasonable and appropriate care per year is not insignificant. Our work continues there. The next step that we are going to take is that I will be briefing my minister as to the outcomes of that conference and we start to firm up a position that we want to present to the minister for referral to his federal and state colleagues.

MS HUNTER: Still on CTP, while I have got Mr McDonald here, on page 157 there is a reduction in CTP administrator funding. Page 164 describes what appears to be the same $125,000 as a return of funding for the administration of the CTPI levy. Is this because the proposed changes have not gone through?

Mr McDonald: No.

MS HUNTER: What is going on? Can you explain it?

Mr McDonald: There was a rollover of funding out of a previous allocation. The funding regime has now changed from an appropriation to the regulator's CTP account, if I can use that term. So there was what actuaries call snip and drag in between the previous year and the current year in terms of the funds that we have available. They were committed for expenditure, for example.

It looked like we had quite a lot of money but we were still waiting on final numbers from Queensland with respect to the cost of the personal injury register, which is an IT system that contains all of the claims and data information pertaining to claims that insurers collect. We now have access to all of that information.

MS HUNTER: Australia-wide or for the ACT?

Mr McDonald: No, for the ACT. It is a system that is hosted by our colleagues in Queensland Treasury but we have what is known as a clone of the IT system, which is used in the ACT. We are just actually getting ourselves properly geared up with that because it took the insurer some time to populate it with the data that we needed from 2008 up.

The second piece of expenditure we had was about $90,000 that we contributed towards the share the road campaign. That was a television and radio campaign put out by our colleagues in the Office of Regulatory Services. We paid for what is known as an animatic, which was the animated storyboard for that particular advertisement. That is part of the strategic partnership that I have formed with Justice and with the AFP, consistent with what other CTP administrators have done throughout the country.

MR SMYTH: I was comparing some charts on budget paper 3, page 46 and 76. On page 76 there is the line for conveyances for the current year, the coming year and the three outyears. What is the breakdown as a percentage of the rates collected by commercial properties and residential properties?

Ms Smithies: Sorry, Mr Smyth, what pages?

Mr Barr: Pages 46 and 76.

MR SMYTH: On page 76 of budget paper 3 you have got the line for conveyances in your taxation table 5.1.3. What is the split in collection between commercial properties and residential—and, indeed, rural? If you have to take it on notice, that is fine.

Ms Smithies: We will have to take that one on notice.

MR SMYTH: Yes, can we have it for the current year to 2011-12 and then for the four years covered by the budget?

Ms Smithies: Yes.

MR SMYTH: Okay. Back to pages 46 and 47, in this progressive new rate system, minister, how is bracket creep taken into account over the next five years in terms of the increase in property values?

Mr Barr: It will require adjustments to thresholds, to all rates from time to time, to maintain revenue neutrality.

MR SMYTH: How would they be determined and when will they appear?

Mr Barr: In the budget process each year.

MR SMYTH: What is the average growth of the value of a property currently in the ACT? We use long-term averages?

Mr Barr: It is a rolling three-year average for calculation, yes.

MR SMYTH: Okay, and what is the growth factor currently put into these equations?

Mr Ahmed: In essence, as far as general rates are concerned, it does not matter what growth rate you put in, because rates are capped by WPI. So whatever the land values are, the rating factor is determined by an escalation of the envelope of the general rates by wage price index for the December preceding. Then the rating factor is determined. So, really, you do not need to forecast or incorporate a growth factor of land into the revenue forecast.

MR SMYTH: If the system is designed to capture the increase in the value of land but it is capped at WPI, how do you capture the increase in the value of the land?

Mr Barr: It varies the distribution of the total rates base between areas of the city. In fact in recent times we have seen some decreases in some parts of the city where the land values have gone down. Often in areas that had previously had very high land values, we have seen those have come down a little. I think the *Canberra Times* reports very frequently on these matters, often with a degree of outrage at the variances in land values.

MR COE: Would you please give more information about the role that WPI plays? Can you please expand on that?

Mr Ahmed: Yes, certainly. Rates are escalated by wage price index every year. The wage price index that is used is not forward looking and it is not prospective; it is backward looking and is the actual wage-price index to the December preceding the budget. So for the 2012-13 budget we have used the wage price index to December 2011. That was a conversation that we had earlier. That wage price index gets used in escalating the overall rates envelope. That is the revenue target, plus growth for new property. So it is the revenue target from the current system plus growth for new property—and that is how the rating factors are determined.

You could have circumstances where the land values have gone up across the whole city but they might have gone up at different rates. That is what the Treasurer was referring to. They might have gone up at differing rates and you could end up in circumstances where rates for some suburbs actually decrease relative to the previous time.

MR SMYTH: If you go back to the chart on page 76, the growth for 2013-14 over 2012-13 in terms of rates is about $30 million—call it 10 per cent—growth. So if WPI accounts for 3½, are you saying that the other 6½ will come from growth in the size of the number of properties?

Mr Ahmed: No, not at all. I think you need to look at the general rates forecast in the context of what revenue is being replaced here as well. General rates are picking up the commercial land tax as well. There is a table, and it should be in budget paper No 3 as well. I think it is in there too.

MR SMYTH: So the three components are the increase in WI, growth in the number of properties, plus the transfer of taxes across—

Mr Ahmed: For the tax reform, yes.

MR SMYTH: Could we have a breakdown of those three components? I know there is a chart.

Mr Ahmed: This is in this document, the five-year plan. If you go to page 12, it gives you the revenue forgone. The first line is duty on general insurance, duty on life insurance, conveyance duty, and it gives you a break-up of residential and commercial factors.

Mr Barr: It is on page 54 of BP 3.

Mr Ahmed: It is in budget paper No 3 as well. I think the largest line is the commercial land tax, which is about $54½ million, going to close to $61 million. All of that gets transferred over to general rates.

MR SMYTH: You have got the increase. What is the number of properties expected to increase over these years as well? That gives you part of the picture. When you split it down into commercial and into residential, can you then put in a line that tells us how many new properties you expect and what the collection from those new properties is expected to be?

Mr Ahmed: The collection on average will be the same as any other property on average.

MR SMYTH: Numeric value, though?

Mr Ahmed: Yes. I do not have the exact figures with me but the growth rate will be in the order of about one per cent.

MR SMYTH: If, from your calculations, you could tell us what that is, that would be good.

Mr Ahmed: Yes, we can certainly give you that.

THE CHAIR: So that is on notice.

Mr Ahmed: The property growth, yes.

MR COE: In any given year how many properties might receive a decrease in their land value?

Mr Barr: In any given year?

MR COE: Yes.

Mr Barr: So excluding the changes to the marginal tax rates?

MR COE: The land value.

Mr Barr: Okay. I wanted to clarify that because the policy changes contained within the budget in fact deliver a quarter of all properties a reduction in their rates.

MR COE: Yes, but that is separate to the land value.

Mr Barr: We would need to go back and have a look at that data. The *Canberra Times* reports on it every year, so you could do a parliamentary library search and they would be able to—

Mr Ahmed: Land values have been generally increasing over the past few years.

With respect to the actual decrease in land value, I do not think we have ever forecast a decrease in land value. No, we do not. The land values that are used for setting rating factors for the coming year are, again, values to year, and they are finalised before the budget, in around March. Again it is not a forecast for the next year; it is the actual land value as at before the budget. So I am not sure whether we can actually tell you—

Mr Barr: You want any examples of where land values have fallen; that is what you are asking for?

MR COE: That is right.

Mr Barr: I am sure we can find some.

Mr Ahmed: We can certainly find some and give you some examples.

MR COE: So how many—

THE CHAIR: That is taken on notice?

Mr Barr: Yes.

MR COE: How many parcels of land are assessed for rates or land tax at present?

Mr Barr: The total number of properties? Does someone have that figure off the top of their head?

Mr Ahmed: The number of dwellings is in the order of about 140,000. That is a rough estimate, but we can give you a more precise number.

MR COE: Would you please take on notice the total number of residential dwellings and the total number of commercial dwellings that pay rates.

THE CHAIR: That is taken on notice as well.

Mr Barr: For the purposes of undertaking this work, which date would you like us to use? Obviously the second you give that date, there will be more that will come online.

MR COE: You just said it is retrospective; you said you did it in March.

Mr Barr: Okay, for the purposes of calculation of this year's budget?

MR COE: Yes.

Mr Barr: That is easy. Thank you.

MR COE: Of that, it would be handy if you could say how many of those have had a decrease in their—

Mr Barr: As a result of a land valuation decrease?

MR COE: Land valuation. And—

Ms Smithies: In the last year or—

MR COE: Yes, in the last year.

Ms Smithies: as a rolling three-year—

Mr Barr: It is a rolling three-year average.

MR COE: Okay, rolling three years.

Mr Ahmed: Can I answer the question that we were just discussing? I do have the information. For residential, it is 141,653.

MR COE: As of when?

Mr Ahmed: As at May. For commercial, it is 5,722, again as at May.

MR COE: Okay, thank you.

MR SMYTH: And rural? If you have got those figures, how many rural properties are there?

Mr Ahmed: I think I do have rural—174. Can I clarify the question around the decrease in land value? Are we talking about decrease in average unimproved value or are we talking about decrease in unimproved value for the current year, for this estimates period?

MR COE: Sorry, it is not intended to be a curly question.

Mr Ahmed: I know, Mr Coe; I am just trying to clarify—

Ms Smithies: No, I think we are just seeking clarification.

MR COE: I am quite happy with whatever is easiest for you to produce.

Mr Ahmed: Sure.

MR COE: We are looking for a ballpark figure here.

Mr Ahmed: Sure. I am just trying to ascertain what is the best way of answering your question that gives you the information you need, and to assist the committee, without appearing to be unhelpful.

MR COE: No, it is all right.

THE CHAIR: You are being very helpful.

MR COE: I do not know the parameters of your database and what you can search within. In effect, the output that I am seeking to see is five or six per cent of Canberra properties roughly receive a decrease in any given year.

Mr Barr: Sure; understood.

MR COE: That is the sort of outcome I am looking at. So if you are able to work out what input is required, that would be handy.

Mr Barr: That can be done.

THE CHAIR: Anything further on that, Mr Coe?

MR COE: Many more, yes.

THE CHAIR: There will be other questions.

MR COE: Sure. On this issue of land valuations, I have an example whereby, for a house in Page, over the last three years they have seen an increase of roughly 11 per cent each year. So if that 11 per cent continues, and that is on UIV or AUV, using the old formula for 2012-13, the house would be paying $1,585. Under the new formula I believe it will be $2,029. In three years time, if that goes up at 11 per cent, under the old formula it would have been $1,800; in 2014-15 it would be $2,585. So in three years time the difference between the old formula and the new formula would have been $700, from $1,800 up to $2,500. Does that sound right to you?

Mr Ahmed: I am not sure, Mr Coe, where those figures are coming from and how they have been calculated. There is information, suburb by suburb, on average and median land value—that is included in these documents. But we have not actually forecast individual rates for the year after. So I am not sure where that information is coming from.

MR COE: So how would you forecast what rates will be in three years time? How could somebody who is doing a household budget say, "I'd like to know what I'm going to be paying in three or four years time?" How would they be able to work that out?

Mr Barr: Firstly, there is the rolling three-year average, so large fluctuations in land value, or in average unimproved value, are smoothed out over that period. There is the WPI cap on the total rates, plus the revenue replacement that comes from reductions in other taxes. So the household you are talking about will be paying less insurance tax, if they have insurance, and—

MR COE: I am just looking at the rates here.

Mr Barr: In that case the only changes to rates are WPI component, plus the revenue replacement component. The revenue replacement component simply is taxes collected in a different means. So the household will be paying less on one tax line and slightly more on another. It is because the total tax take is revenue neutral. So there is no change in the overall tax take, but depending on the circumstances of individual households—that is, the level of insurance and other taxes they are currently paying, versus the circumstances they are in on their individual block—you would then need to do an equation between the two. So less insurance tax: if they have got motor vehicle, home contents, building insurance, over time take 10 per cent off that. But the revenue substitution is through the rates base.

MR COE: But in terms of this individual household, in working out what their rates will be in two, three or four years time, is the only variable which is unknown going to be the UIV or the AUV?

Mr Ahmed: No, and that is the case now as well. That is not the only variable. There are a number of other variables that determine what rates a household or a dwelling will be liable for in the coming year and in the year after—they change due to property value or the land value, and not only its own land value but the change in land value of that dwelling, or the average for that suburb, relative to others.

So the rates for a dwelling, an example dwelling, could be determined by how fast or slow the land values in another suburb have changed, and that is the case now. So if you are talking about what is the predictability at this time, those factors play out now as well—how land values move in other suburbs, how WPI could move. This year we are picking up a wage price index of 2.9 per cent, rather than what would be typically 3½ to four per cent. And it could go higher in the coming year. So all of those factors play out in determining what will be the rate for a particular dwelling. Of course, under the new system, there is the value of the land under the dwelling as well, because it is a progressive system.

Looking at next year, if it is helpful, Mr Coe, around a quarter of the dwellings would have a decrease in rates, even with the revenue replacement in place. So with the rate that they would have seen, they would see less rates payable, and that spreads across the territory. It would depend on the dwelling value, but roughly until about $200,000 of land value, the rate would drop.

MR SMYTH: How does the revenue replacement component get applied to each of the residential properties? Is it just that everybody pays an equal amount or is it proportionate?

Mr Ahmed: No, it is on a progressive basis, and that is what I was just mentioning. We have a total amount of revenue replacement that will be distributed on the rate system. The rate system itself is being made progressive with tax brackets and increasing marginal tax rates. That is how the lower end, up to about $200,000 of AUV, will see a decrease in their rates, even though there is a revenue replacement going on.

Mr Barr: The other point to make is to look at the tax line that is being abolished and who benefits from that in a distributive sense. It is not going to shock anyone on the committee that those who have the highest incomes both have (a) the highest propensity to insure, nearly 100 per cent, and (b) a larger number of household contents, motor vehicles and a larger building to insure. So the biggest beneficiaries of the cut in insurance tax skews to the top end.

MR SMYTH: What percentage of households have insurance, personal insurance?

Mr Barr: By income quintile, that is outlined. It goes from about two-thirds in the bottom income quintile to effectively 100 per cent in the top income quintile. But the other point there is not just level of coverage but how much insurance. Certainly the experience after the bushfires in 2003 was that there were a lot of people who were under-insured as well. That is one of the reasons why insurance taxes are so inefficient and are in fact a barrier to people getting appropriate levels of insurance. That is why the abolition of such taxes is so strongly supported by economists and by those in the insurance industry, because it is distorting the marketplace.

Mr Ahmed: The information is on page 35.

THE CHAIR: I have a question in relation to the risks that have been outlined to the budget, and that is on page 35 of BP3. This is something we have previously asked about. Looking at the risks that are outlined there, they are relatively what you would classify as short-term risks to the budget. I am interested to know what work, if any, Treasury has done in looking at longer terms risks to the budget. That is in relation to a whole lot of things—not just financial but things like climate change, energy generation and also healthcare costs. There is infinite growth in that budget. Is that something that Treasury does—looking across the longer term at what the risks might be?

Mr Ahmed: I will start with the most practical one: health. We do look at the longer term fiscal projections and pressures that come through. Health is perhaps the most significant one in a practical sustainability of service delivery sense. I think all jurisdictions in some senses do that modelling. There is no surprise there. Health costs have been growing at about eight per cent per annum over the last decade. There is very little indication that it will ease off. Health inflation typically runs higher than the normal CPI, and growth in demand runs higher than the normal demographic change.

THE CHAIR: With respect to the major risks which are outlined here, and I appreciate that you are looking at this year's budget, where does that get articulated or how does that get factored into what you are actually outlining as the major risks? What we see here, as I said, are the fairly short-term things. How does that actually get articulated in what you are doing?

Mr Ahmed: That has been incorporated into the forward estimates. I think the ACT is one of the very few jurisdictions, to my knowledge, and perhaps the only one—there might be one other.

MS HUNTER: As you said, that is on the health side. I am wondering about climate change and the transport infrastructure needs of the future—those other areas.

Ms Smithies: A lot of the statement of risks really is, as you have suggested, around the budget and the forward estimates period which is appropriate to the setting of the budget documentation itself. When it comes to issues around transport and climate change, the work that we do—and I think we have touched on this—is in relation to working with other agencies who have policy responsibility for the carriage of these particular policies and working with them in relation to the modelling that they do in relation to the policies that are the policy responses to longer term risks. So it is more project or program-style work that we do in that case.

Mr Ahmed: With respect to health, the same treatment would apply to public transport as well. Health growth has been incorporated into the budget and forward estimates. That statement is about risks. Public transport is a policy choice.

THE CHAIR: But there are risks associated with it. I appreciate you said that, with health, it is there in the forward estimates. There is a risk in terms of the fact that it is something that does keep growing. Ms Smithies, you talked about more program or policy-related responses. Given that we do see continued growth, and even with public transport there are economic risks that have been outlined by not pursuing particular policies or programs, how does that get factored into how the budget is developed and how it grows each year, given that those are risks? When you see how funding might be allocated, it is not apparent that those risks are actually being accounted for.

Mr Ahmed: They are. They are part and parcel of any budget consideration. What you have here is almost an identification of potential shocks to the system. What we are talking about in health, education or public transport are policy choices that are made short term and long term, on a long-term basis as well, in every budget. And they are made relative to each other, depending upon the fiscal objectives and priorities that the government has.

Ms Smithies: In one sense these are things that sit outside the forward estimates. The financial planning for the government really does have an emphasis on returning surpluses. We accept that short-term deficits are a reasonable way of managing for particular times, and our legislation does that as well. It says that overall there needs to be a plan to return to surplus and that surplus is a really long-term goal. I guess there is the identification of a surplus and what goes with that.

The tax work was another part of longer term planning. It was really to say that we need to be less reliant on volatile sources of income in order to have an ongoing stable revenue base to underpin the territory's finances moving forward. A stable revenue base with surpluses actually provides fiscal capacity in relation to changes to do with transport or climate change or service delivery changes that will come through the policy considerations of government and through annual processes as well.

MS HUNTER: Page 220 of budget paper 3 talks about project savings. The first one is the government office building. That is put down as a saving of $306 million. I understand that there was money reallocated to the Health Directorate to fund capital works programs. So on that basis should it be put down as a saving or should it be put down as capital works re-profiling?

Mr Barr: You are perhaps confusing a determination for future unallocated capital works. It was in last year's budget, so in that context there does need to be an accounting for changes from year to year. But the bulk of the project fell outside the four-year estimates period last year. You will see in the capital outlay for Health new allocations in this budget. Ultimately, of course, there will be a further allocation depending on the final financing model for the north side hospital.

MR HARGREAVES: So you are saying this is not necessarily a hypothecation of one saving into a given expenditure?

Mr Barr: I think the issue is what falls inside and outside budget estimates periods and what is signalling of an intent in terms of the opportunity cost of capital between one project and another. Then there is the context of the total government capital program. Some projects lend themselves more to alternative forms of financing. Perhaps at the top end of that scale, which I am sure we will talk about at some point over the next fortnight, it will relate to transport infrastructure and the debate over VRT and LRT. Neither model would be financed straight off the budget. Having regard to the size of it, we would need to look at alternative financing models.

So the context of the delivery of that major piece of health infrastructure needs to be seen in that light—that there are a number of different financing models which may involve elements of budget funding and elements of public-private partnership, for example. There is a whole range of things to be considered. The project is not at a point yet to go into the budget papers in that way.

MS HUNTER: There are a number of unallocated capital provisions into those forward estimates. Can you provide us with any more information on those other than that there might be a certain election coming up?

MR SMYTH: Slush funds.

THE CHAIR: Nothing on that?

Mr Barr: Certainly, we have signalled some broad directions in relation to the Gungahlin to Civic transit corridor. We are beginning a five-year upgrade of Manuka oval. There is also some work underway in relation to new convention facilities and examining that precinct around Parkes Way on either side of Commonwealth Avenue, stretching from along the Constitution Avenue upgrade area and the existing Civic swimming pool site all the way down to West Basin. So there are a number of areas where there is a desire for further infrastructure investment, but I imagine each of them will involve elements of private sector investment and possibly even commonwealth government investment as well.

MS HUNTER: On page 74 of budget paper 3 it refers to commonwealth grants. The forecast for commonwealth grants revenue drops in the 2012-13 year, and that is largely, as we know, because of money being brought forward to ensure they have a surplus. However, in the outyears, commonwealth payments seem to increase significantly. Is that because of the Majura Parkway? Is that the main reason?

Mr Barr: It is a component, yes.

THE CHAIR: So that was answered?

Mr Barr: Yes.

MR SMYTH: Can we go back to the chart on page 35. I do appreciate we have been told about the breakdown, but what I actually asked was about the number of households, not the percentage of households. Is it possible to get the number that fall into each of those quintiles?

Mr Ahmed: Yes. It would be 141,000 divided by five, but we can give you those numbers.

MR SMYTH: They will not be an even split, though, will they?

Mr Ahmed: These are income quintiles, so they have to be equal in number. The consumption of land might be—

Mr Barr: You have 141,000 households evenly divided into five different sections, yes.

MR SMYTH: My apologies. Just to close, there is a small typo on page 31. The third-last paragraph says, "The net operating balance in 2012-13 is $318.3 million." Should that be "minus" perhaps?

Ms Smithies: What paragraph was that?

MR SMYTH: Page 31, budget paper 3, the third-last paragraph. Apparently the net operating balance for the coming year is $318 million in positive. So either we have had a miraculous $600 million turnaround since the publication or perhaps there is a small typo there.

Ms Smithies: Yes, it should say that the net operating deficit in 2012-13 is $318.3 million.

THE CHAIR: We will now break for morning tea.

Meeting adjourned from 10.29 to 10.48 am.

THE CHAIR: We will resume and my first question is in relation to supplies and services in budget paper 4 on page 159. It is contract C209196 between the territory and Citigroup Global Markets Australia. I think it is for $500,000 for a transition manager. I think the contract is from 17 June 2010 to 16 June 2015.

MR SMYTH: Sorry; what page are we at?

THE CHAIR: Supplies and services is the reference, but the contract obviously is not on that page. That was from the contracts register.

Ms Smithies: What is it for, Ms Bresnan?

THE CHAIR: It is between the ACT and Citigroup Global Markets Australia. It is $500,000 for a transition manager. The contract is for provision of transition management services to achieve an efficient transition of assets. Does that sound familiar?

Ms Smithies: It may well be our superannuation or an investment in our investment side. That is due to come on after lunch, and we will have Pat McAuliffe here, if that is what it is. Sorry; it is just not ringing any bells with me. It may well be our financial assets for the territory banking account or superannuation.

THE CHAIR: It is the assets, yes. It is efficient transition of assets from existing investment strategy to new investment strategy.

Ms Smithies: Yes.

Mr Barr: Sounds like that, so we will come back to it after lunch.

THE CHAIR: Okay. Ms Hunter.

MS HUNTER: In budget paper 4, page 155, there is a mention of reviews of government programs and functions. I want to understand how many of these would be done and how you identify where reviews need to be done.

Ms Smithies: One of our measures is that we do one policy and service area review a year, which is a major piece of policy work, and that will really be dictated by what the government's needs are for the year.

Mr Ahmed: For the current year, the year that is just ending, we would count the taxation review as it. For the coming year, it would be determined by the requirements of the government, what it will want to focus on. But generally they will be in the nature of either a program review or an expenditure review of some sort.

MS HUNTER: So in this coming year it has not been determined?

Mr Ahmed: Not at this stage.

Ms Smithies: There is a major review, but there are also a number of reviews that get done as the normal course of Treasury across both Neil's branch, so the financial and budget management branch, and PCD, and some of that will relate to the work that happens to support EREC and the EREC reviews, but others just relate to normal course reviews such as the work that Neil's team did this year with the CIT, UC and the financial analysis and advice that they dealt with in relation to that. So, yes, we have not yet settled our forward program.

Mr Ahmed: And the scale can vary, of course, as the Under Treasurer has said.

MS HUNTER: Okay. I wanted to look at the seamless national economy in budget paper 4, page 154—so we are still in the same area—and also on page 164. The COAG Reform Council report from December listed a number of particular concerns for projects that are part of the agreement. I will come to those in a minute to see how we are going on them. On page 164 of budget paper 4 there is a nearly $3 million saving from a seamless national economy partnership and then page 157 says that $1 million has been moved into this year. Can we get an explanation of that?

Mr Bulless: That is just a re-profiling of the funding provided to the territory from the commonwealth. On page 157 you will see about halfway down under "budget technical adjustments" the $3 million which is being rolled from the current year into the two outyears, the next budget and the first forward year. So it is just a re-profiling.

MS HUNTER: Okay. Going back to those areas of reform that were mentioned in the COAG report—national trade licensing system, a nationally consistent approach to the imposition of personal criminal liability on company directors, national regulation of the legal profession and better regulation of chemicals and plastics—are there any progress reports on how they are going?

Ms Smithies: I might ask Karen or Brett if they can give an update. I can just say that our involvement in each of these varies depending on what type of a reform it is et cetera as well. There are about 27 reform areas of which you have probably only identified a small number. We have been working across a number of these.

Mr Wilesmith: In terms of the particular reforms you have referred to, one was trade licensing. The ACT government has raised concerns with the costs and benefits coming out of those reforms and has reserved its position on implementation of that reform.

We are currently involved, through a steering committee process there, in preparing regulatory impact statements for consultation with industry and the public on that. So we are just continuing to work on those RISs and finalisation of legislation; they are for both ourselves and other agencies such as Environment and Sustainable Development and Justice and Community Services.

MS HUNTER: Okay; the one around the nationally consistent approach to the imposition of personal criminal liability on company directors?

Mr Wilesmith: Directors' liability: again, cost concerns have been raised there with Minister Corbell. Our position on implementation of that is subject to further consideration of those reforms.

MS HUNTER: And regulation of the legal profession, I assume, would sit with Minister Corbell. Do you know where we are up to with that?

Mr Wilesmith: No. I am not immediately aware of the full status of that reform.

MS HUNTER: Do you have any update on the better regulation of chemicals and plastics?

Mr Wilesmith: That is proceeding through the standing committee on chemicals. I would probably best refer you to the Environment and Sustainable Development Directorate to answer questions on that reform.

MR SMYTH: Just going back to the table on page 29 of the detailed booklet on the tax reform package, it has the chart that shows the increase by suburb of the rates. That is an average increase across both houses and units. Is it possible to get a breakdown suburb by suburb—how many homes there are in each suburb and then what number are units and what number are homes?

Mr Barr: How would you want that defined? What delineates a unit from a—

MR SMYTH: How do you define it?

Mr Barr: I understand that there are a number of different forms of title.

MR SMYTH: Yes.

Mr Barr: How we are defining it in terms of this explanation obviously relates to the AUV. But if you were to say single dwelling, detached, that would probably be one end of the spectrum and then obviously you have got multi-unit at the other. But then in between you would have—

MS HUNTER: Semi-detached.

Mr Barr: Yes, semi-detached.

MR SMYTH: How do you define it? Do you record it in the—

Mr Ahmed: This analysis is based on unimproved value of the dwelling and the dwelling unit. So it does not matter for this analysis whether it is—

MR SMYTH: This analysis is by home. Let us call it "home".

Mr Ahmed: By dwelling, yes.

MR SMYTH: By dwelling; all right. Is it possible to have that breakdown—by whatever breakdowns you do; I do not want you to go to any work other than what you have already done. In a standard single residential dwelling on its own lease they pay the $555 for residential purposes. In a multi-unit complex do each of the units pay the $555—

Mr Ahmed: The fixed charge is a fixed charge.

MR SMYTH: Yes, fixed charge, per dwelling?

Mr Ahmed: It is on every dwelling; that is right.

MR SMYTH: How is the AUV determined then and how is that distributed?

Mr Ahmed: I am just using an example here. Let us say there is a block of land on which there are 15 units, or whatever the number, and they might be of differing sizes. The value of the land, of the block, is determined through the annual variation process. The AUV is determined pretty much the same way as normal and then it is allocated to individual units based on the floor area, so it is a proportion of the total value of the block of land on which those dwellings would sit. If there were two, it would be proportioned to two.

MR COE: In terms of the valuation process, how is that done for land valuations?

Mr Ahmed: This is done by the Australian Valuation Office, under a contract with the ACT Revenue Office. The ACT commissioner for revenue is basically responsible for that. It is done annually and new values are brought in every year across all the suburbs and the last, previous, year is dropped to determine a rolling average.

MR COE: So how big would be the sample sizing in any given suburb?

Mr Ahmed: It is done across all suburbs.

MR COE: Yes, but what is the sample size in any given suburb? Presumably they are actually going out and visiting blocks, choosing seven or eight blocks in each suburb and therefore developing some figures based on that sample?

Mr Ahmed: My understanding—and this is again how the professional work happens—is that their database has got all the dwellings. I do not know what methods valuers would use, but when the annual rates notices go out they go out for each individual block, so the valuations are done for each individual block.

MR COE: I understand that, but surely we are not getting 140,000 valuations uniquely done. Surely it is more likely that they are going out and doing a sample and then each place in that area, whether it be a suburb, a collection district or whatever it is, is then getting a percentage applied to it. Is that more likely?

Mr Ahmed: I am not sure whether this would be sampling, but within a suburb they would be looking at the characteristics of the suburb—what has changed since the last valuation, whether there has been new infrastructure brought in, because that changes the value, and what have been the recent sales in the suburb.

MR COE: Sure, but it has got to be an average of some sort, because—

Mr Ahmed: Yes, they do. There are perhaps two most important things, or most relevant things, they would be looking at. One is the recent sales history. Every valuer will go there first. They will say: what are the sales in recent past? And they would have a good reasonable database on that, as would some of the private valuers as well.

The second thing that would perhaps be pertinent would be any zoning changes that have happened; they can change the values as well. They will have regard to whether planning changes have occurred and what that would do to the valuations in that suburb. And from there on, yes, they would not go individually to an individual block and value it; it would be spread across.

MR COE: Sure.

Mr Marina: I look after the valuations when they come through. The Australian Valuation Office do a number of things when they are going out to revalue all the parcels of land in the ACT. They look for vacant land sales wherever possible, because obviously it is unimproved land value. But where there are no vacant land sales in the suburb, they look at the improved sales and from there they deduct any improvements. They will go out and inspect those parcels of land and residences, especially before they are sold, and they deduce the land value from that, which they then can apply to the unimproved value of the whole suburb.

Within a suburb they do have different localities. As you can appreciate, some parts of the suburb may be more valuable because of views or location, or the size of the block. They take all those sorts of factors into account. They might have a number of localities within a suburb and pick out a benchmark block within that locality and say, “That’s a benchmark block.” They apply factors, plus or minus, for different variances in the different types of blocks that exist around that benchmark block and then they apply their analysed sales, from either the improved sales or land sales, to that benchmark property and then to the rest of the property. They do it on a mass appraisal system.

MR COE: Sure. People are able to appeal their valuation. Do you get many people doing that?

Mr Marina: Not many, no. We had about 80 objections to unimproved land values last year. I think about 60 were residential and about 20 were commercial—something of that order.

MR COE: And of those 80, how many were presumably reduced, in compliance—

Mr Barr: I do not think there are that many people who are appealing the higher level.

MR COE: That is right.

Mr Barr: “Sorry; my land’s worth more.”

MR COE: That is right—making cheques out to the Revenue Office unnecessarily. How many of those 80 disputes were reduced?

Mr Marina: I do not have those figures on hand. I can take that on notice.

MR COE: If you could take that on notice, that would be good.

Mr Marina: Yes.

THE CHAIR: That is taken on notice. Thank you.

MR COE: I want to go back to the question earlier about the rates calculation. On the Revenue Office website there is a formula for the last year for how you work out what your rates are for standard properties and also for unit properties. Is there a reason why the new formula is not up there yet?

Mr Marina: The new formula will be put on on 28 June. We have got the old calculation on there for people to know what the rates are for this year, because we are still in the 2011-12 year. But on about 28 or 29 June, that weekend, we will flick it over and put the new formula on there.

MR COE: The current formula, which you are all, of course, familiar with, makes it relatively easy to work out definitively what your rates are, once you have your land valuation. Under the new system, is that going to be possible?

Mr Marina: Yes, it will. We do provide some calculators on that website where people can just put in their land value and it will automatically calculate the new rates for them, including the fixed charge and the variable ad valorem charge.

MR COE: With that in mind, I am curious about this. The land valuation is really the driver, given that the factor you have published in the budget paper for the big variable is the land valuation. How does the WPI factor into this whole equation if it is not within the—

Mr Barr: It caps the total rates amount in the event that there is growth from one year to the next in terms of the total revenue collected, and then the AUVs distribute—so the individual contributions to that total capped amount.

MR COE: Yes. So I guess the real question for me is: how does the AUV reconcile with the information given from the Valuation Office?

Mr Marina: The AUV is a three-year rolling average. Each year the Australian Valuation Office will give us, say, the most recent unimproved value for 2012. The unimproved value will replace the 2009 unimproved value in the three-year rolling average. So it will go from the 2009, 2010 and 2011 value average, divided by three, to the 2010, 2011 and 2012 value, divided by three. So it rolls over. So the 2012 will replace the 2009 value.

MR COE: Where does WPI come into that equation?

Mr Marina: WPI comes into the total rates revenue for existing properties for this year, 2011-12. To that we apply the WPI of—2.9 per cent we applied for this year. It is total rates revenue that then gets divided by the AUV, which you are going to use to calculate your rating factors. Part of the rating factors also takes into account that there is a fixed charge for every property. You will take that out of the equation, and you will work out your rating factors after that. You divide it into your revenue.

Ms Smithies: The WPI basically limits the year-on-year growth that is taken through the tax line each year in the budget process. Otherwise, in years of particularly accelerating property growth et cetera, you would have accelerating revenue takes, whereas it moderates it across the system. It does not necessarily guarantee—it does not at all guarantee—that every particular property will have a WPI increase, because that is distribution within each of the—

MR COE: I am just a bit puzzled as to how the formula published on the website can be correct in all instances if you have got this other seeming externality which limits it. I just do not see any limitation being applied to this formula.

Mr Ahmed: Yes, but the formula is determined after you have set the revenue envelope. From there you derive the formula and then you put it on the web.

Mr Barr: So you know, hypothetically speaking, that you are aiming to collect

$300 million in revenue, and that is then shared amongst all of the properties according to the formula. That is why this is the most efficient way and the most reliable way to collect revenue. Mr Coe, you have a revenue target that you are collecting to. It is not an uncapped amount; it is a capped amount. That is what you are collecting to. So you have set your revenue target. That is what makes this a much better and fairer way of collecting revenue than the alternative, which is the conveyance duty, which is entirely contingent upon the number of properties and the value of those properties that transact in any given fiscal year. So you are smoothing out—

MR COE: Sure.

Mr Barr: You are entirely smoothing out the market volatility and saying, "We will collect this amount of revenue." And then each year you slightly increase the amount of revenue by the wage price index. So in year 1, for example, if it was $100 million you were collecting in rates and then WPI was three per cent, you are going to collect $103 million in the next year.

MR COE: Yes, sure. I understand that at the macro level. Does that mean that, say, if you did not have this regulated WPI factor on the total sum of the money being brought in, you could have a situation whereby, as you said, in a boom year, you would be taking—

Mr Barr: You could conceivably collect a hell of a lot more revenue and—during the Howard recession of 1996 to 1998, when property values dropped, you would have seen a massive plummet in the amount of revenue collected.

MR COE: Sure.

Ms Smithies: While providing the same level of services.

Mr Barr: Yes.

MR COE: Sure. Given that the variable in this formula is the AUV, does that mean that the land valuations themselves are reduced in those bumpy years?

Mr Barr: No. In years when the land valuation has gone up, it is a relativity between properties and between suburbs and between areas of the city, but you are still collecting a fixed amount of revenue. But where proportionately that revenue comes across your entire rates base is determined by the relative relativities of land values. In terms of it being a fairly, but not absolutely, perfect proxy for income, it is a pretty good one in so much as we know that in large part those who are living in higher valued properties tend to have higher incomes. It is not absolutely perfect, but it is very close. It is the closest proxy that we have to be able to determine and to allocate the revenue collection in a progressive way. We mitigate that through a fixed charge and through a concession scheme to provide assistance for those who might, for example, be asset rich but income poor.

MR COE: Thank you.

Ms Smithies: If you were living in a suburb which had asset growth over the last three years and that asset growth was significantly more than a suburb that had had almost no asset growth for the average of the last three years, you would still proportionately get an increase in your rates in comparison to everything else. It is that relativity between suburbs that—

Mr Barr: But of course you would have had a proportionate increase in your wealth, because the value of the land that you are owning as a ratepayer has gone up.

Ms Smithies: Yes.

THE CHAIR: I am just going to go to a couple of questions in relation to changes to appropriations. It is on page 158 of budget paper 4. It is in relation to capital injections. It is just seeking some clarification on a couple of things here. There is a rollover loan to CHC, Community Housing Canberra. I am just wondering if we could get a bit of an explanation as to what is happening there. It is $3.8 million. Is it merely a rollover or is there—

Mr Barr: We have given them a line of credit. They have not drawn all of that down in 2011-12 and have rolled it over into 2012-13. That is right, yes?

Ms Smithies: Yes, that is right.

THE CHAIR: Do you know any reasons as to why?

Mr Barr: It will largely be a timing of funding issue around particular projects that they have undertaken. We can certainly seek some more information from them around their project delivery schedules, but that is all it would be. They have been given an amount up to—whether they—

THE CHAIR: I knew they had been given a line of credit, but I was just interested in it because—

Mr Barr: And whether they draw it all—

THE CHAIR: That is a fairly significant amount.

Mr Barr: I think it was a $50 million line of credit, wasn't it?

Mr Ahmed: Yes, 50 plus 20. This relates to a particular development and the timing of when they need to draw down the amount. It is just the timing of the project.

THE CHAIR: It was just to get clarification. Also, there is a saving here of $1.3 million in a loan to UC. Is there any explanation in relation to that?

Ms Smithies: We will have to take that one on notice, sorry.

THE CHAIR: That is fine, thank you. That has been taken on notice. I have just one further question. Budget paper 4 at page 155 states that Treasury provides advice on the structure and operation of government business enterprises. What is Treasury's role in that? Obviously it says it provides advice, but what is the actual role which you play with GBEs?

Mr Bulless: My division, the finance and budget division, has a couple of roles. It has the policy role for territory-owned corporations—Actew and ACTTAB. It provides to the voting shareholders, who are the Chief Minister and the Treasurer, advice on the performance of its two TOCs. That can include information on financial performance and projects that the entities may be engaged in. For example, one that comes to mind is project GROWS, which Actew will probably talk about this afternoon, which is bringing the water business back into their company from the joint venture.

We also look at proposals in terms of some of the other business activities of government, such as the Land Development Agency and some of the other business units that sit in other directorates. We may provide advice about things around their structures, financial performance and activities they may be involved in. We have a very close working relationship with the Economic Development Directorate in relation to the LDA, particularly in terms of the land program. In previous years we have provided advice to government around the sale of things like the hotel school and Rhodium. We have worked with our other colleagues in terms of Totalcare. We have had a remit across most of the business activities of government.

THE CHAIR: Is it just related to, as you said, the structure and the business activities or do you provide advice on—and you gave the example of the LDA—the sorts of projects they might pursue?

Mr Bulless: Yes, it is very wide ranging. It goes from looking at particular proposals they may be putting to government or to voting shareholders. In the case of the example I gave about project GROWS, it is about moving a different model of delivery for services and the operations of the business by Actew. In prior years we have provided advice around activities of businesses and what things they should and should not do, particularly in terms of providing advice about things that are changing within their business environments.

In terms of some of the reviews we have previously done, we have looked at the structural options around those businesses—whether the government should retain those businesses or look to opt out. That was particularly the case not so much recently but in prior years around the hotel school. The business had changed and the environment had changed and it was an activity the government did not wish to be in anymore.

THE CHAIR: Just to clarify: you said you give the advice and the information to the shareholders, being the Chief Minister and the Treasurer?

Mr Bulless: Yes.

THE CHAIR: Do you provide advice to the body itself?

Mr Bulless: That varies. Some of the activity we do is very much about us assessing the operations of businesses or providing advice. Sometimes it can be in the sense of just actually engaging, talking about issues and how they may wish to bring things to government. Last year, for example, we were involved in providing advice to government around the borrowings for the University of Canberra which are approved by the Treasurer under their act. That was with our colleagues in the investment and economics division. It was looking at the advice they were providing us, their structure and what they were going to invest in. Then we used that advice to provide advice to the Treasurer.

THE CHAIR: Just in relation to that, with regard to the body that has been set up to oversee development in the Gungahlin to Civic corridor, will you have a similar role in terms of providing advice to it? What is going to be your role with that body?

Mr Barr: Yes, Treasury will be involved.

THE CHAIR: Will it just be to provide advice when it is requested or will it actually have—

Mr Barr: No, an active role in the—

THE CHAIR: They will have an active role?

Mr Barr: Yes, absolutely.

MR SMYTH: Just a supplementary to that, what advice did you give the government on the changes to Actew's structure?

Mr Bulless: We looked at the proposal from the board and the management team at Actew. They can provide a lot more detail this afternoon on that. Basically, the proposal was assessed in terms of what was the driver for the change, bringing that activity, the business, back into Actew rather than from the joint venture. We looked at the costs of doing that versus the returns to Actew over time—that is, the efficiencies that would come out of having that operated within Actew. Over about a five-year period it is actually cash flow positive for Actew in terms of the current agreement. You may recall that the way that operation works now under the utilities management agreement is that the joint venture, ActewAGL, provides a range of services in terms of the water and sewerage business, so in terms of operating and maintaining that network and doing investments in that through Actew.

If you look at that model, over time it has changed in the sense of what it was originally anticipated to do versus what it is anticipated to provide going forward. It is probably constructive in the sense of what has happened in the water business in the last five years, particularly around the security of water infrastructure assets and the construction of assets such as the dam and the Googong transfer, that Actew wanted to take more control of that going forward. Their assessment of the utility management agreement looking forward suggested that it is more appropriate for them as a model of service delivery to have that function in-house rather than through an outsourced arrangement.

MR SMYTH: Minister, as the Treasurer and a shareholder in that, were you approached by Actew before or after the decision was made?

Mr Barr: We had discussions in the lead-up.

MR SMYTH: So did it come to the shareholders for approval?

Mr Barr: It was not one that we had to approve, but we were advised. We had a discussion in relation to the merits and were provided with some advice on that. But, no, ultimately, it was a decision for Actew.

MR SMYTH: Were there any concerns raised on behalf of the government with the Actew board about this?

Mr Barr: No.

THE CHAIR: Again, on that Gungahlin to Civic body, you said Treasury will have an active role. Will Treasury have an oversight role in terms of the budget as to what sorts of things they will pursue? When you say "active role", how active will that be?

Mr Barr: I think in this context, given the dual role that I have—responsibility for economic development and where the LDA forms—the only way these projects are going to proceed is if there is a sound financial model. That will necessitate Treasury's involvement and the LDA's involvement from the start, hence the move into this development vehicle. The project will move out of the planning phase into the delivery phase.

THE CHAIR: Yes.

Mr Barr: At that point, you want the doers in government—that is, the LDA, who actually deliver this sort of infrastructure on a regular basis—to be actively engaged in the process and with Treasury's advice in terms of structuring the financial arrangements that will underpin the investment in the corridor. I think it is useful to have Treasury's involvement in the context of budget forward planning. I think it is also useful that the Treasurer and Minister for Economic Development is involved in the process—the fact that I can bring these two agencies together and bring that perspective into the process. Over time, as I say, it will transition from the planning phase into the delivery phase. It is not just a question of the transport infrastructure; it is also bringing in the renewal of public housing. Again, the scale of the project is well beyond anything that Housing ACT can manage, so it needs a development vehicle. That comes through the LDA in this process.

MR HARGREAVES: BP4, 164—the operating statement, government payment for outputs. You say there is a decrease of $11.524 million and that it is mainly due to savings in projects advice of $1 million, on line 2. On line 6 it has also got project advice of $0.3 million. Are they two different projects or what is the story?

Ms Smithies: Yes, they are different but similar. The $1 million was funding that was explicitly put in to assist with progressing the government office block—large scale corporate-style advisings. The $300,000 really relates to more financing, project advice relating to any particular project. It was just that the government office block was so singularly large that it required more effort.

MR HARGREAVES: Okay. Does that explain, then, why the increase in $2.874 million also contains the same project advice of $0.599 million? That is a different one again? If it is a different one again, I might just suggest that either a note to that effect or some brackets in future years might be helpful, because it looks like you have taken two into the decrease and whacked one into the increase and there is no way of being able to tell what it is.

Ms Smithies: Sure.

MR HARGREAVES: Another little one: just for the record, page 159, the same BP—your budget for resources received free of charge for 2011-12 was $1.339 million. Congratulations on achieving the estimated outcome of $1.339 million, because it is the only one you got right in that column. I do not know how you can do it so accurately to the "9", but that is Treasury for you. Could you tell us what those resources were that you received free of charge, worth almost $1½ million?

Ms Smithies: I might ask Scott to talk to that. I know that certainly it is our legal costs and a number of other resources that are provided across the ACT government.

Mr Brown: Mr Hargreaves, could I just ask you to repeat that question?

MR HARGREAVES: Sure. Page 159, BP4, the line, "Resources received free of charge"—the budget was exact to the estimated outcome. That is really rare. I think it is the only one on that whole page that meets exactly the figure to the $1,000, so I congratulate you on getting that right. I would just like you to give us an explanation of what those resources were that you got free of charge.

Mr Brown: To answer your first question, you are right—

MR HARGREAVES: I know; thank you.

Mr Barr: No. User charges—ACT government, $10,000, $10,000. That is spot on.

Mr Brown: With the 2011-12 figure, we actually get that number at the end of the year from Shared Services. Because it is resources free of charge, it is a book entry. We go with the budget because we have no better number at this stage to use. We do not get that final number until close to the end of June. We have got no way of really giving you an estimated outcome.

MR HARGREAVES: Does that mean, then, that you do not get an indication of how you are travelling throughout the year?

Mr Brown: I would have to take that on notice, but, no, I do not think we do. Because it does not impact our cash position, it is essentially an in and out transaction for us. It has no impact on our bottom line.

MR HARGREAVES: Thank you.

Mr Brown: To answer your second question, a lot of it is legal fees—PCO, GSO; those sorts of things. I cannot give you a breakdown on last year's, but if you are after it, I can get back to you.

MR HARGREAVES: No, it is okay. I understand now. Thank you very much for that.

MS HUNTER: I want to go to savings measures. It is BP3, pages 25 to 27. It is also at page 135 and goes on from there. Some of the savings measures that are listed on pages 136 and 137 are pretty much word for word the same as the previous year. Could you clarify whether these measures that are in this set of budget papers are in addition to what was listed in last year's papers or are they a revision of the savings?

Mr Barr: In addition.

MS HUNTER: And what did we achieve last year? We achieved the savings that—

Mr Barr: Those amounts were removed from agency budgets at the beginning of the financial year; so achieved in full, yes.

MS HUNTER: By not getting the money—

Mr Barr: Because they never got the money in the first place.

MS HUNTER: In relation to the fleet savings, the table on page 137 has the years 2011-12. It does not have 2015-16. It lists a zero dollars saving in 2011-12, whereas last year's budget seemed to indicate a saving of $495,000. Was that achieved?

Mr Bulless: There are two things there actually, just looking at that page. The dates for both recruitment and training and fleet leasing have been moved. They should actually start with 2012-13 rather than 2011-12. The zero figure for 2012-13 for fleet leasing is correct. The reason for that is that the territory's leases are largely two-year finance leases, and the way we have rolled the saving through is to look at 50 four-cylinder passenger vehicles, average cost of the lease—repairs, maintenance, fuel et cetera, insurance—recognising that those cars will have to come off lease before we can actually have a saving by not renewing the lease.

MS HUNTER: So you are planning to take those out over the next couple of years?

Mr Bulless: Yes. So what we have done is: no saving next year because the cars will be there. Half of those cars, it is assumed, will roll off the two-year lease, and the full 50 cars by the second year.

MS HUNTER: That was part of the question. The other thing is in relation to energy efficiency and the $5 million fund. If you go to budget paper 3, page 36, it talks about this in relation to the carbon price. Could you explain what role, if any, Treasury has in any of the initiatives and types of savings that you expect to achieve?

Ms Smithies: This scheme is run by ESDD; so they have got—

MS HUNTER: And the directorate will come in tomorrow. So you are not going to have any oversight of whether it is going to plan and those savings are being achieved?

Mr Barr: An active interest, of course, from the minister. As you indicated in your reply to the budget—and again, I contest that it is a new-found interest of mine.

Ms Smithies: I think the agencies are pretty incentivised to get it right.

Mr Barr: To get it right, yes.

MS HUNTER: To cut their utilities bills, yes.

Ms Smithies: Yes.

MS HUNTER: Around the better service, better practice advisory group, which is back on pages 25 to 26, could you give us some details about who is on it, how it works, and give us a bit of an idea about its role?

Ms Smithies: This is something that is being run by the Chief Minister, and the Chief Minister's department is currently figuring out the terms of reference. It will be, as I understand it, an advisory group as a subcommittee of cabinet so that they will probably be best placed to actually take those questions.

MS HUNTER: CMCD?

Ms Smithies: Yes.

MS HUNTER: And could you explain the $1 million saving for project advice, or is that the project advice we just talked about with Mr Hargreaves on the office block?

Ms Smithies: Yes.

MS HUNTER: And there is $2.8 million savings over four years for Treasury. How are you intending to make those savings?

Ms Smithies: Sorry, which ones are those? Sorry, where are you getting those from?

MS HUNTER: I am assuming it is in the same lot.

Ms Smithies: There are just a few of them.

MS HUNTER: But that is your target?

Ms Smithies: We have a staffing target and then the year after we have a number of other savings relating to—I will find the number in BP4—consultancies, contracting et cetera. In terms of how we will meet our overall target, at the moment our FTE is—we have under-recruited in this case and in any case—partially in anticipation of another round of savings. So the task as I see it for Treasury, for us now, is to take a look at the government's priorities for next financial year and the pieces of work that we know that we need to deliver, which are things like—obviously we have got an election—election costings and pre-election statements coming up. What is our work for the next year? What are the government priorities over the next year?

We do need to do a piece of work internal to Treasury, which is around ensuring that we have got people with the right skills working in the right areas in order to deliver those savings and that we can manage that workload in a sensible and managed way over the coming months. For us, I think that is the reality of it, that we have always struggled to fill our positions due to skill shortages. In essence, that has assisted us in achieving our savings, and we need to restructure in Treasury a little just to ensure that we do deliver what we need to deliver.

MS HUNTER: Does that mean we have some areas where we simply do not have the people on the ground and the skills that we need in Treasury?

Ms Smithies: No, I do not think that is the case. I think that, like everyone, we would prefer to have more of particular skills in particular places. A lot of treasuries will say the same thing. We are in the market for particular skills against the commonwealth Treasury and a lot of the big commonwealth policy shops. But I would say, for a Treasury of our size, we have got a really good mix between the skills and experiences of the existing staff. Where we do not have quite the right skill bases, we have done a lot in relation to particular training and targeted training.

The other thing that we have been very committed to for the last probably seven if not 10 years is taking a significant number of graduates in at entry level. So we have been very successful at building up our staff and our staff skills from that level as well.

MS HUNTER: And they are coming from local graduates?

Ms Smithies: Mostly local universities but not solely local universities.

MS HUNTER: I have another one that is in a way a follow-on question from some of the ones Mr Coe has been asking. In budget paper 3, page 51, rates deferral, I note that the rate deferral option is being extended to non-pensioners over the age of 65. Mr Hargreaves is excited.

MR HARGREAVES: You beauty!

MS HUNTER: Could you please advise the number of non-pensioners you have budgeted for who might apply for the deferral option and what the yearly value of this deferral option will be?

Mr Ahmed: We have not specifically estimated the number of people who would take it up. We do have some sense of what the take-up would be, which is relatively small. But in terms of the revenue impact, you would still book the revenue. So this is just the deferral of the timing of the cash payment. You would still have the revenue booked in, because there is no impact on the revenue. It is just on the timing. The number will depend on their choices. The incidence of people with those characteristics—and there are a range of tests here. One is the age of above 65. Another is the income tax that they have to pay, whether working or not. Another is the asset test. Combining all those, we are talking about a relatively small number, fewer than 200 perhaps.

MS HUNTER: Mr Hargreaves might be first on the list.

MR HARGREAVES: Yes, you were out by one, Mr Ahmed, in your calculations.

MR SMYTH: To initially go back to the savings that Ms Hunter was asking about, can we have a breakdown, by directorate, of how much you expect to save against each of the categories that you have listed?

Mr Barr: In terms of the travel?

MR SMYTH: Yes.

MS HUNTER: Consultancies et cetera.

Ms Smithies: We have put a single line total against each agency.

Mr Bulless: By agency, single line, but not by component.

MS HUNTER: Are they deciding how they are going to split that up within their agencies? Has that work been done yet, and how many have it?

Ms Smithies: And we have done that largely to allow them a bit of flexibility to determine the exact mix.

MS HUNTER: Has that work been done yet?

Ms Smithies: There has been ongoing discussion, certainly with the strategic board, in relation to those savings. I would say there would be a number of agencies who would be further advanced in terms of figuring it out. We probably would be a bit behind the eight ball because we were doing a significant effort in budget and tax reform. But I suspect it would be better to ask each agency. I do not think I can answer on their behalf, to be honest.

MS HUNTER: As they are coming in.

MR SMYTH: Except that you do have tables there that detail, for instance in employee expenses, we are going to save $16 million. In advertising marketing, we are going to save $800,000. You have come up with those numbers. How do you achieve those numbers if it has not been apportioned?

Mr Barr: It has been apportioned to each agency.

Ms Smithies: Yes.

MS HUNTER: Under those categories?

MR SMYTH: Are these numbers going to be achieved or not?

Mr Barr: That money has been taken from agency budgets, yes. They do not have the money.

MR SMYTH: Will the government save $1,736,000 from printing and stationery this year?

Mr Barr: Yes, because we have not allocated that amount to agencies. We have taken—

MR SMYTH: How do you know that you will save that amount if you have not allocated a proportion to agencies?

Mr Barr: We have.

Ms Smithies: We have.

Mr Barr: We have not given them the money. We looked at their last year's expenditure and then deducted—

MR SMYTH: So you have taken off money. You have taken off Health $200,000 worth of stationery, but whether they choose to spend it on stationery or not is their concern. Is that what you are saying?

Mr Ahmed: They have their own flexibility and they will respond to the circumstances they are in during the year as well. The target is to manage the budget and in doing that they might not achieve, say, the full stationery savings, because they might have to print a bit more. But they might have to achieve it somewhere else.

MS HUNTER: They are saving in another area.

Mr Ahmed: How they manage is up to agencies, and that is the financial management model that we have.

MR SMYTH: So why put pages 136, 137 and 138 in?

Mr Barr: It goes to tell you how we have taken the rationale we have applied to those particular savings targets.

MS HUNTER: I guess the question is: why break it down into amounts under those savings? Why not just have a list that states, "These are the savings areas; this is the amount"? Because they are deciding at the end of the day—

Mr Barr: So in this instance we are being criticised for providing too much information. Is that the—

MS HUNTER: No, it is just a question to understand it.

MR SMYTH: You are being criticised or you are being questioned about the accuracy of your information. You have put a series of tables in here that purport to show a savings of, for example, $1.7 million in stationery and $3 million in contractors. Will those targets be reached and how will you know they have been reached if you do not know the breakdown by department?

Ms Smithies: I can certainly say—I know the breakdown but each department does know the breakdown. It was based on previous years' expenditures, as the Treasurer has said, and a proportion of those particular expenditures. I can say, certainly with respect to Treasury, that we will be seeking very much to meet these particular savings in the areas in which they were given to us—be it travel, accommodation, recruitment, consultancies, contractors et cetera.

The thing that I was trying to suggest, though, is that there may well be a need, as the occasion arises, for particular agencies to tailor things, to deal with things that occur during the financial year, which may well mean that, for circumstances unforeseen, they need to ramp up a particular consultancy and might actually reduce staffing over a particular time, in order to deal with that. It may well be to do with skills, the task that was at hand or, indeed, the job that needs to be done—operational requirements that occur during the course of each financial year.

MR SMYTH: So were the targets set in BP3 2011-2012, as outlined on pages 1, 13, 14, 15, 16 and 17, achieved? Did we save $639,000 in travel and accommodation? Did we save $1.866 million in printing? Did we save $2 million in consultants and contractors et cetera?

Ms Smithies: That money was certainly taken off each agency's budget.

MR SMYTH: But that is the point. You have taken the money out but were the savings as detailed made?

Ms Smithies: That might be a question to ask at the end of the financial year.

MR SMYTH: You have just told us all the savings were made; so I want to know how you validate that.

Mr Barr: They were never given the money in the first place.

MR SMYTH: Yes, but were the savings made, as outlined in the budget? Can we trust the budget figures or are these just superfluous pages?

Mr Barr: No, they are not superfluous pages.

MR SMYTH: You seem to be saying, "We have allocated these savings but we have never checked on whether these were the savings that were made."

Mr Barr: No, we have taken the savings, not allocated them. We have taken them; so that is the first point. We have taken them across those categories. But as the Under Treasurer said, from year to year there will be variances within sub-lines of agency budgets, and that is not unusual. But, given the resistance of agencies to find savings in other areas, they do tend to follow the recommendations and the decisions of cabinet in relation to where agency savings will be found. But then you will also see that there are other savings targets for agencies where they have a greater degree of discretion around those.

THE CHAIR: Do the directorates then report regularly to Treasury about whether they are actually meeting those target? If there were going to be any issues like those Ms Smithies raised—if they needed to contract a particular consultant or do anything that meant they were going to exceed the savings—do they then advise you so that you actually know you are tracking the savings as planned?

Ms Smithies: Each agency's chief executive is responsible for managing their budget in line with the appropriations.

THE CHAIR: I understand that.

Ms Smithies: So it is actually their responsibility to ensure that they bring their budget in within the line. We monitor agencies' budgets largely on a quarterly basis in line with the quarterly reporting that we do into the Assembly. So we understand at those points what are the pressures or otherwise on agencies' budgets at that point. So that is where we get our monitoring information from.

THE CHAIR: Do directorates have input into where they saw there would be savings, or did Treasury just say, "This is the amount and this is what you'll be saving in this area"?

Ms Smithies: The budget papers pretty much dictate at the high level where the savings will be coming from. It is based on fact. It is based on what they have been spending to date. Essentially, what the budget papers do is provide savings lines moving forward in relation to what agencies will not spend. The money has been taken off them. It is then up to an individual agency, in particular where it does not spend, say, part of its printing budget. For us, it will go on printing budget papers versus printing rates notices, or something different that we do within Treasury et cetera. So that level of detail would be left up to the particular agency in terms of how those savings will be implemented.

MR SMYTH: Further on in relation to the savings, in table 4.3.1 on page 113 of last year, not this year—it is currently BP3—the savings for 2012-13 were to be $38 million, yet the savings for 2012-13 in the document presented are down to $24 million. Why that difference?

Ms Smithies: I think you are looking at last year's savings that were put into agencies' budgets.

MR SMYTH: No.

Ms Smithies: No? Sorry.

MR SMYTH: For 2012-13 there is a column that has savings for 2012-13 of $38 million in the current year's budget paper. But in the budget paper for the actual year 2012-13, those savings have now been reduced to $24 million.

Ms Smithies: Yes, so are you referring to the savings that were put in at page 19 of budget paper 3 last financial year? Is that what you are—

MR SMYTH: Yes, 113.

Ms Smithies: Yes, so they are last year's savings that were put into last year and carried across, whereas these are new savings put into this year's budget.

MR SMYTH: So last year—

Ms Smithies: These are extra savings.

MR SMYTH: You pulled $38 million out of the 2012-13 budget and this year you are pulling out a further 24 on top of that?

Mr Barr: That is correct.

Ms Smithies: Yes.

MR SMYTH: The question is this: could you give us a breakdown by agency of what their share is of the various categories that you have listed? It seems to me that you are presenting numbers to the Assembly in terms of the approp but you have got no idea whether they would be achieved or not. I appreciate you have taken the money out, but whether the actual saving has been realised across the public service is the question. Have you actually realised the savings across the public service by category?

Mr Barr: Sure, I am happy to—you want by directorate?

MR SMYTH: Lovely; that is fine.

THE CHAIR: That is taken on notice?

MR SMYTH: I refer to the conveyancing duty on pages 46 and 47. You have got the new thresholds for conveyancing duty. I notice that for the highest three categories for 2013-14 to 2016-17, none of the rates change. But if you go over then to table 3.2.2 on the top of page 47, it shows that the rates applied to these properties will be reducing over the forward years. How is that?

Mr Barr: Progressive marginal taxation. So each of those components—do you see the rates drop in the elements below? So a $1 million property will have a component that is taxed up to the threshold of $200,000 and a component that is taxed between—it works the same way as income tax, yes.

MR SMYTH: Yes, all right. That is good; just checking. So on the new conveyancing duty, how many first homebuyers do you expect to be exempt from the homebuyer concession scheme, given now that existing properties are now exempt and will not be?

Mr Barr: The existing scheme continues until the end of August?

Mr Ahmed: That is correct, yes.

Mr Barr: Yes, and the new scheme, in terms of new properties and substantially renovated properties has commenced. So that will undoubtedly see a shift in terms of properties and in terms of first homebuyers entering into the market. It will be obviously difficult to predict, because I think it has varied from year to year what proportion has gone for new versus established.

I would imagine that there will be a significant flight towards new, as that is where the biggest concessions will apply, noting of course that on the properties that first homebuyers would tend to occupy, being at the lower end, they are the biggest beneficiaries of the general reductions in stamp duty.

I think it was quite eloquently put by my New South Wales counterpart in his budget last week. The application of concessions to existing property has largely seen those prices being pushed up, as effectively you have an increased number of dollars, if you like, in the pockets of first homebuyers chasing the same number of properties. Therefore, you get price inflation. So the most sensible way to provide both a stimulus to the economy and to increase the housing supply is to target your concessions at the construction of new housing.

When you marry that to a substantial land release program and a significant urban infill program, then you have the opportunity for people to have a wide range of choice across the city. Certainly, we would welcome the support of other parties for new housing construction in locations all over the city. I think that would be a very good thing. I am very, very keen to see new housing construction in Tuggeranong, for example.

MR COE: So how many dwellings could be constructed in Tuggeranong, do you think?

Mr Barr: Depending on outcomes of some consultations, we could have a few more in Chisholm. There could be some demand there. But the—

MR COE: But the vast majority of greenfield development is going to be in Gungahlin or Molonglo but most likely in Gungahlin.

Mr Barr: In fact, if you go to the land release table—I will happily get that out; it is here in BP2—there are about 4,000 or 5,000 in Gungahlin. Of course, the suburb of Lawson in Belconnen is significant. There are about 3,000 in Belconnen, about 3,000 in central Canberra, 4,500 in Molonglo, just over 2,000 in Woden and Weston, and in Tuggeranong about 700 proposed. There could be more if there is support for the release of some new land for housing in those areas.

MR COE: You said that the proportion of first homebuyers that have bought established residences, new properties, has changed over the last few years. What are those proportions?

Mr Barr: Depending on the new land release in each year, it has been 50-50; it has been 60-40; it has varied. But ultimately the economic theory behind this is, as I say, twofold: one, if you are going to provide an increased purchasing power, then you want that chasing new supply, not pushing up the price of existing housing, because that defeats the purpose of providing the subsidy in the first instance.

Secondly, in the context of economic activity in the territory, we want to support the construction of new housing. We think that is the number one priority. It is no surprise that the New South Wales government of an alternative political persuasion has adopted exactly the same position, because we recognise the need to build new houses in the city. That is how you will put downward pressure on rents and on house prices, and that is what we are seeking to do.

MR COE: Could you take on notice for the last four years what proportion has been established versus new properties for the homebuyer concession?

Mr Barr: Yes.

Mr Ahmed: We have answered that question.

Mr Barr: That question on notice to that effect, yes.

Mr Ahmed: We have dealt with a question on notice to that effect and we have answered it. The question was around the first homeowner grant.

MR COE: It is separate from the concession, though—different requirements there.

Mr Ahmed: This is a different question. So you are asking about the concession?

MR COE: About the concession.

Mr Ahmed: Roughly—we will take it on notice, and you were asking about the last four years?

MR COE: That is right.

Mr Ahmed: Roughly, at this time, I would suggest it is roughly half and half, close to that number.

MR COE: Sure. All the same, if you could take that on notice that would be good, thanks.

Mr Ahmed: Yes.

MR SMYTH: What happens, therefore, to the 50 per cent who currently buy for reasons of family, for access to a job or because they might have a child with a disability so they might want to be near a school? There are a number of reasons. What happens to that half, at least, that will not be able to get any concessions?

Mr Barr: I think some will. Some will seek substantially renovated properties or will seek to purchase in existing areas with new supply.

MR SMYTH: Some.

Mr Barr: Some will. All, of course, will benefit from the general reduction in stamp duty. And some will change their housing decision based on the different tax policy settings. But the same issue applies in New South Wales and applies in Victoria. It is simply a shift in taxation policy.

MR SMYTH: What is the definition of "substantially renovated" and how will that be dealt with?

Mr Barr: The same as the New South Wales scheme.

MR SMYTH: Yes, but I am asking you what yours is.

Mr Barr: Ours is the same. We have modelled ours on the New South Wales scheme. I can provide it. I am not going to go through it chapter and verse now, but we can provide you with the paperwork.

MR SMYTH: What proportion of homes on the market are considered substantially renovated?

Mr Barr: I will need to take that on notice, obviously.

MR SMYTH: All right.

THE CHAIR: That is taken on notice.

MR SMYTH: How many homebuyer concessions have been given this financial year, as at 1 June?

Mr Barr: I will take that on notice as well.

MR SMYTH: And what is the estimated value of homebuyer concessions to be given in 2012-13?

Mr Barr: We will need to take that on notice as well.

THE CHAIR: That is all taken on notice.

MR SMYTH: What analysis was undertaken on how these changes will affect first homebuyers entering the market?

Mr Barr: Sorry—what analysis?

MR SMYTH: What analysis was undertaken as to these changes?

Mr Barr: In terms of budgetary analysis or distribution of—

MR SMYTH: As to your changes to the scheme.

Mr Barr: There will be a shift, obviously, in purchase from existing to new dwelling—

MR SMYTH: But you have analysis to back that up?

Mr Barr: Yes. People will follow the evidence in other jurisdictions.

MR SMYTH: Is there any evidence for the ACT? Did you do any analysis for the ACT?

Mr Barr: Yes, there is. There are assessments made in terms of a shift in consumption. But there are other factors that impact on that—namely, the pricing point of new stock. It is linked also to our housing affordability threshold policy initiatives and the availability of properties. It is a dynamic marketplace, so it is not possible to model every possible outcome, but you can certainly look at consumer behaviour. It is exactly the same rationale that has been used in other jurisdictions previously and has applied over the last decade in the context of first homebuyer grants for new construction being considerably higher than for existing—noting that the first homeowner grant, the $7,000, applies across all properties still, as that was introduced by way of compensation for the GST.

MR SMYTH: Can we see that? Can the committee have a copy of that analysis?

Mr Barr: I think elements of that may be able to be made available. Yes.

THE CHAIR: That was a yes?

Mr Barr: We will look at what we can provide to the committee.

MS HUNTER: I have a supplementary on the first homeowner grant. How much are we forecasting to pay out in this next year?

Mr Ahmed: Close to $20 million.

Mr Barr: Close to $20 million.

MS HUNTER: During last estimates I asked about the analysis of the first homeowner grant. Treasury indicated it was part of a COAG agenda and that was near completion. I am assuming it has been completed now. What were the results of those discussions?

Mr Ahmed: Yes, it has been. It has been considered by COAG. Basically what that report concluded was in large part that there are a whole range of factors that contribute to supply and demand questions and the impact of the first homeowner grant. That is difficult to isolate from the broader factors that come into play in the housing market. But having said that, economic theory will tell you that if you are giving demand-side subsidies and you have not got supply side to match up, that is the important question. That is the policy direction that the government has taken. If you have not got the supply side to match up, it will push up the prices.

MS HUNTER: The price will just go up?

Mr Ahmed: That is right. But if you have got the supply-side issues in place as well, you should not see much impact.

MS HUNTER: Is that report publicly available?

Mr Ahmed: Not to my knowledge, but we can certainly check.

Mr Barr: Mike Baird has written to everyone, all fellow treasurers, I understand, outlining the case for the reforms outlined in New South Wales. I am happy to provide that correspondence.

MS HUNTER: In connection with the Northbourne redevelopment incentive that is at the bottom of page 73, it says that the conveyance duty will be waived "on the first transaction into the financial vehicle". Could you explain what that is? It is page 73 of budget paper No 3.

Mr Ahmed: Essentially, the policy intention here is this. Typically, when a redevelopment or even a development occurs there is a financial vehicle created. Certainly for the redevelopment, a financial vehicle is created into which the assets are transferred and the company undertakes the development. The first transaction actually is subject to conveyance duty, because it is an economic benefit being transferred to a company. The policy intention here is to exempt that transaction from conveyance duty.

THE CHAIR: Before we go on, let me say that we have the ICRC waiting to come. I suggest that we go until 20 past with Treasury; that allows time to change over and speak to the ICRC, if members are happy with that. Yes? Okay.

MR SMYTH: Maybe half-past.

THE CHAIR: No; we need time to allow people to change over. Mr Smyth.

MR SMYTH: They were my questions.

MR COE: Turning to the cost of living statement, in BP3, on page 57, there are a number of costs to households which I do not think have been included there but which I believe should have been, such as the ambulance levy or the utilities tax. Is there a reason why they were not included?

Mr Barr: They are not levied directly on households. I think we had this debate in the Assembly in relation to the legislation. In the same way, we are not stating through here the benefits through the withdrawal of taxation on insurance, because that is not levied directly on households either.

MR COE: In regard to the insurance, if you are going to claim that it is a boon to get rid of it, surely it has been a burden for it to be there, in which case it is a contributing factor to—

Mr Barr: But it is not levied directly on households. That is the distinction. That was the outcome of the debate in the Assembly.

MR COE: How does that differ from public transport fares?

Mr Barr: Not everyone uses public transport. About 90 per cent do not.

MR COE: You have used discretion to include some things, so I would like to know why you did not include the utilities tax or the ambulance levy.

Mr Ahmed: The public transport fare is a direct one—payment by a household and directly charged by government. I think that is the distinction here, Mr Coe. This is not a household budget; I think that needs to be made very clear. Households would spend a lot more than this on things that they will be purchasing off the market or off the government's shop fronts. It is possible, but this is not a household budget. As the legislation was set in place, this reflects, for an average household, the cost relating to direct taxation and the cost of some services.

MR COE: So you accept that there are a fair few other costs for which consumers will be paying the ACT government, perhaps indirectly, that are not included in this budget?

Mr Ahmed: Mr Coe, the 2011-12 figure is $8,425. That is the base figure. The average household income is much higher than that. They would be consuming a lot more. To the extent that they insure, they will have insurance tax, and that will get paid somewhere. That will come to government. But that is not exempted here.

MR COE: Sure.

Mr Ahmed: This is not a household budget.

MR SMYTH: As the minister points out, 90 per cent of people do not use public transport, but we include the public transport charge. But 99 per cent of households have insurance.

Mr Ahmed: Those who do pay direct to government. The government charges it.

MR SMYTH: Sorry, "pay direct to government" is a lovely measure but that is not the measure that was used. The division seems to be where the household is billed directly.

Mr Ahmed: Yes. What I am saying is that this is a direct payment that they make to government. Utilities charges were specifically asked for and they are included in there. Again, on the utility charges, this part was specifically included in there because of parts of the legislation or the explanatory memorandum. Whether these are the only costs a household would have, we are not contesting that. Yes, there would be more costs.

MR COE: More costs, indirectly, from the ACT government?

Mr Ahmed: Yes. Insurance tax is one example. If a particular household transacts during the year and changes dwelling, they will be paying stamp duty. Payroll tax is an interesting development. How do you determine where the payroll tax goes? Does it get on-passed to the employees in the cost of goods and services that people buy? And that is why it becomes very difficult to include indirect taxation in direct charges.

MR SMYTH: But if you include bus fares, which you say is something paid directly to the government, then surely by that same notion parking fees should be included, because that is paid directly to the government.

Mr Ahmed: Parking fees vary across the territory.

MR SMYTH: So do bus fares.

Mr Ahmed: And it depends on—sorry.

Mr Barr: Bus fares do not.

Mr Ahmed: Bus fares are pretty—

MR SMYTH: Usage.

Mr Ahmed: And the parking fee usage is quite varied as well. It depends on the household usage.

MR SMYTH: We could make that same comment about bus fares.

Ms Smithies: So perhaps we should not include public transport for this.

MR SMYTH: Or perhaps you should include parking.

Ms Smithies: Except that parking is a lot more sporadic, which I think is the point that we are trying to make; whereas those who use buses use buses.

MRS DUNNE: But could you not capitate it and work out, "This is how much ACT people pay on parking; therefore a reasonable per capita cost would be blah"?

Ms Smithies: I think that we could invoke a whole lot of averages but, at the end of the day, by the time we have invoked averages on averages, I think we have to ask ourselves how good the information is and how useful the information is.

MR COE: Speaking of parking tickets—sorry, parking revenue, when will the instrument be published which outlines what the cost of parking will be?

Mr Barr: I think that is a matter for the relevant minister.

MR COE: Treasury must have been informed what the proposed rates are likely to be, given there is a variance in the budget. Who actually does that estimation of what parking revenue might be in the next financial year? Is that provided by—

Mr Barr: The relevant directorate.

MR COE: Sure.

MR HARGREAVES: Can I ask a question about the revenue side, please?

MR COE: In which case you must see the underlying figures which support that final amount, which you are to include in the budget?

Mr Barr: They provide information to us, yes.

MR COE: Do you know what the increase is likely to be, across Canberra, for revenue?

Mr Barr: I will have to take that on notice.

Mr Bulless: That is actually published in—

MR COE: Yes?

THE CHAIR: Sorry, what was that, Mr Bulless?

MR COE: He said information—

Mr Bulless: We do have that information.

MR COE: If you could please present it, that would be great.

MR HARGREAVES: Could I ask a question about parking, please?

THE CHAIR: Yes, Mr Hargreaves, a follow-up question.

MR HARGREAVES: Yes, thank you very much.

MR COE: While they are finding that information I am happy to go to Mr Hargreaves.

MR HARGREAVES: I am pleased. Thank you, you made my day.

THE CHAIR: Let us not have a discussion. We are going to Mr Hargreaves for a question while you are getting that information.

MR HARGREAVES: Could I ask a couple of questions on this, at page 87, BP3. It is on sales of goods and services. You have indicated that the budget for 2011-12 for parking fees is $18.2 million and the budget for 2012-13 is $18.5 million, which is fine. But how come the drop to $15.1 million in the estimated outcome for that year, 2011-12, and how are we going to get it back up?

Mr Barr: I think there will be a combination of factors there relating to the number of parking tickets issued. So there is a compliance question. It would appear that people have behaved better and there has been less illegal parking in the 2011-12 fiscal year.

Then you see, from budget to budget, there is not a significant variance in terms of what was previously budgeted for. So, yes, there is an increase in the parking charge.

MR HARGREAVES: That accounts for the jump from $15.1 million to $18.5 million from the estimated outcome up to the other. However, the actual budget for 2011-12 was $18.2 million anyway. So what you are saying is that there has been a drop-off in revenue compensated by a rise in price.

Mr Barr: In large part, yes, although there will be a change in the mix of public spaces. As some public car parks are decommissioned, there are fewer revenue collection points over time. Some car parks end up being built on or are sold and moved into private hands. But then in other parts obviously there are new pay parking provisions in different parts of the city or from fiscal year to fiscal year. Some car parking might be temporarily disrupted as a result of a construction activity but then resumes as a pay parking space. For example, in the coming fiscal year when the Dickson supermarket redevelopment occurs, there will be a loss of parking revenue as some car parks will be out of action for a period.

MR HARGREAVES: I do not go to Dickson anyway. That is a very good reason to avoid it in the future. But you do not seem to have factored in a reduction in revenue for parking fees going forward. Yet we know, for example, that the Dickson one is going to occur and there will be others. But I do not think I fully understand the dip and then the levelling off again. How come? That $3 million out of $18 million is a lot.

Mr Bulless: There are a couple of reasons for the dip in the 2011-12 estimated outcome. The advice from the Office of Regulatory Services was that they experienced a reasonable increase in vandalism on parking meters during the year and a number of parking meters were not operational for various technical reasons. They also indicated that they had not forecast some closures of certain car parks that were subject to the land sales program. So the combination of those factors has seen a small reduction in the estimated outcome.

You might recall that in this current budget the Treasury has been funded $300,000 to do an approach to the market to look at new pay parking options, and that will be looking at trying to address the sustainability of those parking revenues going forward.

In relation to Mr Coe's question about the increases in parking contained in the 2012-13 budget, it depends on where people park and for how long. But just broadly, from 1 July two-hour parking in the city will rise by 50c. In four-hour parking zones in the city, they will rise by $2. In all-day parking in zone A in the city, they will rise by $1.50. All-day zone parking in zone B will be a $1 increase. In the town centres, parking in zone A will rise by $1 and in zone B it will rise by $1.

MR COE: Thank you.

THE CHAIR: This will have to be the last question, then we will go to—

MR SMYTH: Can I ask one small one?

THE CHAIR: Two small questions.

MS HUNTER: I did want to ask one about dividend revenue. Would that be better to ask after lunch? Yes, okay. Then I do want to come back to the parking one. What role, Treasurer, will you have, or not have, in regard to pushing for pay parking in the parliamentary triangle? Does Treasury have any role? Do you, as Treasurer, have a role? And is it being pursued actively by the government?

Mr Barr: Yes, I have a role. I met with the federal finance minister recently and indicated this was an area that, on equity grounds, they needed to address. I think it would be fair to say that over the last 20 years or so there have been various attempts by some sections of the commonwealth to address this anomaly that have been met by some fairly creative responses from Treasury and finance departments at the commonwealth level.

MS HUNTER: Yes, I understand some of it is about lowering morale of the workplace.

Mr Barr: Indeed. I think Sir Humphrey Appleby would be impressed with some of the efforts in terms of briefing of federal ministers over the years. It is undoubtedly an anomaly. The Property Council and everyone who pays in other areas surrounding have expressed concern at how this system is allowed to continue.

MS HUNTER: When you had those discussions, did you get any sense that there would be some sort of breakthrough? This has just been going around and around.

Mr Barr: It was the first time that the current federal finance minister had heard the story. I suspect that, again, the enemy of reform tends to be that bureaucrats are permanent and politicians come and go in the classic—

MR HARGREAVES: Some not quickly enough, it could be said.

Mr Barr: In the classic *Yes, Minister* sense. I very much look forward to hearing what the explanation from the federal Treasury and finance departments would be this time on why it would be inappropriate, given that there is charging for parking. I think, interestingly, it was expected that one of the triggers to this might be the fact that, under FBT rules, when some structured private paid parking was placed in the triangle, this would change the dynamic a little. I would have to take some further advice as to whether a little more of that might make the situation untenable for the commonwealth.

MR SMYTH: Minister, given you have abolished stamp duty, when will the conveyance line, in total $1.3 million, disappear from the budget papers? Or is it true that we have not actually abolished stamp duty?

Mr Barr: No, we are phasing out stamp duty over a 20-year period. And you will see the timetable—

MR SMYTH: When will it disappear?

Mr Barr: Over the 20-year period.

MR SMYTH: Twenty years.

Mr Barr: Yes, but again you will see, in the context of the way that we are going about the abolition of stamp duty, we are certainly favouring the vast bulk of transactions at the lower end of the scale ahead of phasing out at the top end.

MR SMYTH: And given that for the last three hours and 22 minutes, Ms Doran, you have actually remained mute and not offered anything, have you got anything to say on this morning's proceedings or do you wish to avoid making an actual statement?

THE CHAIR: She has done a very good job. Thank you very much to the Treasury officials—

Ms Smithies: Can we just cover off one thing?

THE CHAIR: Sure.

Ms Smithies: We have got $17.7 million worth of first homeowners grant budgeted for this year.

THE CHAIR: Thank you very much for that.

MR SMYTH: Sorry? $17.7 million less will be going out in grants this year?

Mr Barr: No. That $17.7 million is what will be paid in first homeowner grants.

MR SMYTH: What was paid last year? Or currently paid this year?

Mr Ahmed: Last year was $17.9 million.

THE CHAIR: $17.9 million.

MS HUNTER: So it is about the same.

THE CHAIR: Okay. Thank you very much to the Treasury officials.

MS HUNTER: Questions on notice?

THE CHAIR: Yes, we will obviously have questions on notice. I have been noting them as we go.

I now welcome Mr Buckley from the Independent Competition and Regulatory Commission, ICRC. You are probably very familiar with the privilege statement, which is on the blue card in front of you. Have you read that and understand the implications of it?

Mr Buckley: I have.

THE CHAIR: Before we go to questions on the ICRC, do you, Treasurer—

Mr Barr: I do not have an opening statement.

THE CHAIR: Mr Buckley, do you want to make an opening statement?

Mr Buckley: I do not have an opening statement, Madam Chair.

THE CHAIR: Okay. I will go to my first question. It is in relation to budget paper 4 on page 518. It notes that a 2012-13 priority will be providing advice to the minister on the operation of the feed-in tariff scheme. Given the marked drop-off in installations following the scheme's closure last year, I am just wondering if you can give us some information on whether the total number of installations will continue to be reported upon in the quarterly feed-in summary statement.

Mr Buckley: Yes.

THE CHAIR: They will be; okay. And noting that the last quarterly feed-in summary is overdue by about two months, I think, can you advise whether or not this will be published?

Mr Buckley: Yes, we will publish it.

THE CHAIR: It will be? Do you have any time? As I noted, it is about two months overdue at the moment.

Mr Buckley: This week, I am informed.

THE CHAIR: So we can expect to see that this week?

Mr Buckley: That is correct.

THE CHAIR: Okay. Mr Hargreaves, did you want to ask any questions?

MR HARGREAVES: No questions.

THE CHAIR: Mr Smyth? No. We will go to Mrs Dunne.

MRS DUNNE: Mr Buckley, in relation to the carbon tax, what methodology does the ICRC use to factor into its price determinations the amount of the carbon tax? You have made announcements in relation to the electricity pricing, most of which is as a result of the carbon tax, so I was wondering if you could outline to the committee what the methodology is that you use.

Mr Buckley: The methodology the commission uses is a standard index cost-based methodology and it determines on an annual basis the increase in the cost of wholesale energy. The commission reviewed the contractual arrangements in the electricity market and it observed that retailers—and we were advised by ActewAGL—were now purchasing their energy on a carbon-exclusive basis, and that was to hedge their risk, as it were, to the introduction of a carbon price; that is, the policy uncertainty in the years leading up to it and also the uncertainty as to whether or not the price in effect would be $23.

MRS DUNNE: So can you—sorry.

Mr Buckley: This is trying to give some context to how the commission determined the value of carbon. In the end the commission has assumed that the price of carbon will be $23 and that the energy intensity is about 0.92 tonnes of carbon per megawatt hour of electricity, so you multiply the $23 by the 0.92, which brings you down to around $21 per megawatt hour for the cost of carbon. That is added into the wholesale cost of electricity. The increase allowed for in the cost of energy is overwhelmingly a result of the carbon price. The spot price has been relatively benign of late, given the very mild summers which we have been experiencing.

On top of that there are two other elements of where the carbon price is taken account of, and that is in relation to energy losses—losses principally in the distribution system; energy has to be purchased to make up for that and there will be a carbon price included in that—and ActewAGL, the retailer, is given a 5.4 per cent margin on its purchases, and that 5.4 per cent is applied to the carbon price at purchase. So when you add those three factors together the commission determined that 14.2 per cent of the 17.4 per cent increase which has been allowed for energy prices, retail prices, to rise next year was the result of the introduction of the price on carbon.

MRS DUNNE: Could I just follow up? Has the energy intensity factor of 0.92 come down over the last little while? I seem to recall that it was higher than that.

Mr Buckley: These are the figures which the commission takes from the commonwealth office.

MRS DUNNE: Okay. I have got other questions, but they are on a different subject.

THE CHAIR: Yes, I know. I will go to Ms Hunter and then I will come back to you, Mrs Dunne.

MS HUNTER: I want to ask some questions about the greenhouse gas inventory. I was wondering when the 2012-13 inventory will be published.

Mr Buckley: We will produce it and provide it to the minister.

MS HUNTER: Minister, is there a regular timetable when you receive that?

Mr Buckley: It goes to the Minister for the Environment and Sustainable Development.

MS HUNTER: Of course, yes. We will ask if there is a regular timetable. Mr Buckley, is there a regular timetable? Do you do it at the same time each year?

Mr Buckley: If this is referring to the greenhouse gas emissions reduction scheme, that is produced at the end of the year following, so we will not have that data until after 30 June; it will be produced after that. Because that scheme is ending, I think the issue is that there is a difference. It is collected on calendar and financial years and we have to await those differences.

MS HUNTER: The inventory: do you do that on a fee-for-service basis?

Mr Buckley: We do the emissions scheme, yes.

MS HUNTER: You do the emissions part of it on a fee-for-service basis. I notice there was a 50 per cent increase in staff in 2010-11 to 2011-12 and there is a forecast of a 50 per cent decrease from 2011-12 to 2012-13. What is that drop in the staffing level about? Is it to do with these types of projects you take on?

Mr Buckley: It is partly to do with the uneven nature of the work the commission took on the secondary water inquiry and is gearing up for the review of water and waste water. In addition, there was the greenhouse gas emissions work which is being done. The commission is also in the process of transitioning; there have been a number of retirements from the commission and the commission has taken on some new staff in preparation for retirements of staff. There are a number of factors which have contributed to that. I think Mr Gray last year also referred to the fact that we were attempting to do—to build our capacity and use some more in-house staff rather than employing consultants as much as has been done in the past.

MS HUNTER: That was one of my questions: that balance between staff that you employ and consultancies. I guess quite a lot of the money that has been allocated to those projects has gone on external consultants?

Mr Buckley: Some of it has. If you wanted me to, I would have to take on notice—

MS HUNTER: It would be great if you could take that on notice.

Mr Buckley: the breakdown between in-house staff and external consultants for projects.

MS HUNTER: What is the amount that the ICRC invoices the ACT government for producing the emissions work?

Mr Buckley: The secondary water inquiry will be paid for—

MS HUNTER: Just going back to the work that has been done, though, the emissions work you have done: how much did that cost? What invoice did you put in to the ACT government for that work?

Mr Buckley: I would have to take that on notice.

MS HUNTER: If you could take that on notice; thank you.

THE CHAIR: Is there anything further?

MRS DUNNE: I have got a range of water questions and other people might want to jump in as well. Just in reference to some of your recent work, commissioner, in the draft report on secondary water use you say that the ACT's water supply is secure for 20 years. I am wondering why it is that the levy of more than $200 a year for the current major water security projects is seen as permanent if we are going to get to a stage in 20 years time when we are going to have to revisit water security.

Mr Buckley: The comment in relation to water security was at this point in time and it is a probabilistic assessment. That probability can change as circumstances change. It does not mean that the ACT would not go into water restrictions at any time during the next 20 years. What it means is that the likelihood of going into water restrictions is viewed as low, given the current water in the dams and the current level of usage. Clearly, if a severe climatic event occurred then there is still the possibility of going into water restrictions. When we have such a large quantity or capacity in our dams at the moment, that is not likely over the next few years.

MRS DUNNE: So is going into water restrictions the only measure for water security that you would take into account?

Mr Buckley: The commission use the water security objective which was produced by the government's own objective. That has been put forward as that you would not have water restrictions more than one year in 20. The commission put some effort into trying to see how you would operationalise a statement like that.

MRS DUNNE: If the ACT's water supply is secure for the next 20 years, what further additions to the primary water supply will be required beyond that time?

Mr Buckley: That would depend upon the rate of population growth—it is primarily population growth which drives the demand for water—and also any changes in climatic conditions. That is the amount of precipitation and evaporation combined. It is really the issue of the stream flow into the dam systems. What we have said in that report is that what is needed is an integrated planning arrangement where these conditions can be assessed on a regular basis to determine what is the best way of meeting the water requirements and the water security needs of the territory.

There would be a range of options. At one extreme you have greater storage capacity—so that is a supply side response—and at the other side of the spectrum you have demand side responses to affect people's usage of water. Depending upon what is happening, you would choose from a suite or a combination of those to try and best meet the changing water security of the territory.

MRS DUNNE: On the subject of water, can I dwell a little on the report on secondary water use. This is an issue that I have traversed a couple of times. The government has constructed a number of urban waterways and a fair amount of money has gone into the infrastructure without a cost-benefit analysis or business case. Does the commission think that it is prudent for the government to construct water infrastructure without a cost-benefit analysis?

Mr Buckley: I would imagine that all government expenditure should be assessed on the benefits which are viewed as coming from those schemes and the costs. The financial costs are usually pretty clear. In some cases, the likely benefits or the types of benefits which can come from them are uncertain. That is why the commission recommended that in relation to the inner north pond scheme—which was, after all, a trial—it was important that the results of that trial be fully analysed, not before further stormwater work was undertaken but before stormwater schemes were used for the purposes of water security.

So there is a distinction. Those water projects have an environmental function in improving water quality and urban flows. They reduce flooding. The commission did not look at that in its review. It said that on top of those schemes—bolted on to the top of them—was a plan to also use those ponds for watering playing fields and other secondary water uses. Our assessment went to that and not to the cost-benefit assessment of the water schemes for improving urban water quality. But the point would stand: you would have to say that if there are significant capital works projects then it is always useful to understand just how much they were going to cost and the expected benefits you are going to get from them.

THE CHAIR: Just on that, though, the environment commissioner—the report came out before you brought out your report—actually recommended that we should be pursuing these sorts of projects, urban wetlands and waterways, to address some of the water quality issues. I appreciate you said that you were looking at a different set of circumstances and I know you said there would be things on top of what you looked at, but did you consider that the environment commissioner had said that we should do more of these projects? It was not a contradictory recommendation, but it was, I guess, probably different to what we had seen from the environment commissioner, saying, “Yes, we should do this because they have environmental and other benefits.”

Mr Buckley: Then they should be judged on the benefits which you are likely to get out of it. I think last week I heard Lake Burley Griffin referred to as a—what was it?—urban—

MS HUNTER: Stormwater catchment or collection—

Mr Barr: A stormwater catchment or collection scheme.

Mr Buckley: I think Mr Sullivan’s comment was to change people’s perception or remind people of what some of our urban waterways are there for. The commission is not commenting on that. It was asked, I think, a different question, which was: where these schemes are being used for an additional purpose, how would you go about evaluating the costs and benefits of those additional purposes? I would come back to the first one and say that improving the quality of urban water is important. Clearly, the territory has an obligation to return water to the catchment—we are in the upper reaches of the Murrumbidgee area—in a suitable condition. What we should be looking at is this: what is the most cost-effective way of improving the water quality of urban run-off in the territory? When the territory puts in place schemes and works to do that then it should be rigorously assessing what is the most cost-effective way of achieving that objective.

MRS DUNNE: Just to complete that little section of questioning, what methodology would the ICRC consider appropriate for assessing the cost-benefit of the water quality and the water security options? You concentrated on the water security options because that is your current remit, but in doing that you must have set your mind to, if we were assessing the cost-benefit analysis of the water quality initiatives, how you would do that as well.

Mr Buckley: I think in that one you could still use a fairly traditional cost-benefit approach. If you have a well-defined water quality objective and you have various alternative means of achieving that water quality objective, those alternative means of achieving it would have financial costs and probably in some of the cases there would be other non-financial costs. You would want to take those into account. That would be the mechanism which I think the commission would be saying is how you would go about doing that.

MRS DUNNE: So do we have a well-defined water quality objective?

Mr Buckley: I am straying out of my area.

Mr Barr: It is not really for the ICRC to say, is it?

MRS DUNNE: The ICRC has to assess those things.

Mr Buckley: We do have a published one, from recollection—and that is, the territory seeks to return water of a quality which is comparable to water run-off out of an agricultural catchment area. We can define the quality of water which runs into streams which is agricultural land and we can seek to have water of a similar quality leaving the territory past lower Molonglo.

MS HUNTER: You took on notice a question just before on the work that is done around the emissions. You have taken on notice what you are invoicing the ACT government. I was wondering if you could include in that some sort of breakdown of what makes up that invoice in relation to staff hours and so forth.

Mr Buckley: Yes, we can do that.

MS HUNTER: The other question I had—and I was hoping you would be able to answer it—was this: what is the contribution of the transport sector to greenhouse gas emissions? Do you collect that data?

Mr Buckley: I would have to take that on notice but, from memory, the methodology which the commission is using follows the commonwealth's emissions arrangements. I think there is a transport component to it, but I am not definite on that. We will tell you precisely the transport component in it.

MS HUNTER: Thank you. Also, could you see whether you can provide a breakdown of the transport sector fuel usage by fuel type. It may be that you do not collect that; it might be a question for ESDD. But, if you do, could that be included, please.

Mr Buckley: If we can.

MS HUNTER: I think that is a yes from the back of the room.

THE CHAIR: So they are taken on notice; is that correct?

Mr Barr: Yes, but on that last one I think the answer will come back through ESDD.

MS HUNTER: Okay. Page 5 says that under the new Climate Change and Greenhouse Gas Reduction Act 2010 the ICRC will prepare annual reports by 30 September annually and that is the agreement you have with ESDD, so that is after each financial year.

Mr Buckley: That is correct.

MS HUNTER: You would prepare them by 30 September and then send them off to the minister. Thank you.

THE CHAIR: Did you have any questions, Mr Smyth?

Mr Smyth: No.

THE CHAIR: Mrs Dunne?

MRS DUNNE: In relation to the water pricing inquiry, what efficiencies will the commission be looking for in Actew's water pricing submission?

Mr Buckley: The way that will be undertaken is that Actew will put forward to the commission a submission on their operating budget and their capital works budget over the five-year period. The commission is currently working to engage an engineering consultant and we will review the capital works and operating expenditures of Actew to see what efficiencies they are proposing to achieve. We will get expert advice on their actual level of operating efficiency and we will seek to move them from where they are to where our expert believes they should be.

MRS DUNNE: Just in passing, Madam Chair, when I was upstairs I think Mr Bulless said that Treasury had done some analysis of the Actew water initiative, and I was wondering whether we could obtain a copy of the Treasury analysis of the Actew initiative.

Mr Barr: I will think about that. It may be cabinet-in-confidence, but I will consider it.

MRS DUNNE: Somebody may have already asked that, but I did not recall hearing that being asked for. In relation to the five-year determination, what is written into the policy in relation to supplementation for revenues lost due to fall in water sales?

Mr Buckley: Under a traditional revenue cap form of regulation you can put in place an arrangement where revenue forgone is included in the next revenue determination. Actew will make a submission, as I have already indicated, to us and we will see what Actew submits in relation to the recovery of revenues forgone in the previous regulatory period.

MRS DUNNE: You do not have a particular policy one way or the other; you just suck it and see every time it comes up as an issue?

Mr Buckley: It really depends on the nature of the understanding of the entity in the previous period. If there was an arrangement where there was a clear understanding that under-recovery of revenues would be recovered, the onus would be on the regulator to allow for that recovery and I would have to review the nature of the arrangement with Actew as to the under-recovery. There were arrangements in the first years of this current regulatory determination that under-recovery would be recovered and that is what occurred last year when the midyear price adjustment was higher than what people might have anticipated, and that was because of the under-recovery of revenues in the first two years of that determination.

MRS DUNNE: And the price adjustment last year for under-recovery was not the first time that there has been a price adjustment for under-recovery. I recall one in 2005, 2006—something like that—as well.

Mr Buckley: Your experience on this is greater than mine. This is the first revenue determination I will be undertaking on Actew’s water business. But in terms of regulatory arrangements it is not unusual that under-recovery of revenues would be included at a future time. If the intent of the regulation is to allow the efficient recovery of the business’s costs, and if the revenue forecast did not allow for that efficient recovery, it is not unreasonable for that revenue to be caught up at a later time.

MRS DUNNE: Okay. Thanks.

MS HUNTER: Page 518 of budget paper 4 puts down 2012-13 priorities for the ICRC and the final priority listed there relates to cooperating with the Australian Energy Regulator around implementing changes arising from the national energy retailers legislation, and that is to take effect on 1 July. What specific changes does the commission anticipate it will be involved in as a result of the new requirements under that legislation?

Mr Buckley: The commission has been working with the Environment and Sustainable Development Directorate to put in place the new national energy customer framework, which will start from that period, and that involves the transition of responsibilities for the retail sector from the jurisdictional regulators to the Australian Energy Regulator.

MS HUNTER: Okay. So do you have any concerns about any of the new requirements?

Mr Buckley: No.

MS HUNTER: Are these changes expected to result in significant changes to the commission’s activities in 2012-13? You are being taken out of the picture, in a sense, on a lot of these regulatory activities. So how is that going to change what you do, and will the reduction in powers result in staffing changes too?

Mr Buckley: It will certainly change the nature of the work of the commission. But this is an evolution which has been going on for some time. The commission did have responsibility for setting the network charges for gas and electricity. Those functions went in 2008. At one time the commission set gas utilities' gas prices. It no longer does that. What is continuing is that the commission still has an ongoing role, at least up to 2014, in determining the retail electricity prices. That has not changed. There is still the ongoing role in electricity.

Yes, the nature of the commission's work has changed. The inquiry into secondary water use took it into aspects of water policy which it had not previously been involved in. Clearly it had been working in that area in determining water and waste water charges. It managed to, as it were, look at more whole of catchment issues as a consequence of getting in there. You have been also talking about the greenhouse gas area; these are increasingly activities the commission is taking up. So, while it is phasing down in some areas, it is growing its capacity in other areas.

MRS DUNNE: Just on that, what assessment, if any, has the commission made in relation to the disparity in energy prices between New South Wales and the ACT? There is fairly regular sort of commentary about the cost of electricity in Queanbeyan as opposed to here. Has the commission come to a view as to the principal causes of that disparity?

Mr Buckley: The commission has not done a detailed analysis of that. The commission has usually made a comparison between electricity prices in Canberra and those in neighbouring Queanbeyan. But that is done at a high level and we have not looked in detail at the exact causes of the differences. But, from understanding how the commission's model works and how IPART determines those prices in New South Wales, two things stand out: one is that network charges are much higher in New South Wales and they have been going up at a much higher rate than the network charges for ActewAGL distribution. That reflects the younger age of a lot of the assets in the territory; they did not have the same need for capital expenditures as, say, an older network such as what was Energy Australia—their new name is Ausgrid—or some of the peak load issues which Integral Energy or Country Energy had to deal with. Also there were not the same changes to reliability standards in the territory as there were in New South Wales. That drove the higher network charges in New South Wales vis-a-vis the territory.

MRS DUNNE: Doesn't the New South Wales network deliver electrons to the ACT?

Mr Buckley: The transmission system does; that is Transgrid. While Transgrid, yes, did have a sizable increase in its charges, the transmission component is less than 10 per cent of the overall thing. So when you have something that is only 10 per cent of your bill going up by 15 per cent, you are coming back to about a 1.5 per cent increase. So that is why, even though the Transgrid component is the same in New South Wales as it is for the territory, it is only a very small component that goes—

MRS DUNNE: So it is the retail transmission?

Mr Buckley: That is right. It is the local distribution network; it is usually around half the bill, whereas the transmission part is about 10 per cent. The other is a methodological difference in the way IPART determines the wholesale energy cost where they use a theoretical long-run marginal cost of generation, and the commission has traditionally used a market-based measure. The commission has observed what a retailer is likely to have paid in the market for its energy and it has based its cost increases on that.

MRS DUNNE: So that is more based on the actual history of purchase of energy rather than the projected cost of generation?

Mr Buckley: Correct.

MRS DUNNE: Okay. Thank you.

THE CHAIR: We are out of time. Thank you, Mr Buckley, for appearing. As mentioned at the commencement of the hearing this morning, there is a time frame of five working days for the return of answers to questions taken on notice at this hearing for the outputs and agencies covered; that is, Treasury output class 1, financial and economic management, specifically output 1.1, economic management; output 1.2, financial management; output 1.3, revenue management; and ICRC. On behalf of the committee, I would like to thank you, Treasurer, and officials from the Treasury Directorate and the Independent Competition and Regulatory Commission for attending today and in advance for responding promptly to questions taken on notice.

After lunch we will return with ACTEW Corporation Ltd followed by the territory banking account, superannuation provision account, the ACT Insurance Authority, the ACT Compulsory Third-Party Insurance Regulator, the home loan portfolio and then conclude with ACTTAB.

Meeting adjourned from 1.02 to 2.02 pm.

THE CHAIR: Thank you, Treasurer, once again for being with us this afternoon. Good afternoon and welcome to this second day of public hearings of the Select Committee on Estimates 2012-2013. The Legislative Assembly has referred to the committee for examination the expenditure proposals in the 2012-2013 appropriation bill and the revenue estimates in the 2011-12 budget. The committee is due to report to the Assembly on 14 August 2012.

The committee has resolved that all questions on notice will be lodged with the committee office within three business days of receipt of the uncorrected proof of transcript, with day one being the first business day after the transcript is received. Answers to questions on notice will be lodged with the committee office within five business days of receipt of the question, with day one being the first business day after the transcript is received, and answers to questions taken on notice will be returned five business days after the hearing at which questions were taken, with day one being the first business day after the question was taken.

Proceedings this afternoon will commence with an examination of the expenditure proposals and revenue estimates for ACTEW Corporation Ltd followed by the territory banking account, the superannuation provision account, the ACT Insurance Authority, the ACT Compulsory Third-Party Insurance Regulator, the home loan portfolio and then conclude with ACTTAB.

I draw your attention to the privilege card in front of you, just to make sure you are aware of the implications of that. I have received nods. The proceedings today are being broadcast so be aware of that.

Before we go to questions from the committee, Treasurer or Mr Sullivan, would you like to make an opening statement?

Mr Sullivan: No, thank you.

THE CHAIR: Then I will go to my first question, which is in relation to the Cotter Dam enlargement. There is a reference to it in budget paper 4 at page 459. What type and quantity of materials must be imported to the ACT for this enlargement?

Mr Sullivan: The most significant materials being imported for the dam's construction would be cement dust and fly ash. Cement dust comes from Berrima; fly ash comes from Lithgow. The major construction elements, be it the aggregate, are all indigenous to the site, so they have all been either quarried or taken from the abutment strippings. All of the rock that makes up the dam wall is from site. The batch plant itself is from the United States. It is leased. So most of the construction material comes from interstate and most of the heavy machinery comes from interstate, from out of Canberra.

THE CHAIR: And how was it all transported here to the ACT?

Mr Sullivan: Generally by truck.

MR SMYTH: If not by truck, then what? Was some of it flown in or freighted up the river?

MS HUNTER: Rail.

THE CHAIR: Rail would be good.

Mr Sullivan: Rail?

THE CHAIR: It obviously was not going to happen. I think one of the companies that supplied the cement was looking at wanting to transport it here by rail, but obviously it was not an option to do that; it basically had to be trucked in.

Mr Sullivan: I was not aware of it. The cement dust and the fly ash come in very special silo type container trucks, so they get vacuumed up into the silos.

THE CHAIR: Okay. Just further on that, how much is expected to be covered in insurance payouts for the March 2012 floods?

Mr Sullivan: The cost to us was roughly about $17 million to $18 million and about half of that will come in insurance payments.

THE CHAIR: And has the March flooding increased the project's total expected expenditure?

Mr Sullivan: Yes, it has, by the net insurance cost. So it has gone to $404.63 million.

THE CHAIR: So that is the total expenditure now?

Mr Sullivan: Yes, that is the total net budget.

THE CHAIR: Thank you. Mr Hargreaves?

MR HARGREAVES: No, not at the minute.

THE CHAIR: Ms Hunter?

MS HUNTER: I might start with user charges in budget paper 4, page 461 and also 465. I note that user charges, non-ACT government, in 2012-13 are budgeted to increase by $48.5 million compared to the estimated outcome for the previous financial year and ACT government charges are budgeted to increase by $4.321 million compared to the 2011-12 year. On page 465 the increase in revenue is attributed to expected drier weather, which is obviously our future; that is in 2012-13 compared to 2011-12. These are very significant increases in revenue. Could you explain your rationale behind this increase and also how you predict how dry it is going to be. I know that you have some predictions over time, but how do you put it to financial years?

Mr Sullivan: We use a series of climate models. In the end we used two models from the ANU, one of which is basically on a current forecast of rain and one of which is a longer term forecasting of rain, and we combine the two to produce our model. Then the Independent Competition and Regulatory Commission will look at what they believe, and in the end it is what they determine that goes into the price determination and therefore forms part of the estimates process. You would probably describe what they use as the Actew model with a slight flick and turn, because they cannot be the same, of course. We would probably be generally regarded as more conservative in our modelling than the ICRC or some other commentators.

MR SMYTH: Why is there not an updated statement of corporate intent from Actew this year?

Mr Sullivan: There is a statement of corporate intent this year.

MR SMYTH: No, I said an updated.

Mr Sullivan: What do you mean by updated? It is—

MR SMYTH: Most years, most of the institutions that deliver a statement of intent issue a new one with the budget. I note you have got one that runs from 2011 to 2014.

Mr Wallace: It is in progress. Normally it comes to the committee, I think, in about August. That is the normal process.

MR SMYTH: So we will see it in August?

Mr Wallace: Yes. It is finalised from our side; it is with Treasury.

Mr Sullivan: I apologise; I was answering on the basis that I have seen one. I have seen a draft.

MR SMYTH: You are lucky, because we have not; we have only got the 2011 to 2014 statement of corporate intent to work from. In the top priorities for 2011-12, both under water and sewerage, it does not mention the transfer of water back from ActewAGL to Actew. When did that work commence?

Mr Sullivan: Probably, in a real sense, about August-September of last year.

MR SMYTH: All right. So why is that not in the top priorities?

Mr Sullivan: It was not, at the time of the SCI, a top priority. It certainly was not agreed with the board until about February this year.

MR SMYTH: All right. What is the purpose of moving the water back into Actew?

Mr Sullivan: First, Actew's view has been the separation of the asset management staying with the corporation and water operations being in the joint venture ActewAGL and half owned effectively by Singapore Power, or Jemena as they are known in Australia, meaning that the relationship was a very commercial one. It was very profit oriented. It required, in the end, that a move in terms of operational direction had to be quite formal from Actew, as the asset owner, to the operations manager.

It also had commercial aspects to it which had been agreed to in the price path determination of the ICRC in 2008 but which I felt were probably one of the impediments to greater efficiency in the water business. Therefore, by bringing it back into Actew, we removed this need for the formal direction in terms of our water operations. We removed a number of commercial margins from the business which will be declared in our regulatory submission as savings and efficiencies. It meant that we could take advantage, to use that word, of having the entire water business under the TOC Act, allowing us to look at profitability, sustainability and the interests of our consumers. It is not defined in the TOC Act how you measure that and how you mix it, but it seemed to me to be an advantageous position to put water in.

MR SMYTH: What are the advantages that come from being under the TOC Act?

Mr Sullivan: The TOC Act requires me, as a corporation, not to have profit as my sole and single motive. The TOC Act requires me to consider profit, to consider sustainability and to consider the interests of the ACT in terms of decision making. When you are in a commercial joint venture, particularly at the low margin end of water operations, you tend to have a very strong profit-only motive coming from your partner.

MR COE: Does that mean company tax will no longer be a factor for water?

Mr Sullivan: Company tax is not a factor for water now. It is a factor for water in that we pay the equivalent of company tax to the ACT government. That does not change. A distribution from ActewAGL was a gross distribution which we then would look at company tax equivalence issues for in our distribution back to the shareholder. That does not change at all.

MR SMYTH: There was a comment attributed to you in Friday's *Canberra Times* which said that there is a tension in the objectives of ACTEW Corporation and the more profit driven focus of ActewAGL. Does that mean we are getting the least competitive parts of ActewAGL back again?

Mr Sullivan: No. It depends. I know—

MR SMYTH: Or the least profitable?

Mr Sullivan: Water is the least profitable part of ActewAGL; there is no doubt about that. And the operation side of water is not the most profitable part. The tension I talked about—that tension I have just described—was more than asking if it is profitable or unprofitable. It is very important that, in a business where the margins are not great, you also find it hard to convince your partner sometimes to take a long view, and therefore commit to what could be described at times to be some lumpy expenditure, when your short-term funds availability, particularly for a joint venture that does not borrow—it tends to use available funds. It means that you can sometimes constrain your business in a way you should not do.

MR SMYTH: Right. Who started the discussion? Was it raised by ActewAGL or was it raised by Actew?

Mr Sullivan: It was raised by Actew.

MR SMYTH: What led you to commence the discussion?

Mr Sullivan: We are always looking at the strategy behind our business and how we could improve it. Looking at the operation of the internal contracting between Actew and ActewAGL led me to a view that said that this was a question that should be tested, and tested well.

MR SMYTH: And just a final one from me: if Actew is not profit driven—

Mr Sullivan: I did not say that. Do not—

MR SMYTH: No.

Mr Sullivan: Please do not say things I do not say.

MR SMYTH: No. Let me finish. All right. If the primary consideration is not necessarily always—

Mr Sullivan: No, I did not say that either. If you preface it by saying, "If you have a dual objective"—

MR SMYTH: No.

Mr Sullivan: "including profit and other things"—

MR SMYTH: All right. Happy to say—

Mr Sullivan: "profit would be my primary motive."

MR SMYTH: I am happy to say "dual objective". In the dual objective, what does the move of water and sewerage back into the organisation do for the profitability and return to the shareholders?

Mr Sullivan: On the flip side of that is that the efficiencies that will come from being in a single business line will improve profitability.

MR SMYTH: All right.

Mr Sullivan: This is why this one for me is a real no-brainer. It is about the fact that I believe that running this business out of one entity will actually improve profitability. It will allow us to basically return, without question, some of those efficiencies back to consumers.

I would have had a choice. For instance, at the moment if I ask ActewAGL to do something for me, I will pay a three per cent margin on the cost of doing that, which has been accepted by the regulator. We could have made a decision to try and bank the three per cent, but it was clear to us that, in removing that arrangement, you should deliver that up as an efficiency to the business immediately. We are seeing that efficiencies will flow to consumers, but I think that we will make this a more efficient business very quickly.

MR SMYTH: All right. And will that lead to an increased dividend to the shareholders?

Mr Sullivan: Not necessarily. Again, literally it will be dependent upon what the profit from water is, which will depend on many things, including rain. But I think, from the water operation side of the business, we should see a better return over time on our business.

MR SMYTH: All right. Will ActewAGL be more profitable as a consequence of transferring it back?

Mr Sullivan: I think ActewAGL may be more profitable. Their focus will be more and more able to be devoted to energy; that could see ActewAGL become more profitable. A single utility business is a good notion, but to try and cover off, we are probably the only successful example of it in the country. To have Actew worry about water, have ActewAGL worry about energy and take the synergies between the two in respect of the delivery of corporate services, including the capacity for individuals to be able to ring a single number for billing inquiries and things like that, gives a good mix.

MR COE: Can you foresee a time when there would be similar merits in bringing electricity into the fold?

Mr Sullivan: No, because ActewAGL have the advantage of being both the asset owner and the operator in terms of all of our energy assets. They have a single line of business right from asset management through to operations. That to me was the compelling thing. If you have an asset owner over here and the owner, and then say, "We own the assets"—we effectively half own the operations through a partnership with Jemena through ActewAGL, a joint venture; it just meant that you could not really drive your own business. I must say that, personally, I wanted to drive the water business.

MR COE: When did the respective boards agree on the transfer?

Mr Sullivan: The Actew board agreed—I will get back if I am mistaken about this—in February. It is in my folder, I am told—as I knew it would be. In October, they agreed in principle to start and proceed with a negotiation. In November, they approved the integration and authorised me to finalise the agreements. The Jemena board agreed in May.

MR COE: And how long was the business case for the transfer being prepared?

Mr Sullivan: Between—

MR COE: How long before—what month was that? October?

Mr Sullivan: October.

MR COE: How long before October was this in the pipeline or under consideration?

Mr Sullivan: As I said to Mr Smyth, it was from about August.

MR COE: Right. It is a pretty big decision to make in just a couple of months.

Mr Sullivan: It is not a huge decision. We are talking about a business which we half own, which we run in a partnership within a joint venture. And we are transferring it, in total, back to an owner. It is like saying that you are in a partnership in a business and you dissolve the partnership. Is it a big business case to take the whole business back? No, it is not a big business case.

MR COE: I would actually say it is a big business decision for most businesses to do so in a couple of months.

Mr Sullivan: You might find it that, Alistair, but I do not. In terms of big business decisions that I have taken while in Actew, it is not a big one. It is a very important strategic issue. Strategic is not the business case. Strategic is where you want to take your business and what impedes you from taking your business where you want to take it. You make an in-principle decision. Then you look at whether it stacks up.

MR COE: Before you go into the semantics of what a big decision is, I would have thought that something which has as much significance as this would have been in the pipeline for much longer than a couple of months.

Mr Sullivan: You do not run Actew so you do not know that. I am telling you—

MR COE: That is why I am asking.

Mr Sullivan: I am telling you that that is—

MR COE: That is why I am asking.

Mr Sullivan: That is a very reasonable line to take in terms of thinking this through in August. Two months for Actew is a long time to do some work. I do not care whatever anyone else does, but in two months time we do a lot of work. We developed the business case to the point. We then went, from October through to May, from approval in principle to having Jemena sign off that they were also comfortable with this decision, under the guidance of ActewAGL, who were playing middle person for us both—and have proceeded with the transaction.

As I say, I had non-corporate structures operating as a partnership, which meant I had full liability for the partnership anyway, being a partnership, within a joint venture—which is not a corporate structure; it is a structure. Saying, "I am now going to pull that out and take responsibility for it myself"—I was the partner in the joint venture who probably had an abundant knowledge of the water business. That is without saying my other partner did not, but we knew what we were dealing with. We had a management instrument called the UMA which helped us manage the water business.

With the material, we had everything to be able to proceed in principle, to be able to proceed practically. In the end, my frustration was that we did not move quite as fast as I had hoped we could move. It was getting too close to the date of the transfer for my liking before we could actually say, "We are going to have a transfer."

THE CHAIR: Mrs Dunne.

MRS DUNNE: Is it possible for the committee to see a copy of the business case?

Mr Sullivan: No.

MRS DUNNE: Why not?

Mr Sullivan: That is something that is the board's case. It is in our board papers. It is not the normal practice, although it has become so a little bit, for the Assembly to be seeking board papers. I am not going to offer you the board papers of Actew.

MRS DUNNE: If you are not going to offer them or provide to the committee the board case for Actew, what involvement—

Mr Sullivan: No, the board papers.

MRS DUNNE: The board papers on this business case. What involvement was there with the shareholders?

Mr Sullivan: The shareholders were advised by me that I was considering, or that Actew was considering, the issue. I did not seek their approval. I consulted with them and advised them that we were proceeding with the transaction.

MRS DUNNE: When did you advise the shareholders that you were considering this and why didn't you seek their approval?

Mr Sullivan: I did not believe that under the TOC Act I was required to seek the approval of the shareholders. I always advise and consult the shareholders on most decisions of any significance that I make.

MR COE: Whilst it might not be required, did you think it would be appropriate to get the two shareholders to sign off on it?

Mr Sullivan: No. They put in place a board. This is the dynamics of a corporation. You put in place a board and you ask the board to make decisions in respect of the corporation. To go outside the board and say, "Look, you do not need to approve this but I would like your approval anyway," would just get into hugely bad governance.

There is a strict formulation within the TOC Act, as you are aware, as to when Actew needs to have the approval of its shareholders. For instance, when we borrow money we must have the approval of both the Treasurer and the shareholders. There are instances where we need to go to the Assembly for approval for things. But if you do not, you do not ever say, "Wouldn't it be nice anyway?" I do not know anyone who does that and says, "You do not have to do this." The approval would not mean anything.

MR COE: So what would—

Mr Sullivan: The consultation was there. Clearly, when I consult the shareholders, I always leave it open. If the shareholders said, "Look, we do not like this idea," I would not say, "Well, it does not matter; I have told you."

MR COE: There are lots of things—

Mr Sullivan: I would go back and talk.

MR COE: There are lots of things that the government is doing, that government entities do, that are not stipulated in legislation, but they do so because they are in the interests of transparency or in the interests of the taxpayer and there is merit in doing so. You did not think there was any merit in seeking the approval?

Mr Sullivan: I love this line of questioning. The merit? You have asked me should I have. The answer was, no, I did not have to. Did I consult? Yes. Had there been objections or concern raised, would I have consulted further?

MR COE: I think it is quite a reasonable question to ask where there is merit in it.

MR HARGREAVES: Can we just have one speaker at a time, please?

Mr Sullivan: No. There is no merit. What is the merit in it—in going outside the governance structure created for the corporation?

MR COE: Because it is owned by the ACT taxpayer.

Mr Sullivan: Other than saying that you do not really trust the board to do what it is supposed to do? I think there are people at this table who know more about the creation of Actew as a board and a corporation than I do, but the decision was a very good one that said that an independent board shall manage the affairs of ACTEW. That is what they did, and that is what they do. They ensure that, in doing so, I consult with the shareholders.

MRS DUNNE: Was there ever any consideration of taking this to the Assembly, minister, as a shareholder?

Mr Barr: Taking this to the Assembly?

MRS DUNNE: Yes.

Mr Barr: No.

MRS DUNNE: Why?

Mr Barr: Why would there be?

MRS DUNNE: Because there are provisions—

Mr Barr: Why would we—

MRS DUNNE: There are provisions in the act for taking some matters to the Assembly, and this whole structure—

Mr Barr: This is not one of those matters.

MRS DUNNE: Let me finish. You asked me a question about why it was important. This whole structure was set up by legislation. What Mr Quinlan would like to call the unscrambling of the egg is to some extent happening here. Did anyone at any time think it was a good idea to take it back to the Assembly?

Mr Barr: No. It was not required to go back to the Assembly.

MR HARGREAVES: Can I ask a question on this perspective, please? Minister, you can probably correct me if I am wrong. My understanding is that if the government wishes to divest itself of an asset, it should go and put that before the Legislative Assembly, but there is no such provision about the acquisition of one. Am I right? So there is no obligation on the part of the government to bring forward to the Assembly a proposition to acquire an asset or even, in this case, to take one back?

Mr Barr: Purely outside the appropriation process, depending on how one acquired an asset presumably would be the—this is a curious line of questioning from the opposition here, but the idea that the Assembly performs the role of the board is again an interesting leap in change in governance. For the Assembly to approve or otherwise—is that the position ultimately or—

MRS DUNNE: No. Actually the question was—

Mr Barr: You just posed the question.

MRS DUNNE: I asked you: did you consider it appropriate to take it to the Assembly?

Mr Barr: No.

MRS DUNNE: You could have—

Mr Barr: I said no.

MRS DUNNE: You could have taken it by way of information, by way of a ministerial statement, by way of a whole range of things—short of asking the Assembly to tick off on it. There are a whole lot of means available to you. Did you consider taking it to the Assembly? You are a shareholder. You hold the shares in trust for the ACT taxpayer. Did you consider in any way informing the people who actually own Actew of these decisions and your involvement?

Mr Barr: You have got them right here. We are taking it to the Assembly through the budget process.

MR SMYTH: Well—

Mr Barr: It is no secret.

MR SMYTH: Except it is not in the budget.

Mr Sullivan: Yes; it is in the budget papers.

Mr Barr: Yes, it is.

MR SMYTH: It is in the budget?

Mr Barr: We have been talking about it all morning.

MR SMYTH: Sorry, the decision is not in the budget.

Mr Sullivan: The decision is referred to in the budget papers.

MRS DUNNE: It is indeed. It is referred to in BP4.

MR SMYTH: Yes, but the actual decision has been taken.

Mr Sullivan: It is just that people missed it.

MRS DUNNE: But the decision has already been taken.

MR SMYTH: A decision has been taken, though, hasn't it?

THE CHAIR: I am going to ask a question about some water management issues. I know there have been questions already.

Mr Barr: Are you opposed to the decision? Is that where this is going? Is there opposition from the Liberal Party to that?

MR SMYTH: No, we are just—

MRS DUNNE: Madam Chair, this is a legitimate line of questioning. This is a major announcement—

THE CHAIR: Mrs Dunne, I was not stopping you asking questions. I thought you had actually finished your question. Do you have another question?

MRS DUNNE: I would like to make the point that this is a major announcement and it is not appropriate for the Treasurer to interpret the motivation for the question.

THE CHAIR: Thank you, Mrs Dunne. Do you have any further questions on that? I was going to go to another question.

MRS DUNNE: On this subject, what cost savings have been identified from the transfer and which particular operational areas would deliver those cost savings?

Mr Sullivan: I will take that on notice.

THE CHAIR: That is taken on notice.

I have a question in relation to some water management issues. A couple of major reports have come out recently from the Commissioner for Sustainability and the Environment; the climate change committee has put out a report. What are some of the things you are doing? You have noted some of this in the statement of intent, but what about some longer term management around water quality issues and also around consumption of water and water management? Are you looking at progressing this or taking into account some of those recommendations that have come forward through both of those reports?

Mr Sullivan: You are right to say that between the ICRC, the Assembly and the commissioner's report there has been a series of water management issues raised for the territory. One of the consistent things to come out of that is the fact that we do have divisions in the ACT responsibility for aspects of water management. To a degree, I am technically responsible for potable water. I am not technically responsible for catchment management, even related to that potable water. But we are taking a broader view of potable water management in such things as river quality, source protection and catchment management.

When you get into things like secondary water, if you justify secondary water production on the basis that it substitutes potable water, I clearly have an interest in it. If secondary water gives you a number of other benefits, that is clearly something that mostly would be of interest to the policy department and the operational department of the ACT government.

If you look at these recommendations as a whole, you tend to see some consensus developing around the need for operational water issues to be managed, or at least joined up, if not see some concentration of operational focus in a particular agency.

THE CHAIR: You get to the point where you say you are responsible for this bit, another agency is responsible for another bit. Does that create—

Mr Sullivan: It can create issues, although I must say I think one of the areas where I probably did disagree with the ICRC report on secondary water usage was the level of criticism in terms of the cooperation between agencies such as Actew and the environment directorate or water directorate. I thought the commission was very fair in saying this applied even to the level of cooperation between the commission and some of the things.

I thought that level of cooperation was reasonably good, but I think there is always more room for improvement. I think government is going to have to put its mind to whether it believes it can get a joined-up approach to water management from multiple agencies or whether it is going to seek to see a single agency take more responsibility for aspects of water.

While Actew is always very comfortable and confident in being able to provide some policy advice to government, because of the nature of Actew it should not be a policy department.

THE CHAIR: No; I understand that.

Mr Sullivan: We are a corporation. But on operational sides, certainly it is a question worth asking seriously as to whether there is a benefit in putting some of the more operational sides of water within an agency, and that could be Actew.

THE CHAIR: What about in terms of long-term consumption as well? Again that has been an issue where different recommendations have been made.

Mr Sullivan: I do not see anyone diverging from where we have been heading in respect of water security. With respect to what we have done in water security, if you look at the policy parameters behind our water security work, CSIRO 2030 climate change predictions are as worthy a base as any to work from. So that is what we have worked from. We have worked from the basis that if you are a planner, you do not engage in a population debate, but you must plan so that you can meet the needs of a population. Therefore the best use of population growth statistics is the ABS—take their high estimates of population and you should be protected and give yourself some room.

We assume that the government will meet its targets in respect of per capita potable water consumption reductions and therefore build on the basis that, as government policy, the government would like to see water restrictions limited to one year in 20. That is our framework. While a lot of discussion goes on around short and medium term, I think that is a very good long-term framework to work within.

MR HARGREAVES: I do not know whether you can answer this but I will get you to think about it. On page 282 of budget paper 3 it talks about sustainability in water management. We were just talking about that in terms of long-term stuff. It talks a bit about the think water, act water stuff. Halfway down the page it says that in 2012-13 the government will continue to monitor implementation of Actew's water security project. It then says that an essential platform to this approach is water supply diversification. It gives three dot points there. We seem to have covered, in my view anyway, the first one, which is the enlarged dam. With the pump station and pipeline, it is pretty obvious what is happening there. But I am not so sure about the third one. I will ask you to elaborate a little bit on that—the acquisition of water rights to supplement supply. Is that just the Murray-Darling conversation or is it more than that?

Mr Sullivan: It is Murray-Darling Basin related in that when most water utilities have been looking at water security they have had very similar structure in terms of seeking traditional water storage processes, slightly non-traditional, and then they have been looking at: "What if it doesn't rain? How are we going to get water?" For coastal cities the answer has been desal and for an inland city desal is not really an option at all. Our search for the rainless water option really got down to purchasing water rights in the Murray-Darling Basin.

MR HARGREAVES: From whom?

Mr Sullivan: From irrigators, from farmers, from whoever wishes to sell. They have now a saleable right to water and we have been purchasing water. We have a current entitlement of around 12 gigalitres a year of water. We then have been negotiating with Snowy Hydro to enable us to, if we want to use that water, store that water in Tantangara Dam, release it down the upper Murrumbidgee and then basically capture it through the Murrumbidgee-Googong transfer system and take it across to Googong for storage.

It is something that the National Water Commission has applauded and others have applauded. We are probably one of the first utilities in the country to activate it. We are getting used to what it means for a water utility to be an active water trader, because in purchasing the rights, we are hopeful that we rarely will want the water ourselves. So we are even probably party to establishing a different sort of water rights market—that is, it is temporary water, but we can provide potential purchasers of that temporary water with quite a degree of certainty as to their forward capacity to purchase the water from us, because we believe we would probably have about two to three years notice before we would exercise the use of our own water. So we are a very attractive proposition for someone who does not want to hold their capital in water entitlements but wants to be able to spend recurrent funding in getting water entitlements.

MR HARGREAVES: Does this mean that having complete control of Actew itself will give you more commercial freedom to engage in that trading?

Mr Sullivan: No. The water trading and the water entitlement were always within the ACTEW Corporation. We have purchased the water rights and we are trading our water, so it makes no difference to that.

The notion was basically traditional storages west and east, so that we have redundancy, which really gets over the bushfire experience of 2003 to take advantage in a responsible way of Murrumbidgee water flows, when they allow us to take advantage of them, by having pumping capacity on the Murrumbidgee. It also allows us to transfer capacity to Googong from the Murrumbidgee or use that transfer capacity to take water from Tantangara via the upper Murrumbidgee and the Murrumbidgee, to take that water across to Googong.

As people understand the Tantangara proposal, I think every stakeholder involved is quite comfortable with the arrangement because it really does mean a good set of environmental flows down the upper Murrumbidgee, and it then allows us to capture the water that is ours.

MR HARGREAVES: So this is giving us three-way protection against there not being any rain around for a number of years. Does that make the Tennent dam absolutely redundant as a proposition?

Mr Sullivan: Dams and traditional water storages are always a possibility in the future. My comment on Tennent would be that having been through the experience of having the Cotter Dam approved for environmental purposes, you would never get a dam approved in the Naas Valley anywhere, and quite properly.

MR HARGREAVES: What a shame. Thanks.

MS HUNTER: I want to go to compliance with the Discrimination Act, and this has come up during the year. I had raised some matters with the Human Rights Commission, who had written to the Chief Minister, and had also included the Treasurer, myself and the Auditor-General in that reply. Part of that was the human rights commissioner requesting that government ensure that other TOCs, if you like—certainly Actew was included—were compliant with the Discrimination Act. Mr Sullivan, did you receive a letter to that effect or was that checked?

Mr Sullivan: I would have to check whether we received a letter. I would hope that our compliance with the human rights legislation is always there.

MS HUNTER: It would be great if you could take that on notice.

Mr Sullivan: Just as to whether we received the letter?

MS HUNTER: Yes. I am assuming you would have received the letter from the Chief Minister; I am assuming it would have been the Chief Minister who sent that letter on. It was just to check your compliance and whether there was a review around your compliance with the Discrimination Act.

Mr Sullivan: Being a TOC, we would be, of course, subject to the legislation. So it would not be a question of being able to not comply.

MS HUNTER: No, it is just that the human rights commissioner had raised it in a letter and I was just wondering if that had flowed through and there had been contact with you.

Mr Sullivan: Okay.

MR SMYTH: Back to the transfer of the water back to Actew, what happens with the leave entitlements and superannuation of the 344 staff who come back?

Mr Sullivan: Their leave entitlements are maintained. Actew and ActewAGL operate under a single enterprise bargain agreement. Their conditions of service are unaltered by the transfer because of that fact. Their leave comes back. The only superannuation issue for anyone would be that if someone had become employed by ActewAGL and had a preserved benefit in the Commonwealth Superannuation Scheme they could reignite that benefit, if they had preserved.

MR SMYTH: Does that lead to an increased liability for Actew?

Mr Sullivan: A small increase in terms of cost of contribution from the employer. But I think we are talking about a dozen people at most who may have that entitlement. The Actew staff that went to ActewAGL maintained their right to be in the commonwealth super scheme so it does not affect them.

MR SMYTH: They have continued to contribute.

Mr Sullivan: It does not affect them.

MR SMYTH: Okay. On page 461 there is a 22 per cent increase in the user charges non-ACT government. What is the reason for the 22 per cent increase?

Mr Sullivan: It is basically a water volume estimate.

MR SMYTH: And is that because of a return to what are considered normal rain conditions?

Mr Sullivan: Basically a return back to the volume forecast next year of the ICRC—the revised volume forecast because the mid-term review of the ICRC revised volume forecasts for the out two years—so it is a volume-driven increase.

Mr Wallace: So it is a little bit under ICRC.

Mr Sullivan: It is a little bit under.

MR SMYTH: Under?

Mr Wallace: Yes, it is still under ICRC.

MR SMYTH: Very generous.

Mr Sullivan: My Chief Financial Officer is always more conservative than the ICRC, so slightly under.

MR SMYTH: But it just heralds a return to not so rainy years?

Mr Sullivan: Yes. And if you go back in our estimates papers for the last five years you will see that that return has been heralded every year, and it has never happened yet.

MRS DUNNE: Even though it is conservative?

Mr Sullivan: Even though it is conservative.

MR SMYTH: Between budget pages 461 and 462—this might well be a question for Simon—I see that Actew is subject to income tax equivalent regime. And then on page 462 there is a line called non-current income tax payable. Are they the same things expressed differently, or in some cases do we pay income tax and in other cases we do not?

Mr Wallace: No. It is the actual payment, the cash payment, versus the income tax expense. That is the variance there. It goes into that account.

MRS DUNNE: In relation to the operating statement, what are the government payments for outputs? They are $10.4 million essentially and there is a technical change in the last outyear.

Mr Wallace: It has been generally referred to as the commonwealth's subinvention. It is a payment from the commonwealth. It goes to the ACT and then it comes across to Actew. The majority of this is relating to sewerage; I think, because we are an inland city, there is a higher cost to treat our sewage, our waste water, this payment is made to us annually, and it generally just inflates by CPI.

MRS DUNNE: Okay. But on page 460 there is an adjustment in the final, in 2015-16, for "revised indexation—assistance for water and sewerage services". What is that? There is $209,000.

Mr Wallace: I will have to take that on notice. I am not 100 per cent sure.

MRS DUNNE: Okay.

THE CHAIR: That has been taken on notice. Mr Smyth, do you have anything further?

MR SMYTH: No, not at this stage.

THE CHAIR: Mr Coe?

MR COE: I have a question about the Canberra integrated urban waterways projects, which are underway, some completed and some in progress. I was wondering whether Actew have views about whether these projects are still necessary given the water security at the dam and whether Actew have raised any concerns with any of the projects that are underway.

Mr Sullivan: I would point you to our submission to the ICRC on the secondary water inquiry they held. Basically our view was that, if the major purpose of these projects was to produce an alternative supply of potable water, in our view it was not economic compared to the major water security projects, but recognising that there would be several and significant other policy reasons why you may wish to pursue the waterways. My view is that the draft report of the ICRC on secondary water re-use is an excellent report.

MR COE: I understand that the project at either Kambah or Wanniassa district playing fields, or both, has been terminated and they have built some tanks underneath there for water storage.

Mr Sullivan: I think you should be talking to TAMS about that, not me.

MR COE: I have not asked the question yet. It has been put to me that one of the reasons for the cancellation was that the additional water at the dam would meet the demands and that no longer would there need to be water storage to the same extent as planned at the playing fields. Is that something you are familiar with?

Ms Sullivan: No.

THE CHAIR: Mrs Dunne.

MRS DUNNE: Going back to the issue of water security, we have come across this figure that water security is now sort of assured for the next 20 years at least. Beyond the next 20 years, what do you see as the next phase that will be necessary to secure Canberra’s water supply?

Mr Sullivan: I think it is too early to say, Mrs Dunne. We have started work on just what are the options. Some commentators, for instance, have said that the option with respect to water rights has got a potential to expand greatly. There is a whole series of other options from traditional water storage to water re-use, effluent re-use. All sorts of things are there, but we are at a very early, thinking through the issues, stage of the next phase.

MRS DUNNE: But you are thinking through it.

Mr Sullivan: Particularly if you are looking at a major water storage event such as a dam, you are looking at a decade from policy discussion intent to environmental approvals to construction. Despite all of our frustrations in terms of the length of time

Cotter Dam is being constructed, it is one of the fastest dams ever in this country, from a policy decision to a construction point.

THE CHAIR: Is there anything further there, Mrs Dunne?

MRS DUNNE: Not on that. I have got other questions that—

THE CHAIR: I have one other question in relation to the Cotter Dam. You have got listed here in your priorities about having a safe work environment and the like and I know there were some issues on site with, I think, WorkSafe and the CFMEU. Were those issues resolved?

Mr Sullivan: I believe so. On any objective measure of Cotter Dam as a safe work site, you must conclude it is a safe work site. We have now worked something like 1.8 or so million hours at Cotter Dam, and without testing anything we have not had a serious accident at Cotter Dam involving any form of serious injury. We did have a WorkSafe issue, a multiplicity of safety improvement notices and work prohibition notices. We think we have tried to work through those issues with WorkSafe satisfactorily. Comcare, which is the other regulator because we are a dual jurisdiction, issued no such notices. One jurisdiction was expressing its views that this was a good site. With the other—and I am not questioning their right or what they were saying—we had these things—

THE CHAIR: And I guess WorkSafe comes from probably a slightly different perspective.

Mr Sullivan: Yes. I think there is a little bit of industrial thrown in as well. I think those issues are resolved. In fact we had a visit from WorkSafe in recent weeks which concluded that they felt there had been significant improvement in the safety culture at the dam.

THE CHAIR: So those issues have been resolved?

Mr Sullivan: I do not know. When I have finished the project, I will say they have been resolved. There is always a chance of things re-emerging from somewhere. This is a major piece of construction. It is a major industrial site. It is a major concern to two jurisdictions in respect of safety, and safety is the number one criterion we have in respect of the dam. Our criteria for performance of the dam are safety first, quality second, budget third and schedule fourth.

MS HUNTER: Is there a clear process that workers on site can go through if they identify what they think are unsafe practices or unsafe situations?

Mr Sullivan: Yes, there are.

MS HUNTER: You are confident that there is a clear line that would get—

Mr Sullivan: I am very confident that there is a very good formal structure to take your complaints through. You have got to ensure things for people who for whatever reason do not like the formality of structure; they either fear it in terms of if I am seen to be complaining within the formal structure. I would say—and Dean Hall could contradict me, but I am not sure he would—that we have a healthy industrial environment. We have never prevented access by the CFMEU. We have encouraged consultation with the delegates of the CFMEU on site. So I think we are making sure that those other ways of informing people of concerns at the dam, particularly through your union, have been there. To a degree I think WorkSafe has been a third envelope. You can say, "I don't want to go to the union. I don't want to go to management. I'll express a concern to WorkSafe." The very good side of the WorkSafe response is that they have been seen to respond. So I think there is a good framework, both formal and informal, to raise issues.

As I say, if safety is our number one criterion, we want to be aware if there is something going wrong. It is a hazardous place. It does have to manage serious significant issues, particularly such as fatigue management, so getting an understanding of what is the feeling of the place is extraordinarily important.

MS HUNTER: What do you mean by fatigue management?

Mr Sullivan: Any workplace must have a look at its issues to do with fatigue management, but if you have people operating in hazardous circumstances, be they at height, be they in confined spaces, be they in an environment where heavy machinery is crossing, one of the primary things is to make sure that workers are not exhibiting signs of fatigue such that it may inhibit their capacity to work safely. We work, as many operational things in Canberra do, 12-hour shifts, so there are men and women working on the dam site from 6 pm to 6 am or 6 am to 6 pm, and you must be alert to fatigue in that sort of circumstance.

MRS DUNNE: Madam Chair, I have a couple of follow-up questions.

THE CHAIR: Yes, sure, but we will need to get to the territory banking account, so perhaps final questions, Mrs Dunne.

MRS DUNNE: Yes, just a couple of quick ones. Getting back to the transfer of the water and sewerage business, you did say, Mr Sullivan, that shareholders were advised. When were they first advised, and were they advised more than once? This is a job lot of questions. I sort of got the impression that Jemena might have been a bit unkeen; I got the impression from what you said that you would have liked this matter to be resolved earlier and that Jemena did not sign off until May. So were there issues for them as well?

Mr Sullivan: I will handle the last one. Jemena were probably keener than we were. Jemena have got two pieces of water business in Australia. One is a secondary water re-use facility at Rouse Hill in Sydney; the other was Actew water operations. They do not fit within an energy company. But Jemena are a good partner to be with in ActewAGL. They are a very thorough partner in terms of examining any commercial issue, and I think delay was more about their thoroughness than any design not to proceed with the deal.

MRS DUNNE: And the issue about how often the shareholders were consulted over the period August to May?

Mr Sullivan: Yes. I will get you those accurately.

THE CHAIR: So that is on notice. Is there anything further?

MRS DUNNE: I have got a few more, but we have run out of time. I will put them on notice, thanks, Madam Chair.

THE CHAIR: Okay. Thank you, Mr Sullivan and Actew representatives.

Mr Sullivan: Thank you very much.

THE CHAIR: We will move on to the territory banking account. Mr McAuliffe, I draw your attention to the privilege statement that is on the desk in front of you, just to make sure you are aware of that. The proceedings are being broadcast. I will put forward the invitation that if anyone wants to make an opening statement they may do so. We are happy to go straight to questions.

In budget paper 4, pages 213 and 214, there are statements about the benchmark which is used. As I understand it, performance is measured against a standard benchmark. Can you clarify what the benchmark is that performance is being measured against?

Mr McAuliffe: The benchmark in terms of the investments, I am assuming you mean?

THE CHAIR: Yes.

Mr McAuliffe: There are two funds within the territory bank account investment portfolio. One is a cash enhanced fund. I am sorry; there are three. There is a cash fund, a cash enhanced fund and a fixed interest fund. The cash fund and the cash enhanced fund are measured against the bank bill index and the fixed interest fund is measured against the composite Australian bond index. They are standard market indices. We come up with that measure of how the total return has gone. We do a weighted return of the three funds to come up with a—

THE CHAIR: Okay. As you said, they are the standard benchmarks?

Mr McAuliffe: Yes.

THE CHAIR: Thank you. Mr Hargreaves.

MR HARGREAVES: No. I have got every confidence in Mr McAuliffe.

THE CHAIR: Excellent. Ms Hunter.

MS HUNTER: Thank you, Madam Chair. I had a couple of questions from this morning that I have held for you, Mr McAuliffe, so we might go to those first. I refer to budget paper 4, page 168, and it is to do with dividend revenue.

Mr McAuliffe: That is not mine.

MS HUNTER: I will pass it to Ms Smithies then. I asked it this morning and was told it was this afternoon, but that is okay.

Ms Smithies: Largely because I think that is when we have most of the TOCs and the dividend revenue is the make-up of all the TOCs.

MS HUNTER: The 2012-13 budget is down 32 per cent or so from the original 2011-12 budget and down 24.4 per cent from the revised 2011-12 budget. The year-on-year increase in dividend revenue estimated in the forward estimates goes up and down. I am just trying to get a sense of how you will achieve any increases in 2013-14.

Mr Barr: It is the LDA dividend.

MS HUNTER: So you are going to be relying on that land getting out?

Mr Barr: Yes. That is certainly one element. There would be an element of the Actew dividend that we have just talked about that was down and then goes up again as a result of more normal weather conditions. Other elements of dividend—

Ms Smithies: No, they are the big movers. The most significant movers are—

MS HUNTER: They are the two big ones? There is also an increase between 2014-15 and 2015-16. That is also substantial.

Ms Smithies: Again, it is the timing of the LDA dividend and the return of the Actew dividend. If you go to budget paper No 3, page 91, it gives the listing of the dividends that go into the general government sector financial statement. It gives you an idea of which particular GBEs are driving those dividend lines. You can also see that the dividends from financial investments are in there. In 2011-12, there is a big one-off. That is something that belongs to Mr McAuliffe. The rest of them belong to the TOCs.

MS HUNTER: We will ask a supplementary of Mr McAuliffe now then. What was that amount that boosted up in 2011-12?

MR HARGREAVES: It is only 54 mil.

MS HUNTER: It is only 54 mil; that is right, Mr Hargreaves. The budget was 66,999 and it has gone up to 120,050. Then it seems to settle back down to being between 66 up to 71 in 2015-16.

Mr McAuliffe: The main increase there is where we have investments in international equities. We have a large part of those actually hedged against movements in the Australian dollar. Towards the end of the last financial year our Australian dollar, if you remember, reached up to $1.08—that sort of thing. What happens is that the pooled fund that we are investing in generates a lot of earnings from there. The manager then makes a decision to return those earnings by way of a distribution. The high distribution reflects that appreciation of the dollar and the impact on our earnings through that portfolio. After that, we revert to a more normal distribution yield, if you like, on the investments.

MS HUNTER: That is a large jump.

Mr McAuliffe. Yes.

MR SMYTH: So the manager of the fund makes the decision to do the distribution?

Mr McAuliffe: Yes, as they do in all managed funds. They try to keep the unit price around the dollar. As earnings come through in the portfolio, that unit price will increase over time. The manager will always keep cash in there in case losses run through the portfolio so that they can offset those, but then over time they have a look at what earnings have accrued within the portfolio and they will make decisions to return that to the unit holders. That was the effect of that. I am just trying to think of the hedged value of that portfolio. It is $300 million or $400 million, so it is large. And the dollar did increase fairly rapidly.

MR SMYTH: Following on across the line from that $288 million, can you explain what is happening in the outyears and why the TBA is holding such a small amount of cash?

Ms Smithies: I think we spoke about this at the technical briefing. This is the balance of the TBA account. Obviously there is significant amount of money that is going in in the budget year and across the entire capital program. The government's budget has borrowings built into it and then repayments of borrowings across the forwards. What is left in the TBA account is simply what is left after we have borrowed and then repaid at the end of the financial years. The purpose of the TBA is that it gets all of the revenue in and then pays all of the appropriations out to each of the agencies, including the capital works and government payments for outputs et cetera, and then invests what is left or borrows if necessary. It is the sum of what is left at the end of the borrowing transactions or repayment transactions and the flows of appropriations out to agencies.

MR SMYTH: And if in those three years there is a requirement for more cash than what is there, what happens? Do you take it out of investments? Where does that come from?

Mr McAuliffe: If there is investment available, we will. Otherwise it may well trigger a borrowing requirement.

MR SMYTH: So what would trigger the borrowing requirement—that it actually gets to zero? Or do you do it before you get to zero?

Mr McAuliffe: We monitor the balance of this account all the way through the year. Just say there was a big change in the revenues we were getting from the commonwealth through a year and that was known and clear, we would have to make some decisions. Do we hope that things change somewhere else or do we make a decision to borrow some extra money at that point in time in advance?

MR SMYTH: These are very low—

Ms Smithies: Yes. I am probably going to get the terminology incorrect and you might have to correct me, Pat. The TBA is an offset account anyway. It actually has the balances of most—with the exception of the super account and the TOC accounts, I think. Their bank account is in it as well. Is that right, Pat?

Mr McAuliffe: Yes. We have just stripped out the cash balance of the territory banking account.

Ms Smithies: That is right.

Mr McAuliffe: There are other balances that sit within there.

Ms Smithies: So there will be other sums of money for other purposes that will sit in the bank account at any point in time.

Mr McAuliffe: If you look at the balance sheet on page 217—

MR SMYTH: I am sorry, what page?

Mr McAuliffe: The investment chapter in BP3 is probably better to look at on page 223. You can see there is a line item there of the territory banking account investments held on behalf of PTEs, ACTIA investments, home loan investments and the majority of those other GGS agency investments. All of that cash sits within the territory banking account at any point in time. We have tried to isolate what is the actual unencumbered cash position of the territory bank account at a point in time.

MR SMYTH: If that is the unencumbered cash, why don't we call it unencumbered cash rather than the territory banking account?

Mr McAuliffe: I guess the reporting entity is the territory banking account.

Ms Smithies: It is the territory's unencumbered cash, but it is a terminology that is particular to the ACT as well. It is something that I think we have coined in order to make the concept useful for transparency reasons and these sorts of discussions.

MR SMYTH: So if the territory banking account here got to zero, you would have to borrow? You could not get money from your investments or other things unless they were coming due?

Mr McAuliffe: I guess at a total general government level, we have always got the cash there. I guess it is just that that is a decision we need to make at the time.

Ms Smithies: Yes. Sorry, Pat, but I think these things are issues of degrees. You never necessarily get clarity on them. It is possible that, over a month, on paper it might look as though it is negative but it will not be negative. It might only be one, two or three million dollars. You would not go out and issue a borrowing on that perspective. And you would not go out and necessarily increase your commercial paper and enter into a 30-day or a 90-day bank bill just for that. I think Pat was trying to suggest that if there were some completely untoward and exceptional circumstances—again, it would be hard to see what these would be—where perhaps the commonwealth just did not pay us all of our GST revenue or something all in one day, then—

MR SMYTH: Fire money.

Ms Smithies: there may come a point where—

Mr Barr: We are at a scale larger than fire money, but yes.

MR SMYTH: The fire money is about three times what is left unencumbered, so it cannot be too bad.

Ms Smithies: We would have to do something with that. There are other things that we would probably look at before we needed to do that anyway. This is really around liquidity management and how we manage our borrowing portfolio et cetera. We do have, again, issues around whether we cannot look at delaying the speed of capital works or things like that. Again, it would be hard to think under which circumstances we would be doing that, but these things are really dependent as much on the timing of when we pay capital works and payments out to agencies as on when we get timing of revenue in from the commonwealth.

MR SMYTH: Do the directorates, as such, hold unencumbered cash?

Ms Smithies: Some of them do. Some of them do for particular purposes. There is no benefit for most of them in having cash in a bank account, because all of the interest returns to the territory bank account. For example, some agencies or directorates will draw in cash at the end of the financial year and carry it over to the next year for capital works or projects that were not necessarily handled through the appropriation or rollover system, so they may well do that. They may well have it just in relation to their unsourced revenue that they got from one year and have not yet applied to something.

There is nothing that would necessarily stop an agency from having cash balances. Shared Services has a working capital amount that it has as well that is to be applied over time to the infrastructure needs of the IT services. I guess it is horses for courses, particularly with different agencies. But again, coming back to it, there is no financial advantage for agencies to accumulate cash. That is all retained in the centre and goes to the benefit of the bottom line of the budget.

MR SMYTH: So if the directorates are holding cash, it is supposedly against the purpose? It has been appropriated for a purpose and there is—

Ms Smithies: That is right. That is exactly right. It is either for the services for which it was collected for the appropriation or the activities for which it was appropriated. It may well be to cover off long service leave requirements and employee entitlements that fall due. It may well be that they have got a particularly lumpy payment in terms of cash employee entitlements et cetera as well.

MR SMYTH: So you cannot see Patrick raiding the cash reserves of the departments if the TBA gets a little bit low? It has all been appropriated, so there are no hollow logs—no cash hollow logs—inside the department as such?

Ms Smithies: No, and there would probably be no reason why Patrick would need to go and raid agency bank accounts.

MR SMYTH: Apart from the sheer fun of taking it back.

Ms Smithies: Well, there is that.

MR SMYTH: Putting it in his own account. So everything in the department is held against an appropriation or a purpose. So if the TBA does approach negative, there are mechanisms to bring it back into the positive and keep it positive?

Ms Smithies: Yes.

THE CHAIR: Ms Hunter, we will go to you.

MS HUNTER: I want to get an understanding of the interrelationship between the territory banking account and the superannuation part—the SPA and the TBA, the interrelationship between those two.

Mr McAuliffe: They are two separate accounts for two different purposes. The territory bank account serves dual purposes. One is what most other states call the consolidated revenue fund or just their public account. All that would typically wash through them is just the tax revenues and appropriations out. What we have done is overlaid ours. We are running our general government investment and borrowing functions through it as well, whereas other states will often tend to have a separate entity—a New South Wales Treasury corporation or something like that.

For history, the way it has been set up is that we have got the two things running through there. SPA is set up to hold the liabilities for the defined benefit, the CSS-PSS liability; we run the investment assets that are set aside to fund that liability in that account. Where the interrelationship comes in is that we have got the two accounts. My area is the investment branch, so we use a higher level organisational structure to manage both those accounts. And where we can, we utilise economies of scale. It might be cross-share, an investment manager or things like that.

Where the SPA invests into the territory banking account, it has a cash allocation. I have got the large part of the territory banking account investment portfolio as a cash portfolio. I have got an external manager in place to manage those moneys. The SPA has got a cash allocation. Rather than the SPA going out and establishing its own investment manager, it comes across and uses our manager. That way, we have got more money under management in that particular portfolio. We get a lower fee deal out of it. That is really the only crossover.

What we have just got to be careful of sometimes is this. We talk about the territory banking account investment portfolio. It might be a billion dollars. And the SPA has got $2.3 billion. Sometimes we have got to make sure we do not double-count. Some of the SPA investment might actually be part of the TBA. That is the only bit that—

MS HUNTER: And you double-checked this?

Mr McAuliffe: Yes.

THE CHAIR: Anything further?

MR SMYTH: On page 226 of BP3, under "Territory Banking Account Investment Portfolio", in the last two paragraphs, what is the difference between "net nominal return" and "budgeted full year return (net of fees)"?

Mr McAuliffe: It is meant to be one and the same. What we are saying is that the return we are expecting this year, the full nominal return—the real component plus CPI but net of any fees that get taken out, like the fund manager fees—is expected to be about 5¾ per cent. What we budgeted for in terms of next year is again a nominal return. They are the fees of 3.75. I probably should have used the same words in both lines.

MR SMYTH: Given that you look like getting 5.75 against 4.75 for the current year, why would you reduce that to 3.75?

Mr McAuliffe: Basically, the bulk of the territory banking account portfolio is exposed to cash and cash-like instruments. At the time we set the budget, we tend to use the prevailing 11 am cash rate for that portfolio return. This year, obviously, we had higher cash rates at the start of the year. We have also got some exposure to fixed interest bonds; they have done pretty well this year, as interest rates have actually fallen. That is how we set the forward estimate.

MR SMYTH: On page 215 there is a capital injection of $214,000 this year, next year and every year. Is there a reason why the number 214 just keeps appearing?

Mr McAuliffe: That is an old loan that was attributed to the ACT government at the time of self-government. When the ACT government was set up, there were a number of loan structures set up. They said, "Here are a whole of assets." We have got commonwealth-state public housing assets; we have water and sewerage. There were a number of land and building assets. This is a loan that is one of those loans that is running off. So there is a repayment schedule every year where we have to pay back to the commonwealth a set amount of principal. Part of that principal gets funded by this appropriation line. The 214 is an equal payment out until about 2020, 2023 or something like that.

MR SMYTH: What was it for? Do we know?

Mr McAuliffe: Land and buildings.

MR SMYTH: Land and buildings?

Mr McAuliffe: Yes. I cannot tell you which ones, but there was—

Ms Smithies: Is this the pre-self-government debt?

Mr McAuliffe: Yes. Some of it was for roads and Actew buildings, and there were some other more urban services related buildings at the time.

Ms Smithies: Yes.

MS HUNTER: Did you say the public housing is in here as well?

Mr McAuliffe: There are a number of things.

MS HUNTER: Yes, a number of things.

Mr McAuliffe: The home loan portfolio has got one particular line of loans related to the home. They were home purchase type arrangements. ACT Housing has got another series of loan repayments it makes which were home rental arrangements. There was a whole lot of stock transferred over; the commonwealth government said: "Here is your stock. You can pay it back on certain fixed terms."

MS HUNTER: I was wondering when that was going to be paid out.

Mr McAuliffe: Those ones run out till about 2040.

MS HUNTER: Okay.

Mr McAuliffe: They were on a fixed rate of about 4½ per cent over that whole time.

MS HUNTER: Okay.

THE CHAIR: Are there any further questions?

MS HUNTER: Mine was just about this. We have had an interest rate cut since those papers were put together. I am wondering what sort of impact that would have. Did you factor in that that might be coming up?

Mr McAuliffe: In our statement of risks, we do some sensitivity around plus or minus one per cent. The interest rate cut was a quarter of a per cent. If we held everything equal that is in the budget papers in terms of the current investments that we have got, there would be about $2 million a year less. But on the flip side of that, the current global market rates in terms of borrowings have actually come off a bit from where we have estimated, and that is probably a saving of a couple of million back the other way. So it sort of cancels itself out at the moment.

THE CHAIR: Anything from here? We probably have time for a couple more.

MR SMYTH: I am just trying to find the reference. There is a reference in here somewhere to unrealised investment capital losses. It is listed as an expense. Why is it listed as an expense if it has not been realised? And how much is it?

Mr McAuliffe: On page 216 of BP4, there is "Other Revenue" and also "Other Expenses". There is an unrealised gain amount in there as well, which is about

$12 million. And there is an unrealised loss in that other expense item of about $12 million as well. So they are unrealised, but at the time of doing the valuations of our portfolio that is what the numbers are. Part of the portfolio is exposed to things like mortgage-backed securities and things. So they are not just fixed. You have not got a nice little fixed term deposit: here is a rate. These things are sensitive to changes in interest rates, so the valuation of those particular securities will change from time to time. We could net them off. I guess we gross them out because that is the way we have to prepare our annual financial statements. We are trying to keep some consistency.

MR SMYTH: So that is just to comply with the accounting standard?

Mr McAuliffe: Yes, that is right.

MR SMYTH: Yes; okay.

THE CHAIR: Is there anything further, Mr Smyth? Okay. I thank territory banking account officials. We will return with the superannuation provision account at 3.45 pm.

Meeting adjourned from 3.28 to 3.45 pm.

THE CHAIR: We are on to questions now relating to the superannuation provision account. I will go to my first question. It is in relation to budget paper 4, pages 204 and 205. I think we did have some questions about the table on page 205 in the technical briefing as well. The table on page 205 seems to be anticipating a one per cent improvement over four years, which would not seem to be adequate to fully fund by 2030. I am wondering whether, as a result of the triennial review, there has been any more of an update or a revised strategy in relation to these particular points.

Ms Doran: Yes, I think what you are referring there to is the funding going in the future into the superannuation provision account and reaching the target funding level. The triennial actuarial review was undertaken on 30 June 2011 and it certainly indicated an increase in the superannuation liabilities there. That has come about as a result of the revision of the actuarial assumptions that underlie the review—largely, the demographic assumptions which have shown an increasing pensioner length of life and an increasing uptake of the pension options under the scheme, all of which lead to a higher liability figure.

At the same time, we have undertaken a review of the funding plan for these superannuation liabilities, which looks at the contributions that need to be made to reach the target funding level by 2030. It is evident when you look at those two aspects that on the current assumptions it is probably unlikely that the target would be reached by 2030. But I think it is important to recognise that this is a long-term strategy, that both the liability and the asset sides of the equation are volatile. So we need to take a long-term approach to how we manage both sides of that equation.

The funding level actually suffered badly through the global financial crisis. It reduced to 46 per cent at that time. It has improved now to a 49 per cent funding level and will grow over the outyears of this budget, albeit at a slow rate. I think, taking everything on balance, that the approach that has been taken for this budget is to continue an amount of contribution to ensure that the funding level is secured going forward, given the overall considerations of the budget situation.

With the fiscal contraction at the moment, it is probably not the appropriate time to be looking to inject more capital into this arrangement, but rather take a maintenance approach which will ensure that the current funding level is at least maintained during that four-year period.

THE CHAIR: As you said, based on the demographics you sort of know what we are going to see and what the needs are going to be. At what point will you need to actually start putting in place some definite strategies to address that?

Ms Doran: This is something that we monitor constantly, and we will be looking at it going forward and revisiting it at each budget. The liability and the benefit both continue to grow through till about the mid-2030s; so it is a very long-term liability that we have here. For the next four to 10 years probably the benefit payments will be matched by the capital injections and the interest on the current fund. So we are not at a critical stage where the fund will actually be reducing. As I said, we are still in a maintenance phase. So it is just something that we will monitor going forward.

THE CHAIR: So after the triennial review, was there anything identified in terms of the strategy you needed to take account of, or was the information you received basically the strategy that has come out of that review process?

Ms Doran: That is the strategy that has come out at this budget. As I said, it will be looked at in subsequent budgets in the light of new information on both the liability and the asset side over that period.

Mr Barr: It is a question of generational equity to a certain point too—how much this current generation should be asked to contribute further on top of the existing program, given other competition for resources. It is certainly one that we need to grapple with. In the context of policy advice to government to date, I think that is a very fair summation. We will have to look at it, undoubtedly, but I will take some convincing that we would need to divert resources away from current requirements at this point—significant resources away, anyway.

THE CHAIR: Thank you. Mr Hargreaves?

MR HARGREAVES: No.

THE CHAIR: Ms Hunter.

MS HUNTER: I have a quick follow-on question. Have we always put aside that money since self-government or was that something that has been more recent? I am just wondering how long we have been doing it for and what the plan is.

Ms Doran: The funding arrangement commenced around the 1990s—

Mr McAuliffe: The fund was set up—the SPA was set up in 1991.

MS HUNTER: So pretty early on.

Mr McAuliffe: Yes.

MS HUNTER: So the injection around the sale of Actew—

Mr McAuliffe: That was a capital contribution made by Actew in those early 90s and then there was the partnership payment that we also received.

THE CHAIR: Anything further?

MR SMYTH: The percentage covered is declining. What is the government's proposal to make up and to get back on track to achieve the required coverage by 2030?

Ms Doran: The percentage coverage has actually increased more recently. It has certainly declined since 2007 because of the global financial crisis impacts. It has recovered now. The asset level has pretty much recovered to its levels at that point in time. But, of course, that has put us behind a little bit in terms of where we may otherwise have been at this stage. But, again, it is a long-term strategy. We do not know what investment markets may do going forward. The current approach, as I said, is to at least maintain that funding level during the outyears of this budget by continuing capital injection into the fund that secures that and to monitor the strategy going forward.

MR SMYTH: So it appears now to be $8.4 billion at 30 June 2033?

Ms Doran: Yes, that is right.

MR SMYTH: Last year it was projected to be $7.4 billion by 30 June 2030. What is driving that change and what strategies are in place to accommodate that change?

Ms Doran: Those changes in the projected liability are the outcomes of the most recent actuarial investigation. As I said, the main assumptions that impacted that result were around the demographic assumptions: pensioner mortality improving, the uptake of pensions as opposed to lump sums, the increased preservation of benefits as opposed to taking cash payouts as well as some higher salary levels than were originally assumed by the actuary. All of that pushes up the liability, which is a projection of the accrued liabilities for past service over an extended period. So it is very sensitive to those sorts of assumptions going forward.

In terms of how that will be managed going forward, again it is a matter of taking a long-term approach to matching that asset build-up to the liability growth. We still have some 18 years before 2030. It is realised that on the current basis that target probably will not be reached although, as I said, both assets and liabilities are sensitive to current assumptions. So we will just be monitoring that going forward and looking for opportunities in future budgets and perhaps in different budget circumstances look to top up that funding.

MR SMYTH: All right. If the target will not be reached by the due date, when is it likely to be reached?

Ms Doran: I am not sure that I have that with me at the moment. I think it was in the 2040s, but I can provide you with that information. I will take that on notice.

THE CHAIR: So that is taken on notice.

MR SMYTH: All right. Just to compound the potential liability, there was a High Court case that found in favour of a John Cornwall, a former public servant who had been denied access to the CSS. Are we exposed in that way? Have we done any further work to determine whether there are other ex-ACT employees or employees who came across from the commonwealth who may seek to make a claim?

Ms Doran: Yes, this is an issue that is emerging both in the commonwealth and certainly we are doing our analysis here to see what the impact will be on the ACT. There is likely to be some impact in relation to employees who came across either at the time of self-government or thereabouts. I suppose the details of the case and how they will be assessed going forward still are uncertain a little. There are a large number of potential cases that have been identified. The actual circumstances need to be worked through for each of those before a full assessment can be made. At this stage, we do not have a quantification of what that liability may be.

MR SMYTH: Do we have any idea on how many ACT public servants it might affect?

Ms Doran: Mr McDonald is running the project. So we have actually dedicated quite a few resources in Treasury to having a look at this and some other of our superannuation liabilities as well. This is one that—

MR SMYTH: Most of the liability would accrue to the commonwealth but it is just in the period since the transition.

Ms Doran: That is right and we obviously have an interest in making sure that we are only covering our liability as well in this.

Mr McDonald: At present understanding, the estimate would be a technical one and it is very speculative because, for reasons that I do not wish to articulate publicly, where we are involved in ongoing litigation presently, my initial estimate would be that it is possible this project could involve liability of about twice the size of Totalcare.

MR SMYTH: When are we likely to know?

Mr McDonald: Mr Smyth, there are many variables that attend a project of this nature and we are at the stage now where we are amassing data. Meanwhile, we are embroiled in a couple of lawsuits—several lawsuits—that are part of the backwash of the suits against the commonwealth following the Cornwall decision, where the ACT is, I would like to think, inadvertently embroiled in these cases. In terms of litigation, so far our outcomes have been quite positive. A number of cases have been non-suited against the territory, because we were not liable.

MR SMYTH: Sure. I appreciate that. When you say "twice the Totalcare liability", just refresh my memory: how many people were involved in Totalcare and what as the cost?

Mr McDonald: Totalcare had a settlement profile—cash settlements—of about 460 and a payout of about $9.75 million overall. I stress, though, that none of those payments involved paying legal fees of external law firms.

MR COE: So how much has been spent roughly on external legal advice?

Mr McDonald: In relation to the ACT matters, we use the ACT government solicitor; so it would be an internal financial transaction.

THE CHAIR: Mr Smyth, do you have anything further on that?

MR SMYTH: No, but I have got plenty more.

THE CHAIR: If Mr Coe does not have a question, we will go to Ms Hunter.

MS HUNTER: I want to follow up on a letter from the Human Rights Commission expressing concern about potential noncompliance with Human Rights Act obligations in relation to voting on shareholder resolutions. What has the government done to investigate the compliance with the act?

Ms Smithies: That actually went through to the Attorney-General, Ms Hunter. I do not have an update on the status of that particular request.

MS HUNTER: Okay, I will ask the Attorney-General; that is fine. Turning to our voting decisions on shareholder resolutions, I presume we get advice on how to vote from our fund managers as part of the management contracts, as well as from Regnans as part of that contract. Do we have any other contracts for advice on shareholder resolutions?

Mr McAuliffe: Because we do not make the voting decisions ourselves, it is left with the managers to vote. We do not seek voting advice under our current policy.

MS HUNTER: Is it possible, with those fund managers that we work through, that we contract, to apportion the amount that we pay, in effect, for their advice and time on those voting decisions?

Mr McAuliffe: In terms of trying to break up their total management fee that they would charge?

MS HUNTER: Yes.

Mr McAuliffe: No.

MS HUNTER: Turning to one specific resolution, I did ask a question about how we voted on the resolution put to ExxonMobil to amend their discrimination policy to specifically prevent discrimination based on sexual orientation. Our Discrimination Act in section 7 explicitly prohibits discrimination because of sexuality. So I ask again: why didn't we support that resolution?

Mr Barr: As I understand it, that policy was already non-discriminatory.

MS HUNTER: Would you explain that?

Mr Barr: As I understand it—and I am relying on third-hand advice here; I do not closely follow Exxon's discrimination policies—it is not a clear-cut issue of them having a discriminatory policy. On this resolution seeking to overturn it, my understanding was in fact that they did not have a discriminatory policy. I will confirm that, but I overheard part of a conversation between your adviser and my adviser on the detail of this matter, and that is what I understand the situation to be.

MS HUNTER: My understanding is that it had something to do with it being vexatious and unnecessary, but the resolution was put by the New York state common retirement fund, which is a government pension fund, because some US states have adopted specific legislation restricting them from doing business with companies that do not have an explicit guarantee of equal treatment of gay and lesbian employees. I would request, minister, that that be checked, because, as I say, it was taken by the New York state common retirement fund.

Mr Barr: Fair enough, but in the broader scheme of things, given how many votes potentially there are, the idea that we can monitor every single one of them to this level of detail—and I know you have a particular interest in this one, for some obvious political reasons—is just absurd, given the tens of thousands of votes. The ACT government would have to set up an entire department to monitor how we vote on all of these issues. I just do not think that is realistic. I do find the particular approach on this issue quite tedious.

MS HUNTER: But, surely, minister—

Mr Barr: I think hours have been spent on this particular issue, and I know why it is being pursued. I think that in the context of trying to score a cheap political point, I do not think it is particularly useful.

MS HUNTER: It is not about cheap political points, Treasurer. It is about how the territory invests its money when we have certain standards, certain legislation or certain things we hold dear in this territory. It is just trying to get a handle on how the government is going to fit that with the way it invests significant amounts of money.

Mr Barr: I think there are limits to how far one can extend one's own personal political views into investment practices, as we have considered ad nauseam in this debate.

MR HARGREAVES: Wasn't this difficulty considered in the ethical investments inquiry?

Mr Barr: It has been the subject of committee inquiries and the like, yes.

MR HARGREAVES: I seem to remember Mr McAuliffe, on another example—a completely different example—indicating to us the difficulty we have in directing people to cast votes in various ways. Do you recall something like that, Under Treasurer?

Ms Smithies: We have answers on notice as well, from memory. I think the answer was that the practices that ExxonMobil had were non-discriminatory, but they did not go into every form of potential discrimination. Indeed it was actually a blanket statement about not discriminating, which seemed appropriate to the workplace in any case.

THE CHAIR: Ms Hunter has a right to ask the question. Is there anything further on that?

MS HUNTER: No, I just wanted to find out what we are doing there. Obviously nothing.

MR SMYTH: Minister, budget paper 3, on pages 36 and 311, talks about changes to the accounting standard concerning employee benefits and the discount rate. On page 36 the last sentence in the paragraph says that this will impact on the future net operating balance for the territory. What are the implications of the changes to the discount rate?

Ms Smithies: I am just having a quick refresh on this paragraph. There are two things. One is the discount rate used to value the liability, and with respect to the standard that we use we will apply the 30 June discount rate to valuing the liability at 30 June. So whatever the 10-year bond rate will be at 30 June will be the way we will value the liability. If the bond rate comes in under a large expense, it will come in before the next year's financial statement, so 2012-13.

It is very similar to what happened this financial year, where we had a $20 million or $30 million adjustment because of the bond rate coming in at, I think, 5.11 in comparison to the six on which we budgeted. So we budget for six across each of the forward years, equivalent to the 10-year bond rate. We do that largely so that what we do not have is the budget aggregates or the budget bouncing around for valuation purposes on a long-term significant liability, which will then impact on decision-making processes et cetera. So it really just takes out the volatility for budgeting purposes across forwards. But, of course, when you come to do the financial statements, you actually have to lock it in at some particular form, so there is the valuation there. The second is an accounting change to the funding—

Mr McAuliffe: That is what we use on the earning rate.

Ms Smithies: The earning rate. Pat, do you want to go to that?

Mr McAuliffe: Yes, I can do that. For super funds, what we do with the SPA is that we will target an earnings estimate to come up with our investment return. The current target is that we use 7½ per cent. So on our earnings we are using 7½ per cent. When we have to do our valuation, we are using the long-term discount rate for the liability, as Megan just explained, of six per cent.

What the new accounting standard is going to require is for super funds to actually apply the same rate that they use for their discount rate assumption to their earning assumption. It means you have to set the two of them equally. Whilst that does not impact on the SPA itself, because the SPA is not a super fund, it impacts on the whole-of-government GFS, the net operating balance.

We have had this issue for some years where we bring back the difference. To put us on an equal footing with what super funds have to do, it means that rather than us bringing back the unrealised gains that are related to a 7½ per cent return, it would only be the unrealised gains related to a six per cent return.

MR SMYTH: So we will be using the six per cent for both?

Mr McAuliffe: It will be whatever the discount rate is. You have to set the two equally. If six per cent is the rate we are going to use for our discount rate, that is what we would use for the earning rate, for that general government sector calculation.

MR SMYTH: What does it do to the SPA?

Mr McAuliffe: SPA is reported on an AAS result, so it does not change that. It only affects the whole-of-government—the GFS net operating balance result.

MR SMYTH: What is the effect on that?

Ms Smithies: It will mean that, should we choose to adopt that particular standard, we will have a lower rate of valuation around our financial asset. So notwithstanding the fact that we have got—correct me if I am wrong, Pat—an earning rate that targets five per cent or 7½ per cent, and we structure our investment portfolio to achieve that particular rate of return, we will have to value it at the same rate as the discount rate that we use to value the liability.

MR SMYTH: What does that shave off the number?

Mr McAuliffe: I have not got the number. It is 2½ per cent on whatever our investment balance would be, roughly.

MR SMYTH: Can you take it on notice and tell us?

THE CHAIR: So that is taken on notice.

MR SMYTH: You said whether or not we accept it. Are you saying that we might not accept it?

Ms Smithies: This has been an area that is actually contested across some of the treasury bodies across Australia. The issue is that public sectors are bound to do prospective financial statements due to the accountability provisions that we have, and

I think that is all fair and good. But we are also doing it to inform decision-making processes.

When we start to include in our financial statements our long-term asset-earning equations with our long-term liabilities, we get a very different set of financials flowing through the very near term financial statements of the territory. The use of those financial statements in order to make decisions starts to become a little bit more difficult for decision makers, when we are actually trying to figure out what really is happening on financial statements. You are getting a lot of movement in these things that is driven by discount rates and bond rates and the way that the standard setting boards like to calculate these particular superannuation liabilities and investment plans. I think it is fair to say that it is a question that we really have not yet tested in relation to how we handle it with our own financial statements. That is what I am saying. I certainly know amongst my colleagues—

MR SMYTH: Is somebody else saying something different?

Ms Smithies: No. Amongst my colleagues, I know that there is some dissatisfaction about this particular standard and its application to government accounts because of the purposes that governments use their financial accounts for vis-a-vis what a superannuation firm or fund would use its accounts for and how you would have to manage a prudential set of financials. At the moment we blur the two in our government accounts. I accept and appreciate the reasons why we do that, but it does actually make it difficult when you are trying to actually set decisions with these figures running through them as well.

MR SMYTH: Given that it comes in on 1 January 2013, when will you make a decision as to whether you are going to accept it or not?

Ms Smithies: We will have to do it before we do the annual financial statements for 2012-13.

MR SMYTH: You will get back to us on what difference the 2½ per cent will make?

Ms Smithies: Yes.

MR SMYTH: In BP4, page 204, under strategic objectives 1 and 2, there is no detail, as there is for strategic objective No 3, as to whether or not you have actually achieved them and what is happening under those two objectives. Is there a reason for that? If so, could we have an update on where we at in maintaining a selection of investment managers and in achieving an annualised real rate of return of five per cent?

Mr McAuliffe: It is actually over on the next page, Mr Smyth, at 206. I guess what we have said with the first one is that we are aiming to get an earnings rate that is above the benchmark and we are saying that we are continuing to deliver that. As to the long-term target of five per cent real, we expect that to be around 4.3 per cent at the end of this year and then over time to get above that.

MR SMYTH: Given we have achieved 4.3 per cent this year, what is the likelihood of getting—

Mr McAuliffe: That is the annualised return over the last 16 years. That is the base that we are measuring this over. We are trying to say that over the life of this fund we are targeting and receiving five per cent real or better.

MR SMYTH: Over the last 16 years we have received 4.3?

Mr McAuliffe: That is right.

MR SMYTH: So when do you expect to get to five per cent?

Mr McAuliffe: We have been five per cent before.

MR SMYTH: So it is just the fluctuations.

Mr McAuliffe: Yes.

MR HARGREAVES: It is going to take a while to average it out at five per cent, though, isn't it? You are at 4.3 now. Nobody would want to get really too excited about seeing it too quickly.

MR SMYTH: Why is it set over 16 years?

Mr McAuliffe: We have tried to say that when we have modelled everything out over the life of this we are aiming to earn that and then, everything else being equal, that will help set out our funding strategy. That is the reason for that measure. When you have had negative years and different things you end up with a lower asset base. We have got to be careful we do not try to link this to the earnings we have received either because you have different asset bases from year to year as well.

MR SMYTH: With regard to No 1, do we maintain a selection of investment managers and a mix of financial investments?

Mr McAuliffe: We do. There is a whole range of them set out on page 226 or 333.

MR SMYTH: This is just a suggestion—you obviously know where these things are in various volumes and for the third one you actually detail what you have achieved—but perhaps in future it might be better to have some sort of chart or summary.

THE CHAIR: Any further questions on this?

MR SMYTH: I will put the rest on notice.

THE CHAIR: It looks like we have finished with the superannuation provision account. Was there something you wished to add?

Mr McAuliffe: Yes. Ms Bresnan, you had a question this morning. You told me about a contract that you came across on the register about a transition manager.

THE CHAIR: Yes. We will put it on notice. There is a bit of detail in it so it might be easier to put it on notice.

Mr McAuliffe: It is pretty straightforward.

THE CHAIR: If you want to answer it, that is okay.

Mr McAuliffe: If we want to terminate or replace an investment manager with another one, we utilise the services of the transition manager to do that. They basically help with the whole transfer of assets from one manager to another manager. Back in 2010 we went through a process to put in place a transition manager to use should the need arise to use those services. We have not actually used this particular manager in that contract we have got in place at the moment, but should we wish to make some changes we would use that manager.

THE CHAIR: My question—and that is why I might put it on notice—was actually in relation to the tender process for this particular contract.

Mr McAuliffe: Okay.

THE CHAIR: Thank you for that information. That is why I said I would put it on notice. We are finished with the fund. Thank you very much, officials, once again, for appearing.

We will go to the ACT Insurance Authority. Mr Fletcher, thank you for joining us. My first question is in relation to the statement of intent on page 4 and the key performance indicators there. The one I am interested in relates to the number of active insurance claims. It has got the number of open claims and incidents and the number of claims or incidents that are closed or settled. Over each of the years that figure stays the same.

I just want to get a bit more information. Is it because of historical reasons that we have that figure? Is it something that is used as a standard? I just want a bit of an understanding. It would be the same very four years and we would not actually see a fluctuation or even want to achieve a reduction in that. An explanation for that would be good.

Mr Fletcher: The number is not a standard. It is our own estimate or forecast of those numbers. It stays the same over the forecast because it is very difficult to try and forecast. If you look at the previous years, the total number at the top of 9,000-ish has grown from about 7,500 to 8,000 last year to that estimate that is there in table 13. We have tried to forecast what that might be in the outyears to try and do that. My expectation is that certainly the top line number will continue to grow, given that, relatively speaking, we are a very young portfolio. We will continue to increase in terms of the number of claims that we will have as part of our portfolio.

THE CHAIR: Are you expecting that you will see an increase every year on that?

Mr Fletcher: I think I told the annual reports committee last year that I expected that to start to flatten out. I am certainly hoping that it will. But I would have thought that the number of claims would be only plus or minus, if you look at the next page, in terms of our forecast outcome. Our expected number of open claims and incidents is really only up by 87 on that table.

It is a difficult one because the number of incidents that are reported to us and how those incidents then turn into claims can fluctuate. Over recent years we have encouraged, and have got, a lot of agencies to try and focus on their reporting practices. If you look back over time at those statistics there was a time, probably in about 2006, when the numbers really increased. That was because of a concerted effort by the authority to write to departments and engage with officers who were involved with risk management and insurance claims management to make sure that they reported incidents to us because those incidents go into our renewal submission for our reinsurance process.

It is important, particularly with some classes of insurance—medical malpractice claims, for example—that they are reported in the relevant insurance year. Otherwise the insurer has the right, if they think that you had a known circumstance and did not report that, to decline the claim.

THE CHAIR: Do you use those reported incidents to work out what you think the next year will be based on that figure? I am just trying to get a sense of how you actually arrive at the 9,000 figure.

Mr Fletcher: We just try and forecast it based on our experience. It is the same with the numbers on the next page. Even as an estimated outcome for the end of this year, you might think to yourself, "Why can't we make a better estimate of that?" June is traditionally the month when we ask agencies to revisit the claims database that they might have. Particularly with med-mal claims, there may have been an incident at the beginning of the financial year, particularly with ACT Health, and as those claims develop or the information in their risk-man system is improved, they may choose, for a whole weight of reasons, to report the incident or include it in their June report when they did not include it in a prior report. We get a big bundle at the end of the year that we then have to go through with them and sort out what we will put on as a claim, what we will put on as an incident and what we will just set aside.

THE CHAIR: You said that you are expecting, being a young agency, to see a significant increase. Is there any reason for the significant increase or is it just the very fact that you are there as a body and that is why you will start to see an increase?

Mr Fletcher: I suppose it is to do with the fact that a lot of the claims are long-tail claims and they take a long time to resolve, particularly personal injury type claims, medical malpractice claims or liability claims that involve personal injury. There will come a point in time in the future when I suppose those numbers will start to plateau. The difficulty is that the exposure continues to change. Every year we add more services and we add more assets, so the exposure is different. That also has an effect on, obviously, the number of claims and incidents that will be reported to us.

THE CHAIR: Thank you. Mr Hargreaves?

MR HARGREAVES: Just one. We are on BP4, page 444. You indicate in the other expenses line that your budget this year is 66.7, next year's budget is 78, but this year's estimated outcome is 96. There is a $30 million increase in that year. Can you explain that one?

Mr Fletcher: It has to do with our actuaries' assessment of our liability. Twice a year our actuaries make an assessment of the liability. They apply a range of economic assumptions. The key economic assumption that really affects that liability is the discount rate that is applied to the liabilities and it is very sensitive. The effect of the change in the discount rate this year is, in effect, the $30 million difference between the budget and the outcome. The other elements that are included in other expenses are our reinsurance costs which, for the 2011-12 outcomes, are about 13.7 million, and our normal claims expense, which is about 52. That totals about 65. Without the changes associated with that discount rate and a reassessment of our liabilities, we would be on about budget. You see the bottom line loss, obviously, at 29.

MR HARGREAVES: You do not see that reappraisal going forward into next year?

Mr Fletcher: The effect of that is in the current 2011-12 year, and in future years it increases. If the discount rate were to change again either way, it would be just as volatile. There is a bit of a summary of the effect of that in BP3 on page 313 which provides some more detail about the sensitivity of that discount rate. It states that a one percentage point variation is about 20 million to 23 million. The difference in discount rate, I think, on average is about one and a half. That is where the 30 million is derived from in the expense.

MR HARGREAVES: So it can go either way and has done in the past?

Mr Fletcher: It has done in the past. This is probably the largest operating loss result that we have had in recent years. Last year we made about 15 million, the year before that we had a loss of about six million, the year before that we broke even, the year before that we made about 18 million and the year before that we made a loss of 10.

Ms Smithies: To put that in context, John, you are using a bond rate that is between three and four to get that—

Mr Fletcher: That is right.

Ms Smithies: which is the lowest that bond rates have been for quite some time.

MR HARGREAVES: I just wanted to make sure it was not going to translate into next year as well. But you do not know.

Mr Fletcher: No.

MR HARGREAVES: Okay.

Mr Fletcher: It is difficult to know.

THE CHAIR: Mr Smyth?

MR SMYTH: Just to pick up on something Mr Hargreaves said, in the operating statement, and we spoke about this last year, under your expenses, other expenses are 96 per cent of your total expenses. Why can that not be broken down into some of the larger components? The total for the $96 million in other expenses all cannot be minor amounts of money.

Mr Fletcher: I am sorry; I did not catch the last thing you said.

MR SMYTH: The components that make up the $96 million surely all cannot be minor amounts of money.

Mr Fletcher: No, they are not. They can probably be broken down into at least some smaller elements.

MR SMYTH: Yes.

Mr Fletcher: I am happy to do that. I know that the reinsurance cost, as I state, is about 13.7, and the claims expense is about 52.

MR SMYTH: Even 13.7 would be larger than any of the expenses.

Mr Fletcher: Yes, I appreciate that.

MR SMYTH: And the 52. And the same can be said then in the cash flow statements. Other receipts, at $65 million, are one of the largest numbers on the page.

Mr Fletcher: I will have a discussion with the budget people about how we might be able to improve on the information.

MR SMYTH: All right. And it is the same with the payments. You have got four payments of less than two million or three payments less than two and then one payment of $101 million, which is called "other".

Mr Fletcher: Yes.

MR SMYTH: It is not very descriptive. If that could happen, that would be nice.

MR HARGREAVES: Before you get off that, is that because you guys were just complying with the chart of accounts developed by Treasury and therefore it is something that Treasury asks you to do?

Mr Fletcher: It is certainly a standardised format that we are required to comply with, but that format is, I suppose, a matter of discussion between us and those who determine what those formats are.

MR HARGREAVES: The reason why I brought that up is that I have been flicking through and looking at some of the other operating statements, and I think this is a fairly common thing. It is not something peculiar to the Insurance Authority. Perhaps there is an opportunity for the Under Treasurer to have a look at the descriptor.

MR SMYTH: Even if it is just a table appended. If that is the standard chart of accounts—

Mr Fletcher: Or something put in the notes.

MR SMYTH: You could say “see note 1”, which breaks down to components.

Mr Fletcher: Sure.

MR SMYTH: It is just that the largest amount on the page is often “other”.

Mr Fletcher: I appreciate that, yes.

MR SMYTH: Just a question on the statement of intent. Ms Smithies signs off on the statement of intent, yet, for instance, in the ICRC the senior commissioner signs off. Why does Ms Smithies sign off?

Ms Smithies: Because under the act I am actually the chief executive of the Insurance Authority, whereas under the ICRC Act the commissioners are also the chief executives of the ICRC. I think the commissioners have an independent role; they are not chief executives.

MR SMYTH: So it is because of the act?

Ms Smithies: Yes.

MR SMYTH: That is fine. All right. I want to go to the issue of the discount rate on, say, page 444. It stems from the notes on 448, where the outstanding claim is increased when the discount rate is used for employee expenses, which was often a decrease in the long service leave liability. Do we use different discount rates for each item, or is it the same discount rate throughout the authority?

Ms Smithies: The discount rate used for valuing employee long service liability is actually more around the prevailing wage rate and the enterprise bargain rate. So that is actually used to discount further purposes in valuing individual employee liabilities that relate to those employees employed by the authority, whereas the discount rate on the claims liability is actuarially assessed for you.

Mr Fletcher: That is right, in accordance with the accounting standards, which is a different discount rate.

MR SMYTH: So what is the claims discount rate then?

Mr Fletcher: We will take that on notice.

THE CHAIR: That has been taken on notice?

Mr Fletcher: Yes.

Ms Smithies: Yes.

MR SMYTH: So you will give a written explanation of the different discount rates used, and why.

Mr Fletcher: Sure, the difference.

MR COE: With regard to claims from government employees, is it roughly proportionate to the size of the various agencies in terms of the claims?

Mr Fletcher: No.

MR COE: You mentioned Health earlier. Is that just because they are a large agency or have they got a disproportionately high number of claims due to the nature of their work?

Mr Fletcher: Eighty per cent of our claims relate to medical malpractice and liability so health claims drive a lot of the portfolio. They generate, obviously, a lot of claims. And there is Territory and Municipal Services, as a big agency, because they hold a lot of property assets and because they have exposure to a lot of the public liability type risks. They are probably the two agencies. You could probably include ACTION buses in that, because they have a lot of contact with the public and that generates claims.

Most of the other smaller, administrative type directorates—for example, Treasury—do not hold a lot of property assets, do not have a lot of liability risks and, obviously, do not do med mal. They tend to have very few claims compared to those other two agencies. The municipal services type activities and maintenance of assets, or our duty of care in relation to maintenance of assets, are the types of things that generate claims.

MR COE: What proportion of the claims is from the public as opposed to from employees?

Mr Fletcher: We do not have any employee claims.

MR COE: No employee claims at all?

Mr Fletcher: Yes.

MR COE: It is all done through—

Mr Fletcher: Sometimes there are employment practices type claims that may affect our directors and officers type cover. Obviously a territory employee can make a claim against the territory, but generally we are the insurer of territory risks so territory employees can make a claim in their own right against the territory if they believe the territory is liable.

THE CHAIR: I have got one question in relation to the statement of intent. It talks about the review of territory property assets. Is this review something which is done internally or is it done by an independent body?

Mr Fletcher: That is a process that we undertake as part of our insurance renewal process. I cannot find it on the page.

THE CHAIR: It has just got "review completed," but it says here—

Mr Fletcher: Sorry, yes. Yes, that is fine. What we do each year, as part of our reinsurance renewal process, is put together a property assets register. Part of our renewal questionnaire that we send out to agencies asks the requesting to provide an asset register. We go through that register. The first thing we do is compare it to last year to see what may or may not have been included last year, because property assets in particular do not just disappear unless we have sold them. We run our eye over the values that have been provided by agencies, because those values then drive the premium, that they pay, and act as a guide to reinsurers in the event of a claim.

It is a broad form policy so you do not have to put every asset on there, but obviously, as an entity, you need to have made a fairly big effort to get things on there. You cannot just drop elements off there without any explanation, because the value of the assets is directly linked to the amount of premium paid, premium rated. We try and put that into a form that we can then present to the reinsurance market. Generally that asset base increases each year. At the moment it is about 20 billion and there was about a four per cent increase from last year.

THE CHAIR: Okay. Thank you. Also, because it flows from this, page 5, which is about conducting risk management performance and improvement reviews, notes that this was done for four agencies during the 2011-12 financial year. Are you able to tell us which agencies were reviewed and as a result of this if there is any better expectation, better performance, or if there are any key areas where agencies need to improve?

Mr Fletcher: Yes. I probably need to explain that. Having had a discussion with my risk management team today, we have actually got six of those on the way at the moment. It is a new requirement that we brought in. It is about trying to measure on a maturity scale where they are in terms of risk management within their agency. So the ACT risk management framework and the Australian standard on risk management have about 11 principles that are seen as key drivers to corporations and agencies, business entities, having good risk management practices in place.

What we have done is to put together basically a template type questionnaire, or an interview type process, that we go through with agencies and we test them in terms of a score of one to six on a maturity scale. It is a self-assessment type thing. It is the first time we have done it. There are probably only about 15 questions that we have put on that as a start—that is a bit of a pilot—and we will over time develop that and then roll that through different agencies each year. It gives their executive an opportunity to look at what they have done in risk management and perhaps look to some areas that they might improve.

THE CHAIR: So is this something you have instituted?

Mr Fletcher: Yes.

THE CHAIR: Is there a requirement? Are those national principles that they need to be—

Mr Fletcher: No. There is an international standard on risk management and it is basically the driver of best practice in risk management, so that is the standard we try and apply. It is a bit different to other standards in that you need to audit it in the same way that I have just described. You need to come up with a measure, so if one of the principles is that you have a senior manager involved in risk management you might have a forum that considers risk management issues and then reports to a board. We ask for evidence of that: "How have you complied with the expectation, that component of the standard?" So they write that such and such a person is a senior executive and has responsibility for delivering the agency's risk management plan.

There is a risk management committee that has various representatives from within the directorate. Key risk issues get escalated. So they describe to us, on an evidence-based process, where they think they sit on the maturity scale. And then we might think what they need to do to get to the next level on that maturity scale.

THE CHAIR: Okay. Is there a reason why that was not being done in the past?

Mr Fletcher: The charter that the authority has is to promote risk management, so the aim has been to try and engage with directorates at all levels about risk management. Probably it is fair to say that we have always tried to do that, but three years ago we started to try and bring a few things in, because there are some other things on that schedule that are related to that task, like some of the reporting.

The risk profile reports go to directors-general twice a year. We send them a report with a table that graphs their claims and their claim costs and then there is a whole schedule of their current claims with the reserves. We try to offer some commentary on those claims—just basically try and engage with them about being a supporter of risk management within their agency. Then we talk to people at officer level about that. Those three things, along with a training program, and now those performance improvement reviews, which are more pitched at risk managers within agencies and perhaps at risk management in audit committee who might operate within a directorate, sort of say: "How do you measure up? How are you going to improve?"

THE CHAIR: Thank you.

MR SMYTH: In regard to the balance sheet, there are some notes on pages 448 and 449 of BP4. The second dot point on page 448 talks about a movement in allocation between current and non-current receivables. What does "movement" mean?

Mr Fletcher: That would be to do with reinsurance recoveries; they have been moved from current to non-current. It is a timing issue. We have a number of claims, like the bushfire claim and some storm damage claims, that are into reinsurance money. While we have a reserve on those claims, for example, in the bushfire claim, trying to anticipate when we might make those recoveries is difficult, particularly the two storm damage claims that we have got. So there would have been some movement from current to non-current.

MR SMYTH: All right. Can I suggest that, rather than "movement", "transfer" or just "reallocation" might be a more appropriate word? "Movement" seems a bit odd.

Mr Fletcher: Yes.

MR SMYTH: On page 449, under current payables, what are the changing assumptions about settlement times? Have they just pushed out, therefore they become non-current?

Mr Fletcher: That is the same thing. There is a bit of a slowdown in our claims payment forecasts in terms of our actuarials, so it is the same thing as pushing out those payments into non-current from current.

Ms Smithies: So really what we are saying is that both of these things are beyond the year, so currently sit within the year, sort of moves from being received within the year to being received outside that one year.

MR SMYTH: That is fine, but that is not what it says. If you have to ask to explain a note, perhaps the note is not as clear as it could be. Also under current payables it says that the estimated outcome reflects higher than anticipated claims liabilities. What is going on there? Is this the work of the actuary or is this a determination you have made?

Mr Fletcher: No, that is the actuary's assessment.

MR SMYTH: Okay. He is coming back and saying that exposure is higher than initially thought. Then in the non-current payables there is again the line about anticipated growth in the cost of future claims. Is that the same; that the actuary has come back and said—

Mr Fletcher: Yes. That is to do with growth in claims inflation; claims just inflate. So the actuary is using various economic assumptions to come up with an outcome that is an increase.

MR SMYTH: So the longer the tail the bigger the claim?

Mr Fletcher: They apply an inflation rate to claims, so they have to look at how the claim is going to be affected between now and when we anticipate it will be settled; a whole bunch of different things come into play that inflate the cost of those claims.

MR SMYTH: Yes. It might be easier just to explain it a little better.

THE CHAIR: Mr Coe, do you have any questions?

MR COE: Yes. This is out of left field: are there many claims from tenants in public housing?

Mr Fletcher: We have property claims that relate to ACT Housing that are either water damage from storm type events or your typical sort of kitchen fire, left the heater on fire, dropped a cigarette on the lounge type claim. They are not really claims from tenants. We do have some claims that relate to duty of care as a landlord in some instances, but they are few and far between. They sometimes can relate to things like maintenance items at those properties.

The only one I am thinking of is a gentleman who had a problem with a concrete ramp that ran from the front of his property. It had deteriorated and the rail had deteriorated and he fell over, so he reported that to ACT Housing and made a claim. I will not say that that is typical, because I have not seen many of those, but there is certainly potential for that type of claim.

MR COE: Thank you.

THE CHAIR: There being no further questions we will now move on to the ACT Compulsory Third-Party Insurance Regulator. I also note—I think Treasury officials have agreed to this—that if members have any questions about Totalcare, a discontinued agency, ask them after the CTP regulator.

Welcome, Mr McDonald. We have had you here before, but I will just quickly refer you to the privilege statement on the card in front of you. Can you indicate that you are aware of that?

Mr McDonald: Thank you, chair; I am aware of the privilege statement.

THE CHAIR: Fantastic. I just make sure I do that every time. I do not have any questions for Mr McDonald. Ms Hunter, do you have any?

MS HUNTER: I am happy to pass to Mr Smyth.

MR SMYTH: Page 3 of your statement of intent talks about the report on the CTP review. I am curious. This may be more a question for the minister as much as for you, Mr McDonald, but I notice that the federal member for Fraser, Andrew Leigh, apparently on advice from your office, said that the delay in the Assembly dealing with the CTP reforms was caused by the Canberra Liberals and the Greens. Did you provide that advice to Mr Leigh and have you now corrected the record with him and confirmed that it was in fact the delay in the committee receiving the three-year CTP report that caused the delay?

Mr Barr: I will have to confirm that with Dr Leigh, as to whether he sought that advice from my office.

MR SMYTH: So you will take that on notice?

Mr Barr: I will confirm it with Dr Leigh.

MR SMYTH: I have a letter here from Andrew Leigh that says:

> Thanks for your email. I have taken up the issue of CTPI … in the ACT with the ACT Treasurer, Andrew Barr MLA. You'll be pleased to hear that the Minister is aware of this unsatisfactory situation and a bill to change it is currently before

> the assembly (it is being held up by the Liberals and the Greens).

Mr Barr: The bill, yes.

MR SMYTH: The report was holding up the bill.

Mr Barr: It is a matter of semantics, Mr Smyth.

MR SMYTH: Let me go on. There was a letter from Mr McDonald to another constituent that says:

> The committee has recommended that the CTP Bill will not be supported … In the absence of support … in the Assembly, there would appear to be no realistic prospect of other insurers entering the ACT market for CTP or for a significant reduction in premiums in the foreseeable future.

Would you say that is a true and accurate reflection of the market as it is?

Mr Barr: Sorry; who are you quoting there?

MR SMYTH: Your department said that to a constituent.

Mr McDonald: We receive correspondence and inquiries from any number of people about CTP, Mr Smyth. Every single one of them is concerned about price and competition—pretty much all of them. I would say that statement is correct in every way.

MR SMYTH: Is it the intention, minister, to bring on the CTP bill before the end of the Assembly?

Mr Barr: That is a matter for the manager of government business.

MR SMYTH: I thought that was a matter for the minister.

Mr Barr: It is a crowded—

MR SMYTH: Do you intend to bring it on?

Mr Barr: It is a crowded legislative program, and you can wait and see.

MR SMYTH: Do you intend to bring your bill on?

Mr Barr: You will find out once the program for the final sitting fortnight is outlined.

MR SMYTH: So the reason we are not getting the reform as detailed is that you are not willing to bring the bill on?

Mr Barr: We have a majority committee report indicating that the bill will fail.

MR SMYTH: It is a majority committee report; that is correct.

Mr Barr: So there is now political opposition. There will not be nine votes in favour of the bill in the Assembly, so it would not succeed. We can go through the exercise in August of forcing you to vote in that way. We may well do that. You will have to wait and see.

MR SMYTH: We will all wait and see. It will be interesting to see how those constituents you have written to blaming others feel about that. On page 5 of the statement of intent there is this reference:

> External risks are also a factor affecting the CTP regulator. An example of this is the recent report of the Productivity Commission on National Disability Care and Support. This report recommends that all jurisdictions implement a no-fault catastrophic injury scheme for motor crash injuries by 2013.

What progress has been made to implement that, minister?

Mr McDonald: As I mentioned to the committee this morning, Mr Smyth, I had a meeting in Sydney on Thursday with my federal-state counterparts. This particular project is being advanced through the federal-state Ministerial Council on Financial Relations. The work to be done in relation to this project is being sponsored through the heads of treasuries forum. Similarly to the insurance crisis response—although it has nothing to do with, obviously, a crisis situation—it is using the same sorts of people to apply necessary rigour.

As far as the ACT position is concerned, as I mentioned this morning, we have received an outline of our actuary's view of what it would cost per premium for us to enter into a national injury insurance scheme—that is to say, by way of doing it ourselves, either that or going in with New South Wales or partnering with other jurisdictions that do not have schemes yet, which are smaller jurisdictions, those being Queensland, South Australia and Western Australia.

We are looking at all of those options. We have not been to cabinet and we were waiting on the outcomes of Thursday's meeting before I actually put pen to paper to brief the minister formally on this. There will be a number of interim things that we have done, but the two keys that we needed were our actuary's views and timing from the federal government, Treasury and the state ministerial councils, and also the views of our colleagues in other states.

Much work has been done on this particular project over the last 12 months—certainly accelerated since the Productivity Commission's report came out in August last year. Nonetheless, as Ms Hunter knows, this has been on my front burner for the last three years and certainly is more than a twinkle in one's eye, if I can put it that way.

The position that we are in at the moment is quite an interesting one, because, along with those other states that do not have such a scheme, the other issue that we have—I am not going to dwell on it because it has political overtones—is to do with the current premium and our ability to apply a levy over the top of the current premium, modest as that levy might otherwise be, and the public's appetite for consumption or, shall we say, paying out the additional funds by way of premium, because that is the most efficient way to fund such a scheme—from those who are participants in the scheme as it is.

With respect to the estimates of cost, I am quite happy to outline them to you today purely as a theoretical exercise because we have not been able to apply them directly to current injuries in the ACT. We are a little trammelled in the sense that there has not been any catastrophic road crash in the ACT involving catastrophic injury since 2003. With the claims that have settled as a result of those particular incidents, one of them is in excess of $15 million. They settled in October or November of last year, I believe. The other one is about that level and one is a bit short of that.

Looking at those numbers, looking at the actuary's reports, depending on the number of catastrophes and looking at the Productivity Commission's estimate of $24, I believe—it was somewhere between that and $42 for a premium, depending upon the number of casualties.

MR SMYTH: Would such a scheme not lead to a lessening of premiums, if you are taking away the large cases, the large amounts?

Mr McDonald: Theoretically, yes. But if we look at the component for reinsurance that the current provider, NRMA, have, I would rather not specify what that amount is, because they would regard that as commercial-in-confidence but it is less than $10. That is because they have a very high retention. There would be a relatively minor saving from reinsurance. There would be a downward risk adjustment, of course, in relation to the catastrophic injuries being taken off the table. But we have not asked them and they have not done any kind of assessment as to what that saving would be. I believe that will be our job to do, and we have not been able to do that yet. It is all very preliminary at this stage. But work continues, and continues apace.

MS HUNTER: So that is at the national level through those discussions?

Mr McDonald: Yes.

MS HUNTER: Earlier, when I asked a question around this, Ms Smithies—or it may have been you, Mr McDonald—said something around further work being done under the 2008 reforms. In fact on page 154 of budget paper No 4, the fourth dot point talks about consolidating reforms.

Mr McDonald: Yes.

MS HUNTER: What steps are you taking there? What has been undertaken?

Mr McDonald: The first set of steps that we are taking revolves around the introduction of a series of guidelines which will hopefully streamline the way that the claims are processed in the ACT. The first guideline that we intend to promulgate will be the premium guideline, which will in a sense not so much restructure how the insurer has to go about putting its premium submissions together but it will consolidate the ACT's position more firmly in line with New South Wales, which is, of course, the set of provisions in our CTP law that we adopted with respect to regulating insurers and premium control.

The second one that we will be looking at concerns medical treatment, and specifically musculoskeletal injury, which is a significant cost factor—

MS HUNTER: Whiplash and so forth?

Mr McDonald: Yes. It is a significant cost factor in schemes. Members of the committee would be aware, of course, that we had an agenda with the CTP bill which is in abeyance. Our position has always been a desire to adopt the Queensland approach to injury management because, of course, we have got their provisions in our injury management parts of the CTP law. They have done a considerable amount of work around whiplash and other musculoskeletal concerns.

Another set of guidelines that we would be seeking to implement in the next financial year would be claims handling guidelines. Currently, NRMA utilise the same principles that apply in New South Wales in relation to claims handling in the ACT. My concern is that I want to ensure that I have a robust set of guidelines that I can rely on to hold them to account in relation to claims handling.

I do not know if members have received any complaints from people who have been injured and have NRMA handling their claims for them, but there have been a few of them—not an overwhelming number. I have only ever seen a couple, but one likes to know that one has got the right handle on what they are doing. So those are the first line of attack that we are looking at.

We are also thinking about promulgating some actuarial guidelines, which would standardise how their actuaries and our scheme actuary look at contingencies and, particularly, the nature of claims over time, which, of course, informs the premium debate, which informs the premium ultimately. So we are wanting to have a look at that.

We have yet to take legal advice on that particular one. We are not too sure whether we have legislative power to do that right now. We know we do in relation to the other guidelines, but in regard to actuarial guidelines, we may need a technical adjustment to the 2008 law.

In terms of legislative adjustments to the 2008 law, I have a number of them here, members, but what I am actually focusing on at the moment are potential loopholes, things that have come up in the courts after passage of the legislation. There is one that has arisen in February this year which we are looking at right now. It is to do with legal cost controls. It is one of the central elements of the operation of the 2008 law in relation to small claims. In an effort to channel the folks who are injured into the treatment and rehabilitation stream, we have taken certain steps in relation to legal fees. We have run into a little hiccup in the court of appeal in connection with that which we need to address downstream.

There are other issues that are more technical and probably a bit more boring for the committee, like open communication and things of that nature, trying to speed up the response to settlement offers by insurers—the ability to monitor that a bit more closely—and our ability to assist the medical profession a little bit better in doing the medical claim form information. There are issues around vehicle classes. We would like to consolidate some vehicle classes, because, frankly, there are too many vehicle classes for the number of vehicles in the ACT. We have got a single class—the minister is aware of this—that has got two vehicles in it. We would like to perhaps roll that into one that has got 500 vehicles in it.

MS HUNTER: Two vehicles. What sort of vehicles are they?

Mr McDonald: It pains me to say, but I believe they are farm tractors.

Ms Smithies: We do have a number of administrative issues with the legislation that we need to go through and tidy up.

Mr Barr: It is just as well time is on your side, Tom.

Mr McDonald: Yes. I would rather not bore the committee by going through those.

MS HUNTER: So there is quite a bit of work that is going on.

Mr McDonald: Yes, there is.

MS HUNTER: Even under those 2008 reforms.

Mr McDonald: Yes. I have not just taken the view that you cannot always get what you want, as far as the bill is concerned.

MR SMYTH: A very pragmatic approach, Mr McDonald.

THE CHAIR: It is, indeed.

Mr McDonald: We have had these particular adjustments on the books for some time. Some of them, of course, were in that particular bill.

THE CHAIR: We will have to wrap up. Are there any final questions for Mr McDonald? Does anyone have any questions on Totalcare? This is the time to ask them.

MR SMYTH: If I do, I will put them on notice.

Mr Barr: It could be the last time.

Mr McDonald: I do not know.

MS HUNTER: Is it the last time?

MR SMYTH: When is it due to be wrapped up, and are we on target?

Mr McDonald: It ceased to exist on 2 May, and as an aficionado of *True Blood*, Mr Smyth, I was able to give it the true death!

MR SMYTH: That is the comment for the day.

THE CHAIR: Thank you, Mr McDonald. We will now move on to the home loan portfolio.

Thank you, Mr Salisbury, for joining us at the table. The one thing I will go through, as I do always, is the privilege statement on the blue card in front of you—just to make sure you are aware of that. Can you indicate you have read that and acknowledge it?

Mr Salisbury: Yes.

THE CHAIR: Thank you. I will go straight to questions. Ms Hunter, I will go straight to you.

MS HUNTER: I think this is a question I have asked in the last couple of years, but we will see how it is going. It is about the—

Mr Barr: The greatest hits of the home loan portfolio, is it?

MS HUNTER: It is about the projected time frame for winding up the scheme. Where are we up to with all of that?

Mr Salisbury: Winding up the scheme really depends on people's propensity to pay down those loans.

MS HUNTER: Yes, I know, but—we have got some loans out there. Slowly they have been coming off the books. What are you looking at at the moment?

Mr Salisbury: Currently we have got 128. We expect there to be 125 by the end of this financial year and 105 by the end of the 2012-13 financial year.

MR SMYTH: When will that 105 be paid up if they pay at the current schedule?

Mr Salisbury: 2022.

MS HUNTER: There is a listed reason for the significant decline in the cost per loan. It is largely attributed to reduction in staff. You only had two FTEs, so does that mean you have gone down to one?

Mr Salisbury: I think there is a bit of rounding up and rounding down there. I think we had 1.8. I think we are down to 1.2, and we have rounded down. That is probably looks a little more stark than it really is.

MS HUNTER: Thank you.

Ms Smithies: We have also changed the system that we are administering this on.

MS HUNTER: Okay.

Ms Smithies: It is a significantly cheaper system for us to run—the finance system that the home loan portfolio is run on.

MS HUNTER: What was the change there?

Ms Smithies: We have basically changed it. We were using a provider that we were paying a large, fixed annual fee to; we have now moved it to basically an off-the-shelf system to run on. It is only 105.

MS HUNTER: Yes, that is right.

Ms Smithies: Or 120 accounts, so—

MS HUNTER: You run it internally?

Ms Smithies: Yes—through a bit of somebody else's software, but a much cheaper piece of software for us.

MS HUNTER: Okay.

THE CHAIR: Mr Smyth.

MR SMYTH: Just a couple of questions. The interest rate paid on the loans is what?

Mr Salisbury: Our loans to the commonwealth or the loans that—

MR SMYTH: The individual loans.

Mr Salisbury: It is the commonwealth variable bank rate, which is currently at 6.8 per cent, I believe.

MR SMYTH: The second dot point on page 195, BP4, talks about continuing to review and monitor loans in arrears. Of your 125 loans, how many are in arrears and what is the size of the arrears?

Mr Salisbury: If I am reading from the right briefing here, I think we have 127 loans under administration, with receivables of $3.8 million.

MR SMYTH: How many are in arrears?

Mr Salisbury: It is 127, I believe—sorry, 25.

MR SMYTH: You are not doing a good job of managing your portfolio if there are 127.

Mr Salisbury: Yes.

MS HUNTER: I thought you said there were 128. Now you are saying there are 127.

Mr Salisbury: Sorry; I was reading from the wrong one.

MS HUNTER: Would you like to start again?

Mr Salisbury: I believe there are 25 loans in arrears.

MS HUNTER: And overall 127 or 128?

Mr Salisbury: I believe there are 128 in the portfolio.

MS HUNTER: Great; okay.

Mr Salisbury: Sorry; my apologies.

MR COE: Are there any conditions on those loans with regard to residency or anything of the sort?

Mr Salisbury: I think we inherited those loans. That was a commonwealth program spanning from the 1980s through to the mid-1990s. I do not know the history of those loans or the requirements that sat around those qualifying for those loans.

Ms Smithies: Are you actually asking whether people have to be living in the house that they are repaying?

MR COE: Yes, that is right—like a residency requirement as a condition of the loan.

Mr Salisbury: Can we take that question on notice?

THE CHAIR: Yes.

MR COE: I imagine there would be pretty generic conditions for those loans. So yes, if you are able to. Even if you have a sample contract or something like that that you are able to release, that might be the easiest way of doing it rather than preparing a written response. If you had one where you can black out all the personal details, that would be handy.

THE CHAIR: Whatever is going to be the easiest way that you provide that information. So that is on notice.

MR SMYTH: If we can go to the balance sheet on page 198, I see we have moved some money out of cash and equipment into investments. The target was to have 16 million investment at 30 June. We have only achieved 10 of that. What is the reason for the difference? And then why have we got 10 million in investments till the end of the sheet?

Mr Salisbury: Sorry, can I have the question again?

MR SMYTH: The target was to have $16 million of investment at 30/6 this year. The outcome is 10 million. Why have we fallen short? And then why is the figure 10 million just replicated in the outyears?

THE CHAIR: Would it be easier to take it on notice or are you able to find that information now?

Mr Salisbury: I think the answer is that we have moved some of that from short term to long term, but why don't I take it on notice.

THE CHAIR: Take it on notice so you can clarify that. Thank you.

MR SMYTH: The $10 million for the current year and the next four years—is there a reason why we have just sat at $10 million?

Mr Salisbury: I will take that on notice if that is okay.

MR SMYTH: Thank you.

THE CHAIR: Are there any further questions? No. Thank you very much, Mr Salisbury; we will let you go.

Mr Salisbury: I promise I will be more helpful next year.

THE CHAIR: You were very helpful. We will now move on to ACTTAB. Thank you, officials from ACTTAB, for joining us. I draw your attention to the privilege statement on the blue card in front of you. Can you make sure that you have read that and are aware of it? Does anyone want to make a statement or will we just go to questions?

Mr Barr: Not at 20 past five, no.

MS HUNTER: I was actually interested that we did not have a statement of intent. I thought normally we did get that.

Mr Curtis: I do not know whether it has been tabled.

Mr Barr: It is the same issue as for Actew.

MS HUNTER: It is coming.

Mr Barr: It comes separately, yes. The same as Actew.

THE CHAIR: As per Actew, it is August, yes?

Mr Barr: Yes.

MR SMYTH: Is there a reason why the statements of intent for both organisations are done in August rather than—

Mr Barr: I imagine it is the—

MS HUNTER: It is the TOC Act.

Mr Barr: It is subject to the requirements of the Territory-owned Corporations Act. I get the final at the end of July and there are 15 sitting days, yes. It is custom and practice. I am advised it has always been like this. But we love a bit of reform in this jurisdiction; so there you go. Let us turn our minds to the—

THE CHAIR: I will go to the first question. I refer to budget paper 4, pages 470 and 474, where reference is made to premium customer wagering. I note that you attribute the decline in "user charges—non-ACT government" in 2011-12 to a decline in premium customer wagering. You then also attribute an increase in revenue in the 2013-13 financial year to an increase in premium customers. I wanted to get some clarification. Given the decline in revenue in 2011-12, could you advise why you expect a 10 per cent increase in revenue in 2012-13?

Mr Curtis: The VIP market is a pretty fickle market. It is subject to rebating nationally; so it is highly competitive. We have lost a number of VIP customers over recent years and we recently lost one of our longest-standing customers who has retired. But I am pleased to say that we have signed new customers more recently which will, I think, lead to an increase in turnover from that particular component of the market.

THE CHAIR: Is that where that 10 per cent is coming from?

Mr Curtis: A significant amount of that will come from that market but there has also been an increase in the retail component of the market—well, there certainly was over the last couple of months. But it is not constant. Again, it is fickle. It seems to be influenced by—if there is talk about interest rates going up or some other dilemma that the community might be facing, it seems to impact on the customers and the amount of turnover that we might do, particularly from week to week. But from all the modelling that we have done, we anticipate that that figure will be correct, particularly with the significant customer that we have just signed recently, being a corporate bookmaker.

MS HUNTER: I want to go to page 471 and look at the balance sheet. I note the current liabilities on the balance sheet. They seem to significantly exceed your assets. Does that mean that the organisation is technically insolvent?

Mr Curtis: No.

Ms Snowden: In the 30 June 2012 estimated outcome, in the other provisions there is a one-off $3 million special dividend that we paid to the government this year. That over-inflated our payables in the 2012 year.

MS HUNTER: Okay.

MR SMYTH: Can you just expand on the nature of the dividend?

Ms Snowden: We have always been, under our act, paying a 75 per cent dividend. Recently we have been advised that our dividend will now be a 100 per cent dividend and also that the ACT government requested a one-off payment, a special dividend, which they can do as the shareholders.

MR SMYTH: And the purpose of the special dividend, minister?

Mr Barr: Bottom line.

MS HUNTER: It was what, sorry?

Mr Barr: It goes to the bottom line.

MS HUNTER: In the priorities on page 469, the second dot point is about completing the technology infrastructure and web enhancements. This was about being able to deliver a better service, I guess, and attract more customers and so forth. There have been issues in previous years with systems falling over. Where are you up to with some of the work so far? I think it was a Melbourne Cup day when it was down for quite a few hours.

Mr Curtis: Yes, that is certainly correct. The ageing technology was long overdue for replacement. The replacement program is, I would say, 75 per cent complete. The new system has been rolled out to retail. We have also rolled out self-service wagering terminals to retail, including the sub-agencies. The last part of that will be the integration of sports into the self-service terminals. We expect that to take place in about September of this year.

We are relying on an overseas company, in terms of the development and rollout of that technology. The IT industry generally is a difficult one, particularly in the ACT, in terms of attracting staff that have the requisite skills to do the work that we require. So to a large extent we are relying on contractors to do the work. That sort of delayed the process. But I am hopeful that that September deadline will be met and that that will virtually complete the rollout of the new technology.

But added to that is also the requirement to update our website, which I think when you compare it to other providers is looking a little tired also. So there is a substantial amount set aside to enhance that over the next 12 months. Hopefully once that is done, it will be all money, money, money.

MS HUNTER: Is that going to be done through contract again?

Mr Curtis: Yes, a contract is—I do not think we have quite let that yet.

Ms Snowden: No. We have been through the tender process and we are in negotiations now.

Mr Curtis: It will not be far away.

MR SMYTH: We heard a discussion last year about your progress on negotiating agreements beyond 2012. What is the progress on that?

Mr Curtis: We have taken the decision to move from Centrebet back to Tabcorp, with sports betting. We are in the throes of negotiating that contract. But more importantly, the pari-mutuel pooling arrangements with Tabcorp will be extended for three by three. Initially it is a three-year period with an option for a further three. That contract I expect to be signed within the next 30 days.

MR SMYTH: In terms of the long-term future with ACTTAB, minister, in previous discussions this year we spoke about its viability in a very big pool and an even bigger international pool beyond that with online betting. What is the future of ACTTAB, as far as the government is concerned?

Mr Barr: Under active consideration.

MR SMYTH: And what are you actively considering?

Mr Barr: The future of ACTTAB.

MR SMYTH: There you go. You mentioned when we had this discussion previously that there had been offers made, or expressions of interest shown. Have they continued?

Mr Barr: To my knowledge, yes, but not to the point of a firm offer being made to government.

MR SMYTH: Does the government have a time line for a decision?

Mr Barr: Not this calendar year.

MR COE: In the last year have you brought any new betting products online?

Mr Curtis: Yes. In terms of pari-mutuel products, there are a number of products that have come online. I am just trying to think whether they happened in the calendar year or earlier.

MR COE: Just recently, yes.

Mr Curtis: Flexi-betting, first four, duets and in keno we added another component to the keno game, which was an option called coin toss.

Mr Barr: Apparently you can play keno online now, too.

MR COE: Minister, are you betting while we are in estimates?

Mr Barr: No, I am not betting whilst I am a minister. I do not have an account. I have just been told they can fix that.

Mr Curtis: The other product that we are involved in, of course, is a thing called Trackside. It is animated racing. The technology is very similar to keno. Again, the technology we particularly have, as opposed to Tabcorp, which also have it, is quite dated and is continually falling over. We are reaching a position now where we have to make a decision as to whether we will stick with it or, again, move to enhance the technology, which would be a considerable outlay.

MR COE: Yes. In relation to some of the customers that you might have lost a few years ago when they went to online options that did have a lot of products that were very new at the time, are you seeing them return to ACTTAB now?

Mr Curtis: Yes, we are. Again, a lot of this is anecdotal advice that we are getting from customers that supposedly drove over the border to have bets or went online with a competitor. But I think also there was a component of the VIP market that was going elsewhere too, they being able to access, for example, flexi-betting. We have seen an increase there. I do not have the numbers, but I think it would be fair to say that across the board it might be something like an increase of five per cent as a result of those people coming back.

MS HUNTER: Because losing any of those VIP clients can have a significant impact, can it not?

Mr Curtis: Certainly.

MS HUNTER: I can recall one a few years ago; it was only one person who pulled out.

Ms Snowden: Yes, we just talked about that.

MS HUNTER: It is massive.

Mr Curtis: Yes. Typically, these customers would do a minimum of $5 million turnover. We have had customers who have probably done up to $20 million turnover a year. So if you lose a $20 million customer, it is—

MR COE: So how many of the outlets are run by licensees? Is that the term?

Mr Curtis: The breakdown is that we have got agents and branches. The branches are staffed by our own managers.

MR COE: So agents?

Mr Curtis: The agents—what have we got at the moment?

Ms Snowden: Five.

Mr Curtis: Five, and we have, I think, 37 or 38 sub-agencies, which are located in—

MR COE: Okay. Of those five agencies, when is the last one up for renewal or termination?

Ms Snowden: There are two that are up as at 30 June 2012. Negotiations have already commenced with those.

Mr Curtis: But none of them are under review at this stage. They are likely to be—

MR COE: Rolled over?

Mr Curtis: Rolled over, yes.

MR COE: Okay. Is there any interest in moving any of your branches to agencies?

Mr Kourpanidis: The best answer to that question really is that, unless you have someone who you are confident will do a better job than you are doing in running it yourself, there is no real purpose in switching over something from our own internal control to a licence arrangement. It is different if someone can clearly demonstrate that they could build the turnover and do a better job than you are doing. That is a very strong motivator to move to that model. But at the moment, as Tony said, we have five. In previous years it might have been as high as maybe a 50-50 split. At the moment it is probably 75-25.

MR COE: I have a technical question about the actual space that those five agencies occupy. The fit-out and everything in the store, is that owned by the agent or is it owned by ACTTAB?

Mr Curtis: Everything is owned by ACTTAB. It is probably the best paying franchise anybody could ever go into. All they are required to stump up is a bank guarantee of $25,000 and the rest of it is outlaid by ACTTAB. Of course, they have ongoing costs. They are liable for their own day-to-day running costs. But in terms of, for example, the fit-out and updating the fit-out, that is done at ACTTAB’s cost.

MR COE: Most importantly, is there going to be an ACT election market opening?

Mr Barr: You cannot always get what you want, Alistair, I think is the answer to that question.

Mr Curtis: That will probably depend on whether the Gambling and Racing Commission are prepared to authorise that as a market.

Mr Kourpanidis: If I could just add one thing to what was covered earlier, just for the purposes of clarity, when you are talking about the VIP sector, do remember that it is a very small number of people. When you hear “we lost customers”, we are not talking of droves of people. But if you lose one person who bets $20 million in a year, that is 10 per cent of your turnover. At best we have had five or six large VIP people and at worst we have been down to three. We are now back to four. There are a lot of others that fall into the next category, which really is like an active weekend punter—not a huge punter but relatively consistent. They form part of the category. But in true VIP terms we are only talking about a handful of people.

MS HUNTER: I have said that is my point.

MR COE: What is the nature of a VIP client? It is quite foreign to me. Is it just somebody who is betting a lot of money or are they doing it on behalf of somebody else?

Mr Kourpanidis: No, they are professional people who quite often are based in mathematics and probabilities and using intricate formulas. Quite often they may not even know the name of the horse that they are betting on. It is a mathematical process. It is a bit like someone who analyses the stock market or punts on shares going up or down. It is that kind of profession.

Mr Curtis: Generally they are working with a very small margin. It might be as small as three per cent, hence rebates come into play.

MR SMYTH: On page 474 in the first dot point it says that the decline is due to a decline in premium customer wagering. That is one person and the recovery is a similar person?

Mr Curtis: Yes, essentially. To pick up on your point, Mr Smyth, as to how we are travelling, despite that I think it is probably best summarised in the fact that we have still been able to manage to contribute in this financial year $8 million to the government. I think it is still going okay.

THE CHAIR: I just wanted to ask about the partnership you have got with Mission Australia and the Gambling and Racing Commission about providing counselling and education about problem gambling. Can you give us a bit more detail about that initiative? Is Mission Australia actually getting funding to assist with that?

Mr Curtis: As the committee is probably aware, the initial scheme that was put in place involved gaming machine licensees contributing, under legislation, to a fund administered by the commission. We independently at that time, realising that the relationship with Lifeline was rapidly breaking down, were trying to work out where we might go and subsequently had a discussion with the chief executive of the Gambling and Racing Commission. I think the casino also joined those discussions and independently joined that scheme, but not under a mandate of legislation. We are contributing, I think, $50,000 a year to that scheme.

As to how it is going, it is probably still early days, but I do not think it is as good as the relationship we had with Lifeline, which was probably established and built up over a number of years and involved a number of locals. Mission Australia, of course, has been based interstate. I think it may be reliant on having brought people in here to manage the arrangement. The feedback from, in particular, one excluded customer that contacted our responsible gambling officer was that he was more than happy with the counselling and service provided by Mission Australia. But that is the only feedback I have had.

THE CHAIR: Do Mission Australia get specific funding from the $50,000 allocation?

Mr Curtis: From the commission?

THE CHAIR: Yes.

Mr Curtis: Yes. I do not know what the amount is, but I would imagine that it is—

Mr Barr: It is a percentage of net gaming machine revenue, isn't it?

MS HUNTER: Over a million goes in, but I am not sure what the Mission Australia amount is.

Mr Barr: Yes, $600,000 or something like that.

Mr Curtis: There is an amount set aside for research as well.

MS HUNTER: That is right, the ANU research.

Mr Curtis: One of our executive managers, as recently as last week, participated in a group that got together—it was chaired by the commission—to determine what projects that money would be directed to over the next 12 months.

THE CHAIR: As there are no further questions, thank you very much for coming and speaking to the committee on behalf of ACTTAB. As mentioned at the commencement of the hearing today, there is a time frame of five working days for the return of questions taken on notice at this hearing. There are questions on notice for the following agencies and outputs: ACTEW Corporation Ltd, territory banking account, superannuation provision account, ACT Insurance Authority, ACT Compulsory Third- Party Insurance Regulator, home loan portfolio, ACTTAB and Totalcare. If there are any questions in that regard they should be lodged with the committee office within three business days of receipt of the uncorrected proof transcript, with day one being the first business day the transcript is received. On behalf of the committee, I would like to thank you, Treasurer, and all officials for appearing before the committee today.

Tomorrow the committee will continue with the examination of the Treasury portfolio, specifically output classes relating to the Shared Services Centre. This will be followed by examination of output classes in Economic Development, Tourism, Sport and Recreation and Environment and Sustainable Development.

The committee adjourned at 5.41 pm.