LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

SELECT COMMITTEE ON ESTIMATES 2014-2015

(Reference: Appropriation Bill 2014-2015 and Appropriation (Office of the Legislative Assembly) Bill 2014-2015)

Members:

MR B SMYTH (Chair)
MS M PORTER (Deputy Chair)
MRS G JONES
MS Y BERRY

TRANSCRIPT OF EVIDENCE

CANBERRA

MONDAY, 16 JUNE 2014

Secretary to the committee:
Dr B Lloyd (Ph: 620 50137)

By authority of the Legislative Assembly for the Australian Capital Territory

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

APPEARANCES

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Amended 20 May 2013

The committee met at 9.30 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
- Miners, Mr Stephen, Executive Director, Finance and Budget Division
- McAuliffe, Mr Patrick, Director, Asset Liability Management, Economic and Financial Group
- Murray, Mr Peter, Acting Executive Director, Infrastructure Finance and Advisory
- Doran, Ms Karen, Executive Director, Economic and Financial Group
- Holmes, Ms Lisa, Director, Financial Framework Management and Insurance, Economic and Financial Group

Commerce and Works Directorate
- Smithies, Ms Megan, Director-General
- Salisbury, Mr Kim, Director, Revenue Management Division

ACTTAB Ltd
- Curtis, Mr Tony, Chief Executive

THE CHAIR: Ladies and gentlemen, welcome to day 3 of public hearings for the Select Committee on Estimates 2014-2015. Minister and staff, good morning and welcome. The proceedings this morning will commence with an examination of the expenditure proposals and revenue estimates for Chief Minister and Treasury Directorate, class 2, financial and economic management, specifically output class 2.1, economic management, and output class 2.2, financial management. In the afternoon we will look at the rest—superannuation, the territory banking account, compulsory third party, Commerce and Works Directorate, revenue and government business management, the home loans portfolio, and we will conclude with ACTTAB.

Please be aware that today's proceedings are being recorded and transcribed and will be published after the hearing. Proof transcripts will be circulated to witnesses to allow requests for corrections. Corrections are made at the discretion of the committee. Witnesses are also asked to familiarise themselves with the privilege statement provided at the table. When a question is taken on notice, it would be useful if the witnesses would say, "I will take that question on notice." This will help the committee and witnesses to confirm what has and has not been taken on notice.

By resolution of the committee, time frames for questions taken on notice and questions on notice are as follows. Witnesses are to provide responses to questions taken on notice taken at the public hearing within five business days of the hearing, day 1 being the first business day after the relevant hearing. Non-executive members may lodge questions. Witnesses are to provide responses to questions on notice also within five days.

The committee now welcomes the Treasurer and officials from the Chief Minister and

Treasury Directorate. Are you familiar with the privilege statement in front of you?

Mr Barr: I am.

THE CHAIR: The witnesses are familiar with the privilege statement. Treasurer, do you wish to make a brief opening statement?

Mr Barr: Very briefly, firstly to thank the committee for its indulgence in splitting my appearances so as to allow for the trade delegation to take place in the eight days between my appearances. I also acknowledge, in the context of the question on notice requirements, that, as I will be overseas, I will endeavour to respond to those questions on notice as soon as possible on my return, seeking obviously the assistance of officials who will do the work whilst I am away. I will do my best to meet the committee's time frames, but seek a little bit of leeway given I will be out of the country for that period.

Having said that, very briefly, in the context of the budget, clearly we face a challenging period in the next 12 to 24 months. Fundamentally, the government's position that is outlined in the budget is one of optimism for the territory in the medium and longer term. I think we have demonstrated as a community our capacity to overcome adversity in the past, and that this is a stronger and more diverse economy and a stronger and more diverse community in 2014 than it was in 1996. So we go into this challenging period, I think, better equipped than we have in the past, and certainly with a focus on ensuring we have the policy settings right to support the economy through the next 12 to 24 months in particular. When, as we anticipate, more usual and long-run economic circumstances return, both the budgetary position and the government's policy settings would return to a more neutral and long-run position. Having said that, I am very happy to take the committee's questions.

THE CHAIR: Thank you, Treasurer. In your statement just then, you said that within a couple of years the hope is that it will return to normal circumstances. Is this just a wait-and-see budget, and we are just waiting for the glory days of the commonwealth big spending to come back and then we will prosper and thrive into the future?

Mr Barr: That is a very cynical approach, chair.

THE CHAIR: It is what you said. You just said—

Mr Barr: No. I anticipate, rather than glory days, just more normal economic conditions returning. I think the expectations are based again on long-run history—that the first budgets of incoming governments tend to be the harshest, and that pre-election budgets of governments tend to be more generous.

As Chris Richardson from Access Economics pointed out, short-term impacts, but in the longer term an expectation of more normal conditions. That is why the budget is framed with a view to supporting economic activity and an infrastructure program over particularly the next 12 to 24 months, with 2014-15 having a very strong works in progress component of the capital spend, and clearly also preparing a number of significant infrastructure projects for their construction phase. Work from previous budgets preparing a number of projects for their construction period will allow that construction to occur in 2014-15 and 2015-16. Clearly, we have made a number of other changes in terms of policy settings around taxation and project facilitation that will enable a number of these infrastructure projects to move on quickly.

On the export facilitation side, recently we have seen significant growth in service exports out of the ACT. I think there is great capacity for that growth to continue—hence obviously the strong focus on South-East Asia and North America in particular as growth opportunities for the territory.

THE CHAIR: You mentioned Chris Richardson and Deloitte Access Economics. They also said that the ACT budget was in worse shape than its economy. Why is the budget, by their assessment, in worse shape than the economy?

Mr Barr: I spoke at that event, and that is not what Lynne said at the event, so she must have had a conversation prior to the event. That does not necessarily accord with everything else that was said at that event, and nor with what Chris Richardson indicated in his comments both to the *Canberra Times* and at the event.

THE CHAIR: So you do not agree with those comments?

Mr Barr: No, I do not think that is a fair characterisation. I certainly accept that the territory government is applying fiscal stimulus in the next 12 months in particular. But I think there is reason, given a number of lead indicators, to suggest that that stimulus is both timely and the right policy approach, given the economic circumstances the territory faces, particularly in the next 12 months.

THE CHAIR: So when you presented the stimulus package to cabinet, what did you say would be the outcome?

Mr Barr: I am obviously not discussing matters before cabinet. We certainly sought, through this budget, to ensure that the territory was able to continue its strong performance in a number of key indicators. Unemployment and levels of employment within the economy are a particular focus for us. We recognised, with the commonwealth significantly contracting its employment to the tune of about three per cent of all employment in the territory, that we would have a responsibility, as the second largest employer, to maintain our employment levels and also to seek to encourage growth in employment outside the public sector through a number of measures that we adopted in the budget.

THE CHAIR: If you will not tell us what you told cabinet, perhaps you can explain to the committee what will be the effect of the stimulus, what would happen without it and how many jobs you expect to create?

Mr Barr: The expectations are, across the forward estimates period, the capital program contributing between 1,000 and 2,000 jobs through the various stages of that particular program. The ACT government's contribution to public consumption will obviously be a positive contributor towards state final demand. There will be, clearly, some drags on that performance by the commonwealth. The relative size of the two governments and the relative impact on the economy certainly means that the territory government's efforts can only partially offset the negative impact of the commonwealth government's decisions.

Again, long-run experience is that in these periods the territory economy tends to bounce back reasonably strongly after that initial shock is felt. That certainly was the experience in 1996 from about the tail-end of 1998 onwards. So two to 2½ years later there was a strong rebound. The factors that were present in that period may not necessarily be reflected again in this period to the same extent, but it certainly would appear that the commonwealth government will outsource some functions and that the work that was previously undertaken by public servants will still need to be undertaken. It may well be that this presents opportunities for a further round of growth for the private sector who supply services to the national government.

THE CHAIR: Mrs Jones has a supplementary.

MRS JONES: In regard to stimulus and jobs, Mr Barr, given that some of the projects that have been slated for commencement or further work in the budget really are not at the tender-ready point, can you please explain why the Belconnen Arts Centre, which is at a tender-ready point, was not one of the options that was considered for job stimulus and creation, given that Belconnen has no town hall ability at the moment?

Mr Barr: There are obviously a number of projects that are put forward for consideration in each budget round and not all are successful.

MRS JONES: But why?

Mr Barr: There is the largest ever works in progress program and next year's capital spend is the largest ever in territory history, so we will pretty well exhaust the capacity of our construction sector in the next 12 months.

MRS JONES: My question was about the jobs because a lot of the jobs in those projects are not due to come in for a couple of years, from the advice we have been given. Is that wrong? Are you saying that is wrong?

Mr Barr: I think you are misinterpreting the capital program in that you need to look at what is in the pipeline. Works in progress for 2014-15 is—

MRS JONES: As in roadworks type of things?

Mr Barr: No, it is in the entirety of the capital program with projects that have already commenced or are about to commence construction because they have their planning approvals and they are ready to go or they have just started. That is a very strong component of the coming fiscal year's program. Clearly, there is a pipeline for projects, and work that was undertaken and funded two and three budgets ago to get projects through that initial feasibility and business case process, through forward design, through the planning system and then ready, are now underway or will commence construction in 2014-15. So that is a pipeline of previous budget decisions.

MRS JONES: What are those? Which particular works are headed for job-ready in the next year?

Mr Barr: I can get you the full list but they are listed in the budget papers.

MRS JONES: Some of the analysis that we have been given on the budget does not really match up with that. But if that is true then please supply—

Mr Barr: Yes. I am certainly very happy to provide you—

MRS JONES: how many jobs you are expecting from which particular projects and in which year.

Mr Barr: Yes.

THE CHAIR: Ms Porter had a supplementary as well.

MS PORTER: Yes; thank you. I would just echo Mrs Jones' plea for the Belconnen Arts Centre to be considered for future budget decisions. I wanted to talk a little bit about our credit rating. You have talked about the huge investment that we are making, and obviously we are going into a short-term budget deficit situation because we are borrowing and we are making that investment, because of the situation that we are in, as you have described. Do you think that there are risks going down this path? What measures are we taking to make sure that we maintain our AAA credit rating? Do you think that the decision to go into short-term deficit will affect the credit rating in any way?

Mr Barr: There are always risks associated with a large borrowing program so we did not undertake one. This program is actually quite modest in the context of other Australian jurisdictions and in the context of the starting point for the territory. The suggestion that this is a large borrowing program is not accurate. In the context of the territory's forward program, the borrowings are modest, affordable and prudent, and that is the basis under which the government undertook its assessment of the territory's infrastructure needs.

We recognise the capacity we have also to access the commonwealth government's asset recycling initiative that allows us to dispose of some public assets in order to acquire new public assets. That represents an opportunity for the territory to invest in new public infrastructure in a way that was not available to us previously.

As to the extent to which the commonwealth sent a very clear signal to the states and territories that it wanted and would support new infrastructure over the next four years, we have certainly responded to that call and recognised the opportunity that presents itself. We have a program here that both accesses that initiative and uses the funding to offset some of our borrowing requirements but also maintains a very prudent approach to the territory's finances.

Clearly, the initial scan from S&P is positive in the context of that AAA metric, but ultimately the government has to balance a number of competing priorities. The maintenance of a AAA credit rating at the expense of an economy in recession and rising unemployment is no virtue for the government in terms of managing this challenging period.

My hope and expectation is that the program we have crafted will be able to maintain the territory's AAA credit rating but also provide the sort of economic stimulus and infrastructure enhancement that the city needs. What we have sought to achieve here is to get that balance between longer and shorter term economic needs and ensure that the cost of the burden of infrastructure delivery, particularly infrastructure that will have a lifespan of many generations, is shared across many generations.

It is just not feasible to expect this generation to pay up-front for all the infrastructure needs of this city going forward over 100 years. That is an extraordinary level of intergenerational inequity. If governments, and even households, took that approach, everyone would have to save the entire cost of their home before they would buy one. That is just a crazy approach to infrastructure delivery.

MS PORTER: So when we put our annual submission into credit rating agency Standard & Poor's you are feeling that this will be positively received?

Mr Barr: The discussions we have held with S&P prior to the budget, the discussions we have held with a number of our financial advisers, were to craft a program along the lines that we have crafted. Again, I will have more detailed meetings with S&P next month, but the initial response has been quite positive and, again, reinforcing the overarching policy directions. S&P, along with pretty much everyone else, has agreed with the economic approach of this budget from a variety of commentators. There has been an endorsement of the government's approach.

Our expectation is that in the context of a challenging economic environment this budget and these policy settings will enhance the territory's position relative to where it would have been had we acted in a neutral way or had we decided to contract spending together with the commonwealth. I think I can very confidently say that if we had decided to contract spending together with the commonwealth we would have a recession in the ACT. Had we gone as sharply negative as they have that would have impacted. Unemployment would rise and our economy would take a very dangerous path. We have chosen not to do that.

MS PORTER: The asset sales you have talked about just now: there is an agreement between us and the commonwealth in relation to those. Are there some parameters around that?

Mr Barr: Yes. There is a national partnership agreement that the commonwealth has with each state and territory, recognising the different position that states and territories are in vis-a-vis their existing asset base. There are opportunities for bilateral discussions, so it is not a one-size-fits-all approach. The classic example of that is that in Victoria and South Australia, for example, where a number of public assets were privatised in the 1990s and in the first decade of this century.

Some jurisdictions have a significantly larger asset base. For example, New South Wales have ports that they are privatising. There is a distinct lack of ports in the ACT, so we do not have the opportunity to undertake a transaction there now that we are free. In the case of New South Wales and Victoria, where these things are being considered, we are talking about $6 or $7 billion being able to be sourced from those sorts of initiatives, which then frees up capacity to invest in new public infrastructure.

I guess the key part of this particular program, and I think a fundamental issue for the ACT government, is that the proceeds of any asset sales must be reinvested in new public infrastructure that the city needs. We are genuine and serious about the recycling nature of this initiative in that it means we transition out of some assets but we acquire new ones and assets that this city and this economy needs to enhance either its productive capacity or its social outcomes.

The sorts of infrastructure that we want to invest in include education, health, transport and economic development associated infrastructure, be that the University of Canberra public hospital, light rail and road projects within the territory or the convention centre. There are a number of pieces of infrastructure that would certainly add to the territory economy and add to social outcomes in the city, and we have got to be realistic about our capacity to pay for those and bring them on in the next three to four years, and that means this combination of asset sales, borrowing and allocating our existing capital provision into these projects. I think it is important to note that we have—and we had in the forward estimates from previous budgets—a strong program of forward works and infrastructure. We have made provisions, but we have extended those provisions in light of the changing circumstances.

MS BERRY: I have a supplementary. You mentioned that if the government was not contributing to the territory's economic growth there would possibly have been or there would be a recession. There is a whole generation of people who have not experienced a recession or know what that could possibly be. You have talked about a loss of jobs, but what does it really mean? How important is it then to make sure that the ACT does contribute, given the federal government's contraction?

Mr Barr: I think that is right. You would have to go back to the mid-90s, so there would be a generation who have only ever experienced a labour market that is very favourable to them. In the context of the ACT, you have to go back to the mid-90s to see an unemployment rate well above the national average, which it was at that time. That fundamentally feeds back into almost any question of cost of living. If you do not have a job then you face extreme cost of living challenges in any community.

In an economy like ours that has a very high level of workforce participation and is very much geared to be a working economy, jobs are a very significant issue for the government. In fact, in the context of managing the territory budget and the impact we can have on the territory economy, it is a really very significant priority for us, because off a strong employment base comes so much social opportunity and for people who are unemployed for an extended period of time the level of social disadvantage is very high.

All of the other metrics around health and education outcomes are very closely tied to whether a household has a job. In households where no-one has a job, and if that becomes the case over successive generations, the level of social disadvantage is considerable and becomes a major challenge for a society, particularly one like Canberra that prides itself on fairness and on ensuring that no-one is left behind.

That is why I have it as such a strong priority for the territory. The territory government is the second largest employer in the city. It is, in fact, growing its employment in this time in areas of high social need, particularly in health and education, but also in community services associated with a range of new initiatives in the budget that I am sure we will get to in a couple of weeks.

MS BERRY: It is even more than that; it is not just the job losses and what that means to a household, but what it means to individuals as far as their health and the further pressure that it puts on our community in general.

Mr Barr: Yes, and then when you think also of some of the decisions that were announced in the federal budget by the federal government in relation to withdrawal of income support, for example, for young people, the consequence of losing a job to someone under 30, given the proposed changes to the various allowance programs, is even more significant in the coming 12 months, should that initiative pass the Senate.

THE CHAIR: I have a supplementary to that question. Ms Porter mentioned short-term deficits. On page 42 of budget paper 3, you mention temporary deficits. Can you define what a temporary deficit is?

Mr Barr: Yes. In a period of slower than average economic activity, with the contributing nature of the commonwealth government's payments to the territory also being reduced in their budget, both the economic conditions and the transfer payment question have certainly contributed to the fiscal position for the territory at this point. As you will see in the forward estimates, once more normal economic conditions return, the territory budget returns to balance in the outyears.

THE CHAIR: A couple of years away—one, two, three budgets away. We have had a number of deficits and we are about to have another three deficits.

Mr Barr: Well, balance in 2016-17, and we had nine surpluses between 2001 and 2010-11.

THE CHAIR: Most of which were not budgeted for. We have had a string of deficits. I am just curious—

Mr Barr: We have had two.

THE CHAIR: I am curious at the word "temporary".

Mr Barr: In light of the economic conditions that we face, it would be nearly impossible to run a surplus in the territory in the current period without essentially sacking a quarter of your workforce or slashing all grant programs. That would be the policy choice if you were to seek to move from $300 million to a balanced budget. There are a lot of jobs associated with that. There would be a lot of pain, and for what end? What would you be seeking to achieve in the current economic—

THE CHAIR: That is not my question. My question is: define a temporary deficit.

Mr Barr: Through a period of depressed economic activity, and certainly when the commonwealth is cost shifting—the hospital pass that came to the states and territories—until both of those issues are resolved, the territory budget will remain in deficit.

MRS JONES: Just as a supplementary to that as well on the hospital funding. My understanding is that the actual withdrawal of supposedly committed to funds begins in three or four years time. What is the immediate—

Mr Barr: You misunderstand then—

MRS JONES: What exactly is that?

Mr Barr: I will find the page in the budget papers to refer you to.

MRS JONES: Certainly there are partnerships that have been changed that are starting in three or four years time; is that also correct?

Mr Barr: Page 35, budget paper 3, table 2.12, outlines the reduction in funding to the territory under the national health reform agreement grants—nearly $40 million in 2014-15 rising to $86 million in the outyears; just short of $250 million over the forward estimates period.

MRS JONES: What is the amount of the cut that is supposedly slated in this change in the agreement that starts in the fourth year?

Mr Barr: $39,748,000.

MRS JONES: In the fourth year.

Mr Barr: In the fourth year, $86,721,000.

MRS JONES: So there is a significant change in the fourth year?

Mr Barr: It gets worse each year given the change in indexation arrangements from the commonwealth.

MRS JONES: That $39 million that you refer to in the 2014-15 year, what is that exactly? What agreement was that? What was it funding?

Mr Barr: The national health reform agreement.

MRS JONES: And what does that fund?

Mr Barr: That funds health services in the Australian Capital Territory.

MRS JONES: Which health services?

Mr Barr: Across our hospital system in particular. Obviously, you can explore this in more detail with the Health portfolio, but I am happy to get some further information. Actually, it probably is best raised with them, but I will foreshadow with them that the committee is interested in the detail of where that money was spent. There was an elective surgery component, some ED component—I am fairly certain—and a number of other areas within the health system.

THE CHAIR: Ms Berry has a new question.

MS BERRY: There has been a deliberate shift in the ACT's revenue base because of some of the changes to federal levels of funding that I assume have changed our revenue base. I note that there is a graph in the papers that shows where we get our money from, but I was hoping you could give the committee some context on any of the significant changes in the breakdown of revenue sources by comparison to the previous years.

Mr Barr: Sure.

MRS JONES: Where is the graph?

MS BERRY: I am just going to find it.

Mr Barr: In short, the ACT receives 43 per cent of its funding from the commonwealth, through various programs and tax lines. That share of our budget is, in fact, along with WA, the lowest share of a state or territory budget from the commonwealth of all of the states and territories. The Northern Territory, from memory, receives the greatest component. So our budget is less reliant on the commonwealth transfers than I think all other budgets are, bar WA. There are a number of factors that contribute to that: our GST relativity compared with smaller jurisdictions, the relative socioeconomic status of this community, meaning fewer transfers from the commonwealth for particular outcomes.

The other significant change from the commonwealth in this budget was a freezing indexation of the financial assistance grants provided to local government. A component of the territory budget is money received for our role as Canberra's local government. There was a freeze in indexation. Again on page 35 of budget paper 2, the impact of that, nearly $20 million—$18.8 million or thereabouts—over the forward estimates period is outlined.

This indexation freeze obviously has impacts for the capital region as well, because all of the surrounding local councils will receive less financial assistance from the commonwealth. Clearly, that is going to put pressure on local government budgets. It was interesting this morning, on *AM*, the lead story was around the impact that would have and force rate increases in local council areas. So all of these decisions effectively are just passing the buck down to different levels of government.

In the context of the ACT, we get the hospital pass on health reform and we get hit with the local government grant indexation freeze. So we are punished in terms of our payments from the commonwealth and we are hit obviously by the impact they have within our economy by that range of other revenue lines.

Again on page 35, the write-down in land release revenue also hits. Land release has been a significant part of territory revenue and has certainly assisted in financing our infrastructure programs in the past. So that has taken a hit.

The next biggest contributor in terms of our revenue is our own-source tax lines. We will obviously have the chance to discuss revenue later this afternoon. Suffice it to say, in these circumstances, ensuring that we use the most efficient means available to us and the least distortive means available to us to raise revenue is an important priority for us. If we need to raise a certain level of revenue and we have the choice between using bad taxes or the best taxes available to us, then surely we should use the best taxes available to us, the ones that are the least distortive and that are the fairest and most efficient.

We choose to phase out bad taxes, taxes that do not have many friends. Even amongst the Liberal Party, I do not know there are many friends for insurance taxes and stamp duty, although I might hear to the contrary over the course of the day.

MS BERRY: But on that revenue that you are talking about now that the ACT government has had to change so that we can improve our revenue now that things have changed with the contributions that the commonwealth is making to our community, I guess the challenge that we are having every day when we are talking to people out in the community is what that actually means. I do not think people actually understand what that means. They just see it as tax and tax is bad. Do you know what I mean?

Mr Barr: Yes, sure.

MS BERRY: How do you explain to a person how a community runs and how a city runs? I do not think people even know that that is how it works. It is that simple.

Mr Barr: I guess there are a number of different views on whether hypothecation of tax lines to particular outcomes in the community is a better way to make that link between the tax you pay and the outcomes that you receive from that. I guess where there is some confusion in the community at the moment really relates to the municipal role of the territory government versus all of those other, if you like, state-level responsibilities that we have.

There is a sense, for example, that rates only fund municipal services. That is not the case. Our rate base supports our health system, our education system, our community services, our police and emergency services. We have, through that revenue line, the capacity to provide services across the entire range of portfolios of ACT government. So the municipal contribution is an important part, but it is not the only part of our rates base.

Again, the reason we make the shift is that it is a much more predictable source of revenue and allows for efficient planning and operation of ongoing services that do not have a cyclical basis like the real estate market. Stamp duty will vary from year to year, depending on the strength of the real estate market, but you still need to provide health and education systems and police and emergency services and the like every year. You cannot have them in a cycle in the same way as the property market does. That is just not a sustainable way to deliver public services.

I do not think the public would accept the government of the day saying, “Sorry, the real estate market is depressed for the next three years. So we are going to have to cut back on provision of this range of services." That just would not wash. So you need a more sustainable revenue base, and that is the basis for the changes we have made. But adopting a revenue-neutral position, where yes some tax lines increase but that increase is sometimes more than offset by reductions in other taxes, is what we have seen in recent budgets.

MRS JONES: I want to ask a question which is more about an internal mechanism within the department. I do not know where exactly it will fit precisely in those programs, but I have been asking it across the board. Can you inform the committee of any reports of bullying within the department, the number, any that have been formally raised, any that have been informally raised, whether they have been resolved, whether they have not yet been resolved? In the same vein, can you also inform the committee of any government contracts that are raised by the department externally that we have brought in, and how many of those are for companies that are in the ACT, and whether there are any for companies that are outside the ACT?

Mr Barr: There are about four parts to that question.

MRS JONES: Yes.

Mr Barr: In recognising that Treasury is only a part of that broader Chief Minister and Treasury Directorate, some of those questions I will take on notice on behalf of the entire directorate and on behalf of the Chief Minister and provide a joint response on behalf of our combined directorates. Contracts are listed in the annual report.

MRS JONES: All the contracts?

Mr Barr: Yes, contracts over a certain value, I think, is the reporting requirements.

MRS JONES: My question goes to all contracts.

Mr Barr: I will check that. If there are any contracts that are not reported in the annual report because they are below the requirements for reporting and that you are interested in through your question, we will provide details. Is there are a particular time period you are referring to?

MRS JONES: I would say, since the last election would probably do. I just want to see a snapshot.

Mr Barr: Sure. We will go back to October 2012 and contracts not reported in annual reports will be taken on notice and reported to the committee.

THE CHAIR: Thank you for that. Minister, if we go back to the comments that Deloitte Access made, Deloitte Access actually said in their press release:

> Deloitte's Canberra Office Managing Partner, Lynne Pezzullo, facilitated the panel discussion and said: "As is true federally, the ACT budget is actually in worse shape than the ACT economy …"

So again, I would come back and ask: if the economy is in much better shape than the ACT budget, why have you allowed that to happen?

Mr Barr: I am running a stimulatory fiscal policy in 2014-15.

THE CHAIR: But this just does not happen. The budget, as a snapshot of what has been happening, has not been as healthy as it could have been for some years now. Why is that so? This is not a new comment. A number of people have made this over time.

Mr Barr: We have determined, in difficult economic circumstances, to run a stimulatory fiscal policy setting.

THE CHAIR: Chris Richardson actually said:

> The Federal Budget hasn't really changed the overall picture for the ACT's economy that much.

Again, if that is the opinion of Chris Richardson—

Mr Barr: Would you read the next sentence that he says?

THE CHAIR: Yes, we will come to it.

Mr Barr: No, read it out, come on.

THE CHAIR: Let us start at that sentence.

Mr Barr: Do not partially quote him. Read the rest of his comments.

THE CHAIR: No, I have not finished yet.

Mr Barr: Yes, and that reinforces the position I put to the committee in my opening remarks, that in the longer term, once this short-term shock—and surely not even you are suggesting that there will not be a short-term impact of the commonwealth government contracting its employment by 6,500 and the territory losing three per cent of its workforce?

THE CHAIR: I will come to his next sentence now:

> When it comes to spending cuts, and in spite of all the talk of a brutal Federal budget, this one wasn't particularly tough.

Again, that is attributed to Chris Richardson.

Mr Barr: Yes, and go on and read his next one.

THE CHAIR: Let us go through this line by line.

Mr Barr: So 16½ thousand jobs are going.

THE CHAIR: Do you—

Mr Barr: Six and a half thousand in the ACT.

THE CHAIR: Do you think it was a particularly tough budget on the ACT?

Mr Barr: On the ACT? Tougher on us than elsewhere in the country, yes.

THE CHAIR: So Chris Richardson is wrong?

Mr Barr: His comments were not about the ACT; they were about the federal budget more broadly. And it is a tough budget on the ACT.

THE CHAIR: In the context of the opening line:

> "The Federal Budget hasn't really changed the overall picture for the ACT's economy that much."
>
> "When it comes to spending cuts, and in spite of all the talk of a brutal Federal budget, this one wasn't particularly tough.

Mr Barr: Yes, and go on and read his next—

THE CHAIR: No, no, no, but—

Mr Barr: No, you cannot partially quote someone out of context.

THE CHAIR: No, I am not selectively quoting, I am just—

Mr Barr: I spoke with Chris. I sat next to him through this forum. You were not there. So you are in no position to—

THE CHAIR: I am just reading what he has put here.

Mr Barr: quote him out of context.

THE CHAIR: It is inverted commas. I am not quoting him out of context. I am just—

Mr Barr: Yes, you have. If you go and read the next part of his comments—

THE CHAIR: He states:

> There will indeed be short term pain through to early 2016 in terms of Federal public sector layoffs—

Mr Barr: Thank you.

THE CHAIR: He goes on:

> but these have been known for a while.

Mr Barr: Yes, that is correct.

THE CHAIR: Yes, what did we do? Given they have been known for a while, what did we do to prepare for them?

Mr Barr: We have been running expansionary fiscal policy for a number of years now to cushion the impact of those decisions.

THE CHAIR: In regards to this expansionary—

Mr Barr: You have not finished reading his quote either, have you?

THE CHAIR: I will keep reading. Do you want me to read it all out?

Mr Barr: Keep reading, yes.

THE CHAIR: Do you want me to get down to what Ms Pezzullo says?

Mr Barr: Yes, go to his comments on the ACT's budget and our policy stance.

THE CHAIR: He says—he does not actually say anything about you. Which bit about you would you like me to read?

Mr Barr: Okay, I will bring up the article and read it out in a moment.

THE CHAIR: No, bring up the press release. I am quoting directly from the source.

Mr Barr: No, I will bring up his comments.

THE CHAIR: Do you want me to read it all? Okay:

> According to Deloitte Access Economics' Chris Richardson: "The Federal Budget hasn't really changed the overall picture for the ACT's economy that much."

New paragraph, minister.

> "When it comes to spending cuts, and in spite of all the talk of a brutal Federal budget, this one wasn't particularly tough. There will indeed be short term pain through to early 2016 in terms of Federal public sector layoffs, but these have been known for a while.
>
> "Although an extra 2,000 positions were sliced from the Federal footprint, but they merely sit on top of the 14,500 positions lost due to decisions announced by Labor while it was in office.
>
> "And while the Feds have sent a shot across the bows of the states and territories, it would be surprising if too much comes of that. State and territory budgets released since their Federal equivalent have shown no signs of panic.

Do you want me to keep going? Do you want me to keep reading? It continues:

> "The good news is that, even if all the cuts announced in the Federal budget get through the Senate, the decisions in the budget merely dial Federal spending back to an average of 2.7% real growth a year for the coming decade, compared to an actual annual growth of 3.0% over the past 10 years. Labor had promised to cut spending back to an average of 2.0% real growth—

So it would appear that the federal budget under the Liberal Party is more generous—

> which would have been much tougher."

Do you want me to keep going?

> Deloitte Canberra office manager—

Mr Barr: Mr Richardson said, "In the short term—

THE CHAIR: Hang on—

Mr Barr: I have no problem with the ACT—

THE CHAIR: Hang on—

Mr Barr: leaning into the wind to cushion the impact of the federal job cuts. Longer term, the ACT budget has to be sustainable too. But they can provide a bridging role, and they should."

THE CHAIR: And where are you quoting from?

Mr Barr: "And they should."

THE CHAIR: And where are you quoting from, for the Hansard?

Mr Barr: I am quoting from Mr Richardson's comments to the *Canberra Times*.

THE CHAIR: As I said, I do not have that here. I am just reading the press release.

Mr Barr: On 12 June 2014—

THE CHAIR: I am just reading the press release.

Mr Barr: at the event that I sat next to him at, spoke at and listened to all of his comments, and let me be clear, and let me repeat for the record: Mr Richardson said that he had no problem with the ACT government's position, and that we should—

THE CHAIR: That is okay.

Mr Barr: be providing a bridging role and cushioning against the impact of the federal job cuts. If your position is something different, then say so.

THE CHAIR: No, I was just asking you to comment on their quotes, minister.

Mr Barr: If you think we should be reinforcing the commonwealth's position—

THE CHAIR: I am just asking you to comment on the state of your budget, which Lynne Pezzullo said—

Mr Barr: Which I have done.

THE CHAIR: is in a much worse state than the ACT economy. That is the question. There are some presentation changes in the budget. The first one I guess is the portfolio statements. Why was the decision to go to portfolio documents rather than just keep the old—

Mr Barr: I announced this last year, as you recall.

THE CHAIR: Yes, I know, but I am asking you about the decision—

Mr Barr: To provide more information for the community and to ensure that the directorates have a greater level of accountability in terms of the budget statements.

THE CHAIR: Just by splitting them into individual documents?

Mr Barr: And they obviously have a greater level of information that is going to be contained—

THE CHAIR: So there is more information?

Mr Barr: That is my understanding, yes.

Mr Nicol: I will—

THE CHAIR: Well done; an hour and 20 minutes.

Mr Nicol: Well, the Treasurer has been doing a very good job.

THE CHAIR: Which is why you get paid the big bucks—to support him.

Mr Nicol: Mr Smyth, in answer to your question about why it was done, I think there were two reasons. One, as the Treasurer said, was to assign accountability to the directorates more directly. They are now preparing, and are responsible and accountable, for the final product, and that was the major reason.

The secondary reason was one of streamlining the process for delivering the budget. These documents are produced in very short order towards the end of the process and the amount of effort spent by the bureaucracy is quite large; so this streamlining makes it easier to produce.

THE CHAIR: All right, and there is more information, not less?

Mr Nicol: That is a good question, which I will have to—

THE CHAIR: The Treasurer said there is more information, not less.

Mr Barr: I believe so.

Mr Nicol: Can I ask Mr Miners to come to the table? He can give you exact details on what information is provided.

Mr Miners: The information in the budget papers has largely been put in a way that is easy to access. A large part of their providing more information is actually through making it easier to access, including through the way we structure budget paper 3 as well and the way the documents work together. So it actually makes the information easier to gather and to have consistent single points of reporting rather than having stuff spread through budget paper 3 and the old budget paper 4.

THE CHAIR: But being more accessible is different to having more information. Is there more information in the budget papers this year?

Mr Miners: There is nothing additional that we have added. However, I think that the way the tables are set out does give you more information in the way you can actually get that information. That is the main change since last year.

THE CHAIR: Has anything been deleted? Is there less information?

Mr Miners: No, nothing has been deleted. There have been some bits that are—some bits are now available online. The reader’s guide, for example, comes through online but there is nothing that has been deleted.

THE CHAIR: Ms Porter has a supplementary, then Mrs Jones.

MS PORTER: What you are saying, Mr Miners, to clarify is that because it is ordered in a different way we will not miss as much as we possibly would have missed where we were sort of flicking through different papers?

Mr Miners: That is exactly right.

MS PORTER: I have a plea for subsequent budget years. Could these forecasts, which I find useful because they are easier to carry apart from anything else, be numbered? I do not care how they are numbered but if they have a number on them, A, B, Cs or whatever, then they are much easier for us to refer to when we talk—

Mr Barr: To identify, yes.

MS PORTER: Yes. This one could be No 1, for instance, and this one could be No 2, but it is not. So you have to go down here and look at all this stuff down here. Then when you are referring to them you are not referring to any particular book number because it has not got one. That is just a bit of feedback for next year.

Mr Nicol: Sure, Ms Porter. Yes, I think we can do that and we would welcome other suggestions as to how readers get useful information out of the documents.

MS PORTER: Yes, but I do find them useful little books but the numbers would be nice.

THE CHAIR: Mrs Jones has a supplementary.

MRS JONES: Compared to last year's budget papers I think that we have got about 40 pages less when you add up the pages in the small booklets. It is also in a larger font. Is there a special reason for that?

Mr Miners: Less pages? A large part of it is—

MRS JONES: It is in a larger font as well. Is this just an attempt to make it look like there is a lot more here than there actually is?

Mr Miners: No. To be honest, I could not have told you that it was a different font. It is certainly printed in a font to make it readable.

MRS JONES: It is pretty obvious to me compared to last year.

Mr Miners: The reduction in the number of pages is actually due to a lot of duplication that has been removed. In some cases there were tables that were repeated multiple times through the budget papers in previous years.

MRS JONES: Because it was all in one book instead of across 10?

Mr Miners: Because it was spread across budget paper 4 and budget paper 3. There was a lot of duplication between those budget papers; so there has actually been a reduction across those.

MRS JONES: Right.

MS BERRY: Saving some trees.

MRS JONES: I doubt it with all these covers. I doubt that very much.

THE CHAIR: On another issue, the old table 2 normally had the UPF net operating expenses listed. Why was that removed?

Mr Miners: Could you repeat that?

THE CHAIR: In budget paper 3, table 2 normally showed—it is on page 3 this year—the underlying deficit, the UPF net operating expenses. That has been removed. Is there a reason why that line has been removed?

Mr Miners: That was literally to make that table consistent with the underlying headline net operating balance. The headline net operating balance is the key measure of fiscal performance in the territory, and that is why it is there. The UPF operating balance is still published in the budget papers, in the UPF tables.

MRS JONES: Whereabouts?

Mr Miners: Statement 9, page 297.

THE CHAIR: Who took the decision not to include the UPF net operating balance in table 2?

Mr Miners: That was part of the general discussion around making decisions with the office and with ourselves on how we present the budget papers. A lot of the work this year was following up on the review done after last year, in trying to streamline and remove any duplication of numbers. There is another table that used to have the one line in it which just had the headline balance and which has also been removed. So we have tried to make it a much clearer picture. Rather than have multiple measures and multiple indicators, we have tried to make it very clear as to what people should be looking at.

MRS JONES: Can I ask a supp on that. Which line are we referring to on page 297 for the UPF?

Mr Miners: It is about three-quarters of the way down. It says, "UPF net operating balance."

Mr Barr: It has lines above and below it.

MRS JONES: Yes, thank you.

MS PORTER: Treasurer, on page 11 in this book, at dot point 9 under "Economic Management" it says that economic management will "progress a review and reform of the Financial Management Act 1996". What are the reasons behind this particular review and how will the reforms benefit the ACT economy?

Mr Barr: I will ask Mr Nicol to comment more expansively in a moment, but the endeavour is to modernise the act. It is coming up to 20 years—

MS PORTER: Yes, I know that.

Mr Barr: and there are some elements of it that I do not think necessarily serve administrative efficiency or allow for the timely provision of information. So I have asked the directorate to review the act in order to ensure that we are able to perform the important tasks required under the act in the most efficient way, so that various delegations and the like are appropriately set and reviewed in light of changing circumstances, and the directorate will undertake that work.

Mr Nicol: Just adding to what the Treasurer said, we are undertaking the review to do two things. Firstly, it is to see how we can streamline, enhance and improve efficiency of the administration of the territory. Secondly, I am very keen to enhance transparency and accountability. Sometimes, under some of the existing arrangements, they can get mixed. So we are having a look at how they apply, how they affect operations of departments, how they affect questions like achieving value for money, being transparent and fair in the spending of public money et cetera.

It is also the case that the commonwealth have recently reviewed their financial management legislation, so I think it is timely to see what direction they are heading in to see if there are any lessons we can learn. As the minister said, it has been some years since the legislation has been reviewed, so it is timely to occasionally review legislation to see that it is contemporary.

MS PORTER: Mr Nicol, do you have any idea of the quantum of the change that might be necessary—or not until the review is done?

Mr Nicol: I would not like to presuppose the review. With respect to some of the factors we will be looking at, obviously if we can enhance transparency whilst also streamlining administration I think that is a good outcome. We would be making recommendations to the government and to the Assembly about those sorts of recommendations. But I have no prejudged ideas about where that may end up.

MS PORTER: What length of time may be necessary to undertake this task?

Mr Nicol: We are hoping to do it in two bites. We are hoping to have a first set of recommendations by the end of this calendar year, so if anything comes of that it will be early in the new year for the Assembly. That piece of work will also identify recommendations that might need longer term thinking and more work to get the right outcome. We have done it in this way to just try and make sure that the review does not last too long and we get some action out of it, if there is any action to be had, quite early, but recognising that we are not going to address every issue that is identified within that sort of time frame.

MS BERRY: Treasurer, how is the ACT government contributing to maintaining demand and construction in the ACT housing market?

Mr Barr: Certainly, there has been a period going back to about 2008-09 where supply into this marketplace has been at all-time record levels, coming off a period before that where supply was insufficient. So there has been a significant period of catch-up. We are now entering into a phase of perhaps more normal circumstances within the housing market, where supply can keep up with underlying demand and, in fact, start to make some inroads, by way of a substantial land bank to be available for future release.

Managing that transition to a period of oversupply is an important one because there are obviously competing interests that need to be balanced. Improving affordability is a priority for the government. We have certainly seen, particularly in the last 12 to 18 months, some significant improvements in housing affordability. But there is still strong underlying demand for particular housing types in particular locations. That is certainly evidenced by a number of recent transactions in, admittedly, very high value and attractive locations at Campbell and Lawson. Also the recent builders ballot in Moncrieff was very strongly supported.

It will be interesting to see what happens in the coming 12 months around some of the new estates that are released to the market, as well as some infill sites. There is certainly a sense that along the Flemington Road corridor at this point and in the Belconnen town centre there is now sufficient supply and that those projects that are underway will need to achieve a level of presales and then be constructed before significant new land would be released.

However, the program does allow for flexibility. I indicated, in the context of making more conservative estimates on expectations on revenue, that should there be stronger than anticipated levels of demand we would adjust supply accordingly. That will, of course, only benefit the budget bottom line. We will get an increased sales outcome and increased revenue as a result of higher than anticipated demand. If that happens, that will be well received, but there is reason to be cautious, given past experience and given the expectations on employment growth.

However, we recognise that the construction sector has added significant levels of employment in the last five or six years—from memory, going from about 9½ thousand employees to over 14,000. So there was considerable attraction into this market, particularly during the global financial crisis and the period of economic stimulus that followed that, that increased the level of construction activity. There is a chart in budget paper 3 that highlights that particular pipeline. I will come back to that when I find that page. Certainly, the desire over the next four years is to maintain that. It is on page 16, figure 1.3.4. You see that significant boost in both residential and non-residential building over the period commencing after September 2008. It took a bit of a dip through 2012-13, but it is now looking upwards again.

Our desire over the next four years, particularly with government support of infrastructure works, is to see that increase maintained, in terms of the real value of construction work in the territory, and obviously the residential sector will play a significant part in that.

Mr Nicol: The government has not taken any decisions to slow down capital works for making new blocks ready for sale. Moncrieff is an example. I think the aim of the government is to have blocks on the shelf ready to go should market conditions demand it, whereas we are not quite at that position at the moment because demand has been so strong. The government is still pushing ahead with making land available. The revisions to the budget estimates reflect our expectations of demand. If we are wrong, we will adjust.

MS PORTER: I want to understand about affordable housing. Ms Berry mentioned that. There is a delicate balance, I guess, between getting value for money in land sales and trying to make sure that the market is there. Also, there is a delicate balance about how much residential you build or allow to be built and in relation to how many people may lose their jobs. With bringing in construction workers to build more residential housing, it seems to me to be a little bit of a chicken-and-egg situation. I am really concerned about the affordable housing market. Could you talk a little bit more about that?

Mr Barr: Sure. The balance of the program seeks to maintain a strong emphasis on single residential dwelling release in a range of locations that allows for quite affordable product, relative to the rest of the Canberra market, and certainly relative to Sydney and Melbourne, where house prices have increased upwards of 15 and

20 per cent in the last couple of years, whilst ACT prices have remained pretty constant.

We have seen a real reduction in the ACT and nominal prices have been fairly constant. Obviously there has been significant growth in the two biggest cities on either side of us, and they are the two markets that probably have the greatest comparison with Canberra in terms of competition for new residents, on the basis of housing affordability within the program. We can explore this in more depth when we have the LDA and EDD here next week.

That balance between new greenfield estates, urban infill sites and multi-unit developments is an important one. The interesting question on multi-unit in particular is allowing previously released sites to achieve a level of presale that will ensure that the construction goes ahead. So the timing of release of multi-unit sites is important because if you release too many and none of them achieve the level of presales necessary, none of the buildings will be constructed and you will not have added to your housing stock. That risk is not really there in the single residential market because you are building one dwelling on the block; it is not contingent on a level of presales. So that is an important distinction between the different markets.

Those who follow the Canberra real estate market closely observe a number of different market trends. Where there is demand for downsizing opportunities within the existing suburban, town centre or group centre markets, there is opportunity. We will probably discuss this this afternoon, but the over-60s home bonus, the stamp duty cut to just $20, is certainly aimed at assisting those who want to stay in Canberra—particularly those who might be taking a voluntary redundancy out of the commonwealth public service, towards the end of their working life, or at the end of their working life. There are a number of people over 60 who are in that circumstance who will then be able to take advantage of this particular incentive. It will support a more efficient allocation of the housing stock and improve affordability.

By any measure, those government stimulus initiatives that cut stamp duty rather than fuel demand through the grants side are less inflationary and improve affordability overall. So in reviewing this, looking forward, we will also be very conscious of wanting to move further on stamp duty because, in the end, it is a bit illogical to give people a grant and then take it straight back off them through stamp duty. That is really just a circular transaction that ultimately appears to push house prices up. That is why we made the change to applying grants only to new construction, so that at least you are adding to the housing stock and it is less inflationary. Ultimately, in terms of the direction of policy, my preference over time is to cut stamp duty harder and faster and use the available revenue we have from various grant schemes to allow that to happen.

THE CHAIR: But if you cut stamp duty harder and faster, do rates not have to go up then harder and faster?

Mr Barr: No, not if I use other revenue sources to offset. That is the opportunity with making a switch away from grants to stamp duty cuts, which is why we have done it.

THE CHAIR: What are the other revenue sources?

Mr Barr: First home owners grant revenue, which is what we did in the last budget.

MS BERRY: There have been concerns in the community about employment in that sector, about whether or not those with jobs in construction and in building homes will be living over the border or whether they will be living in the ACT and whether temporary workers will be sending their incomes interstate. Do you think that is true or do you think it is much more complex than that?

Mr Barr: Invariably, things are more complex than simple anecdotal analysis might suggest. There is a degree of mobility in the construction labour market. The former president of the MBA in the ACT has moved temporarily to Christchurch in New Zealand to take up some opportunities there with a particular branch of his company. There will be movement to areas where there is significant construction. In this region, if you include New Zealand, rebuilding Christchurch is obviously a significant economic event and it is attracting some of the highly mobile labour and capital into that space.

You are seeing in Sydney some infrastructure projects that attract a level of market interest. But in previous times that interest was here. In addition to the usual pool of construction work in the ACT, there was a bit more than normal, and that did attract people in particular trades. Where there might have been a shortage of a particular skill set, that skill set was imported, often from interstate but on occasion internationally as well.

THE CHAIR: Mrs Jones?

MRS JONES: Mr Barr, going to cost of living and rates, I have listened very carefully to the explanation that the changes to the rates are fair, in your view, and are more efficient, which I suppose means more reliable for government in collection and so on.

Mr Barr: And less deadweight loss in the economy.

MRS JONES: Right. But I would like to talk to you about a real situation. In the 13 years of Labor government, am I incorrect in saying that income to the ACT government has roughly doubled, if you take into consideration CPI—maybe a little less?

Mr Barr: In nominal terms?

MRS JONES: Yes.

Mr Barr: Yes. I think income to every government in Australia has doubled, depending on when your time frames are. But the cost of service provision has, in some instances, more than doubled. So it is a completely useless measure.

MRS JONES: Thanks for that.

Mr Barr: Every budget increases every year.

MRS JONES: Okay. If I can go to my question, my question is this. This is a real family. They live in Belconnen. The father earns $65,000 a year. They have a family tax benefit of $9,000 a year, so their combined total income is $74,000 a year. Mum is at home. They pay $26,000 in rent and $7,680 on a car loan. They have some interest on their credit card—$787. They do not have any savings. They pay $1,400 in rates; $1,200 in insurance for their home; $3,640 in home maintenance; $1,200 on electricity; $400 on gas; $1,000 on water; $600 on the internet; $1,200 for phone, home line and mobile; $3,250 on health insurance; $2,000 in medical costs; and about $15,000 a year in groceries. They have two children. They pay $1,000 in car insurance and, in a good year, $1,000 in car maintenance. Their rego is $1,000. This is round figures. They pay $2,600 in petrol. Sharing a car between mum and dad, they pay about $500 a year in parking and about $600 a year on public transport. If they budget $2,000 for unexpected expenses, they live at minus $57 in the year.

If we go on increasing rates to families like this, who have already paid stamp duty, how is that fair? And how are they going to survive? Are we not just increasing the number of people who cannot afford to maintain a home unless they are both working in the ACT?

Mr Barr: In the beginning of your example, did you say the household was renting?

MRS JONES: No; they have bought.

Mr Barr: When did this household buy?

MRS JONES: If my understanding of the household is correct, they bought about four years ago, at a fairly low rate, because they bought from their landlord.

Mr Barr: In the circumstances you have just outlined—

MRS JONES: And the two kids are in public schools, so they are not paying—

Mr Barr: Sure. In the circumstances you have just outlined, that household, who you did indicate had a number of insurance policies, will, in the future, pay no tax on those insurance policies.

MRS JONES: How much will that reduce their insurance?

Mr Barr: By 10 per cent plus the GST.

MRS JONES: So 10 per cent of $1,000—

Mr Barr: Across all of the insurance products you have outlined.

MRS JONES: Home insurance and health insurance?

Mr Barr: And motor vehicle insurance.

MRS JONES: Okay. It is $3,250 health insurance, $1,200 home insurance and

$1,000 car insurance. So they will save 10 per cent—

Mr Barr: Plus the GST.

MRS JONES: Plus GST on $4,450.

Mr Barr: About 500 bucks a year.

THE CHAIR: Over what period?

Mr Barr: About 500 bucks a year every year into the future, and increasing because if the tax had remained in place—

MRS JONES: How much is that? What did you say that was?

Mr Barr: About 500 bucks a year, on those calculations.

MRS JONES: That puts them back at plus $450 per year, assuming that their unexpected expenses do not cap over $2,000, as in there are no major medical or accident events.

Mr Barr: Yes. And then that household's income will grow at around three per cent per annum.

MRS JONES: If they get a CPI increase of that.

Mr Barr: Yes. That is largely where the wage price index is at.

MRS JONES: How much in rates increases can they soak up before they cannot afford to live in the ACT at $500 extra per year, which puts them at plus $500.

Mr Barr: And growing—$500 and growing extra per year.

MRS JONES: Okay, but that does not really fix the structural problem, Treasurer.

Mr Barr: Yes, it does, because their income will increase and their tax burden in other areas will fall.

MRS JONES: While their rates go up by 10 per cent per year?

Mr Barr: They will not be going up by 10 per cent per year.

MRS JONES: They will over the next four years.

Mr Barr: No, they will not.

MRS JONES: It says in the budget papers "an annual increase of 10 per cent on average".

Mr Barr: For the coming fiscal year. But once insurance tax is abolished in 2016, it will no longer need to be replaced annually in the rates increase, so the level of rates increase will drop below 10 per cent.

MRS JONES: So can you guarantee to me that this family will be able to continue to afford to live on one income in the ACT?

Mr Barr: Provided—

MRS JONES: I know that is a ridiculous question, you might think, but they live out there. They really do.

Mr Barr: Provided that family's income continues to rise in line with the average wage price index, which I think is a reasonable thing to expect. I am hoping that in that particular household the worker is a union member and has a strong union representing them to increase their share of the wage share.

MRS JONES: I will go and tell them that is your advice to them, Mr Barr.

Mr Barr: It would be very sensible advice to be a union member and to be able to argue for wage increases each year to meet the cost of living. It would also be a very good thing to be able to access the range of ACT government services that are provided. In the context of the household that you have referred to, just looking at the budget papers, and I will just find the chart, there is an indication of the level of service provision to households, depending on their particular—

MR COE: Can you confirm that they are currently paying 10 per cent as their insurance duty? Or is it four or five?

Mr Barr: This year it drops to four; and then it will be—

MR COE: So they are not paying 10 per cent now. So that $500 that we spoke about—it is actually half that?

Mr Barr: What will be the case in two years time is that that saving will have increased to $500 a year, yes.

MR COE: No; it is currently—

Mr Barr: It would currently be about $300 a year, and it will grow and become 400, then 500. And then, each year beyond that, assuming insurance prices continue to increase, there will be the absence of a 10 per cent tax plus GST.

MR COE: But what they are currently paying is in effect the sum of what Mrs Jones read out times six per cent?

Mr Barr: It will be four per cent in the coming year.

MR COE: Four per cent, so it is even less?

Mr Barr: The saving will have increased—

MR COE: No. The insurance premium that that family is currently paying is nowhere near the $500 that you have said. What that family is actually paying is probably more like $250. I am not talking about two years ago; we are talking about the current scenario this family is in.

MRS JONES: $200 in insurance tax.

Mr Barr: Mrs Jones's question that I answered was—I asked the question as to when the property was purchased, and over what time frame.

MR COE: This set of figures was not from four years ago.

MRS JONES: No; it was from now.

MR COE: This set of figures was from now.

MRS JONES: Now.

Mr Barr: Yes, that is right. Had insurance tax remained at 10 per cent, they would be paying even more.

MRS JONES: That is not the point. That is not the question. I am asking—

Mr Barr: So they have saved—

THE CHAIR: You have got an assumed saving.

MRS JONES: But they are currently living at minus $57 a year.

Mr Barr: No, because they are being charged a six per cent tax rate, not a 10 per cent tax rate.

THE CHAIR: But if—

MS PORTER: Excuse me, chair; can you have only one person speaking at a time.

MRS JONES: However, they are currently living—

THE CHAIR: We need to, but I think Mr Coe has got a question—

MRS JONES: There was one question that—

Mr Barr: I know that, but to answer—

THE CHAIR: Hang on; hang on.

Mr Barr: To answer Mrs Jones's question, in terms of that household—who have, you said, two kids in public schools?

MRS JONES: Yes, in public schools.

Mr Barr: They are receiving about $45,000 worth of ACT government spending on those kids. And how old are the parents?

MRS JONES: That does not fix their household budget.

Mr Barr: How old are the parents?

MRS JONES: It makes no difference to their household budget.

Mr Barr: How old are the parents?

MRS JONES: In their thirties.

Mr Barr: In their thirties. They are receiving about $10,000 worth of ACT government expenditure.

MRS JONES: Can you just hang on a minute? Which page are you at, minister?

Mr Barr: Figure 2.3.1 on page 56 of budget paper 3 outlines the level of service provision provided by the ACT government to individuals. The revenue that is collected through the various ACT government charges contributes to that social contribution.

MRS JONES: Okay.

Mr Barr: For that household, they are receiving just under $25,000 each for the two kids, so they are receiving just short of $70,000 all up.

MR COE: That will help their cash flow, won't it?

Mr Barr: It is $70,000 worth of benefits and free services provided by the ACT government.

MRS JONES: But Mr Barr, my question is—

MR COE: Can they cash it in or not?

MRS JONES: If I can ask my question: at what point is the government not acting fairly to a family who have already paid stamp duty and when they are struggling to survive in the suburbs of Canberra?

Mr Barr: And the government provides a range of concession programs to assist that household.

MRS JONES: It does not fix their cash flow problems.

Mr Barr: Yes, it does—

MRS JONES: No, it does not.

Mr Barr: because it provides them with real cash.

MRS JONES: What provides them with real cash?

MS BERRY: Can I suggest, chair—

THE CHAIR: We need to wrap this question up. Perhaps you would like to take it on notice and explain how it provides real cash.

MS BERRY: I think that is probably best. The Treasurer is not here to provide individual financial advice when he does not actually have the information in front of him. I think it is a bit unfair.

MRS JONES: Well, I have read all the details. I do not mind taking it on notice, but I think it is beholden on someone who likes to stand up and say that it is fair to also able be to accept that for some people it does not feel very fair when they have already paid stamp duty.

THE CHAIR: The minister will take that on notice.

Mr Barr: And the same family who wants to buy a house—

MRS JONES: Can borrow, potentially, the stamp duty, Minister Barr, but they cannot fix—

Mr Barr: and pay interest on it.

MRS JONES: their cash flow problem as rates go up by $1,000.

Mr Barr: Or could not afford to get into the market in the first place.

MRS JONES: Well, let us simply say—

Mr Barr: So the family that buys now in those circumstances who saves $20,000 is much better off.

MRS JONES: Not their cash flow.

THE CHAIR: Mrs Jones can provide you with the details.

Mr Barr: Yes, their cash flow, Mrs Jones.

THE CHAIR: If you would take the question on notice on how the government will help—

Mr Barr: Well, I am not sure there is a question in all of that.

THE CHAIR: We have a couple of minutes left. Mr Coe has visited us, so we will give Mr Coe the last question before 11 o'clock.

MR COE: Thank you, chair. With regard to capital metro, can you please advise what analysis your department has done with regard to the funding of that project?

Mr Barr: In previous budgets some capacity was added within the Treasury directorate around infrastructure partnerships and PPP development capacity. That is predominantly focused in the short term on the territory's first PPP—the Supreme Court project—but a lot of that work relates to large scale infrastructure and is consistent across a number of different projects.

Mr Nicol sits on the project board and provides not only his professional experience in the context of that project board but advice to me as Treasurer and to the government more broadly in relation to our forward infrastructure program, which capital metro is but one part.

MR COE: Comprehensive.

Mr Barr: What specific information are you after, Mr Coe?

MR COE: Well, for instance, the budget does not include any figures for the construction of capital metro?

Mr Barr: No, it may never. We may undertake a PPP and we may not fund the capital construction of the project.

MR COE: Okay, so is there no future liability whatsoever that needs to be incorporated in the outyears of the budget?

Mr Barr: There will be, and it is in the provision in the forward estimates.

MR COE: Right, and so what is outlined in the provision?

Mr Barr: You see across the range of projects that are commercially sensitive that a broad provision has been made. Once contractual arrangements are entered into then we will have a price.

MR COE: Well, we have got a price here already. The Chief Minister said $614 million going up with CPI from 2011 dollars. So we have got a price.

Mr Barr: Well, that is "a" price, but not necessarily "the" price that will come through a procurement process.

MR COE: So the Chief Minister has had a bit of a change of language and it went from $614 million just as recently as a month ago to being $614 million in 2011 dollars plus CPI. What is that amount now which is the cap for light rail?

Mr Barr: I would need to take that on notice in terms of what the price escalator has been over that period, but compounding at three per cent—

MR COE: Well, if you could get us the definitive cap on that, that would be good. Has your directorate assessed what hit to the territory's credit rating expenditure of $614 million might—

Mr Barr: Yes.

MR COE: And what is that assessment?

Mr Barr: Well, according to Standard & Poor's, maintenance of a AAA credit rating.

MR COE: No, the question was: have you assessed what impact it might have if you spend $614 million in two or three years' time?

Mr Barr: Yes, given that the forward infrastructure program is $2.5 billion, $614 million can be comfortably accommodated within $2.5 billion over the forward estimates period.

MR COE: True, but that $2.5 billion has, in effect, an embedded rate of return, an internal rate of return on it. So given—

Mr Barr: Well, it has a cost of financing, yes.

MR COE: Given that there is serious doubt about the internal rate of return on the light rail project—

Mr Barr: No, I think you are confusing—

MR COE: Well, okay. So what—

Mr Barr: I do not think the rate of return on the individual projects impacts on credit rating; it is really our capacity to borrow and repay.

MR COE: Then what is the discount rate you would expect the project to be at?

Mr Barr: One would anticipate not dissimilar to the long-term commonwealth bond rate.

MR COE: But if it is a PPP, surely it is going to be considerably higher than that?

Mr Barr: It may be or it may not be depending on the approach to market and to what extent the government may play a role in providing some construction financing along the way. That was the model that was used on the Gold Coast—there there was a degree of private finance and then once certain construction milestones had occured, the government made payments to the private sector partner.

MR COE: I believe the total cost there is up to $1.6 billion for that project in total, both public and private funds.

Mr Barr: Well, that is a more complex project than the ACT's insomuch as it involves significant bridge work and significant activity in areas that were not—

MR COE: And also estimated 50,000 passengers a day as opposed to 4,500.

Mr Barr: The Gold Coast project can stand for itself. We will undertake our assessments of our project according to ACT circumstances.

MR COE: Sure. So with the housing releases that are happening at the moment, if the government is serious about light rail, why is the housing not being released on and around the light rail route?

Mr Barr: Well, it is. It has been.

MR COE: Where?

Mr Barr: Where? Along Northbourne Avenue in the CBD and along the Flemington Road corridor and in the Gungahlin town centre.

MR COE: So land or housing in the CBD is going to help light rail?

Mr Barr: Yes, because the light rail line—

MR COE: Where are the people travelling to?

Mr Barr: To work in Dickson and Gungahlin. There is significant employment in Dickson and Gungahlin, and it is growing.

MR COE: Sure.

Mr Barr: We have about 3000 staff between Dickson, Gungahlin and along the Northbourne corridor.

MR COE: And they all live in the city and will catch the train?

Mr Barr: A proportion of them will, yes.

THE CHAIR: Have you done modelling on how many of those officers will live in the CBD?

Mr Barr: Have I done modelling?

THE CHAIR: Yes. You just said a significant proportion will live in the CBD. Have you done any modelling to support that statement?

Mr Barr: No, I have not done any modelling, no.

THE CHAIR: So how do you know that to be true?

Mr Nicol: The project board has done modelling about patronage, direction of travel, getting on and off at which stops, where people work and where people live.

MR COE: The rapid business case said in 2031 something like 700 people will be going northbound in the morning on light rail, is that correct?

Mr Nicol: I would have to take that on notice, Mr Coe. I cannot recall the exact figure.

MR COE: I think I read 700.

THE CHAIR: Unfortunately we are going to have to wrap up. I am sure there will be other opportunities for capital metro later in the day later and later in the fortnight. Thank you for the answers so far and we will resume and specifically look at output class 2.2.

Sitting suspended from 11.03 to 11.19 am.

THE CHAIR: We are now back at output class 2.2, financial management. Treasurer, perhaps you could talk us through the level of government debt?

Mr Barr: It is relatively modest compared with other jurisdictions. Figure 3 on page 7 of the directorate budget statements gives an indication of net financial liabilities for GSP. The ACT is fairly comparable with New South Wales, Victoria and Queensland. Compared with the smaller jurisdictions, South Australia, Tasmania and the Northern Territory, it is obviously considerably lower. Really, only Western Australia and New South Wales have a stronger position.

THE CHAIR: The adviser to the estimates committee has said that debt in 2017-18 will level out at about $5.2 billion. Can you tell us what the components of that debt will be at that time?

Mr Barr: It will be a GGS component and a PTE component. Pat, do you want to—

Mr McAuliffe: The estimated level of borrowings in 2017-18 is around about $4.7 billion. I am not sure about the 5.2 figure; it is 4.7. The general government sector component is $2.8 billion and the PTE sector component, which is mostly related to ACTEW, is around $1.9 billion.

THE CHAIR: In that year, 2017-18, what will be the interest payments on that level of debt?

Mr McAuliffe: For the general government sector around $122 million and, for the PTE sector, $94 million.

THE CHAIR: Are we satisfied that that level of debt is sustainable and the payments are sustainable?

Mr McAuliffe: Yes.

THE CHAIR: So what happens? What is the long-term strategy to reduce the debt?

Mr Barr: While the territory runs a strong operating cash surplus throughout this period, we have a capacity to make future asset sales and to run budget surpluses.

THE CHAIR: What other assets are there to sell?

Mr Barr: Predominantly land, and some government buildings surplus to requirements.

THE CHAIR: Apart from ACTTAB, which there may or may not be an announcement pending, what else can be sold?

Mr Barr: In the near future. We have indicated the streetlight network is up for some consideration. We have surplus government land and property.

THE CHAIR: Will the level of debt continue to rise after 2017-18 or is it expected to decline?

Mr Barr: We expect stabilisation and then decline.

THE CHAIR: Stabilisation and then decline. So over what period of time will it be stable?

Mr Barr: That is the subject of future budget decisions, but I would expect a period of stabilisation and then decline.

THE CHAIR: The growth in the coming year: will all the borrowings be used in the coming financial year?

Mr Barr: That is my understanding, yes. We only borrow when we need to.

THE CHAIR: So all of the projects that are listed in BP3 as significant projects will be funded from the start of this year? They are all shovel ready?

Mr Barr: There is a component of works in progress on page—

THE CHAIR: On page 171 you have got a list that says "Significant infrastructure investments being made this year" which I note does not include capital metro or the sub-acute hospital. For instance, the Alexander Maconochie Centre: will we be turning ground this year?

Mr Barr: Yes, that is my understanding. They would have received some funding around the design and—

Mr Nicol: Mr Smyth, I am on the steering committee. Yes, we do expect work to be underway this year.

THE CHAIR: Expect or it will?

Mr Nicol: It will; absolutely. In fact, I think early works are almost due to commence now.

THE CHAIR: Okay. And Coombs P-6?

Mr Barr: Again, that received funding support in the second appropriation bill.

THE CHAIR: Yes, it did. The secure mental health facility?

Mr Barr: As I said, there is enabling legislation that will allow for that project to proceed.

THE CHAIR: But you do not even have a plan. You do not have plans for it.

MRS JONES: There are drawings.

Mr Barr: We can raise that question in Health in terms of that specific project.

THE CHAIR: Yes, but surely the health department raised that with you on the infrastructure committee. They are going through some consultation and there are some preliminary sketches, but my understanding is there are not even plans for the secure mental health facility.

Mr Nicol: I would have to take on notice the details of that project.

THE CHAIR: All right. The list of major projects on 171: could you please tell us which of those will commence this year and at what stage they are in their progress? Have they got plans? Are they DA ready?

Mr Barr: Yes, we can do that.

THE CHAIR: That is good. Thank you.

MS BERRY: I have a supplementary. Does the government borrow money for recurring costs like wages and things like that?

Mr Barr: No. We mainly operate in cash surpluses. Our receipts are greater than our payments, so we only ever borrow for infrastructure.

MS BERRY: Thank you.

MS PORTER: Going back to that figure on page 7—

Mr Barr: Financial liabilities to gross state product?

MS PORTER: Yes. You went fairly quickly over that and I did not quite catch what you were saying. I just wanted that explained to me a little bit more. Do you believe that the ACT is achieving value for money in the use of government resources?

Mr Barr: We went into this budget cycle with lower levels of debt than pretty much every other jurisdiction.

MS PORTER: Point number one.

Mr Barr: So we have some capacity within the matrix of a AAA-rated jurisdiction and then beyond that you would have a further capacity were you to borrow more, but at the expense of a AAA credit rating, which obviously has been the case in South Australia, Queensland, Tasmania and the Northern Territory, who have all undertaken borrowings greater than that. We think the measures and the provisions we have undertaken in the forward program are prudent but modest in the context of other Australian jurisdictions in that Australia overall, compared to OECD countries, has very low levels of public debt.

This measure gives a sense of where the ACT stands compared to other AAA-rated jurisdictions—so sitting level with New South Wales and a bit below the level of debt that the Victorian government has. Victoria and the ACT are the only two jurisdictions with a AAA credit rating with a stable outlook. New South Wales have AAA but are on a negative watch and the other jurisdictions, as you see there in figure 3, have lower credit ratings than the territory.

Relatively speaking, compared to other jurisdictions, it is a very modest program in the context of the territory's infrastructure needs in the coming three or four years. Again, it is a prudent program that both supports economic activity in the short term and adds to the productive capacity of the economy in the longer term. Our investments in transport infrastructure, for example, improve the efficiency of the city, and investments in health infrastructure improve health outcomes. Again, there is a social benefit but there is also an economic benefit. In a couple of the other priority infrastructure projects there is an expected return in terms of economic activity in the territory.

The large infrastructure projects come with significant costs. Take the convention centre, for example: $400 to 500 million, as a rule of thumb, financing plus operating subsidy of around 10 per cent. It will be $500 million and cost us $50 million a year to subsidise. We might be able to reduce that subsidy a bit if the government undertakes all of the works and builds it itself, but a PPP will require a certain return and it will have a cost. As a rule of thumb, given the level of operating subsidy required for convention centres just to maintain them—and they tend to be able to break even on their operating—the government has to put a sinking fund in place to maintain the asset and then meet the interest payments on the infrastructure. You are talking 10 per cent of that being an operating cost, so obviously we have got to make provision for some of those costs in our forward estimates and in our infrastructure program.

I guess one of the issues—and this perhaps goes to the earlier question from Mr Smyth around which projects reach shovel-ready stage when—is that it needs to be sequenced in order to manage the recurrent impacts on the budget once the infrastructure is operational. Clearly, new infrastructure comes with a range of costs associated with its operation. The questions that we will need to grapple with looking over the next four years are exactly when to approach the market and when we want certain infrastructure to be available, because it will then start to hit the bottom line. Hence you cannot build everything in one year. Aside from the capacity constraints within the construction sector, you cannot have all of that fiscal hit on the budget bottom line in one year either, hence the need to stage development.

THE CHAIR: Just as a supplementary to that. The current year's capital works budget is how much?

Mr Barr: $560 million, or thereabouts.

THE CHAIR: How much of that will actually be delivered?

Mr Barr: About 95 per cent, I think. I think I can answer it in the next couple of minutes. I will take it on short-term notice rather than a long-term one.

THE CHAIR: At a different interest rate, then.

Mr Barr: Yes.

THE CHAIR: All right.

Mr Barr: I might even have it now. No, it has just got the forward years. On next year's program, which is $620 million, there is $438 million of works in progress. That is about two-thirds: $131 million in new works; $50 million in capital upgrades. Then there is a range of ICT and plant equipment initiatives that take the total program up to 735. In this year $539 million is the expected spend.

THE CHAIR: Out of the 560?

Mr Barr: I think in last year's budget there was a rollover amount of $153 million, so 540 of 699.

THE CHAIR: 540?

Mr Barr: Yes.

THE CHAIR: Of 699?

Mr Barr: Of 699.

THE CHAIR: Okay.

MS PORTER: So far; up to now.

Mr Barr: Expected by 30 June.

MS PORTER: Expected.

Mr Barr: So in the next two weeks.

THE CHAIR: There is only so much you can do in the next two weeks.

Mr Barr: Yes, the next two weeks.

THE CHAIR: Just before we go on: Mr McAuliffe, you said the debt was $4.7 billion in 2017-18. Where is that expressed in the budget papers?

Mr McAuliffe: If you go to page 293 of BP3, there is a section on the general government sector. It is probably not clear; you have got to add the numbers. It is also in the balance sheet of the general government statements.

THE CHAIR: There is a chart on the next page which has it at about 4.55. In the balance sheet on 343, other borrowings, in the consolidated it has got it at 4.55. I could not find 4.7.

Mr McAuliffe: Yes.

THE CHAIR: If you want to take it on notice—

Mr McAuliffe: Yes, I will clarify that.

THE CHAIR: But it does beg the question: are you right or are the budget papers right, Mr McAuliffe? Who should I believe here?

Mr McAuliffe: No, it is in there. I will clarify the reconciliation for you.

THE CHAIR: That is kind; thank you.

Mr Barr: We will clarify it.

THE CHAIR: Thank you, because I would hate to be left doubting Mr McAuliffe.

Mr Barr: That is fine.

THE CHAIR: Ms Berry, a question.

MS BERRY: Obviously there are a range of factors that go into costing large infrastructure projects, and these sorts of things will not remain constant over time. What sorts of systems are in place for managing fluctuation in cost and risk?

Mr Nicol: We—

MS BERRY: That is the crystal ball I am asking you to look into.

Mr Nicol: It depends on the project, first of all. If it is a small, low-risk project, something that we have done many times before, we will use our past experience, and the analysts in the Finance and Budget Division will cost each of those using that experience. For example, with road duplication or a road upgrade, we have quite good metrics to manage that, and quite good experience. Generally, in the majority of those standard sorts of capital projects, the costings are quite good in the ACT; they come in pretty close to budget on most occasions. When you get to more difficult projects, that is when you have to invest more effort. For example, with a project like capital metro—dare I use that as an example?

THE CHAIR: Go for your life.

Mr Nicol: With the project board and Capital Metro Agency, we have hired specialist advisers to give us advice on the costing of these sorts of projects. We tackle that from multiple dimensions; the best way to get a good costing is to use multiple methods to come up with estimates. On capital metro or projects like that, you can take benchmarking, so you look at what another state or another jurisdiction has done, but that is probably the weakest way to cost a project like that. What you really have to do is get down and go through the construction methods, the construction processes, the costs of individual inputs et cetera—work out how much rail you need, how much dirt you have to move, how much cement you need and all that sort of stuff. That is the sort of thing. As projects get higher risk—and by risk I mean that we have never done it before, so we have never costed it before—and larger in terms of dollars, we obviously put more effort into doing those costings.

THE CHAIR: Someone's phone is ringing. Of course, having your phone on leads you to criticism of your choice of ring tones, but could we have all the phones on silent or off, please.

Mr Barr: It is the *Game of Thrones*; come on.

THE CHAIR: I did not say I was being critical; I just said it may lead to you being criticised. Sorry, Mr Nicol.

Mr Nicol: Thank you. We will also, subject to those sorts of costings, seek other independent analysis; we will not rely on one particular source of costing advice. We will get someone in to audit the costing or provide an additional, completely blind, independent costing so that we can compare how close they are going.

Obviously, when an agency costs a project, we will have a discussion between the agency and Treasury. That process usually can get tense, because we test assumptions, scope and things like that. It is surprising how often that sort of process identifies things that are undercosted or ill specified. That costing process will specify up a project as you go through it, and the costing can be progressively nailed down.

Ultimately, however, with a project like capital metro, a north-side hospital or projects of that nature, it is what the market is willing to provide the service for that we will have to use to get our costing. That is where you bring in competitive tendering and processes of that nature, to try to engender some cost competition, price competition, in the market. You can build up an assumption of a price for a project, but until you actually go out to the market and see what the market is willing to do it for—that is the ultimate test of how much it will cost.

A lot of the procurement and capital works reforms that have been undertaken in the last couple of years have been to move to that more competitive tendering process. Rather than having the ACT government building up a price, and then essentially engaging the contractors and managing the contractors ourselves, in which case you work to that price, we are seeking to move toward open tendering arrangements to get competition in.

As part of that, on some of the bigger projects, we will do market sounding. We will go to the market and test what they think a project can be delivered for. That will also be used as intelligence into our costing and estimation processes.

MS BERRY: You have probably answered it for me anyway, but the list that we were looking at before, the projects that have been included in the budget—I cannot remember where the list was now.

Mr Nicol: It is 171.

MS BERRY: Yes; that is the one. There are quite specific amounts for each of those projects.

Mr Nicol: Yes. A budget, by definition, has to have specific amounts for projects. They are our estimates. We then put a significant amount of effort into ensuring that projects are well managed. Obviously, you will always get projects that go over their budgets. And likewise we have projects that come in under budget. That is a process of delivery. They are cost estimates for those projects. Many of those cost estimates, though, will be fairly accurate, because of the nature of the project and the nature of the experience we have with the projects.

I should also note, just looking at the budget papers, that those projects and their cash flow are detailed on pages 188 and 189 of the budget papers. For example, you mentioned the secure mental health facility, Mr Smyth. You can see that the financing in 2014-15 is $3.8 million and in 2015-16 it is $30.6 million. Those numbers line up to where we expect the bulk of the work to occur for those projects.

THE CHAIR: But if you go over to where it is outlined by portfolio—it is page 210 for health—the bulk of the funding for the secure mental health facility is less than 10 per cent in 2014-15. Is that for actual design work? What does the $3.8 million cover?

Mr Nicol: I would have to take that one on notice, but I imagine that is what it would be. The first tranche in any project like that would be on design. Secure mental health is a very highly specialised facility.

THE CHAIR: Without a doubt.

Mr Nicol: Without a doubt. So we will have to do quite a lot of design and investigative work, part of which has occurred. Mr Murray, could you add any information on that particular project?

THE CHAIR: Mr Murray can speak only if he tells us his favourite character for the *Game of Thrones*.

Mr Murray: I could have sworn that phone was off. My understanding of acute mental health is that it is proceeding under a relationship contracting model.

MS PORTER: On what?

Mr Murray: A relationship contracting model in that particular case. These are models of contract delivery where there is greater risk sharing between government and the private sector—as opposed to, for example, a PPP, where there is quite a significant degree of risk transfer. Under that model, I would expect there would be design work—considerable design work—being done in consultation with practitioners. As has been mentioned, it is a very specialised facility, so it would involve a lot of up-front design work and consultation to get something you can mock up, just to get a facility that the specialist practitioners in the field would be happy using.

THE CHAIR: Is the $3.8 million spent this year in the relationship model for the delivery of the secure mental health unit just design or will there be construction in that?

Mr Murray: I would have to take that question on notice and speak to the project manager in that particular instance.

THE CHAIR: In the relationship model you just mentioned, where it has a different split of the risk than a PPP would have, what is the risk in the relationship model on the secure mental health facility?

Mr Murray: Under those models, in general, as I understand it, for that particularly, that would be an early contractor involvement model of delivery. You would bring a contractor in early on. You would try to share some of those risks. You might end up contracting in a model where there is open-book forecasting of costs. You might not transfer price risk the way you would transfer, for example, under a design and construct project. You might be sharing those elements of risk. Because of the specialised nature of the facility, it is not cost-effective to try to transfer them; they have to be shared.

THE CHAIR: Does this end up privatising the profit and socialising the loss?

Mr Murray: Under relationship contracting models, you do have some elements of pain share, gain share. I am not privy to the specifics of that contract, but there are circumstances where you will have an open-book methodology where you actually recognise that things can go wrong and you might have things that go right. Government would benefit where they go right but also share in the pain where they go wrong. There are very specialised circumstances where you want to use a relationship contracting model. For a facility like this, where you would expect you would need to have mock-ups and work through with clinicians as to actually how that facility would operate, that is an appropriate delivery model.

THE CHAIR: Perhaps you could give us a summary of the conditions under which you would use the relationships—take that on notice.

Mr Murray: Yes; absolutely.

THE CHAIR: Ms Berry.

MS BERRY: So in relation to the relationship contracting model—sorry, Brendan; I was not here. Was the question you were asking for current ones or previous ones, and are there examples of previous ones?

THE CHAIR: I simply asked about the secure mental health facility. You may ask on current, previous and future.

MS PORTER: Can I just ask for some clarification. Going back, Mr Nicol, to the example you were using about the costings and everything with light rail, or anything else, for that matter, but particularly with the light rail, the risk is to do with the land uptake also. Is that factored into that at the moment?

Mr Nicol: I can say yes and no. No to the extent that in delivering the light rail we have focused on the capital costs of delivering a light rail system, and the future operating costs as well. If the government chooses, say, a PPP model, it will be the financing costs et cetera of that model. That will, of course, also take in assessment of risk and risk transfer, and the value of that in an implicit sense.

Separately, we are also, obviously, looking at the corridor—what opportunities there are for the government to value-capture and what densification work needs to occur, because the capital metro project is one about densifying that corridor. We are in one sense separating them to a degree, just for work manageability reasons. We want capital metro—I certainly want capital metro—to focus on building and constructing rail. They will be interfacing, of course, with the broader questions of the corridor development, the value capture and value uplift from the corridor development, but that in many senses is a separate piece of work, which is going through the similar costing processes that we talked about earlier. In many ways it is much harder to cost than a capital project, but we are going through and assessing what sorts of value uplift typically occur with light rail systems around the world, how much land the government owns, what is going to happen with the rates take and the tax lines take through the corridor, et cetera.

Mr Barr: There is some excellent literature on value capture, and I thought I would share one particular piece. A member of our Assembly has written on this matter. She said:

> One type of partnership which may avoid the need for direct borrowing is based on *value capture*. As a leasehold city, Canberra is particularly well placed to utilise such a model to help pay for expensive infrastructure through the increasing value of land along any light rail route. Businesses would have numerous reasons to relocate along the transit route: reduced general transportation costs, and access to larger pool of potential services, jobs, customers and employees. Investors gain from increased land value along the route—a *permanent* route, unlike most bus routes. This would encourage medium to long-term investment and permanent business relocation.

This comes from a paper from the Speaker of the Assembly, Mrs Dunne, who argued that, amongst other things, the obvious answer to the city's transport needs is a light rail system. She said:

> All governments these days—but especially, and ironically, Labor governments—are now reluctant to borrow in order to fund what any sane person would regard as necessary, long-term investment.

Mrs Dunne went on to say:

> … there is a fundamental difference between borrowing for short-term consumption and borrowing to pay for essential infrastructure …

She very stridently said:

> It is time those in charge of public finances rethought their own cultural cringe. Just as the average family can only finance home ownership through borrowing, so the average polity must finance at least some of its wealth-building infrastructure from borrowings.

It is an excellent paper. It raises a range of issues.

MRS JONES: Assuming that it is wealth creating.

THE CHAIR: If that is the case, and you seem to take great comfort from the Speaker's words, why has the Chief Minister put a cap on expenditure on capital metro? And how does that sit with you, given that some years ago at one of these hearings you said there was no price too big?

Mr Barr: You suggested that. I never said that; you verballed me.

THE CHAIR: I will get the *Hansard* for you, Treasurer. "No price too big." "It is good public policy."

Mr Barr: You got a couple of years of cheap one-liners, to which I said, and I consistently say, that I am not going to pre-condition the market in relation to what we may receive in a competitive process.

THE CHAIR: So is the Chief Minister pre-conditioning the market in saying that there is a cap on it?

Mr Barr: No, I do not believe the Chief Minister is.

THE CHAIR: And are you in accord with that decision that the cap is now on it?

Mr Barr: The Chief Minister speaks on behalf of the government.

THE CHAIR: $614 million adjusted.

Mr Barr: The Chief Minister speaks on behalf of the government.

THE CHAIR: Perhaps you or Mr Nicol could tell us whether, for that, we can still deliver the full capital metro from Civic to Gungahlin.

Mr Barr: Yes. And in the context of approaching the market, we may be able to deliver more.

THE CHAIR: More? Fantastic.

MS BERRY: Mr Nicol, going back to the questions I was asking around how you put that number on different projects, you talked about projects that can come in under budget. One that comes to mind is the ESA station in Charnwood, which came in under budget by something like $1.4 million. Those were savings, as I understand it, in the way the contract was carried out and how they used different people. So it was not a saving in the price of the contract; it was a saving in how the project was built.

Mr Nicol: I cannot recall the specifics of that one, but it did come in at a lower cost than originally estimated, yes.

THE CHAIR: The project manager did an excellent job in delivering it on time and on budget.

MS BERRY: Under budget.

THE CHAIR: For budget, yes.

MS BERRY: Under budget—$1.4 million.

THE CHAIR: Yes, Mr Corbell's first project to come in under budget, I believe.

MS BERRY: It is still an exciting one for west Belconnen. Are those the sorts of variables that you are talking about or are you basing it on what the market will pay? What other things will change the price of what a market will pay for a contract, a big one like—

Mr Nicol: Certainly a key variable—I am not sure I am answering your question, Ms Berry—is price for a unit of labour, a tonne of concrete or whatever. That is very much determined or influenced by the state of the market. So in a very buoyant market, you tend to pay top dollar for those sorts of inputs. In a more subdued market, which is what I think we are facing in the next couple of years at least, we will get very good value for money on those pricing inputs.

We do not specifically analyse the state of the market. We take current prices for those inputs when we are doing our costings. They reflect the state of the market. But the price of construction is quite good at the moment compared to four or five years ago. That is a positive upside of the state of the general construction sector in Australia, I think.

On capital metro, for example, one of the other things that will be a key determiner of price is the sequencing not only in the ACT but around Australia of the systems. The Gold Coast is coming to the end of its construction phase; Sydney and Melbourne are both looking to extend light rail systems. In our current thinking in terms of where light rail is situated, we are well placed in a timing sense for having a lot of interest from the private sector, and it will sustain the activity in Australia over a long period. We would expect to get very good pricing on things like rail cars because there will be a sequence of rail cars produced for these sorts of systems over that sort of time. They are the sorts of things we take into account. Is that what you were getting at?

MS BERRY: I was trying to get a picture of it. For some things, obviously prices will go up with CPI—wages and the cost of things—but there are other things we could make savings on. You would not go for the cheapest price when you are looking at getting a contract for something like this. You would want to be getting the highest quality at market value, which depends on a whole lot of different variables.

Mr Nicol: There are certainly a lot of variables that go into what price you pay for something. For example, there is a trade-off between quality and up-front capital cost and ongoing maintenance costs. We prefer to take a whole-of-life view about what the best, efficient outcome is. Often if you buy a better built facility first up you will pay less over the lifetime of the project.

One of the reasons why we are investigating PPPs and design, construct, maintain and operate is because we get a link between the operational costs and the design and build at the front. So instead of having an architect design a great facility, then a builder building to what the architect wants and then someone else who is independent coming in and trying to maintain what has been built, we want the three of them to get together and design, build and maintain an efficient building for the whole life of the project.

That is where we talk about transferring risk to the private sector. That is difficult to assess in terms of cost. In the context of a PPP, the discussion earlier was about it having higher financing costs. Generally PPPs do have higher financing costs, but that is essentially the price you pay for that risk transfer. So you have to make assessments and weigh those two costs up when you are making those sorts of decisions.

Other things can also influence price outcomes. One is scope. You want to manage scope creep and avoid scope creep over a project's life. That means you want to define the scope before you go to market. The second one is weather. If it rains a lot, we get delays. With respect to the third, I remember at the supplementary appropriation estimates hearings someone mentioned unexploded ordnance. So lots of things can—

MRS JONES: And asbestos.

Mr Nicol: And asbestos. Contaminated land is a big issue. So we try and investigate that to the extent we can before we commit to projects. That is often why projects are delayed as well. We budget for projects being delivered well. As soon as there is a delay for external events—weather, asbestos or the like—you are going to get that delay in the timing. That does not always have a budget impact in terms of cost, but it can delay projects. We are trying to design the projects as much as we can up-front, know what we want to get, keep to that scope and then have competitive tendering so that we get the best scope to find savings and the most efficient delivery of infrastructure that we can.

MRS JONES: I want to go to the tables on pages 245 and 238 and talk about parking. Parking fees are projected to increase revenue by 30 per cent and parking fines by 32 per cent. Please explain how those figures will be achieved. I have had explained to me that there will be six or eight new inspectors for parking fines. What is the usual income per inspector? Will there be new car parking for which there will be a fee charged, having regard to the revenue increase for parking fees?

Mr Barr: The bulk of these questions you will need to ask in the relevant output class.

THE CHAIR: This should probably be asked this afternoon when the revenue commissioner is here.

Mr Barr: And also with Office of Regulatory Services.

Mr Nicol: I can give a brief overview answer, if you wish, Mrs Jones.

MRS JONES: Thank you.

Mr Nicol: There are several factors. The first is the new parking inspectors, and we can get details. We will make sure our colleagues have details of revenue per officer. Secondly, we have parking fee increases which are due—Ms Doran can remind me—on 1 July, and it has been 18 months since there has been a parking fee increase. The third factor is that we have rolled out new off-street parking meters which, according to our colleagues in Auditor-General's, will lift revenue by $1 million. I think that was the estimate she thought we were missing out on under the old machines that were prone to breakdown. We will roll those out to on-street parking in the next 12 months. Certainly, we will line up our colleagues to have more detailed answers.

THE CHAIR: Can we go to page 159 of BP3. In the table for expenditure, employee expenses go up three per cent. The commitment is no job losses?

Mr Barr: No net job losses; that is right.

THE CHAIR: So the number will remain the same and three per cent is simply the new EBA?

Mr Barr: Yes, although because the EBA has a six monthly 1.5 per cent, that annualises it at a little less than three.

THE CHAIR: If we work our way through the table, the superannuation interest cost is going up 12 per cent. Why is that when other expenses are going down 15 per cent?

Mr Nicol: I will ask Ms Doran to come to the table. My understanding is that is related to the valuation of our liability, which goes to the discount rate.

Ms Doran: The superannuation interest cost is directly linked to the valuation of the superannuation liability. The actuarial assessment is undertaken every year. That liability is dependent on the discount rate that is used. So we can get the variation when the liability goes up at a point in time using a different discount rate, which then drives the expense line of that point-in-time figure in the liability.

THE CHAIR: The next line relates to depreciation and amortisation. Why is that up eight per cent, or what drives it? I read the notes, but can you explain it, please?

Mr Nicol: I might have to take that on notice because it is a result of summing the depreciation across every directorate. So we can look into what directorates and what projects are causing that change.

THE CHAIR: That is fine, thank you; and the same with supplies and services. I get worried when I see three 14 per cent increases all in a row, just neatly, line by line. Why are supplies and services going up 14 per cent? They took quite a dip from the current year. Again it is mentioned in the notes but not particularly well explained.

Mr Nicol: Again, I will take that on notice and give you a detailed description. That line could be related to movements—rephasings from 2013-14 which depress your base and move into 2014-15, and that increases your base. I suspect that is what is causing that line but, again, I will take it on notice.

THE CHAIR: All right, and could we have a breakdown of the key elements of what—

Mr Nicol: Yes.

THE CHAIR: With the other operating expenses, again, those three lines have all taken a dip in one way or another and then are heading back.

Mr Nicol: I suspect that they are the rollovers, but we will confirm it.

Mr Barr: Fewer insurance claims payments is also mentioned in the notes, and changes to actuarial assumptions.

THE CHAIR: Yes, they are nice words but it does not actually explain it to me. So you will take those on notice?

Mr Barr: Yes.

MS PORTER: Pages 161 and 162 talk about the community service obligations. Treasurer, could you talk to us a little bit more about that? It says:

> The separate identification … provides transparency on the full costs of services and the financial implications of Government …

Mr Barr: Table 4.1.2 outlines across the different directorates where those expenses are incurred. As you will see, they are as diverse as free plants from the Yarralumla Nursery, bus subsidies to operate the ACTION network, charging below market rates for access to Exhibition Park, and a range of concessions in relation to schools, churches, hospitals, benevolent and charitable institutions, as well as a series of rebates on water and sewerage charges for pensioners and healthcare card holders. The ACTION subsidy is the biggest rebate followed by rebates on electricity bills to pensioners and healthcare card holders.

Presenting this information in this way does give a sense of the range of social justice measures that are contained within our budget that support the provision or subsidisation of a range of services to either lower income Canberrans or, in the case of churches, hospitals, schools and benevolent and charitable institutions, certain benefits that are provided to those organisations, which essentially have a community service role.

MS PORTER: In relation to electricity prices, we heard some discussion about that on the radio this morning. It is a given that we have the lowest electricity prices around Australia, but we do have some pressures in that area, and also in gas, as was being discussed this morning.

Mr Barr: We increased our concession amount by five per cent in this budget, which is more than the increase that the ICRC have approved in a pricing model with the carbon tax. If the carbon tax is abolished, as is now anticipated, through the Senate after 1 July, obviously electricity prices fall, but our concession increase will remain in place. In terms of a relative improvement for households, certainly with the carbon price in place they are better off; with the carbon price removed, they are even more better off.

MS PORTER: We could have another discussion about what they did in other areas, of course.

Mr Barr: Yes. With the introduction of the carbon price there were concessions through the federal government tax system, some of which have been stripped away by decisions in the federal budget around transfer payments and the like. So once you piece together the entire picture, the unfairness of the federal budget in terms of who wears the burden at a household level is clear, and then there is the cost shifting that has occurred to state and local governments as well that necessitates changes in policy settings at those respective levels.

MS PORTER: With the community sector funding, is that just the CPI?

Mr Barr: There is a composite rate there that is 80 per cent WPI and 20 per cent CPI. It comes out at 2.9, given the WPI at three and CPI at 2.5.

MS BERRY: Just on those concessions, Treasurer, you said there has been a five per cent increase on the electricity one?

Mr Barr: Yes. So, the budget contained an increase there and also the extension of the water and sewerage rebates to those who hold commonwealth healthcare cards. We took a number of decisions in the budget to extend the availability of concessions to a number of lower income earners in the territory who had not previously been able to get access at all and who now can. And we have increased the value of certain rebates as well.

MS BERRY: What does a low income earner who could access this look like?

Mr Barr: In the context of our rebate system, qualification is along the lines of eligibility for the various commonwealth payments, so commonwealth pensioners, part pensioners and healthcare card holders all have access. The range of concessions available on a number of other ACT government programs sometimes have higher levels of eligibility beyond just those who are on the statutory payments from the commonwealth.

The targeted assistance strategy that the Chief Minister developed in partnership with the community sector looked at how the government could better target its assistance to those who sit above a number of the commonwealth-supported payment structures but whose incomes are below the average in the territory. There were a range of measures, and what we have seen in recent times—this obviously came up in the context of the second appropriation—was that the territory government put more money into the overall concessions program to meet some of that increased demand.

I think two things are driving this: one is increased eligibility in certain concessions and then you are also seeing, as a result of the broader economic circumstances, as some people are losing their jobs, for example, that more people are becoming eligible. From press reports and from what I have heard out of the commonwealth budget estimates, the commonwealth have acknowledged some of this by setting aside many hundreds of millions of dollars for emergency relief. They have recognised the impacts of a number of their decisions and then provided some additional support into the community sector, although it remains to be seen whether that is going to be sufficient.

It is an interesting policy approach to throw people off benefits but then throw a little bit more money into the community sector to provide emergency food assistance. But that is a whole other debate and we can have that at another time. But the approach we have sought to adopt here is that where we can make some further extensions and assistance in the context of our targeted assistance strategy, we have done that. I think that is a fair and balanced approach to concession delivery.

We are going to do some further work in this area. The concessions area has moved out of Community Services and is now aligned with the Revenue Office because that is where we deal with the bulk of our transactions. That will allow us to better identify and target assistance and ensure that we can deliver that in the most effective way. We are certainly looking at a number of different options on that and we will have a report and assess an opportunity for consultation on that with the community sector in particular in this coming 12 months.

MS BERRY: Has that concession increase been as a direct result of what is happening in the commonwealth, or is it a combination of there being an increased need anyway?

Mr Barr: We had a look at what happened in the federal budget and looked to respond where we could. We know there is fairly pernicious targeting of some people who were described by the federal Treasurer as the "leaners", and we looked to see what we could do to assist. I think in the interview the Treasurer said we are going to break our society into two groups of people—lifters and leaners. If that is the way this country is going to run, mandated by the national government, then I think those of us who do not agree with that assessment of our society can look to take steps within our jurisdiction to assist.

Interestingly, one of the more challenging funding cuts in the federal budget related to some of the national concessions program that were part of the national partnership between the commonwealth and all the states and territories. As the various state budgets have rolled out, you have seen a range of different responses to the continuation of those programs. So in Queensland on budget day they canned them all and blamed it on the commonwealth, and then two days later the Premier had to overturn that decision. I think they made the right decision in the end, but in Queensland they cut it on budget day and two days later changed their minds. Premier Newman had a couple of uncomfortable talkback sessions, it would be appear, and decided that, no, in the end, they probably wanted to support the continuation of concessions.

The Victorian government, to their credit, kept the program running, and we will wait and see what happens.

MS PORTER: South Australia is making announcements that they are going to.

Mr Barr: Yes, I understand that they will try and continue it as well, and the New South Wales budget comes out pretty soon, too, so we will see. Obviously in the larger states it is a lot of money and it is a challenge. Again, this is another example of the cost shifting we have seen from the commonwealth. Yes, it makes their bottom line look better, but it worsens the bottom line of state and territory governments or of individual households.

THE CHAIR: Moving on—Mrs Jones.

MS BERRY: Well, that was a supplementary.

THE CHAIR: All right. A new question, Ms Berry.

MS BERRY: On a whole different area around working with ABS data, does the ACT budget absorb this cost?

Mr Barr: I guess to the extent that some data sets that were previously collected will not be in the future, that might necessitate us having to periodically try and get some data. A number of phase-outs of ABS data are mooted at this point. For us as a small jurisdiction, the worry can also be the sample size. If their budgets are tightened in terms of getting access to some of the key metrics for us, if their data starts to become unreliable because the sample size is too small, that is a problem.

Mr Nicol: It would be very difficult for us to replicate what the ABS does. If they stop doing something we will just lose the data, I think. We will try and use other administrative sources and other sources where we can, but it generally will not be of the same quality. Having an ABS-produced statistic is obviously very beneficial for a government and for a department because they are an independent statutory body, they are public and they have significant resources to ensure statistical quality et cetera. We would find it very difficult to replicate that.

MS BERRY: And what sort of information do we provide?

Mr Nicol: That we provide?

MS BERRY: Yes, that you provide.

Mr Nicol: A lot of our data we collect is qualitative data, so we talk to the local business community, for example. A lot of it is administrative data, so we look at when people pay their rates bills and delinquencies and things like that. That is the sort of data we collect. Several of our directorates run surveys in various guises and forms, and that data is used for various purposes. But, by and large, we do not try and collect the base economic data that the bureau collects, like labour force data, state final demand and that sort of economic data. We rely very heavily on the ABS.

MS BERRY: And you mentioned that because we are a small jurisdiction it can sometimes affect the quality of the data. Do you forecast any impact from the cuts to the ABS on the sorts of data that you are collecting now from the ABS and how that will affect your work in the future? You alluded to that just previously.

Mr Nicol: We are having discussions with our other state and territory colleagues, because they all rely on the data from the ABS as well; it is not just the ACT that has taken this approach. We have had discussions with them about various bits of data that the ABS has foreshadowed they may not provide. That is still in fairly early discussions, but our aim is to engage as a collective with the ABS to try and find ways that they can provide as much data as they can. If there are more efficient ways to collect it, we might be able to help them with that. Sometimes it is not just a cost factor for the ABS; it might be a confidentiality factor. So it is about can we find ways to get around those sorts of speed bumps. But we have not had a huge in-depth discussion about review of what the ABS is currently thinking of doing.

MS BERRY: Wait and see.

Mr Nicol: Pretty much, yes.

THE CHAIR: Mrs Jones.

MRS JONES: I want to go to savings. Budget paper 3, page 165, indicates there will be a generation of $37 million in savings from administrative efficiencies. Can you explain how non-permanent staff will be treated? If there will be job losses for non-permanent staff, will contractors be let go? Also, where are the efficiencies coming from and how do you envisage achieving $37 million in efficiencies?

Mr Barr: They will be apportioned throughout the ACT service over the forward estimates period, noting that those savings do not come into effect until the following fiscal year, so it is over 2015-16, 2016-17 and 2017-18. There are a number of areas where we anticipate being able to make those savings, including financial management, corporate, human resources and communications functions through some further streamlining of back-of-house operations. The investments in new digital technology certainly can assist in streamlining our processes. So through the savings program, we intend to make some further savings in terms of our data storage costs and the like.

I am certainly hopeful that through the forward program of the ACT government's property holdings, for example, we can make some savings in terms of more efficiently utilising our portfolio.

MRS JONES: Selling properties?

Mr Barr: For example, but then also more efficiently utilising the remaining buildings. There are some administrative savings that can come there. As we move into new office accommodation, we have the capacity to make some administrative savings through those processes because the design of new buildings certainly enhances that.

MRS JONES: Did you say the design of new buildings can enhance the use of space?

Mr Barr: Yes, can allow more efficiency. In essence, with the number of people per square metre, your rental costs can come down in a modern designed office. So moving out of the Callam offices in Woden into the new Gungahlin office block that is purpose built gives some capacity there.

MRS JONES: So non-permanent staff or contractors?

Mr Barr: They fluctuate from year to year by nature of their employment. There will always be a need for some contractual work within ACT government. Agencies' needs will vary. Some will have—

MRS JONES: I am just asking whether in the planning for these savings non-permanent staff are going to be let go.

Mr Barr: It is hard to foresee a situation where there is no impact at all on levels of non-permanent employment, but the extent of that could be very modest and could well be offset by new initiatives and programs. So when an agency takes on a new project they will hire staff to assist. To the extent that these savings present an opportunity for, in effect, financing some of the new projects, any employment losses in one area are offset by gains in another.

MRS JONES: Well, offset in numbers, but there are still people losing their jobs, presumably?

Mr Barr: If you are on a short-term contract, it is what it is—a short-term contract. If you have a particular skill set, for example, if you are an engineer or you have a particular role in the design of the forward capital works program, then your short-term contract ends when that program ends. But there is nothing to stop you from taking that skill set somewhere else, possibly to another area of ACT government. You could be working on the reference design for the new convention centre, for example. You could be designing the new Supreme Court. There could be a range of things.

MRS JONES: Just as a supplementary to that, which agencies are you expecting to expand or decrease? I think you were looking at not having too many number changes across the board, but where are you expecting the losses and the gains to be?

Mr Barr: In terms of employment across agencies?

MRS JONES: Yes.

Mr Barr: There is a table in BP 3 on page 363 that outlines movements between budgets and actual and estimated outcomes. Bear in mind that, as I said, the number of FTE at a particular pay period is the actual, whereas the budget indicates an average FTE over the course of a fiscal year.

MRS JONES: I note here that Capital Metro Agency has, for the current financial year, no-one against it. But there are employees in the Capital Metro Agency, are there not?

Mr Barr: You are looking at 2012-13 there. In 2013-14 they have 20.

MRS JONES: But the director was engaged before now, the woman who has been engaged to manage the project?

Mr Nicol: Ms Thomas, I think, was engaged late in 2013, which is 2013-14.

MRS JONES: Another bucket of money or something.

Mr Barr: So that will come up in the 2013-14 fiscal year.

THE CHAIR: Just following up on that, I note that the notes say:

> The Government will provide funding for these items to generate savings as outlined in paragraph 2 above.

What is the funding for the administrative efficiencies and the digital dividend investment strategy and the transformational service delivery projects?

Mr Nicol: I think, from my recollection, administrative efficiencies was an allocation of $5 million in 2015-16.

Mr Miners: Through the restructure fund. In the administrative efficiencies, there is $500,000 to set up a team to actually identify those and work through it. There is $5 million in the restructure fund for the digital savings, and that is basically to allow directors to identify projects that can make savings in the future and that need an investment up-front. We use funding from that to—

THE CHAIR: The projects on page 113 of BP 3 are listed as whole of government. They do not relate to the savings?

Mr Nicol: That is the administrative efficiencies.

Mr Miners: Yes, those two are the—

THE CHAIR: So over four years we are saving—

Mr Nicol: That is the large bulk of that one. There are a couple of other minor savings in that.

Mr Miners: If you look at the top there, the $500,000 is identified in 2014-15 for the administrative efficiencies. For the digital dividend investment strategy, it will be identifying $5 million worth of savings, but there is also $5 million put aside to generate those savings long term. So there is actually a saving and a spend in that in 2015-16.

THE CHAIR: So is that table on page 113 wrong?

Mr Miners: No, it is exactly right. It is because it is the net.

Mr Nicol: They are the same—

Mr Barr: They are the same netted off. That is the net impact on the budget.

THE CHAIR: For the administrative efficiencies, the total saving is $37 million over the four years? That is a net figure? That is net after the expenditure of $34 million?

Mr Miners: That is right. Sorry, the $37 million is gross.

Mr Barr: On page 165, table 4.2.1 has the gross savings and then the one at page 113 you are referring to is the net budget impact.

Mr Miners: That is right. The other item that is there is some supplemented regulatory reform; and there are also some net savings and spends there too, which is why those two numbers do not add up exactly.

THE CHAIR: So we are not spending $34 million to save $37 million?

Mr Miners: No.

THE CHAIR: So that is a gross and then the tables on 113 are net?

Mr Nicol: The signs are also around the other way.

Mr Miners: The administrative efficiencies are a $34 million saving net.

THE CHAIR: It is now 12.30. We have come to the end of this session. We thank all those who have attended this morning. We will return at 2 pm and we will have, amongst other things, the superannuation provision account, the territory banking account and of course the Commerce and Works Directorate, revenue and government business management.

Sitting suspended from 12.30 to 2 pm.

THE CHAIR: The committee will now resume the public hearing of its inquiry into the estimates for 2014-15. Good afternoon, Treasury Directorate officials and agency officials, most of whom I think were here this morning. Why do we not just get right into the superannuation provision account?

Mr Nicol: Mr Smyth, if you are in agreement, I could get Pat McAuliffe to come up and answer that question on the debt numbers first off?

THE CHAIR: Yes, why not.

Mr McAuliffe: As I explained this morning, the total estimated borrowings at the end of 2017-18 is $4.683 billion, comprising general government sector $2.814 billion and public trading enterprise $1.869 billion. In budget paper No 3 at page 343 there is the consolidated Treasury balance sheet. There are two line items that make up that number: advances received, $125.6 million, and the other borrowings figure of 4.557. The reason for that little bit of a difference is the treatment that those advances receive. They are commonwealth advances provided at self-government in relation to housing debt. So they just get treated separately as an advance as opposed to a borrowing.

THE CHAIR: So the total debt that the territory will hold is estimated in 2017-18 as being $4.683 billion?

Mr McAuliffe: That is right, yes.

THE CHAIR: Thank you for that, Mr McAuliffe. That is very kind. Treasurer, I turn to the superannuation provision account on page 59 of the budget papers. Will you explain what is happening with the coverage and what is our progress in meeting the 2035, or thereabouts, highlight?

Mr Barr: You are referring to the superannuation liability funding level and what percentage?

THE CHAIR: Yes.

Mr Barr: The 2013-14 estimated outcome is 56 per cent. At the end of this fiscal year, it is 56 per cent. In the 2014-15 budget, it is 57 per cent; the 2015-16 estimate is 58 per cent; the 2016-17 estimate is 60 per cent; and the 2017-18 estimate is 62 per cent.

THE CHAIR: A fabulous read of page 288, Treasurer. What is the prospect for the peak there in, let us say, 2042 or thereabouts?

Mr Barr: When will it peak?

THE CHAIR: No, when will we get to 100 per cent coverage?

Ms Doran: We are still on target, according to our funding plan, to reach 100 per cent coverage by 2030. The capital injections that are being put in year on year are targeting to that level.

MS PORTER: Good afternoon, Treasurer; good afternoon everybody. So on page 62 under output 1.1, the dot point that is in the middle there talks about “continuing to implement, manage and report on the government’s responsible investment policy”. Could you give us an overview of the principles for responsible investment? Also, on the same page reference is made to our policy. I was wondering whether you could explain how our policy is reflected in that—if that is our policy?

Mr Barr: We might ask Mr McAuliffe to talk you through that.

MS PORTER: Thank you very much.

Mr McAuliffe: The government signed up to the principles of responsible investment back in 2008. Essentially, the principles are about the investor having a set of broad beliefs around integrating responsible investment practices into their investment portfolio. It is not really a sort of hard tool—just knocking out things you do not like. It is actually more about an integration. You still can run a diversified portfolio to try to get a mix across your different asset classes, but at the same time you want to try and understand what sort of risks are going into your portfolio.

They could be direct risks relating to environmental-type issues or even things like governance within a company. You want to make sure that companies have got good management practices and those sorts of things. So the government signed up to that. Over the last number of years we have been through a careful process of looking at the structure of our investments to make sure that we are meeting those broad objectives.

We have done a number of things over the last few years. That was largely on the back of the public accounts hearing that went into some exposure draft legislation. The government then put out a responsible investment policy after that and it set out a number of longer term objectives to head towards. We have largely done a lot of work around that.

I instance a couple of the things that we have done. One relates to our share voting. Previously, where we owned share investments, our investment managers would vote the shares in accordance with their own policy. The government has now put in place its own sort of share voting policy. It is around sustainability. What happens now is that all of our shares are voted in a consistent way against that policy.

The other thing we have done is to look to have a better control over our investments. A large proportion of our share investments were just held in managed pooled funds. Once you are in a pooled fund, all you can do there is buy a unit in something; so you have got no control. You have got no share voting rights. You cannot tell the manager to divest something if you do not like it. You go with the broad rules of the fund. So we have changed our process now. All those shares are directly owned. So we can actually set up an investment mandate and set the rules around it. That gives you that better control.

A lot of those shares are also benchmarked against a more customised benchmark. The benchmark takes into account whether the particular activities are prohibited activities, which the government has announced—things like directly involved in the manufacture of tobacco. We can now set the rules and say, "Do not hold those stocks." The benchmark, when it gets constructed, also takes into account some consideration of risk—environmental, social and governance risk—and also some broader global norms such as labour rights and things that are going on within a particular country or company.

When the benchmark is then constructed, two investment options are weighed up against each other in that construction process—that this one has got a lesser risk around those particular issues than that one; so that is what will go into the portfolio. They have probably been the main things. We have also increased our reporting and disclosure. If you go to CMTD website now, there is a way you can find a copy of the government's response to investment policy. We actually disclose a full list of all of our direct shareholdings; so people can have a look at those.

All of our share voting activities are recorded and reported there and people can see them. As we have got set out as one of our accountability indicators, we have said that we want to exercise at least, I think, more than 95 per cent of our voting rights. We aim to exercise those rights. So you can see all the activity as well. At the end of last March, I think it was, being a signatory to the PRI there is a mandatory requirement—

MS PORTER: PRI?

Mr McAuliffe: The principles for responsible investment.

MS PORTER: Which we are talking about, yes.

Mr McAuliffe: There is a mandatory requirement for all signatories—this is globally—to actually complete a reporting tool that sort of reports on your activities in this space. That report will be due out in the next month or so. That will be a good measure to see how the actual activity stacks up against these broad objectives and guidelines that have been established for signatories—

MS PORTER: It will show us how we are travelling?

Mr McAuliffe: That is right, yes.

MS PORTER: So recently we had the 350 organisation appeared before us, Treasurer. I believe that your office has had some discussions with this organisation. They talked to us about some risks of going forward, particularly in relation to such things as coal. In the future we might have enough coal for our needs and the needs of the world—China or wherever. We may actually have assets in the ground that we would necessarily have to leave in the ground because they are not going to be utilised in the future when we are talking about environmental pressures, sustainability and things like that. Are we looking into that area of risk that we might have in the future in relation to those kinds of things that going forward will not be utilised anymore because of decisions that are made by governments here or elsewhere in relation to emissions and reducing emissions?

Mr Barr: Yes, there is obviously a lively debate about how real that risk is and over what time frame.

MS PORTER: Yes, of course. That is why I am asking you if you are looking into it.

Mr Barr: I think you always need to be prudent in managing those things. But frankly a lot of this is gesture politics that at times I have to say I find a bit frustrating. Anyway, to the extent that risks are real and need to be appropriately accounted for, through the provision of the advice that the government gets on this investment we certainly take that seriously. I would characterise the position at the moment as being not quite as alarmist as that particular group represents. But equally we are not taking a position that the Prime Minister appears to have taken in his recent public comments about coal forever.

MS PORTER: That is really why I am asking this question today. It is a lively debate at the moment and I think that it is something that should be looked at.

Mr Barr: Yes. Are decisions made by ACT superannuation investments going to change the world? No. I do not lose too much sleep over this question but you always need to be engaging in those risk-based assessments. Whilst coal might be the flavour of the month at the moment with certain activist groups, it is not necessarily just limited to that question.

I think the only thing certain is that there will be change in our portfolio, in our holdings, over time as you maintain a diverse and balanced set of holdings. Is it reasonable to assume that over time that might mean less in some of those areas that are of concern to that group? I think it probably would over time but the idea that you immediately go out and divest yourself of everything right now—I am not sure they are advocating that, by the way; I do not want to put words in their mouth but—

MS PORTER: No. I think they are advocating some—

Mr Barr: a certain level of prudence in risk is absolutely wise and something we do.

Mr Nicol: Could I just add to that, Ms Porter? We said that we do take advice on the future risks to our portfolio and try and invest wisely and cautiously. I would also say that a lot of investments in this area are multiproduct companies. They are energy companies. While the energy mix might switch, I think we are still going to be using energy in future. So a lot of the solution to the coal issue will be coming from those energy companies themselves. A lot of that market switching will happen as those bigger companies switch the energy—

MS PORTER: As they diversify themselves and divest themselves.

Mr Nicol: That is right, exactly. But it is certainly something we look at from a threat and return point of view in our portfolio emissions.

MS BERRY: I have some supplementaries to those couple of things that Ms Porter raised around our investment and how the government makes decisions on that. Where does the government get advice from in terms of making the decisions around shareholder resolutions? I think you were talking, Mr McAuliffe, about how the government now can make a decision about where investments are made. Where does the advice come from for the government?

Mr McAuliffe: I am not sure whether you are talking about investment decisions or share voting decisions. They are probably two separate things.

MS BERRY: Yes.

Mr McAuliffe: Which?

MS BERRY: Both.

Mr McAuliffe: In terms of the share voting, there are a couple of very large well-recognised companies globally. Institutional Shareholder Services is one. What they do is provide two functions: one is that they do research on all companies that are listed companies. At upcoming AGMs they look at all the various meeting agendas and they will do research around all the topics. They will provide that research to either an asset owner or an investment company. Depending on how you want to use it, you could use that to inform your own decision or it can inform your own voting policy that we have got in place.

What we did was to put in place a share voting policy that has been developed and constructed in line with our status as a responsible investment signatory. It means that it does not just take the stock-standard voting recommendation. It goes a step further. It has greater focus around things like shareholder-proposed resolutions, which is more in line with what being a PRI signatory is about. They form the voting recommendations in line with that policy and then the system actually automatically votes our votes in accordance with that recommendation.

We do not take every vote and analyse it ourselves. You have got 4,000 or 5,000 votes a year. It is just an impossible task. What we will do is monitor how those voting outcomes are going over time compared with the policy. If we think that there is something that might not sit right, you can amend the policy.

In terms of the actual investment decisions themselves, we use a couple of sources of advice. We have a specialist asset consultant. The current asset consultant is a firm called Towers Watson. They will not only help to provide us with advice around investment return objectives but also help us with a lot of modelling of the financial risks that go around that. They will also provide us with advice around the particular investment managers that we may want to use in the various asset classes.

We have also got an externally appointed advisory board. All of our policy decisions that we are considering before they come to government go through our investment advisory board. We will take their advice. Have we thought of everything? Have we got everything about right? We put all that mix together and then we will put that through to the government for sign-off where appropriate.

MS BERRY: Does the government ever make an ethical decision rather than a financial decision?

Mr McAuliffe: They have to date, and that was following the last public accounts inquiry and eventually the bill that came into the Assembly. I guess you could call it an ethical sort of investment decision that was taken where there were a number of prohibited investments. That was landmines, cluster munitions and tobacco. More broadly than that, the policy has not been a specific exclusion; it has been more, "Let's have this integrated approach to the investment analysis that goes on behind that." That is the point we were just talking about before in terms of coal. Effectively, your stream of assets is the big topic. There are a number of companies that are involved in many activities. They will be the ones that will actually help transform over time. If you just exclude them out now then you are going to be out of that space.

Our integrated approach will look at where some company is really ranked at the bottom quartile in that particular sector. If they do not stack up on a number of risk measures then they will not be invested in because we will find that there is a better alternative investment on a risk assessment process. It is not a negative screen as such; it is more a case of what stacks up as the better investment in terms of our particular portfolio.

MS BERRY: Just on 350.org, Canberra: they spoke with us as well about their views on divestment of fossil fuels. Is it something that the government has ever looked at in terms of its current investments? I know that it is a bit of a mixed bag because of all the different organisations divesting, as Ms Porter just said. Do you get advice on who is the worst or who is better than the others as far as where they invest, or is it purely a financial point of view?

Mr Nicol: The government has set a responsible investment policy which we are implementing, as Mr McAuliffe said—the prohibited areas and a general policy statement about ethical investment and responsible investment. We implement that in a couple of ways. One is that we set a benchmark that gives a bias of investment towards ethical companies or companies in ethical areas. Then we essentially hire funds managers to go and purchase that portfolio for us. So neither we nor the government directly direct an investment to a particular company or not. Mr McAuliffe might add some detail.

Mr McAuliffe: I said before that we have developed a customised benchmark. Typically, when you read the papers every day, you will hear of the ASX 200 and the Dow Jones index. They are your stock-standard market benchmarks.

MS BERRY: They are generally not my bedtime reading.

Mr McAuliffe: No, but they are certainly on the news a bit. One of the things that we worked through over the last 12 months has been those benchmarks. We have a large portion of our shares where we say we just want them to match a benchmark, and you just get the benchmark return. The opposite to that is where you have active investment arrangements. Your benchmark might have 1,000 stocks in it. We might pick a specialist manager and they might only invest in 70 or 80 stocks. They are really actively trying to manage that portfolio to outperform the benchmark.

Because we had this large benchmark investment approach, we thought, "How can we integrate some of these environmental, social governance risks and things into the benchmark?" We have looked at the benchmark construction and we have had one developed that actually takes that integration into account. It was only last month that we did a transition from our holdings that were in the standard benchmark to this new benchmark. As a result of that integration, our energy-type exposure, for example, reduced by around 20 per cent.

In terms of whether we have looked at fossil fuels or something, in terms of divesting, no, but we have looked at it more from this integration point of view. We have still got exposure to fossil fuels, but the portfolio now holds those investments that are considered a better quality than the others. That is the approach that has been taken to date.

Again, we have only just implemented it, so it is one of those things that we will monitor for a while to see how it goes and keep an eye on what is happening more broadly with the whole discussion around the strand of assets and things. If need be, we could always look at a policy decision to say, “Do we expand that list of prohibited investments, like tobacco and things, and add something else to it?” But it is early days. The report that has come out around the strand of assets is talking about the year 2050 as being the point.

MS PORTER: Yes, it is a way out there.

Mr McAuliffe: I think there is a bit more work and research to come through. But it is in the front of our mind, obviously, like all the other investment risks that we think about.

MS BERRY: Thank you.

MRS JONES: Regarding the superannuation return adjustment on page 298, the budget is forecasting a 50 per cent increase in the super return adjustment from 2013 to 2014-15. What is the reason for it and what are the assumptions used for the forecast?

Ms Doran: This is a regular reporting adjustment that we put through to establish consistency with how other states report and also to establish a more realistic, I guess, long-term net operating balance. Basically, the government sector reporting requirements only capture dividends and interest returns on our superannuation assets because of the way we hold them. We do not hold them in a separate superannuation fund as other states do. We hold them directly on our balance sheet. To adjust for that, because those assets are invested in a broader range of investments, equity-style investments, properties, shares et cetera, where a large part of your returns is capital gains and not just the interest slice, we make an adjustment to our bottom line which reflects those capital gain returns.

MRS JONES: That is really a capital gains adjustment?

Ms Doran: Essentially.

MRS JONES: Right. Also on that, then, the eight per cent in 2014-15 to 2015-16, the seven per cent for the following year and seven per cent, I think, through the year after that is: once you have made that adjustment then you will make an assumption that you are dealing with a regular type of return after that point?

Ms Doran: That is right. We always revert back to our benchmark return that we are targeting, which is the 7.5 per cent.

MRS JONES: Just on the two accounts, the method of banking the money or managing the funds: we have got it in our main block of funding, then, rather than in a separate account; is that correct? Is that for the purpose of maintaining a surplus-looking budget? How reliant is the budget on the superannuation return as well as the actual bulk amount of money in achieving surplus or looking like we are achieving surplus?

Ms Doran: It is not a mechanism for achieving surplus. No, the reason for the—

MRS JONES: But compared to other budgets in other states?

Mr Barr: I was going to say that if you wanted to compare it with other budgets then you take the superannuation expense out. So you would have the other side of the equation removed and that would probably dramatically improve our headline net operating balance. But we do not do that; we do this.

MRS JONES: But do we then use the return into the budget as a method of achieving that surplus?

Mr Nicol: We invest a sizable proportion of our assets in the superannuation provision account, which generates a return. The purpose of the SPA is to offset our superannuation liabilities. The budget incorporates the superannuation expenses. So to give a fair representation, we also incorporate the return on our superannuation invested funds.

MRS JONES: Sorry; just for clarification: how is that different to the set-up in other states?

Ms Doran: I can clarify that. It is a structural difference, really. In other states, because they have their own superannuation arrangements and their own legislation, they are able to set up their own fund, like a true superannuation fund, which holds the assets in trust and its own reporting entity. So that entity reports the assets and the liabilities against each other, the returns on the assets and the accruing liability as the two offsetting items in that what they bring to their main balance sheet is the net of that figure, effectively.

In the ACT, because we have leveraged off commonwealth superannuation arrangements, they are not our own arrangements; we cannot set up our own superannuation fund. So what we have established is an offsetting mechanism so that the SPA is essentially on balance sheet but—

MRS JONES: Part of general—

Ms Doran: Yes, that sort of hypothecated, I guess, pool of assets that are only there for the purpose of offsetting the liabilities. So the full liability is on the balance sheet and the full assets are on the balance sheet, except for this reporting anomaly that says that we cannot capture capital gains in the bottom line; hence we make the adjustment to get what is exactly the same form of reporting as is done in other states.

MRS JONES: Thank you.

THE CHAIR: Just to follow on from that, you are predicting a 50 per cent increase this year. What was it last financial year?

Mr McAuliffe: The full return last year was 16 per cent.

THE CHAIR: So that was 2012-13?

Mr McAuliffe: Yes, 2012-13.

THE CHAIR: So 2012-13 was how much?

Mr McAuliffe: 16 per cent.

THE CHAIR: 16 per cent. What is it likely to be for this year?

Ms Doran: We are estimating 15.5 per cent this year.

THE CHAIR: 15.5 per cent. Why are we estimating a 50 per cent increase then for the coming year?

Mr McAuliffe: That is because in the 2013-14 estimated outcome we have a very large interest and dividend return this year. Basically, all that goes into the bottom line; it actually holds the impact of the bottom line at 7½ per cent. So the $75 million adjustment is just the amount. You add that to your interest and dividend estimate that we have, and it comes to a 7½ per cent return. It is not like the whole 15.5 per cent is not hitting the—

THE CHAIR: All right. So the 75 represents what percentage?

Mr Barr: 7.5; is that right?

Mr McAuliffe: The total earnings for the year—

THE CHAIR: In 2012-13 you got a 16 per cent return. What was the adjustment as a percentage that was given to the budget?

Mr Barr: I will go back and see if I have got the old budget papers and I may be able to tell you.

THE CHAIR: If we have got 15.5 per cent in 2013-14, the 7.5 equals—what did you say; a seven per cent adjustment?

Mr McAuliffe: Sorry; the interest plus the dividends plus the adjustment that goes into the net operating balance will equal a return of 7.5 per cent. So there is a part of the return that does not actually get added back in.

THE CHAIR: Sure.

Mr McAuliffe: I have not got the break-up of that.

THE CHAIR: But in the outyears we have got eight per cent, seven per cent and seven per cent. Why are we assuming 50 per cent?

Mr McAuliffe: Because when we go into the forward years, we are actually reverting back to our long-term return target of 7½ per cent, and the mix of that which feeds in as interest and dividends will be whatever our assumptions are around interest return, the dividend return, and then the capital gain component.

Mr Nicol: It is essentially a compositional switch between capital and interest in dividends. Essentially, the budget includes a 7½ per cent return each year from our superannuation investment.

THE CHAIR: Sure. But it is much higher this year.

Mr Nicol: That is only the capital component of it.

THE CHAIR: Yes.

Mr McAuliffe: Because the interest and dividends are lower.

Mr Nicol: I stand to be corrected. The interest and dividends will be a lot lower. It is just an assumption we make into the future. When we get out there and we find the real performance of the fund, we will switch the numbers between interest and dividends and capital to maintain that 7½ per cent return from the investment.

THE CHAIR: So the 113 could drop or rise?

Mr McAuliffe: It could, yes, indeed.

THE CHAIR: It just seems very high, the jump from the current year. Any further questions on the SPA, members?

MS PORTER: No.

MRS JONES: No.

THE CHAIR: In that case, we will go to the territory banking account. On page 74, can you explain why the bank bill index is not here? I notice in the notes that UBS sold something to Bloomberg and Bloomberg has done something. Will we get that back, or is that gone for all time now?

Mr McAuliffe: UBS have traditionally constructed a whole range of indexes—the bank bill index, the composite bond index—and basically what they have done is that they have just, in effect, sold that. Bloomberg is taking over producing those indexes. So the methodology of construction and the source of input that come into all the indexes are going to remain exactly the same. It is just, going forward, it will have a new name. It will be called the Bloomberg AusBond bank bill index as opposed to UBS bank bill index.

THE CHAIR: So it does not affect the numbers?

Mr McAuliffe: No.

THE CHAIR: Did we not put that in the budget papers?

Mr McAuliffe: It is a bit hard to predict what the bank bill index is actually going to be. We know what it is likely to be at the end of this year.

THE CHAIR: How do we judge whether the territory banking accounts are outperforming the index or not?

Mr McAuliffe: We do that as part of our actual measurement.

THE CHAIR: And are we, at this stage?

Mr McAuliffe: Yes, we are.

THE CHAIR: By how much?

Mr Nicol: The figure 1.

THE CHAIR: So that is what figure 1 is?

Mr McAuliffe: Yes, that is right.

THE CHAIR: So why would you not put the bank bill index in the outyears then, the other column, so that we can see that as a representation?

Mr McAuliffe: I could try to guess what it is going to be.

Mr Nicol: We would have to create the estimate.

THE CHAIR: I thought you said it was just a name change and it had been passed on.

Mr McAuliffe: Sorry, the name of the index has changed but the actual index itself is like any index. It is only an index up to a point in time. So we do not know what the—

THE CHAIR: So we can only compare retrospectively, not in—

Mr McAuliffe: Yes, or we compare as we go in our actual monthly reporting.

THE CHAIR: Ms Porter.

MS PORTER: On page 76, under accountability indicators, point 3 in the notes says:

> Raising all new Territory borrowing requirements in accordance with approved borrowing limits and guidelines.

Could you talk to us a little more about that and what is going on?

Mr Nicol: Yes, I will add some detail, and I will ask Mr McAuliffe to fill in any gaps

I leave. Essentially we have very strong governance around borrowing. The Treasurer is briefed and provides his authorisation to the directorate on our borrowing limits for a set period, and that has specific conditions as to when and how we are borrowing. We comply with those delegated instruments. That is what we say is complying with the requirements, beyond, of course, all the legal requirements and contractual requirements we have when borrowing money. Mr McAuliffe, did you want to add anything?

MS PORTER: So the delegations are coming from?

Mr Nicol: The Treasurer.

MS PORTER: The Treasurer himself?

Mr Nicol: Under the FMA.

Mr McAuliffe: Under the Financial Management Act.

Mr Nicol: Yes.

MS PORTER: Through the act?

Mr Nicol: Yes, and that will specify limits. I am just trying to remember the other pertinent things.

Mr McAuliffe: The main part of the Financial Management Act is section 40. That talks about where the Treasurer can borrow moneys for the territory. What we then do is have the Treasurer sign off a total limit so that, at any point in time, before we go into a borrowing transaction, we are going to make sure that it is within a bit like a cap. And then within that authorisation we will also put together a proposed plan for the Treasurer, talking about what we are thinking of doing across the year. It is consistent with the budget estimates, how we think that we might undertake the borrowings through the year, how we might approach the market, what sort of term of debt we might look for, what sort of form of debt, and have that as all part of the overall sign-off.

I guess part of that framework is that the Treasurer will then delegate a level of further authority down to the Under Treasurer and other officials so that when we might go and do a smaller borrowing, that delegation will set what those terms and conditions are for anybody else to go and do a smaller transaction. And so we will just make sure that those things are in place all the time.

THE CHAIR: Ms Berry.

MS BERRY: I do not have any questions at the moment.

THE CHAIR: Mrs Jones.

MRS JONES: On page 79, what is the reason for the 20 per cent decrease in investment?

Mr Barr: This is in the current assets.

Mr Nicol: No, investments. Mr McAuliffe will correct me if I get this wrong, but this year has been quite a good year, 15 per cent. We expect to return to normal 7.5 per cent returns.

MRS JONES: So it is just a temporary—

Mr McAuliffe: The other thing that we do with the territory bank account is we actually run a centralised investment arrangement as well so that a number of our directorates, our smaller accounts, for the right reasons have got the ability to retain earnings. They have a need for an investment return. The ACT Insurance Authority is a good example. They come through us as a centralised investment arrangement. So the investment holdings that you see there are not only the territory bank account's own balance of cash but also the balances of other agencies that can invest through us.

Mr Nicol: Actually Mr McAuliffe has got it right and I got it wrong. Ignore what I said.

Mr McAuliffe: So the change in the balance will be the aggregate of what is happening not only with the territory bank account itself but also the other agencies that are investing through us.

MRS JONES: There has been a 19 per cent increase in interest bearing liabilities, also on page 79.

Mr McAuliffe: With interest bearing liabilities, there are two things going on there. One of them is the actual borrowings that we raise out in the market. And the other side of that is these agencies that invest through us. So we have a liability that we owe them their money back at some point.

MRS JONES: So it is very difficult in that case to really take apart the difference between the borrowings and the liabilities we owe back to these investments?

Mr McAuliffe: We have got the underlying detail behind this but with the way the accounting standards and the classifications group things, this is the way they have to do this.

MRS JONES: Are you able to provide for us a breakdown of that 19 per cent then?

Mr McAuliffe: Yes. Just a break-up of the interest bearing liabilities, current and non-current?

MRS JONES: Debt versus agency investments?

Mr McAuliffe: Yes.

Mr Nicol: We will take that on notice and also look to see whether we can provide notes to that effect in future documents.

MRS JONES: Yes, please.

THE CHAIR: Back on page 77, borrowing costs, can you just talk us through what is happening there?

Mr McAuliffe: We spoke this morning about the total borrowing costs. There is the PTE element, ACTEW as well as the general government sector. Perhaps if you go to the following page, page 78, the interest revenue line there includes not only our interest from our external investments but also the interest that we receive from ACTEW, in terms of their debt that we have raised for them. The appropriation line is the amount of our estimate for the general government component of our borrowings. For transparency, we just try to disclose what the general government cost is. We add that to the interest we are getting from ACTEW in the interest line and the actual payment out will come under your borrowing costs under expenses.

THE CHAIR: So explain the difference from 2013-14 to 2014-15?

Mr Nicol: In terms of the act?

THE CHAIR: In terms of the borrowing cost, back on page 77?

Mr Nicol: That reflects two factors. One is the amount of debt we have and the extra borrowings we are undertaking next year and obviously our assumed interest rates on those borrowings.

THE CHAIR: What is the assumed interest rate?

Mr McAuliffe: The assumption for the new borrowings across the forward years is 4.2 per cent.

Mr Nicol: It also reflects the timing of borrowings each year as well. If you were trying to calculate on its borrowings, it was less.

THE CHAIR: So then the year-on-year increase is because of the borrowings? I want to go through and—

Mr Nicol: Essentially, yes.

THE CHAIR: On some of the other numbers, on page 80 we have got "Proceeds from Sale/Maturity of Investments". What happened there that we got such a big outcome?

Mr McAuliffe: These are just gross turnover numbers. When we are moving money through investment, we have got some of our agencies that might have money this week that they want to put on investment and then they want to pull it back. It actually just reflects the gross movements of when we are depositing and withdrawing money on our investments. So it is just the level of activity.

THE CHAIR: Lower down that page, we have got "Advances to Government

Agencies". What is happening there? Is that just when they draw down on the cash?

Mr McAuliffe: The advances to agencies is where we have actually on-lent money. The bulk of that will be loans we provide to ACTEW.

THE CHAIR: On page 78 there is a 10 per cent increase in borrowing costs. Is that simply because of the additional borrowings?

Mr McAuliffe: Yes, it is the same. There are two parts to the borrowing costs. Part of it is our debt cost and our external borrowings, and the other part is the interest payments to agencies on their investment deposits with us.

THE CHAIR: I can put the rest of those on notice if I so choose. Are there any further questions on the territory banking account?

MRS JONES: No.

THE CHAIR: We will move on to compulsory third-party insurance. Treasurer, perhaps you would like to give us an update on what the government has been doing to increase competition and how it is going.

Mr Barr: There have been a number of new players in the marketplace offering a range of new product and rebates.

THE CHAIR: And the new players are?

Mr Barr: Three brands under the Suncorp Group—Apia, GIO and AAMI.

THE CHAIR: So it is only Suncorp that has come into the market?

Mr Barr: At this point, yes.

THE CHAIR: Have you got negotiations with other providers?

Mr Barr: Those are commercial-in-confidence.

THE CHAIR: Assuming that is a "yes", how many are there?

Mr Barr: Commercial-in-confidence, if there are any.

THE CHAIR: One of the objectives was a reduction in premiums. Has the reduction in premiums occurred?

Mr Barr: If we take into account the cashback, then yes.

Mr Nicol: The real growth in premiums was negative last year, from my recollection. It was a nominal positive but a real negative. It was a nominal one per cent.

THE CHAIR: So it grew by less than CPI?

Mr Nicol: That is right.

THE CHAIR: But premiums were not lower than the year before in dollar value?

Mr Nicol: Not gross premiums, but with the—

Mr Barr: After market cashbacks.

Mr Nicol: With the cashbacks, yes they were.

Ms Doran: We have actually had no formal premium filings from insurers in the market since competition commenced. So in that formal sense they are all still at the same level. What we have seen is this after-purchase product offering—rebates and the like—which is giving a net benefit to consumers.

THE CHAIR: I am curious as to the negotiations. Why is it necessary to negotiate? What would you negotiate when you were talking to another potential provider of CTP?

Mr Barr: They will want information about the scheme and its operation.

Ms Doran: There is also a process with the regulator to go through, in terms of licensing any new entrants to the market.

THE CHAIR: But that would just be an application; that would not be a negotiation with the minister, surely?

Mr Barr: No-one is negotiating with me; they would negotiate with the government and seek information around the market. The only engagement with me from insurance companies tends to be lobbying around future policy direction.

THE CHAIR: What is the information that potential CTP providers are after?

Ms Doran: In order for them to put in a licence application and then a premium filing, which would be the first natural step, they need to understand the market, the claims experience and get some access to that data, sufficient to allow them to perform their calculations. That has to be a commercial-in-confidence process because we are still not in a fully competitive market where that sort of information is public.

THE CHAIR: Do we provide them with information?

Ms Doran: We provide them with such data as we can to facilitate their considerations and calculations. That is often done through the scheme actuary talking with their actuaries.

THE CHAIR: What data can we provide that does not breach the confidentiality of the previous sole provider?

Ms Doran: It is very aggregate-level data that the regulator itself can provide. As I said, the discussions then are more informal, actuary to actuary, to give a sense of how that data perhaps compares to other jurisdictions where they can access more, or public and fuller, data. It is the process that was gone through with Suncorp and it would be the same process that applied to any other future prospective entrants.

THE CHAIR: With the lifetime care scheme, where are we at with that?

Mr Barr: We have an administrator and a commissioner.

Ms Doran: It is actually on the agenda for a different timeslot.

THE CHAIR: Okay, we will get to it then.

MS PORTER: Treasurer, on page 37, under priorities for 2014-15, it talks about establishing a framework to support increased competition. What does this framework look like?

Ms Doran: This is progressive work as the regulator has moved to a more competitive market. It is looking at establishing guidelines, guidance, for the different participants for establishing a data collection process and a reporting process so that we can get more public information available, more transparency around the scheme and how it is operating. But that all takes a little time. There are steps that we have in place. We have also established a consultative process with the industry where we bring the players together around the table and we can talk. The regulator can talk to the different providers about the issues that they may have and the ways that we can improve the scheme as a whole for the benefit of the ACT.

MS PORTER: Under the same heading it talks about promoting public awareness of the causes of motor accidents through funding measures directed at reducing motor vehicle accidents. What are those funding measures? What are we doing?

Ms Doran: The regulator collects a levy as part of the CTP process. That levy goes partly to supporting the regulatory function but it also provides some capacity to contribute to funding measures to improve road safety. We do that in conjunction with the road safety group that operates out of the JACS Directorate. We sit as part of that. We also do it at the moment through a mechanism that operated with NRMA as the provider, a trust process that was established there, to look at particular initiatives that could be taken to facilitate road safety. So there are a number of mechanisms there. I think in the current year we will be looking at a campaign around tailgating and some advertising around that, some awareness initiatives around that as a particular program.

MS PORTER: The only thing that would stop people tailgating is if they got an electric shock when they went in behind somebody who had left the appropriate space between one car and another, and they got zapped.

THE CHAIR: An interesting suggestion!

Mr Barr: A budget proposal for next year!

Ms Doran: We will add that to the list, yes!

MS PORTER: You might look at that for next year!

MS BERRY: Ms Porter has mostly asked my questions. I do have a question about what Mr Smyth was talking about earlier around the deregulation and Suncorp being one of the new insurers. When is there expected to be a change in the cost of insurance, if the idea was to bring in competition so that people's premiums would go down? Has that been the experience elsewhere or is it something that we are—

Mr Barr: In other, larger markets where there are multiple providers and a different legal framework, costs are lower. That is evidenced by looking at CTP premiums in other parts of the country. There are obviously a range of factors that contribute to increased costs. This is a small jurisdiction with a small pool of insured drivers of vehicles. That smaller market and an entirely different legal framework create cost pressures that mean it is more expensive in the ACT.

If we were to align our system with New South Wales, for example, or with Victoria, we could benefit from pooling arrangements that would spread the risk across a larger number of drivers. There are advantages in such an outcome if what we are trying to do is spread risk and reduce the cost of CTP premiums. But, of course, making that change obviously changes the basis of our system. So a no-fault system like Victoria would deliver different outcomes from the fault-based system that is highly litigious that we have in the ACT.

MRS JONES: What would be the difference in becoming more like New South Wales?

Mr Barr: It depends on what your view is on the New South Wales reform. They started a process and there was some hope of alignment between New South Wales, the ACT and Victoria. In an ideal world, you could have all three operating under very similar arrangements. That would be preferential. With the New South Wales process, I will be generous and say it has not picked up as much speed as would have been hoped. An alternative view would be that it has stalled.

MRS JONES: What are the differences between us and them in our legislation at the moment?

Mr Barr: It is really around common law access, various fixed outcomes in New South Wales that provide a degree of certainty and lower costs and remove legal processes, which, depending on your view of the world, is either a cost reduction or it curtails the opportunity for people to have their day in court on certain matters. It depends ultimately on whether you think the best outcome is early medical treatment and intervention and what you are seeking to do is to restore someone's life and get them back to where they were prior to an accident or whether you think there is some merit in having extended legal processes around non-economic loss. That is pretty much it in a nutshell. People will fall into varying camps on that question.

MRS JONES: Is there any interest with New South Wales in meeting in between at all? I suppose we are quite small but—

Mr Barr: We have certainly been able to find common ground with New South Wales on some other insurance measures. We were discussing earlier the NIIS—the lifetime care and support fund arrangements. We have been able to reach an agreement with New South Wales. With small steps, you never know.

MRS JONES: And you will keep pursuing that?

Mr Barr: I do not think it will come as any surprise to anyone who has been in the Assembly for any length of time to know my views on the direction of where public policy should be heading in this area. But to date I have been unsuccessful in securing a majority of votes in the Assembly for such a reform. I have not given up, and we will bring back another package of reform in this parliamentary term.

MRS JONES: There may be some hope if there were discussions before the legislation was written as well.

Mr Barr: We had a committee inquiry process last time. It certainly was not for lack of dialogue. I just think there was fundamental disagreement on a couple of issues that meant we did not get the extent of a change in the law that the government would have hoped. But we are in it for the long haul on these things, so you never know. I have the view that good policy always has its day.

MRS JONES: Or its majority, one day. On page 37, under “Staffing”, the budget notes:

> The Financial Framework Management and Insurance (FFMI) Branch of the Economic and Financial Group provides a supporting role to the CTP regulator …

How many staff are provided for that support, what levels are they at and what sort of support do they provide?

Mr Nicol: It has recently been reduced.

Ms Holmes: In terms of the budget that you will see for the CTP regulator for the employee expenses, 1½ FTE is included. It is one SOGC and half of an ASO5. There are a number of other people within CMTD who, as part of their duties, will have bits to do with the CTP regulator, but it is not substantial. So we tend not to charge that through.

MRS JONES: What type of support do they provide and how often? For those 1½ it is either their full or half-time job. What are they doing exactly?

Ms Holmes: The 0.5 of the ASO5 is the finance person. She is doing all of the financials in relation to CTP—raising whatever invoices are necessary and paying the bills in relation to the regulator, producing the budgets et cetera. The one SOGC position is more the person who is actually getting data, dealing with the actuaries, dealing with inquiries from the public, dealing with inquiries that we might be receiving from the insurance companies themselves.

MRS JONES: You said there had been a reduction; what was it previously and when was the reduction?

Mr Nicol: No, I think it was always 1½.

MRS JONES: Okay. As a supplementary, how does the CTP regulator reimburse the FFMI branch for salary and superannuation expenses associated with the staff allocation?

Ms Holmes: Invoices will be raised for the total cost of salaries, superannuation and any other associated employee costs.

THE CHAIR: So if an invoice is raised, why do we have employee expenses? Why are they not just supplies and services? There is no FTE, and it actually has more staff. On page 38 it has got employee expenses at 152,000 a year.

Ms Holmes: We showed it that way for transparency, but that is actually a conversation that we are having with the audit office at the moment—as to which is the correct line item for the purposes of financial statements.

THE CHAIR: The increase in supplies and services only came in at 162 this year, but it is back up to 285 next year. I see the notes say that it is actuarial information, technology and arbitration costs. What is the breakdown? What arbitration was there?

Ms Holmes: We always budget for arbitration if it is required. I am not saying that there is always going to be arbitration. We did not have any arbitration this year but, as per our normal prudent budgeting, we have budgeted an amount for arbitration for the next budget just in case it is required. We have also had the situation where the NRMA has not had a filing for this financial year, so we have not had those costs for this year, but we will have them next year. So you have got those sorts of variances and actuarial expenses between the two years.

THE CHAIR: So the drop from budget 256 to 162 this year is because you did not have any—

Ms Holmes: No arbitration costs, and we did not have some of the actuarial costs this year.

THE CHAIR: And the 285 is just back to what you expect, assuming there might be some arbitration?

Ms Holmes: We have built in some additional IT costs just in case it is required for the system changes.

THE CHAIR: Mrs Jones, have you finished?

MRS JONES: Yes, I am finished, thank you.

THE CHAIR: Back on page 37, I noticed that we have used the words "motor vehicle accidents". I thought there was a move towards using the term "motor crash" given that most of them are not accidents. It is a point the NRMA Road Safety Trust made for years through Don Aitkin. Most of these are not accidents. They are tailgating; they are drink-driving; they are stupidity. Whilst all of them are crashes, most of them are not accidents. It might be just something to keep in mind.

Mr Barr: All right; yes.

THE CHAIR: Going back to the premiums, there was an article headed "Canberra motorists claim they are kept in dark on CTP savings". The gist of it was that people had not been told that there might be rebates available. Does the RTA have a responsibility to make that information available, or is it a case of "Buyer beware; go and find out what everybody is offering"?

Mr Barr: It is an interesting question in so much as the requirements to file a premium need to be that the premium needs to be put onto the rego forms so that people can then make their assessments based upon the different prices. Because the rebates are after market, they are promotional, effectively buying customers from the new entrants. That is not actually the filed price.

Ms Doran: No; that is right. Because the scheme runs largely on a community rating basis, there is one single filed premium that the insurer puts forward. That is the premium that is shown on the internet and on the registration certificate, so that is what the client sees up front.

Mr Barr: I understand that in response to this question of alerting people, there may be a series of other multipolicy discounts. There is a range of things that the insurers will do to seek your business in that decision, and there is a reference now that advises people that these things may be available and encourages them to check with the insurers as to what offers are available.

Ms Holmes: It is now appearing on registration notices.

THE CHAIR: There was also another article that said, "Young drivers miss out on CTP discounts". What work is the government doing to assist young drivers?

Mr Barr: Some of the after-market rebates have been targeted at certain demographics. To a certain extent, it is a risk question that the new insurers are factoring in in terms of growing their customer bases, so the extent to which the competition in the marketplace in the first instance is keeping some downward pressure on premiums. I cannot force insurers to provide discounts to a riskier class of motorists.

THE CHAIR: So the answer is that no, the government is not doing anything?

Mr Barr: The introduction of competition has kept price growth below inflation, so we have seen a real decrease. But short of fundamental reform of our legal framework, there is no real basis for significant price reductions, because our system drives expense. If you could get the legal fees out of our process, obviously there would be a lot of money to return to motorists. We have an expensive system. Yes, for those who might be successful in court there might be higher levels of return, but someone has got to pay for that. And in the end, if you follow your line of questioning, it ultimately is younger drivers or drivers more at risk.

THE CHAIR: The NRMA Road Safety Trust—how is that funded these days?

Ms Doran: That is funded through a levy, partly from the premiums. Initially the government levies $2 per policy. Then the NRMA matches that; they put in $2 from their CTP premiums. Both sources of money go into a trust fund. That trust fund is then administered through a government structure, et cetera, that looks at various initiatives for funding and road safety.

THE CHAIR: I assume the new competitors are not contributing to the NRMA Road Safety Trust?

Ms Doran: That is right, and that is a matter that we are working closely with the industry on at the moment—as to just what the future form of that vehicle may be.

Mr Barr: Yes. NRMA still wish to have exclusive naming rights.

Ms Doran: That is essentially the issue, yes.

THE CHAIR: They are making a rod for their own backs. So Suncorp has not come forward and offered to contribute to the NRMA Road Safety Trust?

Ms Doran: They are willing to contribute to road safety, yes.

THE CHAIR: Any more questions? Yvette?

MS BERRY: I did have one question about the notes to the budget statements on page 42—taxes, fees and fines. I am sorry, but I do not understand it. I do not understand what it says. Does that mean that people are insuring their vehicles for shorter periods of time?

Mr Nicol: Every time you register your vehicle, there is a flat levy. So if you register your vehicle four times a year—

MS BERRY: Okay; now that makes sense to me.

MRS JONES: How much is that?

MS BERRY: So rather than doing the one year, they have done it a couple of times a year?

Mr Nicol: Either six-monthly or quarterly.

MS BERRY: Okay.

MS PORTER: So in this budget we have done something with that?

Mr Barr: In terms of the administrative fee for that, yes, that has been reduced.

MS PORTER: That has been reduced?

Mr Barr: Yes.

THE CHAIR: Were the people of Canberra upset that it was not taken further?

MRS JONES: I had a question. Did you finish, Yvette?

MS BERRY: Yes; that is okay. I just wanted to get back to it; that is all.

MRS JONES: Yes. Regarding page 38 of the smaller book, what is the reason for the 119 per cent decrease in the operating result, and why is there a zero figure through the forward estimates?

Mr Nicol: I will have a stab. The operating result is essentially the balancing of what we expect to spend and raise. We had a positive operating result in 2013-14, largely because we did not have those expenses that we were talking about earlier, so we raised more revenue than we spent.

MRS JONES: But you are not—

Mr Nicol: We are expecting a return to a more normal operating result in 2014-15. We budget essentially for a zero operating result: that we spend what we raise.

MRS JONES: Right. So if you go to 119, you have an expectation you will claw it back somehow in the outyears.

Mr Nicol: That is only a percentage change. It is not a dollar figure.

MRS JONES: We are minus 20.

Mr Nicol: We go from 107 positive to minus 20 and back to zero, essentially.

MRS JONES: Which will be the way you will manage it over the period.

Mr Nicol: That is what we are budgeting for. What actually happens will depend on—

MRS JONES: So the minus 20—is that reflected in changes to how you are going to do things, or is it just because of the financial situation that we are in?

Mr Nicol: We have budgeted for some more expenses next year, which are going to be slightly more than what we raise.

MRS JONES: Is this the going online of services?

Ms Holmes: Minus 20 is actually to do with the tailgating campaign. We have approved a contribution towards that campaign. We have approved that in 2013-14.

MRS JONES: Yes.

Ms Holmes: We had been expecting that to come through in 2013-14 initially, but those costs will not come through until 2014-15.

MRS JONES: Is that an external campaign, so you are not in control of the time frames?

Ms Holmes: Correct.

MRS JONES: All right.

Ms Holmes: It is external to the CTP regulator.

MRS JONES: Yes.

Ms Holmes: And it is not something that we are able to accrue in 2013-14, even though it has been committed. That is one of the reasons why we have got more surplus in 2013-14, and we are using some of that surplus in 2014-15, when those expenses materialise.

MRS JONES: Okay.

THE CHAIR: Any further questions, members? Minister, it would appear that we have come to a slightly early conclusion. We will take a break and resume at 3.45 with revenue and government business management, followed by the home loan portfolio. Then we will conclude with ACTTAB.

Sitting suspended from 3.13 to 3.44 pm.

THE CHAIR: We will commence the afternoon session of the estimates inquiry into the 2014-15 budget. This afternoon we have revenue and government business management from the Commerce and Works Directorate followed by the home loan portfolio, and we will then conclude with ACTTAB.

Minister, have the officers who have joined you seen the pink privilege statement and have they read and understood its implications?

Mr Barr: Yes.

THE CHAIR: Thank you. Minister, I will start with a question on the payroll tax, in particular, the Payroll Tax Amendment Bill. What consultation did you have with the sector on this bill?

Mr Barr: The Revenue Commissioner undertakes regular consultations with the sector, so in the lead-up to this budget some discussions were undertaken. Obviously the detail of any policy change remained cabinet-in-confidence until budget day. So the Revenue Commissioner was able to have general conversations on the issue of the particular anomaly in relation to our exemptions that was apparent and was, as I understand, causing some issues for employment agents who operate in multiple jurisdictions and between different contractors depending on whether they qualified for the exemption or not.

So the general issue was discussed and had been the subject of some consideration prior to budget day and then on the announcement of the initiative on budget day I asked the commissioner and the directorate to undertake some more detailed consultation. We then introduced a bill on the Thursday of that sitting week and we now have an opportunity between now and August to take some further feedback on the bill.

The initial response to government has been mixed. Undoubtedly there are some who welcome the clarification and some who are not happy at all about being included in the payroll tax net. I think broadly the issue of an appropriate phase-in and commencement for the new arrangements is one that the government is open to considering. Most tax measures normally start on the first day of a financial year, but in this instance I have received some representations to consider delaying the implementation perhaps until the second quarter of the financial year, and that is something that I am certainly open to considering.

It will also need to go through a cabinet process associated with that, but I think that is not an unreasonable request in terms of a transition to new arrangements. The government is open to that consideration.

THE CHAIR: Were the specific concerns of small businesses, particularly small businesses that do not operate multi-jurisdictionally and are just local businesses, taken into account? A number of them have contacted me to say that they have already negotiated their contracts for the next 12 months and were totally unaware that the exemption might go—without discussing the efficacy of the exemption itself.

Mr Barr: Sure.

THE CHAIR: They are already locked into contracts primarily with the commonwealth. The commonwealth just does not accept that it can be handed on. They either need to absorb it or pass it on to their contractors.

Mr Barr: Yes.

THE CHAIR: But you are talking about small companies being dreadfully disadvantaged in this case because many of them say to me that their margins are between five to seven per cent, so that totally wipes out any margin they have for the coming year. How amenable are you to a later starting date of, say, 1 July next year?

Mr Barr: I think that would be excessive, but I certainly recognise the capacity for a delayed start. Obviously we will have some further soundings with the various associations. I understand there is a peak body.

THE CHAIR: There is a peak body, yes.

Mr Barr: There will be a variety of different circumstances, I presume, for different taxpayers. I guess the availability of the highest payroll tax threshold in the nation allows those smaller operators to structure their affairs so as to remain exempt.

For those larger players who have structured their affairs in order to avoid the tax, at this point there are obviously a range of issues there that need to be addressed, frankly. I would not normally anticipate any support for a tax change or a tax increase, but there have been a number who have observed that, yes, the previous arrangements could be difficulties in and of themselves. Although people do not generally do dances of joy around tax increases, there is recognition of the policy intent and really they are now in discussion over how best to phase that in.

As I said, I think a year is excessive, but we are certainly open to looking at delaying the start for a period of time to allow, as you have indicated, for some changes to arrangements to be made.

THE CHAIR: The dilemma for many of the small firms as it has been put to me is that on 1 July they have no legal basis on which to collect the tax that currently is not applicable until the legislation is passed and then in the bill it is retrospective. The dilemma for them is how do they go back and collect something that they have not collected?

Mr Barr: Sure. We can certainly look at that and I can provide advice prior to 1 July on that specific matter. We will certainly look at that in the context of a transition.

THE CHAIR: The thing most of them have asked for is some certainty before 1 July. What certainty will you give them and how will you let it be known?

Mr Barr: If the government determines to amend the start date—and that decision can be taken before 1 July—then we will certainly advise of that and advise what the amended start date would be.

THE CHAIR: Thanks for that. Ms Porter.

MS PORTER: On page 4 in this book as opposed to the other book that we were dealing with before—

Mr Barr: Yes, the portfolio budget statement for the Commerce and Works Directorate.

MS PORTER: Table 2 states that the current percentage of accounts paid on time is 84 per cent and that the long-term target is 100 per cent. In terms of long term, what does that mean?

Mr Barr: Ms Porter, those areas are covered in tomorrow's hearing.

MS PORTER: Sorry. I was a bit like Mrs Jones; I am jumping the gun here.

MRS JONES: We will get there in the end, I think, Ms Porter.

Mr Barr: So you foreshadow that question for tomorrow.

MS PORTER: Yes. I will just use the opportunity to say that a number of constituents have also written to me about the issue Mr Smyth was talking about, so I would like some clarification around that as well sooner rather than later.

MS BERRY: Yes, we all have questions on that one, so that will be good when we get there. I have a question regarding how objections to assessments and decisions are addressed and how many of those you receive each year. I am referring to page 5.

Mr Salisbury: Whenever we issue an assessment the taxpayer has a right to object to that assessment, whether that be on any of our taxation lines. The process is that they pay a small fee. If it is a land-related question, so whether it is a rates-related question or a land tax-related question, we go to the provider of our valuation services and we get a report from them in relation to that valuation. That comes back to the office and somebody independently assesses that valuation and makes a determination on the basis of the report that they have received and we write to the taxpayer. If the taxpayer is unhappy with that outcome, they have a right to take that matter to the ACAT, the ACT appeals tribunal. There is then a legal process from there if they are unhappy with that outcome.

MS BERRY: How many of those would you get a year?

Mr Salisbury: I have that answer with me somewhere in my folder.

MS BERRY: Have a look and get back to us when you can. What is the time frame for that whole process; from the moment the person makes a complaint to when it is assessed and the outcome?

Mr Salisbury: It is typically six months for a fairly straightforward matter and 12 months for a complex matter, but we generally fall well within that period.

MRS JONES: Just with regard to processing the homebuyer concession scheme transactions, can you walk us through where the department is at on those transactions, how much is being collected and how that is functioning? As to the pensioner duty concession scheme, have you been involved in any discussions about any changes to the scheme as a result of the federal budget?

Mr Salisbury: Sorry, can I have that question again; there are a couple of parts to it?

MRS JONES: Well, let us start with the second part—the pensioner duty concession scheme transactions. What discussions have you had or what internal decisions are you making about how you are going to handle changes to the concession schemes as a result of changes that have been made? Are we pushing back on the states essentially from the federal budget?

Mr Barr: These are a different set of arrangements. Our pensioner duty concession scheme is an entirely ACT government-funded scheme in relation to stamp duty concessions for pensioners. So we look after that. The commonwealth arrangement was around reciprocal transport and the like.

MRS JONES: Obviously these policy areas are separate, but is there any attempt with the changes federally to roll all of our concessions into one access point or one card?

Mr Barr: We have shifted that capability into this area of ACT government so that our Revenue Office that deals with the bulk of transactions and the like—

MRS JONES: Payments and things?

Mr Barr: Yes. It now has responsibility for managing the concessions program, and we will be involved in—

MRS JONES: Streamlining.

Mr Barr: Yes, so at the next stage of review of that program we will look at how we can better target assistance where it is most needed. In the context of your original question on the numbers who participate in the various programs, the pensioner duty concession scheme attracted 75 applicants in 2008-09; 57 in 2009-10; 91 in 2010-11; 76 in 2011-12 and 90 in 2012-13.

MRS JONES: So 70 to 100 a year.

Mr Barr: And for the year to date it is at 89 so—

MRS JONES: With the changes in the budget, you might be expecting more?

Mr Barr: Significantly more, yes. So by expanding eligibility to anyone over 60, we anticipate a significant take-up of that particular initiative.

MRS JONES: You might be interested to know this: there is a general vibe of gratitude for that change across the board. We all see those houses that are overwhelming people.

Mr Barr: Yes. I think it is a very good policy decision and should not only stimulate housing market activity but it will certainly assist those who want to downsize.

Did you also ask at the beginning about the take-up of first home—

MRS JONES: Yes.

Mr Barr: That varies over the years—between the high 2000s: 3,500 in 2009-10; 2,800 in 2010-11; 2,700 in 2011-12; 3,000 last year; and to April 2013-14, 1,623. We will have some more data there, but I suspect it will be a little lower in the current year, and that reflects the change in the scheme and the trend in the marketplace across—

MRS JONES: Just for the sake of the record for this session, can you quickly give us a synopsis of those changes?

Mr Barr: The cash payment was increased from $7,000 to $12,500 but applied only to newly constructed or significantly renovated properties rather than existing.

MRS JONES: What was the definition of “significantly renovated”?

Mr Barr: It is on the website. If you will bear with me I will look it up and I will read it, or I can just refer you to the website.

MRS JONES: Yes, we could actually just get a link to that in the *Hansard*.

Mr Barr: But there is a definition and we adopted the same as New South Wales so that there was consistency between the two jurisdictions.

MRS JONES: So can we have that link for the *Hansard* later?

Mr Barr: Yes.

MRS JONES: That would be great.

THE CHAIR: I go back to the issue of the Payroll Tax Amendment Bill. Does the government know how many businesses will be affected? I note you did the consultation after the announcement of the bill. How many local businesses did you expect to be affected by this initiative?

Mr Barr: Businesses as in individual contractors or—

THE CHAIR: Both would be nice, businesses and individual contractors.

Mr Salisbury: The estimate in terms of individual contractors was based on a thousand individual contractors being assessed. In terms of the payroll companies that may be affected by that, we do not have a firm figure on that. Part of the consultation that I am undertaking with the industry is to determine that number.

THE CHAIR: Minister, it is a bit chicken and egg, is it not? You have made some decisions, but it would appear we did not know the extent of the effect of the number of businesses affected.

Mr Barr: No, we knew the extent, that there were a large number of people who were organising their tax affairs in a particular way and, by removing this particular exemption that only the ACT offered, that would necessitate a change in arrangements. But I guess the problem here is that pre-announcing budget initiatives before they are taken is difficult. As soon as we could publicly release information, we did, and we maintained a degree of flexibility, in terms of start date, in order to assist in the transition.

I have no doubt that there will be some restructuring of some of the companies that were established solely for the purpose of avoiding payroll tax. That is the basis on which some of these arrangements were in place. I guess that loophole is no longer available. It is a more harmonised set of arrangements with other jurisdictions.

For those who operate—and there are—across borders, this actually is an improvement. It makes it much easier for them to meet their tax obligations, because they do not have to go through exercises of which employee is in and out, in terms of those calculations.

THE CHAIR: Was there any assessment on how many local small businesses would go out of business as a consequence of this amendment?

Mr Barr: I do not think any will go out of business, but they may have to restructure their arrangements.

THE CHAIR: Many tell me that they operate on margins of between five and seven per cent, and some lower than that. If you are introducing, effectively, a 6.85 per cent tax rate, surely some of those must go out of business?

Mr Barr: These are the payroll tax companies or actual businesses performing tasks?

THE CHAIR: Actual businesses performing tasks.

Mr Barr: I do not accept that that is the case. In terms of some payroll tax companies that have established themselves in order to structure their arrangements, they will have to change because the loophole that they have created themselves under will no longer exist. But then the assumption in people going out of business is that all of the incidence of the tax will fall upon the business, rather than those they are supplying services to, which is not the experience, because the legal incidence is on the employer.

THE CHAIR: If they are a company that places consultants in government departments but they are not a payroll tax company, they are a small company that might have five, 10, 15, 30 employees that they put in on contracts—

Mr Barr: If they have got five, 10 or 15, unless those employees are on very high salaries, they will fall below the $1.85 million payroll tax threshold. That is right, is it not?

Mr Salisbury: Yes.

Mr Barr: Yes.

THE CHAIR: Many of these firms will have in their contracts penalty fees for non-delivery. Was that taken into consideration in the possibility that some firms or individuals could stop operating because it is no longer profitable?

Mr Barr: I do not think I can accept the hypothesis that it would be no longer profitable to operate, off the back of a 6.85 per cent payroll tax, if you are over the threshold. So I am not sure. The starting point of the question, I do not think I can accept.

THE CHAIR: Was there any financial modelling done on the impact this change will have on local businesses?

Mr Barr: Yes. The expectation in the budget papers is around revenue raising.

Obviously the money that we anticipate raising will come from employers who collect the money under the requirements of the payroll tax arrangements. It can become more complex when distinguishing between the legal incidence and the economic incidence of the tax. Martin Parkinson talked at length in the last few weeks about payroll tax being, in effect, a de facto consumption tax, as the economic incidence falls on consumers. There is considerable evidence to suggest that it is the consumers of the services provided by those particular employees or contractors who will meet that cost. So I think over time, particularly when the commonwealth are the employing party, they will meet the costs through increases in the price of contractors and consultants.

THE CHAIR: No. The commonwealth, we were told, will not accept that until the contracts are renegotiated.

Mr Barr: But a lot of contracts are negotiated every 12 months.

THE CHAIR: Yes, but a lot of them are starting on 1 July. So the negotiations have already taken place.

Mr Barr: And a lot of contracts will have different clauses around those questions.

THE CHAIR: So how does a local firm that has already negotiated their contract that starts on 1 July make up the shortfall? What advice would you offer them?

Mr Barr: You would want to have that negotiation with the contracting party, look at the detail of your contract, and in the context of changes to start dates, we can take into account some of the impact there and allow people time to make appropriate adjustments.

THE CHAIR: How much is this initiative meant to raise?

Mr Barr: $10 million annually; so $40 million over the forward estimates.

THE CHAIR: There are other payroll tax issues. There were changes made to the act in 2007 that came into play in 2008. Some of those have been subject to compliance issues, and at least one has gone to ACAT. What was the determination of ACAT?

Mr Salisbury: ACAT has made a determination in relation to that matter. I believe it was a 63-page ruling. It dealt with a whole range of complex issues. The matter is under appeal at ACAT, and we look to a commercial settlement with the party involved.

THE CHAIR: So the territory will appeal?

Mr Salisbury: Yes.

THE CHAIR: But you just said with a view to a commercial settlement?

Mr Salisbury: We hope we can do that before we get to that appeal process.

THE CHAIR: If you feel so confident that you are entering into an appeal, why would you settle?

Mr Salisbury: The appeal is on one particular element of the decision, not the decision in its entirety.

THE CHAIR: Is this behaviour consistent with the model litigant procedures?

Mr Salisbury: I believe it is. We are looking to settle it before we get there.

THE CHAIR: And the government has behaved as a model litigant throughout the whole process?

Mr Salisbury: Absolutely.

MRS JONES: I have got a supplementary to the first part of your question about the payroll tax exemption changes. Treasurer, can you give an explanation as to why right now is the right time to do it? I understand you are trying to balance the books and do the best that you can. I accept that, but why now when we are already worrying about employment situations? And if there is an impact—and some contractors or people who manage firms are concerned that they are going to have to come up with money quickly, and that it actually may impact on some jobs—why now, not in another couple of years time, to harmonise with everywhere else in the country?

Mr Barr: We need to specifically and constantly monitor our performance in terms of our payroll tax collections, and we will provide additional resources to ensure greater compliance with the law. Ultimately every budget is a series of decisions around different, competing revenue needs and competing expenditure priorities. Post the federal budget, there was a $500 million hole ripped in the territory's finances. The level of demand for services has not decreased by $500 million, and in fact there was a requirement for new spending to advance a number of projects. One never hypothecates these things, but post the federal budget I needed to find $10 million to get a convention centre to a certain point.

MRS JONES: And this was on the books, yes, as an option.

Mr Barr: Money does not grow on trees.

MRS JONES: Funnily enough, Treasurer.

Mr Barr: This and other budget measures required us to balance a range of competing priorities. One of the advantages of broadening the payroll tax base in this way, by removing this exemption, which was, again I stress, one that only the ACT was offering, was that it has given us the capacity to raise the threshold for every other payroll tax payer in the territory. So 39 businesses are in fact removed from the payroll tax system altogether as a result of the increased threshold. Any change is going to have winners and losers. There would be a powerful argument to never change anything if—

MRS JONES: We are the conservatives.

Mr Barr: If you navel-gaze on why this year and not next, you potentially never change anything.

MRS JONES: But given that we have such an emphasis on this year's budget—

Mr Barr: Sure, but to the extent that this issue is a change, and it does challenge some existing arrangements, the government certainly acknowledges that. But ultimately we have to get a payroll tax system that works, that is as simple as possible to administer. As we have just heard, there are times when the complexity of the system and the differences between states and territories mean we end up in complex litigation and ACAT processes and the like.

The simpler and more harmonised the arrangements are, I think the better for everyone. It is the government's intent over the course of this parliament to continue to increase the threshold to $2 million so that we can further support small and medium-sized enterprises to grow.

In the mix of all the taxes we raise, this is not the worst one. Payroll tax is not the worst. Insurance tax is the worst, and stamp duty is a very bad tax too. The best tax we levy, in terms of its reduction in drag on the economy, is rates. But we have had that discussion.

MRS JONES: Yes, I think we have had that a few times.

Mr Barr: We had that discussion about rates this morning. So the challenge is that of all of the taxes you can possibly levy, the point I made this morning, surely we should use the ones that are the least distortive the most and rely—

MRS JONES: That is your job, is it not?

Mr Barr: That is right. I and the cabinet have made that call to increase the threshold and to close this loophole.

MRS JONES: Just quickly then, you said you are expecting 1,000 contractors to be affected. And how many other businesses or how many employees of other businesses?

Mr Barr: We will take that part of it on notice, but those 1,000 obviously are employees of various—

MRS JONES: They are individual people, when they have contracted, yes.

Mr Barr: Yes, that is correct.

MRS JONES: But as in companies with employees, rather than contractors?

Mr Salisbury: Sorry, just in terms of the companies affected, typically an employment agent has a relationship with a contractor. Under the current genuine employer exemption, what happens is that the contractor has a relationship with a payroll tax company, and that payroll tax company provides them with a range of services. They will pay their workers compensation; they will pay their insurance. They may have a leasing arrangement. They pay an amount for that service that is provided. Currently that is below the six per cent that they would have had to pay if they did not have that relationship. They are the businesses that may be affected by this or they may not be. If they are providing a service to the contractor that is valuable, then they will not change their business.

MRS JONES: Presumably they will have to redo all their contracts at this point because they will not be able to provide the same service because the same exemption is not there anymore.

Mr Salisbury: But that exemption does not apply to those payroll tax companies. It is paid by the employment agents themselves.

MRS JONES: I understand that. I just want to ask the Treasurer a question about tax in the ACT in general. If we are a small jurisdiction without a huge amount of industry, then harmonisation with the rest of the country may not be what we are after because you might actually want to attract businesses here for a favourable situation, or do you not—

Mr Barr: I think you are confusing the legal framework with rates and thresholds. There is certainly competition amongst the states and territories around the payroll tax fee on what the rate—

MRS JONES: Well, the cost of doing business in the ACT.

Mr Barr: That is correct, but having the same—

MRS JONES: There are a lot of businesses moving out of Hume at the moment to Queanbeyan because it is cheaper for them to move across the border.

Mr Barr: Yes, but there are the costs that accrue to businesses that operate in multiple jurisdictions where the legal frameworks are different between the two. So they have to maintain a capability to operate in the ACT that is different from other places.

MRS JONES: So in that case you are making it cheaper. I understand that.

Mr Barr: Yes, but where there is competition between the states and territories at the moment is when you start paying payroll tax. In the ACT we exempt, I think, 23,000 of our 25,000 businesses from paying it at all because our threshold sits at $1.85 million and in New South Wales it is as low as about $600,000 or thereabouts. But then the ACT rate, once you pay payroll tax, is higher than in other jurisdictions.

The policy balance we have chosen is really only to tax the biggest players, the multinational companies, the national companies, and tax them slightly more so as to exempt small and medium sized enterprises from paying the tax at all. If your payroll is up to about $5.3 million—so that gives you a reasonable number of employees in the ACT—you are better off being in the ACT than you are in New South Wales.

MRS JONES: Depending on the size of your rates and your cost of doing business and the land and the property size.

Mr Barr: Sure. There are a range of other measures. Electricity is considerably cheaper in the ACT than it is in New South Wales. There are a range of things, obviously, depending on the nature of the business. Some businesses would prefer to set up in the ACT because of various advantages of being here. Others would choose other destinations, other states and territories, for other reasons.

MRS JONES: That is great. I am hearing a few reports back about Hume at the moment that there is a fair exodus going on. You wonder why that is and what other things are at play across the border into Queanbeyan. Anyway, I will leave it with you.

Mr Barr: It could be a range of factors.

MS BERRY: I am still interested in the payroll exemption tax and would like a bit more detail on that. I just do not quite understand it. The thousand or so contractors are people who work for themselves who pay an organisation to do their payroll and pay their fees and everything—compo and things like that. That is right, isn't it? Do those people fall into the category of a wage rate where, although they do not pay tax at the moment, they will need to after implementing the tax?

Mr Salisbury: I will have a go at explaining my understanding of it.

MS BERRY: I am just interested in the wage level, I suppose. What are these people earning? What are these businesses earning where they were not paying tax and now they are going to have to start paying tax?

Mr Salisbury: I will try and explain the relationship and how the payroll tax company fits in. A client goes to an employment agent and says, "I need somebody to run my IT system or put in a new IT system." The employment agent goes to his group of contractors and says, "I've got a job for you." So the employment agent has a contract with the client and then the employment agent has a contract with the contractor.

If that is a one-on-one relationship, the employment agent must withhold 6.85 per cent of payroll tax for that contractor if the employment agent as a whole unit is above the tax-free threshold. If that subcontractor interposes an entity between himself and the employment agent either by employing himself or using a payroll tax company, the employment agent does not have to pay six per cent tax.

MS BERRY: Okay.

Mr Salisbury: The proposal is that whether you have a direct relationship with the employment agent or whether you use a payroll tax company, the employment agent still has to pay the 6.85 per cent payroll tax.

MS PORTER: You probably need a diagram.

MS BERRY: No, I kind of got it. I just wondered what sort of money we are talking about with these people. I think that is the question that I was more interested in.

MRS JONES: What gets you into the six per cent, what amount?

Mr Salisbury: Any amount if you do not have an entity interposed between you and the employment agent.

Mr Barr: But that assumes that the employment agents have so many contractors that their combined payroll is over the threshold.

MS BERRY: Okay.

Mr Barr: In terms of small business, if you are one of 5,000 contractors on company X's books then that is obviously a big entity. If you are one or there are two or three then you could be earning $600,000 a year each and you would still fall below the payroll tax threshold as it is now. It will depend on the nature of your arrangement in terms of your employment agent.

MRS JONES: So it is based on the number of employees?

Mr Barr: Yes. It is how many contractors they have on their books.

MRS JONES: Employed at that point in time?

Mr Barr: Yes.

MS PORTER: So the issue that they seem to be grappling with is the fact that they have to go through a panel in order to deal with government agencies because government agencies only want to deal with panels; yet that is when this thing kicks in. The other issue they seem to be struggling with is the contractual arrangements they have already entered into with that panel. That means that they cannot get out of it and have not taken into account what was going to happen.

MRS JONES: Is it going to be grandfathered in any way for people who have already got substantial contracts, for instance, one-year contracts, in place?

Mr Barr: No, what we have talked about is potentially starting it a little later.

MRS JONES: With a little bit more notice.

Mr Barr: Yes.

MS BERRY: But those people might have rise and fall provisions or something like that in their contract arrangements.

Mr Barr: That is right.

MRS JONES: So you would have to check—

THE CHAIR: And they may not.

MS BERRY: That is true but, if they did, you would not want people to have an opportunity to double dip either. I think all of those sorts of things need to be taken into account as well.

Mr Barr: It is, as we have established, somewhat complex. At least this change reduces a level of complexity in that the amount is required to be withheld, but there are undoubtedly transitional issues that we can work through.

MRS JONES: Finally, just to clarify: are you now in a negotiations process about when you might reconsider the start date for this?

Mr Barr: We have certainly indicated—and I have done that today—that the government is willing to look at a later commencement date.

MRS JONES: What sort of time frame are you keen on? Obviously it would want to be in this financial year.

Mr Barr: That is correct. A proposal has been put forward to delay it until the second quarter.

MRS JONES: So another three months?

Mr Barr: Yes.

MRS JONES: It would depend on how long their contracts are as well as to whether or not that is still a problem.

Mr Barr: Yes. There are obviously a range of things, but full delay for the entire financial year, no.

MRS JONES: Right, because it is part of your Treasurer's work.

Mr Barr: Indeed.

MS BERRY: Thanks for that. That was useful.

MRS JONES: Yes, it really was.

THE CHAIR: I have a question on revenue and government management. Can we have an explanation of the 30 per cent increase in parking fees?

MS PORTER: Is that revenue?

Mr Barr: We discussed this this morning. There are a number of different factors.

THE CHAIR: And you said we could come back to it this afternoon.

Mr Barr: Yes, but I also indicated that this area is the Office of Regulatory Services, so you will get the fine detail there. There are improvements in revenue as a result of the new parking arrangements vis-a-vis payment by credit card et cetera—the costs of operating the system in terms of manual collection, the breakdown rates et cetera. The Auditor-General estimated, I think, $1 million a year in revenue that was being lost as a result of the old system not collecting the revenue that would be there for collection.

Obviously, when someone makes a payment on their credit card that money is available instantly. It does not have to go to be banked and go through that process. It happens straight away. There are a number of other factors that contribute, including a 50c increase, as I understand it, from $13.50 to $14, in the category 1 car parks and 50c or thereabouts in a number of the other ones, although that detail obviously will be with the agency who administer the arrangements. There are a number of different factors that are contributing to the improved revenue performance, but I suspect that the most significant one is the change to the new system that reduces revenue leakage that we had experienced previously.

MRS JONES: Just to clarify: there is a genuine belief that we will get 30 per cent more predominantly from this credit card payment system and the new machines?

Mr Barr: When you look at the actual dollar amounts, I think it goes from $13 million to $17 million. So it is about a $4 million—

MRS JONES: I thought it was 9 to 13. Was it 9 to 13?

THE CHAIR: No, 13 to 17.

MRS JONES: 13 to 17.

Mr Barr: 13 to 17. So it goes up $4 million. A quarter of that is just stopping revenue leakage.

MRS JONES: But what are the other three-quarters?

Mr Barr: There are a range of other things that contribute: the availability of space—there is extra capacity, as I understand it—the enforcement elements and the fee increase. They contribute to the overall increase. In terms of a very detailed breakdown of all of those elements, that will be with ORS who have parking operations.

MRS JONES: And they are coming.

THE CHAIR: So fees for regulatory services would be ORS?

Mr Barr: Mostly.

THE CHAIR: Mostly? Which bits are yours, Treasurer?

Mr Salisbury: We have only got objection fees.

Mr Barr: Objection fees and certificate of land tax fees.

THE CHAIR: Which is probably a small percentage?

Mr Barr: I think it is, yes.

THE CHAIR: So parking fees we have determined are ORS. Patient fees: are you going to direct us to the health department?

Mr Barr: Yes.

THE CHAIR: We will go to the Health Directorate.

THE CHAIR: The water abstraction charge?

Mr Barr: Yes, that sits with me.

THE CHAIR: All right.

Mr Barr: That has been increased from 25c to 26c for non-urban, from memory, and from 51c to 54 or 55c for urban. So it is slightly above WPI.

THE CHAIR: The notes say that it is that slight increase plus five per cent:

> This increase is primarily due to revised indexation parameters and an increase by 5 per cent …

Why five per cent?

Mr Barr: We took a decision to raise a little more revenue through that means.

THE CHAIR: So just squeezing a little bit harder?

Mr Barr: A little bit more, yes. That is correct.

THE CHAIR: And why five per cent for the water abstraction charge?

Mr Barr: There is also a rounding component. When you are dealing with 25c to 26c, it went up 1c for the non-urban water use. And the rounding on the urban one would have got it to 54 or 53, from memory. So yes, we sought to raise a little more revenue. Post the federal budget, when I had all that revenue stripped away, we had to look again at a number of our revenue lines to see whether we could raise a bit more revenue for the territory. The increase is modest, but I acknowledge it is an increase.

THE CHAIR: Under sales, I note that the target for this year was $27 million but only $20 million has been achieved as the estimated outcome. Why the difference?

Mr Barr: Sorry, which page are you on?

THE CHAIR: Sales, further down the page.

Mr Barr: BP3.

Ms Smithies: The note talks about decreases mainly due to reallocation of sales revenue to service receipts, so reclassification. These are a number of revenue items that sit across a broad range of agencies; they are aggregated by Treasury and do not form part of the taxation lines.

THE CHAIR: Can we have a breakdown of that $7 million and the reason for the reallocation?

Mr Barr: The difference between the budget and the estimated outcome?

THE CHAIR: Yes.

Mr Barr: Yes; okay.

THE CHAIR: And it is going up seven per cent. What is the expectation there?

Mr Barr: It would appear that each of the budgeted amounts in the forward estimates is less than the budgeted amount for the current fiscal year. It has obviously been rephased and then an indexation component added. I will take that on notice, because it does aggregate across all of the agencies. I will find out.

THE CHAIR: All right.

MRS JONES: Can I just clarify something on the water abstraction charge there. Is the explanation that that is not actually set based on the cost of delivering water but is set based on the needs of the territory?

Mr Barr: The water abstraction charge reflects the scarcity of the resource.

MRS JONES: Like parking. When we need more money, we put up the parking fees. We put up the water fees because it is a scarce resource and it is something that we can charge people a fair bit for?

MS PORTER: I do not think that is what it is.

MRS JONES: I think that is in fact what has been said.

Mr Barr: It is an interesting way of—

MRS JONES: So we sit around the table and we go, “Which one will we put up this time?”

Mr Barr: The government have only a small number of revenue-raising opportunities, and we need to look across the range of items. You will see in the context of this budget that we have sought to keep those increases at WPI or just slightly above across pretty much all of the lines.

MRS JONES: What is WPI?

Mr Barr: Wage price index. So given that the bulk of the cost of providing services in the ACT—

MRS JONES: You are hoping it is staying in line with the unionised members' increase in pay.

Mr Barr: The point I was going to make is that that—

THE CHAIR: No; five per cent is above that.

MRS JONES: He said WPI.

Mr Barr: That is the cost, the largest cost driver.

MRS JONES: In delivering the services?

Mr Barr: Yes. It is the salaries and wages of the staff who deliver.

MRS JONES: That is the rationale.

Mr Barr: Yes. That is why we tend to index our prices by that amount, because that is the increase in the cost of the service provision to us as a result of wage outcomes.

MRS JONES: So it is not quite the roulette table and throwing the dice.

Mr Barr: No; it is a little more sophisticated than that.

THE CHAIR: On page 153, the explanation under the revenue initiative says:

> This increase maintains the intent of the WAC in reflecting the true economic value of water …

What is the true economic value of water?

Mr Barr: As a scarce resource.

THE CHAIR: Have you determined what the true economic value is? Is it currently 54c and 26c, or will it have a different true economic value next year?

Mr Barr: It can obviously rise over time.

THE CHAIR: Will it rise again next year?

Mr Barr: I will not pre-empt budget decisions.

THE CHAIR: I go back to my question: what is the true economic value of water?

Mr Barr: As I say, I will not pre-empt budget decisions. Clearly, the increase here is modest but does reflect the fact that there is—

MS BERRY: If, as has been predicted, there is an El Nino event occurring, there is not going to be any rain for some time and then water does become scarce, that would have to be something you would have to consider.

MRS JONES: But when it rains a lot the price should go down, and the price does not go down when it rains a lot.

Mr Barr: Depending on your view of real versus nominal price increases, Mrs Jones.

MRS JONES: The price increase on the family budget.

Mr Barr: Most people take the nominal price and do not discount for inflation, so we have seen a period of real price decrease in the context of the water abstraction charge.

MRS JONES: Because—

Mr Barr: So an increase here of five per cent is, I think, moderate.

MRS JONES: I would hate to see what a steep increase would look like.

MS PORTER: You use less anyway when it rains.

THE CHAIR: Moving to other revenue on page 245 of BP 3—are they all for ORS? Are any of those yours?

Mr Barr: They would appear to be all in other areas. Traffic, courts, parking are all elsewhere.

THE CHAIR: Any further questions on revenue?

MRS JONES: I just want to go back one more time to water. Is there any use of meteorology in determining the cost of water and the scarcity or supply, or is it literally just a market cost?

Mr Barr: The ICRC, in undertaking their pricing determinations, have a volumetric component to their considerations. The recent investments in enhancing the water infrastructure of the territory go to reducing the risk of water restrictions in the territory—now, I think, to one in 20 years rather than a much higher frequency prior to those investments. The risk of water restrictions has been reduced, but obviously the costs associated with that involve the construction of a new dam and a range of other water infrastructure. It might be useful to explore some of these questions tomorrow with ACTEW.

MRS JONES: Yes, I will. I suppose ACTEW might be able to answer, but with the ICRC decision and the costs having to go down on the supply of water to households, and the water abstraction fee going up, is that also intended to somehow balance out the impact on government of that decision?

Mr Barr: I would not say the two are necessarily linked. In fact, I could say they are not.

MRS JONES: Just the same Treasurer: “No, not really.”

Mr Barr: The other process is an independent one undertaken against a regulated asset base with a range of other factors that need to be considered. This is a modest change. It is 1c in the context of non-urban water and 3c in the context of urban water.

MRS JONES: Per?

Mr Barr: Per kilolitre extracted, I understand. Is that right? That sounds right, doesn’t it?

Ms Smithies: It sounds right.

Mr Barr: Yes.

MRS JONES: Maybe you can check that?

Mr Barr: If I am incorrect in the unit charging, I will correct the record, but I believe it is per kilolitre.—

MRS JONES: Thank you.

THE CHAIR: All right. We might leave revenue at that point.

Mr Salisbury: Mr Smyth, could I answer Ms Berry’s question? She asked me a question about the number of objections, and I could read that into the record.

THE CHAIR: Sure.

Mr Salisbury: In 2012-13 we had 193 objections. Sixty-one of those were related to land values; 132 related to other tax lines. Thirty-eight of that 193 were allowed or partly allowed. The figures for the 2013-14 year to date are 264 objections, 121 related to land values and 143 related to other matters; of that 264, 51 were allowed or partly allowed.

MS BERRY: So 54 of the 64 were—

Mr Salisbury: Fifty-one of 264 were allowed or partly allowed—so they were successful.

THE CHAIR: Thank you for that. We might finish with revenue and move to the home loan portfolio. I guess the eternal question for the home loan portfolio—

Mr Barr: How many remain?

THE CHAIR: No. When does it all end?

Mr Barr: I can advise the committee that at the end of April 2014 there were 79 loans remaining. This is down from 95 on 30 June 2013. The value is $2.196 million. The number of loans is expected to reduce from 76 to 64 by 30 June 2015, due to a number of loans being discharged during that period.

THE CHAIR: At that rate, is there another four years of decline to come before the portfolio is finished, or is it a longer period than that?

Mr Salisbury: It is a longer period than that under the current arrangements. However, I have had some consultations with the Community Services Directorate about how we might move to wind the portfolio up. We are currently going through a review of all the loans that we currently have to look at how much is outstanding against each loan and the property value. Once we have got that information, we will go back to Community Services Directorate and we will have a conversation about what options there may be to sell the portfolio or encourage some of the people to perhaps take other financing arrangements or move to property that potentially more suits their needs going forward. Once we have gone through that review of each individual loan, we will have that discussion and we will determine whether there is a way forward for wrapping the portfolio up ahead of 2040, which I think is when the commonwealth loan expires.

THE CHAIR: So 2040? When was that loan issued?

Mr Barr: 1996 or thereabouts.

MRS JONES: I have got a supplementary to that.

THE CHAIR: When will the review of the portfolio be finished?

Mr Salisbury: I am not sure it will be a formal review as such. We will look at options towards the end of this calendar year—if there are real options of winding it up. Then I guess we will put that to government.

THE CHAIR: If it is wound up, does the government make a profit out of that? Is it left with residual value of some description?

Mr Salisbury: No. We still owe $80 million worth of loans to the commonwealth that have to be paid out by 2040. What it does is take away the administration cost of managing those. How many is it, Treasurer?

Mr Barr: It is 76 down to 64.

Mr Salisbury: It removes the cost of administering those loans from the territory.

THE CHAIR: But we still end up owing the commonwealth?

Mr Salisbury: Yes.

THE CHAIR: Is there a reason to finish it? And is our debt to the commonwealth lessened or have we just made a saving on the administration?

Mr Salisbury: That is on the administration.

Mr Barr: I guess that is one of the issues we will have to judge, whether that is worth while.

THE CHAIR: Mrs Jones, you had a supplementary?

MRS JONES: Yes. In negotiating with the parties who have these loans, who is approaching these people and assisting them to deal with the situation? Is this something that the department is doing directly, do you use social services or how is that done?

Mr Salisbury: We have not done anything at this stage other than to determine what the outstanding amount is and the financial situation of the people.

MRS JONES: You did not know that before?

Mr Salisbury: We did but we had not looked at it in terms of potentially wrapping up the portfolio, which is a different risk profile that you overlay on each of the loans. We will then discuss with the Community Services Directorate how we go forward.

MRS JONES: What types of people are engaged in these loans? Who were they, historically?

Mr Salisbury: They were people who could not get commercial finance for their loans and they got a government supported scheme.

MRS JONES: You will involve CSD in the resolution, if you are trying to wind it up?

Mr Salisbury: Yes, absolutely.

MRS JONES: What was the average of each loan?

Mr Salisbury: I think it is down to around $23,000.

MRS JONES: Can you take it on notice and confirm it to us later?

Mr Salisbury: Sure. I can probably confirm it right now. Sorry, the average loan balance is approximately $27,000.

THE CHAIR: With the $80 million debt that we owe the commonwealth, where does that show up in the budget statements?

Mr Salisbury: It shows up in the home loan portfolio statements.

THE CHAIR: Where is that in the combined statements, in the total territory—

Ms Smithies: I think it sits in the Treasury borrowing portfolio as pre-self-government debt.

THE CHAIR: Is that in the advances received or in the other borrowings? Mr McAuliffe spoke earlier today about funds that we owed the commonwealth as advances received.

Ms Smithies: That may well be right. It sounds familiar. It has been a while since I looked at it. What page are you on?

THE CHAIR: I am on page 343 of budget paper 3. How do I cross-reference from the home loan portfolio statements to the total territory?

Ms Smithies: It is probably best to get that confirmed by Treasury, Mr Smyth.

THE CHAIR: Will you take that on notice?

Ms Smithies: We can do that.

MS BERRY: I want to ask about the home loan portfolio. What is the long-term plan for the administration of these loans? I see that every time loans are discharged every year the charge goes up for administering the loans. So at some point in the future there will only be a couple.

MS PORTER: They just answered that question.

MS BERRY: Did they just answer that?

Mr Barr: Yes.

MS BERRY: I am sorry. That must have been the moment when I was reading.

Mr Barr: We are examining those very issues and there will be advice to government later in the year.

MRS JONES: My question is: if $27,000 is the average and there are 70 of them, presumably you have about $1,890,000 on the loans. What is the rest of the $80 million that is owed to the commonwealth? Am I missing something?

Mr Salisbury: No, it is a good question. When the ACT government took the loans over from the commonwealth, that was an asset that we had, and we had many hundreds of loans. They said, "To go with your asset, there's a big liability."

MRS JONES: But no-one actually checked if it was accurate or not at the time?

Mr Salisbury: Well, it was right at the time.

MRS JONES: So the houses are not worth as much as they were or something?

Mr Salisbury: No, people have repaid the loans. So the value of the asset to the ACT government has fallen over time, but the value of the loans to the commonwealth is being paid back over time. So we make a payment of principal and interest every year off that figure which was much more than $80 million when we took it over—

MRS JONES: So it is a legacy debt because it has not been paid down at the same rate as the loans have been paid down?

Mr Salisbury: Yes, that is right.

MRS JONES: So we have used it as a bit of a buffer.

Mr Salisbury: At one point it had quite a favourable interest rate. That interest rate is not so favourable anymore.

MRS JONES: What is the interest rate now?

Mr Salisbury: It is 4.5 on the commonwealth.

MRS JONES: Is it actually better to pay the commonwealth off and use the ACT debt of three-point something?

Mr Salisbury: We have had this conversation.

Ms Smithies: I think we have had this conversation, and the commonwealth is going to keep paying it out at the term that it was written at and will not discount.

MRS JONES: So in the long term you believe that you are still winning?

Mr Salisbury: I think it is something we cannot get out of. We have had this conversation with the commonwealth and they said, "No, that's the loan. That's the loan repayment. We're not interested."

THE CHAIR: If there are no further questions on the home loan portfolio, we will call it a day and move on to ACTTAB.

Welcome, Mr Curtis, to the table. I am not sure if you were here when we did the preliminaries, but there is a privilege statement on the table in front of you. Could you please confirm to the committee that you are aware of the contents and its implications?

Mr Curtis: I am, thank you.

THE CHAIR: I guess the question we are all dying to know the answer to, minister, is: how is the sale going?

Mr Barr: It is progressing.

THE CHAIR: Progressing? When is an announcement likely?

MRS JONES: That is a political answer if ever I have heard one!

Mr Barr: Obviously I cannot go into any detail given the nature of the process and where we are at now. Suffice to say I expect the matter to be concluded within weeks and will make an appropriate announcement once matters are resolved to the satisfaction of the government and the successful party.

THE CHAIR: Are you likely to reach your target of having sold ACTTAB by 30 June?

Mr Barr: I am confident that the process will conclude if not by 30 June then very shortly thereafter. It would be fair to say that my absence overseas for the next eight days may necessitate closure of the matter in early July, but I am not expecting any significant delay in relation to finalisation of the process.

THE CHAIR: There have been some concerns raised about some bidders being shut out of the sale of the agency, including some smaller local organisations that might have wanted to take the opportunity to purchase. How do you react to those comments?

Mr Barr: We have obviously undertaken a process that is transparent and competitive. The first stage of that involved an open call for expressions of interest. It was advertised in national media as well as locally, so it was in the *Financial Review* and the *Weekend Australian*. This approach obviously was intended to maximise potential bidders.

Each respondent was then required to address certain selection criteria that served as a guide to the subsequent selection of preferred bidders. The requirements were that the successful bidder would need to demonstrate appropriate experience and capacity to operate a wagering business, including meeting necessary regulatory requirements. The calls for expressions of interest were conducted by Deloitte, the government sales adviser, which has managed many similar transactions. We have a probity adviser in relation to this process. That probity adviser has confirmed that the short-listing of respondents was made in accordance with the stated evaluation criteria.

THE CHAIR: There was an article in the *Canberra Times* on 24 March this year by Kirsten Lawson called "Bidders shut out from sale of agency". The second paragraph said:

> It is understood as many as 12 groups submitted expressions of interest in the TAB, including the big corporate bookmakers, but most were rejected this month, in what one industry insider called a sham process.

Why have you allowed what someone has called a sham process to occur?

Mr Barr: I have not. Frankly, responding to anonymous quotes in newspapers really serves no purpose. The process has been undertaken in accordance with established practice for such an asset sale and it has a probity adviser who has assessed that the process is progressing in accordance with the stated evaluation criteria.

THE CHAIR: The article goes on to say:

> Corporate bookmakers are unhappy and say the government will not get the price it wants from the TABs.

How do you respond to that statement?

Mr Barr: That makes a number of assumptions—again, anonymous sources who have no idea what the government expects. I think that is a ridiculous series of assertions made by anonymous sources in a newspaper article. I am not going to respond to any further questions along those lines.

THE CHAIR: I will throw one more at you:

> "It was always going to be a TAB," one insider said questioning why the government didn't simply state a preference for the TABs instead of running a "sham" call for expressions of interest.

Mr Barr: I have outlined the process that we have undertaken, and the government sticks by that process.

THE CHAIR: A supplementary, Mrs Jones?

MRS JONES: Are you able to table or come back on notice with the selection criteria that were used?

Mr Barr: Yes. We provided a number of sale objectives. I can provide them to you now: a fair and reasonable price; ensuring that the racing industry was not negatively affected; achieving a timely sale; ensuring the successful purchaser had appropriate experience and capacity to operate a wagering business; and ensuring that employee welfare was considered.

MRS JONES: Employee welfare?

Mr Barr: Yes.

MRS JONES: Because of the timely nature of the sale, could this potentially end up being some sort of a fire sale where you just need to get it done by a certain date? Are you concerned about that at all?

Mr Barr: No and, in fact, the timing in the context of the commonwealth government's asset recycling initiative could not be better. It is perfectly timed to facilitate access to that particular—

MRS JONES: But for the actual price that you will get or the outcome you will get—

Mr Barr: Yes, indeed, yes. In fact—

MRS JONES: back from the commonwealth but also for the actual site.

Mr Barr: Yes, that is correct. Yes, we stand to benefit 15 per cent ahead of what we would otherwise have got if we had undertaken the process earlier or outside of the asset recycling opportunity that expires on 30 June 2016, although the commonwealth has indicated that it is a competitive process, that there is not an allocation set aside for each state and territory. It is first come, first served. So having this process conclude when it will will allow us to be one of the first jurisdictions to access.

MRS JONES: What was that last criteria about entitlements for staff?

Mr Barr: To ensure employee welfare is considered in the sale process.

MRS JONES: Just considered; so there is no guarantee that people will keep their jobs at all?

Mr Barr: No; we have indicated through the process a desire to ensure, firstly, that all employee entitlements are fully met and that where possible all positions are maintained. There will be obviously a period of transition, depending on the complexities of the different offerings and discussions that are occurring with different bidders. These are obviously highly commercial in confidence and will be outlined once the process has concluded.

MRS JONES: When you make your announcement at some time shortly, you will make some statement about employees?

Mr Barr: We will have statements against those sale objectives, yes.

MRS JONES: Against each one?

Mr Barr: Yes.

THE CHAIR: Ms Porter.

MS PORTER: My question is around the asset sale. There is no doubt that this will qualify as one of the ones that the commonwealth would honour with 15 per cent?

Mr Barr: Given the criteria that the commonwealth have outlined, this would certainly appear to be fair and square in the sort of space that they are looking at. Obviously, the requirement also is that the proceeds of any asset sale under this national partnership are then invested in productive new infrastructure. So we need to negotiate with the commonwealth over the range of projects that it can support, and we will certainly do that because the 15 per cent bonus is worth while having.

MS PORTER: We have proposals to be able to match them?

Mr Barr: Indeed, yes. The sorts of projects that the territory has in its forward program are identified in the budget papers that we discussed this morning.

MS PORTER: Yes, the ones that we went through this morning.

Mr Barr: That is right.

THE CHAIR: Ms Berry.

MS BERRY: I have a whole bunch of questions. I know that you have been asked a few of these before in other rooms in this building, but I wondered whether you could give us a list of all the occasions when you have contacted staff or their representatives about the future of ACTTAB?

Mr Barr: Yes, we can certainly provide—I understand that the updates are fortnightly.

Mr Curtis: Yes, there have been regular updates since the announcement back in, I think, December this time around. Whenever there is anything new I will communicate to the staff. We have probably done that on approximately 20 occasions since December.

MS BERRY: ACTTAB's future options feasibility study recommended that if the territory did decide to adopt a trade sale approach, consideration should be given to including in the transaction documents a government objective and/or tender evaluation criteria that evaluates the extent to which tender participants treat ACTTAB employees in a fair and equitable manner. Has this been acted upon?

Mr Barr: Yes.

MS BERRY: What does this look like in practice?

Mr Barr: Well—

MRS JONES: He cannot tell us yet.

MS PORTER: He cannot tell us until the preferred—

Mr Barr: Suffice to say that, as I said entering into this process, an absolute guarantee that all of the terms and conditions in the enterprise agreement for staff are met, particularly for anyone who would take a redundancy or be made involuntarily unemployed. All of those provisions would be met in full under the EBA process. However, the government's objective has been to ensure that that be minimised. I think there are strong reason to be confident that there will be ongoing and potentially growing opportunity within the business in the future for new employment.

MS BERRY: Are trade sales and privatisation common in the gaming sector?

Mr Barr: I guess so.

MS BERRY: You guess so?

Mr Curtis: I would not know. I have not been involved in one previously. There have been a number of privatisations of the TABs across various states and territories. But, yes, I am not aware of what the nature of those sales have been in the past.

MS BERRY: I asked that because I am wondering whether there are any lessons that the ACT government has learned on how staff and community interests can be protected when government removes itself as a shareholder from a gaming enterprise?

Mr Barr: I guess that there are some relatively recent examples, with Tasmania perhaps being the most recent. The ACT and Western Australia are probably the only two still remaining in public hands. But the process for other jurisdictions happened such a long time ago I guess that there are not that many and there are only eight states and territories overall. So there are only so many past experiences you can learn from. But, again, without prejudicing the discussions that are underway, those sale objectives have been front and centre in our consideration and our engagement with interested parties.

MS BERRY: I have one last question on this and I know it might actually go into Minister Burch's area. It relates to those sorts of controls that we might lose when we are no longer a shareholder. Is that something I might be better off asking her about?

Mr Barr: Certainly, the entity will operate in a regulated environment; so I would not anticipate there being dramatic change in that context. But that is not to say that there cannot be any change, because there are a number of areas of reform in gambling regulation that are underway anyway that apply across the entire sector. Certainly, any changes that occur as a result of this process will be publicly announced.

Obviously, it would require a legislative or regulatory change process in the Assembly either for disallowance or for enactment. So I do not envisage dramatic change, but the regulatory space for gaming is constantly evolving as technology changes. We certainly have a desire to ensure that we have the appropriate level of attention to high risk areas and allocate our regulatory resources appropriately to manage the risk across the entirety of the gaming industry.

THE CHAIR: Mrs Jones.

MRS JONES: There is mention made in the documentation that there will be management of residual matters after a successful conclusion. What do you expect the residual matters for ACTTAB to be? What are you doing to address and resolve these?

Mr Barr: I think the experience with previous winding up of operations in other—

MRS JONES: Sorry, I am just having trouble hearing.

Mr Barr: The experience when we previously wound up operations—I am thinking TotalCare, for example—

THE CHAIR: Or Rhodium.

Mr Barr: Yes, Rhodium; the process extended a reasonable amount of time beyond that. So I think it is prudent to note that there will be a period of transition and that will require ongoing—

MRS JONES: Resourcing.

Mr Barr: Yes, resourcing and appropriate diligence, scrutiny and the like. We will have more to say about that in the foreseeable future.

MRS JONES: We can always put questions on notice, I am sure.

Mr Barr: Yes.

MRS JONES: Even after estimates.

THE CHAIR: Members, any other questions? There being no further questions, thank you, Treasurer, and all your officials for appearing today. The chair's award for contribution to the estimates process today goes to Mr Murray with his *Game of Thrones* ring tone. That is not a challenge to other public servants appearing to have a louder or more interesting ring tone, but it did bring some levity to the day.

I remind members that questions on notice for the inputs that we have had today—output class 2, financial and economic management, specifically output classes 2.1 and 2.2; the superannuation provision account; the territory banking account; the ACT compulsory third-party insurance regulator; Commerce and Works Directorate output class 1.1, revenue and government business management; and ACTTAB—should be lodged with the committee support office within three days of receipt of the uncorrected proof transcript. Of course, that includes the home loan portfolio. Day one is the day after the transcript is received.

The committee's next hearing will be tomorrow morning at 9.30 when the Treasurer and Chief Minister will appear before the committee with their respective directorate officials. A transcript will be sent to you for correction and clarification if required. We look forward to any that might appear. I now declare the hearing closed for the day, with one-third of estimates now over.

The committee adjourned at 5.07 pm.