LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

SELECT COMMITTEE ON ESTIMATES 2013-2014

(Reference: Appropriation Bill 2013-2014 and Appropriation (Office of the Legislative Assembly) Bill 2013-2014)

Members:

MR J HANSON (Chair)
DR C BOURKE (Deputy Chair)
MR M GENTLEMAN
MR B SMYTH

TRANSCRIPT OF EVIDENCE

CANBERRA

MONDAY, 17 JUNE 2013

Secretary to the committee:
Ms N Kosseck (Ph 620 50129)

By authority of the Legislative Assembly for the Australian Capital Territory

APPEARANCES

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Amended 20 May 2013

The committee met at 9 am.

Appearances:

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

Chief Minister and Treasury Directorate
Nicol, Mr David, Under Treasurer
Doran, Ms Karen, Executive Director, Investment and Economics Division
McAuliffe, Mr Patrick, Director, Investment Branch, Investment and Economics Division
McDonald, Mr Tom, General Manager, Office of the CTP Regulator, Legal and Insurance Policy/Investment and Economics

Independent Competition and Regulatory Commission
Gray, Mr Malcolm, Senior Commissioner

Commerce and Works Directorate
Smithies, Ms Megan, Director General, Executive
Salisbury, Mr Kim, Commissioner for Revenue, Revenue Management Division
Burton, Mr Ross, Chief Financial Officer, Strategic Finance

ACT Insurance Authority
Fletcher, Mr John, General Manager

ACTEW Corporation Ltd
Sullivan, Mr Mark, Managing Director
Wallace, Mr Simon, Chief Finance Officer

ACTTAB Ltd
Kourpanidis, Mr Con, Chairman, ACTTAB Board
Curtis, Mr Tony, Chief Executive

THE CHAIR (Mr Hanson): Minister, Treasury, good morning, and welcome back to the estimates committee, although I note that this is the first time that you are appearing in the public hearings. I remind you that the proceedings today are being recorded for Hansard and also are being live webstreamed. Do you have the privilege card in front of you? Are you all aware of that?

Mr Nicol: Yes.

THE CHAIR: You are? Fantastic. Before we go to questions, Treasurer, are you wanting to make a short statement?

Mr Barr: No, chair; I am happy to proceed to questions.

THE CHAIR: All right. Treasurer, the cost of living statement—can you outline for me what the differences are? There have obviously been some changes between the cost of living statement last year and this one. Can you explain what it now includes that it did not before—what has been added, what has been taken out, and how essentially it is different from what we had before?

Mr Barr: The cost of living statement has been expanded in this budget. You may have moved a private member's motion that called for such an expansion. The details of assumptions in relation to the statement are outlined on pages 54, 55, 56 and 57 of budget paper 3.

THE CHAIR: In terms of the expansion, though, can you just outline for the committee what has been added to that cost of living statement? Have you included—

Mr Barr: It is on those budget papers.

THE CHAIR: Have you included parking?

Mr Barr: Yes. You will see that in there.

THE CHAIR: So parking is included?

Mr Barr: In scenarios where households park and pay for ACT government car parking, yes, but not every household is in that scenario.

THE CHAIR: No; indeed.

Mr Barr: But there are examples within the cost of living statement, and I refer you to the pages I have referred you to.

THE CHAIR: Sure, although there is no average household, of course.

Mr Barr: No, there is no such thing as an average household.

THE CHAIR: When you compare the previous year to this year, what is the increase in the cost of living?

Mr Barr: There is no comparable increase. It would depend on consumption of certain elements of goods and services, and it depends, of course, on final determinations of a particular utility cost, for example.

THE CHAIR: The problem is, and this is where it gets a bit confusing, that I think the intent of the cost of living statement is to try and identify what this budget means for Canberra families in terms of cost of living, but if you are unable to make a comparison with the previous years—

Mr Barr: It would depend on their circumstances. For example, a household that is eligible for the first home owner grant and the stamp duty concession will be $26,000 better off than they were previously. Households that receive concessions receive increases in those areas. So you need to look at the different scenarios, depending on household circumstances.

THE CHAIR: And it is the same scenarios we used last year?

Mr Barr: No. Last year did not have scenarios.

THE CHAIR: Right.

Mr Barr: This year we have expanded upon that to provide the impact of the budget on a variety of different households.

THE CHAIR: I suppose that is the point I am getting to: it is very difficult, in this budget, to make a comparison and understand what the impact of the cost of living is, because you are comparing—

Mr Barr: Well, you can see that across—

THE CHAIR: In the previous budget it does not have—

Mr Barr: It is an expanded statement in that it reflects a variety of different circumstances, depending on the particulars of the household.

THE CHAIR: Is this going to be the standard format then?

Mr Barr: We may continue to evolve the statement. We will take feedback, depending on what people think.

THE CHAIR: Because the issue is that if the format in the budget changes every year, then—

Mr Barr: You called for it to change.

THE CHAIR: What we wanted to do is have it expanded to incorporate more elements, so that we have got a better understanding of the impact of the cost of living, not necessarily the—

Mr Barr: I will look at the committee's feedback and we will make some determinations for next year's budget.

THE CHAIR: All right, but would you accept the point that—

Mr Barr: No.

THE CHAIR: You do not?

Mr Barr: No. I have delivered a more comprehensive cost of living impact that looks at impacts of the ACT budget on a wider variety of households in the ACT, and that is important.

THE CHAIR: But you were unable to give any clear view to the committee about whether the cost of living has gone up or not in comparison to last year?

Mr Barr: As I said, that depends on a number of variables, some of which have yet to be determined, most particularly in relation to utility prices.

THE CHAIR: We might go there, since you have raised it. Can you give the committee an update on what is happening with that process with the ICRC?

Mr Barr: The ICRC will make their determination prior to 30 June.

THE CHAIR: Right.

Mr Barr: So in the next two weeks.

THE CHAIR: In terms of the impact on the budget, what is the process in terms of identifying to the committee or to the Assembly what the impact on the budget is? I am just trying to work out whether we are going to get that within the estimates period or not.

Mr Barr: We will need to take advice from ACTEW to have a look at the implications of the final determination in relation to their revenues and expenditures, what is in the regulated asset base and what is not, the return on equity, et cetera. There are probably half-a-dozen variables that will need to be calculated—the volume of water, for example, that is consumed in the city and what assumptions are made in relation to that. We will then be able to see ultimately whether any ACTEW assets are impaired by the determination of the ICRC. That process will take some time, I understand, as it will require the Auditor-General to undertake a review—as soon as they do, at the end of each financial year—of ACTEW's financial circumstances.

I imagine the full implications, given that the commission have indicated that they are going to have a further examination of the prices after two years, will be that we will update in the midyear update. That would impact about 18 months of the budget, and then we will have to wait again for two years for determination in relation to price—2015 and beyond.

THE CHAIR: The final report was due to be brought down, I think, last Wednesday. Now, the ICRC commissioner was saying, essentially, that he has delayed because you wanted more time, and he said that you were busy with the budget, but you were on the radio saying that he had asked for a delay. There is some confusion there. Can you then explain why they have not dealt with that?

Mr Barr: Yes. The ICRC asked for a delay till 12 June—they were meant to report in May—when I extended their time. They then sought feedback from the government in relation to some elements of the determination, but did not give me time in that instance to seek advice from ACTEW and to meet with them. I have now met with them twice to understand why things have changed so dramatically between their draft determination and their proposed final, to better understand the changes that they are proposing. I have sought advice and met with ACTEW, and we will provide some advice back to the ICRC. They have asked for our view. They have been advised. It will take them two or three days to consider our advice, and then they will make a determination prior to 30 June.

THE CHAIR: Okay.

MR SMYTH: So you are saying that the ICRC, under the advice you may offer them, may change their final determination?

Mr Barr: No; that is for the commissioner to decide. He has asked for our view. We have no way of influencing, other than putting forward a view. It is their determination.

MR SMYTH: So what you received is not a final, but a draft?

Mr Barr: No, a draft. And I have not received it; I have just been briefed on elements of it.

MR SMYTH: When the determination is made, how long will it be before we understand the impact on the budget, and will you then release an update to the budget?

Mr Barr: Some months, potentially. And yes, we will update according to our usual updating schedule.

MR SMYTH: So this committee will not be able to get a full understanding from the government as to the impact of the ICRC decision?

Mr Barr: No. We will not know either. And particularly I need to draw the distinction here between the next pricing period and then what will be a subsequent review that impacts on the forward estimates of the budget.

MR SMYTH: Yes, but the following one is 18 months to two years away.

Mr Barr: That is correct, yes, but it affects the final two years of the budget.

MR SMYTH: It certainly does, but for the budget that you hope to pass in August—

Mr Barr: Yes.

MR SMYTH: Will we know then what the impact will be of the ICRC decision?

Mr Barr: That will depend on variables beyond our control, as in when the Auditor-General reports.

MR SMYTH: So will you be delaying the passing of the budget?

Mr Barr: No.

MR SMYTH: But you will not know what the impact of the budget would be? If Mark Sullivan is to be believed, it could be $100 million out.

Mr Barr: I do not believe it will be, but I will need that advice. But at this point it would be hypothetical to suggest that we would delay the passing of the budget. There is too much riding on the budget's passage in August for a number of agencies and clearly there are a number of initiatives that need to start, so—

MR SMYTH: So if the outcome is, as Mark Sullivan predicted, that there will be no dividends for years, you do not intend to modify your budget then?

Mr Barr: That is a hypothetical question.

MR SMYTH: You have seen the draft determination; you must understand some of the impacts.

Mr Barr: It is a hypothetical question.

MR SMYTH: Do you intend to modify the budget before it is passed in August, taking into account what you understand—

Mr Barr: I am not speculating on that until the final determination is handed down.

MR SMYTH: So—

THE CHAIR: It is not actually a hypothetical question. It is a very realistic scenario that has been raised and is noted in the budget papers. The budget papers note this issue, so it is hardly a hypothetical. You are the ones, in your budget paper, who have warned the community that this might be a writedown. I think it is a fair and reasonable question to ask: if that does occur, as is being warned about in the note in the budget paper, what is the response from Treasury? I think that is a reasonable question to ask.

Mr Barr: Yes, and I will consider that once the information is available. But at this point, it is not a final determination.

THE CHAIR: No; of course, it is not a final determination. But it is a scenario that is noted—

Mr Barr: I am not going to speculate this morning on what we may or may not do in response to a final determination that has not been handed down.

THE CHAIR: Surely you have done some planning. You have looked at this and you have gone so far as to warn in the budget that this may occur. And you are saying that you do not know what you are going to do if it does occur? You have not given that consideration or thought?

Mr Barr: Yes, and I am not sharing it with the committee this morning, because it is not finalised. I am not making any further comment at this stage.

MR SMYTH: So—

DR BOURKE: Sorry, can I have my question, please?

THE CHAIR: We will just finish this issue.

MR SMYTH: When will the committee be able to have an understanding of this, then? The committee's job is to look at the budget. If we are unable to do that, how do you expect us to report?

Mr Barr: If the committee would like a briefing from the ICRC once the determination is handed down, I think that would be appropriate.

MR SMYTH: And you would be responsive to returning to the committee after the final determination is made?

Mr Barr: Yes, it would be my expectation that you would wish to have some further discussion in relation to the determination. My suggestion would be that you would be briefed by the commission on their methodology and their final determination, and we could subsequently have some further discussion, if that was the committee's desire. It may well be, in fact, that your excitement is overstated and there is nothing that you wish to discuss further.

MR SMYTH: It may well be.

Mr Barr: It may well be.

MR SMYTH: But page 450 of budget paper 4 does not lead one to that conclusion.

THE CHAIR: Dr Bourke.

DR BOURKE: Thank you, Mr Chair. Treasurer, returning to the cost of living statement, could you tell us what benefits have accrued to ACT households arising from the tax reform package?

Mr Barr: Certainly. The government has been able to slash a number of taxes for ACT households, and particularly seek to remove distortive taxes from our system. One of the most egregious of those is insurance tax, and we are now 40 per cent of the way to its abolition. It will be gone from the territory's ledger from 1 July 2016. When you look at inefficient and distortive taxes that have massive impacts on community welfare, this is in the top five in terms of poor taxes—of the ones that have been readily identified by everyone who has looked at the different taxes that are levied in Australia, as one that does need to be removed. And we are methodically doing so; 20 per cent a year until it is gone on 1 July 2016. So that is an important measure and will remove a distortion.

Clearly, stamp duty is another tax that acts to distort the market. It is one of the most volatile and inefficient taxes levied by any level of government in Australia. Again, we have taken further steps in this budget to accelerate its abolition, with a particular focus on assisting homebuyers on low and moderate incomes. So if you have a household income of up to $160,000 and are purchasing a new property in the ACT, with the changes announced in this budget, if the new property is valued up to $425,000, you would only pay $20 in stamp duty. The threshold continues up to $525,000 or thereabouts in terms of house value. You would continue to receive a concession all the way through to that point. Of course, the broader reform of stamp duty sees stamp duty on every property in the territory reduced.

We have seen—and you will note in the budget papers—that there is somewhat of a cyclical downturn in the housing market at the moment. Compared to what was projected last year for stamp duty revenue, it is about $70-odd million down on what was anticipated, showing the volatility of this particular tax. We have not sought to recover the bulk of that reduction in stamp duty and are wearing that in the budget.

DR BOURKE: Thank you, Treasurer. How does this reform compare with other jurisdictions?

Mr Barr: There has been a hotchpotch of responses across other state budgets in the last 12 to 18 months. Some jurisdictions, New South Wales in particular, have sought to reform their insurance taxes and are making some small steps along the same path as the ACT has taken. But other jurisdictions, Queensland for example, have in fact increased the tax on insurance. Even though they are running a $7½ billion deficit, they are seeking to further drive their economy into the ground through increases in taxation in areas that clearly distort economic activity.

You see a different array of responses. I do not think the Tasmanian government has covered itself in glory either in recent times by increasing insurance taxes. I think they are seen as a soft and easy way to raise revenue. But the problem is that not only does it distort decision making but there is also a double taxation, because the GST is then applied on top of it as well. In terms of taxes that impact on households, it is perhaps not that noticed; people get their insurance bills every year and, generally speaking, there is a line that indicates how much the government taxes are. In the ACT, government taxes are coming down.

DR BOURKE: Perhaps you could tell us about the targeted assistance and concession strategy that you have set up in this budget?

Mr Barr: Certainly. We have sought through this budget, and in fact in previous budgets, to target assistance to those most in need through a range of concession measures. They are outlined in detail on one consolidated website, which has certainly proved to be very popular. The assistance website has received tens of thousands of visits and has certainly allowed people to find in one spot all of the ACT government concessions that are offered across a variety of taxes and charges.

THE CHAIR: A supplementary, Treasurer: you just said that government taxes are coming down.

Mr Barr: On insurance, yes.

THE CHAIR: You actually said across—

Mr Barr: No, I was responding in the context of insurance.

THE CHAIR: Responding to insurance specifically, was it?

Mr Barr: Yes.

THE CHAIR: Okay. Let us go to the point of government taxes then, when you say they are going down, going up. When I look at the budget papers, it is the case that taxes are going up and tax revenue is going up 4.8 per cent next year and then seven-odd the year after. So, across the board, taxes are going up. Would you like to comment on that, as to why they are going up?

Mr Barr: The cost of service provision goes up, so taxes go up every year in terms of the volume that we collect. Various tax rates and thresholds change from year to year. In recent times, for example, we have lifted the payroll tax threshold and have been cutting tax on insurance, reducing stamp duty and shifting our revenue base towards the most sustainable, least distortive form of taxation that we have on offer. In essence, Mr Hanson, we require a certain level of revenue in order to operate the territory. My view is that that revenue should be collected in the most efficient and least distortive way. They are the policy choices—

THE CHAIR: It is not about "how"; I am asking about why it is so much. When the budget is going—

Mr Barr: I think the "how" is pretty important because, unless you are suggesting—

THE CHAIR: The "how" is important, but it was not my question.

Mr Barr: So unless you are suggesting that we do not raise any revenue—

THE CHAIR: It was not my question. My question is why you feel it necessary to increase it by that amount, particularly when we see deficits being delivered, as we are seeing—

Mr Barr: In order to operate a health system, an education system, a legal system, community services, disability services, emergency services, and to have a tourism budget.

THE CHAIR: All right. And the—

Mr Barr: In order to run the territory, Mr Hanson.

THE CHAIR: amount of taxes—

Mr Barr: ACTION buses, firefighters.

THE CHAIR: We have just talked about the amount of taxes that are being removed, and then we see a 46-point-something million dollar increase in rates. What is the differential between the taxes and charges you are removing in this budget and the increase in rates?

Mr Barr: Sorry, what is the differential?

THE CHAIR: The differential, yes. Are you saying it is—

Mr Barr: Compared to last year's projections?

THE CHAIR: What I am saying is that you are removing some taxes and charges in this budget—

Mr Barr: That is correct.

THE CHAIR: and you are increasing some in terms of rates.

Mr Barr: Yes.

THE CHAIR: What is the difference between what you are reducing in those other taxes and charges—stamp duty, insurance tax and so on—and the increase in rates?

Mr Barr: Compared to last year there is about $70 million less in stamp duty that will be collected, about $15 million to $20 million less in insurance duties, offset by increases in rates. We now no longer collect commercial land tax. That has been abolished altogether, and there are a number of smaller taxes that have been abolished. I would refer you to the budget papers.

THE CHAIR: But I am just looking for the differential between the two.

Mr Barr: You can find that in the budget papers.

THE CHAIR: I can find it in the budget papers but I am asking you the question, to explain what the differential is, because you have said that this tax reform is a nil—

Mr Barr: It is revenue neutral, yes.

THE CHAIR: Revenue neutral but—

Mr Barr: In fact, in this instance we are forgoing revenue on stamp duty. We have chosen not to replace stamp duty that has been lost due to market conditions.

THE CHAIR: That revenue that is going up by four per cent, then seven per cent and so on, where is that coming from if you are forgoing revenue? Where is that coming from?

Mr Barr: There is a combination of factors. We are assuming a recovery in the residential housing market over the forward estimates, and we have sought to recover revenue that we are losing from abolishing other taxes.

MR GENTLEMAN: Minister, just going back to the stamp duty concessions and the targeted assistance, which was what the original question was about, how many people will this affect, the reduction in stamp duty?

Mr Barr: Everyone who enters into the housing market. Anyone who buys a house pays less stamp duty now than they did previously. In terms of the targeted concessions, it will vary depending on particular segments of the market. Probably around 3,000 transactions occur in that first homebuyer segment—3,000 to 4,000. We may stimulate demand a little with the combination of an increase in the grant plus the homebuyer concession scheme, plus the increased land available. I can get the details in each of the categories for you, Mr Gentleman. We may need to provide that during the morning tea break.

MR GENTLEMAN: What will be the benefit of this stimulus?

Mr Barr: Certainly it will assist the ACT residential construction sector. It has been broadly welcomed by MBA, HIA, the Property Council, the Real Estate Institute and others who see this particular package of reforms as providing a stimulus to that sector. Construction is around 10 per cent of the territory economy and a major employer, so it certainly is important to have a pipeline of new supply and a series of policy measures that encourage those seeking to enter into the market to make that decision in the coming 12 months.

DR BOURKE: Returning to the targeted assistance and concessions, which was the question I was asking before, the Property Council appeared on Friday and applauded your changes to the first home owner grant. Could you take us through those changes and what they really mean?

Mr Barr: Sure. It is an increase in the grant from $7,000 to $12½ thousand—targeting, like almost every other Australian jurisdiction now, new supply. The policy prescription here is one of wanting to encourage the construction of new dwellings. It is important that we continue to add to the supply of housing in the territory, and that we do so in the widest possible array of locations.

When you take this measure together with the homebuyer concession scheme, targeting new properties, reducing stamp duty to $20 for properties under $425,000 and combine it with the housing affordability strategy and the mandated 20 per cent of properties below $374,000, as it will be in the coming financial year, what you are seeing is a very clear set of policy signals to industry, who are responding. The land release is now on three fronts, in Gungahlin, in west Belconnen and in the Molonglo valley, together with infill in places like Kingston, Mawson, Campbell, the CBD, along the Northbourne Avenue corridor as part of capital metro, and development associated with the city to the lake plan. This clearly shows there are development opportunities and urban infill occurring across the city.

I also include Weston Creek, Woden and Tuggeranong in that mix, as there is land release scheduled in all of those areas and urban redevelopment opportunities occurring across the city. All of our other policy settings are focused towards encouraging that new supply. It is important that if you are going to fuel the demand side of it, give that a bit of stimulus, you have a supply side response, and we have that in spades.

DR BOURKE: So why won’t this process be inflationary, which is what people have said?

Mr Barr: Certainly, the previous iterations of this policy approach have perhaps focused almost exclusively on the demand side and have included incentives around the purchase of existing housing stock. Generally speaking, they have sought to distinguish between the two. When the first home owner grant was introduced back in 2000, by way of compensation for the GST, at that time there was, I believe, a $14,000 grant for existing homes and $21,000 for new. So at various points there has been a desire to draw a distinction between incentives for new construction and existing.

What happened in that period, and this happened across Australia, was that the bringing forward of demand by those incentives meant demand was outstripping supply in the housing market across the country and you saw a period of price inflation in the housing market that was not sustainable in the long term and in some parts of the country has led, once the stimulus was withdrawn, to "what goes up must come down" and we have seen that in some parts of the housing market.

What we have seen in the ACT has been stability for a period of time that has allowed incomes to catch up a little with house prices. But ultimately—and we touched on this briefly in the technical briefing last week—it is always easy, if you have got the supply in the pipeline, to delay its release rather than getting caught short by not being able to bring enough land to the market.

We think that, in the context of the picture presented in this budget and the policy decisions taken in this budget, we have provided an aggressive supply side response to match our policy decisions to stimulate demand. If there is any risk—and I think this is a prevailing view across industry—we might err on the side of oversupply, but that is easily remedied by simply delaying a land release. As I say, it is much harder to quickly get land to market than it is to delay for a period.

DR BOURKE: Has there been a delay before?

Mr Barr: I think over the years there have been some challenges, given the time frame, to bring new land to market to be able to achieve timely outcomes. I think there has been some analysis here in the ACT on how we have compared with other Australian jurisdictions. By and large, the ACT fares well in those comparisons, but there is always room for improvement. It is important, in the context of the next three or four years anyway, for this economy, and particularly the residential construction sector, to be very clear about where new land releases will be, the sorts of volumes that are anticipated and providing choice. Three urban development fronts, plus urban infill, over the next 10 to 15 years gives that choice, that certainty, around where development will occur.

MR GENTLEMAN: What are the comparisons to the land release program in the last financial year compared to this financial year?

Mr Barr: We have brought it back a little—about 1,500 blocks over the four years—to reflect what we are seeing in the conveyance sector as a softening of the residential market. We have then taken a step to boost demand through the two specific initiatives that we have been talking about. We will obviously closely monitor the impact of these policy changes in the marketplace, and we update our land release schedule every six months. We have the capacity, of course, to adjust according to prevailing circumstances. As I say, in my view it is better to be able to have a supply pipeline and just hold off a little its release to market than be in the reverse situation where you are trying to get supply to the marketplace in a constrained environment.

DR BOURKE: With the support for—

THE CHAIR: We might just move to Mr Smyth now, thank you.

DR BOURKE: I have not had my full 15 minutes yet, Mr Chair, which I noticed you managed to get for your questions. I think Mr Gentleman has not had any questions at all yet.

THE CHAIR: Thanks for your asides, mate, but anyway—Mr Smyth.

MR SMYTH: Treasurer, the reform to general rates and the conveyancing duty—in the outyears the growth in the rates and the duty outstrips concessions, for instance, on general insurance. We heard from the Property Council on Friday that they now believe this reform is in fact not revenue neutral. How do you respond to that?

Mr Barr: By disagreeing with them.

MR SMYTH: So what are the elements that drive the increase in the general rates and the conveyancing?

Mr Barr: That drive the increase in general rates?

MR SMYTH: Yes.

Mr Barr: There are two components—residential and commercial.

MR SMYTH: All right; within residential and commercial?

Mr Barr: The fellow who has undertaken the analysis is over here from Western Australia just for a few months filling in and he may not have factored in the abolition of commercial land tax. The $50 million or $60 million that we used to collect there, from memory, may not have been factored into his calculation going forward.

MR SMYTH: Can you give a breakdown of the elements inside the general rates, both residential and commercial, and inside the conveyancing of the four years of the budget as to—

Mr Barr: I believe we can. It is on page 65 of BP3, I am advised.

MR SMYTH: The breakdown is there, but can you give the numbers against each of the sections?

Mr Barr: As in how many ratepayers—

MR SMYTH: No, how much comes from commercial, how much comes from residential, and then what is the breakdown inside the marginal rates. I would like an idea of where the money is coming from.

Mr Barr: Yes, we can provide that information. I will go looking whilst we continue the questions.

MR SMYTH: That is good. The Property Council, again, say that they did not believe it was revenue neutral. I think the gentleman mentioned that they understood that land tax had gone. They are concerned about the impact of the commercial rates on the owners of properties who are not in a position to hand on those charges. Was that taken into account when you made these reforms?

Mr Barr: Yes, particularly by way of changes in marginal rates. We sought to keep the increase in commercial rates for 60 per cent of commercial properties to below $1,000. The median increase is $850. In the bottom half of the market we sought to minimise the increase. Given that the biggest beneficiaries of the slashing of the top rate properties over $1.6 million was really the top 10 per cent of the commercial property market, cutting that rate from 7.25 per cent to 5.5 per cent clearly delivers significant benefits at the top end of the commercial property market. We did seek, in designing the marginal rates, to ask that top 10 per cent of the commercial market in particular to make a contribution towards that tax change.

MR SMYTH: Given that I suspect a lot of that top 10 per cent are in contracts with the federal government that will not accept increases, how are they compensated? Have the changes you have made enough so that they are not further out of pocket?

Mr Barr: It will be an interesting question, really, in relation to the sorts of leasing arrangements they have. One would presume, if they have done their due diligence in relation to their contracts, they would have capacity to increase rents each year. But in the context of the sorts of rent payments and earnings from those properties compared with the rates increases we are talking about, it is marginal at best.

MR SMYTH: You have the workings to justify that statement that it is marginal at best?

Mr Barr: In the context of a $250 million building earning a seven per cent return, a rates increase of a few thousand dollars a year is marginal.

MR SMYTH: When this reform process started last year, you were not able to inform the committee then, or the community, what would happen with residential rates. Have you done any work since then to determine the path of increases in residential rates?

Mr Barr: We have outlined that within the budget over the forward estimates period and have said—it is what I said last year—we are undertaking this reform in a series of phases. The first five years have been outlined. The focus in the first five years is particularly on the abolition of insurance tax. I think that is well understood. It obviously gives commensurate benefits to all users of insurance in seeing that tax abolished. We will update our forecasts for future movements in rates over subsequent budgets.

There are a couple of other observations I would make. In this budget we have utilised savings from retargeting the first home owners grant to further reduce stamp duty. We are not, again, seeking to replace all lost stamp duty revenue through the rates base. We have taken decisions to reprioritise our expenditure to replace lost revenue that way.

I could certainly give a commitment regarding future changes to the GST. The most obvious one that is being worked on at the moment relates to the low value imports that are coming in. If that measure is picked up and produces additional GST revenue for the territory then we will certainly look favourably upon allocating that revenue across a range of government priorities. The abolition of stamp duty would be one of those. We are able to bring other revenue sources or new forms of revenue to that task.

I would enthusiastically support further tax reform at a national level. Any assistance that the commonwealth would seek to provide states and territories to abolish or speed up the pace of abolition of inefficient taxes would be welcome. You may have noted that one element of the opposition leader's address-in-reply federally was Mr Abbott's announcement that, should the coalition win government in September, they would undertake a further review of taxation. I presume that review would also include state and territory taxes. I know for a fact, because I have sat in the room at the treasurers' meeting, that every state and territory treasurer has indicated that they would welcome commonwealth support for the abolition of inefficient state taxes.

Were that agenda to be pursued under either option at the federal level then we would certainly be a willing participant in that and would seek to apply any replacement revenues we got through arrangements with the commonwealth over the next period of time towards that task. I do not think it is unreasonable, over a 20-year period, for example, to have a view that there might be some movement in commonwealth-state financial relations. If you had asked people in 1996 would there ever be a GST and could that fund the abolition of a number of inefficient state and territory taxes, probably at that time people would have laughed and said no, it was not possible. It turned out to be possible.

MR SMYTH: Except most of the inefficient state taxes did not go.

Mr Barr: I think partly because of the compromise that was struck in the Senate in relation to the application of the GST. Had it applied to the broadest possible base then the revenue would have been there to abolish the other state taxes, but in the end the federal government at the time got through the Senate what they could get through the Senate. There was an intergovernmental agreement on the abolition of a range of inefficient state taxes. The ACT has met its obligations there and, in fact, gone further than other jurisdictions in this area.

To sum up a long story, there are a number of different means by which we can seek to reduce stamp duty over time. Transition to the rates base is clearly one element. We have got to own up to our responsibilities here. We cannot expect the commonwealth to do all the heavy lifting on tax reform for us. We want to ensure a less volatile and more robust and sustainable revenue base to provide the services that this community needs. Of all the ways of collecting tax available to this level of government, it is the most efficient and it is the least distortive.

Common sense says you move your revenues to that source, recognising that there is a transition impact. Hence we have decided to undertake that transition over a longer period of time than was suggested in the Quinlan review, for example, which was to do this over 10 years. We said, "Thank you. We appreciate that advice, but we think that transition period is too short." We have said we would do it over 20. As we have approached the task we have sought to apply other means with which to assist in stamp duty reduction. Part of this also in the future can be just collecting a little bit less revenue in some areas.

MR SMYTH: So at this stage you cannot tell the people of the ACT how you will fund your tax reform?

Mr Barr: I have just outlined how we will do it.

MR SMYTH: You are telling us that you have done it and you can now provide the calculations—

Mr Barr: For the forward estimates, Mr Smyth, you can—

MR SMYTH: You can provide the calculations for the entire program?

Mr Barr: No, because there are a number of variables that we will consider as we go through each round.

MR SMYTH: So if there are variables then there is uncertainty as to whether or not you can fund your reform?

Mr Barr: No, we know we can fund our reform. It is just a question of which particular sources we use, and I have just outlined about four different possibilities.

MR SMYTH: Can you give a reconciliation of your tax reform and what will happen to residential rates over the next 20 years?

Mr Barr: I have outlined what we are doing over the next five years, Mr Smyth.

MR SMYTH: So the answer is no, you—

Mr Barr: We are undertaking these reforms in five-year tranches.

MR SMYTH: You have still not done the calculations and you cannot determine what the rates will be five, 10, 15, 20 years from now?

Mr Barr: It depends on a number of variables. If you provide me with the parameters, for example—

MR SMYTH: It is your reform package.

Mr Barr: If you would like to estimate what the wage price index will be—

MR SMYTH: So you do not know what the effect of your reform package will be?

Mr Barr: I know exactly what the effect of my reforms will be.

THE CHAIR: You have done modelling, surely?

Mr Barr: Yes, there is a variety of modelling.

MR SMYTH: You have just said you know exactly what the effect of your reform package will be.

Mr Barr: That is correct.

MR SMYTH: What will be the effect on residential rates year by year for the next 20 years?

Mr Barr: Over the next few years they go up by the wage price index. There is a revenue replacement component to replace the insurance tax and then a revenue replacement component to fund the phasing out of stamp duty. In two years time we will no longer require the revenue replacement of insurance taxes so the rate of annual increase in rates will drop considerably.

MR SMYTH: The rate of collection of conveyancing goes up as well.

Mr Barr: It may or may not. It depends on decisions we take in future budgets.

MR SMYTH: Can you provide the modelling for the next 10 years beyond this four-year period?

Mr Barr: I am providing the modelling for the next five years and that is in the budget.

MR SMYTH: So you do not know what the effect on rates will be over the next 15 years?

Mr Barr: We have a range of decisions we need to take over that period. There are a number of variables.

MR SMYTH: So you do not know what the effect on rates will be? You do not.

Mr Barr: What I am saying to you, Mr Smyth, is that every year there are a number of variables that contribute to what will be the rates increase in that given year. One of them is the wage price index, which even you would acknowledge varies from year to year.

MR SMYTH: Sure. It is your reform. I am asking you to justify your reform.

Mr Barr: And I am trying to provide an answer for you. Point No 1: wage price index contributes to rates increases each year; point No 2, whilst we abolish insurance taxes over a five-year period that will also be transferred to the rates base. Once that is done, you do not need to continue to replace that revenue. So the amount that you need to replace each year can drop. We can then seek to apply other revenue replacement options over the next 15 years. What you are asking me to do is to speculate on what will happen with the wage price index over that period and what decisions will be taken over the next four election cycles and four forward estimates cycles.

MR SMYTH: So in other words you do not know?

Mr Barr: I am not in a position to speculate on all of those elements at this point.

THE CHAIR: If they are not going to triple, by what quantum will they go up over the next 20 years?

Mr Barr: Sorry, over the next?

THE CHAIR: Twenty. That is the time frame for your reform.

Mr Barr: In nominal or real terms? Absent of reform?

THE CHAIR: Let us hear both.

Mr Barr: In real terms, you would need to discount for inflation over each of those periods.

THE CHAIR: So are they going to double? What is going to happen?

Mr Barr: No, I think it would of course vary depending on individual properties.

THE CHAIR: He cannot tell us.

Mr Barr: It will vary. It depends on decisions that have yet to be taken.

THE CHAIR: You cannot give us an answer. So we have said, based on the analysis, that—

Mr Barr: You have done a rudimentary nominal terms analysis that if assuming—

THE CHAIR: Hardly; it is based on analysis in Quinlan. Whatever period it is, it shows a tripling of the rates. We ask you now for analysis of what the quantum increase will be or what the percentage increase will be and you are unable to say that.

Mr Barr: If you were to look at Quinlan and then double the time frame and then factor in another decade's worth of inflation, you would see that rates would increase over about a 25-year period.

THE CHAIR: Increase by what?

Mr Barr: It will depend, depending on the property.

THE CHAIR: This is like something out of *Yes Minister*. I mean, you are being evasive, deliberately evasive.

Mr Barr: No, I am giving you the information that I can.

MR SMYTH: The answer is you cannot tell us. You have not done the calculations.

Mr Barr: No-one can give you certainty on every single property.

THE CHAIR: So you do not know?

Mr Barr: No, because it varies every year.

THE CHAIR: So when people said that the rates would triple when they went to Quinlan, you said, "No, that is a complete lie." Now you are being asked what they will be and you have said that you do not know. So how were you able to discount the fact that they will triple?

Mr Barr: Because the reforms are being undertaken over a 20-year period, not a 10-year period.

THE CHAIR: So they are tripling.

Mr Barr: Everything triples at some point in time if you draw one reference point to another. If you went back to 1992 and looked at what rates were then, there will be some point in the future when they will be triple what they were in 1992.

THE CHAIR: So rates are tripling; you just cannot tell us exactly when?

Mr Barr: Rates will double; rates will increase by four per cent, six per cent.

THE CHAIR: So rates will triple; you just can't tell us exactly when?

Mr Barr: Rates go up over time, Mr Hanson.

THE CHAIR: Is that correct or incorrect?

MR SMYTH: He just cannot bring himself to say—

Mr Barr: Rates go up over time, Mr Hanson.

THE CHAIR: All right; so rates are tripling and you just cannot tell us when. As a supplementary to that—

Mr Barr: My best guess, Mr Hanson, would be some time in the late 2030s.

MR SMYTH: In the late 2030s?

Mr Barr: Yes.

THE CHAIR: I have a question about the number of people who pay stamp duty each year compared with the number of people that pay rates. Obviously, your reforms target people paying stamp duty and they bear the cost. "Their contribution is being paid," are the words that you used. What is the number of people in the ACT that pay stamp duty on an annual basis, just as an aggregate number?

Mr Barr: It is about nine per cent is my understanding; nine per cent of the population. It will vary from year to year.

THE CHAIR: Pay stamp duty?

Mr Barr: Yes. About nine per cent are paying at the moment 25 per cent of the own source revenue.

THE CHAIR: Thank you very much. Mr Gentleman.

MR GENTLEMAN: Thank you, Mr Chair. It is great to have an opportunity. Minister, I would like to focus on another point. It relates to the ACT economy, specifically jobs, I have an interest in employment in the territory and we have heard some discussion, of course, that if there is a change of federal government later this year there will be some pressures on the economy. Can you tell us how many people are employed in the territory?

Mr Barr: The ABS released figures earlier this month that showed for the month of May an all time record level of employment in the territory of 211,000 people. They revised down their previous data in relation to unemployment. Our unemployment rate, according to the ABS, is 4.1 per cent, which is the lowest in the nation. That is a testimony to the strength of this economy and the capacity for different sectors to contribute to jobs growth.

Frankly, of all of the measures of performance of the territory economy, the number of people in work would have to be one of the best measures of the health of our economy. Pretty much every issue that is confronted in this community and in this economy is only assisted by having people in work. If you are working, your chances in life are much improved. Your capacity to provide for your family, to provide shelter, food and everything that goes with living in the city is enhanced by your capacity to work.

So policies that are targeted at increasing employment are to be applauded and should be enacted. That is what government is seeking to do in this budget. Our approach stands in marked contrast to what we are seeing from other state and territory governments across the country.

MR GENTLEMAN: So what measures have you put in place in this budget and in recent budgets, I guess, to assist in that employment growth?

Mr Barr: Certainly. We have for the private sector applied payroll tax cuts, provided targeted assistance in a number of areas to facilitate new business development. The ACT in fact leads the nation in new businesses being created. That is I think testimony to the suite of policy settings that we have at the moment that are encouraging growth.

We have also sought, as the second-largest employer in town, to maintain and marginally increase our own employment levels, with a particular focus on delivering services to the community, as people expect from this level of government. We have sought to support some of the major employers and employing sectors of this economy—for example, construction, as we have been discussing this morning. We have also assisted higher education and the education sector more broadly through assistance in terms of our investments at the University of Canberra and partnerships with the ANU, the CIT and other higher education providers seeking to grow not only their domestic markets but also their international markets.

In a challenging domestic tourism environment, it has been particularly pleasing to see the very strong results for the first quarter of this year from tourism, both international and domestic. As a sector that employs 15,000 Canberrans it is important that it continues to grow. There is new investment there. By facilitating new investment in the territory in a variety of different areas we are encouraging new jobs growth. Our business development strategy—working in partnership with the Canberra Business Council, among others—is paying dividends in terms of new business formation and increasing employment.

Clearly, though, the commonwealth is the major employer in this city. So decisions that the commonwealth government takes on employment will impact on the broader labour market and the broader economy. We have discussed this in the Assembly on occasions, but the commonwealth government is employing about 66,000 people in the territory. So 66,000 of the 211,000 are employed in the commonwealth. Any decisions that are taken in relation to commonwealth employment—for example, a proposal to cut 12,000 jobs—would significantly impact upon employment growth in the city. It would have flow-on effects over to the private sector and ultimately could not be viewed in any way as a positive for the territory economy.

MR GENTLEMAN: Do you think those discussions are affecting confidence in the ACT?

Mr Barr: You see that around the community, but I think it is perhaps felt most in the retail sector, but also perhaps in the household savings rate too. It has been pretty consistently at or above the 10 per cent mark in recent times. So there is a degree of caution as people wait for outcomes and answers about their own employment into the future.

I would make the observation that I think the territory economy is stronger and more diverse in 2013 than it was in 1996. I am more optimistic about our medium-term prospects, regardless of the election result in September. But obviously you could certainly see a period of reversal of employment growth, a further decline in the commonwealth's contribution to the ACT economy, both in terms of their own consumption and their investment. That would act as a drag on the territory economy.

In fact, that is what we forecast in our budget papers based on what is in the commonwealth budget. We have gone by what the commonwealth have said they would do, factored that in. We will of course update circumstances and our projections in the midyear update and in next year's budget once we know the outcome of the election later this year.

MR GENTLEMAN: You mentioned some comparisons to other states and what they are doing on the employment front. Can you just go through those?

Mr Barr: Yes. Victoria reduced their public service by 4,200—3,600 in their 2011-12 budget and then a further 600 in the 2012-13 budget. Western Australia announced just last week that they had slashed 1,200 jobs from their public sector. Queensland have cut 13,000 jobs from their economy and New South Wales 10,000 in their 2012-13 budget. Not surprisingly, unemployment has gone up in those jurisdictions because in the end they were not crowding out private sector investment. They simply decided that for the sake of, it would seem, appearing tough they would slash all of those jobs. It has not helped their economies at all.

THE CHAIR: Dr Bourke.

MR SMYTH: Just on the jobs—

THE CHAIR: Is this a supplementary?

MR SMYTH: Yes, please. Payroll tax seems to go up each year by about seven per cent. If employment is only slated to rise a quarter of a percentage point in the coming year, why is payroll tax going up so strongly—seven per cent this year, seven per cent the following year?

Mr Barr: Of course, the commonwealth do not pay payroll tax; so what they do with their employment does not impact on our collections. Clearly, payroll tax increase is going to be driven by two factors: one, increases in wages; and, two, increases in employment in particular sectors of the economy. So those two combine to see those revenue forecasts.

MR SMYTH: Are there some calculations that the committee might have to justify that?

Ms Doran: You are correct that the payroll tax does go up by around seven per cent, 7.6 per cent each year, and the Treasurer is correct in that the two drivers of that are WPI for the private sector and the growth in the private sector employment base. The percentage growth that we use is based on a long-term trend, so it actually reflects the experience over the last five or 10 years. Growth over the last five years has been 7.6 per cent; over the last 10 years 7.9 per cent; and the historical average is 7.5 per cent. So that is the growth assumption that we take into our forecast.

THE CHAIR: I have a supplementary on that. With the figures on payroll tax, or it could be any other figures in superannuation interest and so on, do you get provided with a single figure by Treasury or do Treasury provide a range? With the figures in the budget, is it a single point? Do you come to the Treasurer and say that the Treasury analysis says that payroll tax will be whatever it is, or is there any particular figure in the budget, is it a range, or is it a mix of both?

Mr Nicol: It is a single-point estimate. We go through and review each revenue head. We take into account any policy decisions of the government. We cost those for the government, and they might be options for the government to choose a change in policy settings. But in terms of the underlying estimates, we give the government what we think is the best single-point estimate for each revenue head.

THE CHAIR: We will move to Dr Bourke and then—

MR SMYTH: Can we finish on the payroll tax?

THE CHAIR: A quick one?

MR SMYTH: Yes. What is the dependence of the private sector on the public sector in the ACT? If the scare campaign that the Treasurer has been banging on about for four years happened to occur, is it reasonable to assume that the long-term averages will apply next year?

Mr Nicol: There is an indirect relationship between private sector employment and public sector employment in the budget or in the economy. The forecast for commonwealth sector job growth is for a small reduction over the next 12 months, in line with the commonwealth government's 2013-14 budget papers. How directly that occurs and the timing of that is very uncertain. The effect, we think, would be relatively small because it is a small reduction. How that transmits into private sector employment is very difficult to determine. We do not have a particular model that drives that. We tend to look at how estimates evolve over time.

There is a downside risk there, in terms of payroll tax in the medium term. I think it would be very small given the size of the commonwealth cuts at this stage and the size of the ACT economy. Underlying job growth in the private sector is still occurring. The cuts we have seen or the slowdown in commonwealth job growth have not translated into private sector job growth yet. It may do so. But at this stage—

MR SMYTH: Will it affect job growth or decline?

Mr Nicol: Sorry?

MR SMYTH: You just said jobs growth.

Mr Nicol: No, jobs growth in aggregate in the territory. Private sector jobs growth in the territory is still quite strong, notwithstanding what is happening at the commonwealth level. So you might expect at some stage an effect, but as the Treasurer said, the economy is more diverse now than in the past. On balance, with the long-term growth, we are using the bottom end of that scale that we use for payroll tax receipts estimates forecast for the next year; we obviously monitor it, of course, and we will see what happens. But at this stage we are not seeing a strong effect from commonwealth employment levels on private sector jobs growth in the ACT.

THE CHAIR: Thanks, Mr Nicol. We will go to Dr Bourke.

Mr Barr: Chair, I undertook earlier that there would be some data I could give, specific to a couple of earlier questions.

THE CHAIR: Sure, we can do that now, then we will move to Dr Bourke.

Mr Barr: It has been provided to me through the wonders of technology. In relation to your earlier question about what proportion of households contribute what proportion of revenue under stamp duty, prior to the reforms in 2011-12, nine per cent of households were contributing around 20 per cent of total taxation revenue. Year-to-date data now that the reforms are starting to cut in show that seven per cent of households are now contributing 18.8 per cent of total revenue, in terms of stamp duty.

I think Mr Gentleman asked how many transactions there were under the different categories. Year to date to April 2013, there have been 2,543 property transactions from first homebuyers, so that is about 26.65 per cent of total transactions year to date. Of these, 850 have involved the purchase of a new property. Year to date there have been 1,027 homebuyer concession scheme recipients, and the revenue forgone there has been $8.246 million.

THE CHAIR: Thanks. Dr Bourke.

DR BOURKE: Treasurer, in budget paper 4, page 33, strategic indicator No 6, the territory currently has a AAA credit rating, which is the highest possible credit rating. When does the credit rating agency's submission occur, and how important is the ACT's credit rating to the health of our economy?

Mr Barr: The process occurs following the budget each year. So the ratings agencies meet with the Treasurer and with Treasury. We are just settling a date with Standard & Poor's now, but my understanding is that it will be later next month. We will then have a discussion—late July, early August. They undertake not quite an estimates-like process, but not dissimilar, I think it would be fair to say. Perhaps they are not so political and rude in some of their questions, but that is what you would expect—

THE CHAIR: I will keep an eye on Dr Bourke and Mr Gentleman!

Mr Barr: from professionals rather than opposing politicians. They then spend about an hour or an hour and a half—certainly, that was my experience last year—and they spend the rest of the day with Treasury, I understand. Would anyone else like to add anything further on that?

Mr Nicol: I might ask Patrick McAuliffe to come up. He is in charge of our processes for the debt ratings. Patrick, would you like to add anything to that?

Mr McAuliffe: The process they follow annually is that they will provide to us a framework of the general questions that they want addressed. That goes through all the budget estimates. We prepare a presentation based on the budget for them. The day normally involves a meeting with the Treasurer in the Treasurer's office to basically hear the government's position. One of the key aspects of the review is to see the commitment to the policies and the budget settings that are provided. They hear that firsthand from the government.

They then meet with Treasury officials, and we work through basically all the various aspects of the budget that they want to test—some of the more technical areas in terms of some of the estimates and forecasts that underpin that. That will occur in late July, early August. They tend to have an internal deadline of about the end of September. The analysts do the work, they put their recommendations to the S&P rating committee, and they will then formulate a recommendation and a rating result. They aim to complete that process by about the end of September.

DR BOURKE: Treasurer, how important is it to the ACT economy?

Mr Barr: We are one of two jurisdictions in Australia with a AAA credit rating on a stable outlook—the ACT and Victoria. It certainly impacts upon the rate at which we can borrow. We have certainly seen in recent approaches to the market the benefits of having a AAA rating. Post GFC, it is my understanding that there are certain requirements—rules, if you like—of some lenders to have AAA-rated credit in their portfolios. So being in that group certainly assists us when we approach the market to borrow for infrastructure works. We have seen the benefit of that in recent times. Pat may be able to recall off the top of his head the rates we got for the last two bonds—I think it was just a bit over four.

Mr McAuliffe: Yes, that is correct. It is a bit of an odd thing that the less debt you have, it actually makes it a little bit harder for us to borrow money at competitive rates. The reason for that is that investors generally are looking for liquidity. So the people that tend to buy ACT bonds are investment portfolios. They want to be able to trade those bonds; they have to manage their own benchmarks. Some of the states with the bigger programs, such as New South Wales and Queensland, have that advantage of very liquid portfolios. We have a relatively low amount of debt in that regard.

The AAA credit rating is important for us when we are trying to access those markets, particularly when it is a volatile market as it has been over the last 12 to 18 months—and it is still volatile now. You are out there issuing our bonds and you are competing with some of the other state jurisdictions, so we have to make sure that investors are comfortable with our credit and with the form of the bonds.

We did a borrowing late last year. The issue yield was about 4.06 per cent. Interest rates started to creep up again in the earlier part of this year, in about March, and the borrowing we did at that time was at 4½ per cent. Rates are hanging—they have come down a little bit since then but the longer end rates are starting to push up again now.

Mr Barr: Because we have such a low level of debt, depending on which measure you use, either the lowest or the second-lowest of any jurisdiction in the country, we are—

DR BOURKE: Is that in proportion or in dollars?

Mr Barr: Both, in a way, given the size of the territory. It depends on which measure you use. The budget papers use a methodology against revenue. The ANZ Bank in their report on jurisdictions' debt levels compared it with gross state product. On the gross state product measure we have the lowest debt of any jurisdiction in Australia. Using the revenue measure, as outlined in the budget papers, it is the second lowest.

THE CHAIR: That seems to have increased significantly. The borrowings have gone—

Mr Barr: Largely driven by ACTEW's debt profile and also our infrastructure works—and we have extended lines of credit to the University of Canberra, for example, for a number of projects. So the borrowings that come under us are also for other entities outside the—

THE CHAIR: Could you go through the borrowings and be a little bit specific—what the quantum is since this time last year, the projections for it and where those borrowings are actually going? What part is ACTEW and what part is other bits?

Mr Barr: Yes, we can do that.

Mr McAuliffe: Mr Hanson, you are trying to compare last year's budget?

THE CHAIR: When you look at debt and borrowings, it seems that there is an increase. I am trying to get a view of what that quantum is—how much borrowing increases, if our debt position is deteriorating, and why that is so; where those borrowings are or what that debt comprises. I would like a reasonably thorough explanation of our debt profile and our borrowings.

Mr McAuliffe: The general government sector debt in particular is relative to the capital program. There is a chart in budget paper 3 that shows we have had relatively flat levels of borrowings.

THE CHAIR: What page?

Mr McAuliffe: BP3, page 263. There was a relatively constant level of borrowings until about 2010-11 and 2011-12. The main reason for that is that we had high cash levels through that preceding period. Post GFC, the capital program was increased. That is consistent across a lot of jurisdictions. If we look at what that capital program has been increasing by, there has been an offset increase in borrowings—not offsetting but the borrowings have increased largely on the back of that. With a large capital program, you cannot keep funding both your recurrent and capital budget through cash. There are not enough reserves there to do that. That is really what has been the large drive behind that borrowing profile.

The ACTEW debt over the years has all been on the back of their water security program—things like the Cotter Dam, the pipeline from the Murrumbidgee. Their capital requirements have eased off now and the forward estimates are largely around their ongoing normal capital spend. I think they are about $300 million over the budget in the forward years for ACTEW.

The government's profile for the rest of this budget does increase for the next couple of years, and then, as the budget reflects, there are about $450 million of repayments over the last two years of the budget.

THE CHAIR: That would indicate there is a reduction in the amount of capital infrastructure being built, but when you look at some of the stuff that has been projected, there are plans in the budget, there are scoping studies, forward design and so on. Where does that fit in? With things like capital metro, the university hospital or the rebuild of Canberra Hospital, have they been plugged into the budget yet?

Mr Barr: There are provisions made for future capital.

THE CHAIR: How much provision has been made and where is it?

Mr Barr: It varies from year to year, but the starting point for the last budget was $120 million of capital and a $50 million-odd capital upgrades program.

THE CHAIR: So this is unallocated capital, is it, in the budget?

Mr Barr: The capital upgrades program is $50 million of that. We announce determined priorities annually. I would not call that uncommitted, although it is capacity to—

THE CHAIR: So that is upgrades?

Mr Barr: Yes, but it is capacity to be applied to particular priorities at the time.

THE CHAIR: I am just thinking of some of the big infrastructure things that have been mooted in the budget—upgrades of the Canberra Hospital, light rail, the University of Canberra hospital. Those have all been factored in. So that $450 million—

Mr Barr: Not in total, no.

THE CHAIR: No?

Mr Barr: That is right, but then the capital spend for a number of those items, the largest parts, are outside the current forward estimates and will require provision to be made; hence the approach in this budget in order to free up the capacity to make those investments.

THE CHAIR: The borrowings in that chart at 263 are predicated on the fact that you are not going to build your capital infrastructure, but in other places in the budget and in your public statements it appears you are going to build that capital infrastructure. It would appear that that chart is a bit inconsistent with what you are saying you are going to do.

Mr Barr: No. It is consistent with what is in this budget, but future budgets will need to make further provision for this infrastructure. If this is news to you today then you have not listened for the last six months. But that is all right. If it is news to you, let me take you through it. We need to restructure our budget in order to make provision for those large infrastructure projects in the second half of this decade. This structural change to the budget is a deliberate decision in order to free up the capacity to make those investments. This is just the first budget that will make that transition. I am not suggesting that the job is complete with this budget, but it makes a very good start in terms of making provision for that infrastructure. But that infrastructure is the second half of this decade. This budget takes us only one year, really, into that.

THE CHAIR: The problem we have, of course, is that no-one is telling us when some of this capital infrastructure is going to be commenced. For example, the University of Canberra hospital: when we ask how much it is going to be and when it is going to be built, there is no answer coming from government.

Mr Barr: No, because we are not at that stage of the project where we are committing to a final capital—

THE CHAIR: But you are saying that the capital for that is going to be outside of this budget.

Mr Barr: Not entirely, no. We have made a provision. The sequencing of infrastructure will depend on available capital in any given budget year, the project having been through its community consultation, design and development approval process. Once it is shovel ready and there is an agreed cost for the project then the government will proceed to finance construction—if we use that traditional procurement methodology. We may seek to use alternate procurement methodologies, as I have indicated on more than one occasion.

THE CHAIR: So depending on, essentially, decisions that are going to be made, the total borrowings are subject to significant change?

Mr Barr: They could vary, yes; that is right.

MR SMYTH: Where is the unallocated capital provision detailed in the budget?

Mr Barr: Page 187.

Mr Nicol: There is a chart on page 187 that shows how we have allocated capital over the forward estimates.

MR SMYTH: It used to occur, for instance, last year and in previous years that you had a total summary of the capital program. Why have you chosen not to include that in what is now chart 6.1.1?

THE CHAIR: It is rollovers, is it, that you are talking about?

MR SMYTH: No, this is the unallocated capital.

Mr Nicol: Which table are you referring to, Mr Smyth?

MR SMYTH: In this year's budget paper it is page 177, "Budget Infrastructure Program by Type", table 6.1.1. Last year it was table 7.1.1, but it did include a section called "Unallocated Capital Provision" which broke it down into three types—future works, urban improvement and capital upgrades. Why has that section of the chart, or the table, disappeared?

Mr Barr: I think the capital upgrades are outlined in 6.1.1 for the coming year.

MR SMYTH: Only for the coming year. In the table last year it had the outyears included.

Mr Barr: We will make determinations on that program in future budgets.

MR SMYTH: But you have been able to make those determinations, or at least estimates of them, for many years now.

Mr Barr: Yes.

MR SMYTH: Why has that stopped this year?

Mr Barr: Because we will make determinations on that in future budgets.

MR SMYTH: But you were able to do that in previous budgets.

Mr Barr: Yes, but we are now restructuring our budget to provide capacity for a number of infrastructure projects.

MR SMYTH: So does this mean there are three or four lean years as you make that reallocation?

Mr Barr: You see the profile in terms of the capital spend. We will obviously add to that with projects once they are through the feasibility, forward design, preliminary sketch plan, consultation and DA-approved status. One of the issues—and this has been acknowledged across jurisdictions; I acknowledge it presents challenges in terms of accountability and presentation, and I know you guys adopted this approach in terms of your election commitments as well—is that we do not want to signal to the market exactly how much we are prepared to pay for every project.

You took the approach in the election campaign of wanting to bundle programs together. Other governments have sought to do that as well so as not to directly signal to the market what you are prepared to pay for individual projects. There are pros and cons with this. It is difficult, and if you are not doing that, to be held accountable to particular project costs, but, equally, it is challenging at times to get value for money if you signal in your budget papers exactly how much you are prepared to spend on a particular project, particularly before it has been designed and has reached sketch plan status.

That is one of the factors that are driving presentation issues this time. I have adopted a position that is perhaps halfway between what you guys took as your election commitment focus. You just said, “We’ll spend X million on roads” and did not specify how much each individual project would cost because you were going to go out to the market to try to get the best price. That is an approach the Victorian government have adopted in terms of their budget papers. It is probably a stretch to do that in the budget papers, to put no particular appropriation at all against projects. Certainly—and you were in this position yourselves and acknowledged the issue—if you signal exactly how much you are prepared to pay for everything, you are guiding the market not necessarily in a way that gets you value for money.

THE CHAIR: Treasurer, on a technical aspect, firstly: the general capital provision is your unallocated capital? That is what you are talking about—the black bit of that graph?

Mr Barr: Yes, it is about $120 million a year, or thereabouts.

THE CHAIR: When you look at the profile for capital expenditure over the last few years and then the estimate, if you expect that to continue, there is about a $300 million to $400 million, and in the last year $500 million, shortfall between what is in the budget, what is estimated, what is unallocated and then what is going to need to be spent.

Mr Barr: Yes. That level of commonwealth stimulus package post-GFC capital expenditure is not sustainable in the long term. You cannot run $700 million programs every year unless you are going to borrow for them or, alternatively, you are going to undertake a different way of procurement.

THE CHAIR: What do you expect that the total will be in terms of capital infrastructure? You are saying it is not going to be up near the $700 million. That is fine. As it plateaus towards the last couple of years, I suppose, of this budget, you have got the unallocated, you have got the estimated and then, I imagine, you will have other projects coming on and so on, as you have discussed.

Mr Barr: Yes.

THE CHAIR: Do you have a view of what is a reasonable amount ongoing? You are saying $700 million is not sustainable. What is that measure that you think is about right in terms of capital expenditure?

Mr Barr: It depends on the circumstances of the economy at the time and the budget's capacity to finance a program. In a period where you were not seeking to stimulate economic activity as much as we have been through the last three or four years—aided and abetted, obviously, by the commonwealth stimulus package post-GFC; a lot of that capex flowed through the territory in terms of the social housing stimulus package and the building the education revolution stimulus package—there are a number of major roadworks projects in there, in particular the Majura parkway and Constitution Avenue. There are a few large projects that the commonwealth have contributed to.

I am not going to put a figure on that now because I will need to assess the health of the economy and the state of the budget through each of the coming budget rounds. Suffice it to say that $700 million would be an all-time record for the territory's capital program. You are not going to set an all-time record in every budget from here on in. But most of the projects that we need to fund over the next decade, or the balance of this decade, will be multi-year construction and will not fall in one fiscal year.

THE CHAIR: In previous budget papers there has been a section—I cannot recall which budget paper it was in—that showed you what the rollovers were and how each project was progressing. I cannot see that in the budget. Maybe its format has changed or it has moved. I certainly remember in Health, for example, you could go to each of the capital programs and there was an explanation of each project and what the rollover was, the re-profiling and an explanation as to why. I just cannot see that in the same format in this budget. If it is there, can you show it to me? If it is not, is there an explanation as to why it has been removed?

Mr Barr: Page 241 of BP3.

THE CHAIR: Brilliant; that is it. That is what I was looking for. Thanks very much. I just was not able to find it.

Mr Barr: That is all right.

MR GENTLEMAN: Minister, whilst we are on that summary at page 241, health is the largest expenditure. Can you just go through some of the priorities allocated in the budget for health?

Mr Barr: Sure. You can explore this in more detail with the health minister, but I will just find the—

Mr Nicol: Mr Gentleman, are you talking about capital—

Mr Barr: Rollovers or new initiatives?

MR GENTLEMAN: New initiatives.

Mr Barr: New initiatives. That is outlined on page 196 of budget paper 3. In terms of the detail of each of the projects, it is probably best to explore that with the health minister. They are obviously the design of the Calvary car park, the design of the UC public hospital, further work on the continuity of health services as part of the infrastructure upgrades, walk-in centres at Belconnen and Tuggeranong and the mobile dental clinic.

DR BOURKE: Perhaps, Treasurer, we could return to the credit rating where this all started. I am mindful of the statement that the credit rating determines the bond rate. I think Mr McAuliffe mentioned a 4.06 rate previously obtained. If the credit rating declined, what interest rates would we be looking at and what would be the effect upon the budget?

Mr McAuliffe: The credit rating certainly has an influence on the sorts of levels that we can borrow at. I go back to things like liquidity and the amount of debt in the market. Whilst we have an AAA stable rating at the moment, we cannot borrow at the same levels as a AAA-rated New South Wales, for example. Our cost to debt is probably in the order of 30 basis points more expensive than New South Wales and that is a function of that liquidity of debt in the market. The higher the credit rating, the better it is for us to keep as close to—

Mr Barr: To bridge that gap, yes.

Mr McAuliffe: To bridge that gap. As to any deterioration in the rating, it is hard to know. If we went down a full notch, it might be 10 to 15 basis points more expensive. If there was a change from a stable outlook to a negative outlook, that might have a minor impact—a few basis points, I guess. There is not a fixed formula that says, "You are at this rating and this is your cost of funds." It depends on the market environment at the time—other competing debt out there in the market that has been issued at the same time; investors' appetite at a point in time. There are a number of variables.

Mr Nicol: Can I just add to that, Dr Bourke? The other thing the AAA credit rating gives us is a bit of a protection in a potential tightening of credit markets around the world. When credit markets tighten, as you saw in the GFC, it is the lower rated debt that gets hit hardest. Whilst in relatively good times we might see a small deterioration if our rating was downgraded, if markets tighten you would see, I think, a more significant increase in debt costs. Perhaps in an extreme case, our ability to access the markets might be impeded.

DR BOURKE: Do you think that is an international scenario where we are now?

Mr Nicol: No, I am not suggesting it is. I am just saying it gives us a bit of protection and insurance against such developments in international markets.

DR BOURKE: Thank you.

THE CHAIR: Mr Gentleman?

MR SMYTH: Just before we get off the whole capital works thing, can we go back to your table on page 177. In last year's table, capital works also included the urban improvement program. Why have you taken that out of this chart?

Mr Barr: It has been allocated for this coming year in last year's budget.

MR SMYTH: So it is now included in the construction or the forward design?

Mr Barr: A combination thereof. And works in progress.

MR SMYTH: So why do you—

Mr Barr: We did not make new allocations. Last year's budget allocated into the outyears, so we did not make additional allocations for that program.

MR SMYTH: So the allocation for the urban improvement program this year is $12,073,000 then?

Mr Barr: That is correct, yes.

THE CHAIR: Mr Gentleman?

MR GENTLEMAN: Minister, I was asking about jobs earlier on, and I will just go back to page 39 of BP4. There is a discussion there on the ACT graduate program. Can you tell us how many employers would benefit from this ACT graduate program?

And do you hope to extend that?

Mr Barr: This is run out of the Chief Minister's area of the directorate, so raise that one later.

MR GENTLEMAN: I will indeed, yes.

THE CHAIR: Mr Smyth?

MR SMYTH: Minister, earlier in the piece you talked about the top five disruptive taxes. What are they, in your opinion?

Mr Barr: Just bear with me; I can get that. I was only discussing this on the weekend. According to the Henry review, the marginal welfare loss, so the most distortive of taxes levied by our level of government—that would be applicable in the ACT, because we do not have royalties or crude oil excise, which are the most—are insurance taxes, payroll tax, motor vehicle taxes, conveyance duties. They are the top four. And then right down at the bottom—to give you a sense of the magnitude of it, what I will do is just provide you with chart 1.5 from the Henry tax review. Insurance taxes have a very high welfare loss. Payroll tax is the next highest, but significantly less than insurance. Motor vehicle taxes are less than payroll. There is conveyance and then land taxes. The least distortive, the one that delivers the smallest marginal welfare loss, is municipal rates. That is in chart 1.5, within box 1.1, "The economic efficiency of Australian taxes".

MR SMYTH: So where does the lease variation tax fit into that?

Mr Barr: It would be a form of land tax, I guess. Certainly it is a tax on economic rent, so its distortion is almost zero. It is unique to the ACT, obviously, given our leasehold system, but it would be one of the least distortive taxes, because it is a tax on economic rent.

MR SMYTH: What is the distortive effect, then, of the lease variation tax?

Mr Barr: Almost none, because it is purely taxing an unearned windfall.

MR SMYTH: When you announced the changes to the lease variation tax, you also announced that the urban improvement fund was to be $100 million over four years. Is it still $100 million over four years, or have you broken that promise?

Mr Barr: We indicated that the revenue from the lease variation charge would be delivered on projects to improve urban infrastructure. We collected a year's worth of LVC and then made the announcement after a year's worth of LVC had been collected and put in the bank. So we had a year's worth of allocation. We then said we would spend that year's allocation plus what we would get in the subsequent year, and that was the first year of the urban improvement program.

MR SMYTH: But the urban improvement program was to be $100 million over four years.

Mr Barr: But it is tied to the LVC. What we have done is allocate projects against the lease variation charge income. The projects are allocated. We collect the revenue in the previous year and then we allocate the projects against the revenue that we have collected. For example, this year the lease variation charge—from the latest figures I have got, we have collected about $15½ million now. It has increased since the March quarter.

MR SMYTH: Out of 25?

Mr Barr: Yes. I will pre-empt your anticipated question later in the day by advising that the lease variation charges now collected are over $15 million. We will then make determinations on the allocation of that money in next year's budget.

MR SMYTH: So the government has broken its commitment to put $100 million into urban improvement over four years?

Mr Barr: The government has actually put more than $100 million into urban improvement.

MR SMYTH: But you were to collect $100 million, on your own estimates, from the lease variation tax, which was going to urban improvements.

Mr Barr: That was an estimation. We said our commitment was to put every dollar we collected in lease variation into urban improvement projects, and we have met that commitment.

MR SMYTH: But you have not raised the $100 million?

Mr Barr: Not yet, but we still have a number of years to go.

THE CHAIR: It is like a mining tax, is it? It sounds like it.

MR SMYTH: So over two years you have not raised $50 million?

Mr Barr: If it is necessary, Mr Smyth, to provide further injections into urban improvement projects through the capital upgrades program or off the general works provision, we will do so; but I would point out to you that, in fact, more than $100 million has been spent on urban improvement projects just in this year's budget.

MR SMYTH: You could have said that before you made the announcement.

Mr Barr: Just in this year's budget. I was very clear that we would hypothecate every dollar that we raised from the lease variation charge into—

THE CHAIR: But you said that that would be more than that. You said that there would be a certain amount—$20-odd million, wasn't it?—that would be put into urban renewal. And there has not been.

Mr Barr: No. The revenue was less than we anticipated but more than we were collecting under the old system.

THE CHAIR: My understanding, and certainly my recollection, is that the way it was pushed out—we might have to reflect on public statements that were made or statements in the chamber—it was advertised as $20-odd million that was going to be put into urban renewal from lease variation.

Mr Barr: No. It was advertised that all money collected by lease variations—

THE CHAIR: Was that in the fine print?

Mr Barr: No.

THE CHAIR: That was in the fine print?

Mr Barr: That was very clear. I have said that.

THE CHAIR: I remember $20 million being in the headline.

Mr Barr: Let me assure you that we have spent more than $100 million on urban improvement just in this budget alone.

THE CHAIR: Yes, but that is ongoing money. That is very different from this amount that was to be drawn from these variations.

Mr Barr: So what you are suggesting is that the money we collect from the lease variation charge that we put into urban improvement—that is acknowledged? So, if we collect less from lease variation charges—

THE CHAIR: You said it was going to be an amount. You went to the community saying, "We are going to put X amount"—which was $20-odd million—"into urban renewal." And you have not done that.

Mr Barr: No; we have done more. We have done more, Mr Hanson. This government is always delivering more.

THE CHAIR: We both know what we are talking about. From the amount that you were going to get from the lease variation, you told the community—it is a bit like the federal Labor Party telling the community there was going to be an amount through the mining resources rent tax—

Mr Barr: I think it is a bit of a stretch, Mr Hanson.

THE CHAIR: Well, it is not too far off.

Mr Barr: If you wish to compare the two, go for your life.

THE CHAIR: In terms of the lease variation charge, when is it actually payable? Is it when the lease variation occurs or when there is any development that is done? Can you give me an explanation?

Mr Barr: The charge is levied.

THE CHAIR: At what point?

Mr Barr: At the time that a development application is approved. There is a determination, and then the development application will have a commence time for particular work to be undertaken. So the person who has the charge levied against them has a period of time in which to pay.

THE CHAIR: So when you said it is an unearned windfall, the fact is that someone has got to essentially do something. They have got to create that kind of activity; they have got to invest capital. They have got to take the risk. That is creating employment and often housing densification. Why do you see that as unearned?

Mr Barr: Because the—

THE CHAIR: The lease variation itself does not do anything, does it? You have to have a DA.

Mr Barr: Because the right to undertake that work has been granted by variation of the lease, and that is unearned. You own a block. You had an entitlement when you bought the block. And you bought it for a certain price to build one dwelling.

THE CHAIR: Do I own it or lease it?

Mr Barr: Well, you are leasing it, for 99 years in this instance. If you paid $200,000 to buy a block of land that you are only entitled to build one dwelling on, you paid $200,000 for that entitlement.

THE CHAIR: So if I get a lease variation on that, there is no charge. There was a charge when I put in a DA.

Mr Barr: If you wish to build more than one dwelling on your block and so increase the value of the land. Had you purchased it in the first instance with an entitlement to build two dwellings, you would have paid more than $200,000 for it.

THE CHAIR: I suppose I am just pointing out—maybe it is something you can comment on—that for someone to pay a lease variation they do not just change the charge. It is not simply the lease variation. They have got to put in a DA and they have got to actually build on that property. They have got to create economic activity; they have got to invest capital; they have got to take the risk. To say it is unearned is—

Mr Barr: Yes, but they bought the land for a certain purpose and now wish to change the purpose to a higher value. The alternative would be to say that if you wish to change the purpose you have to surrender the lease and buy it back at the higher price for the new use. Otherwise you would get people going around buying up the cheapest possible land and saying: "I bought this for one block. I can now build"—in an absurd example—"an unlimited height building with 1,000 dwellings on it." If you are not going to charge for the increase in value that accrues from the extra development rights, the entire leasehold system is undermined.

THE CHAIR: So why do you think it has not brought in the money that you expected?

Mr Barr: It has brought in more than the previous system was bringing in.

THE CHAIR: But you forecast a certain amount or promoted a certain amount.

Mr Barr: Yes. And prevailing economic activity within the housing market has slowed, and you see that across all of our revenue lines.

THE CHAIR: Do you think there is a correlation between the—

Mr Barr: Absolutely none.

THE CHAIR: Absolutely none?

Mr Barr: Absolutely none.

THE CHAIR: Absolutely none?

Mr Barr: No.

THE CHAIR: We will break for tea.

Sitting suspended from 10.46 to 11.02 am.

THE CHAIR: Welcome back.

Mr Barr: We have some information.

THE CHAIR: Fantastic. Just before you get to that, I advise members that we will keep going through the output classes until midday when we will go to the ICRC. I mention that to give members a bit of an idea of how much time we have available. Treasurer, you have some information for us.

Mr Barr: Yes, the Under Treasurer can provide an update.

Mr Nichol: Mr Smyth, you had some questions about the rates. I will give you some data. In 2013-14, for commercial our estimate is $117.7 million; residential, $220.5 million; and rural is $0.1 million. In respect of the proportion of revenue, residential we think is 145,636 properties. Approximately 40 per cent is raised in fixed charge and 60 per cent in the variable charge. Commercial is 5,766 properties; 8.7 per cent is raised in the fixed charge and 91.3 per cent is raised in the variable charge.

MR SMYTH: Can you provide that in a table?

Mr Nichol: Yes, we can.

MR SMYTH: Is it possible to get last year's to have a comparison?

Mr Nichol: We can do that as well.

MR SMYTH: Thanks.

Mr Barr: I also table for the secretariat the material from *Australia's future tax system* that I was quoting from earlier in relation to the various efficiencies of taxes. Given the conversations we have been having about volatility of conveyance duty, I thought it would be useful to give the committee the last 20 years of the collection of that tax in a graphic sense. I will provide that one as well.

THE CHAIR: Thank you, Treasurer. Anything further?

Mr Barr: No, that is all.

THE CHAIR: You had a busy morning tea. Thank you very much.

Mr Barr: Happy to provide information.

THE CHAIR: Good on you. If we can get copies of that for the committee, that would be good. Mr Gentleman, do you have a question?

MR GENTLEMAN: Minister, you have talked about, especially in your budget speech, transformational reform to the budget process and the system for the ACT. Can you tell us what effect this might have on the ACT economy and business sentiment?

Mr Barr: Certainly. We have been very clear in this budget in seeking to provide the road map for major infrastructure investment and urban renewal in the city over the rest of this decade. There are a number of projects that go to those key elements of urban transformation. We can discuss those in some length perhaps under the relevant portfolio areas as they come forward over the next couple of weeks.

The budget also provided investment in a number of transformational social policy programs. Clearly, the funding for DisabilityCare and the, I think, bipartisan national agreement of every jurisdiction but Western Australia now gives a sense to what an enduring legacy that will be of this period of government in Australia. To have bipartisan support for the funding mechanism nationally and to have jurisdictions large and small, Labor and conservative, sign up for this program, I think, is—certainly, history will look upon this as one of the most significant achievements of this period of government.

That requires the ACT to again look to its budget and to reshape its budget to make that investment. In the context of putting together the expenditure priorities on the recurrent side for this budget, that is a significant task and a significant commitment from the territory government in partnership with the commonwealth over a period of transition from the first jurisdiction to fully implement DisabilityCare and then its rollout over a number of years. I would anticipate that the committee would explore the detailed implementation with the minister for disability in that part of the estimates hearings. But in the context of a provision within this budget, that is significant.

Our other significant social policy provision and allocation over the next six years is in education, clearly. I imagine that the committee will explore that in some detail with Minister Burch who, again, has carriage of the implementation of both of these reforms. But in a context of new spending in the budget and the need to reshape our priorities in order to fund those important national initiatives that have benefit for Canberrans particularly, we were an early signatory to both. I think this makes a very clear statement of our values and commitments as a government and, I think, as a community that we want to invest in improved disability services and we want to invest in better education. We are doing so in this budget.

MR GENTLEMAN: What would be the risks? The ACT was one of the first to sign up. What would be the risk if you did not take those initiatives?

Mr Barr: Clearly, in the context of how the commonwealth has sought to approach jurisdictions, there has been years of work leading up to formal offers being made to states and territories. So we have had the capacity through specific ministerial councils to work on the development of both proposals. From the states' and territories' perspective, we have been actively engaged with the commonwealth in designing the particular scheme, particularly DisabilityCare, and obviously taking a leadership role there.

The risks, I think, are fairly less so on the disability side now that it has bipartisan agreement. I think people in the disability sector and the current clients within the ACT disability sector can have confidence that this scheme will be enacted over a period of time and that it has a secure revenue stream.

Education is a moving feast, it would seem. South Australia's decision on Friday to sign is important. I think the response that came from the federal shadow education minister seemed to indicate that they would still require further jurisdictions to sign up before they would consider it to be a national consensus. Time will, of course, tell on what happens there, but I think it is instructive that the New South Wales government, which is of a different political persuasion from the federal government and from the ACT government, has signed up and has been a strong advocate.

So much so, I understand that the New South Wales education minister has come to Canberra to brief the federal National Party on why New South Wales signed and why it was a good outcome for education. It remains to be seen whether politics will get in the way of a better outcome for all students, but there seems to be movement, if slowly, towards a national consensus on this. The rhetoric from the opposition education spokesperson appears to be hardening in some parts and softening in others, depending on which state he is standing in at the time.

THE CHAIR: I have a supplementary on education funding that relates to BP4, pages 299-300. There are a range of changes in funding. There were some national partnerships and SPPs which were previously in the budget. You can see here they are being removed as budget items. Particularly, there is one there, commonwealth grants, national schools SPP, which is shown as $31.8 million, $68.9 million, $74 million, $74 million and so on.

What I am trying to get to the bottom of does not relate to the relative merits of the reform. It is about the money. The advice on the money is that it appears, when you look at the money that was coming from the commonwealth or was planned in the budget to come from the commonwealth under SPP and national partnerships compared to what is coming from the commonwealth under Gonski, or whatever it is called, there is a net difference there of about $30 million-odd. That is then, I guess, supplemented by money coming from the ACT. I am trying to get the figures.

Mr Nichol: The next line in that table, "National education reform of government schools" is part of the Gonski reforms. Part of the reforms is a restructuring of commonwealth payments to the ACT.

THE CHAIR: Yes.

Mr Nichol: So you have to take both of those lines into account. There are several others. Off the top of my head, I cannot remember what they are.

THE CHAIR: There are a number of them there.

Mr Nichol: Yes, but we can—

THE CHAIR: Commonwealth grants, rewards for great teachers, has gone. Commonwealth grants, improving teacher quality, has gone. Commonwealth grants, reward for school improvements, has gone. Revised funding profile, low socio-economic status school communities national partnership, is gone. There are some others that remain. Do you get my point? There were a number of lines in the budget of commonwealth funding. They have been removed and essentially replaced by that what seems to be one line, but maybe there are others—

Mr Nicol: There are a number.

THE CHAIR: and what I am trying to do is work out what the difference is. I am aware that there is money that is now being put in by the ACT government as well, which is additional funding over what was planned in the forward estimates from last year's budget. When you put that all in the mix, what does it mean? Does it mean that there is less money from the commonwealth and more from the ACT? Does it mean there is less? It is a dollars and cents question, not a question about whether this is good or not good.

Mr Nicol: No, it is a complicated issue. The other factor I will add to the complication is, of course, that those numbers are based on last year's commonwealth midyear forecast. The commonwealth has said that without the Gonski reforms those payments would have fallen.

THE CHAIR: Yes, for sure. I understand, but do you understand the point I am making? There was a plan. That was in the budget. The plan has changed. I am trying to work out what the implications are of that financially to the ACT. Because my analysis—

Mr Barr: In short, it is more money from both levels of government.

THE CHAIR: My analysis is that it is not. It is not more money from the commonwealth. When I add up the various lines—

Mr Barr: If you provide us with your analysis we would happily take it into—

THE CHAIR: That is not the way estimates work, though, is it? It is your budget, Treasurer.

Mr Barr: I see, so if you—

THE CHAIR: You will have the opportunity in four years' time.

Mr Barr: So if you can dream up—

THE CHAIR: You will have the opportunity in four years' time, but at this stage—

Mr Barr: So you can dream up anything and make any statement and not have it tested at all. Is that—

THE CHAIR: At this stage, this is your opportunity to debunk what I am saying. What I am saying is that—

Mr Barr: But until I know the rationale of how you come to your conclusion—

THE CHAIR: The rationale is quite clear, but let me restate it.

Mr Barr: Okay.

THE CHAIR: The rationale is that there were a number of payments being made by the commonwealth that were planned in the budget under SPP and NP; right? They are there in this budget on pages 299 and 300. When you look at those and then you compare the additional that is coming in through the Gonski reforms, what I am looking for, in terms of the federal funding, is the differential? Is it more? Is it less? Is it exactly the same?

Surely when Treasury was advising whoever was doing the negotiations, be it the education minister or the Chief Minister, that advice was provided to say that the difference, comparing what we were planning to what we are now planning, is $10 million less, it is $10 million more. What is it?

Mr Nicol: The complicating factor is: what is the counterfactual—what the commonwealth would have provided to the ACT?

THE CHAIR: That is in your budget, is it not?

Mr Nicol: No, this is based on what the commonwealth had in its forecasts in last year’s midyear—

THE CHAIR: That is what I am using. Let us use those figures, because they are the ones that you have put in the budget.

Mr Nicol: But this table compares in a simple arithmetic sense what last year’s budget said compared to what this year’s budget says. The question, though, goes to what the commonwealth would have paid us had we not got into the Gonski arrangement.

THE CHAIR: Would they have paid us less?

Mr Nicol: That is what the commonwealth have told us.

THE CHAIR: What—they were going to strip money?

Mr Nicol: Because indexation was going to fall. The rate of indexation for school recurrent grants was I think—

THE CHAIR: Let us base it on what was planned.

Mr Barr: We cannot. We can only base it on what we were told. I think the factor that drives the reduced—

THE CHAIR: These are the figures in your budget.

Mr Barr: The particular indexation measure is the Australian government school recurrent cost index, the AGSRC. It is driven by decisions of state governments, largely New South Wales and Victoria, because they have the biggest impact on that index. So if they lower their spending, which is what they were doing, then that index falls dramatically and the amount of future indexation falls dramatically for everyone else.

THE CHAIR: Okay.

DR BOURKE: But those national partnership programs were not ongoing, were they, Treasurer?

Mr Barr: No, they had time limits as well. The national education agreement expires at the end of 2013.

THE CHAIR: They are in the budget through to 2015-16 and 2016-17?

Mr Barr: On an assumption they continued but no actual agreement, and that is the thing. There was no agreement until we signed on. So it was not a case of you could continue happily on your merry way or sign. It was that your indexation would be reduced—

THE CHAIR: Based on the figures that have been provided to—

Mr Barr: It would be the case that your indexation would be reduced in line with what was happening in other jurisdictions or you could sign up and get a guaranteed increase into the future, and that is what we have done.

DR BOURKE: So the national partnerships program is really dependent upon commonwealth policy and basically depending upon what the federal education ministers decide they want to do with education from time to time?

Mr Barr: That is correct. But then one of the variables that the commonwealth was applying to its indexation was the AGSRC, and that is controlled by the spending decisions, in large part, of the larger jurisdictions on education. They were driving that index down. So there is no-one in the education sector who would be advocating that they wanted that level of indexation as opposed to what is on offer.

THE CHAIR: I appreciate it is difficult to take what the federal government said previously, because they do tend to change their figures a bit, but what I am asking again, minister, I suppose for a final time, is: when you compare what was in the original proposal that this budget was based on previously—and it is in there as ceased initiatives—have you done a comparison of those ceased initiatives with the new initiatives to get a picture of those? And have you done that work or not?

Mr Nicol: We did the work against what the commonwealth was saying that indexation would have been had we not signed up to Gonski.

THE CHAIR: What they did is they said, "Right, this is an amount, and we are going to completely change that if you do not sign up to Gonski"?

Mr Nicol: No, what the commonwealth is saying—

THE CHAIR: That is what you—

Mr Nicol: Sorry?

THE CHAIR: That is what you just said.

Mr Nicol: No, what the commonwealth was saying was that under the old arrangements our funding was indexed by the Australian government schools recurrent costs index, and that was in last year's commonwealth midyear economic statement. The forecasts were around six per cent per annum growth. What the commonwealth informed us was that those growth rates, based on, as the Treasurer said, spending in other states and territories on education, were going to drop below potentially two to three per cent or below level. So in the absence of Gonski, if you like, we would have had to reduce the estimated receipts from the commonwealth to that lower rate of indexation.

THE CHAIR: And what was that?

Mr Nicol: What was?

THE CHAIR: What was that lower rate? When I look at the figures in the budget, what was the lower rate of indexation?

Mr Nicol: The commonwealth did not give us a figure, to my recollection, but they said it could be around the three per cent mark.

THE CHAIR: So they did not tell you what it was? You sign up to a deal and you did not even know what that amount was going to be reduced by?

Mr Nicol: No.

THE CHAIR: They just said, "If you do not sign up to Gonski we are going to reduce this other figure but we are not going to tell you how much we are reducing it by"?

Mr Nicol: Their final figure had not been determined when we were in the negotiations. We were given indications from the commonwealth what that figure would be, and they were saying around the three per cent mark.

THE CHAIR: So you signed up without understanding what that was going to be or what the final determination was going to be?

Mr Barr: We signed and we got 4.7 per cent from them. So 4.7 per cent is better than three per cent.

THE CHAIR: So if you reduce by three per cent what was in the plan previously, under SPs, MPPs and so on, how does that compare to what you got under Gonski?

Mr Nicol: We would have to take that on notice and give you those figures.

THE CHAIR: Let us do that. If you reduce the plan that was in the budget by what you think is three per cent and then compare that with what you got under Gonski, could you provide that to the committee?

Mr Nicol: Yes, we can provide those figures.

THE CHAIR: I am surprised you have not done that work.

Mr Nicol: I do not have that in front of me at the table.

THE CHAIR: Thank you very much.

DR BOURKE: Was there not an extra $26 million announced for the University of Canberra as part of that deal as well?

Mr Barr: There certainly was, yes. That is correct.

DR BOURKE: How does that fit into that, Treasurer?

Mr Barr: Sorry?

DR BOURKE: How does that fit into that, Treasurer?

Mr Barr: That is above, obviously, our allocations direct to schools.

THE CHAIR: How much did the university lose under Gonski?

Mr Barr: Did the university lose under Gonski?

THE CHAIR: The university had a loss under Gonski, did they not?

Mr Barr: They put a figure of $8 million, I think. So they have got a $26 million—

THE CHAIR: Per annum?

Mr Barr: I would have to check. Was it a two-year efficiency dividend for universities? So their funding still continues to grow but not as fast. So it is a two-year efficiency dividend. The reports I have heard in the media were $8 million, and they have got a $26 million injection. So I think they have done fairly well out of it.

THE CHAIR: Mr Smyth.

MR SMYTH: Can we look at some of the savings. I notice that the savings initiatives have been reduced to a single page this year. Why have you gone from the slightly more expansive explanation of savings to the minimalist model?

Mr Barr: They are outlined by output class in budget paper 4.

MR SMYTH: But why not summarise them as was done previously?

Mr Barr: They have been summarised under four different categories within budget paper 3.

MR SMYTH: Page 171 of budget paper 3.

Mr Barr: Yes. There are ceasing initiatives, general savings, service re-profiling and procurement savings.

MR SMYTH: So why go to lesser information rather than more, given that we are living in the age of more openness and accountability?

Mr Barr: There are examples of the particular programs contained on page 172 and detailed within each output class in budget paper 4.

MR SMYTH: There is a list on page 172. There was more fulsome information in last year's budget in one place. Why is that not repeated this year?

Mr Barr: I have answered your question.

MR SMYTH: No, you have not. You have just told us what the differences are. Why have you gone from a five-page summary or a six-page summary of what the savings would be to just over a one-page summary?

Mr Barr: We have provided information in budget paper 4. If there is any particular savings allocation that you would like information on, I am happy to take those questions.

MR SMYTH: Were the projected savings achieved?

Mr Barr: From previous years?

MR SMYTH: Yes.

Mr Barr: They certainly were removed from agency budgets, yes.

MR SMYTH: And the expected savings in the outyears, are they the same or have they been reduced?

Mr Barr: From previously announced?

MR SMYTH: Yes.

Mr Barr: Other than policy decisions outlined in the budget in terms of previous budgets, either a reversal of an efficiency dividend or a reinstatement of a savings amount—and that is outlined, depending, on directorate—they have been achieved.

MR SMYTH: So the savings on page 171 are savings over and above the savings in the previous years?

Mr Barr: Over and above the previous years, unless there is an allocation made in an area of government under each directorate.

MR SMYTH: And so all of the savings have been achieved because they were simply removed from the departmental budgets?

Mr Barr: That is correct.

MR SMYTH: Or they are gone?

Mr Barr: Yes.

MR SMYTH: Is it possible to get a summary of the kind in table 6.3.1, page 135 of budget paper 3 from last year, and then the various breakdowns—travel and accommodation, printing and stationery, consultants et cetera?

Mr Barr: We can certainly provide information, and I am happy to do that for my directorates.

MR SMYTH: But you are the Treasurer. You must know what savings you have asked for.

Mr Barr: Other directorates have particular tasks in terms of their savings and they can outline that to you.

MR SMYTH: So how did you have this information last year but you do not have that information this year?

Mr Barr: Some decisions were taken at a cabinet level last year. In previous years there were efficiency dividends applied and directorates then went about undertaking that savings task. So it will vary from year to year. There is discretion given to directorates in particular areas and they will go about that process and report in terms of this estimates process, their annual reports and the like. In terms of whole-of-government savings, I can certainly provide further information in relation to those. Ceasing initiatives are easy to provide information on. On other initiatives, directorates will go through their internal processes around achieving those savings.

MR SMYTH: On the ceasing initiatives, there was a table in last year's budget paper 3 on page 139, table 6.3.1.2. Why is a similar table not included in the savings section this year?

Mr Barr: There are a very small number of ceasing initiatives. I think there are some examples provided but I am happy to provide some detail.

MR SMYTH: But why was the decision taken to remove the table?

Mr Barr: Sorry, why?

MR SMYTH: Why the decision to remove the table?

Mr Barr: We present the budget papers each year as we determine.

MR SMYTH: That is okay. And why did you determine this year to remove the table?

Mr Barr: And we have determined to present it this year in this way, with further detail available in budget paper 4.

THE CHAIR: Just on a point of clarification, Treasurer, you will provide for the committee a breakdown of the ceasing initiatives in this budget?

Mr Barr: That is right. I undertook to do that in a technical briefing last week.

THE CHAIR: Thank you very much.

Mr Barr: Given they total $6 million over four years, there is a handful of them.

MR SMYTH: That is okay but if somebody who had last year's papers, somebody who is not sitting here on the estimates committee or the committee we had last year, wanted to know what the ceasing initiatives were, you are now saying they have got to go through all of the agencies to find them and then collate them themselves?

Mr Barr: Or you can look at the detail. There are examples given on page 171. We have withdrawn some memberships and reduced some grants programs because the total amounts—

MR SMYTH: But do you accept it would have been easier if table 6.3.1.2—

Mr Barr: If the committee wishes to make a recommendation to that effect, I will consider it for future budgets.

MR SMYTH: It is about less openness and less accountability?

THE CHAIR: By way of a supplementary, the Australian Education Union were here on Friday and there was a discussion about the 100 jobs which were identified to cease in the education directorate next year. They have had some discussions with the directorate about that and they seemed to be under the impression that those 100 jobs were not necessarily 100 jobs; it was just a way of accounting for the $6.7 million, or whatever the amount was, that the directorate had been told to find in savings. It is a little bit unclear because the budget papers say 100 jobs, and it is pretty clear that it is 100 jobs because there is growth in other areas. This is not necessarily a debate about the merits of that, but there is some confusion. Are they jobs or is it an efficiency dividend that is being accounted for as jobs?

Mr Barr: I would draw your attention to budget paper 4, page 579, and I would ask you to look at the 2012-13 budgeted staffing level. Do you have you that in front of you?

THE CHAIR: I do.

Mr Barr: You would see that, for the Education and Training Directorate, about halfway down the page, their 2012-13 budgeted staffing level was 4,698. Various adjustments are made, particularly once the school census is undertaken at the beginning of the school year, and students are in the various schools across the territory. There is a technical adjustment that is made. You would see that the estimated outcome for employment within that directorate compared with the budgeted level is in fact 67 positions higher as a result of various adjustments that occur in Education throughout the year. So when you compare the 2012-13 budgeted level with the 2013-14 budgeted level, you will find it is actually not 100 positions but more like 32.

THE CHAIR: But it is identified for funding for 100 positions which were removed in the budget.

Mr Barr: Not necessarily, because the budgeted staffing levels are only 32 different.

THE CHAIR: Why elsewhere in the budget does it say 100?

Mr Barr: It does not. It points out that the estimated outcome for this year and the budgeted outcome for next year are different by that amount, but the experience in Education is that there is an enrolment adjustment. If there are increases in enrolments, because there is a formula that drives the number of teachers that are employed in the

ACT based on an average class size, you will see elsewhere in the budget papers where there are technical adjustments and enrolment adjustments, depending on where students are within our school system. So there is often a difference between the budgeted level and the actual level.

THE CHAIR: The directorate will be funded to the budgeted number of jobs or the actual number of jobs?

Mr Barr: Another important distinction is that the directorate is funded on an average teacher cost. Younger teachers cost less than experienced teachers, so the exact head count will vary depending upon the overall mix of teachers, and across 3½ thousand you can see it does not take a huge amount of variance in terms of their particular employment profile or level of experience of a teacher as to whether they are below the average, at the average or above the average. That will depend upon the mix of teachers at any given time. Yes, there is a saving in Education and that was announced in a previous budget, but there is also a reinstatement of some of those savings. That is an example regarding Mr Smyth's earlier question. Then there is new funding.

THE CHAIR: Are those savings in Education ones that have been agreed that will be in staffing or are they ones for the directorate to find?

Mr Barr: They are ones for the directorate to determine.

THE CHAIR: What is the quantum of that? How much?

Mr Barr: From memory, it is about $4½ million. We will check that. We will get that figure. It was announced in a previous budget.

MR SMYTH: If you go to page 286 of budget paper 4—

THE CHAIR: Is this a supplementary?

MR SMYTH: It is a supplementary to that. It says that the decrease is mainly due to the impact of prior year savings, partially offset by new initiatives. The union on Friday said that something like 60-odd jobs would go. How many jobs are actually going out of Education?

Mr Barr: That is something you will have to take up with the education directorate. The difference in budgeted funding is 32.

MR SMYTH: The note in the education section shows a decrease of 99.

Mr Barr: You will have to take that up with them.

MR SMYTH: You do not know what is happening in Education?

Mr Barr: We funded a difference. We made a savings allocation against Education in a previous budget. That is outlined. The FTE impact within the directorate is subject to a number of variables, including enrolment figures. The difference between the budgeted levels is 32 positions.

MR SMYTH: The note says:

> The decrease of 99 FTE … is mainly due to the impact of prior year savings …

So they are saying it is savings.

Mr Barr: If Education choose to present this by way of FTE savings, that is their choice. You can explore with them the detail of how they are going to go about achieving their savings task. The point I am making is that I would draw your attention to the fact that staffing levels in Education in recent times have always been higher than the budgeted level. The difference between the budgeted level for the two financial years is 32 positions. What ends up happening will depend on enrolments in schools next year, decisions that the education directorate make in terms of savings in other areas of their operations. But you will need to explore that with them, as I am not making those decisions within the education directorate.

DR BOURKE: Treasurer—

THE CHAIR: We will move on now.

MR SMYTH: Just to follow on, in the previous year, the estimated outcome was 4,688, and it actually went up to 4,698 for the current year.

Mr Barr: In terms of staff within the directorate?

MR SMYTH: Yes.

Mr Barr: It depends on enrolments. There is a formula. So if—

MR SMYTH: Are you expecting enrolments to go back, if we are reducing staff?

Mr Barr: It will depend on what enrolments are next year. If enrolments lift next year then they will get extra resources. There will be a technical adjustment made and the number of staff will end up being greater than the budgeted level.

MR SMYTH: But you have not made provision for an increase in the number of students in the government system?

Mr Barr: No, we make provision every year for that, and we make a technical adjustment—

MR SMYTH: But the staff has gone down.

Mr Barr: There are savings to be made in the education directorate, yes.

MR SMYTH: With 99 staff?

Mr Barr: No, it will depend on how they enact their savings.

THE CHAIR: But that is what the budget says. This is the problem. The budget does not just say "efficiency dividend to the value of $6.7 million". It says 99 staff. This is not one where the education directorate have been given an efficiency dividend to find out what they are going to do.

Mr Barr: Yes, they have. That was in previous budgets.

THE CHAIR: The budget here says that there is a reduction of 99 staff. It does not say "dollar value of that" and "it will be taken out of something else". They are saying, "Reduce your FTE by 99."

Mr Barr: If that is the decision the education directorate make, that is their decision. You can explore that with them. What I have heard them say publicly is that that is not how they intend to make all of their savings.

THE CHAIR: Why do we have a situation where a directorate is saying one thing in the budget, saying 99 FTE to go, but is then saying, "Well, that's not how we're going to do it. We're actually going to do it some other way"?

Mr Barr: That is a question you can raise with Education. They have provided this information in terms of how they intend to present their budget in budget paper 4. All I am doing is pointing out that there is often a difference between the budgeted level—

THE CHAIR: You said you had heard them make statements, I think, to that effect.

Mr Barr: Yes, I have.

THE CHAIR: You have not gone to them and said, "Well, why is it that you're saying one thing to me in the budget and saying it's 99 positions but in the public sphere and to the union you're saying not to worry about it, it's not job cuts"?

Mr Barr: They have chosen to present it in this way. I am saying there are a number of variables that will impact on the final level of employment within that directorate, the most significant of which is the level of enrolments in schools next year, and that what is often the case is that if there is an increase in enrolments then there will be a commensurate increase in teaching staff within the ACT public education system.

THE CHAIR: We will follow it up with Education.

DR BOURKE: Treasurer, perhaps you could tell us about the business development strategy, particularly the global connect program.

Mr Barr: I think we can explore that in detail in Economic Development tomorrow, as that is where it is funded.

DR BOURKE: Okay.

THE CHAIR: Do you have another question, Dr Bourke?

DR BOURKE: Indeed I do, thank you. Perhaps, Treasurer, we can talk about financial management and the expenditure review committee, key review areas and what areas they will be covering in 2013-14. I refer to page 42, note 6.

Mr Barr: We undertake rolling reviews of expenditure in cabinet's expenditure review committee. In this year's budget we have highlighted four areas for review—ESA, corrections, parks and conservation, and ACTION. The expenditure review committee of cabinet is chaired by me. Each of the reviews will involve the directorates, directors-general of their directorates, as well as Treasury officials, and we will employ some external advice to look at particular elements of operations of each.

The point I want to stress here is that this is an ongoing program of expenditure review and that there will be in future budgets further areas of government that will be examined. It is simply prudent financial management to look at the operation of particular areas of government and seek to deliver services more efficiently. It is a routine part of budget management. I think it is important in the context of service reviews to work with the agencies concerned and to work with staff, in particular, to identify better ways of delivering services to the community.

DR BOURKE: You mentioned external advice. What would be the nature of that?

Mr Barr: It will depend on the particular areas. It will vary across the different areas of government that we are looking at. Certainly, it will be professional advice on the way—

DR BOURKE: Perhaps you could give a specific example of where that has happened in the past.

Mr Barr: that particular services are operated. You would imagine that some of the large consulting firms will have particular specialist expertise in some areas of business operations, accounts, procurement, service delivery models and the like. We will be working with key stakeholders as well in looking at areas where we can deliver services more efficiently.

MR GENTLEMAN: A supplementary to that, Mr Chair: minister, will those agencies involved have an opportunity to have input into the terms of reference of the inquiries?

Mr Barr: Yes. As I say, it is not to be seen as Treasury wading in and telling agencies how to do their business. We have an objective look at service delivery models, working with agencies and key stakeholders, employees in particular, looking at ways to deliver services more effectively.

DR BOURKE: Which stakeholders would you be talking about there? You mentioned stakeholders; how will they be involved?

Mr Barr: Users of services in particular. I am particularly keen for those for whom the service is delivered to have input into how those services are structured. It is primarily around how Canberrans can benefit from a more efficient delivery of services in each of those areas. Clearly, staff who work in each of the areas have a particular knowledge and understanding of their day-to-day work that is really valuable to bring to reviews such as this. This has been the case in previous reviews of government operations that have delivered more sustainable long-term outcomes in other areas of government.

DR BOURKE: So there is a strong consultative process with stakeholders?

Mr Barr: That is correct, yes.

MR SMYTH: By way of a supplementary on that, I note the four areas have all received what is euphemistically termed "supporting operational capacity" as an expense in budget paper 3, but they have received them over varying time frames. City and parks services only got one year's supplementation, ACTION got two. ESA got two years and Corrective Services got a full four years. Why have they been given different amounts over different times?

Mr Barr: The circumstances vary in terms of the issues that they are confronting. There are a number of different variables that are driving cost pressures within those agencies. Workers compensation premiums, for example, is one of those areas that is subject to—

MR SMYTH: They are listed separately.

Mr Barr: pressures across, and that varies from agency to agency.

MR SMYTH: Workers comp for corrections and for ESA are listed separately, so that is different from operational support, one would assume, given that they are separated out?

Mr Barr: But the impact and the proportion that is workers compensation, as a proportion of their budget, varies in the higher risk areas. So, yes, there is a separate presentation as regards that. Also I think it is a function of sequencing and the time frames associated with being able to deliver reforms and, of course, managing volumes of work.

MR SMYTH: Does that make parks and city services first cab off the rank?

Mr Barr: Work will begin on all, but with parks and city services we believe the issues there can be worked through more quickly.

MR SMYTH: What are the issues with parks and city services than can be worked through more quickly?

Mr Barr: You would need to explore that in detail with their minister, but they are not staying—

MR SMYTH: You just mentioned it.

Mr Barr: They are not staying within their budget.

MR SMYTH: ESA for years has not stayed within its budget. Is that because the budget is set too low?

Mr Barr: That is one of the issues that we will explore through the review. There is a variety of views on that question.

MR SMYTH: What is the timetable for reporting for the four areas?

Mr Barr: That varies according to cabinet schedules.

MR SMYTH: But you must have a timetable. The funding is over two years. There is 1.3 this year; there is $400,000 in the following year.

Mr Barr: They will inform future budget cabinet determinations.

MR SMYTH: With Corrective Services, you have got funding for their budget for four years. Why is Corrective Services blowing their budget consistently?

Mr Barr: I am not sure that is a fair statement to make. They have a variety of circumstances that confront them that vary from time to time, depending on the nature of inmates within their facilities.

MR SMYTH: What are those circumstances?

Mr Barr: You can explore them in more detail with the minister.

MR SMYTH: Why can't we explore them with you? You have allocated $6 million extra for Corrective Services. You are the Treasurer. On what basis did you give that extra money?

Mr Barr: And we are seeking to review their operations.

MR SMYTH: So you are not aware of what the issues are?

Mr Barr: I am not going into detail and speculating today on the issues that we will examine, no.

THE CHAIR: It is not speculation, is it? It is a $6 million amount of funding. You would not have done that on speculation.

Mr Barr: You can explore that appropriation with the minister.

MR SMYTH: All right. The $1.7 million that you have for directorate operational reviews—what will it look at in Corrective Services? What will you spend it on?

Mr Barr: Service planning, efficiencies, ways to deliver the required outputs in a more effective manner.

MR SMYTH: And what efficiencies will you be looking for?

Mr Barr: I am not going to pre-empt the reviews.

DR BOURKE: You talked about workers compensation before—

THE CHAIR: We might move to Mr Gentleman for a question.

MR GENTLEMAN: Minister, earlier on we talked a bit about the AAA credit rating and did some comparisons with other states. Could you compare the ACT's borrowings with those of other states?

Mr Barr: The budget papers obviously outline that against revenues. I believe the second lowest—WA has been the only jurisdiction on that measure. Compared with gross state product, though, it is my understanding, and the ANZ have undertaken this research as part of their reporting on state and territory budgets, that the ACT has the lowest debt levels of all jurisdictions when measured against the gross state product of each of the jurisdictions. So our debt is low. It is predominantly held in the public trading enterprises area and the areas where the government itself is borrowing for infrastructure. If you go to pages 34 and 35 of BP3, I think there is—

MR GENTLEMAN: Thank you. You mentioned those agencies that you have borrowed for. Does the government undertake borrowings for ACTEW and the University of Canberra?

Mr Barr: Yes. Yes, there are allocations there; and we do, of course, earn an interest payment from those instruments, so they actually make payments back to government. In the context of the University of Canberra, we are borrowing for them at a lower rate than they could access in the market, and they pay us a differential—from memory, it is about 75 basis points—on those loans. So they end up being a small benefit to the budget bottom line.

MR SMYTH: You are speculating on higher ed.

DR BOURKE: That is the line of credit you were talking about before?

Mr Barr: That is correct, yes. A recent example is where we borrowed on behalf of the university for more student accommodation. We have a surety there of the actual building itself, plus the revenue stream that comes from the students who live in that accommodation. The university obviously has sufficient fiscal capacity to make the payments on the loan, but why it works for them is that if they were to enter into the market themselves they could not borrow even at the 75 basis point differential. They could not borrow at a rate as low as we can assist them with.

DR BOURKE: What is the benefit to the territory of that kind of development by the university?

Mr Barr: Undoubtedly it helps grow our export sector, which has been the fastest growing in the country in the last five years, particularly in the services area. Obviously that is where our export sector has grown. I think the stats are that the ACT now has a 2½ per cent share of national exports, which has grown from about

1.8 per cent over the last five years or so. Given that we are 1.6 per cent of the nation's population, that is significant growth for the export sector. In education we would be in the top three in terms of export earners for the territory.

DR BOURKE: What else is in those export earnings?

Mr Barr: Government services—exporting services to other world governments. In the defence and security fields, for example, there is very strong growth. We have also experienced growth in international tourism, so the contribution that international tourists are making to the economy is stronger, and that is recorded as an export for the territory.

DR BOURKE: So in terms of the fact that we do not have a heavy manufacturing or light manufacturing base, with government services and higher education we are certainly punching above our weight?

Mr Barr: We certainly are. Our future, in terms of manufacturing, will not be making millions of things priced at $5 each. We have a small manufacturing base that probably makes five things a year worth many millions of dollars, though there is some light manufacturing that does occur in the territory.

THE CHAIR: This might be more of a conversation for economic development.

Mr Barr: They are scientific instruments and the like. The contribution of the export sector is important to the territory's overall economic growth. A population of 380,000 is not a big market, so firms in the ACT need to export, nationally and internationally.

MR SMYTH: Could we just go back to the original question. You have just said you are making 75 basis points off the borrowings. How much is that you are now skimming from the education sector?

Mr Barr: Sorry, how much?

MR SMYTH: How much is that in dollar terms?

Mr Barr: It is a few hundred thousand a year, from memory. It would be several hundred thousand—a million perhaps, is it? You would have to have a look at the—

MR SMYTH: It keeps going up—a couple of hundred thousand, half a million, a million.

Mr Barr: I think on each loan it is a couple of hundred thousand a year.

MR SMYTH: Could we have a reconciliation of how much we have made from offering this facility?

Mr Barr: We can get some information on that, yes, and then we could probably provide information on how much we are saving the institution on the situation if they had to borrow in the market.

MR SMYTH: If you wish to add that, go right ahead, minister.

THE CHAIR: A new question?

MR SMYTH: Yes. In regard to the capital works, the expenditure program, there are significant funds in the budget this year for capital metro. I was interested in what Treasury's input to the project has been so far.

Mr Nicol: The government has set up a project board to oversight the capital metro project. It has had two meetings. I am deputy chair of that board and have fairly significant responsibilities in oversighting that project. We have also had extensive consultations between ourselves and the interim agency. It does not begin operations until 1 July. An executive director from Treasury is currently working on the project, on the financial modelling aspects, essentially full time. From 1 July he is going to move over to the new body. Treasury is meeting that cost until 1 July. Obviously, through the budget and the budget bid that the funding included in the budget, we went through a budget bidding exercise, and the usual Treasury oversight and review of those sorts of bids occurred.

MR SMYTH: Has Treasury provided any advice as to the financial viability of the capital metro program?

Mr Nicol: That probably dates to before my time.

MR SMYTH: Are there other officers to answer?

Mr Nicol: I might have to seek advice and take that one on notice, Mr Smyth.

MR SMYTH: Treasurer, given that there is so much funding in the budget, is it now the case that light rail is effectively approved and is going ahead?

Mr Barr: We have a commitment to the project. We need to work through the detail of its implementation and its procurement. Certainly Treasury have been tasked with ensuring that the project is delivered at the least possible cost, and we are working—

MR SMYTH: But we already know that there is no number so high that it will not go ahead?

Mr Barr: No. I know you often repeat that accusation. I am not going to put a dollar figure on it, because again I will condition the market. The second I say, "This is what we are prepared to pay or not," I will condition the market. So I am not going to do so. Suffice it to say that in each iteration and further development of the project, the cost is coming down. There are a number of decisions that can and will be taken to further reduce the cost of the project. We recognise that it will be a capital cost and there will be a recurrent cost to the project, but as we work through the detail over the next three or four years, our endeavour, the task of Treasury, will be to ensure that that capital and recurrent cost is minimised.

DR BOURKE: What do you mean by "condition the market", Treasurer?

Mr Barr: If we put a figure, an absolute settled figure, on the procurement, one would anticipate that is what the market will respond with. I am looking for the procurement process to have some competitive tension so as to put downward pressure on both the capital and recurrent costs of the project in the longer term.

MR SMYTH: Is work being done to determine whether—

THE CHAIR: Mr Smyth, I am afraid we will have to hold it there.

MR SMYTH: If I could just finish. If work is being done—

THE CHAIR: No.

MR SMYTH: If work is being done—

THE CHAIR: Mr Smyth, the timing being midday, as we said, we will be moving on now. We will move from the current output classes to the Independent Competition and Regulatory Commission and the statement of intent. If members from the ICRC could step up, that would be great. Under Treasurer and staff, thank you very much for attending today. We will see you at a future date, I think. Are you back?

Mr Nicol: I am sure I will be around. I am sure we will be back in the not too distant future.

THE CHAIR: Mr Gray and Mr Buckley, thank you very much for coming before the estimates committee today. I will just go through a couple of housekeeping rules before we get started. Today's hearings are being recorded on the *Hansard* and are also being live streamed through webcasting. I believe that you have the privilege statement in front of you; I can see you eagerly reading that. Are you aware of it and do you understand it?

Mr Gray: Yes, we are.

THE CHAIR: Fantastic. Mr Gray, would you like to make a statement before we commence?

Mr Gray: No, I would not, thank you.

THE CHAIR: All right. Obviously there are a number of issues ongoing with ACTEW and ICRC, and I would like to go to that first. My understanding is that there are broadly two issues as a result of your draft report. One is the issue of water pricing. ACTEW has nominated a figure that is now in the budget, but that is a different figure from the one you have put forward in your draft report for the price of water; that would have a consequential effect on the dividend being paid, as I understand. Then there is the second issue that is alluded to on page 450, which is essentially an issue with the asset. That is going to be looked at by the Auditor-General. The general manager or chief executive of ACTEW has identified that should a determination be made one way or the other, potentially there would be no dividend paid to the budget over a number of years.

That is how I understand the decisions, and there is a process laid out. It would be very useful for the committee if you could give a point of view from your side of where that process is at and what the risks are, in particular to the budget, from both of those issues.

Mr Gray: If I could come to the first one first, obviously the budget was assembled at a time before the final report was released. The final report has not been released yet. There was some need to provide some assumptions to underpin the budget figuring. As I understand it, the business forecasts of ACTEW Corporation were used for that purpose. When we bring down our final decision and set the prices, those prices may be different from the prices that underpinned ACTEW's business forecast at the time that the budget figuring was done. If that is the case, there will need to be a change in the business forecasts and consequent flow-on to the budget.

THE CHAIR: Where is the final report in the process? I am trying to get an idea of the quantum in terms of the difference between what you have recommended and what is going to be accepted by government and what is currently in the budget. Are we talking about an effect of tens of thousands on the dividend, or is it millions? What potentially are we looking at? Maybe because we have not seen the final report it is difficult to know, but in your draft report there seemed to be quite a significant variation between what ACTEW had put into the budget or had used to put in the budget, and what you have recommended. I am trying to understand the impact on the budget.

Mr Gray: Let me answer your first question first. There are a couple of processes that have to be gone through before we can release the final report, and they involve parties other than the commission, so I cannot give you a guarantee about release. But those parties, together with us, are working towards releasing the report early next week. If we can manage that then that will mean that the new tariffs will come into effect on 1 July, as was originally intended.

In respect of the second, the difficulty we have in addressing a question like that from the commission's perspective is that we operate a regulatory model which is based on an economic analysis of ACTEW's operations. The profit figure on which the government's tax and dividend receipts is based is based on an accounting treatment of the same magnitudes. The two treatments can, in any particular year, be significantly different from each other, particularly in respect of things like depreciation schedules. We have a very particular way of depreciating ACTEW's assets which is designed to avoid undue fluctuations in the cost burden on the community from year to year as inflation fluctuates. The accounting treatment would be different, so in any particular year you would see a different cost attribution from the two sides—the two ways of looking at it. I cannot tell you with any exactitude what the effect will be. It will be of the order of millions of dollars, though.

THE CHAIR: What is the reason for the delay of the report, because my understanding is that we were expecting the final report last Wednesday? Can you explain why we are not going to get it until next week? This has had a bit of an impact on the estimates process.

Mr Gray: Yes, I can explain why the report was delayed. As part of the changes that we foreshadowed in the draft report, we identified that the community, particularly through its elected government, would need to express a view to the commission about a key parameter in the price determination process, namely the return on the equity interest that the community of the ACT have in ACTEW. It is a very significant investment, approaching $1 billion in value, and the return that the community was entitled to earn on that was something that we wanted to hear from the community on, and the government in particular as their elected representatives.

The government's response to that position that we put in the draft report was to accept that role and that that was an appropriate way to determine the return on equity. They indicated some initial views in their submission in response to the draft report. In that submission they requested that we have further consultation with them closer to the time when we had settled all the other parameters that affect the price, so that they could give us firm and final advice based on a clear understanding of what the implications of the alternatives were.

We commenced that process of consultation with government on 29 May, initially in writing to the Treasurer, to advise him that we were ready and that we were happy to consult. Obviously, the Treasurer at that time was deeply involved in budget preparations, so our initial briefings were to Treasury.

Through the course of the following week, it became very clear that because of his other commitments the Treasurer was not going to be able to get across the detail of the changes that had occurred between the draft report and the final report. We were keen to ensure that in providing final advice to the government, in particular to Treasury, the responsible officer of the government was fully informed about the structure of the report and the way that the outcomes had been derived.

It was clear that he was not going to have the opportunity to do that if we were to release the report on the 12th. Therefore the ICRC and the Treasurer agreed that we would delay the release of the report, request an extension from him to allow the report to be released a little later, and the Treasurer would use that extra time to put himself in a position where he could give us a properly informed final comment for our deliberation before we made the final decision on prices, and particularly on the return on equity.

THE CHAIR: On this issue, as a bit of an aside, because this process has been subject to some delay, and it is still ongoing, there is a recall day on 1 July and we have had some conversations with the Treasurer earlier today, but we might want to hear from you again. I flag that issue with you at this stage, and we will get the secretariat to liaise with you. We do not know that that is going to be the case, but there may be some further questions that we have to ask once we see the final report. The second part of the question was about the issue that is raised in budget paper 4, page 450, which is the assets and the decrease in the valuation of assets of up to $650 million. Can you expand on that and explain it, in layman's terms, perhaps, if that is possible?

Mr Gray: I will do my best, but I really need to make a strong caveat before I start—namely, that this is not something that is the responsibility of the commission. This is something that is the responsibility of the ACTEW board and their auditors to determine in accordance with the statute and regulations to which they are subject.

Broadly speaking, for any company—this is not ACTEW specific; this is a framework that applies to all corporations, to all companies—when a change in external circumstances occurs such that the valuation of an asset may be caused to change, the relevant organisation has an obligation to (a) identify that such an event may have occurred and (b) to undertake a process of revaluing that asset to see whether a significant detriment to its value has occurred.

Because the regulatory regime has changed, ACTEW was confronted with the need to do this. It is, as I understand it, estimating at this stage that there may be an impairment. The process will be completed when ACTEW finalises its statutory accounts, and then the relevant calculations will be completed in the full knowledge of what our final determination is, and the result will be whatever it is. Because the commission is not involved in that process of the preparation of ACTEW's statutory accounts, I cannot advise you as to what that number might be.

THE CHAIR: They will be appearing later today, so we will follow that up then. Members, do you have any supplementaries on that issue before we move on to further questions?

MR SMYTH: I do indeed. Will the commission change its determination as a consequence of the government's latest submission?

Mr Gray: I do not know until I see the latest submission, Mr Smyth.

MR SMYTH: When do you expect to receive the submission?

Mr Gray: In the next few days.

MR SMYTH: With the changes between February and now, what prompted the changes that have already occurred?

Mr Gray: Between the draft and the final?

MR SMYTH: Yes.

Mr Gray: The receipt of a very substantial submission from ACTEW, almost as large as their initial submission, containing a whole suite of new information, updated information, changed information. There was the process of public consultation, where members of the community expressed views about various aspects of our review; our own further internal work in further evaluating some of the options that we had put up in the draft report. Those were the main elements that conspired to bring about change.

MR SMYTH: Was the initial ACTEW submission therefore deficient in the information that it provided to you?

Mr Gray: It was, and those deficiencies were identified in the draft report.

MR SMYTH: What are the significant areas of deficiency that they have addressed?

Mr Gray: I do not want to get too deeply into what is in the final report, Mr Smyth, but I can say that between the two submissions the operating expense estimates have come down, and the justifications that have been offered for the changes in the operating expenses from previous levels are of substantially better quality than they were in the original submission. The estimates of capital expenditure have changed markedly, and the explanation of the process that ACTEW is using to formulate its capital budget is significantly better than it was in the draft report. Many of the issues that we identified and our consultant identified as shortcomings in those ACTEW processes look as though they have been remedied.

MR SMYTH: How long were those shortcomings therefore relied upon for the ACTEW submissions that have affected previous water and sewerage prices?

Mr Gray: In our analysis, for the purposes of this review, we did not go back beyond the beginning of the current regulatory period—that is, to 2007-08. Certainly, through that period those deficiencies were impacting. Before that, I cannot really say.

MR SMYTH: And the impact was for a greater water price or a—

Mr Gray: We could not be satisfied that all those capped expenditures that took place through that period would have been prudent and efficient; therefore water prices may have been higher as a consequence of some investments being undertaken that perhaps should not have been undertaken or some investments being undertaken in a less than efficient way.

MR SMYTH: Is it reasonable now to go back and review that information—not necessarily you, but is it worth reviewing what has happened in the past to see how ACTEW has been performing?

Mr Gray: We had done that to some degree in the draft report, and that is what gave rise to the conclusions that we put forward. That has been one factor, I imagine, in ACTEW making the changes that it has made, and they have been substantial. This is all in the context of bringing to an end the utilities management agreement and what is now called ACTEW Water taking people and responsibility back inside the principal organisation in order to discharge this function.

As I understand it, as part of that process ACTEW are making all sorts of organisational and process changes, and the ones that we are particularly concerned with are obviously around the way they manage their financial resources. There does seem to have been—it is early days yet—significant improvement in that regard.

MR SMYTH: From that, can one conclude that ACTEW has not managed its resources effectively in the past, from what you have just said?

Mr Gray: If you are saying things have got better between the past and now, then by reverse logic things must have been worse in the past than they are now. Yes, Mr Smyth, that is true.

MR SMYTH: In your view is there room for further improvement in the way those resources are managed and applied and the return to the community from that?

Mr Gray: On the capital budgeting side, I think it is too early to say. We really do need to experience a couple of years of out-turns and to check whether there continues to be the rigour of scrutiny that they seem to be undertaking currently. In terms of the operating expenses, it is hard for us to be sure but our suspicion, based on the patterning of change, is that there may be scope for further productivity improvement. Obviously ACTEW are only one year into taking over these functions, so they are at an early stage in what will be presumably a fairly substantial reorganisation or restructuring project.

MR SMYTH: On the scope for future productivity improvement, you will watch that in the next 18 to 24 months, when you will come back and do your further determination?

Mr Gray: We will, yes. One of the purposes of introducing the more frequent reviews of ACTEW that we explained in the draft report was to precisely allow us to track that process of change more closely.

MR SMYTH: Is the five-year determination too long? Should we reduce that period, in your opinion?

Mr Gray: What we proposed in the draft report and, again, to anticipate events in a week or so, what we maintain in the final report, is that rather than have a five-year regulatory period and set prices for the whole five-year period, what we are doing is having a six-year regulatory period, dividing it into three two-year periods and setting prices now for two years ahead. We will come back to look at some of the factors that you have been discussing in 18 months time and set the prices for the next two years and so on through the period. That will give us flexibility to undertake some of the work that you have been talking about. It will also give us flexibility to react to the emerging picture of post-water-restrictions water demand, which at the moment is very uncertain.

MR SMYTH: In the period of the last five-year determination, have the people of the ACT been well served by the management of ACTEW?

Mr Gray: There are so many factors involved in making that judgement. I am not across them and I would not feel comfortable offering an overall judgement.

MR SMYTH: In the area of water and sewerage process—

THE CHAIR: Thank you, Mr Smyth. We might conclude that supplementary there and move to a new question from Dr Bourke.

DR BOURKE: Mr Gray, under your priorities for 2013-14, what is your role in implementing the Council of Australian Governments’ Australian energy market agreement and what should it mean for ACT consumers?

Mr Gray: With our responsibilities there, the heavy period of activity was prior to 1 July last year and, in the immediate wake of that, in bedding things down, there are still some flow-ons. We have just set new electricity prices. That is the first time that ActewAGL have been responsible to the AER rather than us for their price schedule, so we wound our way through that process for the first time. In terms of the benefits that should flow, I refer to more efficient regulation and less costly regulation.

MR GENTLEMAN: Mr Gray, on page 507 of budget paper 4, in the overview of what the ICRC does, one of the interesting points I note there is "facilitating an appropriate balance between efficiency, environment and social considerations". Can you go through for the committee what those considerations are? What are the drivers that you have to think about when moving forward and looking at prices for either electricity or water, for example?

Mr Gray: Whenever we bring down a determination or issue a review, whether there is a determination attached to it or not, section 20 of the act provides in some detail a list of things we have to be comfortable with. As part of every review we work our way through that list and make sure each of the items, some of which you have just mentioned, is addressed. Usually in the back part of the review we will list the relevant parts of the review that have addressed each of those issues. So it is a very conscious, deliberate and structured response to those relevant requirements. The nature of that will obviously differ from one review to another in terms of how much environmental impact a particular consideration has had.

MR SMYTH: Following on in that vein, what effect has the introduction of the carbon tax had on the reporting that you would have had to do?

Mr Gray: It had a big impact the year it was introduced because we had to work out how to factor the proper weight factor into regulated retail electricity prices in the ACT. That caused us a fair amount of work to ensure that was done in a way that was properly reflective of the cost impact of that change on ActewAGL as our electricity retailer. And that, as you may recall, was chiefly responsible for the 17 per cent rise in electricity prices we saw a year ago.

This year, this time we have just finished a current electricity determination. The cost has been much less. The cost of carbon went up by $1.15 but the emission's intensity, that is to say the amount of carbon dioxide that was produced with each megawatt of power generated, fell from about 0.92 CO_2 equivalent tonnes to about 0.88, and that drop was enough to more or less completely offset the increase in price. So this time around there was very little impact.

Mr Barr: The carbon tax achieved its goal then.

MR GENTLEMAN: Mr Gray, as the minister says, there has been a move away from carbon intensity of electricity generation to renewable source.

Mr Gray: That is right, yes. Each megawatt of power produced during the last 12 months has caused fewer emissions than in the previous 12 months which is, as the minister says, what we are trying to achieve.

THE CHAIR: I have a new question. Page 3 of your statement of intent talks about greenhouse gas targets reporting. Can you expand on what you were just talking about there? One thing I am trying to get a sense of is the achievements that we have made. Is the ACT meeting its targets? Is it not? And what is the full cost to the community of the greenhouse gas initiatives—things like the feed-in tariff or the carbon tax? There are two sides to the coin. One is: what is the reduction if there are or are not targets? And then, secondly, what is the full cost to the community of the extra electricity prices or costs to the budget and so on?

Mr Gray: Let me try to deal with the first one first. Our responsibility that you refer to on the relevant page of the statement of intent is the contract we have with the Department of the Environment and Sustainable Development to use the various figures that are available to assess what the greenhouse gas emissions attributable to the territory are, and we do that work each year. And we look at the electricity we consumed, the emissions associated with that and a range of other things, transport and so on, and we publish those figures annually. Most of the targets are a good way out yet. We are moving towards them but it is really too early for me to offer any kind of assessment as to whether they will be reached.

In terms of cost, the chief way that we pick that up—we do not actually have a piece of work that is directed at that—does come through in the electricity determinations that I was referring to, and obviously the price on carbon had a big impact on the price last year, which I just mentioned, but a tiny impact on the price this year.

In terms of the feed-in tariff, it is quite complicated because the feed-in tariff is counted in with distribution costs because the way that the scheme works here and in other states is that the distributor of the power is responsible for paying for the feed-in energy. We did an estimate some time ago. It is not done in a particularly transparent way. It is done by the Australian Energy Regulator, the AER, with a lag; so it is really hard to pick up what is going on. Our estimate that we did around the time that the FIT scheme was introduced was, I think, about $27 per year for ACT households.

THE CHAIR: If you are not doing that body of work, that is fine. But where you have that range of different schemes aimed at greenhouse gas reduction, I am trying to get a sense then of what that is as a component in costs to the community. And if you have not done that, are you aware of anyone that is doing that work or where that work can be found?

Mr Gray: I do not know that there is any work specific to the ACT. There are elements of it picked up in the work that we do. I mentioned the price on carbon. There is also a figure for the renewable energy target. That is also available through our report on electricity generation. And now that we have an energy efficiency scheme in the territory, we have begun also to identify the cost that that is adding to the price of power. Our estimate for next year is that that energy efficiency scheme will contribute about two per cent to the overall cost of energy for the ACT community.

THE CHAIR: It would be a very useful figure, I think, for the committee to have, any cost-benefit analysis of what 40 per cent emission targets mean. It is one thing to sign up to it, but when you are signing up to it—essentially as the government has and, through them, the community—without knowing what the cost of that is, I think it would be a very useful thing for the committee to know whether it can be drawn into your work in a future report perhaps what the cost of all these schemes are. It is one thing to report, "We are on target," but also we need to know what the cost of that is so that people can then measure it. Is it good? Is it a cost-effective way to reduce carbon?

Mr Barr: Some analysis of the difference between 40 per cent and 30 per cent?

THE CHAIR: Sure—and I am not getting into the assessment of whether this target is good, that target is bad or what the targets are—but when targets are set, there is a cost to that. And one of the problems that the community has is that they do not know what that cost is. It might be very reasonable and people might say, "That is actually very effective and we support it because it's a minimal cost for a big target." Conversely, it could be the other way around. The problem is at the moment no-one really knows.

So if you were able to tie that work together in a future report, I think that would be a useful appendix to that report. I just make that as an observation. It would be useful for this committee to identify as well, because a lot of these measures are dotted throughout budgets. As you say, there are costs identified in private corporations' budgets as well that flow through from government policy. It is difficult from the Assembly's point of view to get a picture of that, whereas you are probably in a position to be more able to do so.

Mr Gray: Certainly they are elements of it, as I have mentioned, but we do not have a comprehensive responsibility in that area.

THE CHAIR: I understand. Dr Bourke.

DR BOURKE: Mr Gray, I think you were talking about the greenhouse gas inventory. When you put that together, do you use a nationally agreed methodology to develop that or is there something else that is happening with it?

Mr Gray: We use an internationally agreed methodology to validate that.

DR BOURKE: Which one is that? Has it got a particular name?

Mr Gray: It is the United Nations advisers' handbook basically that has been adopted by Australia. Forgive me, I have not looked at this for a while. I am going to be looking at it in the next few weeks, but I have not looked at it for a while. UNFCCC, the body that operates under the framework convention, is the entity that we reference. When we began this work two years ago, the first thing we did was, in fact, publish a paper that answered in some detail the very question that you have just posed me as to how we should go about it, what standards we should draw and how we should apply them and apply them in the ACT context. And if you are deeply interested, I can certainly provide you with a copy of that report.

DR BOURKE: I welcome it with interest. Thank you.

THE CHAIR: Mr Gentleman.

MR GENTLEMAN: I do not have any further questions.

THE CHAIR: Mr Smyth.

MR SMYTH: How have the new retail electricity pricing arrangements gone and what has the effect of the transfer to the Energy Regulator been on your workload?

Mr Gray: It has reduced it somewhat for us, because there are a range of things that we used to have to do in terms of licensing and so forth that we no longer have to do. And we obviously then cut back our resources and secured economies in those areas. There was a range of work that needed to be done around that time, and there is reference to that in the budget document. That created a small peak in activity. As a consequence of the changes to the ACT legislation that were necessary to give effect to the COAG agreement, a lot of the codes that were in place that governed the industry needed to be updated. That work had to be done in consultation with the industry, and that took quite a bit of time and effort. But that has now all been bedded down and, basically, we are operating.

As I say, we had some interface with ActewAGL recently to ensure that our processes align with the AER processes and allowed them to register their tariffs with the AER in the time frames that the AER requires. But we are now down to minor housekeeping really.

MR SMYTH: On page 11 of your statement of intent, I notice that your payables, miraculously, for five years are $992,000. Why is it they remain at a fixed number, as do employee benefits, at $280,000?

Mr Gray: Why is it constant, are you asking me?

MR SMYTH: Yes.

Mr Gray: I think because this number fluctuates in a way that is unpredictable on a year-to-year basis.

MR SMYTH: Because it fluctuates, it is now constant?

Mr Gray: I think that what has happened is that we have struck a mean. A lot of the money that is involved in this item is because we collect revenue on behalf of the Environment and Sustainable Development Directorate and the tribunal and then pay it out to them. And where that money is in a particular year depends on where those agencies are up to in terms of their budgeting and whether their costs in respect of their regulatory responsibilities are going up or down.

MR SMYTH: So you just set it fixed because you are unsure as to what will happen?

Mr Gray: Yes. I think in a couple of cases these outyear figures, particularly, are based on a kind of default estimation of commission activity because it is hard to anticipate exactly what the commission will be involved in, and we operate almost entirely on a cost-recovered basis. So if the government comes along to us and says, “Please do this very large piece of work that isn’t in the budget,” we would expect the cheque to accompany the request or to follow shortly afterwards.

Mr Barr: As has been the case.

MR SMYTH: In the same table, in terms of your receivables, the budget was expected to be $43,000 this year but it has gone up to $1,000,030. Then it is $1,000,030 in all of the outyears. Why the difference between $43,000 and a million dollars, and then what is the difference in the—

Mr Gray: I think that is the water review cost recovery flowing through, yes.

MR SMYTH: Why is it flat at $1,000,030 in the outyears—for the same reason as before?

Mr Gray: Yes.

THE CHAIR: Your budget in terms of how much you get every year to do what you have got to do, are you comfortable that you have got enough? That is a leading question.

Mr Barr: You would like to spend some more money, would you Jeremy?

THE CHAIR: No. I suppose it is a matter of where you feel that you are constraining what you do because of that budget. No-one is going to have a limitless budget, but are there particular areas where you are feeling that you are not able to provide the quality or quantity of work in terms of your mandate or are you reasonably comfortable that your budget meets your requirements under various acts?

Mr Gray: I think that the major pieces of work we do are cost recovered. Although we obviously have to be careful not to spend more than the task really requires—and we have a range of resource management mechanisms in place to do that—we basically get what we need to do the job. In terms of our general responsibilities, again there are mechanisms through an SLA with Treasury and through the GPI to provide those resources, and I am certainly not aware that that is under any particular stress. It is certainly not constraining us from doing things we feel need to be done.

Mr Barr: And if there are extra pieces of work that are required, we commission that and make a payment accordingly, as we have done in recent years.

Mr Gray: Secondary water.

Mr Barr: The secondary water review.

THE CHAIR: Dr Bourke.

DR BOURKE: No, I am done, thanks.

THE CHAIR: Mr Gentleman.

MR GENTLEMAN: No.

THE CHAIR: Mr Smyth.

MR SMYTH: No.

THE CHAIR: In lieu of any further questions from the committee, thank you very much for attending, Mr Gray. What will happen is that obviously there will be a transcript forwarded to the Treasurer and to you to correct any mistakes that may have occurred, and you will liaise with the secretariat on that. But thank you very much for attending. And we may see you later down the track, depending on various reports that are published at various stages. Thank you very much.

Mr Gray: Something to look forward to.

Mr Barr: Very diplomatic.

Sitting suspended from 12.35 pm to 2.00 pm.

THE CHAIR: We will now move on to the superannuation account and the territory banking account. I note that it is the dividend, or the interest, from the superannuation account that is a big part of us getting back into surplus in the final year of the budget. The amount that is forecast in terms of superannuation interest is up around 7.5 per cent. Is that right?

Mr Nicol: That is correct.

THE CHAIR: What is the basis for that? In the current market conditions, it seems quite ambitious. Is it? Is it quite optimistic?

Mr Barr: I think we have probably exceeded it in some years.

Ms Doran: The 7.5 per cent assumption is based on the investment strategy for the superannuation provision account assets. It reflects a typical superannuation fund exposure across fixed interest and equity investments. It is a long-term target rate. I think over the last 10 or 15 years we have come in pretty close to that rate, just a couple of points short.

THE CHAIR: The superannuation liability is going to peak, I think, at $8.4 billion by 2033. That is the advice that I have got. Are we on track to meet that liability and how are we going to get there?

Ms Doran: Yes, that is correct in nominal terms. That is the projected value of the liability. We have in place a funding strategy to build up assets to offset that liability with a target date at the moment of 2030 to reach 100 per cent funding. Of course, both the liability and the assets in this equation are volatile to different assumptions. As part of this budget a slight change in that funding strategy was made to reset ourselves on that target path by 2030. The level of capital injection that has been put towards the superannuation provision account has been increased slightly. On our long-term assumptions we now believe that in sticking to that strategy we are on target to reach—

THE CHAIR: So how much is that capital injection?

Mr Barr: Table 7.3.2, budget paper 3, page 257.

Ms Doran: The line shown as "appropriation" is the amount that is being put towards the asset fund to offset the liability, so being invested and accumulated over time.

THE CHAIR: Dr Bourke.

DR BOURKE: Treasurer, with regard to the superannuation provision account, how important is implementing the operational requirements of the responsible investment policy and what does this involve?

Mr Barr: Obviously over the years we have looked at our investment practices and undertook a review of this—I think it was last year or the year before—and have put in place a policy framework that sought to exclude particular investments in a small number of areas following that review. I think an Assembly committee process made some recommendations. I think we settled upon an approach that screened out particular investments. It did not go as far, I think, as the then Greens' convenor wanted in terms of areas that we would not undertake investment in, but I think it struck the right balance in terms of having a balanced portfolio that was able to meet its investment returns, as we discussed at the beginning. It ensures that we are not investing in some of the more egregious areas of investment.

DR BOURKE: What egregious areas are we talking about?

Mr Barr: I think there was landmine production, tobacco, from memory. Mr McAuliffe may be able to refresh—

THE CHAIR: I think we stopped at alcohol, didn't we? I think she wanted to ban chardonnay.

Mr Barr: Yes.

THE CHAIR: You would not have liked that, would you, Treasurer?

Mr Barr: No. We did allow investment in chardonnay, yes.

Mr McAuliffe: The prohibition applies to where we directly own share investments. It is where companies' direct involvement is in the manufacture of tobacco, cluster munitions and landmines.

THE CHAIR: Mr Gentleman.

MR GENTLEMAN: Minister, if you go to page 64 of budget paper 4 there is a note there with regard to reporting monthly. Can you tell us what the importance is of reporting monthly on these returns? It is note No 6 in budget paper 4, page 64.

Mr Barr: The directorate does provide information to me. I get a monthly report.

Mr McAuliffe: Through this year's budget we have undertaken a review of the accountability and strategic indicators to make them, hopefully, more informative about the outputs that we deliver through this account. There is a range of different reporting things that we do. One of them is to prepare monthly financial statements. That is in line with the requirements of reporting entities across all directorates. That way we have got up-to-date advice that feeds into the reporting system of the government.

MR GENTLEMAN: If that advice or those indicators change, you make different decisions on how you are going to invest?

Mr McAuliffe: Certainly, we are reviewing our ongoing operational arrangements on an ongoing basis based on the current information.

THE CHAIR: Mr Smyth.

MR SMYTH: The ACT's liability compared to other jurisdictions—how are we faring?

Mr Nicol: I might look to Pat McAuliffe to provide some input into this.

MR SMYTH: We all look to Pat occasionally.

Mr Nicol: I have not done a detailed examination of the ACT's liabilities against the other states and territories. The ACT has moved to an accumulation scheme for new employees, which certainly is an effective way of managing future growth in our liabilities. It is a historical issue, the fact that ACT employees were once commonwealth employees. The old scheme is the same as the commonwealth scheme. That moved from the commonwealth superannuation scheme to the public sector superannuation scheme in 1991. The public sector superannuation scheme, I think, was closed in about 1996 or 1997. The commonwealth introduced the public sector accumulation plan. Essentially, the ACT inherited those schemes, so that dictates a lot of our liabilities on the superannuation side. Mr McAuliffe, can you add anything on interstate comparisons?

Mr McAuliffe: All the states have got defined benefit schemes and are in a similar situation where they have funding objectives and different levels of funding. We have to be careful because some of them have got different schemes as well. So they have different objectives and target dates.

Mr Nicol: My recollection is that most, if not all, states have also moved to accumulation schemes and closed their defined benefit schemes. I think some states have moved to the standard SG arrangements for new employees. Other states have slightly higher rates, again reflecting their past practices and their workforce planning and bargaining arrangements. We could collect some information if you would find that useful.

MR SMYTH: If you could, that would be great.

THE CHAIR: I will just confirm that you will be taking that as a question on notice—

Mr Nicol: Yes.

THE CHAIR: to provide information to the committee on comparison with other jurisdictions?

Mr Barr: We can have a look at what is in their budget papers.

THE CHAIR: Thank you very much.

MR SMYTH: What is the target? When are we covering the liabilities, or when is the expectation the liabilities will be covered?

Mr Nicol: The plan is for 2030 to cover, essentially, the defined benefit liabilities. For current employees on accumulation schemes, their liability is being met as we go, so it is just the legacy liabilities that we are seeking to meet by 2030.

MR SMYTH: And are you confident, given what has been happening in the superannuation market, that we can still achieve that?

Mr Nicol: There is a lot of time between now and 2030. It depends on market conditions. It depends on interest rates. It depends on the state of the budget and future budget decisions. It is certainly very feasible that that will be met but, subject to those caveats, it is sometimes quite difficult to predict out to 2030. Future decisions of future governments will affect the achievement of that goal but, as Ms Doran said, certainly the plan is in place to make it by then and it is achievable.

MR SMYTH: One of the big costs is servicing costs. Have we got a scheme in place to minimise the service costs associated with the liability?

Mr Nicol: Service costs as in—

MR SMYTH: You have got servicing costs totalling $528 million over the forward estimates.

Ms Doran: The servicing costs effectively represent the accruing costs of an additional year's service of members in the scheme. I am sorry; could repeat your question?

MR SMYTH: Can we meet the servicing costs?

Ms Doran: The servicing costs are really not a cash impact on the budget. As I said, they are an accrual cost. That is what leads to the build-up of the liability over time, and the superannuation provision account assets are the offset against that liability. In terms of the direct budget impact, it is the benefit payments that drive that, and those benefit payments are being met out of the provision account.

THE CHAIR: Dr Bourke.

DR BOURKE: Looking at how things are going over the next 15 or 20 years with that defined benefit, I just want to hone in a little bit on those market forces and how that might affect your ability to fund that.

THE CHAIR: If you can pick the market in 15 years, you are in the wrong job.

DR BOURKE: Yes.

Mr Barr: You are asking specifically about the discount rate and how that impacts on liability?

DR BOURKE: Thank you.

Mr Barr: Who would like to give their—

Ms Doran: On the discount rate?

THE CHAIR: And to one or two per cent would be fine.

Ms Doran: There is a number of variables that will affect the meeting of the liability over that time frame. The liability itself is subject to demographic changes as well as economic changes such as the discount rate. The assets of course are subject to market forces and experience in the investment market. Over a 15-year period the best way in which we model is to look at longer term assumptions and effectively take out the volatilities year on year and regularly monitor that every year as you track forwards. So it really is a targeting process and a continual tracking process. We are certainly not trying to estimate the position 15 years out.

MR GENTLEMAN: Treasurer, on page 255 of BP3, it talks there about the number of current deferred beneficiaries who have left the schemes and ACT employment but who are owed a benefit upon retirement. Do we know how many are actually waiting to retire to get the benefit or the number who are receiving the benefit now? What is the difference between those two groups?

Mr Nicol: Mr Gentleman, I will try and take you through all the groups and Pat McAuliffe will correct me when I do not get it exactly right. The current deferred beneficiaries are those who have essentially left employment but under the commonwealth superannuation legislation must retain their super in the scheme. Under the scheme they are paid out when they retire. So they are not accumulating any more benefits.

We have to estimate what the liability is. That does change, because that is based on when they retire and factors of return in the scheme et cetera. If they are a CSS beneficiary, for example, ultimately our liability is dependent on how much those earnings in the scheme are until they retire. There is a group of people who are pensioners. Their costs are being met by the commonwealth and the commonwealth essentially bills us for those costs. We pay the commonwealth on a quarterly basis to meet both their costs and the liabilities that we are incurring.

Of course, there is a group who are currently in employment who are in the old schemes. The liability that the government has for those employees is growing as their salaries rise, as the returns from their funds invested grow et cetera.

The liability is different for the different schemes. CSS and PSS have different rules about eligibility, about when you can retire, what the benefit multiple is. The PSS, for example, is based on final average salary. The CSS is based on final salary—the salary of your birthday—whereas PSS is the last three birthdays; so that has an effect. The CSS depends on whether you retire before 55 or after 55. So all of those factors can influence the liability that the government has. Those things change over time as people's employee preferences change.

The other big factor on the net present value assessment of the liability is the current discount rate. As interest rates fall, the net present value under the accounting standards of a future income stream actually increases and vice versa. Those things will affect the notional value of our liability as well. Pat, were there any groups I missed?

Mr McAuliffe: No.

THE CHAIR: This might be a little bit of a vague question, but I recall last year or the year before there was an issue which led to a court case. Someone was under a previous scheme. Someone was due to be paid out and would be put under the ACT scheme rather than the commonwealth scheme. Do you remember that case? Do you remember that one, Brendan?

MR SMYTH: The Cornwell case.

Mr Nicol: I do recall a couple of cases where an employee—

THE CHAIR: We have got someone gesticulating—

MR SMYTH: Yes, Tom would know.

Mr Nicol: I do recall several cases where employees left commonwealth employment and were notionally deemed to have left the scheme. They have taken legal action to get themselves reinstated because they were not given—

THE CHAIR: Yes, there was a case. The implication of the findings might have had some consequential flow-on to other public servants, I recall.

Mr McDonald: Yes, the position was that Mr Cornwell brought an action against the commonwealth that he had been deprived of the opportunity to join the commonwealth superannuation scheme.

THE CHAIR: That is right, yes.

Mr McDonald: That is the old scheme. That case went to the High Court. In April

2007 the High Court determined that case in his favour. That sparked a series of lawsuits by former commonwealth employees, some of which spread into the ACT superannuation environment by way of litigation.

Previously, as you would be aware, the same issue arose in connection with Totalcare. That matter had been dealt with without any litigation and with a settlement and structural mechanism that made it more beneficial for people to seek to understand what had happened and achieve resolution without the need for any lawsuits. However, because of the success of that case, of Cornwell's case, a number of lawsuits were initiated against the territory, eight of them to be precise.

Out of those cases, two were resolved almost immediately. One of them was an ex-Totalcare person who was owed money in any event. A second case was resolved before we even needed to get to mediation. We litigated five cases. Out of that, we won four, and one case we settled, but that had no precedent value. So we were comfortable without taking that case to a trial because it meant nothing in connection with other liabilities. The position where we are now is that we are back to tors in relation to litigation. The first stream of litigation that flowed has now concluded. I think things are back to normal.

THE CHAIR: Thanks for that. I think we were up to Mr Gentleman.

MR GENTLEMAN: I have no questions at the moment.

THE CHAIR: Mr Smyth.

MR SMYTH: On page 66 of budget paper 4, in the revenue, you have split the interest revenue this year into interest and then distributions from investments with the TBA. Was there a reason for doing that?

Mr Nichol: I might ask Mr McAuliffe to answer that question.

Mr McAuliffe: Yes, basically, where the SPA has a cash allocation of investments, we invest those through the central pool of the territory banking account portfolio. When they go into that, they are structured as a unit trust-type investment. You have effectively just bought units into a cash fund. Basically the way our budget systems have been reconfigured to account for those is through a reclassification as a unit trust distribution as opposed to sort of strictly interest or dividend.

MR SMYTH: Okay. Consulting last year's budget paper, the interest total due this year was $35 million, which you have noted in the 2012-13 budget column. But the estimated outcome is $13.7 million—down about $22 million, $23 million.
Why is that so far down on the estimate for the previous year?

Mr McAuliffe: Some of the interest we get there is from our fixed interest investments. In the timing of this year, we have not actually had a distribution come through. The valuation—is that right? Yes, it is. Basically, what we have got under "other revenue" is a lot of unrealised gains. We have not actually got the income through as income as yet. So it is an unrealised gain that is reflected there for a component of our fixed interest investments.

MR SMYTH: All right. Am I reading this right? The lines you now have as interest and distribution from the TBA in last year's budget paper, that would have just been interest?

Mr McAuliffe: That is right. Interest from cash investments with the TBA and also interest from our external fixed interest investments.

MR SMYTH: The total this year that you are budgeting for from both of those sources is—let us call it $23,500 million?

Mr McAuliffe: Yes.

MR SMYTH: The estimate in last year's budget is 40. So why is that so low?

Mr McAuliffe: The 36?

MR SMYTH: No, this is now for 2013-14.

Mr McAuliffe: 2013-14?

MR SMYTH: And it is low in all of the outyears. We should have been getting 40, 42, 44. They were the estimates from last year's documents. This year it is 23, 25 almost, 26, 27, 28, call that 30 in 2016-17. It is dramatically lower. Is there a component there that I am missing?

Mr McAuliffe: No, some of that will be to do with just a reallocation of where the assets are sitting as well. So not all cash investments.

MR SMYTH: So where would you find that, then?

Mr McAuliffe: I would have to have a breakup of the actual assets that sit behind the investment asset, the asset allocation. I can put a reconciliation of those numbers together for you.

MR SMYTH: Yes, because they vary quite significantly from last year's document to this year. This is where Mr Hanson started. If we are going to achieve the high returns that we are expecting—

Mr McAuliffe: Certainly, the net sum of the interest dividends and our other gains, the way it works across the forward years, equates back to our 7.5 per cent target objective. That is the way it falls out. This year to date we have got an expectation of a higher investment return than our 7.5 per cent. We have got our estimated outcome in budget paper 3. It is around about 14 per cent, I think it is.

MR SMYTH: Yes.

Mr McAuliffe: And so once we—

Mr Barr: Not bad.

MR SMYTH: If you get it it is not bad. It is easy to plug the number in. At the end of the year we will see whether you got it.

Mr McAuliffe: We are tracking a bit above that at the moment, actually.

MR SMYTH: All for 2012-13?

Mr McAuliffe: For 2012-13.

MR SMYTH: Yes.

Mr McAuliffe: You will see that across all equivalent sorts of balanced funds at the moment. Then across those forward years, we then revert back to a 7.5 per cent. So when you are comparing this year's outcome with the forward years, there is a reversion back to the 7.5 per cent. But I can put a reconciliation together for you.

THE CHAIR: What is happening this year to make it 14 per cent?

Mr McAuliffe: It has mainly been the large return on equities. The share markets have—

THE CHAIR: Bounced back.

Mr McAuliffe: Yes.

MR SMYTH: So if you are up as much as you are in 2012-13 on the outcome, why have you adjusted the total revenue down by 43 per cent for the coming year?

Mr McAuliffe: For 2013-14? We move back to our 7.5 per cent.

MR SMYTH: You are just sticking to the 7.5 per cent.

Mr Nichol: Yes, we do not try to forecast movements in essentially equity markets. The other factor, Mr Smyth, that is affecting interest, I would hazard to add, is interest rates. They are substantially reduced from this time last year, which will affect our return on those cash investments.

MR SMYTH: If Pat will do the tracking through as to how they add up and where it has gone, that would be kind.

THE CHAIR: Dr Bourke, anything further for the superannuation or the territory banking account?

DR BOURKE: No.

MR GENTLEMAN: I have a question about the territory banking account. Treasurer, budget paper 4, page 76, makes reference to borrowing funds. Why is it important to borrow funds to help transform Canberra?

MR SMYTH: Because he is broke and he cannot pay for it out of cash.

Mr Barr: I do not think it is an unusual situation that governments would borrow for infrastructure, Mr Smyth. If you are suggesting that no-one ever should, that would be—what would Sir Humphrey say?—a courageous decision.

MR SMYTH: I did not say that, as well you are aware, Treasurer. You always start by proposing a negative before you attempt to answer something. It is an interesting trait that you have.

Mr Barr: Okay; we will move beyond that commentary for now.

MR SMYTH: Given the commentary failed, yes, it would be time to move on.

Mr Barr: Mr Gentleman, yes, we are undertaking some targeted borrowings for the territory's infrastructure program. We have in previous years been able to finance our capital program off previous accumulated surpluses. That has certainly left a situation in the past where we were able to finance the capital program through those means. That is not the situation at this point in the economic cycle. However, it is important that we are still looking to the future and investing in infrastructure.

I guess an oft-used analogy in this space is that people will make this determination in their own personal finances by way of taking a mortgage out on a house. They will not necessarily pay for all major assets and all major infrastructure investments in their own balance sheets entirely out of their cash reserves. Similarly, from time to time we will borrow where it is prudent for infrastructure that improves the productive capacity of the economy.

We certainly are of the view that investing in transport infrastructure will improve the productive capacity of our economy. Equally, investing in urban renewal will not only create economic development opportunities through construction phases but also enhance the city's productive capacity. So it is for those reasons that we would seek to borrow for infrastructure.

MR GENTLEMAN: And for a comparison with the average home owner in the ACT, what would be that level of borrowing that the territory is using to invest in comparison with how you borrow for a mortgage?

Mr Barr: As we discussed this morning, we have a very low level of debt. By way of household comparisons, perhaps there is some modelling but I do not have it at hand. But it does indicate, I think, a willingness to make appropriate targeted borrowings for investment in infrastructure that is needed. To unnecessarily delay that infrastructure investment would in the end harm the economy and harm our future growth and income earning capacity.

Mr Nicol: Mr Gentleman, this is in figure 2.2.2 on page 34 of budget paper No 3. Excluding superannuation assets, our debt is 20 per cent of our revenue. For a household of $100,000, that would be $20,000 in debt. $100,000 income per year is the rough equivalent.

MR GENTLEMAN: Thank you.

THE CHAIR: Mr Smyth, do you have any further questions on superannuation or territory banking?

MR SMYTH: On the TBA, yes. On page 260 of budget paper 3, we have the line "Other GGS agency investments". When you compare it to last year, the planned outcome was $2,154,000, yet the outcome is now $343 million. Can we have a breakdown as to what has driven that? And is it simply the delay in delivering capital works?

Mr Nicol: Sorry, Mr Smyth, what line was that?

MR SMYTH: On page 260 there is a line called "Territory banking account".

Mr Nicol: Okay.

MR SMYTH: As you see, budgeted for 30 June 2013 for the current year's budget is $2.1 million, and the outcome is $343 million. What are the "ins" that have found the other $340-odd million?

Mr McAuliffe: Mr Smyth, a large proportion of that is actually some pre-funding that was undertaken with our borrowing process this year. In the last borrowings that we did back in April, there was about $170-odd million. Some $170 million to $200 million of that was pre-funding of next year's program. When we were out doing the market borrowing we took advantage, for the transaction, to do some of that. And then the rest of the money is just bringing into account the latest estimated outcomes, if you like, across all the budget estimates. There is some residual cash that is left over.

MR SMYTH: How much of the 343 is actually borrowings then?

Mr McAuliffe: Of the pre-funding?

MR SMYTH: Yes.

Mr McAuliffe: It is about $200 million.

MR SMYTH: So the other $140-odd million?

Mr McAuliffe: It is just the net cash—that is to say, from the latest consolidation of budget inflows and outflows through the territory banking account in putting this budget together.

MR SMYTH: Is that from capital works not delivered? Can we have a reconciliation report of what the elements in it are?

Mr McAuliffe: Yes.

MR SMYTH: Thank you.

Mr Nicol: Yes; we will take that on notice.

MR SMYTH: In terms of building up cash reserves into the future, minister, are you happy with the progress there? At $45 million, it is one per cent of the budget. Is that an adequate cash reserve?

Mr Barr: Obviously we have made a range of decisions in this year's budget that go to our future capital expenditure. In terms of restructuring the budget and returning to surplus, that obviously aids our capacity in this area.

MR SMYTH: So is it adequate to have a per cent as the cash reserve—one per cent of the budget?

Mr Barr: I do not see that there is a major issue with that, no. You can build on it, but it is not a major issue.

MR SMYTH: So in 2016, when it is down to half a per cent, is that a problem?

Mr Barr: No—not when you have got a balance sheet like we do, no.

THE CHAIR: Dr Bourke.

DR BOURKE: Not in this area.

THE CHAIR: Mr Gentleman?

MR GENTLEMAN: I am okay, thanks.

THE CHAIR: Mr Smyth?

MR SMYTH: The transition to the new banking provider—is that occurring now?

Mr Barr: Yes.

MR SMYTH: Is that completed? When will it be completed?

Mr Barr: It is run through CWD—

MR SMYTH: Sorry?

Mr Barr: It is one for the next part.

MR SMYTH: Okay. I want to go to the accountability indicators. One of the elements of indicator 1 is that we measure ourselves against the US bank bill index. I notice that from 2009-10 through—on page 73, budget paper 4—you have had reasonably strong returns in the last four years. Why have you gone back down to just matching the bank bill index in the coming four years?

Mr McAuliffe: For the forward years we do not try to predict what the interest rates are going to be. We take a point in time interest rate at the time we put the budget together, and that is what we hold as constant across the forward years—which we have always done.

MR SMYTH: I go to page 75, “Territory banking account”, h, “Exposure of debt portfolio to floating interest rates”. Why have you discontinued that, and which is the improved performance monitoring indicator?

Mr McAuliffe: We have not replaced it with any particular indicator as such. I guess we have—

MR SMYTH: Your note says that you have: “Discontinued indicator replaced with improved performance monitoring indicators.”

Mr McAuliffe: I think what we have done is, with the whole set of those accountability indicators—we think, as a whole, what is there is a better reflection of our output delivery. So we have stopped naming. We just think the others are a broader set that better reflect—

Mr Nicol: I think what Pat is saying is that we have not replaced that one with a single indicator. We have introduced a broad range of indicators which, overall, we think, give a better picture of how we should be managing the bank account.

MR SMYTH: So a to g in their totality are better than just having something like h?

Mr Nicol: Yes. That is a very narrow indicator and is very partial. I can see why it is there, because it would give more surety to the budget, but it also locks things in so it is not necessarily the best indicator there.

MR SMYTH: It might be the writing of the note on the actual indicator. Okay.

Mr Barr: It is indicators plural, and b to g are new.

MR SMYTH: I am just reading your notes. You said that it was replaced, but it has not been.

Mr Barr: Yes. It says “indicator replaced with improved performance monitoring”. It refers to indicators, plural, and those new ones are b, c, d, e and g.

MR SMYTH: That is fine. That is all from me on this one.

THE CHAIR: I will draw that to a close then. Thank you very much. We will move now to the Compulsory Third-Party Insurance Regulator. Mr McDonald, I have got some correspondence that you wrote to a constituent who inquired about CTP. I am just reading from it. Some of the words used were “unfortunately, the key reform proposals in the CTP bill were rejected by the opposition and minor parties in the ACT Legislative Assembly”.

Mr McDonald: Yes.

THE CHAIR: You talk about that and you go on to say: “The government will continue to pursue CTP reform as a priority in this term." I am happy to table that.

Mr McDonald: Yes.

THE CHAIR: I am just wondering whether it is consistent with the sort of language you use. It is verging on the political narrative. I am wondering whether it is appropriate for your position to be providing that political narrative in terms of saying that it is unfortunate that the opposition did not vote for a bill and saying that the government will continue to reform in this area.

Mr McDonald: What is the date on that correspondence, Mr Hanson, if you would be so kind?

THE CHAIR: It is 3 June.

Mr McDonald: We were operating on the basis of an approved form of words that translated across ministerial correspondence and then was propagated into the—

THE CHAIR: Thank you. Who approved that form of words?

Mr McDonald: That would have been the minister's office. They would have done that.

THE CHAIR: Thank you, Mr McDonald. Noting that, minister, do you think that that is an appropriate form of words—that the bureaucracy essentially are providing political narrative, criticising opposition parties and advocating government positions in terms of policies, debates and votes in the Assembly? Is that an appropriate thing to do?

Mr Barr: I think there is nothing within that that is inaccurate.

THE CHAIR: Well, that is a view. I suppose that if you are going to be presenting a political view—

Mr Barr: It is the government's view.

THE CHAIR: Sure, but by providing it to people to sign—people who are, I guess, apolitical appointments—is that not putting them in a difficult position where they are signing correspondence with words that you have approved, essentially using that language critical of a vote in the Assembly by the opposition parties?

Mr Barr: That is the reality of the situation. You are free to put an alternate view as to why you did not vote for the legislation, which you have, and accepted the donations that have come from the lawyers as a result.

THE CHAIR: The view that you have is fine in terms of what is good policy and what is not, but what I am asking you is: do you think that it is appropriate that that messaging comes through the department rather than through—

Mr Barr: It reflects the government view, yes.

THE CHAIR: Is it your allegation, then, minister, that the decision made by the opposition party was based on a donation by lawyers? Is that what you are alleging?

Mr Barr: No. I just found it interesting that there were donations made that were declared. I am glad they were declared.

MR SMYTH: As they should be.

Mr Barr: As they should be.

DR BOURKE: Minister, what barriers are there to the entry of further third-party insurers in the ACT?

Mr Barr: There is no legal barrier. It is really a commercial decision for the particular insurers to make. There are obviously risks associated with entering into our market, given the current legal framework. Those are risks that potential new entrants would need to weigh up in making a decision on whether or not to come into the marketplace.

DR BOURKE: Yes.

Mr Barr: One would anticipate that the level of information and due diligence that would be required before such a decision is made would—insurance companies would certainly look at the prevailing legal framework and what prospects they might hold out for reform in the future. But ultimately it is a market-based decision. My assessment is that the current arrangements do not preclude new entrants, but you would certainly enhance the capacity for there to be new entrants, and possibly multiple new entrants, if there was a different legal framework. At this point, it is a risk that an insurer or a new entrant would have to weigh up. To date, there has been interest expressed by some in the marketplace who offer other insurance products in the ACT to enter into this space. Obviously there will be decisions they will make and announcements they will make at a point at which they feel they are ready to enter the market.

DR BOURKE: What were the elements of the reform proposals that the government put forward into the Assembly?

Mr Barr: Certainly seeking to provide greater certainty, to have a focus on immediate medical treatment as being the priority of the scheme—and not having one that was driven largely by legal outcomes. It is clear, obviously, from the debates that have been had in the Assembly on more than one occasion now, that the New South Wales model is perhaps not supported by a majority of Assembly members. So reform may need to focus on a Victorian no-fault model. But I think that, whatever the case, reform is needed, and we will explore ways of achieving that outcome. Further examination of the Victorian model is what I have asked for. I think that may have a better chance of getting through the Assembly.

DR BOURKE: How would the Victorian model be helpful?

Mr Barr: The no-fault scheme that Victoria has has been shown to improve outcomes for those who are involved in a motor vehicle accident. Having a particular focus on early treatment and rehabilitation is important, and taking the often protracted legal elements out of the equation is useful to getting better outcomes. We will explore this in some more detail over this parliamentary term.

DR BOURKE: So getting people help quicker leads to lower costs for schemes and makes them more attractive?

Mr Barr: That appears to be the experience. Mr McDonald may wish to offer some further insights, but I think that would be a fair observation.

Mr McDonald: Thank you, minister. Dr Bourke, we have been able to do some modelling in relation to scheme performance in connection with whether the types of crashes that occur in the ACT evoke the kinds of injuries that we see in our CTP scheme. We see a significant parallel between the two, which is really quite interesting.

In relation to that, in the first four years of our new scheme, since 2008, 1,528 claims have been resolved. Of those, more than 70 per cent were whiplash or musculoskeletal injury minus fracture. The majority of those were various flexion or torsion muscular spinal injuries—whiplash, as it were—to do with rear-end collisions and right-angle collisions.

When you have a majority of injuries caused in a motor crash scheme that derive from that particular type of crash and that particular type of injury, one recent case—admittedly, it came out of the old scheme and not the new scheme—was a whiplash case that took 8½ years to resolve. It went to judgement. There were 15 medical experts in that particular case and it ended up costing the scheme over $650,000 in damages.

What we are looking to do is to ensure that those who are injured under our scheme get treatment a lot faster than they did under the old scheme. The results under the new scheme in certain areas are really quite encouraging in terms of time to resolution. But in areas where there are delays in resolution, it is skewing the modelling so that our cost estimates remain quite high. For instance, the average claim paid in the first four years of our scheme was a tick under $37,000, but our estimates are $157,000 per claim.

Putting aside the actuarial niceties that you go into in relation to that, that level of inconsistency is quite concerning, particularly when you see cases under the old scheme which took a long time to resolve that really involved minor injury. The longer you take to resolve minor injury, the more it can translate into a serious outcome for the injured person, because there is no control over how they are treated and there is no ability to structure them into a particular rehabilitation stream. It is all down to goodwill.

DR BOURKE: Minister, why would anybody oppose changes that save the territory money, save consumers money and get people who are injured help quicker?

Mr Barr: It is an interesting question. I could speculate on motivation. However, to be fair, there has obviously been a view on the reform proposals that have been put forward that, whilst achieving those ends—and I can only judge from the comments that have been made by others—they are not happy with some of the compromises that are necessary in order to achieve those outcomes.

My starting point in all of this is that the minor advances that have been made in the last two rounds of reforms have improved the situation, but not sufficiently, I think, to the point where you can say we have a sustainable scheme that is providing value for money for Canberrans. I hear a lot about the cost of living. There are a few things you could do in this area that would certainly improve cost of living outcomes for Canberrans. I would be interested in exploring opportunities to put some downward pressure on CTP premiums. I think competition in the marketplace helps, but the broader policy settings and legal framework will also help.

I think a pretty basic test of the Assembly's willingness to tackle cost of living issues in a meaningful way is whether there is going to be movement on this in this parliament that there was not in the previous one. We will go away and do some further work and present a new reform option to the Assembly. I hope that this one is picked up. It will be to the benefit of everyone who makes a CTP payment every year and it will also, if we get the reforms right, encourage a speedy resolution of personal injury claims and encourage rehabilitation. In the end, if the winners out of this are people who are injured in motor vehicle accidents and the community more broadly through lower CTP premiums—they are the winners, and the losers might be some lawyers—then I will side with the winners on this one, thank you very much.

THE CHAIR: Is it just the lawyers or are there potentially other losers?

Mr Barr: I think if you can structure the reforms correctly and have a focus on road safety then the winners are Canberrans.

THE CHAIR: So there are no losers at all; there are no potential losers at all? There is no capping and there is no—

Mr Barr: There are some people whose commercial interests certainly are based on maintenance of the status quo. Rightly or wrongly, they benefit commercially from the current arrangements.

THE CHAIR: So you do not see that there are people who might be injured who currently have the ability to litigate that case that will be unable to do so in the same manner and therefore lose? You do not see that?

Mr Barr: Obviously, it depends on what legal framework you have coming in to replace the existing one. But I think there are ways of achieving an outcome that minimises that impact. Most other jurisdictions appear to have managed this and do not have CTP premiums like we do.

DR BOURKE: How much cheaper are their CTP premiums than ours?

Mr Barr: It will vary from jurisdiction to jurisdiction. It depends a little on the—

THE CHAIR: Mr Gentleman.

MR GENTLEMAN: I am listening to the answer, chair.

THE CHAIR: I am sorry; I thought he had finished.

Mr Barr: Thank you. It will obviously depend on the driving records and accident histories of various jurisdictions, but where there are markets that are comparable with ours it can be hundreds of dollars a year.

DR BOURKE: Hundreds of dollars?

Mr Barr: Hundreds, yes.

MR GENTLEMAN: Minister, if you go to page 418, budget paper 4, it shows the range in income. There is quite a variance there on the top line—taxes, fees and fines. There is a 74 per cent variance. Can you tell us how that has occurred?

Mr McDonald: This is to do with the CTP levy, which is an administrative levy that is placed on the scheme. In the first instance, subject to correction by Ms Lebish, the initial calculations for this were done ostensibly on a full year, but there was only a part year that was involved in that. So that had to be corrected. Of course, on 1 May this year the levy was increased to a dollar, so the expectation for the next financial is effectively double what it is today.

Dare I say that the significant area of expense arising out of this particular category is actuarial costs. In relation to that, the last three premium increases sought by the existing insurer were contested by the regulator, one of which went to mediation, so there are expenses incurred with that. We do not anticipate that there will be any fall-off in costs in that respect over the next 12 months.

We are trying to do what a regulator should properly do, and that is, instead of borrowing budget funds—not borrowing budget funds, but utilising budget funds for elements of expenditure that should be the regulator’s and should be transparently declared to be so—we are attempting to make our accounts more reflective of what a regulator’s job is in that way.

THE CHAIR: Mr Smyth.

MR SMYTH: Minister, just linking what you said earlier in some of your responses and some of the words in Mr McDonald’s letter, it would seem that it is all the fault of the opposition that there is not a second insurance provider in the ACT. Is that exactly what you are saying?

Mr Barr: Certainly, the decisions that have been taken in the Assembly have not helped that, and that has been clear in terms of discussions with potential entrants. Whether ultimately it will be a barrier to entry forever is another question. My view is that at least there were the 2008 reforms. The small step forward that was taken in what remained of the bill last year certainly has improved the situation and made it more likely that there will be another entrant, but ultimately it is a commercial decision.

MR SMYTH: That is the point. Ultimately it is a commercial decision.

Mr Barr: Ultimately it is, but undoubtedly—

MR SMYTH: And the Liberal Party does not make commercial decisions—

Mr Barr: The more that you can—

MR SMYTH: for other providers.

Mr Barr: The more that you can de-risk the environment for an insurer, the better that is going to be, obviously.

MR SMYTH: But ultimately it is a commercial decision.

Mr Barr: Ultimately, yes, it is.

MR SMYTH: And the size of the pool affects that decision.

Mr Barr: There are a number of factors, obviously, that are driving decisions to enter the market or not enter the market.

MR SMYTH: So why were those other factors not included in the letter that Mr McDonald sent to a constituent?

Mr Barr: In response to particular issues in relation to the last reform attempt, we were putting on the record the position that it was blocked, and it was.

MR SMYTH: But you have just said that it is other factors that will influence—

Mr Barr: There are a number of contributing factors.

MR SMYTH: So why are they not in the letter, all of the contributing factors, instead of picking on just one?

Mr Barr: I do not have the letter in front of me. I will need to—

MR SMYTH: They are your approved words.

Mr McDonald: I can comment on that. Mr Smyth, in the first instance, the statements were factual, to the best of my recollection and belief.

MR SMYTH: How many times has the minister’s office interfered in public service correspondence that you have sent out?

Mr McDonald: Well, it is—

MR SMYTH: In all your years, Mr McDonald, in the public service in the ACT, how many times have you received directions from the minister's office on what you should say in a letter out to a constituent?

Mr McDonald: As you know, and as you taught me when I first joined the civil service, Mr Smyth, the ACT public service, one always needed to have a view to government policy when one was addressing correspondence, particularly to—

MR SMYTH: So how many times has your correspondence been amended by a minister's office?

Mr McDonald: Never.

MR SMYTH: Never? Only in this one instance?

Mr McDonald: Well, it is not a question of amended—

MR SMYTH: That is okay. Thank you, Mr McDonald.

Mr McDonald: It is a matter of words that were developed over time that became standardised. In relation to the other factors involved, we must look at the context of the complaints that come in. They come in with specific agendas attached to them. There are always particular types of concerns. It is very, very difficult to address a much broader array of technical issues with people who have a simple point of concern or inquiry, which is cost, or it may well be competition, or both. It does not help pontificating at great length with actuarial principles and various other types of statements that I could put in these letters. That would be meaningless to people.

THE CHAIR: We might move on, Mr Smyth.

MR SMYTH: I assume, minister, that any failure to get another operator in the ACT will, of course, be apportioned to the opposition. If one turns up, will you be taking all the credit for that arriving?

Mr Barr: I am not suggesting, Mr Smyth, that the opposition is to be blamed, because you did, or at least—

THE CHAIR: Unfortunately, that is the correspondence that is going out from your government to that effect.

Mr Barr: Well, you did vote for part of our reforms.

THE CHAIR: The correspondence is reflecting that and I think we have addressed that. We will move on now, thank you.

MR GENTLEMAN: It would be nice to hear the answer, though.

Mr Barr: Certainly, the government has been able to achieve some of the reforms that we sought to achieve, and that has improved the prospect of new players entering into our marketplace. Could we go further and get more reform? Yes, we could. Will we seek to? Yes, we will.

MR SMYTH: Apparently not, because the letter goes on to say, "A few small administrative improvements were made to the scheme. However, these minor changes are unlikely to influence other insurers to enter the ACT CTP market." We will see.

THE CHAIR: We will have to leave it there, Mr Smyth. We will now move to Commerce and Works. Minister, capital metro—what modelling has been done? What work has been done? What analysis has been done with regard to capital metro by Treasury and Commerce and Works? Have they done any work in this area—a cost-benefit analysis or anything like that?

Mr Barr: No, Commerce and Works does not have a role in this area.

THE CHAIR: It does not have a role at all with capital metro?

Mr Barr: No.

THE CHAIR: So who is doing that work? That is all being done within the—

Mr Barr: I think the Under Treasurer answered that this morning. He is the deputy chair of the group that is currently working on that project, and there are staff within Treasury who are engaged.

THE CHAIR: They have been seconded to do that?

Mr Barr: Yes.

THE CHAIR: What about city to the lake?

Mr Barr: That is within the Economic Development Directorate.

THE CHAIR: Strategic objectives: in terms of the plan for further web-based applications that you are driving, in budget paper 4 at page 165, can you give me a little bit of an explanation on the progress there?

Ms Smithies: I will go over it briefly. This is a new strategic indicator for the Revenue Office, and it relates to trying to increase the number of channels to be paid, where we have tax revenues online. I might hand over to Mr Salisbury because there are a number of things that we are doing or would like to do in this area. Obviously, this is an indicator looking forward and, as a strategic indicator, it may take us a few years to reach this point.

Mr Salisbury: We are currently undergoing a process of examining our processing and information systems within the Revenue Office. It is called the revenue transformation project. We have a consultant on board with us and we are currently looking at our existing systems and how we might improve those going forward. One of the ideals that we have embedded in this project is to increase the capacity of taxpayers to access information about the Revenue Office in more modern ways and also to be able to pay and transact with the Revenue Office using web-based applications and that type of thing.

We are not at a point of finality yet; it is very much the first stage of the process where we are scoping our business requirements. Once we have done the scoping of our business requirements, we will probably go to the market to get an expression of interest as to what is out there that might help us to take forward our systems into the future. Once we have completed that process, we will probably work out the costs involved in that, put a business case together and perhaps go to government and seek funds for a new system.

DR BOURKE: Minister, I refer to page 166 of budget paper 4—key outputs to be delivered in 2013-14. Point 2 is "providing high quality and timely advice to assist taxpayers in meeting their obligations". How do you ensure that you use best practice, Treasurer?

Mr Barr: We certainly have supplemented resources in this area in the budget to assist the Revenue Office in that task. You will see processes underway shortly around recruitment there. In terms of engagement with taxpayers, the Revenue Office undertakes training. I understand there is a time each week when issues are able to be raised. The commissioner might wish to discuss this in a little more detail.

Mr Salisbury: In terms of tax compliance, recent academic research talks about the "teardrop theory", the teardrop being 15 per cent of taxpayers will do everything they possibly can to pay their tax, 20 per cent of taxpayers, or about that amount, will do everything they can to avoid paying tax, and there is a group in the middle that you want to encourage to pay tax. Through education and through allowing easy lodgement of tax returns, we encourage that group to become more aligned with the objectives of tax payment.

Part of our education of taxpayers is directed at that 60 per cent group of taxpayers. Part of that is ensuring that we communicate with the tax community, that payment is easy and that people are aware of their tax obligations. Also, the obligation on us is to ensure that that information is available and, similarly, that the staff are trained to be able to answer taxpayer questions. That is what sits behind that.

DR BOURKE: Are you able to give any specific examples of how you have achieved it?

Mr Salisbury: Our website as it is currently set up provides an avenue for taxpayers to access all of that information. We also send out with rates notices flyers letting taxpayers know about their tax obligations. They are a couple of things.

Ms Smithies: And advertising in the *Canberra Times*.

Mr Salisbury: Yes, we have.

Mr Barr: It is certainly an area that we can put some greater effort into, in terms of communication. So we are looking at the website. A number of features on the Revenue Office website allow people to utilise the calculators that are there to get a quick sense of either their entitlements or their obligations, depending on the nature of the scheme that is being operated by the Revenue Office. It is certainly appropriate and worthwhile to engage more with taxpayers and send information that is relevant to their particular obligations or an explanation of how particular taxes work—and particularly if there is ever a change in rates, thresholds or the like, so that that information is communicated to taxpayers with their billing information.

You would be familiar, if you receive notices from the Revenue Office, that there is information on land tax obligations, how general rates are calculated and the like, that is included with that information that is sent to households. I think it is appropriate that that information is there and, where there are changes, that those changes are communicated to ratepayers.

DR BOURKE: What sort of analysis or research do you do to see whether those processes are effective in improving that 65 per cent, alluding to the teardrop?

Mr Salisbury: At this stage I do not think we have particularly robust feedback mechanisms on that. Going forward, I would like to implement something that provides a good basis or benchmark to evaluate our success or otherwise in this area.

DR BOURKE: You are anticipating about 2,000 homebuyer concession scheme transactions and about 1½ thousand first home owner grant applications. That is in the order of probably 10 to 20 per day. How much work is required in processing those applications?

Mr Salisbury: Quite a bit of work is involved in each of those and we have a dedicated team who specialise in these assessments. There is information that the taxpayer has to present to us. We have to assess that against the criteria and then we have to make a judgement about whether they are entitled to that assessment or not. Part of it is online but there is a manual part of that as well.

DR BOURKE: Do you assess the level of online interest through website hits, for instance?

Mr Salisbury: Yes, I believe we do.

DR BOURKE: Has there been greater interest in these schemes since the budget announcements last week?

Mr Salisbury: I am not sure I have any data on that at this stage.

MR GENTLEMAN: Treasurer, can we go to page 166, BP4. Strategic objective No 2 for the Commerce and Works Directorate is to “optimise the triple bottom line”. You are looking here at the average office space per employee. What are the advantages and why is it important to look at this average office space—the utilisation rate?

Mr Barr: In large part it obviously relates to the costs associated with the leasing or maintaining of that space. If we are able to be more efficient in our office layouts and the utilisation of that space then we save money and often—it is almost always the case—you provide better working environments if you have gone in with a particular outcome in relation to utilisation of office space. The objective here also talks about triple bottom line outcomes in the accommodation portfolio, so a more efficient use of space will undoubtedly lead to more efficient utility and energy costs and the like. It certainly all contributes to—

MR SMYTH: Just for clarification, is that in this output class or is that in 3.1?

Ms Smithies: The strategic indicator sits against the whole directorate but the actual work that will be going into achieving that particular target sits within the procurement output class—Shared Services.

MR SMYTH: So we can answer it twice.

Ms Smithies: We can come back and have another go at it if you want, yes.

MR GENTLEMAN: Great. On the page before, on the estimated employment level, it shows 1,038 staffing; that is FTE. Does that just show a direct transfer from Shared Services on that line?

Mr Barr: In large part; there is a little bit of movement. There are 79 staff from the former Treasury directorate, four staff from Economic Development and 952 from Shared Services, together with the boost in the tax compliance officers within the Revenue Office. I think that gives you the net increase of 1,038—Shared Services, former Treasury, former EDD and extra revenue officers.

MR SMYTH: 79, four and 952, was it?

Mr Barr: Five. Sorry, 952 plus five.

MR SMYTH: And another five?

Mr Barr: Yes.

MR SMYTH: In regard to the 83, which I assume is the Revenue Office component, are there any job losses or increases there?

Mr Barr: In Revenue Office, an increase of five.

MR SMYTH: And those five are for what?

Mr Barr: Increased tax compliance activity. That is the budget funded initiative.

MR SMYTH: And the other areas are just movements in and out and are staff neutral?

Mr Barr: Yes.

MR SMYTH: Is there a problem with tax compliance so that we need an additional five staff?

Mr Barr: Certainly, it is the view of the government that we can enhance this area and get greater compliance with tax laws.

THE CHAIR: Tax them till they bleed!

Mr Barr: Just to get them to meet their obligations under the law. It is not an unreasonable thing.

MR SMYTH: Paying your fair tax is a good thing. Unreasonable application of tax is not. I notice on page 170 under "accountability indicators" there is debt management. Your level of overdue debt as a percentage of tax revenue is 2.5 per cent and it will remain at 2.5 per cent; that is the target. What is the purpose of the additional five inspectors? Shouldn't we have seen a decrease in this level of debt if you have got more people working on it?

Mr Salisbury: I think they are slightly different things. The money generated from compliance would be additional revenue. This is about managing our arrears, so that is like our rates arrears, the actual assessments that we undertake as a revenue office.

MR SMYTH: Say that again? The five new positions are to increase revenue?

Mr Salisbury: Yes, that would generate some additional revenue.

MR SMYTH: How will those five jobs generate additional revenue?

Mr Salisbury: Through extra compliance work.

MR SMYTH: So this is just your standard overdue rate?

Mr Salisbury: Yes.

MR SMYTH: Whereas you are actually going to increase the collection of the tax by having more people doing audits et cetera?

Mr Salisbury: Yes.

MR SMYTH: Is there an estimate of what the under-collection is?

Mr Salisbury: No, but we have an estimate of what we believe an additional compliance officer could generate in additional revenue.

MR SMYTH: What can an additional compliance officer generate?

Mr Salisbury: The figure that we have here in the budget is on page 170.

MR SMYTH: The $360,000.

Mr Salisbury: Yes.

MR SMYTH: What leads you to calculate the increase from $243,000 to $360,000?

Mr Salisbury: I think $243,000 is a part-year figure.

MR SMYTH: How many inspectors will there be now, with the additional five?

Mr Salisbury: There will probably be 17 inspection officers now.

MR SMYTH: So it is about 12 now and it will go to 17?

Mr Salisbury: Yes, about that.

DR BOURKE: What is the age profile on your overdue debt?

Mr Salisbury: Age profile?

MR SMYTH: I thought you were going to ask for the age profile of the inspectors! That was why there was a quizzical look on the Treasurer's face.

Mr Barr: Young and keen!

MR SMYTH: What is the age profile of the inspectors?

Mr Salisbury: The arrears profile is reported in our financial statements each year. We would have to refer back to the annual report for 2011-12 to provide that figure.

Mr Barr: We can get it for you.

THE CHAIR: I remind members that we have output classes 2, 3, 4 and 5 under Commerce and Works appearing tomorrow morning, so we are restricting ourselves here to output class 1.1, which is revenue and government business. Dr Bourke.

DR BOURKE: Under the 2013-14 priorities it states "enhancing goods and services procurement processes to achieve better value for money and reduce spending across agencies". How are you going about that?

Mr Barr: That is for tomorrow morning, actually.

DR BOURKE: Excellent. You can probably tell me about the local industry procurement policy then.

Mr Barr: We can. All of that will be dealt with tomorrow.

THE CHAIR: That is good; we will look forward to that tomorrow morning. That will wake us all up!

Mr Barr: Thank you for foreshadowing those.

DR BOURKE: Possibly.

THE CHAIR: I will be struggling to get to sleep tonight in anticipation. Did you have any others or will we wait for tomorrow?

DR BOURKE: I think I will probably wait for tomorrow, yes.

THE CHAIR: The big hit is tomorrow. Mick, have you got any more for today or are you going to wait for tomorrow?

MR GENTLEMAN: No, mine will be for tomorrow as well.

THE CHAIR: If you do not feel as though it is necessary, Mr Smyth, we do not necessarily need to—

MR SMYTH: Yes, but there are questions to be asked. On page 166 of the output class, the 2013-14 budget is $22 million. Can we have a reconciliation of the ins and outs from the $10 million to the $22 million? That is just the inclusion of Shared Services et cetera?

Ms Smithies: It has also got to do with the fact that the Revenue Office is only seven-twelfths of a financial year as well for the 2012-13 portion; so you are comparing seven-twelfths to a full year in 2013-14.

MR SMYTH: So the $10 million is seven-twelfths from the start of the department?

Mr Burton: You can see the reconciliation on page 175 which actually gives you a breakdown of the full budget. It shows the $10 million whatever, and then you have basically got in 2013-14 the full Commerce and Works in there. But the difference between the $10 million and the $22 million basically, as previously explained, only represents seven-twelfths of the full 2012-13 year impact.

MR SMYTH: That is the problem with changing departments halfway through a financial year. That answers that. With regard to the debt management, how many active cases at any one time are there where we are managing bad debts?

Mr Burton: Sorry, I do not quite follow that question.

MR SMYTH: How many outstanding bad debts are there at any one time?

Mr Burton: How many outstanding bad debts?

MR SMYTH: Yes. How many individual debts are there? How many people are you pursuing—you must know who you are pursuing, surely—that you are aware of, the known knowns as opposed to the unknown unknowns?

Mr Barr: Thank you, Mr Smyth.

MR SMYTH: I know the Treasurer loves that particular quote.

Mr Salisbury: We would have a debtors report that would give the total value of debtors and the number of debtors that we currently have on the books.

MR SMYTH: How many debtors do you currently have?

Mr Salisbury: I do not have that information with me.

Mr Barr: We will take it on notice.

Mr Salisbury: Yes.

MR SMYTH: Does that break that down by type of debt, whether it is conveyancing, rates, fines or—

Mr Salisbury: Yes, it would.

MR SMYTH: Could we have it broken down into the various classes? In terms of payroll tax, how many active cases are there pursuing debtors for payroll tax at the moment?

Mr Salisbury: Again, I would have to take that on notice.

MR SMYTH: Is it many?

Mr Salisbury: I do not know off the top of my head.

MR SMYTH: Are the 17 inspectors that we have got tasked by revenue line or are they just allocated debtors as they appear?

Mr Salisbury: No, they will not chase debtors. They will do investigations and possibly create new assessments.

MR SMYTH: So what revenue sources will they be targeted at?

Mr Salisbury: Most focus will be on payroll tax. Land tax will be another one that we look at as well.

MR SMYTH: And what led you to believe that in land tax there are underpayments?

Mr Salisbury: Land tax is, to a large extent, by self-assessment. You have got to indicate that you are liable for land tax. So the mechanism we rely on for assessment is self-identification.

MR SMYTH: The declaration?

Mr Salisbury: Yes.

MR SMYTH: And in payroll tax, what leads you to believe that people are underpaying their payroll tax?

Mr Salisbury: The payroll tax regime is quite complex. Again, it is by self-assessment.

MR SMYTH: And so what leads you to believe that there is a requirement for another five inspectors?

Mr Salisbury: Traditionally payroll tax provides a high yield in terms of inspections.

MR SMYTH: So the more you inspect, the more you will garner for the government?

Mr Salisbury: Typically, yes.

MR SMYTH: Are there compliance measures that revenue officers around the country compare to see how you are performing in terms of revenue gained? Do we underperform, overperform?

Mr Salisbury: I think every jurisdiction would be different, given different economic bases, different sorts of players in the market. There are various committees where compliance officers get together and share information and talk about how they are going.

MR SMYTH: This then leads to compliance across jurisdictions. Do we work with the New South Wales revenue office? Do we swap debtors lists, for instance? If we have got a firm here we think are a bit shonky, would you have a look at them over there? Do we go to that length of cooperation?

Mr Salisbury: Yes, there is cooperation amongst revenue offices on cases of mutual interest.

MR SMYTH: And how many cross-border cases would you be running at any one time?

Mr Salisbury: I do not know.

MR SMYTH: Could we find that out?

Mr Salisbury: I guess so. We will have a go at it.

MR SMYTH: You do not sound sure.

Mr Salisbury: I will have a go.

MR SMYTH: What is the expected return—about 120 from each of the 17 inspectors? Is that the additional expectation for the coming year?

Mr Salisbury: No; I think 360 is the figure per inspector.

MR SMYTH: It is 243 for only part of the year?

Mr Barr: It is a part year, the seven-twelfths thing.

MR SMYTH: So we have not raised that expectation. We have just got more inspectors. So we are hoping to pick up another $1.8 million?

Mr Salisbury: Yes.

Mr Burton: That was the initiative that was funded by government this year. It is not just in compliance activity but in better education, which was previously discussed, and better communication. That funding was provided for five compliance inspectors, not just for the compliance activity but also to improve the communication and those things, those aspects too. So that was the purpose of the initiative funded this year for the Revenue Office.

MR SMYTH: How many cases would we take to court each year for any sort of debt collection?

Mr Salisbury: I can tell you how many we have currently got, if that would be of use.

MR SMYTH: And if you can get some historical data, that would be useful.

DR BOURKE: And are you talking about ACAT or magistrates?

Mr Salisbury: It is here, but where? I could come back to you with that information.

MR SMYTH: That would be fine. Is there a couple of years historical data we could get as well?

Mr Salisbury: Yes, I have got something here handy. That is very handy.

MR SMYTH: I will keep talking until you get to the handy thing.

THE CHAIR: Maybe we can take that on notice, Mr Smyth, if that is agreeable to you.

Mr Salisbury: I have definitely got it here.

THE CHAIR: We can come back to it tomorrow morning. We look forward to that.

MR SMYTH: Was there a logic in putting revenue in with Shared Services, minister?

Mr Barr: Yes.

MR SMYTH: And the logic was?

Mr Barr: I think it is the sort of work that is undertaken in this area in terms of managing large numbers of invoices, accounts and the like. Other jurisdictions have a separation of their revenue office from treasury policy functions, yes.

Mr Salisbury: I have got that data.

THE CHAIR: Let us hear it then.

Mr Salisbury: As of 30 June 2012, we had 51 matters under appeal and 74 internal reviews being undertaken. As of today, we have 41 appeals and 68 objections.

MR SMYTH: Thank you.

THE CHAIR: There being no further questions, according to my program, we are having a break until 4 pm when we have the ACT Insurance Authority statement of intent. We will reconvene at 4 pm.

Sitting suspended from 3.34 to 3.59 pm.

THE CHAIR: I will just confirm that we are moving to the ACT Insurance Authority statement of intent. I refer to Dr Bourke.

DR BOURKE: Treasurer, what is the importance of the authority's captive insurance model?

Mr Fletcher: The advantage of a captive insurer model is really about performance and cost. In terms of cost, as an entity that has a substantial budget, we are in a position to have our own capital available to meet the cost of our legal liabilities within certain parameters. We do that by looking at the total cost of the risk. We take a chunk of that as our own risk, which is called our self-insured retention, and then we reinsure the rest of the possible risk, in terms of the upper limit, with reinsurers. So we transfer the risk and we pay for that risk transfer. That is all, of course, in a construct that does not involve any profit margin. So we do not charge anything in terms of a profit margin to agencies and users who are our clients.

So there are those sorts of financial benefits. There are the benefits in terms of the way the fund operates—that we provide a focal point for the territory's insurable risk. What that means in simple terms is that, because agencies have agency excesses that are fairly low on their insurance policies, almost all of the territory's insurable liabilities come through the authority and are managed by us, which means we are in a position to be able to advise the government accurately about what the current liabilities are and we are in a position to provide a professional claims management service that is well coordinated and understands what government does. We utilise the Government Solicitor's office as our legal representative, so we build a capability within government, through the GSO, to deal with liabilities. And it provides us with an opportunity to try and offset some of those insurable risks by assisting government agencies with their risk management arrangements.

They are really the key factors. There is a small team, 14, who provide those services. It is lean. We are at that tipping point where to outsource some of those functions is not economical. A number of other states outsource a lot of those activities, like claims management activities. We do not really have enough claims to make that commercially attractive. Our claims staff, of which there are six, have a very good understanding of the agencies. They have generally been with the authority for a long time, so they understand the types of risks and claims that agencies are confronted with.

Every now and then we get an agency that comes to us with an expectation that they can perhaps go outside the insurance arrangement. We welcome that sort of opportunity to be able to demonstrate how cost effective the authority is. We generally try and assist those agencies with all sorts of data, information, about what a comparable arrangement might look like in the private sector. With our most recent experience of that, the agency has not pursued any further information, and seemed satisfied. It seemed that they had satisfied themselves that the arrangements that they have in place with us are cost effective for their agency.

THE CHAIR: Thank you very much. Mr Gentleman?

DR BOURKE: I have got some more here, thank you.

THE CHAIR: Sorry?

DR BOURKE: A supplementary.

THE CHAIR: A supplementary on your own question?

DR BOURKE: Yes. You talked about transferring—

Mr Barr: It happens all the time. You ask supplementaries.

DR BOURKE: You talked about transferring risks to insurers. Did I hear you say that you transfer 100 per cent?

Mr Fletcher: No. We take on some of the risk ourselves. Probably the best way to describe it is to talk about a particular cover. For example, with our property cover, the territory insures $22 billion worth of assets. Our self-insured retention, which is a bit like an excess on a normal policy, is $7½ million—will be $7½ million for the 2013-14 year. The rest of the risk, from $7½ million to a billion, is passed to reinsurers, who will pool together in a program to fund that risk. So that is the component of the risk that is transferred.

Say, for example, we have a very large claim. That is usually a natural disaster type claim, so the 2003 bushfires are the example that is most relevant to the territory. We would pay the first $7½ million of any claim. Then any of the costs, property losses, beyond that, are transferred to reinsurers. We protect the territory's budget from that large loss by transferring the risk past $7½ million onto the market. It is about trying to find the right balance of that. If that retention is too low, the reinsurance market adjust their premiums accordingly because they are getting closer and closer to what the risk is. There is this fine pricing balance between how much we transfer and how much we retain.

With a government like New South Wales, their attachment points are way higher, because they have a bigger budget and more resources. They might attach at $50 million, because it is proportional to their asset base and their budget, whereas our attachment point is a lot lower.

DR BOURKE: If I understand that correctly, what you are saying is that with a $7½ million excess, if the government owns a building that is worth $5 million, you will not be reinsuring that?

Mr Fletcher: No. We would meet that cost, yes. But it is also what is called an aggregate policy. Within a 12-month period, those claims aggregate, and once you get to $7½ million the reinsurance kicks in. If we lost a building worth $7 million, and we had a claim and went through the claims process, we would then present that to the reinsurer and say, "That's where we're up to." Then, when the next claim comes that tips us past $7½ million, the meter starts running for them and we start to shed the costs to the reinsurer.

DR BOURKE: So the territory's risk is only $7½ million?

Mr Fletcher: The financial risk is, yes.

DR BOURKE: That seems low, given the overall territory budget.

Mr Fletcher: Well, that is interesting. That is a discussion that I have on a fairly regular basis with the director-general and with our advisory board—about what is the right attachment point. We have done work in the past to try and analyse where the right point is, and of course reinsurers are doing exactly the same thing. I cannot really say too much because I do not want to give too much away to the reinsurance market, but we think that that point is about right.

Some of it is tactics as well in terms of a strategy. With our property policy, we have been able to retain a low self-insured retention because there is pressure on the market. In other words, it is a buyer's market. The market works in cycles. As the market starts to harden a bit, and it becomes a bit more of a reinsurer's market, they start to put pressure on about terms and conditions in the policy and about where the self-insurance retention should be. They look very much at our claims history. Reinsurers, particularly in the property class, are interested in catastrophic-type losses, so fire, earthquake, flood type losses.

THE CHAIR: Any more supplementaries, Dr Bourke?

DR BOURKE: No.

THE CHAIR: To excite the Treasurer again?

Mr Barr: He is allowed to ask a supplementary. I do not know why that was such a controversial thing.

THE CHAIR: Mr Gentleman.

MR GENTLEMAN: Minister, on your KPIs, on page 6 of the document, there is one to "Deliver a program of general and targeted risk management training courses to Territory agencies". And you deliver 12 in each of the planned years.

Mr Fletcher: Yes.

MR GENTLEMAN: Can you tell us about the importance of providing those courses?

Mr Fletcher: In fact, we deliver way more than that. If you turn to page 7—

MR GENTLEMAN: My apologies, yes.

Mr Fletcher: That is all right. The target planned is 12, and we have done 17.

MR GENTLEMAN: Okay.

Mr Fletcher: The importance of that training arrangement? The authority, under its act—one of its objectives is to promote improvements in risk management practices with agencies. We have a team of three people in our risk team who provide advice and training services to agencies. That sits on the back of a risk framework, a whole bunch of supporting documents that are on our website that assist people to undertake risk management activities.

That training program—we run a general risk management course. It is a basic 101 course that introduces people to the framework and the documentation, and how to manage that in their own environment, depending on what that environment is. So it can be applied to lots of different circumstances. We have put about 400 people through that course in the last two years, and it is in high demand. We do not advertise it; we just send an email out to people who are risk managers, who are working in an insurance space or who have an interest in risk management. We fill those courses in a flash. There are usually 30 people at a time. It is a one-day course. We usually run two back to back so that the consultant who comes from Sydney can assist us, so we get some economies out of that.

More recently we have started to try and pilot a couple of other courses. There is one in project risk management. And we have another one coming up that is specifically about events management. That is for people who are in the territory who run events or for people in the territory who are involved in assessing risk plans for public events. It is a lot of those people who sit in parks and do permits and licensing. We had a discussion with them the other day about a whole planning program for them. It has been well received by the agencies.

MR GENTLEMAN: Just to lead on—I know it is a bit of a deviation—do you provide information or advice on public liability insurance for territory use of public space or community use of territory space?

Mr Fletcher: As a captive, we advise territory agencies, so I suppose the short answer is that indirectly we do. When there is a community-type event, it usually involves a number of different ACT agencies. Primarily they are people in TAMS, who issue a permit for a community event to take place. ACT Roads are sometimes involved because there are road closures or other traffic control type things that need to happen. The ESA are usually involved, because they need to be aware that there is a large gathering of people. ACTAS are involved, again because it is a large gathering of people.

And usually the people who are involved in those activities are required by TAMS to provide a risk management plan. Some of those people have access to resources to do that: they present plans that meet the 31000 standard; they are fantastic and everybody is happy with the way that the risks associated with the event are going to be managed. With others, not so. That is where it becomes difficult. Sometimes those community organisations have limited resources. We try and sit at the side of the conversation between TAMS and the person who is the applicant—try and help them along with getting management of the public risk that they are involved with managing. We also help TAMS with what are the risks to the territory. We are working with them to try and develop some templates and an improved approach to streamlining the way they do that. I am sure that when they come to this process they will be able to tell you about some of the things they are doing in that space.

MR GENTLEMAN: Thank you.

THE CHAIR: Mr Smyth.

MR SMYTH: The arboretum and insurance of the trees—have we been able to procure insurance for the trees at the arboretum?

Mr Fletcher: Yes.

MR SMYTH: Are we allowed to know what they are covered for?

Mr Fletcher: Let me talk about the arboretum in general. The assets of the arboretum are insured under our property policy. That is all the roads, the buildings and everything that is there. The trees themselves are insured under what is called a standing timber policy. That is usually a policy that is applied to commercial forestry.

MR SMYTH: As you say, you diversified the economy for Treasury.

Mr Barr: Every little bit helps.

MR SMYTH: A specialist in timber veneer.

THE CHAIR: New floorboards.

Mr Fletcher: Yes. You try explaining to someone overseas what an arboretum is, what it looks like and how it works. Anyway, we have managed to put in place insurance cover for the trees. It is basically, broadly, for their replacement. It is difficult sort of cover.

MR SMYTH: As a commercial rather than a steady value?

Mr Fletcher: The difficulty is going to be in valuing those trees as they grow. They are nice little trees at the moment; you can probably buy some of those trees and replace them with ones of exactly the same size. When they are 15 metres tall I do not know how we are going to do that. But it covers us, if they were to be destroyed or damaged, for basically the removal of the debris and replanting.

MR SMYTH: I refer to page 139 of budget paper 3, the ESA workers compensation premium and Corrective Services workers compensation premium. The ESA's premium has gone up $3 million and Corrective Services has gone up almost $1million. What is driving that?

Ms Smithies: I think that is a question for the Chief Minister's Department.

Mr Fletcher: I think the industrial relations people can help you out with that one. We do not do workers comp.

MR SMYTH: That is okay. Going to your statement of intent then, on page 11, again the biggest line in your operating statement is "other expenses" at $64 million. It is probably useful for that to be broken down, because they hardly seem "other" when they are such a large part of—

Mr Fletcher: Yes.

MR SMYTH: The total ordinary expenses are only $67 million and the "other" is $64 million; so it might be nice to have a breakdown of that. Why is it that you expected $78 million for other expenses and it is down to $64 million? I see the notes on page 15 where it is stated that, "It is due to a decrease in the average claim size in the property class." Can you explain what an average claim size in the property class is all about at $14 million, please?

Mr Fletcher: The way that actuaries calculate liabilities for insurance claims is to try and divide them up into different pools. There is a much better explanation of that in our annual report. There is a whole section on actuarial assumptions. You could go away and read it.

MR SMYTH: I will read it tonight.

Mr Fletcher: But in terms of the average size, quite simply it is about asking how many small claims there are. What claims typify the portfolio? There might be small claims. An average small claim for us is generally things like ACT Housing-type property damage claims. For example, you would get a three-bedroom or four-bedroom dwelling that is damaged by fire. Once you have pulled all those claims together, and like claims, you get an average size. Similarly there is an average size for large claims. The large claim, just off the top of my head, is in the order of $1 million for our insured retained component. A small claim size is somewhere about $100,000 or $130,000. When those averages change, the liability forecast changes.

MR SMYTH: Does that mean we are managing ACT Housing assets better?

Mr Fletcher: No.

MR SMYTH: Is that what is driving that or is it across the board?

Mr Fletcher: It is just the actuary's assessment of the whole claim pool. Sometimes you get a bit of a spike in those sorts of claims. Sometimes they are more sort of noticeable depending on how large they are. But there is certainly nothing that we have had to go back to ACT Housing on to say that we need to try and deal with this differently.

MR SMYTH: No. You might take on notice the explanation where other expenses are the majority of it. It is kind of hard to describe that with "other".

Mr Fletcher: Yes, I will.

MR SMYTH: The note then goes on to talk about the settlement of the 2003 bushfire public liability claim. Does that mean all the cases pending from the 2003 case are over?

Mr Fletcher: It is done. Yes.

MR SMYTH: So it is all—

Mr Fletcher: Finished.

MR SMYTH: closed off?

Mr Fletcher: Yes.

MR SMYTH: All right.

Mr Fletcher: We carried an amount in our balance sheet payable there in an offset reinsurance recovery. That has now been removed from the balance sheet.

THE CHAIR: Mr Smyth, we might see if members have questions at this stage. Dr Bourke, do you have any questions?

DR BOURKE: I do, thank you. Minister, your KPI for the average number of days to process the insurance claim is 20. How does that compare with the market generally, with other insurers?

Mr Barr: It is a good question, John. Do you know the answer to that?

Mr Fletcher: I do not know.

THE CHAIR: Maybe, Mr Fletcher, you could take that one on notice and get an answer.

Mr Fletcher: No, perhaps I could answer that in relation to the next page, which is page 7, where you see our outcome is actually five.

MR SMYTH: Yes, against the 20, which is well done.

Mr Fletcher: Against 20. I do not know what—that average number of days to process the claim is not to deal with the claim from start to finish. It is to deal with the financial component. So once we are done and dusted with an agency and it is all finished and they send us their recovery, we process it on average in five days. So they get their money back.

THE CHAIR: So it is a bit different from the actual breakdown.

Mr Fletcher: It might take a long time to resolve a claim, years sometimes—

MR SMYTH: But you are quick at signing off.

Mr Fletcher: But once it is resolved, and the agency pays usually—particularly if it is a liability claim—we reimburse it within five days.

DR BOURKE: So you have got a KPI there of 20, but you actually achieved five, which is four times better.

Mr Fletcher: Fantastic, yes.

DR BOURKE: How did you manage to do that?

Mr Barr: We are going to issue a press release on that point, I think.

Mr Fletcher: Well, I do not know.

THE CHAIR: Look, I think as chair of the committee I would like to compliment you on that. We can probably move on from that. Mr Gentleman, do you have anything?

MR GENTLEMAN: No, I do not have anything about that.

THE CHAIR: Mr Smyth?

MR SMYTH: Yes, on your balance sheets, what are your non-current assets, $105,000? Is that cash—

Mr Fletcher: The current assets?

MR SMYTH: No, non-current assets.

Mr Fletcher: Non-current assets; the investments are investments made with the Treasury fund. So they are in the cash portfolio fund or the fixed interest portfolio fund. That is where the investments are. The receivables are the reinsurance recoveries.

MR SMYTH: All right. But the $105,000 non-current assets, what are they?

Mr Fletcher: I do not know. I would have to take that on notice.

MR SMYTH: Yes, that is okay.

Mr Fletcher: It is probably some rats and mice in terms of some of the other smaller policies that we carry.

MR SMYTH: Are all your investments in the territory banking account?

Mr Fletcher: Yes, or in the Commonwealth Bank in terms of cash, yes.

MR SMYTH: Given that the government's changed banking provider, do you have to change banking provider?

Mr Fletcher: Yes, we are involved in that process at the moment. We have set up the accounts. I have never signed so much paperwork in my life. In September we change over.

MR SMYTH: Best of luck.

Mr Barr: There was a question earlier this morning, was there not?

Ms Smithies: There was one this afternoon on banking.

Mr Barr: On banking, yes.

THE CHAIR: Anyone for any more? We now move to the home loan portfolio. The home loan portfolio is covered in budget paper 4, page 195. I assume you are currently managing 93 loans and that is reducing down to 77. How many are in arrears of those loans and what are you doing about that?

Mr Salisbury: There are 23 loans in arrears. They have a balance outstanding of $66,288. We are actively managing those loans through a series of notices and personal telephone calls.

THE CHAIR: Okay. The projection down to 77, is that on a flat trajectory down from the current 93 down to 77? Do you expect that to continue on to—

Mr Salisbury: Yes, we do.

THE CHAIR: And at what point do we get rid of all of the home loans? Is that the plan? What are we doing?

Mr Salisbury: Yes, it is expected that by 2022—

THE CHAIR: 2022.

Mr Salisbury: Yes, we will have our last.

THE CHAIR: Okay, thanks. Dr Bourke?

DR BOURKE: You are talking about actually managing deferred assistance provided to borrowers. What does deferred assistance mean?

Mr Salisbury: Within the home loan portfolio there is a standard type loan, but also if the individual gets into difficult financial circumstances there are other arrangements that allow them to defer a part of that loan. That then becomes a separate type of loan. That is managed as a separate loan as well. So we have a number of those deferred arrangements. That is basically just the way the system was historically set up.

DR BOURKE: That system was established to assist low income households. They may have other issues as well. Does your one person provide the kind of support and outreach that you would expect Housing ACT does? Would you work on an inter-agency basis to provide additional support that people might need?

Mr Salisbury: We do not engage with extra support. Our function is purely managing the loan portfolio. But I guess we do discuss with individuals their capacity to pay and when they might be able to make those payments.

DR BOURKE: You have got nearly 25 per cent in arrears, but only for $66,000, which out of an overall portfolio of $4 million would seem low. Have they been in arrears for a long time or is it just sort of a month-to-month thing?

Mr Salisbury: We have got a long tail of arrears, which reflects the capacity of the individuals who used this loan facility.

DR BOURKE: Sure.

Mr Salisbury: Clearly they could not get commercial loans; so they went to this type facility to get those loans. So we are talking low income.

DR BOURKE: How many people has this loan scheme helped over the years?

Mr Salisbury: I believe that at its peak there were close to 5,000 loans administered under the scheme.

DR BOURKE: What has been the rate of repossession over the years? Have you ever had to foreclose on people's loans or have you always moved to find a way for them to—

Mr Salisbury: We have always managed to find a way around that.

MR GENTLEMAN: Minister, on page 199 of BP4 there is a discussion under "transactions involving owners affecting accumulated funds". It shows a change to the budget from minus 500 to minus 2,000, which is $2 million. Can you tell me what the current distributions to government are and then why they are varying, why there is a quite dramatic change?

Mr Salisbury: This is equity that has been withdrawn from the portfolio. That goes back to a budget decision that was looking at, I guess, the overall adequacy of the equity in the fund. The government made a decision to withdraw that equity from the portfolio.

Mr Barr: It funded more social housing.

MR GENTLEMAN: Yes.

MR SMYTH: But it remains in house?

Mr Barr: Yes.

THE CHAIR: Another one, Mr Smyth?

MR SMYTH: Has the financial management system, the new system, worked well?

Mr Salisbury: Yes.

MR SMYTH: It is doing everything that it should do and no complications?

Mr Salisbury: Yes, we are very happy with it.

MR SMYTH: Okay. The review done by KPMG, was that made public?

Mr Salisbury: That is a no.

MR SMYTH: No? Minister, will it be made public?

Mr Barr: Is there a particular call for it?

MR SMYTH: If there is no particular call for it, there is probably no reason in making it public?

Ms Smithies: Yes, it is an internal administrative review around capital adequacy as I understand it.

MR SMYTH: What did the review determine?

Mr Salisbury: The review made broadly five recommendations. It was around the level of provision for bad and doubtful debts. It recommended that we consider the refinancing of the commonwealth debt. It recommended an amount of capital adequacy to be retained in the fund. It sought to ensure that there was ongoing management and review of the portfolio. It suggested that we take a long-term view of winding up the portfolio.

MR SMYTH: Is there any reason you would not make it public, Treasurer?

Mr Barr: I will take some advice on it. No-one has ever asked; no-one is clamouring for it.

THE CHAIR: Given Mr Smyth's interest in the report, could you have a look at that and—

Mr Barr: I have no in-principle objection but I will make sure that there is nothing that—

Ms Smithies: We will take a look at it.

Mr Barr: I cannot see a problem.

DR BOURKE: What is the range of the size of the loans in the portfolio, lowest to highest, approximately?

Mr Salisbury: I can tell you the average loan size in the portfolio. The average loan balance is approximately $30,000.

DR BOURKE: And do you have a high and low?

Mr Salisbury: Not with me at the moment.

DR BOURKE: The administrative cost per loan is $2,550; that is the estimated outcome for this financial year. As the portfolio diminishes, the administrative cost is going to increase. At what point does the administrative cost per year increase the amount that needs to be repaid? In other words, how long does it go before it becomes no longer cost-effective to manage this in this way, and do you have other plans—

Mr Barr: To maintain one staff member, presumably you would until the end, wouldn't you?

Mr Salisbury: Yes, I think we would have to.

Mr Barr: But it is only one staff member. Maybe it could be a part-time position at the very end and deal with some other tasks. I will take advice from the agency about it at that point.

Mr Salisbury: We will have a review every two years and we will consider that as part of that biennial review that we have.

THE CHAIR: There being no further questions, thank you very much. We will turn to ACTTAB. Good afternoon, and welcome. You would be aware that the proceedings are being recorded for Hansard and are being webstreamed. Treasurer, do you want to make a short statement with regard to ACTTAB before we go to questions?

Mr Barr: No.

THE CHAIR: Treasurer, there was a review commissioned into ACTTAB about the viability, as I understand it, of ACTTAB remaining within the government or not, and that was due to report in May, as I understand it. Has that report—

Mr Barr: No, not yet. The terms of reference were revised in March. The review was commissioned in February. There was a revision to the terms of reference in March. I understand that it is nearing completion. I would anticipate receiving it in a matter of weeks.

THE CHAIR: What is your intent with that? Will it be released publicly or will you be considering it before—

Mr Barr: We will consider it first. Cabinet needs to look at it and we will need to have some discussions. Obviously, it partly depends on what it recommends as to the next steps. It will ultimately be publicly released but we will need some time to consider it first, I imagine.

DR BOURKE: What progress has been made with implementing and delivering strategies to minimise the harmful effects of gambling which are outlined in your 2013-14 priorities, at page 459?

Mr Curtis: As most members of the committee would be aware, there is a long-term strategy within ACTTAB of minimising the harm caused by gambling to some people in the community. Our long-term strategy has been to have a person assigned within the organisation as a coordinator of responsible gambling. That person’s principal responsibilities are to liaise with the Gambling and Racing Commission and the service provider, which is now Mission Australia and previously Lifeline.

The success of that strategy is probably mirrored in the number of exclusions we have, which is currently 39, 31 of which are self-exclusions. Part of the strategy which results in those exclusions being manifested is the display of information within particular venues. All of our retail venues have posters and written information, and encouraging people to seek advice if they have a problem. It has probably been a successful strategy. I do not know that there will be any further modification to that, given that we seem to be accomplishing the results that were intended.

DR BOURKE: Another priority is to continue to enhance the capability, diversity and flexibility of your workforce. What progress have you made there?

Mr Curtis: There has not been a great deal of progress. Everything is on hold at the moment pending the review, of course. It probably would not make a great deal of sense to be investing considerable amounts of money in bringing that about at this stage. But we will await the outcome of the review and move on from there.

MR GENTLEMAN: Minister and officials, I bring you to budget paper 4, page 463. Under “cash flows from investing activities”, the net inflow has a big variance from the previous budget—133 per cent. Can you go through that for us and tell us why that variance is there?

Mr Curtis: That is under “cash flows from investing activities”?

MR GENTLEMAN: Yes.

Mr Curtis: That would be attributed to the fact that we are now paying a 100 per cent dividend to the government. Previously it was 75 per cent. So there would be less moneys invested.

MR SMYTH: There is a note on page 464 about an increase in the premium business. How many people are involved in that and what caused the increase?

Mr Curtis: It is probably about a handful of customers. I think we could actually count them on one hand—the premium business.

MR SMYTH: That is all you are going to say? Okay. I notice you have changed your adverts on the TV given the demise of some of the Tom Waterhouse advertising. How have they been received and are they achieving their purpose?

Mr Curtis: I should preface this by saying that ACTTAB's involvement in promoting gambling is probably something that we have done with some reservation. Of course, we have always had a monopoly in the territory until the deregulation of the industry, which resulted in corporate bookmakers advertising in the jurisdiction. I think, without question, they have impacted our business, and impacted quite substantially. I think our turnover this year is down approximately $6 million, year to date, which is quite significant, and most of that is racing turnover.

We have not been as proactive in advertising, and particularly marketing live odds, although we have done some advertising at venues like the Canberra Stadium before matches. But the board recently took the view that we should withdraw from that particular facet of marketing and instead focus on perhaps the good that we do in the community; hence the advertising in that particular time slot on a Friday night of charities and other organisations that we might be sponsoring at the particular time. The reason we did not withdraw completely is, of course, that there was a contract in place which we had already committed to. So that was probably the best possible outcome that we could have. Those ads have been received quite favourably, particularly from the organisations and the people involved in those organisations that find it difficult to find dollars to market their activities. It is giving them some additional exposure at low cost to us.

MR SMYTH: Nicely done. Your annual report mentions a couple of cases, particularly an AFP investigation. Is that now concluded?

Mr Curtis: These are the two fraud matters?

MR SMYTH: Yes.

Mr Curtis: One of those matters is concluded. The former executive manager, wagering and sports betting, was convicted of fraud and is currently serving a prison sentence of 18 months here at Symonston. With the other matter, which is longer standing, which I think came to notice, from memory, in 2010, the person involved in that recently pleaded guilty in the Supreme Court and is scheduled to be sentenced on 5 August. They are awaiting a sentencing report.

MR SMYTH: The Auditor-General in the 2011-12 financial audit suggested that some controls be put in place and some modifications made. Has that been done and is all of that now working satisfactorily?

Mr Curtis: Yes, all of those controls have been modified and are working successfully.

MR SMYTH: How have you tested them to know that they are working successfully?

Mr Curtis: One of the controls that was put in place was exception testing, or exception reporting, which is examined daily by a senior manager. If any anomalies are detected they are followed up immediately. I am pleased to say that each of those anomalies that has been detected has been reconciled and nothing out of order has been detected.

MR SMYTH: So, in the broad, we are simply awaiting the report, and that will then go to cabinet and then a decision will be made as to the future of ACTTAB?

Mr Barr: That is it.

THE CHAIR: Are there any further questions?

Mr Barr: I suppose the only other thing to add, of course, is that the Assembly will need to make a determination if there is a change.

THE CHAIR: Thanks very much for appearing today. That was short and sweet, wasn't it? We must be getting close to the end of the day. We will now deal with ACTEW. Good afternoon, and welcome. This afternoon's proceedings are being recorded and they are also being webstreamed. Are you aware of the privilege statement that is before you and are you are aware of its contents?

Mr Sullivan: I am.

THE CHAIR: Good. Mr Sullivan, welcome. Would you like to make a short statement?

Mr Sullivan: No, thank you.

THE CHAIR: Mr Sullivan, we had a discussion this morning with the Treasurer and the ICRC about the status of the draft report, the final report, and some of the deliberations within ACTEW. Obviously a lot of it is pending some deliberations that have got to be made by your organisation and by government and so on. It seems that we have reached a little bit of an impasse at this stage in terms of what we can do until we have that information. The Treasurer has indicated, as has the commissioner, that they would be prepared to reappear later in the estimates process. There is a recall day on 1 July. I am just thinking that, rather than going through the process without the full remit of information, you would be comfortable with—

Mr Sullivan: I would be delighted to do that.

THE CHAIR: You would be delighted to? Rather than wasting everybody's time this afternoon going through old issues when we do not necessarily have all the information, I will ask the secretariat. Once we know exactly where we are at and the committee makes a decision, because this is only in anticipation of the committee's decision—

Mr Sullivan: The first is a Monday, I think, is it?

THE CHAIR: It is, yes.

Mr Sullivan: And the determination will be made, presumably, before the Friday?

THE CHAIR: We are hoping so. It is a bit of a fluid situation at the moment. Once we have a bit of an understanding about what information we have got and when we will receive it we may be in a better position to have a more fulsome discussion. Thank you very much for that; I appreciate it. What I would like to do is move to the dam, if I could.

Mr Sullivan: Yes.

THE CHAIR: There have been a number of prices, costs, for the dam that have been iterated. I think the original one was $120 million and then there was the $145 million that was widely discussed in the lead-up to the 2008 election. That then went to, I think, $363 million and so on. Now it is $405 million or $409 million. I would just like to get some specific points at which various prices have been locked in so I can confirm for myself what the situation is. The final design plan for the Cotter Dam—what date was the final design plan completed?

Mr Sullivan: The final design plan is a moving feast. You do not finish the design until you finish the dam. The dam was at 30 per cent design when the target out-turn cost was calculated, which is the $363 million.

THE CHAIR: So that is the $365 million, is it?

Mr Sullivan: 363.

THE CHAIR: 363; I am sorry. Then there was a development application; is that right?

Mr Sullivan: A series of development applications.

THE CHAIR: A series of development applications. For that series of development applications, what was the cost estimate? Was it the same for each of those or did it vary?

Mr Sullivan: I think in terms of the development applications—I will stand corrected—there were so many development applications we did not complete the usual cost of this application. We gave them an overview of the dam and its budget and then there were multiple development applications on elements of the dam project.

THE CHAIR: So, essentially, those development applications were under the umbrella of the $363 million? You did not update that cost—

Mr Sullivan: No.

MR COE: Excuse me, chair, if I might—

Mr Sullivan: It is important just to say that there have been two locked in. You talked about a series of times that we locked in things. Twice we have locked in. $363 million was the budget at the time of the calculation of the TOC and $405 million was the budget at the post-flood event.

THE CHAIR: Right.

Mr Sullivan: They are the two budgets.

THE CHAIR: Okay.

MR COE: If I may ask, Mr Sullivan: when you say that there have been multiple development applications, do you mean that, in effect, the whole DA is resubmitted or there are variations to past DAs?

Mr Sullivan: No, there are elements of the project which require a DA in their own right. So there are multiple development applications.

MR COE: Are you able to provide the estimates committee with a list of those?

Mr Sullivan: On notice, yes, along with the other—

MR COE: Yes, on notice, with a list of—

Mr Sullivan: Are these covering the same ground as the question on notice, Alistair?

MR COE: Well, some of them—

Mr Sullivan: Because I thought we were not supposed to. I thought if there is question on notice, it stands on notice.

MR COE: It is a different process, actually.

Mr Sullivan: That is fine. So we have got two processes going now.

THE CHAIR: Yes, the estimates committee is free to ask any questions it likes.

Mr Sullivan: We will have that on notice as well then. That one is on notice.

MR COE: It is a list of the DA submissions to ACTPLA.

THE CHAIR: You will take that on notice?

Mr Sullivan: Yes.

THE CHAIR: Thanks very much. What I would like, if I could, is at each stage of the process—at various stages you got plans which were finalised or DAs submitted; just the dates of those and the price at each of those. What was the 145 then? That was an estimate before any design? How does that work?

Mr Sullivan: That was an estimate to determine comparative projects.

THE CHAIR: Can you extrapolate on that, what that means?

Mr Sullivan: To give a bench line against what was a series of projects that had been considered at the time there was an estimate taken of each of those projects which, for the dam, was $145 million.

THE CHAIR: Then that was revised, I believe, in correspondence or there was an anticipation it would go up prior to the election?

Mr Sullivan: Prior to the election—I arrived in the organisation in August 2008. I wrote to the government and released that document, I think, early in 2009, which was that, in my view, the dam budget would exceed $250 million but you would need to wait until the determination of the TOC and the budget to understand the full number.

THE CHAIR: When did you come to that view?

Mr Sullivan: Shortly after I arrived in July 2008. I think I wrote in October, so about three months to do some homework and arrive at that view.

THE CHAIR: Fantastic. So if you could provide all that information that would be good.

Mr Sullivan: I had better get more specific, Jeremy. That is a piece of correspondence. That is not a budget. That is not in anything.

THE CHAIR: No, that is fine.

Mr Sullivan: And you have got all that. You have got the TOC. You have got the complete TOC and you have got the complete diagram for the dam. You have got most of this information. So is it again or only what we have not provided before?

THE CHAIR: If there are things that you have not provided before, absolutely.

Mr Sullivan: But if we have provided them before, do you want them again? The TOC comes on CD; that is the only place. Development applications have a single sheet which says how much this is worth. As I say, we put “not applicable” on it because we had covered off with ACTPLA the fact that we were going to cover the dam in a whole series of development applications. So there is no changing life in development application after development application, be it for a stilling basin or be it for a saddle dam—something as large as that—or be it for the construction of a site shed. All these things need development applications. We will give you the list of the development applications and the dates and the details of what they covered.

THE CHAIR: Thanks very much. Dr Bourke.

DR BOURKE: Could you explain the importance of priorities by ACTEW to have a greater focus on business outcomes and a greater emphasis on customer management? It is on page 449, I think.

Mr Sullivan: I think ACTEW, like a lot of utilities and water utilities around the countryside, do some things very, very well. Primarily what they do well is provide clean, safe drinking water to our community and clear and clean sewerage—clean sewerage in the ACT to the point where we can release it into the Murray-Darling Basin in very, very good condition.

One of the things that a good water utility, or a better water utility than you have been in the past, needs to have is a greater business focus. We do run a business. We are required under the TOC Act to return and make sure that business returns adequate profits to the ACT, to its owners, along with some very other careful and important requirements. Therefore, to instil in our business a better business focus is very, very important.

Customers are our lifeblood. They are our revenue base. They determine who our earners shall be. They get direct services from us. They demand a set of services from us and they expect a whole range of things from us. I think the analysis that we have done in the last 12 months says that, again, if we want to be a better organisation, we need to be more customer focused than we have ever been before and we need to understand what being customer focused is.

It is not just about answering a complaint or a call for service. It is basically attempting to embrace customers in our decision making, being more informative to customers, being more transparent in what we are doing to customers and basically putting forward a really good value proposition on water, because water historically has not needed a value proposition. It has been regarded as plentiful and free. Now we know it is not plentiful, and we certainly know it is not free, so therefore you must establish with your customers just what is the value of this commodity that we continue to provide so well.

THE CHAIR: You think that the community thinks that water is plentiful and free given the—

Mr Sullivan: No, I said “historically”. Historically, it was viewed as being a commodity—that it would always be there, there would always be an abundance of it, and relatively it was costless.

THE CHAIR: Right.

Mr Sullivan: It is no longer the case or the perception.

DR BOURKE: You talked about your two major products there being clean, safe drinking water and clean sewerage. How good is Canberra’s water?

Mr Sullivan: Canberra’s water is exceptional. Canberra’s water must meet every compliance mechanism out there in terms of safe drinking water, but we are blessed in terms that the majority of our water comes through pristine catchments. We do not have to worry about the threat of pathogens and other things that many catchments must worry about more than we do. We have a wonderful good source product generally and we improve it. We were disappointed in the great national taste test that we only came third, but a bronze medal is pretty good, I guess.

THE CHAIR: For the purpose of Hansard, I might just say I am having a nice glass of ACTEW water now, and it is delicious.

Mr Sullivan: I am glad I have never seen bottled water in the Assembly.

DR BOURKE: How does Canberra's water compare with other capital cities around Australia?

Mr Sullivan: Other capital cities? Capital cities are not the issue with water in Australia. We all produce water that meets the Australian drinking water guidelines.

DR BOURKE: Even Adelaide?

Mr Sullivan: Yes. Water around the capital cities of Australia is safe to drink. It is qualitative then and, basically, I think it is as much a result of the system of collection of your water. As I say, we have a generally wonderfully pristine system of collecting water. It is affected by events. You only have to remember the bushfires and you see a pristine catchment turn into a silt trap and basically be pushed offline very, very fast. But generally it is very, very good and that gives us, I think, a quality edge.

We are required, under the drinking water standards—probably the biggest complaint in Canberra in terms of drinking water now is, for those who remember it, that it tastes a bit more chlorinated than it used to taste. That is because it did not have chlorine in it a long time ago. But we do have to chlorinate our water now, which makes us basically meet our standards, and that is a necessary evil.

DR BOURKE: Why do you have to chlorinate it?

Mr Sullivan: Basically to ensure that the water remains fresh, remains free of contaminants and will not breed contaminants in its journey from the water treatment works through the system of reservoirs across the ACT and down from reservoirs into household systems. We basically calculate chlorine dose levels on, if you like, the end of the line. So by the time the water gets to the end of the line it will have the least amount of chlorine in it. If you live close to a reservoir you will probably get a bit more chlorine in your water. But it is a health requirement.

MR GENTLEMAN: Now that we are at the end of the line, and you did mention earlier that we flow into the Murray-Darling system, what are some of the challenges that you have, with the population growing, to make sure that the quality of that outflow is controlled?

Mr Sullivan: I think the real issue for us, and unlike coastal cities, is that we have no real fallback. In a coastal city, if you have a plant breakdown or if you have an oversupply generally caused by a rain event, the answer is that the sea is the dump and, as long as the pipe goes out far enough, you could probably decide not to extend to tertiary processing and you would be okay. We have to have systems in place which say that, in the case of a breakdown, in the case of a rain event, we can limit the possibility of the release of untreated effluent to as low a level as we can. We have had about two occurrences in the last 10 years where we have had to release not fully treated effluent. That has been in very large rain events. It is not a huge concern, in that the dilution factor is so strong, because the river is moving at a very fast pace. There is a lot of water. But that is the biggest thing we have to do.

We also have to treat our waste. We treat a lot of waste for incineration. We have furnaces which remove a lot of the waste product and turn it into ash. Again, the system is very much part of our risk management regime. It is a very central system. Lower Molonglo deals with the great majority of our sewage. Therefore if lower Molonglo has a problem, we have to react very quickly.

MR GENTLEMAN: But there are also some challenges in the new residential areas with odour from bad pipes going to lower Molonglo?

Mr Sullivan: There are sewer odour issues in any city, and generally in a new development there is a bit of a focus on it, because a lot of people do not see the sewer odour vents around our city. They are there. Weston Creek, for instance, traditionally had a very significant, relatively, odour problem. We have solved that one. We will address odour issues as they occur. But that goes with the turf. You have to aerate these systems, and that produces odour. A lot of people, as they go along Cotter Road, along the new development there, see a green-looking machine and they think it might be part of the building works, but it is actually a sewer odour control system. We will put a fence around it.

THE CHAIR: I will avoid that.

Mr Sullivan: You should not avoid it. It is okay.

THE CHAIR: Is that right?

Mr Sullivan: It is very organic.

MR SMYTH: Mr Sullivan, the completion date of the dam is now when?

Mr Sullivan: Let me talk about what “completion” is. At the moment the dam is connected to the town water supply, the dam is impounding water and the dam is at full height. Is that “complete”? I do not think so. For me, “complete” will be the end of construction activity on the dam, and I think that will be the middle to the end of July.

The dam will continue to be worked on, particularly around the rehabilitation of the landscape around both abutments. That is a job which will take three or four years, but I would say it is complete before that is done. There will be a warranty and defect period after the commissioning. But in my terms, I think the dam will be completed mid to end July, commissioned shortly after that in terms of the handover from the constructor, and we will then continue on with the work particularly around landscaping. Getting the landscape right in conjunction with parks is a very important task.

MR SMYTH: And the original projected end of construction?

Mr Sullivan: Let me check that. I think it was Christmas 2011 but I will take that on notice. It was the second half of 2011, I think.

MR SMYTH: And the current final price is $409 million?

Mr Sullivan: That is the last time we looked at the projected cost. As I said, the budget is $405 million. When we did a cost review we felt the outcome was likely to be around $409 million to us. I do not think that has worsened at all. So I am still sticking with a budget of $405 million and no doubt coming up around the $409 million mark.

MR SMYTH: And the next review to confirm that price?

Mr Sullivan: It will probably be around the time of construction completion.

MR SMYTH: So some time in July?

Mr Sullivan: I think by then you start having an idea—there is a lot that can happen in the budget, even at the end of construction. By that stage you should be having an idea.

MR COE: I have a question about the construction planning process, as distinct from the design plan or development application process. Is there such a thing as a final construction plan?

Mr Sullivan: There are a number of construction plans. The documentation on the dam's construction and design would not fit in this room but can be compressed to CDs, and you can have it.

MR COE: Yes, please.

Mr Sullivan: Whatever we can give you, because it still is a fluid thing—the planning and construction processes behind the dam. I will take that on notice. I will check with the construction partners, who have some rights over it. But I have no problem in people understanding the construction process of the dam. It would be good.

MR COE: Good; thank you. Going back to costings, if we were to nominate a date such as 3 February 2008 or 26 May 2009, and these are dates that either design work was dated or for development applications—if we were to nominate those dates, are you able to tell us what the cost estimate was?

Mr Sullivan: No.

MR COE: Why is that?

Mr Sullivan: Because the TOC was developed in 2008-09, and until the TOC was developed, that is the budget.

MR COE: Okay, so at what point—

Mr Sullivan: If you are asking me whether I can produce an itemised budget relevant to the dam, no.

MR COE: No, it is not a matter of being itemised. It is more how the price has changed over—

Mr Sullivan: The price has changed once.

MR COE: Why, for instance, are there figures such as 250, 300, 363, 404.7, 409 et cetera that have been nominated?

Mr Sullivan: There are lots of numbers—300, 400, 230. You have got to understand this: the TOC is the budget that the alliance constructed the dam under. The additional money on top of the TOC was the builders', the owners', costs. So the TOC was $299 million and the owners' costs were $64 million, producing a budget of $363 million. There has been one revision of that budget, and that revision took place after the flood event when the budget became $405 million.

MR COE: At the time of the plans that were marked as "for construction", which was 26 August 2010, does that mean that the cost of the project at that stage was still $363 million?

Mr Sullivan: Yes.

MR COE: At what point were you aware that 363 was not an accurate figure?

Mr Sullivan: I think that is a very loaded question. 363 turned into $405 million after the flood event. We are collecting cost information on a daily, monthly basis in terms of the expenditure on the dam. Expenditure on the dam is not the budget for the dam. The expenditure on the dam today is a very complicated list of expenditures which include insurance moneys, which include paying gain-share, which you are aware of, and which include contributions from various partners.

For instance, at the moment we have expended money which is not in the dam budget because it is anticipated that that expenditure will be recovered from the insurance company and will not be part of the budget. So when you talk about expenditures and budgets, do not get them confused here, because they are quite different things. Expenditures are very fluid things. You are spending money all the time. The budget has moved once.

MR COE: The cost of the flood was $7.8 million.

Mr Sullivan: No. How would you know that, Alistair?

MR COE: It is actually in your media release in April—

Mr Sullivan: That is an anticipated cost of the flood. You just said it is that much money. We do not know until we see the response of the insurance company to our claim. My first statement about the expense of the cost of the flood was much higher than that.

MR COE: So in September 2009 the price is $363 million; that is when you came out and said that price. It goes up to $404 million on 27 April 2012. So you have got 2½ years there whereby I imagine the price is increasing. Is that fair to say?

Mr Sullivan: The expenditure is increasing. The risks and opportunities register is very fluid. We are seeing risk, we are seeing opportunity and we are reviewing costs. We have not free-framed a budget.

MR COE: What happens on 27 April when you say it is now $404.7 million? Why not a month earlier, six months earlier or a year earlier?

Mr Sullivan: Because the alliance leadership group, which is the formal leadership group which must sign off a budget, meets and says, “That’s our budget.”

MR COE: How often would they meet?

Mr Sullivan: They would meet monthly.

MR COE: Are minutes prepared or is it more that the work that is generated is, in effect, the record of—

Mr Sullivan: No, there are records. There are records of meetings of the alliance leadership group.

MR COE: Can you provide the estimates committee with that?

Mr Sullivan: No.

MR COE: Why is that?

Mr Sullivan: They are a commercial-in-confidence document between the three alliance partners.

MR COE: Can you table the decisions of those meetings, then?

Mr Sullivan: No.

MR COE: So you can’t table the minutes or the decisions—

Mr Sullivan: They are a commercial-in-confidence document. If they are vital to you and you want an in camera briefing around ALG—you are talking about 40-plus meetings of the ALG which cover all of the water security major projects. They are extraordinarily commercial-in-confidence.

THE CHAIR: Why so?

Mr Sullivan: Because they relate to the business of three of the largest constructers—

THE CHAIR: The outcomes of those meetings?

Mr Sullivan: The outcomes go to the business of those three partners with us. I will have a look and seek some advice. But that is my preliminary view, and I would be wrong to just say, "I'll take it on notice," and then come back and say no. My view would be that no, it would not be released.

THE CHAIR: Following on from Mr Coe's questioning, the increase in the budget from $363 million to $405 million, or $409 million—

Mr Sullivan: 405 is the budget.

THE CHAIR: Sorry?

Mr Sullivan: You know that number; 405 is the budget.

THE CHAIR: The amount that is attributable to the flood is an estimate.

Mr Sullivan: Yes.

THE CHAIR: What is the other increase attributable to? Have you got a breakdown of that?

Mr Sullivan: From the time of the 363 to the 405, we put out the estimate of why it had increased. I will do it again for you.

THE CHAIR: Could you provide that? Thanks. Does that break it down in its components—

Mr Sullivan: Not in a forensic way. It breaks down the components.

THE CHAIR: How much detail is in that?

Mr Sullivan: A reasonable amount of detail.

THE CHAIR: If you could provide that to the committee, that would be appreciated—a breakdown of what that comprises, the increase in the budget.

DR BOURKE: Mr Sullivan, I understand that there was an environmental award given with regard to the Cotter Dam project under the national program innovation award. Could you tell us about that, please?

Mr Sullivan: Part of the approval process for the Cotter Dam was that we needed to protect quite a large population of Macquarie perch which were in the old Cotter reservoir. They had developed a very comfortable home in the old Cotter reservoir while it was not used for water supply purposes for many years. It was a requirement that we took measures to protect that population of fish. We worked with particularly the University of Canberra, with some assistance out of the ANU and our own people, to develop options as to how we could protect that population of fish. In the end, the solution determined was to build a series of rock reefs around the reservoir, at varying heights of the reservoir, to allow for the normal operation of the dam to occur.

The trials of these rock reefs proved to be very successful. We now have six to seven kilometres of rock reef installed. If you look at the aerial photograph of it, it looks like just a pile of rocks. If you stand up against them, it is a big pile of rocks in a long line placed in a way which would ensure that the fish could dart for cover, collect food and particularly avoid their predators. The cormorants are the number one predator of the Macquarie perch. And that has been recognised in a number of awards, which we are very proud of.

DR BOURKE: Is there any evidence at this stage of your success in that?

Mr Sullivan: Only in terms of the—through the university, we trialled a series of possible alternative approaches to protect the fish. As the water level of the new reservoir increases, the old dam is completely gone from sight, so the reservoir is now at a height that it has never been. As it increases further, the rock reefs will come into play. We are monitoring, with the University of Canberra, how that fish population go with their new homes.

DR BOURKE: What other steps in this project have you taken to protect—or, indeed, as in this case, enhance—the environment?

Mr Sullivan: The environmental measures associated with the water security major projects have been extensive. There is fish protection. We have done fish protection at the Cotter Dam. We have done reverse-style fish protection in terms of the Murrumbidgee to Googong water transfer, in that we had to prevent the transfer of alien species, particularly carp, which are present in the Murrumbidgee River but not present in the Googong Reservoir. We had to have designed a set of screens which would mean that even a viable fish egg would not be transferred—at the same time, trying to ensure that, if those fish were native species fish, they would not be damaged or killed in the process. And so you will see—it has again been recognised for an award—that, through a firm called Johnson Screens, we have a unique set of what look like very long tumble dryers, which basically screen out any fish.

We have done a lot of habitat work, again through the easement of the Murrumbidgee to Googong pipeline, through biodiversity offsets where we have committed at a ratio of about 10 to one. Where we have destroyed any flora, we have replanted at a scale of 10 to one. We have managed a lot of flora—getting down to even the grass trees from the Cotter, which had to be stripped for the Cotter Dam excavation work. Some of those have been tended for us at the botanical gardens for replanting in the Cotter. Some have been planted in the arboretum; the arboretum's population of grass trees comes from the Cotter. And some have been utilised elsewhere. The environmental commitments coming out of the water security projects run to about 100 pages of commitments. All are prerequisites for doing the projects.

MR GENTLEMAN: Mr Sullivan, those offsets you have just mentioned—have they been purchased within the ACT, or have you sought to look outside?

Mr Sullivan: They have been purchased within the ACT. We purchased some land down at Williamsdale, which is used for multiple purposes. On one of those properties we have established major offsets; on other places we have done the offsets on crown land, generally in cooperation with parks.

DR BOURKE: You have mentioned two awards that you have won for this kind of environmental protection. Have you won any others?

Mr Sullivan: We are always winning awards. I would love to give you a list of our awards, Dr Bourke.

DR BOURKE: Would you? Please do.

Mr Sullivan: I will do that.

DR BOURKE: Thank you.

THE CHAIR: That is a question on notice.

Mr Sullivan: We will take that on notice.

MR GENTLEMAN: Can I just go back to your answer on the challenges you had after the 2003 fires. There was a lot of siltation flow and erosion in the catchment area. What has been done to ensure that that erosion ceases?

Mr Sullivan: Again, through parks, there has been a lot of replanting, including through volunteer organisations like Greening Australia. There was a wonderful day, I think a couple of weeks ago, which celebrated some plantings that had occurred in the lower Cotter catchment. We have had to mitigate the issue that still there is a lot of remaining dead timber in that catchment, so one of the things you will notice at Cotter is a nice orange line that goes across 200 metres up from the dam wall. That is a log boom, which is designed basically to keep out stray timber, because as the dam fills up, as the reservoir fills, that timber is going to float and we will have a major project to get rid of it.

After the fires, of course, before we could resume usage of the Brindabella catchment, we had to redevelop the Mount Stromlo water treatment works. That was completed, fortunately, in time for that catchment to resume duty before the drought ended. We took the opportunity also to include UV treatment of the water, just as a final safety thing in terms of things like cryptosporidium, which cannot cause a problem if you put it through UV processes.

MR GENTLEMAN: Do you go back and measure what erosion is occurring now in—

Mr Sullivan: We use various people who are measuring the regrowth of the forest. The regrowth of the forest will probably take 40 to 60 years. Certainly the two years of heavy rain came at a good time. At one level, for that forest the drought probably came at a reasonable time—rather than retarded growth of the forest. It did not see a lot of movement of the ground when it would move very easily. And by the time the big rains came in 2010 or so, it was ready for it. We have seen tremendous growth in the canopy in the forests in the last three years, and it is on target to recover in around the 40-year time frame that is suggested by the science.

THE CHAIR: Mr Smyth.

MR SMYTH: Mr Sullivan, there have been some reports on cracks in the dam. I do not know whether you would qualify them as big cracks or little cracks. Is there a term “significant cracks” that you would—

Mr Sullivan: There has never been a significant crack in the dam. As a result of the flood, there were surface cracks in the dam, and there were some minor cracks in the gallery of the dam. These were basically as a result of the flood and then the extremely cold weather than occurred between the flood and the resumption of work. They were mediated and fixed. There is no issue in terms of the quality of the dam as a result of the cracks, and the cost of the cracks was, in the dam’s terms, reasonably insignificant.

MR SMYTH: Was the remediation covered by insurance?

Mr Sullivan: It is a contention that we are making.

MR SMYTH: So that is unresolved.

Mr Sullivan: It is not in our forecast. I think we will probably be responsible, and I do not want to sound too pessimistic here, but we are making contention that it is caused actually by the flood.

MR SMYTH: All right. So some of it was from the flood and some of it was from the extreme cold?

Mr Sullivan: It is a combination. Basically you have got a mass placement of concrete. You have got cold water running over it. You cannot get back onto the site to mitigate it. You then see cold weather, and you see surface cracking occur. And you mitigate it, you fix it, and you go on.

MR SMYTH: All right. So it is only because of the flood and then the cold weather? There were no pours that went wrong or other reasons?

Mr Sullivan: No.

MR SMYTH: Okay.

Mr Sullivan: Now, we are talking about cracks. I know you have got a whole lot of information; I do not want to mislead you whatsoever. You are talking about the cracks as a result of the flood. Right throughout the dam process, of course, we have seen issues around quality, which are a honeycombing of patches of the concrete when you place a million tonnes of concrete. They are being patched all the time. They are not cracks; they are basically small crumbly bits of placed concrete which honeycomb slightly, and you drill it out and you patch it up.

MR SMYTH: All right. Apart from the flood and apart from the cold, were there any other cracks that appeared in the dam?

Mr Sullivan: There are the manufactured cracks, the ones we put in. They are there.

MR SMYTH: Apart from the flood and the cold and the manufactured cracks, were there any other cracks?

Mr Sullivan: No, there are no other cracks that I am aware of.

MR SMYTH: Are there any cracks that somebody else might be aware of?

Mr Sullivan: There are so many people who think they have a view on this, they are probably—if they have not told me, it would be disappointing.

MR SMYTH: All right. Obviously that has an impact on the cost. So the movement from 363 to 405 million—some of the factors were the geological fault and the excavation?

Mr Sullivan: Yes.

MR SMYTH: The flooding, obviously, and the cracks?

Mr Sullivan: The cracks are as a component of the flooding.

MR SMYTH: Yes.

Mr Sullivan: I think the cracks—we are talking about less than $200,000 to fix the cracks.

MR SMYTH: Okay; fine.

Mr Sullivan: It has been more in terms of—Mrs Dunne, when she was in the Assembly, not as Speaker, raised the issue of the cracks. After a very extensive briefing with her two months before, she raised them. As a result of that, Minister Corbell asked the technical regulator and the WorkSafe commissioner to form a view on the cracks. Mr Corbell, I believe, spoke in the Assembly in the not too distant past, saying that the WorkSafe commissioner basically had reported that the cracks posed no threat to people or to construction staff. And Mr Corbell said he had received assurance from his directorate that the technical regulator was also satisfied that the remediation of the cracks was fine.

MR SMYTH: All right.

Mr Sullivan: We are just doing things three times. I know you get it—sure. We get it right after three. But I just want to say that it is the third time we are talking about the cracks.

MR SMYTH: The question I was about to ask was not about the cracks, but—

Mr Sullivan: That is good. It was good wording.

MR SMYTH: That was the only question I had on the cracks. Let me start again. We had the geological fault, the extra excavation. There was the budding of cracks, which apparently only cost 200k. Perhaps you would tell us what the increases were in the cost of materials—particularly, say, concrete and the excavation. But were there any other significant factors that led to the increased cost of the—

Mr Sullivan: I have already taken it on notice. I will take it on notice. I will give you the summary.

MR SMYTH: I was just wondering if there is anything that comes to mind, other than those factors?

Mr Sullivan: The flood and the geological fault, by a scale, are the two most significant impacts on the budget. The costs of goods, including labour, varied from time to time over the course of the dam. If you are purchasing concrete—if you are purchasing cement futures—in 2008 they were a whole lot dearer than if you purchased them in 2009. If you were purchasing steel futures in 2008, they were a whole lot dearer than they became in 2009. And of course we had a constructor who was trying to be as efficient as possible and making decisions about what they felt was the best time to purchase forward supplies.

But the biggest construction material in the dam is aggregate, which we self-procured. It is cement and fly-ash, which we procured through long-term contracts through suppliers. And in those parts of the dam which require reinforcing, it is steel. The dam itself, the wall of the dam, requires very little steel.

DR BOURKE: Where did the aggregate come from?

Mr Sullivan: The aggregate came from the abutments and from a quarry on the upstream side of the dam. The aggregate, including the sands, which we were not expecting to be able to do on site, came from the site. We imported a bit of aggregate, when we were doing the saddle dams, from a quarry not far from Googong Dam, in Queanbeyan.

MR COE: In terms of those prices, were you able to hedge or, as you said—

Mr Sullivan: I do not—I am not responsible for that, Alistair. The Bulk Water Alliance determines how it contracts for prices.

MR COE: Are you able to tell us what they did?

Mr Sullivan: I can—you would have to be more specific. I mean, hedge what?

MR COE: For instance, if they are going to be purchasing concrete and concrete prices are going to fluctuate—

Mr Sullivan: No, I mean—

MR COE: I know that ACTION, for instance, hedge their fuel prices.

Mr Sullivan: Yes, but they choose their timing. They choose their negotiation to enter into a long-term contract for the supply of cement.

MR COE: Yes. Therefore, if concrete is going to fluctuate in price, I am trying to see what sort of impact that can have.

Mr Sullivan: No, I do not—look, I will check. I do not believe they hedge. I believe they pick their price and they go for long-term contracts and secure the price. It is probably the cement supplier who hedges after that.

MR COE: Sure. Are you able to tell us what prices that the Bulk Water Alliance—

Mr Sullivan: No.

MR COE: No?

Mr Sullivan: No.

MR COE: If, for instance, costs of concrete and costs of other commodities were to be cited as being reasons for increases in the costs of the dam, how could that be verified?

Mr Sullivan: It could not be—I mean, there is no basis to be providing verification of it.

MR COE: Using public money is a fair case for it.

Mr Sullivan: Certainly there were pressures from time to time on commodities. There were concerns, particularly at the commencement of construction of the dam, that if we did not get our supply contracts in place, and commonwealth determinations, particularly environmental determinations, were holding us back, at the time we were basically seeing a very major boom in construction. We were worried about commodity prices, including cement, including steel, including other things. But by the time we entered into long-term arrangements for those goods, prices had settled and we were pretty satisfied.

MR COE: Sure. When the TOC was $363 million, what was the amount of excavation and the amount of concrete that was required?

Mr Sullivan: You have got the TOC documents. I will get them for you again if you would like.

MR COE: Yes, if you can give me an answer to that specific question?

Mr Sullivan: No, I mean, you have asked for the TOC documents. Now you want me to go through them for you, or what?

MR COE: I think it is quite reasonable for us to ask the question—

Mr Sullivan: You have got the data; so tell me what you think and I will give you a comment.

MR COE: I do not know. I do not have the data. That is why I am asking questions. I do not know why you are being so cagey about this.

Mr Sullivan: I am not being cagey. For the third time now I am being asked to supply a set of CDs with a TOC of the dam on them.

MR COE: No, I am specifically asking—

Mr Sullivan: I will happily provide that for you—

THE CHAIR: No, Mr Coe asked a specific—

Mr Sullivan: Now you are asking me, "Can you now delve into that yourself please and tell me?" I will find you—you list the question, provide it, and I will answer the questions on notice.

MR COE: The question is: what was the level of excavation when the TOC was 363?

Mr Sullivan: I will take it on notice.

MR COE: Thank you. Also, how much concrete was required at the same time? And if you can also, please, advise as of today what is the projected amount of concrete that is going to be required and what is the projected amount of excavation? I imagine the excavation is already finished.

Mr Sullivan: Excavation is not finished, because we are still digging out the stilling basin and we have got some excavation to do in terms of landscaping.

MR COE: I imagine the vast majority has been done.

Mr Sullivan: Yes, it is a very broad term. I will take it as what I think you mean.

MR COE: Right.

Mr Sullivan: And that is finished.

THE CHAIR: You will come forward with providing that information on notice?

Mr Sullivan: If we have got it, but I know in terms of the estimated volume of concrete and the estimated excavation levels, yes. As Alistair knows, we have got it.

THE CHAIR: Thanks. With the construction of the dam, have you had, like, a technical audit on it to see how well it went? Have people sort of assessed whether it was done in accordance with the way it was meant to be built? For example, was the concrete that was laid done all correctly? Did the excavations go according to plan? Where along the way have you done, essentially, a review or audit on the process of building the dam? Is there a process like that that has occurred?

Mr Sullivan: That is a continuous process. It is a continuous process of quality assurance. There is a quality assurance team which basically—you must as you lay concrete do continuous quality assurance in terms of the elements of the concrete, because you have to make quick decisions if it does not meet quality and you need to redo it.

THE CHAIR: Yes.

Mr Sullivan: At the same time, we had appointed a technical review panel. The technical review panel is a panel of very significant dam experts from around the world. They come in and review the dam at a regular interval. At the same time you have got the Alliance leadership group and the subcommittees under that which review the dam in terms of its quality. You have got the technical regulator, who has responsibility under ACT legislation to certify that the dam is of a quality suitable to be a dam. And I could list another three or four sets of people who require material on the dam being of a certain quality.

THE CHAIR: Great. In terms of the process of the dam and building it up with the concrete, my understanding is—is the correct term a green pour if you lay concrete when it is already wet or it is too soon? I know it is quite a complex—

Mr Sullivan: It is called a green cut. It is exactly the reverse.

THE CHAIR: Right.

Mr Sullivan: Roller compacted concrete is best laid continuously.

THE CHAIR: Yes.

Mr Sullivan: That is, that the concrete layer that you have just finished is still wet when you are laying the next level on top of it.

THE CHAIR: Right.

Mr Sullivan: If it starts to dry, it moves to a warm cut, which is not too significant. But if it dries to a certain point, there is then a green cut, which requires basically the use of pressure hoses and other things—brooms and sweeping—to expose a layer of aggregate to basically rough it up, then a line of grout and then you resume.

THE CHAIR: Right.

Mr Sullivan: That has been one of the most expensive processes that we have been through.

THE CHAIR: In what sense? That it is a difficult thing to—

Mr Sullivan: No, in terms of the weather producing far more green cuts than we ever anticipated in our budget.

THE CHAIR: Right. So there is climate—

Mr Sullivan: So it is weather related.

THE CHAIR: What is the sort of cost for that?

Mr Sullivan: A green cut can stop production on the dam for two or three days.

THE CHAIR: And how many green cuts did you have?

Mr Sullivan: Many. I will take how many on notice.

THE CHAIR: Could you?

Mr Sullivan: I would be happy to tell you.

THE CHAIR: And the reason for them was all weather related or was it just that these things happen on a build?

Mr Sullivan: No, you do not let those things happen. They are weather related. They are basically—once you let about 18 hours go by, you have a warm cut, and if you let another six or seven hours go by, a bit more, you have a green cut.

THE CHAIR: Right.

Mr Sullivan: And if you are not allowed on the site—when you are laying roller compacted concrete, a certain level of rain prevents basically your moving on to the site.

THE CHAIR: Thanks.

DR BOURKE: Thank you, chair. I will move on to your other product—clean sewerage. How good is it?

Mr Sullivan: I never accepted the challenge, but my engineers at lower Molonglo would suggest that the effluent released from lower Molonglo is the equivalent cleanliness of the water produced from Mount Stromlo. I will not test that proposition, but it has to be very clean. It is important when you think that at the height of the drought the Murrumbidgee River was hardly flowing. In some of the summer months of the drought, the Murrumbidgee River's flow between here and Burrinjuck was effluent out of our sewerage treatment works. So it is extraordinarily important that our effluent is clean, and it is superbly clean.

DR BOURKE: Before that water hits the sea, how many towns draw their water supply from it?

Mr Sullivan: That water in drought never got to the sea, which is part of the problem down the other end. It goes through not largely populated areas until it gets to Burrinjuck Dam. Burrinjuck is a major dam on the Murray-Darling Basin system. From there it flows into both irrigation and communities. So places like Jugiong would be the communities that first utilise that water.

DR BOURKE: And finally Adelaide?

Mr Sullivan: Yes, I do not know if we ever put a particle spotter in our water how much of it would get to Adelaide. I think most of it would have made the Murrumbidgee irrigation area.

DR BOURKE: One of the concerns people have about water coming out of sewerage treatment works is about pharmaceuticals, in particular chemotherapeutic drugs. Could you tell us what sorts of outputs and treatments are provided at, say, the lower Molonglo to deal with that?

Mr Sullivan: Yes. Because our processes are partly chemistry and partly incineration of course, we remove a lot of sludge material and other debris out of our sewerage systems and burn it, and it reduces to ashes. So a lot of potential pathogens and that go in that process. We test our effluent for everything that we are required to test it for.

We have got a very interesting piece of research at the moment. We sponsor, under the Aspi Baria scholarship—Aspi Baria was a great water person with us and, in his memory, we sponsor a PhD scholarship—a woman called Jenna Roberts. She is doing some study which seems to show that, because of the nature of a number of the chemotherapy drugs, you can find traces of them which survive water processing. And she is trying to track how far they go. It will probably be another year or so before we get her results, but I think it will be useful.

I think it comes from the fact that we have now, unfortunately, got a lot of such patients, with a lot more drugs with a lot more in them, and you probably know, Chris, what it is—I do not—but there is an element of the drugs which actually can survive just about anything.

DR BOURKE: Yes.

Mr Sullivan: It is not regarded as serious in itself, but she wants to basically try to track just how far it can go. It will probably answer your other question on how far does your effluent go.

DR BOURKE: Yes, tracking it downstream?

Mr Sullivan: Tracking it downstream.

DR BOURKE: And when do you expect to see the results of that?

Mr Sullivan: It will have to go through a very rigorous process. She is a PhD student. It will be a PhD thesis. It will have to go through all of those processes before it is published. I think it will add to the work, to the body of knowledge. But there is debate around it. There was a spate of publicity around the use of biosolids in agriculture in New South Wales in recent times in the press. We make the distinction that our biosolids are used in agriculture. But it is ash product. And ash product is different to crumbled sludge, if you like, in that the pathogens do not survive incineration.

DR BOURKE: That is different in other parts of the world, though, is it not?

Mr Sullivan: It is different. Biosolids are very rich materials in terms of their capacity to assist in agriculture but there is some debate around whether there are any dangers in them. But incineration certainly means that we should have very little concern about biosolids.

DR BOURKE: Is there another comparison in Australia with the volume that you process here to go into a river or do you need to look at—

Mr Sullivan: I think we are the largest inland water treatment works in the country. There are a number of other significant water treatment works. I would not underestimate Queanbeyan as a large city which treats their water. Certainly cities like Wagga and other inland cities have got large works. We probably have the largest inland sewerage treatment works in the country.

DR BOURKE: So is there anything from any international bodies that—

Mr Sullivan: Yes, there is a lot of comparison at international level which makes ours look even small plant. We are a relatively mid-sized plant when you get into the US and parts of Europe. I think the water science story continues to evolve and I think it will be science that determines whether or not that area of substances that appear in the water cycle is of concern, no concern or little concern to human health.

THE CHAIR: We might move to Mr Gentleman.

MR GENTLEMAN: Treasurer, back to the budget papers, if we go to BP4, page 451, under “Revenue” there is an interest component there for ACTEW Corporation. And there is a dramatic variance in the budget, from $5.5 million down to $2.9 million, a 46 per cent variance, and then in the outyears it shows a slight drop again for the next year but then a larger drop for the year after. Can you explain what is occurring there?

Mr Wallace: The reason for that is that in the previous years we have held greater cash levels and that would be because we have had a greater capex program, including the dam in that, completing that, meaning that average cash balances have dropped, resulting in a decrease in our interest revenue from that.

MR GENTLEMAN: That is pretty straightforward. And what about the other revenue line? It has dropped 19 per cent.

Mr Wallace: I will have to take that one on notice, for why that one is.

DR BOURKE: What is “other revenue”?

Mr Wallace: That has got things like our unregulated business. What may have happened this year—I remember it now—is that in terms of the integration there was a bit of unearned revenue that then got released into our books in 2012-13. But obviously that was a one-off. That is why that has dropped away.

DR BOURKE: And what is “unearned revenue”?

Mr Wallace: Under the UMA we had made payments but the work had not been undertaken at that point in time. The revenue had not been earned. So that came across in terms of the integration of the accounts and that then got released out of an asset into a revenue account.

DR BOURKE: So you are paid in advance?

Mr Wallace: Exactly, yes.

DR BOURKE: Fantastic.

Mr Wallace: So it was part of the whole transaction.

THE CHAIR: Mr Gentleman.

MR GENTLEMAN: No.

THE CHAIR: Mr Smyth.

MR SMYTH: I will defer to Mr Coe. He has got similar questions, I am sure, on financials.

MR COE: Starting on BP4, the expenses, the borrowing costs are increasing from 2012-13 through until 2016-17. Does that, in effect, mean that ACTEW is not completely servicing the loan?

Mr Sullivan: I think it means we are borrowing more money. When you are a water utility and you pay 100 per cent of your profit as dividend and you wish to do work, you borrow money. And because we finished the water security major project does not mean we have stopped doing work; so we will continue to borrow money. Our capacity to service our loan is undoubted. We can service our loans; otherwise we would be in real trouble.

MR COE: So at what point are we likely to see the interest-bearing liabilities in the balance sheet coming down? As at 30 June 2017, when $300 million-odd is moved from interest-bearing liabilities to interest-bearing liabilities in the current liabilities, does that in effect mean that that $300 million is being paid then?

Mr Wallace: It is a maturing of one of our debts but obviously it will need to be refinanced.

MR COE: So it will be refinanced and, in effect, put back into the non-current liabilities after that, is that the expectation?

Mr Wallace: Yes.

MR COE: So at what point do you see the total interest-bearing liabilities coming back down? In effect, when are you in a position to be able to be net repaying debt?

Mr Sullivan: We have no capacity to repay debt.

MR COE: Sorry?

Mr Sullivan: You repay debt from profit. The only way we would have a capacity would be is if we were able to accumulate our cash against any other provision, including, for instance, if it was an accumulated loss, then we would be able to repay debt through that mechanism. But in ordinary terms of business, we pay our profit as dividend and we borrow our money. And we continue to refinance.

MR COE: So does that mean that at some point there is going to have to be, do you believe, a decision by this government or a future government to either write off some of that debt or withhold profit or return profit for you to make a capital—

Mr Sullivan: I think that is something that a treasurer, being the current Treasurer or a future treasurer, will always have to consider. An owner can determine that this is how a corporation shall operate. And there is no fear in terms of our debt in that, as we are guaranteed by the ACT government, we have the capacity to service it. Our asset valuations will be determined by, amongst other things, our revenue. In regard to these things, over time, as our capital expenditure diminishes, you will see our gearing levels go down. Whether that sees our absolute levels of debt go down is another thing, but our gearing levels will ease over time.

MR COE: Does the current arrangement with regard to water pricing, not what is before the ICRC at the moment, in effect pose no opportunity for you to bring that liability down?

Mr Sullivan: I do not think the ICRC would have appreciated us asking for more money so that we could bring our debt levels down. They are interested in our costs, and they do allow the costs of interest and business.

MR COE: Perhaps to the Treasurer, given the borrowing costs as per the operating statement are increasing, up to, in effect, $92 million in 2016-17, is that a worry to you? Does the government have a strategy to, in effect, bring down those borrowing costs? Although they are borrowing off you, in terms of government, the government is then—

Mr Sullivan: We borrow through the government; we do not borrow off the government.

MR COE: Okay, sure.

Mr Barr: Given the assets are producing revenue, and the territory has the lowest debt of any jurisdiction in Australia, it is not of any concern now. I cannot foresee a circumstance in our lifetime, Alistair, where it will be a problem.

MR COE: That it will be repaid?

THE CHAIR: Treasurer, on a point of order—it has happened a couple of times recently—if you are referring to members of the committee could you refer to them as Mr Coe, Mr Smyth or Dr Bourke.

Mr Barr: Sorry, Mr Coe.

MR COE: Treasurer, with regard to the borrowing costs for ACTEW, what interest rate is being assumed there?

Mr Barr: It would vary depending on when you went to the market.

Mr Wallace: Yes, it varies. We have a significant amount of different types of borrowings. We have indexed annuity bonds, we have medium-term notes, we have a capital indexed bond. It really depends on the profile of that borrowing.

MR COE: Presumably, a fair number of those will mature over the next three or four years, and maybe mature multiple times.

Mr Wallace: Yes, that is correct.

MR COE: Therefore you would have had to have made some assumptions along the way about what interest rates are going to be.

Mr Wallace: If there are any new borrowings, there would be an assumption. I would have to take that on notice and get back to you. It would be a consistent number.

MR COE: Yes, all right.

Mr Barr: Mind you, it is important to observe that, in a historical context, the cost of borrowing now is about as low as it has been—

MR COE: Absolutely.

Mr Barr: A good time to be borrowing.

MR COE: That is right. But that is also a potential worry, insofar as there is a risk that interest rates go up; therefore what does that mean.

Mr Barr: It depends on your terms and—

MR COE: That is right; absolutely. That is what the point of my question is.

MR SMYTH: Does the government take 75 basis points off ACTEW as well?

Mr Sullivan: That sounds like an old Treasurer speaking!

MR SMYTH: No, the Treasurer very kindly revealed that every time you see borrowers, they take 75 basis points. Does the same condition apply to ACTEW?

Mr Barr: I would have to check.

Mr Wallace: No, it is only 0.02 per cent.

MR SMYTH: Okay. So you got a better deal than UC.

Mr Wallace: It looks like it.

THE CHAIR: Got a bigger loan, by the looks of it.

Mr Barr: That would also be true. You could say that, yes.

THE CHAIR: The actual amount might be similar. Mr Sullivan, the job cuts at ACTEW: could you give us a bit of an explanation of what has happened? You have spilled the positions and people are reapplying or is there a net loss in positions? What is actually happening?

Mr Sullivan: Yes, there will be a net loss in positions. It will not be that many. We brought the water business into ACTEW as an integrated water business 12 months ago, on 1 July last year. We realised at the time that we had a reasonable amount of improvement that could be made in the business. We felt two things. One was that we probably had too many managers and the other was that our vision for the organisation did require some skills that some of our management group did not have. So we wanted to refresh. Dr Bourke went through some of our intent and some of the things we wanted to move, and I think he mentioned business-like, efficiency and customer-centric. We also saw people management as a major issue in the organisation. We did have trust in the organisation that we had the talent pool to be able to deliver for us, so while we have spilled the jobs, they are only open to ACTEW employees to apply for them.

THE CHAIR: Of the jobs that you spilled, did you spill the majority of jobs?

Mr Sullivan: No.

THE CHAIR: Only the specific ones that you targeted?

Mr Sullivan: We started at the executive level. There were six in the executive and we removed it to four. We then spilled at the senior manager level, which was seven—nine. I will get you the details. I do not want to—

THE CHAIR: What is the total number of redundancies?

Mr Sullivan: It depends. For instance, if you apply for a senior manager's job and you are not successful, you may apply for the next level down. So if you wish to stay in the organisation and you are accepted, there will not be a redundancy situation. I expect there to be a handful of redundancies out of this exercise. It is not the exercise—and no jobs below the management level have been threatened whatsoever. In particular, customer servicing jobs have been assured that there will be no reduction in customer servicing numbers out of this restructure.

THE CHAIR: There were some concerns raised, I believe, at the time that there would be a loss of skills, and pretty unique skills. But you are comfortable that that will not be the case?

Mr Sullivan: I think APESMA led that view. They were very wrong in their view. To suggest that to be a manager in a water utility you must be an engineer is not right. You would probably be an engineer, yes. So we announced late last week the first of the appointments, and we have appointed the six senior managers in the water business. Of those, four are engineers. One is a lawyer-accountant and one is a physical science graduate who comes from a planning background. So we have a planner, a lawyer-accountant and four engineers who are the senior managers. Of course, there will be a predominance of engineers in our business. What I took exception to was a suggestion that to manage in a water business you had to be an engineer. I guess being an accountant, that rankled slightly with me.

THE CHAIR: In terms of senior appointments, where are we at with the chair of ACTEW, in terms of the appointment of the chair? Treasurer, have you got an update on that?

Mr Barr: There has been an appointment of an acting chair, so the deputy chair will act, and there is an appointment of a temporary deputy chair, so an acting deputy chair. A process is underway for the recruitment of a new chair.

THE CHAIR: When do you expect that process to be completed?

Mr Barr: I do not have a fixed date for that. It will conclude when an appropriate candidate is found.

DR BOURKE: Coming back to the outputs again, with sewerage—

THE CHAIR: Have you got an obsession?

DR BOURKE: No, it is just an interest. You mentioned Queanbeyan having a large sewage treatment works. Hasn’t that had some problems recently with overflows?

Mr Sullivan: It had one problem in one of the large rain events in 2010 or 2011 where we did see partially treated effluent enter Lake Burley Griffin and primarily cause the closure of the lake for recreational facilities. I think the Queanbeyan sewage treatment works has been slightly maligned. It was the first incident of that occurring in a very long time.

Effluent coming out of Queanbeyan is of a high standard. If you read the review of Lake Burley Griffin, it will say that, with respect to effluent out of Queanbeyan, it would be preferable if it did not enter the lake but it is very high quality effluent. In fact, I think its problem is that it comes out of the sewage treatment works quite chilled. It does cause some issues with stratification in terms of the water levels within the lake. That may be its major problem.

Queanbeyan are working towards a replacement of their sewage treatment works. There is an excellent initiative going on at the moment in terms of regional cooperation. The ACT government and local councils are looking at where such cooperation can occur. I think the water sewerage area is one which has been identified by all as being one of great potential. We are very keen at ACTEW Corporation to work with particularly Queanbeyan, Palerang and Yass around what role we could play in assisting in terms of their water and sewage treatment.

THE CHAIR: On that happy note, we might conclude, gentlemen. Thank you very much for appearing. Once we know what is happening with the ICRC and other issues, we will ask the secretariat, through the Treasurer, to get in contact to arrange 1 July, if that is suitable. Thank you very much.

The committee adjourned at 5.58 pm.