LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

SELECT COMMITTEE ON ESTIMATES 2015-2016

(Reference: Appropriation Bill 2015-2016 and Appropriation (Office of the Legislative Assembly) Bill 2015-2016

Members:

MR B SMYTH (Chair)
MS M FITZHARRIS (Deputy Chair)
DR C BOURKE
MS N LAWDER

TRANSCRIPT OF EVIDENCE

CANBERRA

MONDAY, 15 JUNE 2015

Secretary to the committee:
Mrs N Kosseck (Ph 620 50435)

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

ACN 071 257 504 Ltd..**124**
Chief Minister, Treasury and Economic Development Directorate **124**
Independent Competition and Regulatory Commission......................................**124**

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Amended 20 May 2013

The committee met at 9.30 am.

Appearances:

Barr, Mr Andrew, Chief Minister, Treasurer, Minister for Economic Development, Minister for Urban Renewal and Minister for Tourism and Events

Chief Minister, Treasury and Economic Development Directorate
Nicol, Mr David, Under Treasurer
Doran Ms Karen, Executive Director, Economic and Financial Policy Group, and Lifetime Care and Support Commissioner of the ACT
McAuliffe, Mr Patrick, Director, Asset Liability Management, Economic and Financial Policy Group
Holmes, Ms Lisa, Director, Financial Framework Management and Insurance, Economic and Financial Policy Group
Miners, Mr Stephen, Executive Director, Finance and Budget Division
Bulless, Mr Neil, Executive Director, Expenditure Review Division
Hays, Mr Tony, Senior Manager, Government Business Enterprises, Expenditure Review Division
Murray, Mr Peter, Executive Director, Infrastructure Finance and Advisory Division
Salisbury, Mr Kim, Director, Revenue Management Division

ACN 071 257 504 Ltd
Kourpanidis, Mr Con, Board Chair, ACN 071 257 504 Ltd (formerly ACTTAB Ltd)
Johnston, Mr Anthony, Chief Financial Officer, ACN 071 257 504 Ltd (formerly ACTTAB Ltd)

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

THE CHAIR: Good morning, everyone, and welcome to this second day of public hearings of the Select Committee on Estimates 2015-2016. The proceedings today will examine the expenditure proposals and revenue estimates for the Chief Minister, Treasury and Economic Development Directorate in relation to budget statement B.

Please be aware that the proceedings today are being recorded and transcribed by Hansard and will be published. The proceedings are also being broadcast and webstreamed. For each witness appearing there is, of course, the privilege statement, the pink card that is on the table. Could you please confirm that you have read the privilege card and that you understand the implications of privilege? It is so acknowledged.

Before we proceed to questions, Chief Minister and Treasurer, would you like to make an opening statement?

Mr Barr: I am tempted to say I will take that one on notice.

THE CHAIR: You could and then you would refer to it later on, and the process would roll.

Mr Barr: Noting that time is short for the committee, chair, I am happy to go straight to questions.

THE CHAIR: Thanks for that. We are meant to start with output class 2, financial and economic management, 2.1, economic management, but general practice means some broad questions to start with. Treasurer, I thought I heard you say the other day in one of the debates in budget week that the tax reform was not quite revenue-neutral. There has been some complaint from some groups that it is not revenue-neutral at all. Has the tax reform to date been revenue-neutral?

Mr Barr: Probably not. The territory has probably lost revenue as a result of tax reform. The question would be whether you are seeking a year by year snapshot or the program to date over a four-year period. We have certainly given up revenue in a number of areas, particularly in relation to payroll tax, for example. So it would be fair to say that given the high level of volatility associated with stamp duty, in particular, that our revenue estimations have had to be written down on a number of occasions over the last four years, particularly in relation to stamp duty.

THE CHAIR: You are saying it is out; other groups are saying they think it is over.

Mr Barr: It would depend on the perspective of the individual groups. The one group I understand who have made that commentary only make it in reference to one element of tax reform, not the totality, and they are welcome to that view. I am not sure that it is necessarily the case. The one observation we can make, in relation to commercial stamp duty, for example, is that when the top rate was slashed from 7.25 down to, I think, 5.17 now, there has been a response in the marketplace.

Again these things are hard to quantify because when Treasury make assumptions on revenue, based around one or two large commercial property transactions occurring in each fiscal year, in one year there might be one, in another there might be three. They are such large, lumpy transactions that their impact upon revenue streams can be disproportionate year to year. But more generally stamp duty is volatile; a rates-based is less volatile. That is something that is well understood by everyone.

THE CHAIR: Is it possible to provide a reconciliation that supports your statement—

Mr Barr: We can certainly provide information in relation to the difference between projected stamp duty revenues and volume of transactions in the marketplace, and the level at which they occur. The other thing when making estimations on revenue from stamp duty is that you have to make an estimation not only on the number of transactions that would occur in any fiscal year but also on the value of those transactions. It was an interesting observation from the Property Council today that stamp duties have increased 800 per cent in the last two decades. So eight times an increase, which is—

THE CHAIR: Yes, but they have not suggested you triple people’s rates as a way out.

Mr Barr: No, they just want to triple the GST, presumably—again, proving there is no magic pudding in tax reform. It is simply a choice that governments face about where revenue is raised, and whether that should be in the fairest and least distortive manner. That is the choice that we have gradually been taking to move away from volatile and inefficient tax lines. We have had this discussion and this debate ad nauseam in this forum, in the Assembly, in an election campaign, and presumably we will continue to do so into the future.

THE CHAIR: So you are taking that on notice?

Mr Barr: We certainly can take on notice and provide information on stamp duty variability.

THE CHAIR: There was apparently a comment on budget night from one of the media outlets that the government was borrowing to pay for recurrent; is that so?

Mr Nicol: For this year and next year, we are running a very small deficit on the operating statement, primarily as a result of the purchase and the timing of the Mr Fluffy house purchases. A large part of that is classified as an expense, so it is a very unusual set of circumstances that have led to that result. But excluding Mr Fluffy transactions, we are not running a deficit on the operating side.

THE CHAIR: Are you borrowing to fund recurrent or not?

Mr Nicol: To the extent that we are borrowing to fund Mr Fluffy purchases, yes; I think it is to the tune of about $20 million in a couple of years. But then we go back to a very big, strong surplus on the operating statement.

Mr Barr: So borrowing from the commonwealth, yes.

THE CHAIR: I appreciate the difference between Mr Fluffy and general activity of the government, but it is strictly borrowings for Mr Fluffy; you are not borrowing money to fund recurrent activity in the hospital or education?

Mr Nicol: That is right; if you excluded Mr Fluffy we are not borrowing for recurrent purchases.

THE CHAIR: Thank you. Ms Fitzharris.

MS FITZHARRIS: Could I have a quick supplementary on your first question?

THE CHAIR: I have never seen a quick supplementary in this place, but knock yourself out.

MS FITZHARRIS: Regarding the question about revenue neutrality of tax reform, irrespective of the ups and downs that remains the policy objective?

Mr Barr: Yes, that is right. In fact in some instances, as I said, the territory has given up revenue in order to stimulate economic activity. So we have either temporarily or permanently cut a number of taxes in order to support the economy through this period. So, yes, we have given up revenue.

MS FITZHARRIS: I have a second supplementary. With respect to those reports, I listened to some of the reporting this morning around the Property Council report, the national president, and discussions on national radio about tax reforms. It is somewhat frustrating that they comment on the states and territories not yet coming to the party on tax reform and not having the ACT mentioned.

Mr Barr: There is a level of understanding nationally in relation to our tax reforms. For example, I have been invited onto a panel. The *Australian Financial Review* are organising a summit on tax reform and there is a session on state and territory tax reform, and I have been invited to speak in that particular context. I might even need a pair for that, so I will approach the opposition whip to see if I get that opportunity.

THE CHAIR: You will have to make a good case, as always.

Mr Nicol: Can I also add that some of the other states and territories are showing more interest in our tax reform and how they can do it in a slightly different situation, being two levels of government rather than one. Victoria and South Australia are both showing some interest, which is good.

Mr Barr: The New South Wales government too has begun some reform in relation to insurance taxes, or at least has talked about it. I am not sure yet whether it has moved on it, but we can provide that information to the committee.

MS FITZHARRIS: I have a substantive question, on the economic outlook over the next few years. Could you talk us through what the government can do and what the government is going to do to diversify the economy. In particular, how might Access Canberra play a role in helping the private sector?

THE CHAIR: This is, strictly speaking, Treasury, and I suspect they will come up more appropriately tomorrow—

Mr Barr: Yes, indeed, they will. So I will talk more about the economic situation. Two recent sets of data out of the ABS have been very positive for the territory. State final demand growth in the March quarter of 2015 at 1.4 per cent led the country, and our retail trade figures for the most recent month were also positive, at a 0.6 per cent increase in the April monthly figures. Nationally, I think the situation was reasonably flat.

Two factors here are contributing to a turning of the corner for the territory economy. One is a cessation of the commonwealth's job shedding. The federal budget, whilst doing nothing much for Canberra, did at least stop kicking us. I think there is a greater level of job security or a feeling of job security now amongst those who have employment, particularly with the commonwealth.

I note a number of commonwealth departments are now in a position where they are in fact hiring again, which has to be positive for confidence, both amongst consumers and there is the flow-on impact it has. In terms of retail sales, that is clearly a good early indicator of a restoration of confidence.

The next set of data that I am particularly interested in relates to population and the net interstate migration that has gone negative in recent times, which is very closely tied to what the commonwealth's employment intentions are. There is a slight sense that that decline is being arrested and starting to turn positive. The difference in the 2013 to 2015 period, as opposed to the mid-90s, has been the resilience of the territory economy—the fact that, with similar external shocks applied to the economy by way of decisions of the commonwealth government, the difference this time is that unemployment peaked at five per cent, not at 8.5 per cent.

Population growth continued. Interstate migration went negative, but our birth rate and our international migration held up to allow the territory's population to continue to grow, albeit at below national average levels. We did not see the collapse in our housing market that we saw in the mid-90s. Other sectors of the ACT economy, particularly those that are more nationally and internationally exposed, performed more strongly, I think reflecting a more diverse economy.

Yes, there was a downturn; yes, the economy shed jobs; yes, we had at least one quarter of negative growth. But compared to the mid-90s, there is a much more resilient territory economy, giving us confidence now that we can turn the corner. The experience has been that our rebounds out of these periods of economic challenge have tended to be quite strong. A mitigating factor against that in this experience will be that the commonwealth budget is not strong and the national economy is not particularly strong. So it is a more challenging environment for the territory economy to rebound as strongly as it has previously.

But the policy settings are there, I think nationally and locally. I acknowledge that the return, for example, of the small business instant asset write-off is a positive thing. Wayne Swan had it, it was taken away and it has been brought back. Indications are that that will be a positive for the territory economy, as will the cessation of cuts—hiring again. You are seeing the government's business development strategy phase 2 kick in, which we will talk about in a different output class.

MS FITZHARRIS: Can you point to a couple of policy decisions between, say, 1996 and today that have helped to strengthen the ACT economy?

Mr Barr: Without any doubt, with respect to the growth in the services sector, particularly service exports, professional services, export of government services and our higher education sector, there have been a number of policy changes that have supported growth in those areas. You are seeing service exports out of the ACT consistently growing faster than the national average. A lower Australian dollar certainly helps in a number of those sectors where pricing is important. For example, in tourism and higher education, there are a number of competing destinations. We believe, and I think we do, offer a high quality product in both of those large export earning markets, but there is a degree of price sensitivity.

The easing of the mining boom and the impact that had on keeping the Australian dollar higher than it would perhaps otherwise have been was a challenge for our service exporters during that period, but with a lower Australian dollar there is every reason to think they will be increasingly competitive in the years ahead.

THE CHAIR: Dr Bourke.

DR BOURKE: Just a supplementary on the export outcomes, Treasurer: what is the current value to the ACT economy of that export sector?

Mr Barr: International service exports are well over $1 billion annually. They are around $1.3 billion, from memory, although we can get the exact figures. There is a little bit of a lag in terms of data collection. I think 2013-14 is the latest data we have. We will get a new set of data out of the ABS at some point soon. To put some perspective on this, it has grown from about $800 million eight or nine years ago up to around $1.2 billion to $1.3 billion now. We have every reason to think, with the very strong growth of our higher education sector, for example, and the policies that have been put in place recently to support that growth, that our service exports will continue to increase.

DR BOURKE: Apart from service exports, have we got anything else that we are particularly exporting of any great note, or it primarily services?

Mr Barr: I think our largest manufacturing export is the Royal Australian Mint's coins to Asia and the South Pacific. They do an excellent job and they have won an export award, I believe, for that work. This economy will be a service economy well into the future. But then that is the trend for the Australian economy, as I understand it now. About 70 per cent of Australia's exports are in the service sector now. Outside of resources, that is the area of strong growth for the Australian economy, and Canberra is very well placed to be part of that next wave of exports.

DR BOURKE: So that is primarily ICT, governance and health?

Mr Barr: Yes, but tourism as well. Certainly the export of government services is a key opportunity for businesses in Canberra; so many locate here—local, national and multinational—to win Australian government business. With all the free trade agreements that are being struck, that opens up access to government service export markets. An example I am very fond of giving is that the market for US government services, where we do have an established free trade agreement, is larger than the Australian economy. ACT businesses winning a share of that is a significant growth opportunity, and you are seeing that in national security, defence and ICT-related sectors where ACT companies are winning contracts with NASA and the Pentagon. They are exciting times for businesses in that export field.

DR BOURKE: Apart from a fluctuating currency, do you see any other threats to this?

Mr Barr: I think transport connections are clearly an inhibitor to further business growth. Again, we will obviously tackle this in later hearings, but that is one of the reasons the government is so supportive of efforts from Canberra International Airport to be a truly international airport—the business opportunities that those direct services will open up. Again, we will tackle this in more detail later in the week. Next week Stephen Byron, Terry Snow and I are off into South-East Asia—Singapore, China and Hong Kong—and we will meet with a range of airlines, again, with a view to strengthening the case for direct flights from South-East Asia into Canberra.

DR BOURKE: What would be the principal arguments that you would be proposing for direct flights to Canberra, Treasurer, given the historically low return on investment for the airline industry, which is, I think, five per cent internationally. It is probably the worst of any industry there is.

Mr Barr: Some have observed—I will not talk long, because we have another session on this later in the week—that the aviation industry is one more of vanity than it is of profit making. Over the life of an airline, they tend not to make a lot of money off what is obviously a significant capital investment required. Principally, the arguments for Canberra go to the strength of our government, diplomatic and other business travel. There is no doubt that the pointy end of aircraft can, indeed, comfortably be filled. The challenge really is to grow the leisure end of the market to and fro, to which we are making inroads in terms of being able to sell Canberra as a tourism destination. Perhaps we can continue that conversation in the hearings later in the week specifically on that topic.

DR BOURKE: I will get to my substantive question now, if you do not mind, chair. Treasurer, given the commentary that came out of the national Property Council recently—today, I think—on national tax reform, can you remind the committee of the implementation of tax reform in the ACT, both the benefits now and those that will accrue in the future from that?

Mr Barr: We are nearing the completion of the first phase of tax reform. We put forward an initial five-year reform journey, and we are one budget away now from completion. That is, I guess, the heaviest lifting for tax reform in the territory. The most significant changes were implemented in the first five years, so we are at the point—or will be from 1 July 2016—of becoming the first jurisdiction in Australia to abolish insurance taxes. That is a significant achievement to abolish one of the most inefficient and distortive taxes that states and territories levy. We are well on our way to significant reform of the stamp duty system. For an average Canberra property, around a third of stamp duty has now been removed.

The reform process from here on in will see a smaller change required each year. The very clear message is that the heaviest of the heavy lifting is behind us and in the future we will see a more gradual change in terms of the tax mix, principally because once we have abolished insurance taxes from 1 July next year we will no longer be simultaneously phasing out two inefficient taxes and transitioning to the broad-based land tax that is municipal rates. People have asked for a clear indication from government in relation to future intentions on tax reform and what that means in relation to municipal rates. It means the largest increases in rates have occurred and that future rates increases will be lower and getting lower every year as we move through tax reform.

The government’s objective in the medium term is to have the lowest stamp duty rates in Australia. We are well on our way to achieving that goal. Compared to Victoria, for example, we now have lower stamp duty on every property transaction. It will not be too many years ahead before we move past New South Wales to have the lowest stamp duty on every property transaction. The significant reforms have been to get our top stamp duty rate down to a much more competitive level, and the government's medium term objective here is to have the lowest commercial stamp duty rates in the country.

Stamp duty will remain a part of our tax system for a considerable time to come. It was never the government's intention to complete tax reform on stamp duty in the first five years. Reform will take a number of decades, but the medium term objective now is to have the lowest stamp duty rates in the country, and that will be the task for future budgets. What that means for rates is that increases will be much lower in the future.

DR BOURKE: What sorts of barriers do other states and the territory face in implementing this kind of reform?

Mr Barr: In some instances it is lack of political courage; in others it reflects, perhaps, relationships between state and local governments. Different states and territories have different structures in relation to their local government arrangements. I understand that in Victoria the state government imposes a rate capping regime on local government. Local government is very unhappy about that. Having spoken at the Australian Local Government Association's conference opener last night, there is certainly a strong view amongst local government that it is very difficult for local governments elsewhere in Australia to continue to provide the level of services to their communities given their significant revenue constraints.

Happily, in the context of the territory, we have always had to balance our state level responsibilities with our municipal level responsibilities, but tax reform gives us a more stable revenue base. For example, in this budget, it has allowed us to invest more significantly in municipal service provision. That is, again, a trend that I hope to be able to continue in future budgets—that is, to deliver more municipal services to the community. We have done that in this budget, particularly in relation to our urban landscape.

MS FITZHARRIS: Can I have a supplementary?

THE CHAIR: You may.

MS FITZHARRIS: If you agree with the principle that stamp duty is bad and inefficient—and, again, today the Property Council highlighted housing affordability—and you are to abolish it, what alternatives do you have within the state itself? If the commonwealth do not come to some agreement on the GST, what options do you have?

Mr Barr: What are the revenue options?

MS FITZHARRIS: Yes.

Mr Barr: In effect, you can tax three things: land, labour and capital. Capital is highly internationally mobile. If you set your tax levels too high you will not attract capital into your jurisdiction. Our taxes there have to be as low as possible. Labour is increasingly mobile. You can look at how you structure your payroll taxes. One hypothetical alternative would be to have much higher or much more broadly based payroll taxes. Some economists argue that, whilst the legal incidence of payroll tax is on employers, it is, in effect, then passed on to consumers and so is effectively a de facto consumption tax.

There are arguments to be had on that. Most people who are not economists—and that is most people—look at the legal incidence rather than the economic incidence of a tax. But that is really your only other option within the current constitutional arrangements. Perhaps if income-taxing powers were extended to the states and territories that would be another revenue source. I note that some of my colleagues in other jurisdictions have floated that.

We have a COAG leaders retreat next month in Sydney that the Prime Minister has convened. The federation and tax reform white paper processes are edging along. But the problem in terms of the national debate at the moment is that, as these policy processes edge along, bit by bit more and more things are being ruled out, making any reform very difficult, it would seem, in the current political environment.

I guess in the end we could all spend a long time waiting for a national consensus to emerge on tax reform. I have seen this debate through my adult life more than once. I do not want to be too cynical about the current process, but there is nothing in the current process that says to me it will be successful when numerous others have it. I think the only way that the commonwealth could get the other states and territories to move is by some form of reward—competition payment, reform payment—to incentivise movement. The Keating government was successful in that process with national competition policy reforms in the 1990s—effectively saying to state governments, "If you reform, here's your reward," and that seemed to work. I have raised that on more than one occasion in COAG fora and we will see whether that is picked up by the national government.

MS FITZHARRIS: Further to that, I believe last week or in budget week the opposition leader said that he would look to no longer increase rates but continue to decrease stamp duty. What other alternative source of revenue would you have in that situation?

Mr Barr: You would have to jack up some other taxes if you were seeking a revenue neutral outcome or, alternatively, if the position was simply to reduce the level of taxation that the territory collected. That is a legitimate policy position, but the consequential outcome of that would be to reduce the level of service provisions in one or many different areas of ACT government.

There is no magic pudding. No-one is going to rush in and bestow upon the territory a new revenue source. It is about choices. You are going to collect a certain level of revenue. The question is how fairly is that collected and is it collected in a way that minimises distortions on economic decision-making. The evidence is that the most efficient form of revenue collection available for state and territory governments is broad-based land tax. If you are to continue to reduce stamp duty and you take the view that you need to replace that revenue then it has got to come from somewhere. So it is rates or land tax or payroll tax, presumably. They are the main revenue lines for the territory.

THE CHAIR: And I might ask a sup as well if we are going to do stamp duty. What is the split between residential and commercial payments?

Mr Barr: Residential is the majority of revenue that is collected. From memory, when we had it, we were collecting about $220 million—$160 million from residential and $60 million from commercial. That is around the ballpark. That will vary from year to year. I guess you have got two factors at play. One is the volume of transactions and then the level at which they occur. So as property values increase, unless you are cutting the rate of stamp duty there is a bracket creep component—and I guess that is particularly what the Property Council have hit on with the 800 per cent increase, eight times the increase in stamp duty collection. There is a bracket creep element of that as property values increase. The do nothing, do not change tax rates thresholds, just lets the value of properties grow. We will see stamp duty revenues continue to increase on a trajectory like that, and that has certainly been the case in Sydney's housing bubble.

THE CHAIR: And the number of transactions?

Mr Nicol: We can take that on notice and give you those transactions.

THE CHAIR: And just for interest's sake, how many residential leases, how many commercial leases and how many rural leases are there in the ACT?

Mr Barr: It is 150,000-odd residential. I will take on notice the other.

THE CHAIR: When is the stamp duty likely to disappear?

Mr Barr: A couple of decades at least. The government will have some policy decisions to take around the next phase of reform. As I said, my medium-term objective is to have the lowest stamp duty in the country across all property values. Our first five years have focused very much on the affordable end of the market and a big shift of the large commercial transactions at above the $1½ million level.

At the moment I think ACT stamp duty for properties over $1 million would be higher than New South Wales but still lower than Victoria's. It is a Labor government. We are always going to want to focus on assisting lower and middle income households. We probably have got some further policy work to do in relation to next year's budget and to set the next five years path for tax reform but I have two objectives. One is the lowest stamp duty in the country and the second is working, utilising this tax reform, to assist low and middle income households into home ownership. So we will look at future tax reform with those objectives.

There is a policy argument to retain some level of stamp duty over the next couple of decades. We will need to consider at what level but we can certainly announce, associated with next year's budget, a future path for tax reform. People will want to know where we intend to go over the next five years. We will make some more detailed announcements at the appropriate time but two clear objectives are the lowest stamp duty in the country and assisting housing affordability.

THE CHAIR: Is that not a change of the policy and the tax reform time lines? Was it not initially just a 20-year reform program? You are now talking about 25 years and you are now saying that stamp duty might not go at all.

Mr Barr: The government retains the capacity to be flexible on the exact finish date for stamp duty phasing out. The commitments I have been giving for a number of years are "I will cut stamp duty in every budget while I am Treasurer". But I am also realistic. I will not be the Treasurer of the territory in 2032, just as I imagine you probably will not be in the parliament either. There is a certain time at which it would be appropriate for others to continue the reform mantle. I hope that my successors, be they Labor or Liberal treasurers, would continue this reform process. But what people hold you most accountable for are what you will do in your forthcoming budget and what you would commit to in the next parliamentary term.

So I maintain a long-term policy objective that in every budget I am Treasurer I will cut stamp duty. The exact conclusion of that will require future governments. There is, what, 2016, 2020, 2024, 2028. So we have got at least four elections between now and that eventual path for stamp duty elimination. I am not going to quibble over a handful of years. I will focus on the next five but maintain a long-term objective for its abolition.

THE CHAIR: But you are now saying the objective is not to get rid of stamp duty in the 20-year period.

Mr Barr: The government maintains a degree of flexibility in relation to that, yes.

THE CHAIR: So the flexibility is that you will keep that tax now five years beyond what you stated before.

Mr Barr: No, I have not said that. I have said we will—

THE CHAIR: You have just said you will keep it for a couple of decades at least. We have already had five years; so that is 25 years.

Mr Barr: We can quibble over what happens in 2025.

THE CHAIR: The 25 per cent is not insignificant. But the original commitment was that it would be gone in 20 years. You are now saying it will be gone in 25 years maybe.

Mr Barr: Maybe 21. Ask the government in 2028 what their intentions are for tax reform in the period of the 2030s.

THE CHAIR: But you could put on the table now the path to get rid of stamp duty. You could—

Mr Barr: Yes, and we have continued down that path. But we have made adjustments reflecting changing economic circumstances.

THE CHAIR: But you have never set an end date except the 20 years, and now the

20 years have slipped out to 25 years.

Mr Barr: It has not slipped out to 25 years, that is your—

THE CHAIR: But you just said it will continue for a couple of decades at least.

Mr Barr: A couple, yes, and that gets us into the 2030s.

THE CHAIR: That is 24 years, 25 years.

Mr Barr: It gets us into the 2030s.

THE CHAIR: So it is not really going under Labor governments in this tax reform program?

Mr Barr: It is continuing to be reduced, yes.

THE CHAIR: But it is not going? This is the magic tax that has been abolished and continues to tax.

Mr Barr: If we continue to win elections right the way through to 2032, then yes, we are on that path, aren't we?

THE CHAIR: So why do you not set a date now for when it will disappear so that people have some certainty?

Mr Barr: I am setting an indication in this budget and we will continue to into the future in relation to tax reform.

THE CHAIR: But it is not very certain. It was supposedly 20 years. Now it is 24 or 25 years.

Mr Barr: No, I have not said that.

THE CHAIR: You said it will continue for a couple of decades. That is 20 years.

Mr Barr: A couple, yes, through this period, through the 2020s.

THE CHAIR: You still believe that a decade is 10 years, do you not?

Mr Barr: Yes.

THE CHAIR: So 20 years, a couple of decades.

Mr Barr: There will continue to be stamp duty, this decade, into the 2020s, and into the 2030s. The exact date that stamp duty is abolished will be—

THE CHAIR: So it is a long time.

Mr Barr: It always was going to be but it will be cut every year.

THE CHAIR: It just got four or five years longer.

Mr Barr: No, not necessarily. That is up to the government in 2028.

THE CHAIR: Ms Lawder, any questions?

MS LAWDER: Treasurer, to what extent is the ACT government relying on the commonwealth government's jobs and small business package and families package to support growth in the ACT?

Mr Barr: We do not rely on anything the commonwealth do per se, but, to the extent that they may be considering stimulatory policy settings, they are welcome.

MS LAWDER: How much are those two programs worth to the ACT?

Mr Barr: We do not know. We do not know how many businesses will claim. It is not our policy settings. You would need to ask the commonwealth government that question. They will get the data in terms of number of small businesses who claim those particular benefits.

MS LAWDER: So what is in the ACT government specifically to support small businesses?

Mr Barr: We have the highest payroll tax-free threshold in the nation. We exempt most small businesses. If you were operating the same business in Queanbeyan, you would be paying payroll tax on, from memory, the threshold which is a little over $600,000, $700,000 or thereabouts. Ours is $1.85 million moving to $2 million. So we tax lower. We have a very strong and growing small business sector.

MS LAWDER: Do you have an anticipated impact on the local employment from small business in the small business sector?

Mr Barr: Yes, the small business sector has obviously been increasing its share—or private sector, anyway—of employment in the territory as the commonwealth has contracted. We saw a reduction in the total level of employment in Canberra. Prior to the election of the Abbott government the city's economy had recorded an all-time record number of people in work.

When the commonwealth cut three per cent of the workforce, that impacted on that total level of employment. It impacted savagely on consumer confidence, retail spending. You lived through it; you saw what happened. The good news is that because of the policy approach adopted by the territory government to throw all we had at stimulating the territory economy we did not have a recession.

Unemployment peaked at five per cent, not 8.5 per cent, and it is now down at 4.3 per cent. Unemployment has been dropping. The commonwealth certainly are not the ones contributing to that growth in the labour market. The territory government has made some modest increases in our level of employment, particularly in health and education. So it is reasonable to presume that the rest of the jobs growth has come from the private sector, and small business would be a big contributor there.

MS LAWDER: So what is in this budget, can you tell me, to encourage diversification of the ACT economy?

Mr Barr: Significant funding in the business development strategy, and I guess we can go to this in more detail later in the week, just as the earlier questions were along this line. We are, through the passage of the University of Canberra amendment bills, encouraging growth in our higher education sector. Outside of the commonwealth government and the territory government the next largest employers in the city are our universities. So there is significant opportunity. It brings new wealth into the city and creates a range of spin-off benefits for small business, particularly in the service sector associated around supporting international students and students who come here from other parts of Australia.

We are supporting growth in tourism, in our professional services area, ICT, space and space sciences, sport, health. Our role in the region continues to grow. The partnership with the 12 surrounding New South Wales councils to form the Canberra region as a unified economic unit, a unified approach to tourism promotion, to economic development, to improved transport connections in the region—all of this certainly increases opportunity for small business.

In the end, though, for small business to succeed, it is the demand side of the economy. A bit of wage growth would not hurt. If the commonwealth could be a little more generous in their pay increases to the largest consumer base in the city, that would certainly help small business, certainly as would a range of other things the commonwealth could do around confidence.

But let us be positive. Let us look at the early indicators in terms of economic statistics that the worst appears to be behind us now. So there is reason for optimism for all sectors of the territory economy. In terms of state final demand in the last quarter, I think for the first time in a while you had both public and private consumption and investment all heading in a positive direction, and we have not seen that in the territory for a few years.

Mr Nicol: If I could add, I think the creation of Access Canberra is a subtle thing for small business but improving the way we regulate those services and our functions and improving that integration, I think, is extremely important for small business growth and a major step forward in regulation.

Mr Barr: And obviously we will explore that a lot more when we get to that output class.

MS LAWDER: Just finally, you mentioned state final demand. What is the impact of low interest rates on that?

Mr Barr: In relation to household expenditure, say household consumption, potentially positive, although there would appear to be—again, this is to a certain extent anecdotal, but informed by information from the banks—those who have, for example, variable mortgages in terms of their home mortgages. Whether the decrease in interest rates is being used to pay off debt more quickly, so people maintain the same level of repayment on their home loan but just pay the loans off quicker, with this extended period of low interest rates—it would appear that many households have been using that to pay down private debt, which, let us face it, earlier this century was at extraordinarily high levels.

Households had taken on a lot of debt around the GFC time. There was quite a switch. Savings increased to nearly 10 per cent, I think, and we have been through a period where people have been paying down debt and using the lower interest rates to accelerate their mortgage repayments. At some point that cycle will end and households will be more comfortable with their debt levels. Presumably that will mean an up tick on consumption which flows through the economy and helps small business in particular. David, do you want to add anything on that?

Mr Nicol: I think there is a measure of people rebuilding their own balance sheets, but I think that is a good thing in the medium to longer term as well. It has supported confidence in the territory when the cuts from the commonwealth have occurred. It gives people the confidence to continue to undertake major purchases. Certainly in interest rate sensitive areas of the economy—construction et cetera—it is a positive for those sectors. It is also a positive for business. They can get access to capital a bit easier, and that supports their ability to grow should demand for their services or whatever occur. As the Treasurer said, I think it is that demand side. It has to all gel together. The demand side has to be there. The interest rates certainly make it easier for those businesses to expand.

Mr Barr: Just looking at the data, the private investment in the territory economy in that March quarter grew at three per cent, 6.2 through the year, so lower interest rates have to have some impact on the private sector's capacity and willingness to invest. It is unlikely that there is going to be a significantly better time in long run economic history to be borrowing money than now, given the very low interest rates. Those who have a long-run view would probably want to be in the business of investment at the moment. Time will tell on these questions.

There is a broader overlay of people's perceptions of the national economy, government direction and the like nationally. We all have our views on how the first Abbott budget went down in the community as opposed to the second. You can read it fairly strongly in the complete change of approach, and the debt and deficit crisis that was there, apparently, in the first year is not so much of a crisis now. To the extent that there is that change in language and rhetoric nationally, a desire to see the national economy grow, it is probably a welcome change in direction and might improve consumer confidence.

Mr Nicol: Once confidence increases—certainly, in employment, labour confidence, the confidence that your job is secure—and I think that will happen, low interest rates will act as a catalyst for people to go out. If they need to upgrade their house or whatever, that becomes much more feasible, whereas higher interest rates, obviously, become an inhibitive factor in and of themselves.

MS LAWDER: Thank you.

THE CHAIR: Treasurer, if we could go to the savings on page 158, there is $2.6 million worth of savings in this year's budget. If we look at the staff numbers on page 395, it would appear that staffing goes up by about 300. We are making $2.6 million on staff; we have approximately an extra 300 staff according to the table. Yet table 2.1.1 on page 29 actually sees expenses going down $69 million this year. How can we have minimal savings, 300 extra staff and yet the expenses drop by $69 million?

Mr Barr: It is related to Mr Fluffy. I presume that Stephen—

Mr Nicol: I think we will have to give you a detailed—

THE CHAIR: Mr Fluffy is going to be responsible for a lot of—

Mr Nicol: Those are three different tables saying—

MS FITZHARRIS: Funny, that.

THE CHAIR: Yes.

Mr Nicol: Explaining three different things.

THE CHAIR: Yes; absolutely they do.

Mr Nicol: The savings on page 158 reflect a change in the forward estimates.

THE CHAIR: Yes?

Mr Nicol: Without those savings, the estimates for 2015-16 would have been $2.6 million higher than they otherwise would have been. I do not think that directly relates to changes in staff in any significant way at all, because it is not a significant amount of money. But with the change in expenses from the outcome of 2014-15 to 2015-16, my recollection is that it was Mr Fluffy but I might ask Mr Miners to talk in more detail.

Mr Miners: Yes, that is absolutely correct. In the table on page 158, as you can see, most of those things are set out, and there are three major factors there. They are the savings. The procurement reform is through savings in the way we do business. And some of the urban renewal offsets were an amount that agencies will need to allocate. Then the first home owners grant is the reduction in that grant flowing through there. In terms of the expenses, the most significant movement in expenses between 2014-15 and 2015-16 is again Mr Fluffy expenses coming down. That is what is driving down reduction.

Mr Nicol: Which does not have a staffing effect, obviously.

Mr Miners: No.

THE CHAIR: Is it possible to break out of the expenses what is appropriate to Mr Fluffy?

Mr Barr: Sure, yes. We can do that, yes.

Mr Nicol: Yes.

THE CHAIR: Apart from Mr Fluffy, do the expenses grow this year, and how much?

Mr Miners: There is a table. If you go to page 29, we actually produce a headline net operating balance excluding the effect of Mr Fluffy.

Mr Nicol: We can certainly give you a breakdown of what the expense and revenue lines would be without Mr Fluffy as well.

THE CHAIR: If we could, yes.

Mr Nicol: Yes.

THE CHAIR: It then appears to decline further in 2016-17.

Mr Barr: Yes.

Mr Nicol: That is because there is—

Mr Barr: Mr Fluffy again.

Mr Miners: Yes, that is right.

Mr Nicol: Yes.

THE CHAIR: Expenses go from 148 and it drops to 140; then the following year it jumps $147 million.

Mr Barr: Yes. Mr Fluffy is massive. It is a massive impact.

THE CHAIR: No; this is serious.

Mr Barr: Yes, I know.

THE CHAIR: Looking at that, it would appear that you are simply reducing expenditure, apart from expenditure on staff, normally, except in the case of Mr Fluffy.

Mr Barr: With Mr Fluffy, yes.

THE CHAIR: It goes down over two years and then magically jumps, but it would be interesting to have the trajectory of expenses, particularly without Mr Fluffy.

Mr Nicol: We can certainly do that.

Mr Barr: Yes.

Mr Miners: I do not have the exact breakdown to hand, but the vast majority of Mr Fluffy is expenses, and the reason for that is that into the headline net operating balance we cannot actually count a lot of the receipts that come back.

THE CHAIR: We accept that, yes.

Mr Miners: Yes.

THE CHAIR: But it would be good to have the split there.

Mr Nicol: And Mr Fluffy has a higher effect in 2014-15, but it does have an effect in 2015-16.

THE CHAIR: Yes.

Mr Nicol: That is why expenses are coming down. Then it removes entirely in 2016-17. That is why it drops much more slightly from 2014-15 to 2015-16 to 2016-17. But we can—

Mr Barr: Maybe not entirely; there is still some Mr Fluffy expense.

Mr Nicol: In 2015-16 there is, yes.

THE CHAIR: While Mr Miners is here, I will turn to some infrastructure spending and the provision account. As you are aware, the committee has a specialist adviser on some of these matters. They had some concerns about the provision account and what it was being expended on. In last year's budget paper 3, page 173, the provision for this year—2015-16—was $211 million. So how much of that provision has gone into—

Mr Nicol: Sorry, what page was that?

Mr Barr: This is last year's budget.

THE CHAIR: No, last year's budget paper.

Mr Nicol: Okay.

THE CHAIR: I always carry a couple of sets of budget papers. Last year's budget paper had a provision of $211 million for the coming financial year, 2015-16. How much of that $211,000 is included in the 2015-16 capital works $825 million?

Mr Nicol: While Mr Miners hunts up some information, I will provide some background.

THE CHAIR: Yes.

Mr Nicol: We do not include any provisions in the current financial year because we appropriate it all.

THE CHAIR: Yes, because it is the financial year.

Mr Nicol: That is right. So we do include provisions in the forward estimates essentially to try and present a more accurate picture of what those forward estimates will be. There are two ways they are treated. One, it might be provision for a specific project which we have not quite got to the stage where we have fully costed it and the government has not finally signed off on it yet. So we put in a provision and when the government signs off on it and all the associated works are done to prove up the numbers, that money will be transferred from the provision to the appropriation. That is the first method we do.

The other method that is done in budgeting is that general provision is put in. When the government's budget goes through with its processes of allocating capital items et cetera, the provision is simply removed. It might not be specifically allocated to a particular project per se, but that provision is removed as capital projects are agreed by the government. I do not have to my mind which category that $211 million was in. Stephen, do you?

Mr Miners: There was certainly $100 million in the general provision. It was in there for that year, which now comes out because it has been allocated.

Mr Nicol: That is the latter.

THE CHAIR: Yes, that is fine.

Mr Miners: The remainder was then a split between the projects listed there. Where there has been no further direct capital for those projects—for example, capital metro, courts et cetera—those amounts have not been reduced. The provision stays in the budget and we move it forward a year so we do not try to appropriate money for those particular functions. But it would be rolled into the next year rather than removed from the provision.

Mr Nicol: We can give you a breakdown of the $111 million. The $100 million was the general provision. We can give you a breakdown of the $111 million, what that was for and what we have put in the budget explicitly.

THE CHAIR: Can we have a breakdown for the outyears, as listed in this budget, of which are a general provision and which are work specific; so the capital metro, the Supreme Court?

MS FITZHARRIS: That is the point of the provision; you cannot get a breakdown.

THE CHAIR: No, no—

Mr Nicol: Some of them are commercial in confidence in terms of the amounts until we go to market. We can look at that breakdown to see what we can give you.

THE CHAIR: Whatever you can.

Mr Miners: There is also $128,000 for the ACT courts early works package, which was brought out of the provisions as well.

THE CHAIR: If they are done as PPPs, Chief Minister, you will never expend the money. You will purchase back the property later when it is transferred through either availability payment or paying off the debt. Why does it appear in the provision account? All that does is inflate what appears to be the capital works budget—

Mr Barr: Sure.

THE CHAIR: where those works will never be appropriated for.

Mr Barr: As I understand it, there is no accounting standard that applies here. Your choice is either to be up front and say, "Yes, here is a provision," as if we were going to undertake this through the public sector. For some procurements the choice of whether to go down the PPP path or just to have a public sector provision is there.

We have made the statement—as we did in last year's papers, page 141, in relation to the court facilities, for example—that, should the government conclude a suitable agreement to deliver the project through a PPP, the central provision will be removed upon financial close of the project. At that point the recurrent costs of the project are expected to be principally an annual availability payment to the operator of the facility and it will be included in the forward estimates.

Where we are yet to determine the procurement methodology or we are yet to crystallise a procurement, you provide a provision. The alternative is not to and just have it hit the budget when you actually enter into the transaction. On one level, the temptation could be there for governments to do that because it would make the bottom line look better because you have made no provisions. But as we know that these projects are in the pipeline and the government is intent on their delivery, we make a provision for them in the forward estimates. In some instances some of the procurement processes, though, stretch beyond the four-year forward estimates period. Does anyone want to add anything?

Mr Miners: It is not an uncommon way to do it. Certainly when we looked at this, including that provision last year, we looked to what other states and territories do. In particular, Victoria is very transparent about the way they do it. The methodology we use is very similar to their methodology, which is to put something in until you have actually made a final decision on the financing form, then put it in as a capital project, because that is the clearest way to do it. It also means that it does get onto the books at an early stage, as the Treasurer said, rather than just leaving something outside the forward estimates and almost pretending it is not there. This brings it in and makes it very clear that it is there.

THE CHAIR: The projects are clearly on page 165 of BP3 of this year's budget. So capital metro is likely to be a PPP and the courts are likely to be a PPP. What about the University of Canberra public hospital?

Mr Nicol: UCPH is a DCMO—design, construct, maintain, operate—approach to market. I might ask Mr Murray to comment.

Mr Murray: University of Canberra public hospital did go through an assessment process and there was a decision to proceed with that under a DCM model. There are operating components in that delivery model. It is currently in procurement at this point in time.

THE CHAIR: As a DCMO, is it included also in the infrastructure provision?

Mr Miners: Yes, it is included in that provision.

Mr Nicol: A provision is included for it, yes.

THE CHAIR: As if the government was going to construct it?

Mr Miners: Yes, but that is effectively how that would be. Under that arrangement we would effectively pay for construction of the asset.

MS FITZHARRIS: A supplementary on that to be clear: Mr Smyth mentioned a concern of the adviser. In discussions with the adviser, if there is concern about the provision and when you ask them the question, "What alternatives do you have and what provides the greatest amount of transparency," my reading of their answer was that it was that the alternative really is only to put nothing in and, therefore, that is less transparent. Would you agree with that?

Mr Barr: Yes, which is why we have a provision. We have gone further and indicated even specific projects. In last year's papers there was reference to provisions, for example, for the CIT Tuggeranong and provision for the Australia forum project. We have maintained that level of transparency. Then when projects are brought to actual appropriation, as was certainly the case with the CIT, there is a dollar figure against those.

Mr Nicol: Can I add a bit more colour and background?

THE CHAIR: In the main with PPPs, this is money that the government will never directly appropriate and expend?

Mr Nicol: Mr Smyth, my colour and background might answer that question.

THE CHAIR: We are always interested in your colourful background, Mr Nicol.

Mr Nicol: I will use two examples. One is the courts project. You will see in the budget papers that we have appropriated an amount of, I think, about $14 million for potentially early works. That $14 million has come out of the provision that we allocated to the courts under a PPP. In the project for the courts, in assessing the arrangement, we had a choice about putting the early works into the PPP and have the consortia bid and build the temporary facility where the magistrates and judicial officials will be housed while the work was done, or we could have done that via a traditional contracting means. We decided to do it by a traditional contracting means because the risks were lower and the timing meant that that could be done more quickly. In that case, $14 million out of the capital provision would be spent directly under a traditional model.

At the same time, however, under the PPP model, some of the proponents are suggesting that they will not need a temporary facility, that they can build the facility around an existing operating court, which saves the $14 million. So it becomes very complicated as to whether it becomes a traditional spend or within the PPP. That is one example.

The other example, which is on pages 166 and 167 of this year's BP3, is that we may make a capital contribution to these projects at some point in their life, which would be a direct contribution by the government at that point. The decisions on that—the government has made a decision to contribute possibly up to $375 million in capital contribution to the capital metro—would, of course, come out of the capital provision. It could be a traditional PPP, which would be totally an availability payment all the way to a sharing of capital costs at various points along the contract and we make those judgements in the best interests of the territory.

That is another reason why we put a capital contribution in because until we sign the contract we do not know exactly the form and the quantum of the payments that will be made, and the timing in many cases.

DR BOURKE: Just to clarify then, after you have signed the contract that amount will be removed from the infrastructure provision account. Is that correct?

Mr Nicol: Which amount?

DR BOURKE: Whatever the project is worth.

Mr Nicol: That is right. We will adjust—

DR BOURKE: The infrastructure provision account is the capital works that you are intending to deliver, regardless of the means of delivering them, because you have not actually signed the contracts to do it?

Mr Nicol: Yes, that is correct.

MS FITZHARRIS: Does that then free up capacity within that infrastructure spend in future years, or not necessarily?

Mr Barr: Not necessarily, I mean—

DR BOURKE: Because it is money you have not got.

Mr Nicol: Yes. In a financial capacity sense, no, because it represents a—by putting the capital provision in we put the financing costs of that capital provision in the budget. So we assume we borrow that and have to finance it.

Mr Barr: On the basis that nothing in this world comes for free.

Mr Nicol: So it is to try and present the forward estimates as the best estimate of the government's decisions to date in procuring things, noting that we have not yet decided on the exact flow of financing arrangements which depend on the contracts that we sign in the future.

MS FITZHARRIS: But having a provision is not an inflation—to use Mr Smyth's word—of the capital program and in the outyears?

Mr Barr: No.

Mr Nicol: No, those capital works will be undertaken and they will be—assuming our costings are the best costings we have got—of that size. Who finances it is the question.

THE CHAIR: It will never be appropriated for through the budget.

MS FITZHARRIS: No.

Mr Nicol: Well, it will be appropriated either through a capital contribution or through an availability payment.

MS FITZHARRIS: Therefore its impact in the economy as a capital work will still take place?

Mr Barr: Will still take place, yes.

THE CHAIR: Yes, but that is a different thing to actually budgeting for it.

Mr Barr: It is, yes.

THE CHAIR: Just to go back to the capital payment of $375 million, that seems a very exact number. The Australian accounting standards say that for it to be in a provision it should be an unknown amount or uncertain timing. When is the $375 million? Is that in the 2019-20 financial year?

Mr Nicol: Before I answer that question, Mr Smyth, this is not a provision under the accounting standards. These are forward estimates. So a provision under the accounting standards is actually a liability that you put on your current balance sheet. So it is a different issue. The exact nature of the figure is because the government agreed to up to 50 per cent of the capital cost, which is $375 million.

THE CHAIR: So when is that likely to be paid, if it is paid?

Mr Nicol: That will—

THE CHAIR: Having been announced in this year's budget.

Mr Nicol: The purpose of a PPP is to transfer risk essentially to the private sector operator; so we would be looking to make the capital contribution once we are assured that that risk has been discharged, which generally occurs—Mr Murray might help me out.

Mr Murray: Yes, the capital contribution will be paid at asset acceptance, following construction of the asset. At that point in time a great chunk of the risk that we pay to transfer to the private sector will be abated—using that word—in the sense that we will be past that risk because we have construction outcomes and an operating light rail project.

THE CHAIR: If we are not using the Australian accounting standards for a definition of making a provision and you have adopted something from Victoria, could you provide a written definition of what a provision is?

Mr Nicol: It is not that we have not adopted—we do adopt Australian accounting standards, but the Australian accounting standards relate to a balance sheet liability that you currently have.

THE CHAIR: I went looking for various sources of what a provision might be—

Mr Nicol: It is just the same word used for different purposes. It is not under Australian accounting standards, but the government has adopted a policy. It is based on the Victorian policy and we can provide you with information about what that policy is and how it is defined.

THE CHAIR: That is kind, thank you. Ms Fitzharris, a new question.

MS FITZHARRIS: Thank you. Going back to the earlier discussion about the services economy, do you make a distinction between where we see the ACT going in terms of the knowledge economy and the sharing economy? Is there any work underway to support, facilitate or get out of the way in terms of the sharing economy?

Mr Barr: It is important to draw distinctions, although to a certain extent they can all be considered services. But within a construct of a services economy there are different subsets. In relation to sharing economy issues, the nature of this sector of the economy is that it tends to fall outside current regulatory frameworks and so presents a challenge to existing regulated operations in some instances. Our experience is that it is global activities—not always, but principally—and tends to have a disruptive influence and impact on existing regulated industries.

One of the reasons we are currently having a taxi innovation review is that the emergence of ride-sharing businesses fundamentally changes the nature of that particular industry. There are a number of different policy choices. Some jurisdictions are seeking to maintain a strict regulatory environment, even going so far as to try and bring legal action against those operating in the sharing economy. That has certainly been the case in WA, one of the more recalcitrant states in the federation when it comes to economic reform in particular. They are going down this bizarre path of trying to deny the existence of these industries and taking ride-sharing drivers to court in an attempt to deny the inevitable, which to me is a crazy approach.

The alternative is to look at the current regulatory environment for existing operators. My starting point in all this is to want as much as possible a level playing field, to look at what are the minimum regulatory requirements in a particular area and then do away with all the excessive regulation that sits around a particular industry in order to maximise competition. They are the recommendations that have come forward from the Harper competition review.

In terms of taxis for example, we cannot allow Uber to compete unfairly against taxis in that they operate in a completely deregulated environment and you have all these burdens of regulation on taxi operators. That is not fair, and that is understood. I think the answer is an increased level of regulation on Uber to meet a range of minimum standards that the community would want and expect and a decrease in regulation in some sectors of the taxi industry. That is one example.

Airbnb provides another challenge in the context of regulation of hotels, serviced apartments and the like. Government is going to have to evolve its regulatory environment in order to respond to these circumstances. But I think it is crazy to think you can put up barriers and regulatory walls that will stop this sort of activity happening. You cannot, so you are better off working with these new businesses to ensure the regulations the community would expect around public safety, minimum standards and the like are there. Then perhaps it is an opportunity to deregulate some areas of operation for existing businesses, which I acknowledge may not always be positively received.

There are some who have invested heavily in a business model based around a very tight level of regulation, including the government controlling how many competitors there can be. I think every global economic trend is moving against that sort of regulatory environment, so my preference for the territory is that we get the right balance of regulation. As we have discussed a few times this morning, Access Canberra is leading in this area. But it is a subject of legitimate community debate; I understand that. Perhaps in the context of certain industries what we need are some transition plans. We were able to successfully deregulate hire cars in the territory, so there is no reason to think we cannot reach an accommodation in demand responsive transport more broadly.

DR BOURKE: You mentioned public safety, Treasurer. What other philosophy would you have behind regulation of the taxi industry?

Mr Barr: In terms of industry regulation you want to ensure a minimum level of regulation under the public safety label. That includes everything from appropriate insurance for vehicles through to background checks for drivers and appropriate complaints mechanisms around fares and the like, recognising that certain business models might, in fact, have variable pricing. Our current taxi system operates with two different tariffs for normal business hours and what might be considered antisocial working hours in the small hours of the morning and the like where taxi fares are considerably higher.

I think there is opportunity to look at all of those issues as a part of the innovation review. We want to hear from everyone. I believe it is fundamentally the case that there will be a divergent set of views but, in the end, whose interests does the regulatory environment need to serve? I would have thought consumers are fairly important in all of that. These industries do not exist for the producers; they exist for the consumers, a point that is not always universally accepted.

I am sure we are all familiar with that *Yes, Minister* episode where the minister turns up to the hospital which is functioning perfectly with its administrators but which has no doctors, nurses, or patients. We would not want that to be the basis of our approach to industries that are there primarily to serve consumers.

THE CHAIR: Ms Fitzharris has one last question, then Dr Bourke and Ms Lawder. We will break at 11.

MS FITZHARRIS: In terms of the sharing economy and others, there is an article in today's papers about leveraging underutilised household assets. Are there underutilised government assets that could be used in different ways by the community?

Mr Barr: Obviously that would be yes. It is clearly the case that we have a significant asset infrastructure base that does not get full utilisation, even specifically around their intended purpose. There are some obvious constraints upon that. For example, you will not be able to use school buildings 24 hours a day as there are unlikely to be many six-year-olds who want to be taught at 2 am or many teachers who would want to do that. But I would have thought there are considerable opportunities for greater utilisation.

The extent to which those opportunities are driven by innovative entrepreneurs and the community coming forward with, "Hey, we have idea X and we'd love to be able to use asset Y to achieve that," you want to be open to that noting the obvious constraints are around security and insurance and the like. But it would appear to be a growing movement. Your default position would want to be to make some of this public infrastructure more available if you could.

DR BOURKE: Is the asset recycling initiative assisting the budget bottom line and will this improve the use of public assets?

Mr Barr: Yes. The commonwealth scheme is designed to achieve two things, and they have been very clear about this. The principal outcome is to stimulate or bring forward a pipeline of infrastructure projects within a certain time frame, hence the commonwealth's decisions around only having the program open until 30 June 2016 and requiring projects to commence within a fairly tight time frame beyond that.

They were also very clear that no business-as-usual operations would be allowed. I have seen some commentary, including from members in this place, that "Oh, you could just switch your asset recycling money to a range of business-as-usual projects for the territory government." No, the commonwealth will not allow that. They were very specific about the sorts of projects the asset recycling initiative bonus could be allocated towards and very clear about what it could not used for. That extended even to new infrastructure projects like stadia, for example. The Treasurer said no, it had to be new productive economic infrastructure. He ruled out state governments utilising the asset recycling initiative for new things like building CBD football stadiums.

You cannot just add it to your roads budget or buy a few more buses or something like that. The scheme does not allow that, and the time frames are tight. The projects states and territories have put forward under this scheme have had to meet that criteria and have to be delivered in a certain time frame. The only train leaving the station for the territory is a light rail vehicle. The $60 million the commonwealth will provide towards the project is lost to the territory if the project does not go ahead and will not be seen again under the terms of the asset recycling initiative. The Treasurer has been very clear about that. We have also heard from the Prime Minister, the infrastructure minister and others in relation to the question of sovereign risk and what would happen to commonwealth contributions.

To sum up: it is a remarkable coup for the ACT to be able to secure money from this federal government for an urban rail project, but the $60 million is contingent upon the deed that has been signed. If that is ripped up, $60 million goes.

MS FITZHARRIS: Can you remind us of the time frames for accepting and delivering projects under the initiative?

Mr Barr: The asset recycling initiative closes off for applications on 30 June 2016, and the project requirements are through the balance of this decade. I will get the exact dates on when projects must commence and finish. You certainly have to get on with it; you cannot dillydally. Metro was the project that met the criteria for being economic infrastructure that was new and could be delivered within the time frames. The commonwealth are flexible, though, about whether the asset recycling initiative funds are applied either as a capital contribution or as part of an availability payment. So it can be either or both.

Ms Doran: The Treasurer is correct in that the closing date for applications for the scheme is 30 June 2016. The requirement is that the asset sales are completed and that the infrastructure has commenced construction before 30 June 2019.

THE CHAIR: We will leave it there and break for 15 minutes. When we return Ms Lawder will have the next question, and we will blur between 2.1 and 2.2 and try to knock those off before lunch.

Sitting suspended from 11.00 to 11.16 am.

THE CHAIR: We will resume the hearing. Members, we are still looking at Treasury output classes 2.1 and 2.2. We will go to Ms Lawder for the next question.

MS LAWDER: Treasurer, the report the committee has received from CIE asks the question, how credible is the path back to surplus? I ask you: how significant is the risk that it will take the government longer than currently projected to return to surplus?

Mr Barr: It is going to be contingent on a number of factors. Certainly what happens to health funding would be the most significant factor, I would have thought. There is one more commonwealth budget presumably before the federal election, although that is uncertain. The question of health funding for 2017-18 and beyond is the biggest issue in the federation at the moment. You do not have to take my word for that; you can take Premier Baird’s word for that because I am quoting him in relation to health funding. The big cost shift from the commonwealth to the budgets of states and territories is an issue not just for the ACT but for all states and territories.

Outside of that, the other big moving part for the territory budget is our share of the GST pool which was impacted in this current fiscal year by a number of factors, one of which is population growth. Our population growth slipped below the national average which meant we were stripped of a portion of our GST, what we had anticipated. For that variable to change we would need our population growth to return to national average or above national average levels, which seems to be very strongly linked to the labour market in the territory.

If we take the optimistic view that there will be no more commonwealth job losses beyond what they have announced in this year's budget which, from memory, was a net loss of about 60 positions across the commonwealth public sector, if we factor in the growth in ACT government employment and what I hope will be a very strong contribution to labour market growth from the private sector, then there is reason to be optimistic that our population growth rates will resume a more normal path in the longer term.

We are going to see for the next couple of years in our GST the wash-through of the equalisation of the commonwealth grant towards the Majura Parkway. They have stumped up half the money for the Majura parkway up front, and the way these things work is that is then equalised away from you over a three-year period. I believe that is how the Grants Commission applies that approach.

Thirdly, our GST was impacted by a Grants Commission determination in relation to health, the shorthand of which appears to be the territory has a very high level of private health insurance coverage but not a very high level of private health insurance utilisation. Canberrans take out private health insurance but do not use it as much.

MS FITZHARRIS: So that means that the Grants Commission basically make a judgement on the number of people who have private health insurance as opposed to how many people are necessarily in the public health system?

Mr Nicol: I think they look at it the other way around: what needs for public health provisions a jurisdiction has and therefore what funding needs to support that. One of the factors in how much public health a jurisdiction needs depends on how many people have private health insurance. As we have very high levels of private health insurance in the territory, partly because of our income levels, that means we should have, all else being equal, less need for public health provision than perhaps another jurisdictions with very low private health coverage and therefore that jurisdiction—

MS FITZHARRIS: I did not realise it flowed through into that.

Mr Nicol: Yes, that is one of the factors that flow.

Mr Barr: I guess it is a curious set of circumstances. One could argue that there is a market failure amongst private health providers for various reasons, including the tax penalties that apply if you do not have private health insurance. But when it comes to actual utilisation of that in our system, I think you can read a couple of things into that. One is a very good public system.

MS FITZHARRIS: The quality of the health system?

Mr Barr: Yes, a very good public system. That is a challenge for us. I guess in the context of future health reform, getting Canberrans to utilise private health insurance a little more would assist us in bringing new money into the health system, to be blunt.

Then there was an offsetting component in terms of the GST this year where the Grants Commission looked at our housing market and respected the fact that it was somewhat weak. Against those three negative contributions, it made an offsetting contribution on the positive side. But the total impact was $120 million, $130 million less in GST revenue. That is a substantive risk.

What we do in terms of the forward estimates is to hold the current year relativity concept and project that across the board. If, for example, our population growth increased and the Grants Commission made an adjustment in our favour in relation to GST relativity, more money would come in through that process which would, in fact, then be an upside to our bottom line. But in any circumstance we are estimating certain things happening.

The greatest certainty around the budget is headline net operating balance in the current fiscal year and in the year after that, but then four years ahead it is estimates. It is a forward estimate. But the trajectory in terms of revenue and expenses is that that gap is closing and where we are essentially landing in the final two outyears is effectively a balanced budget—a modest deficit that is within the realms of less than one per cent of the total territory budget and then a surplus in the final year, again less than one per cent. In the context of fiscal policy settings you could say that those two basically balance each other out and the government’s fiscal policy objective is a balanced budget over the forward period.

I am looking for a soft landing for the territory economy. There is no particular virtue in being in surplus one year ahead or one year behind; that does not make a big impact in the real world. Striving for that and cutting jobs or increasing unemployment, reducing demand in the economy for the sake of achieving a surplus one year ahead of a projection does not achieve anything for the community. Ultimately whether we are in surplus or deficit has very little impact on the broader macro economy. We are not crowding out private sector investment. It is not like our impact is anywhere near as significant as the impact of the federal budget. We need to respond to local economic circumstances.

For the government, the economic indicators that matter are growth, employment levels as well as the headline net operating balance. There is no virtue in having a balanced budget or a surplus if your economy is shrinking, your labour market is shrinking and your level of economic wellbeing is going backwards. That is not the objective of fiscal policy for the government.

THE CHAIR: Dr Bourke has a supplementary.

DR BOURKE: Treasurer, you mentioned just before a weak ACT housing market. In view of the national concerns about an overheating housing market, could you offer some more commentary about where the housing market is now and where you see it going in the future?

Mr Barr: There would appear to be anecdotal evidence, again emerging out of weekend auctions, of a bit of a pick-up in the housing market. The statistics on housing construction and building approvals and the like have been reasonably positive in recent times. I am just looking here at figures for housing finance for owner occupation. Through the month of April it was up 5.6 per cent and through the year 16.7 per cent. The value of housing finance commitments is up in the month of April 15.8 per cent and through the year 25.7 per cent. Residential building approvals are up in the month of April 8.4 per cent and through the year 2.3 per cent. We are seeing, I guess, a turning of the corner in the housing market as well.

Government has responded to that with a significant increase in land supply within this year's budget, looking to ensure that we are able to meet an increase in demand in the housing market. We have also opened up a number of new opportunities for infill development through the asset recycling scheme, for example, but also through the changes at the University of Canberra. That opens up a new supply of land to the market in a location that will be desirable for a particular market subset.

I think overall there is cause for optimism in relation to the ACT's housing market. I want to avoid a situation like what is occurring in Sydney where housing affordability has moved well beyond its more contemporary levels. The best measure of that is that now it takes nine times the average annual income of a Sydneysider to get into the average property in the Sydney housing market. The figure is six in the ACT, from memory. I will make sure those figures are correct, but they are the media reports I have seen in recent times.

That difference between Canberra's housing market and Sydney's is important for us. Our policy settings will focus on maintaining that affordability advantage for the ACT, noting that the Real Estate Institute and others who do their regular surveys on this question—I think since 2006—had the ACT as the most affordable jurisdiction in terms of the percentage of household income required to meet a mortgage. That is a reflection both of relative affordability compared to Sydney, Melbourne, Perth and Darwin, as far as the major capitals go, and also our slightly higher incomes than most of those jurisdictions.

I think our challenges in the housing market are twofold: one around supply of affordable housing, particularly to a market looking for properties in the sub $400,000 range, and then longer term ensuring that the supply of new housing meets a variety of lifestyle choices and demographic changes that are occurring in the city. Some have observed that our housing market has a significant supply of single residential dwellings on reasonably large blocks and a significant supply of apartments but not a huge amount in between in terms of housing supply that is not multi-level apartments and that is also not single residential dwellings.

There is an area of opportunity, and I think some of the land release associated with the University of Canberra, the Northbourne housing precinct and renewal and some of the other urban renewal projects around the city give us an opportunity to supply that part of the market that is not very dense apartment living or your more traditional quarter-acre-block style.

DR BOURKE: We heard some evidence from the Seniors Association around a desire for continuing to live within the suburb but in a similar sized house, which is two bedrooms or three bedrooms and an en suite, a double garage but a smaller garden or a smaller service area. Their view was that there was of lack of opportunity to do that within established suburbs.

Mr Barr: Yes, there would probably be some evidence to support that, although, let's be frank, having those options is not always popular amongst neighbours. DV 343 will certainly add to the supply of the sort of accommodation that you have just referred to. That is not without its critics, but then also not without its supporters who want it extended further. I guess this next period will provide an opportunity for the development sector to deliver such housing outcomes in a way that hopefully addresses the concerns of some residents about overly dramatic change in the nature of Canberra suburbs.

There is always a balance that will be struck in these outcomes between the desires of those who, you have correctly identified, wish to downsize in the same suburb versus those who do not want to see dramatic change in the nature of the suburb. My view is that 343 is a modest change that will achieve many of those ends. I hope it is successful. Then the community can have a subsequent debate based on real evidence of actual outcomes which I am sure will happen over the rest of this decade.

THE CHAIR: Ms Lawder.

MS LAWDER: I go back to the headline net operating balance. If economic growth is weaker than expected, collection from some taxes that are, I guess, susceptible to economic activity, like payroll tax and stamp duty, might be less, which will then cause the headline net operating balance to deteriorate. What assumptions have you used and are you able to provide the committee with a breakdown of those?

Mr Barr: Yes, we could get them. There is a statement in the budget papers. The level of growth in the economy has some impact but our revenue streams are less reliant on that than the commonwealth's are, it would be fair to say. But they have got an impact. I must say treasurers always want to see a larger impact. My initial question when we started getting some of these much stronger growth figures was, "Great. How much extra revenue is this going to mean for a growing economy?" And the answer was, "Not as significantly more as you would expect." The risk is less. Yes, if the federal government made a series of policy decisions in next year's budget that had a negative impact on Canberra's labour market or on confidence in this economy or on the amount of money they provide to the territory government, because 40 per cent of our revenue comes through the commonwealth, they are always risks to our headline net operating balance.

On the flipside, if a federal government that is looking to find new friends and be re-elected, history says they tend to be more generous in their pre-election budgets. Who knows? We could have been too conservative in our growth forecasts for this year. In relation to the risks associated with particular revenue streams, there is some commentary in the budget. But we can provide something further for you.

MS LAWDER: Going from a forecasted deficit for the coming year of $408 million to $51million and then a $50 million surplus is a stupendous turnaround.

Mr Barr: But it is related to Mr Fluffy. You strip the billion dollars of Mr Fluffy costs out and you will see that is not as significant a fiscal turnaround. Mr Fluffy is extraordinary. It is one-fifth of our annual budget. It has such a significant impact on the territory's bottom line, and we will carry a net cost of that scheme, in the order of $400 million, forever.

MS LAWDER: What steps can the ACT government take to insulate against those down-side risks to the economy?

Mr Barr: We continue to support economic growth and the growth of our labour market. That is the most significant thing we can do. The revenue streams most directly impacted by the strength of our economy include GST, because it feeds into population growth. That is a factor. Competence levels particularly around decisions on housing are another.

An advantage, clearly, of tax reform is that you are less reliant on volatility of stamp duty revenue and you get a more reliable revenue stream through municipal rates. That means forecasting is easier, because the variation year to year on what we forecast in rates and what we receive is almost 100 per cent spot on every year. Try forecasting the number, quantum and level of turnover in the property market. It fluctuates.

THE CHAIR: To follow on from where Ms Lawder was with the debt, notwithstanding the billion dollars for Mr Fluffy, the borrowings seem to be going up. What are they funding?

Mr Barr: The infrastructure program.

THE CHAIR: Anything in particular?

Mr Barr: It is as straightforward as that. We have borrowed—

THE CHAIR: Does this include the allowance Mr Nicol spoke of earlier for capital metro, for instance?

Mr Nicol: Yes, it does. That was included in last year's budget. It was part of the increase in debt in last year's budget. We have included an extra year in this year's budget; so that will increase it by a level. But the overwhelming reason for the increase in debt in last year's budget was the commonwealth loan for the Mr Fluffy asbestos eradication scheme. That is a billion dollars. And we have a slightly higher infrastructure provision compared to last year's budget, which also adds to the debt.

Mr Barr: But then that is commensurately lower than it would otherwise have been because of our participation in the asset recycling initiative. So the funds required to finance the territory's infrastructure program come from a combination of asset sales and borrowings.

The asset sales are twofold. That relates to the asset recycling initiative and then the sale of land. The revenues from those sources combined with a level of borrowing fund the various infrastructure projects. That said, the asset recycling initiative requires a degree of hypothecation. The proceeds of those asset sales will go into the capital metro project.

THE CHAIR: There is a chart 8.1.2 on page 251, the GGS net debt. Is Mr Fluffy included in that chart?

Mr Nicol: I will get Patrick McAuliffe to come up. Yes, that includes Mr Fluffy.

THE CHAIR: Mr McAuliffe, welcome. So if you take the billion dollars out of 2015-16, that makes the debt $1.4 billion?

Mr Barr: Yes. That would be $2.4 billion less a billion.

THE CHAIR: Is that just straight subtraction?

Mr Barr: From memory, the timing of the commonwealth is such that the drawdown of the commonwealth loan falls over two fiscal years, does it not? Yes.

Mr McAuliffe: That table—sorry, I missed the page.

THE CHAIR: Chart 8.1.2, page 251.

Mr Barr: Halfway down. We go from $1.348 billion to $2.425 billion or $2.500 billion, and then to $2.842 billion. And that was because the commonwealth loan was drawn down in—

Mr McAuliffe: The first tranche of the loan, $750 million, was drawn down in January this year, and we are owed another $250 million, to be drawn down in July, next month.

THE CHAIR: In 2015-16, if you take Mr Fluffy out, what do those numbers drop to?

Mr Barr: It would be, what, $750 million less in 2015-16 and then a full billion less in 2016-17.

Mr McAuliffe: The full billion comes off in 2015-16.

THE CHAIR: It comes off in 2015-16?

Mr McAuliffe: That is right, yes.

THE CHAIR: So the net debt excluding super is then $1.4 billion?

Mr Barr: That is right.

Mr McAuliffe: Yes.

Mr Barr: Yes, because we are currently in the 2014-15 fiscal year.

THE CHAIR: When you compare that with last financial year's figure, the net debt for 2015-16 was estimated to be $1.6 billion at budget time. We take the billion out now and it is $1.4 million. How have we reduced the net debt by $200 million?

Mr Barr: We did not borrow.

Mr McAuliffe: We actually did not borrow any new long-term market debt this financial year. It is the timing of our cash flows following receipt of the commonwealth loan. That money is fungible with the rest of our cash. So we are actually able to hold off any new borrowings this financial year.

Mr Barr: The one-sentence answer is: we only borrow when we need to.

THE CHAIR: Very wise. If you go to table 8.3.2, there is a steady growth in the borrowings. Table 8.3.3 shows a very steady increase in the interest to be paid. But as the borrowings come off, the drop in the interest does not seem to be as significant. Why is that?

Mr Nicol: I will let Mr McAuliffe add to this answer but it depends on the timing of when you borrow and when you repay debt. The debt coming off is in that 2018-19 year alone. Sometimes there is a lag.

Mr Barr: The commonwealth loan requires, as you see in 8.3.2, payments of $50 million starting in 2017-18.

Mr McAuliffe: And the timing of those repayments actually occurs effectively on 30 June each year. So you are wearing a full year's interest costs before the principal actually reduces.

THE CHAIR: But it is still a significant debt. And how long do you intend to pay Mr Fluffy off? Is it $50 million a year till it has gone?

Mr Barr: No, there is a balloon payment at the end, is there not?

Mr McAuliffe: Yes.

Mr Barr: It is a 10-year payout—is that correct?

Mr McAuliffe: Yes.

THE CHAIR: So $500 million goes and then $500 million in the last year?

Mr Nicol: That is my recollection but we will check. I think it is $50 million a year and then $500 million in the last year. That is correct.

Mr McAuliffe: We basically repay—June 2018 is the first—$50 million, $50 million, $50 million, then $100 million, then another $100 million and then $550 million. All of it ends in 2024.

THE CHAIR: It says on page 265:

> It is estimated that there will be a net increase in GGS borrowings of $1.2 billion (excluding the Commonwealth loan …

What is driving that?

Mr Barr: The infrastructure program.

THE CHAIR: So it is all infrastructure?

Mr Barr: Yes.

THE CHAIR: This will give us record debt. How will you pay it off?

Mr Barr: We have a program of payments over a period. The territory’s economy will grow, territory revenues will grow and our debt levels as a proportion of gross state product remain within the bounds of the AAA-rated jurisdictions. The territory entered into this debt with a repayment plan. Longer term, clearly the operation of budget surpluses in times when the economic circumstances warrant would assist in potentially making payments more quickly, but when we enter into these borrowings we do so with a repayment plan associated with the borrowings.

Mr McAuliffe: And the budget returning to surplus in that last year is actually reflected by debt starting to reduce in that last forward year.

Mr Barr: The many other avenues around debt repayment also go to asset sales. The territory has a strong program of asset sales in relation to land that it has continued for quite some time. That will continue into the future. Then we can also maintain the flexibility of the balance sheet to be able to utilise future assets to enable us to retire debt if that is appropriate. But I guess the issue now is that the long-term cost of borrowings is historically one of its lowest—

THE CHAIR: Good time to be in debt.

Mr Barr: Indeed.

Mr McAuliffe: I guess the other way of looking at the borrowings profile is that it is largely—putting aside the commonwealth asbestos loans—unchanged from the 2014-15 budget. In the 2014-15 budget, our general government sector debt was peaking in the last outyear at around about $2.8 billion, and excluding the asbestos loan here, in the last outyear, this year, we are actually sitting back at that $2.8 billion as well. So it is largely just being pushed out again. It is the timing of our cash flows, but the actual overall quantum of our borrowing requirement is pretty much largely unchanged. That has just been the profile from year to year, based on the underlying assumptions around the capital expenditure.

THE CHAIR: Table 1.6 on page 355 shows quite significant increases. Does that other borrowings line in 1.6 include Mr Fluffy?

Mr McAuliffe: To actually get the total borrowings line out of that table you need to add the advances received line which has got the commonwealth debt.

THE CHAIR: Which is Mr Fluffy?

Mr McAuliffe: It is Mr Fluffy, plus there are other bits of old, historical commonwealth debt and the other borrowings line which is our market finance debt. That is a combination of general government sector as well as our PTE sector, largely Icon Water.

THE CHAIR: Last financial year the number for borrowings for 2016-17 was $4.1 billion, whereas this year it is only $3.8 billion. That is because we did not borrow?

Mr McAuliffe: We did not borrow.

THE CHAIR: Last financial year, for 2016-17 it was $4.3 billion; this financial year it is $4.3 billion. Last financial year the estimate for 2017-18 was $4.5 billion; yet this year it is $4.8 billion. What drives that $300 million?

Mr Barr: The infrastructure program.

THE CHAIR: Specifically?

Mr Nicol: We would have to take that on notice, I think, to give you a detailed answer.

Mr Barr: There would be a list of projects that would be—

Mr Nicol: It would be a combination of timing and projects.

THE CHAIR: The $300 million is quite a lot. Even $40 million is a significant jump. If you could take that on notice, that would be kind.

Mr Nicol: Part of it, I think, is that some of the project timings moved out just a little. Our forecast need is less than in the first two years and increased in the latter year. We will take it on notice and give you a detailed answer.

THE CHAIR: And you are still happy that you have got a path to control the debt and return to surplus?

Mr Barr: Yes. The territory's debt levels compared to other jurisdictions' are very modest.

THE CHAIR: Our capacity is also different to other jurisdictions.

Mr Barr: Yes. Standard and Poor's undertake their assessments and I note that their initial commentary on the territory budget was that there was nothing in it that would threaten our AAA credit rating. That is an important metric for the government—not the be-all and end-all, as I have said publicly; nonetheless an important metric for us.

THE CHAIR: Ms Fitzharris.

MS FITZHARRIS: Could we just go back to the health payments issues, and also the policy decisions taken in this year's budget around health. We will have the health minister here later in the next fortnight, but could you just talk us through the nature of the commonwealth changes to their payments and the nature of the cuts in the commonwealth claims.

Mr Barr: The national health reform agreement had essentially a formula that ensured that no jurisdiction was worse off as a result of signing up to the agreement. It had in place a range of fiscal disciplines upon jurisdictions around national efficient pricing. It took account of cross-border issues. So in large part the reform agreement also ensured that the commonwealth government met its share of increasing health costs over the forward estimates. It was, as far as these national partnership agreements go, one of the better ones, better reflecting or more accurately reflecting the capacity of different levels of government to contribute to future growth in health expenditure.

The commonwealth announced in last year's budget that, starting in 2017-18, they would no longer honour the national health reform agreement funding model but shift to effectively a population-based and CPI-based model. The practical impact of this, as I understand it, is that we are likely to see the level of increase in commonwealth funding into health drop from somewhere around 10 or 11 per cent annually down to about four per cent. We have reflected in our budget papers the impact of that—what we would have received under a continued national health reform agreement versus what the commonwealth have stated, in their budget papers, that they will provide.

That, combined with similar decisions in relation to education and funding the fifth and sixth years of Gonski, accounts for the $80 billion that the states and territories talked about in last year's commonwealth budget. There was nothing in this year's commonwealth budget that changed that position.

The Prime Minister has indicated that the government is open to discussion on these matters at the leaders retreat and the COAG meeting that are coming towards the end of July, but subsequent to him saying that, the federal Treasurer has ruled out any changes. I do not know. Does Prime Minister trump Treasurer in public statements on these matters? Presumably so, but time will tell. Time will tell on this question.

In relation to our own decisions on health funding, we maintain a growth envelope for health expenditure. There is a proportion of that envelope that is allocated direct to health, as is the case with other agencies; their forward estimates have a growth component. There is also a component that is held centrally—that, in the context of future planning for health, is understood to be held centrally. We will look at the fiscal situation in the coming budgets.

We are also reserving a capacity to make a territory contribution to a new national partnership, should such a creature emerge from the COAG process, or, say, for argument's sake, in a federal election campaign where one side of politics may make a commitment to increasing the level of commonwealth contribution to future health growth. My experience has been in the past that the commonwealth tends to want the states and territories to match increases. The territory retains that capacity within our budget and the forward estimates period.

MS FITZHARRIS: To what extent has the ACT government made up that shortfall the commonwealth has now—

Mr Barr: We did in last year's budget, because the cut came so suddenly, without any warning. For future years we have to have two plans really: one for how we operate the health system with the commonwealth share of funding growing at four per cent and one for how we might operate it with a higher share of commonwealth funding. I am of the belief that it is going to be politically unsustainable for the commonwealth government to maintain its current position through another budget and an election campaign. We have to plan for a scenario where they hold their current line, but all the evidence suggests that some movement on this is inevitable. The pressure is not just coming from the ACT; Premier Baird, the Liberal Party Premier in the largest state, is leading the Council for the Australian Federation work on this, working in a truly bipartisan manner with the Victorian Treasurer, with the ACT. It does not matter whether the state government or the territory government is Labor or Liberal; there is a unity ticket on this question.

MS FITZHARRIS: Are they all impacted equally or are some impacted more than others?

Mr Barr: No, it varies depending on the nature of the jurisdiction, their starting points. They are impacted differently by the education and health components, too. No-one is better off. They have stripped $80 billion out, so no-one is better off, but to the extent that what was good about the national health reform agreement for the ACT was that the cross-border issues were managed better, we are back in a situation, if the agreement is not honoured by the commonwealth, where we have to undertake negotiations direct with New South Wales around those questions.

MS FITZHARRIS: So no unity ticket from Premier Baird then at this point?

Mr Barr: I am scheduled to catch up with the Premier on a range of cross-border issues. Hopefully we can do that in Sydney around the time of the leaders retreat at the end of July. There is a long list of cross-border issues beyond just health.

MS FITZHARRIS: Today's front page of the paper, I presume, too.

Mr Barr: Our strong preference is that the national health reform agreement is honoured. I think that would be Premier Baird's strong preference, too. But we have to have a range of different scenarios planned for. This will go to some pretty fundamental questions in our health system—for example, how many elective surgeries we can offer in any given fiscal year, how many patients we can treat in a number of different categories. We know without any doubt where the pressure points are and will continue to be—presentations to the ED, very topical in the last week or so. This overlaps with federation reform white papers and what role the commonwealth has in terms of health service provision in the federation. There are some big issues coming in the next 18 months.

THE CHAIR: Dr Bourke, a new question.

DR BOURKE: A supplementary, if I might. Do you think some sort of move from this population-based proposal back to some sort of output or casemix version may turn up?

Mr Barr: I should acknowledge here—I am sure the Liberal members of the committee will appreciate me making this point—that the onus is also on the federal opposition in the context of what they take to the 2016 federal election, assuming it is a 2016 federal election. We will be calling on both sides of federal politics to make a more serious commitment to health funding. I suspect that the federal opposition moving on this question might prompt the federal government to want to match what they do. It is just as important to be asking questions of Bill Shorten and Chris Bowen, as the alternate Prime Minister and Treasurer, as to what they would do. That question was put to Chris Bowen at his post-budget Press Club address, which I attended. He responded positively that, yes, the federal opposition would do more than the current federal government are doing in relation to health funding, but beyond that statement we are yet to see the detail.

I go back to the original point: we have to plan for a number of different scenarios. What is projected by the commonwealth—the ripping up of the health reform agreement—is your worst case, I guess. There is some advance on that that comes through the next federal budget or the federal election—or, in an ideal world, a commitment to continue the health reform agreement under the terms that we all signed up to only a few years ago.

DR BOURKE: Given that 10 to 20 per cent of workload in ACT public hospitals comes out of New South Wales, this is going to put a fair bit of pressure on our relationship?

Mr Barr: Yes. I think it is higher; it is 25 per cent or so. There is potential for that. Again, those who have been around for a long time would be aware. Were you ever a health minister?

THE CHAIR: No, I missed that honour.

Mr Barr: The people who have held that portfolio over the years that I have seen have often had to go into battle with New South Wales over cross-border payments and the like. It is better if that is under a structured national agreement.

DR BOURKE: Turning to financial management, I note that the provision of quarterly whole-of-government consolidated reports leads to improved service delivery and improves the robustness of decision making. Can you talk us around that a bit.

Mr Barr: I know they are eagerly anticipated in the Assembly. This is clearly tracking progress against revenue and expenditure lines. It is important in terms of accountability but also can provide an early warning signal to the Treasurer of the day as to how particular revenue lines are performing or where there might be a challenge on the expenditure side. I guess as a discipline for officials it is a good thing, too.

Mr Nicol: We track expenditure and revenue very closely. We talked earlier about revenue projections in the forward estimates. As the Treasurer said, as you get out further, it becomes less reliable. The revenue this year has tracked very closely to estimates, which is very pleasing. As the minister said, we also track expenditure, because it can give warning signs of projects that might be slipping behind or areas of pressure. I think we probably have more of the former than the latter. We generally get a bit over-ambitious on how we scope out our projects, and we tend to not quite meet our ambitious time lines, but we generally do not have those blowouts that can sometimes be seen. It is an Australian accounting standards requirement for periodic quarterly reports. They are not audited, but it is an important part of the overall financial framework to show that we have the systems in place to support the government in undertaking its financial management duties.

MS LAWDER: We have spoken a little already about net debt and that it is forecast to rise and then drop off again. I know that some of this is due to the asbestos eradication program, but the papers note that in net debt capital metro is factored in. Why is it included? Can you clarify that for me? If the government is intending to have a public-private partnership, why are you including it in net debt?

Mr Nicol: The government's policy, which it has accepted, is that when it undertakes an intention to deliver a capital project it will provision the capital cost of that project in the forward estimates. In cases where we may go to a PPP where the financing is provided by the proponent, the government has decided to still include those capital provisions until the form of that contract is settled and until we are sure what those arrangements are. The benefit of that approach is that the forward estimates are conservative in that sense; they include the cost of the commitment that the government has made.

From an S&P credit rating point of view, S&P do not really care whether it is a capital cost incurred by the government or a capital cost incurred by a private sector person. That is a financial obligation on the government. Whether we pay it through borrowing the money and paying interest on that debt or whether we pay it through an availability payment to a third-party provider, it has a very similar effect on the government's financial capability.

The reason why we put it in there in the forward estimates, the capital provision, is to essentially show in the balance sheet of the territory that this commitment has been made. I guess that is the best way I can summarise it.

MS LAWDER: If you took capital metro out, what would the figures be for net debt?

Mr Nicol: I can take it on notice to get the exact figures but our provision for capital metro—

Mr Miners: We have not disclosed it entirely. It is part of a $1.5 billion provision which is for all of the sensitive projects. Basically, if you took that out there is $1.5 billion you would not borrow over the four years.

Mr Nicol: However, I can say that the business case that the government released put an estimated capital cost on capital metro of—

Mr Barr: Of 610 plus contingency.

Mr Nicol: Yes, 780-odd, I think, including contingency.

MS LAWDER: How confident is the government that the public-private partnership will be entered into, that you will get takers?

Mr Barr: We have two short-listed consortia who are working incredibly hard and are very passionate about the project.

MS LAWDER: Is two what you expected?

Mr Barr: We short-listed to two, yes. There were at least four in the first go.

Mr Murray: At the expression of interest stage we had four respondents, of which two were short-listed and are currently in the process of preparing their bids.

Mr Nicol: Obviously the government has not yet signed a contract. It has made a commitment. I imagine before it signs the contract it will want to be assured that it meets all of its objectives with this project. But there is no indication yet that I can see that the process will not produce an outcome that is satisfactory to the government.

MS LAWDER: Are four EOIs pretty much what you expected?

Mr Murray: I would like to think that was a good outcome.

MS LAWDER: You would like to think or you do think?

Mr Murray: It is a good outcome. Of course, there are different views. We had six respondents for the courts PPP and four for capital metro. Both indicate to me a healthy interest in the ACT's projects.

Mr Nicol: I am not sure you would get many more outside of four that would be serious contenders, because it is a pretty small space in terms of building.

Mr Barr: How many did Sydney have? We can get some info on that, but in terms of Sydney, Gold Coast and similar projects in Australia there were very similar numbers.

Mr Nicol: And in terms of short-listing, the government's policy was to generally short-list to two, noting that putting in a bid from the private sector and assessing it is a very resource-intensive exercise so we want to make it as efficient as possible. Of course, short-listing to two has some risk—if one pulls out, you lose a bit of competitive tension—but we are managing that very closely.

THE CHAIR: Treasurer, can we go to page 199 of BP3, revenue chart 6.1.2. I see lease variation charge is slowly clawing its way up. It is still markedly less than it was meant to deliver when it was first introduced. I see the outcome for next year is 15 per cent higher than the current year, and the reason given is the cessation in March 2016 of the additional lease variation remissions. Why has the government chosen to finish those remissions at this time—noting that is when they were meant to finish—and was there consideration of further remissions or changes given the low level of activity in the inner city?

Mr Barr: There has not been a policy change at this point in relation to the stimulus measures. We can have a further assessment of that closer to the end of this stimulus period. The challenge is that the second I signal that it might be extended then the value of the stimulus is somewhat diminished in the short term. We have certainly written off a lot of revenue—going to the earlier conversation this morning on where the government has been prepared to forgo revenue in order to stimulate. We will consider those issues. The nature of a future LVC change may be more location specific. There was a discussion paper put out by the Property Council and Canberra CBD Limited in relation to issues around the CBD.

The bottom line for Canberra is that there is no shortage of developable land; none whatsoever. There is more land available than there is demand, certainly for commercial and residential infill projects. There is no shortage of available land. There is a truckload coming to the market through asset recycling, public housing renewal, and land release within the CBD. For the city to the lake project, there are two decades of land supply. There is land in private hands at the moment, section 63—

THE CHAIR: Been there a long time.

Mr Barr: Yes. The issue is demand, not supply. That is a fundamental issue for the property sector—not so much the levels of taxation but who would occupy any new buildings. There is very little new commercial demand from the private sector at the moment, although there is some optimism that one or two private projects may continue. The commonwealth government have a few things out in the market, but they have been through their 15-year cycle of upgrade of commonwealth accommodation requirements. The challenge for our market in the coming years will be on the demand side: where are the new tenants coming from?

Residential will be a component, without any doubt, and I think there are opportunities in the CBD for adaptive reuse of some existing buildings. But they cannot all hit the market at once because no-one will get the level of pre-sales necessary to be able to proceed with projects. Any further policy stimulus, if you like, from the territory government will need to be measured against what level of demand there is in the marketplace. You could not have 10 current buildings in the city convert all at the same time because you would not have sufficient buyers either for units or for whatever alternative purpose.

Lease variation charge does not apply to alternative commercial uses, so there is no impediment to a current commercial building converting to a hotel, for example. That would not attract LVC; it is only if there were a higher value proposition that was being put.

The other area where I do have sympathy in relation to circumstances that individual property owners might find themselves in in the CBD relates to other regulatory requirements—car parking provision, for example. There are some buildings at the moment that are commercial but have no on-site car parking. In order to become residential, they need to provide car parking. The announcement I made at the Property Council event last week about being prepared to look at a parking offset fund where the parking would still be provided but not necessarily on that site and providing a degree of flexibility around how that might work offers an opportunity for some buildings in the CBD to have an adaptive reuse.

The other point I am conscious of is that there are height limits in place. Some buildings that currently do not have tenants have no uplift capacity because they are already at the height level. With respect to the ones that you are seeing having a reuse, for example, the development on the old Canberra Club site is an existing two-storey building going to 10, I think. So they have uplift.

THE CHAIR: But the old Canberra Club site was renegotiated before the change.

Mr Barr: They paid their change of use under the old system. But the advantage they have is additional height. If there is a policy argument to be mounted around LVC as a barrier, the only circumstance in which I can foresee that happening legitimately is where you are at the height limit of an existing commercial building and you cannot go any higher because of that restriction. But with conversion of a one or two-storey existing commercial property to a 10-storey residential, there is significant uplift. I do not think anyone would deny that.

DR BOURKE: What is the value to the ACT of that height limit in Civic?

Mr Barr: The economic value would be none. It would be an economic cost, I would have thought.

DR BOURKE: Why would we as a territory continue to seek to maintain that height limit, given that it is an NCA requirement?

THE CHAIR: It is out of our control.

Mr Barr: The NCA control it. This goes to the commentary in today's media about the town centre model and how that is arguably an economic drag on agglomeration benefits from having one large CBD. The commercial advantage that a number of the town centres have is not having those height restrictions, which gives them a competitive advantage over the CBD that they otherwise would not have, although that varies from town centre to town centre, and from time to time you get calls for similar height limits to be imposed. You have to apply a triple bottom line analysis here. There are social and environmental outcomes that you want to achieve. We get social and environmental outcomes from having town centres rather than everything being in the CBD. Yes, there probably is an economic cost, but not everything is about economics, is it?

THE CHAIR: To go back to where I was, you said there are no changes mooted at this point. When are the changes likely to come? Would that be after March next year?

Mr Barr: I have indicated that we will respond to the paper that was put to us by the Property Council and CBD Limited. I have foreshadowed publicly that the majority of our responses will be in terms of other areas of deregulation rather than taxation changes. But on the question of LVC, there is a need to update the schedules. That work is underway, I understand, within the Revenue Office, so that the freeze on the schedules can be removed and we will see—

THE CHAIR: The market has changed quite dramatically in the last four or five years.

Mr Barr: It has, yes. We will see those changes flow through in due course.

THE CHAIR: When you say "due course", is this for output 3.1, revenue?

Mr Nicol: The schedules are probably for revenue, yes.

THE CHAIR: We might take that up—

Mr Barr: We can certainly have those discussions. But any significant changes in the rate of taxation will then need to be accounted for in the forwards. So in a hypothetical world, if we were to do away with LVC altogether then we would have to write down the headline net operating balance.

THE CHAIR: Are you considering getting rid of the LVC altogether?

Mr Barr: In case anyone gets excited, no, we would not be completely abolishing the lease variation charge. The principle of having such a tax is a very sound one. How it is applied in the context of remissions, codified rates and the like is that the model allows for change in terms of the codified numbers. When we put in the two-year stimulus the prevailing view at the time was for certainty around the codified rates. We were not going to freeze them indefinitely. They were always going to be updated. As you have observed, the market has changed, so my expectation, and it would appear the expectation of the market, is that the valuation process will see the actual codified values fall. To the extent that that is considered a change to the LVC, it is in practice, but it is entirely within the constructs of the policy framework for that charge.

THE CHAIR: We might take it up with the Revenue Office this afternoon. You talked about some other reviews. Where is the review of the FMA at and when is it likely to be completed?

Mr Barr: I have introduced a bill, as you would have seen—

THE CHAIR: Yes.

Mr Barr: in the June sittings for an initial phase of work.

THE CHAIR: Talking about reviews, in the last couple of years there have been significant reviews. I think in 2013-14 it was parks and cons, ACTION and ESA, and in last year's budget it was concessions, property management, parking infrastructure and service delivery models. Where are all those reviews at? Have they been finished?

Mr Barr: Let us go to Lisa on FMA and then we will deal with the other ones.

Ms Holmes: The FMA review is an ongoing rolling review that we are doing, so we are doing it in stages. The bill which was introduced in the June sittings was mainly targeting areas in the appropriation area and some of the reporting areas since that were considered to be one of the key areas that we needed to address first. Going forward, probably the next area is going to be in relation to trusts. So it is part 7 of the FMA with trusts. It is quite contained within itself, but it needs to be updated, particularly in relation to the way we do things—that is, being able to handle things online and those types of inquiries, and the way people deal with and monitor trusts these days. We also want to look at areas in relation to authorities, how we do financial governance of authorities, and some of the structures that we have. Those are probably the next two areas that we are looking at for the FMA.

THE CHAIR: Thank you. And then—

Mr Barr: In relation to the series of other reviews, some are still ongoing. Others we have responded to in previous budgets by way of additional appropriation in some instances around those areas. Changes emerged in relation to the Emergency Services Agency that we discussed last year, and they are contained within this year's budget.

THE CHAIR: So ESA is finished? Is the report available?

Mr Barr: The report is before cabinet. We will make some announcements in relation to the release of these various reports in due course. We will be releasing them all at various stages, but that will be at the conclusion of cabinet's consideration of various issues. You can certainly read into some of the decisions in this year's budget, particularly around transport reform and the like, that we are looking at our options in relation to public transport in the territory. Parks and gardens—

THE CHAIR: The ACTION report is completed?

Mr Barr: A phase of it is, but it is still before cabinet. We have commissioned some further work that is in this budget in relation to public transport reform. Parks and gardens is complete, and we have taken some decisions in this year's budget in relation to service levels.

THE CHAIR: Is that report available?

Mr Barr: No, that one is not.

THE CHAIR: When is it likely to become available?

Mr Barr: I will need to discuss that with cabinet colleagues in relation to when we release these various reports.

THE CHAIR: I am conscious of running out of time. The ones outlined in last year's budget, the concessions program—that work has started?

Mr Barr: Yes. There has been a first phase of that and we have, again, taken decisions in this year's budget and will have a further phase of consultation on the various options that are available to government. There is no change outside the first home owner grant decision in this year's budget in relation to the totality of concessions, but there will be further public consultation. There are a number of ideas that have come forward as part of that review that would target concessions at lower income households. That was my stated intent in relation to that review.

THE CHAIR: Property management—has that started, and is it completed?

Mr Bulless: It is deferred to next year.

Mr Barr: It is deferred to next year.

Mr Bulless: Mr Smyth, there are a couple of other ones that you are going through. It is under our accountability indicator, output 2.2. The commonwealth fire payment review was finalised this year. As the Treasurer indicated, ESA, ACTION and concessions have been completed, although they are subject to further consideration.

THE CHAIR: Perhaps we could just go one by one. The fire payment review is completed?

Mr Bulless: Yes.

THE CHAIR: Is the report available?

Mr Bulless: That was a piece of advice to cabinet around the cost to the territory of providing fire services to the commonwealth. There have been decisions made about it in the last budget and again in this budget.

THE CHAIR: But we cannot see the report or the document?

Mr Nicol: The government has not yet agreed to release it.

THE CHAIR: That is okay. Property management is rolled over?

Mr Bulless: Property management has been deferred until next year. That will be completed in the next financial year. The only other one is the Corrective Services review. The review has been finalised but has not been considered by the government yet.

THE CHAIR: So when is that likely to come out?

Mr Bulless: In the coming weeks.

Mr Barr: It will come to cabinet soon.

THE CHAIR: I thought there were parking infrastructure and service delivery models.

Mr Bulless: Yes. The parking infrastructure review is almost finished. We are planning to have it finished this month, and then it will be considered by government in due course.

THE CHAIR: And the service delivery models?

Mr Bulless: That is part of the same review.

THE CHAIR: The same review?

Mr Bulless: It is parking infrastructure and service delivery models.

DR BOURKE: Just going back to adaptive reuse of buildings in the CBD, Treasurer, you talked about car parking provision off site. How far away off site are we talking about, because that is going to be of interest to people?

Mr Barr: It certainly will be. When we release further details on this change in policy approach we will certainly provide that information because that is one question that people are interested in. Last week I signalled the government's intent to move on this, and we will do that in 2016. I am not foreshadowing anything today in relation to that policy change other than to again reiterate that the government will put forward a policy in 2016 and that issue that you have raised is one of many that will need to be considered.

THE CHAIR: Ms Lawder, you have a minute.

MS LAWDER: We spoke in the Assembly about the concessions review. Have the public consultation submissions been made public now?

Mr Barr: Not at this stage but they will be. The government will release those submissions and a response and a series of further questions and a further phase of consultation in relation to concessions reform.

MS LAWDER: When might that be?

Mr Barr: It will be subject to my time frame, particularly in terms of my availability to discuss the issues. I am away overseas next week on a trade mission. I am at the Council of Capital City Lord Mayors in early July. We have the COAG leaders retreat. There are a range of other things. There is nothing pressing on this for at least 12 months in terms of any policy changes. The next cycle of change would be next year's budget. So this calendar year and, to give people sufficient time, at least a six-week consultation period. All things being equal, in the next few months; it is not something I am doing next week.

THE CHAIR: We will call a halt there. Just as a clarification, you are now going to the capital city lord mayors rather than the TAMS minister, which has been tradition for some time?

Mr Barr: Yes, the Chief Minister has been the ACT's representative on capital city lord mayors. Certainly Katy was, and I think Jon Stanhope was. He may have been holding both roles but, yes, I am going to that event in Brisbane in the first week of July.

THE CHAIR: Members, we will finish there. Chief Minister, I think we have covered 2.1 and 2.2 reasonably well. As always, there is some crossover where people understand where things fall. We thank officers for their attendance, as well as the ICRC and the lifetime care and support commission. We thank you for your attendance this morning.

Sitting suspended from 12.31 to 2 pm.

THE CHAIR: The hearing of the Select Committee on Estimates 2015-2016 will recommence. Ms Lawder, we will start with you.

MS LAWDER: Thank you. Treasurer, one of the priorities here is implementing the investment plan for the financial investment assets. Could you expand a little more on that?

Mr McAuliffe: A couple of years ago we set a much more transparent policy framework around the investment operations. That was a result of the select committee hearing into a draft bill around ethical investing. There are probably two key documents that sit together, and they are disclosed on the CMD website. One is the responsible investment policy, and that documents the key principles and the responsible investment framework. Sitting alongside that we have our investment plan. That goes a little more to the structure of our investments and it talks about the strategic asset allocation we apply to the two portfolios. It has the legislative provisions that sit around those investments and it also documents the level of reporting we do, that sort of disclosure. It talks about how we disclose the policies on our website, how we disclose our direct shareholdings and how we provide our share voting activity.

MS LAWDER: A witness from the Conservation Council spoke about the government ethical investment plan and its position about energy such as coal. I think the investment super fund has some holdings in coal-related industries—is that correct?

Mr Barr: Yes, we do, although a diminishing exposure to those fossil fuel industries. There has been 18 per cent less exposure over recent times. As a result of the various policy changes in evaluation of future risk, stranded assets and the like, we have been undertaking a shift in our investments. From memory the number was about 18 per cent.

Mr McAuliffe: We refer to the policy as a responsible investment policy as opposed to an ethical investment policy. It is a different connotation; a different way of going about it. The approach we take incorporates consideration of various risks, be they financial, social or environmental. As a result, our portfolio holdings differ from what would otherwise be the standard market benchmark. For example, the standard international benchmark would be the MSCI World, which might contain around about 1,600 stocks, whereas we have a custom benchmark which is different from that because it is constructed on this responsible investment framework. As a result, the current total share position in terms of our index holdings is that our energy exposure is around 18 per cent lower than the standard market.

MS LAWDER: Was that 18 per cent or 18 per cent lower?

Mr McAuliffe: Eighteen per cent lower, so our holdings are less exposed to the energy sector than the standard market by around about 18 per cent. The other important sector worth mentioning is the materials sector. The materials sector picks up a fair few mining-type companies. They are involved in coal and things as well, so it is not just energy. That is around about 8.5 per cent lower than the standard market.

MS LAWDER: What is the approximate percentage of holdings in the energy coal area?

Mr McAuliffe: Our holding is seven per cent of our total portfolio.

MS LAWDER: Seven?

Mr McAuliffe: Seven. That is our energy sector exposure. One of the difficulties with this is that a lot of companies have diversified businesses, so they are not all just coal companies. The framework we have in place is not trying to target one particular sector; it tries to look at that risk approach across all sectors. Our total holdings compared to the market are about 88 stocks less. Of those, they are not all coal companies or direct fossil fuels; they could still have other risks that have been identified through this framework.

MS LAWDER: Keeping in mind the risk of a stranded asset, if you like, how do you reconcile the government's holdings in those areas with their policy of moving towards a greater proportion of renewable energy?

Mr Barr: In some instances, as Pat has indicated, you have energy businesses that have very diverse sources of their energy provisions. For example, we are in a joint venture with AGL, which in some areas of its activities would be heavily engaged in fossil fuel related energy provision, but it also has a renewable energy component of its business. These things do not lend themselves to the simplistic analysis that some like to pursue.

I also observe that our single largest shareholding is the joint shareholding in ActewAGL whereby we hold half of it in partnership with AGL. AGL is often in the list of top 100 companies that certain activists wish for full divestment. We have maintained a prudent and sensible long-term approach of reducing the territory's exposure, as Pat has outlined, through a responsible investment framework. Over time there is every reason to think the approach we have adopted in recent times will continue to apply.

There is no need for a dramatic overnight divestment of everything in a certain sector, nor am I particularly interested in gesture politics here. We will maintain a sensible and prudent management of the territory's investments. We are gradually phasing out in a number of areas to reduce risk.

MS LAWDER: Gesture politics?

Mr Barr: Yes; some organisations have been in the business of wanting to make a significant statement of intent. As to its actual practical impact on the industries they are wishing to make those statements on, when they divest someone else buys. It is not as if there is a net reduction in investment in a particular sector. But we need to take a prudent approach, and we do so through this framework.

MS LAWDER: At this point in time you do not have a commitment to divest any of those industries?

Mr Barr: As in to completely walk away from them overnight, no, but we have a gradual phase down. I do not think many people are calling for instant divestment. That is a fire sale. But if you divest, someone else is buying it. I am not interested in political campaigns around one company or another. You can mount arguments for or against ownership of shares in one company or another. Frankly, it sends a really bad signal if government responds to those sorts of campaigns. We have people who picket this building demanding no investment in renewable energy. We have had that. We have even had members on your side of politics who want to sponsor those people into the chamber to say, "No renewable energy in our region." To make long-term investment decisions simply based on who picketed the Assembly most recently in favour of cause X or Y is no way to run your investment policy. The framework we have in place is the appropriate way. It is delivering the outcomes over the long term that I think those who genuinely care about these issues are seeking, and that is our approach. It is not a company-specific, respond-to-a-political-campaign approach. You cannot run policy like that.

THE CHAIR: We need to move on; we have only 20 minutes for this area. Dr Bourke.

DR BOURKE: Could you tell us more about the responsible investment framework?

Mr McAuliffe: The other bit that is important in this direct investment approach is that this framework is consistent with the principles of the United Nations for responsible investment. They are about engagement and whether you are directly engaging or engaging through service providers that are talking about companies and their key risks. Some of the companies that are excluded—I use the word "excluded" on a risk assessment basis at the moment—can come back into the portfolio. They might be seen as having a high environmental impact at the moment, but if they look to re-engineer their business and improve certain ratings criteria, they can come back into the portfolio. That is a particularly strong differentiator to the direct divestment approach where something is just out because you say you do not like it. This gives the opportunity to companies to re-engineer.

We continue to look at the framework. We are working with our current service providers to see if there are other criteria and different elements to the current methodology that we can apply. We will probably see some changes coming through over the coming months or coming year. Again, that is the way a lot of the big index providers in the world are heading now. A lot more indexes are being developed which have a focus on leaving out certain sectors that have high exposure and not necessarily taking a sector out altogether. They might take out ones that are the highest emitters of carbon or that have high coal reserves. I think we are line with the way that the broad market is heading as opposed to some of the campaigns you hear about, which are just, "Let's divest."

DR BOURKE: What are the criteria for the framework?

Mr McAuliffe: At the moment a couple of different factors come in. Criteria are applied to a company's exposure in environmental and social-type factors. Those companies are actually given a rating a bit like a credit rating score. What we said in our custom benchmark is, "Let's not include in our investment portfolio those companies that have got the lowest rating and a CCC rating." Another part of the criteria is to look at companies that have a global norms evaluation. With companies that might have very highly publicised labour or human rights issues or things like that, those companies are given a red, green and yellow flag. Again, under our current methodology, we do not hold any company that has a red flag. Then we have the main core of prohibited investments, which are companies that directly manufacture tobacco, munitions and landmines. They are a straight negative screen.

DR BOURKE: Could you expand a little on the social factors you were talking about?

Mr Barr: There is a statement of investment beliefs that goes through the 13 different beliefs. The policy is publicly available on the Treasury website. There are 13 beliefs and six principles.

Mr McAuliffe: The key pillars that sit behind this are an environment score, a social score and governance. They are the key factors. It might be how a company is operating in the social area—is it a good corporate citizen, those sorts of factors. Depending on what the particular sector might be, there will be different weightings to the particular criteria applied. It is not an equal thing across the board.

Mr Barr: To give some examples, principles include that businesses should: support and respect the protection of internationally proclaimed human rights; not be complicit in human rights abuses; promote freedom of association and effective recognition of the right of collective bargaining; eliminate all forms of forced and compulsory labour; effectively abolish child labour; eliminate discrimination in respect of employment and occupation; have a precautionary approach to environmental challenges; undertake initiatives to promote greater environmental responsibility; encourage the development and diffusion of environmentally friendly technologies; and work against corruption in all its forms, including extortion and bribery.

They are 10 of the human rights principles that are contained within the policy. A number of other principles go to incorporating ESG issues within the investment analysis and decision-making process, and then there are 13 statements of investment beliefs contained within the policy.

DR BOURKE: Thanks.

THE CHAIR: Ms Fitzharris, you have four minutes.

MS FITZHARRIS: Thank you. I wanted to ask about CTP. Could you give us an outline of how CTP premiums have changed, particularly in the last 12 months?

THE CHAIR: We might just finish—

MS FITZHARRIS: Am I chopping topics?

THE CHAIR: Yes, you are chopping topics. We are still on the territory banking account.

MS FITZHARRIS: Sorry. I will hand over to you.

THE CHAIR: Sorry, we are on superannuation; then we are going to the territory banking account. Is the objective still to have the superannuation provision covered by 2030?

Mr Nicol: Yes.

Ms Doran: That is right, yes.

THE CHAIR: And are we on target to do that?

Mr Nicol: Yes.

Ms Doran: We are still on target to do that, yes.

THE CHAIR: Are you in advance of where you thought you would be? Are we lagging?

Mr Nicol: I think we are probably slightly in advance of that, but there is a lot of volatility in markets; so I would not put a date on that, other than 2030.

Ms Doran: We are currently running at a funding percentage of 58 per cent. I think at last budget we were in the low 50s. We have had three good years of investment return: 16 per cent in 2012-13, 15.8 per cent 2013-14, and looking towards 10.7 per cent this year. So that has put us slightly ahead at this point in time.

THE CHAIR: We are going to try to keep to the 20 minutes. Page 183 of BP B talks about completing the annual actuarial review as at 30 June. When does that start and when do you get that outcome?

Ms Doran: The annual review will start—

Mr McAuliffe: The last one or the next one?

Ms Doran: Yes. We have just completed—

THE CHAIR: The one that you are referring to on page 183, Mr McAuliffe. Have you gone from triennial to annual?

Mr McAuliffe: Yes. We just concluded the triennial.

Ms Doran: We have just finished a triennial as of 30 June 2014.

THE CHAIR: Yes.

Ms Doran: So that has been completed. I can give you the results of that if you like. We do an annual update every two years in between the triennial every 30 June—

THE CHAIR: An annual update every two years? Do you want to think about that?

Ms Doran: Well, we do it annually on the two years in between the triennial review, which is done three yearly. So next year we will do an annual update.

THE CHAIR: All right. There will be another annual update and then there will be a full triennial update?

Ms Doran: That is right.

THE CHAIR: So the outcome for the triennial?

Ms Doran: The triennial this year had minimal impacts on the liability and the expense figure. There were some offsetting factors that led to that result. The superannuation expense increased by of the order of $3 million across the 2015-16 budget year and each of the forward years. The superannuation outstanding liability estimate increased by about $100 million, or thereabouts again, for the forward years.

The reasons for that, as I said, are offsetting changes, so the usual factors that increase the superannuation costs: some growth in the membership base, slightly higher than expected salary growth, improvements in mortality and more people taking up the pension option as a benefit type. But this year, or this triennium, that was offset by a reduction in financial assumptions, mainly the WPI expectations for the forward years.

Mr Barr: Improvements in mortality means people live longer.

THE CHAIR: Thereby costing you more?

Mr Barr: It is still a net good outcome, is it not—people living longer?

THE CHAIR: That is right, you cannot spend or generate in the economy if you are dead. We will now move to the territory banking account. On page 198 of BP B, I see we are now comparing ourselves to the Bloomberg AusBond bank bill index. Why are there no index figures from 2015-16 on to the outyears? Is it simply that they do not issue them?

Mr Nicol: That is right. They are actual.

THE CHAIR: This is an actual measure on each occasion?

Mr Nicol: Yes.

THE CHAIR: We are doing better against the AusBond. What do other jurisdictions compare themselves against? Is this the measure that all states and territories use?

Mr McAuliffe: I cannot answer that specifically. Each jurisdiction will tend to measure themselves against a market index. You might do each individual fund that you have. You might measure yourself against the individual index or pick a weighted index. There is no strict rule one way or the other. The territory banking account investment portfolio is generally targeted at income-type investments, largely a cash-type focus. So the benchmark we use is reflective of that type of structure.

If we were chasing a large growth-type return, then we would have a benchmark that would reflect that. That would then mean your actual investment actions would be undertaken with that strategy in mind. At the end of the day, the absolute return of what we get is what we get. The benchmark is there really as a bit of an indication of how it is tracking against those money market-type returns.

THE CHAIR: If last year and this year they are at 3½ per cent, why are the outyears all pegged at 2½ per cent or 2.4 per cent?

Mr Nicol: It largely reflects the lower interest rates that occurred over the last 12 months

Mr McAuliffe: We do not try to forecast interest rates at all. We tend to take the prevailing rates and then carry them through across the board. That has been the standing policy in the way it has underpinned the budget.

MS FITZHARRIS: I want to ask about the borrowing program. I guess the objective is to implement a borrowing program that facilitates access to debt funding. Can you talk us through how that works and how that is tracking over the last couple of years?

Mr McAuliffe: As we have spoken about a few times, we have seen an increase in our debt over the last couple of years. That has been for good reason—to fund the growing infrastructure program. When we started to take on the new debt, we had to set ourselves a pretty solid framework so that we could actually go and access the markets and to do it in a sensible manner that could ultimately result in the most efficient and cost-effective program for ourselves. When we go to borrow $500 million, it is not like we just ring up a bank and say, “Can you lend us $500 million? What is the interest rate today?”

We are out there trying to target institutional investors that are running a fixed income portfolio. We need to be able to make our bonds attractive to them to hold not only when we go and borrow this year but next year and the year after. They want to have comfort that if they buy our bonds, they are going to be tradable in the secondary market. If someone else wants to buy them, they can sell them. They like to have good transparency about our future programs.

When we set our goals, we try to target what is a benchmark-sized bond that works for us. We have set ourselves about a $500 million bond as our benchmark size. That is important because it brings into issuance when we do it particularly overseas investors that will want a minimum size to invest in. The credit rating is obviously important there as well. If the credit rating gets lowered, your cost for funds will increase marginally. But the other side is that it can exclude some potential investors.

The other thing we have tried to do is set ourselves a yield curve—that is, to continue to issue our debt for longer maturities each year. The key reason for that is to manage our refinance risk. The last thing you want to have is effectively all your eggs in one basket. If we come across a year and we suddenly have a whole lot of debt maturing at the same time, we then have to go to the market to try to refinance that if we need to refinance it. Effectively, if you are swamping the market with supply, that could have a negative impact on our cost of funds. So we try to manage that refinancing risk.

MS FITZHARRIS: And are people interested in it?

Mr Barr: Without any doubt. I think we have been oversubscribed. AAA-rated government debt is as rare as hen's teeth, isn't it?

Mr McAuliffe: I remember the first note we did was our 2018 maturity; 100 per cent of it was taken up by domestic investors and the majority of that was taken up by bank balance sheets. That is a risk in itself to us, because if you have a period like the GFC and your main funding source has been bank balance sheets to buy your bonds, credit dries up very quickly. They want to allocate their capital to look after their own balance sheet in the first instance.

We are probably still going to need to borrow through those times; so we will want to able to access a diverse range of investors from not only bank balance sheets but also asset managers, insurance companies and superannuation funds. That has been part of the ongoing development of the program.

Last year we undertook our first major road show, as we called it. That was meeting with a range of domestic and international investors to help promote our budget, our budget circumstances and who we are. We can see the benefits of that. As I say, in the borrowing we did last year I think we only targeted $500 million. There was over $1 billion worth of oversubscription.

We had a bit of control at the end of it as to what price, what interest rate was eventually accepted. So we have gone from 100 per cent domestic. Probably around 30 per cent of the investors now come from offshore. The diversity of investors is now ranging right across from balance sheets to asset managers, and overseas central banks as well.

Mr Barr: We just completed the Sydney and Melbourne road shows for this year's budget last week. Last year we took the road show to Singapore, Hong Kong and Tokyo. The market response was very positive.

DR BOURKE: The AAA credit rating has been mentioned in connection with the desirability of our treasury bonds. Could you elaborate on how important that is?

Mr Barr: It is increasingly the case that there is a demand for credit from such semi-government entities. I think there are 26 semi-government—sub-national government—jurisdictions in the world that have had a AAA credit rating. The ACT is one of those. We have not been as high profile, it would be fair to say, as some other Australian jurisdictions and, indeed, some international jurisdictions. It has been a concerted effort to take this debt investment message more broadly in the national market but also to South-East Asia in particular.

A culmination of factors are leading to a lower cost of borrowing for the territory. As Pat indicated, having a curve out over the forwards and beyond helps. A shorthand thing here is that you need to have a certain level of debt to bring your cost of borrowing down. We are starting to see the difference between our AAA rated bonds and some AA+ for larger jurisdictions. We were a AAA-rated jurisdiction paying AA+ prices. That has started to change in recent times as a result of approaching the market and being more proactive in the selling of our bonds.

When you are borrowing $500 million, for example, a 25 basis point difference is a lot of money over the relevant period. So for what is a relatively small investment to do these road shows that cost in a handful of thousands of dollars, the savings are in the tens of thousands, if not hundreds of thousands of dollars for the territory. It has certainly been a worthwhile exercise. You see it in the diversity of take up of government bonds.

DR BOURKE: Do you see any risks in the future to these avenues?

Mr Barr: The territory has limits as to how much we can borrow before our credit rating would come under pressure. That is well understood. We work closely with the ratings agencies on the matrix associated with that. It is understood that in taking on the additional $1 billion loan from the commonwealth, that took up a lot of head room in our capacity. It was the right decision for the government to take and one that was unanimously supported by the Assembly. But that has pushed us to the outer edge of that envelope, in addition to the program we have for infrastructure. We would not be in a position to go and borrow billions of dollars more without impacting on the credit rating. That is a discipline that is there for the territory government.

We are looking at our future infrastructure and that combination of debt funded versus what will be financed by asset sales. We need to maintain a strong program of asset sales as well. We do so through the release of land to the market but we also need to look at some other options as well if, for example, we wanted to make a large capital investment in a convention centre.

DR BOURKE: What about the commonwealth in recent years? Have they impacted upon us?

Mr Barr: They certainly have to the extent that they relate to a reduced revenue. The direct impacts on the territory budget from decisions that are taken around health funding, for example, yes. I think the market seems to take a longer term view of your economic performance. It is the same with credit rating agencies; they are able to see beyond a short-term impact of a commonwealth decision on your economy. These are, by nature, longer term decisions.

The message out of our bond road shows has been one of optimism about the future of the territory economy and one of confidence in Australia's federal financial relations framework, too. The credit rating of the national government has impacts upon the semi-governments—the state and territory governments. If the nation were to have its credit rating reduced, that would have flow-on consequences for the states and territories.

DR BOURKE: Thank you.

THE CHAIR: Ms Lawder, a new question.

MS LAWDER: I have some questions relating to table 9, starting on page 206 of budget paper B. I have several questions, so I am happy with quite short answers if that is possible. Under "Receipts", there is "interest received". It looks like the estimated outcome this year will be more than was budgeted for, it will be less again next year and then it will be decreasing over time. Could you explain why that kind of trend occurs?

Mr McAuliffe: There are two elements to that line item. One is interest we receive from our financial investments. The factors that sit behind that return are the actual amount of funds under investment and the interest return that we get. The other component of that is where we raise borrowings and lend to Icon Water. That is the interest received from their debt finance. So depending on the amount of borrowings that they are repaying, this is interest on their borrowings. They are the two components that drive those numbers.

MS LAWDER: Under "Payments" there is "borrowing costs". It looks like we will achieve a lower amount than was budgeted for, but it goes up again next year and then each year. Can you explain that?

Mr Barr: It is the timing of the borrowing.

Mr McAuliffe: It is. Again there are two components to that item. It is just the way it gets disclosed. One is our payments to the financial markets or to the commonwealth for our borrowings. The other is where there are a number of ACT government agencies that invest money through the TBA, and we provide a central investment arrangement; that is where we are making their own interest payments back to them as well. Again that will be a function of how much they have invested and earned.

MS LAWDER: Also under "Payments", at the bottom there is "Other".

Mr McAuliffe: "Other" payments are mainly associated with our funds management fees. When we go to market to borrow money we pay what they call dealer fees associated with the actual financing transaction of a new borrowing. You can see the 2014-15 outcome is a lot lower; that is because we never went to market this year for a major borrowing transaction.

MS LAWDER: A bit further down there is “proceeds from sale/maturity of investments”.

Mr McAuliffe: There are a number of those. They are effectively turnover numbers for our investments. We are buying and selling investments; not every day but most days you have money moving in and out. They are the net turnover numbers.

MS LAWDER: There is a significant difference between what you expect to get compared to last year’s budget.

Mr McAuliffe: Again that is a function of the volume of the principal transactions that we are making.

MS LAWDER: To the point where the variation is a hash sign, because it will not fit the variation.

Mr Nicol: If investment markets are going very well, you might take the opportunity to switch out of capital items and into recurrent. So it is a very volatile item.

MS LAWDER: Apparently.

Mr Nicol: We do put a budget in for it but we do not necessarily try and meet that budget. We invest based on the state of the markets at the time.

MS LAWDER: Again there is “other” underneath that as well. The estimated outcome was quite a bit more than you budgeted for. What comes under “other”?

Mr McAuliffe: That is a good question.

THE CHAIR: That is why Ms Lawder asked it.

Mr McAuliffe: I do not have that here.

Mr Barr: We will take it on notice.

MS LAWDER: Finally, at the top of the next page, there is “advances issued to government agencies” and “repayment”. Again there is a significant variation from budget to estimated outcomes. Do you want to explain that one?

Mr McAuliffe: The advances issued to agencies in the main are loans issued to Icon Water. That is their borrowing requirement. The repayment of investments to agencies is the other turnover transaction when agencies are moving money between their own account and the territory banking account. So they are either giving us money for investment or we are returning it back to them as they require it.

MS LAWDER: In terms of your budgeting, though, it is a significant variation to your budget. What are the assumptions you use when you are putting the budget together?

Mr McAuliffe: We can only rely on the volume—we pick up the numbers of what their own budget estimates are showing, as to how much money is going to move in and out.

Mr Nicol: Agencies inform us of their cash needs in the budget and—

MS LAWDER: Apparently not very well.

Mr Nicol: It depends on the timing of projects and contracts. For example, a payment will not be made to a contractor until the contract conditions are met.

MS LAWDER: Isn't that the whole purpose of a budget, to—

Mr McAuliffe: In that particular year that is shown, the majority of that money would be us moving money back to the superannuation provision account, because it invests through this central arrangement, to gain access to our cash investment exposure. In our investment strategy for the SPA, it is looking probably to reallocate some of those investments from the 2015-16 budget going forward. This simply shows the return of the majority of that money back to the SPA.

MS LAWDER: Thank you.

THE CHAIR: We might have to leave that there and move to the Compulsory Third-Party Insurance Regulator and the statement of intent. Treasurer, I asked a question about the regulator in October last year on notice, and I am yet to receive an answer. It concerned things like the number of people eligible for the scheme, financial claims of highest value, lowest value, the mean, median and mode, jurisdictions you were currently in negotiation with—

Mr Barr: What was the question on notice number?

THE CHAIR: I will get the number and you can get the answer.

Mr Barr: If it had been unanswered, wouldn't it come up in the notice paper of the Assembly?

THE CHAIR: Yes, normally it does.

Mr Barr: I have not seen it. I would be surprised, because you would normally get up at the end of question time and—

THE CHAIR: I would normally, yes. But this is one that slipped past me.

Mr Barr: If you can track down the number, we will endeavour to track down the answer.

THE CHAIR: On page 4 of the statement of intent, under "Risk" it says:

> There are a number of risks for the CTP regulator including operational, financial, legal and reputational.

What is the reputational risk for the CTP operator?

Ms Doran: I think they are the main categories of risk that one would normally identify in any risk management program. Reputational risk was a risk more so when the regulator was new, but we have maintained it in our risk program going forward. It is really the risk that we are seen by the industry, by claimants or by other stakeholders, lawyers, to not be undertaking our functions fully. So it is just a risk regarding how you are perceived by your main stakeholders.

THE CHAIR: Do you think there is still a risk to your reputation? How long has the CTP regulator been there now?

Ms Doran: Going on for seven years now. We have retained it because we are still a small organisation and we run a full regulatory framework on the basis of quite minimal staff. So that is the main reason.

Mr Nicol: I would think reputational risk is something that we would note on an ongoing basis. It is not time limited, as Ms Doran said. If our reputation has any question marks against it, the possibility of providers questioning their place in the market possibly arises. It is something that we would not risk at all, as we see that as being very important for the operation of a good market. I think the players have to have faith in the regulator.

THE CHAIR: On page 97 of budget paper B it looks at a number of priorities. How is competition in the market progressing, and have we seen much downward pressure, measurable pressure, on CTP premiums?

Mr Barr: NRMA filed and they are now the lowest—a six per cent real term reduction, and it is under four per cent in nominal. So, yes, we have seen successive filings from the new entrants driving the price down in nominal and real terms.

THE CHAIR: Is that likely to continue?

Ms Doran: We are certainly seeing competition creating more activity and more consideration of premium filings. We would normally expect each insurer to file once a year and to update their risk assessments once a year. In the last 12 months we have had NRMA file twice, and GIO file too and reduce their premiums below those of NRMA. There is certainly a lot of activity there. Whether they continue at that pace remains to be seen. We are also seeing interest from other insurers in our market. So we continue to support extended competition in the market.

THE CHAIR: How many other insurers are you talking to?

Ms Doran: I really cannot disclose that at this point.

THE CHAIR: The number of people you are talking to does not disclose anything; it just means you are talking to somebody. I deliberately did not ask for names.

Ms Doran: We have had one showing particular interest and there are probably two or three who would look at our market who are already operating in similar jurisdictions, New South Wales most particularly.

THE CHAIR: Ms Fitzharris.

MS FITZHARRIS: I have a follow-up question on the reputational risks. I would assume that any risk management framework includes reputational risk to be assessed in one form or another?

Mr Nicol: Yes, definitely.

MS FITZHARRIS: My substantive question is around competition. For people not yet operating in the market, are they still looking into the ACT market for further reform of CTP?

Mr Barr: You get approaches from time to time, wanting to know what might be happening in the future. There is movement in some jurisdictions. So it would be fair to say that we still have a high cost system, apart from the recent welcome reductions in premiums as a result of competition, but our fundamental framework lends itself to CTP costs in the ACT being higher. There is a range of responses to that—no-fault schemes, the various reform models that have been put forward.

Another useful thing that we could all contribute to is to have fewer accidents. That would help. We think another factor that is worth mentioning is the lifetime coverage reform. NIIS and NDIS provide a benefit in this market. In terms of future reforms, closer alignment with New South Wales and pooling of risk with a much larger jurisdiction would be a possible reform.

MS FITZHARRIS: Are there any people currently under the NIIS?

Ms Doran: There are, yes. We have had five claims in the lifetime care scheme in the first year. We have five interim members of that scheme at the moment.

MS FITZHARRIS: What sort of difference do you think they will have seen at this stage from the scheme?

Ms Doran: Do you mean in terms of the CTP scheme and price—

MS FITZHARRIS: No, the lifetime care scheme.

Mr Nicol: The services provided to them?

MS FITZHARRIS: Yes. For their day-to-day lives, has anything changed yet or is it still more in the future that it will change?

Ms Doran: It will certainly change in the future for them, and I would like to think that it has changed immediately for them. At least two of the members would not have been covered under the CTP arrangements. They were no-fault accidents, motorcycle accidents. For those members, they have coverage and they have treatment and care provided for the rest of their lives. Obviously the circumstances are not good but it is positive for them.

MS FITZHARRIS: A considerable benefit, yes.

Ms Doran: The other members have had immediate access to treatment and care, whereas under the CTP arrangements, if it had been a matter that had gone through a court process, through legal proceedings, there could have been delays in that process.

THE CHAIR: Dr Bourke.

DR BOURKE: Thank you. Just turning to public awareness of the causes of motor accidents, what will the ACT government be doing to raise public awareness, which is one of the 2015-16 priorities of the regulator?

Ms Doran: The CTP regulator works with JACS and their road safety areas in this regard. There are a number of initiatives. There is a road safety trust, which is supported largely through JACS but the CTP insurers participate in that. It used to be an NRMA trust. It has changed structure slightly; it is a broader trust and is focused purely on initiatives that will support enhanced road safety. We also look to partner, again through JACS, in various media campaigns or advertising campaigns, targeted campaigns, on certain aspects of road safety. In the last 12 months we have supported a tailgating campaign as well as a second campaign, a speeding campaign I think.

DR BOURKE: What would be the benefit of a stand-alone ACT personal injury register?

Ms Doran: A personal injury register in itself is virtually an essential element of the scheme. It is our database and the insurer's database and the broader industry and constituents' database to understand the number of claims, the quantums of those claims and the different heads of damage that they are occurring under.

We have been fortunate in the early years of the scheme to have the support of the Queensland jurisdiction in hosting for us, through their personal injury register, our claims base. Unfortunately, that is a situation that cannot continue, so again it is a necessity for us to set up our own database. But I think it is appropriate, in our stage of evolution, as well, now, to have our own database, to have it on our own IT platform and to make greater use of it ourselves in analysing the data. There is a greater wealth of data there now that we can start to do some really meaningful analysis on over what is now four or five years worth of claims history.

Mr Nicol: Such information should be able to let us target activities to reduce injuries and, therefore, reduce premiums and provide better outcomes for people. Avoiding injuries is the best outcome rather than having a payout, a claim. Also, it reduces uncertainty, and therefore insurers' costs uncertainty. Again, if we can reduce uncertainty we can lower premiums.

DR BOURKE: What does a stand-alone register cost?

Ms Doran: We are still in the early stages of getting some quotes and assessments of that. We used to pay, I think, around $40,000 a year to Queensland to host us on their system. The initial transition and build costs, I expect, will be a few multiples of that, so a couple of hundred thousand we are expecting in the initial set-up stage. But then the ongoing costs should be lesser, because it is our own system and we will just be maintaining it in house rather than paying for another jurisdiction to provide that support for us.

DR BOURKE: Was that the rationale for the end of the arrangement with Queensland?

Ms Doran: No; it was really initiated by the Queensland government not wanting to continue to support that, as part of their own cost issues and rationalisations. Again I think that when we were a new regulator it was appropriate to use that sort of leveraging and support, but we are now at a stage and of an age where we should be looking at having our own systems and our own ownership of our own data.

THE CHAIR: Ms Lawder.

MS LAWDER: One of the other priorities is about enhancing policy procedures. What particular policy and procedural enhancements have you identified as required?

Ms Doran: This is really an ongoing process. We have established a form of regular consultation with the industry and through the industry association—the ICA, Insurance Council of Australia. It serves two functions. One is to regularly examine with the insurers the way in which the scheme is working for them and to get the benefit of any suggestions they may have on how to improve the scheme—in terms of its operations rather than its broader design. Of course, as they operate in other jurisdictions, they bring the learnings from those jurisdictions back into our own. The second is to provide a forum where we can have open discussions with all insurers now participating in the market. Previously, when we had NRMA as a monopoly provider, it was not as important to do that; you could just talk to one person and you were talking to the industry, effectively. This is a way to bring all parties together and allow them to share their ideas or to discuss issues and come to a consensus agreement amongst all players.

Mr Nicol: Can I just add that we have to interact with the insurers slightly differently when you have more than one, because there are some reputational issues about knowledge and making sure there is fair access to the regulator. That is part of the reason why we are developing the new procedures.

MS LAWDER: So it is across the board? It is not any one particular insurer that you work with that has—

Ms Doran: No; they all come together to the one forum.

MS LAWDER: Is there a dollar amount associated with these reforms or reviews?

Ms Doran: No, not at this stage. As I said, it is more discussions, highlighting ideas and bringing ideas to the forefront. If any of those are taken forward, they go through an appropriate policy process.

MS LAWDER: Has anyone suggested cash back or discounts for drivers under the age of 30?

Ms Doran: We call those "after-market initiatives". That is very much the role of the insurers, not the regulator. That is really about how they want to market their products, how they want to try and attract business. It is their approach to competition.

Mr Barr: We tend to use that bundle in other insurance products as well.

THE CHAIR: We will move to the home loan portfolio. We might reverse the order again. Ms Lawder, do you want to start on the discontinued agency?

MS LAWDER: Sure. Now it is no longer a separate report, which bits may go to CMTED and which bits will be reported under the territory banking account?

Mr Nicol: I will ask Mr Salisbury to come to the table to answer these questions.

THE CHAIR: Mr Salisbury, before we start—I do not think you were here when we asked the question that has to be asked: have you read the privilege statement and do you understand its implications?

Mr Salisbury: I am familiar with them and, yes, I agree with them.

THE CHAIR: Thank you.

MS LAWDER: Which parts will be under CMTED and which ones—

Mr Salisbury: What parts go to where from the home loan portfolio?

MS LAWDER: Yes.

Mr Salisbury: The current receivables that are listed on page 260 of budget paper B will go into the CMTED-controlled statements; they are on page 62 of budget paper B. Non-current receivables, again currently on page 260 of budget paper B, will go to CMTED-controlled, at page 62. Cash and current investments of around $110 million will go to the territory bank account, page 204 of budget paper B. Current liabilities, which are quite small, go to the territory bank account, page 204. Non-current liabilities of $71.8 million go to the territory banking account, on page 204.

MS LAWDER: Was there a cost associated with changing those arrangements?

Mr Salisbury: Not particularly. Not overly. They were just some accounting adjustments that were done in preparation for this year's budget.

MS LAWDER: Was there any staff movement associated with it?

Mr Salisbury: I have currently got one FTE in my area that looks after the home loan portfolio. That person will stay in my area, and the costs associated with managing the current 60 loans in the portfolio will be managed by my office as part of my budget.

MS LAWDER: Thanks.

DR BOURKE: Treasurer, when do you think this program will wind up? It has been 20 years since it was stopped; you must be getting close.

Mr Barr: The fact that it is a discontinued agency is sending a signal, isn't it? Gentlemen, do you want to comment on when?

Mr Salisbury: Some of the loans run for quite a number of years, but we will work with the Community Services Directorate. Now that we have a manageable number of loans, we will work with them to look at the individual circumstances of people who have the loans to see if we can come to some other type of arrangement. This loan might not suit everybody currently. We will work with them.

DR BOURKE: Most home loans are around the 25 to 30-year mark, maybe. We are now at 19, is it? No, it is more; it is way more. What sort of terms were these loans given on? Was it more open-ended?

Mr Salisbury: The loans were generally given to people who could not get finance through regular financial institutions. It is the commonwealth variable standard rate that applies to those loans. Within each of those loans, some of the loans have a concessional component. If the individual gets into financial trouble, they can do part of the repayment onto another type of concession plan. So it is quite a concessional arrangement.

DR BOURKE: So you are basically saying they have got variable terms as well as—

Mr Salisbury: Some of the loans do, yes.

DR BOURKE: So some of them can go along for much longer?

Mr Salisbury: That is right.

DR BOURKE: What are you doing to efficiently manage this very small portfolio?

Mr Salisbury: As I said, we have a person dedicated to making sure that the loan repayments are made and then managing the proportion of the repayment that goes to the concessional loan and the proportion of the repayment that goes to the standard loan. We will work with those individuals to make sure that they pay off the concessional loan first and then move back to the standard component of the loan.

DR BOURKE: Given the cost to the territory, is there an opportunity to consider transitioning these loans into standard commercial arrangements?

Mr Salisbury: Yes, and that was the point I probably made initially when we were talking about working with the Community Services Directorate—to have a conversation with these people about what really suits them going forward and whether we could move them into a commercial arrangement with a bank or whether we can come to some other sort of arrangement for a quick wind-up of those distinct loans, the long tail sort of loans that we have currently got.

DR BOURKE: Thank you.

MS FITZHARRIS: This is probably in the wrong order, because I wanted to ask why this has been done now but you have more or less answered that. Are there any other aspects of the "why" that you have not covered?

Mr Nicol: It was starting to become a very small amount of loans. It is still quite a sizeable pool on the balance sheet, but I do not think it justifies a separate reporting entity. It is not a lot of effort to produce these statements, but it does take a bit more effort, and we want to rationalise the presentation, I think.

Mr Salisbury: There are also auditing costs. They have to be audited every year, and we have to pay for the auditing of those accounts.

MS FITZHARRIS: Is this a red tape reduction measure?

Mr Barr: Keep on rolling them out. I think that is stretching it, somehow. It was a nice try, though.

THE CHAIR: You folded at the first hurdle.

Mr Barr: If my colleague is going to make such a helpful suggestion, who am I to disagree with it?

DR BOURKE: When you are dealing with the policy initiatives of the past.

MS FITZHARRIS: I am done.

THE CHAIR: How does this benefit the government financially? There is a capital distribution to government of $2½ billion.

Mr Salisbury: It does not benefit—

THE CHAIR: Page 261.

Mr Salisbury: It does not benefit the government in any way. They are still assets and loans on—

THE CHAIR: I can see that you only live in the revenue world.

Mr Barr: He only thinks revenue.

MS FITZHARRIS: He does not need to know that.

Mr Salisbury: It is a portfolio of assets and liabilities. I might just have another go at that. It is a portfolio of assets and liabilities which happen to be brought together in a construct called the home loan portfolio, but those assets and liabilities still exist; it is just that they are presented in different ways. The net financial position of the commonwealth has not changed in any way, shape or form—he says confidently!

THE CHAIR: And you have confirmed that with the commonwealth?

MS FITZHARRIS: A revenue commissioner with a sense of humour!

Mr Salisbury: Sorry?

THE CHAIR: It has not changed the commonwealth's view in any way, but you have confirmed that with the commonwealth?

Mr Salisbury: I am not sure how to answer that.

Mr Nicol: You mean in terms of the change from—

THE CHAIR: I am just following that this is consistent with the commonwealth arrangements not changing, and they have not.

Mr Nicol: We envisage no problems with the commonwealth. We are still managing the portfolio in accordance with our agreement with the commonwealth.

THE CHAIR: That is very kind. Members, any further questions on the home loan portfolio?

MS LAWDER: Yes. Page 258 talks about the administration cost per home loan managed and a 3,020 target. Do you have any feel for how that compares to the commercial management of home loans?

Mr Nicol: It will be higher, principally because the number of loans being managed is shrinking, so we do not have the opportunity to manage a big number of loans. This customer group is probably the group that requires a lot more oversight and management administration than a standard portfolio because the clients who have paid off their loans have paid off their loans, so we are getting to the bottom end.

THE CHAIR: So it is an economies of scale sort of issue?

Mr Nicol: We do not have the economies of scale here—

THE CHAIR: I understand Mr McAuliffe would like to enter the fray.

Mr McAuliffe: I just thought I would answer the question you asked, Ms Lawder, about the TBA, the cash flow number. It was the description on the cash flow that threw me. It was a question about other receipts under investing activities. That is the receipt of our investment transactions from our agency investments. When they transfer money to us, that is the net number we receive coming through. The other one is described as a repayment of the investment stages under repayments.

MS LAWDER: Maybe you could call it that rather than—

Mr McAuliffe: Sometimes the system throws out standard formats.

Mr Barr: Thank you, Pat.

THE CHAIR: Thank you, Pat. There being no further questions on the home loan portfolio, we will go to ACN 071 257 504 Ltd, which for the rest of us is formerly ACTTAB.

Mr Barr: The agency formerly known as ACTTAB.

THE CHAIR: Good afternoon, gentlemen. Welcome to today's hearing of the Select Committee on Estimates 2015-2016. When the transcript is available from Hansard we will forward that to you for any comments or corrections that you would like to make. Before we begin, could you please confirm that you have read the privilege statement on the table there in front of you and that you understand the implications of privilege?

Mr Kourpanidis: Understood.

THE CHAIR: Thank you. Would you like to make an opening statement?

Mr Kourpanidis: No, nothing to start with.

THE CHAIR: It does raise the question: why are you here at all? But it is important, and perhaps these are questions more for the Treasurer. Treasurer, when the sale was mooted there were a number of motions in the Assembly with a particular focus on protecting jobs. You made statements that, indeed, there was the opportunity for the jobs to expand. We now know those jobs, in the main, have gone. Why did you say that they could possibly expand when in fact they have now all gone because no provision was made for the protection of jobs?

Mr Barr: There was a provision in the sale terms, and that was honoured by the purchaser. The business decisions the purchaser made are for them, but they may still grow elements of their business in future. By virtue of the government not having an ownership interest in the business anymore, I can only go on the advice that I was provided at the time in terms of the purchaser's intent. They have honoured all of the commitments made in that arrangement. The industry itself is undergoing significant change, as I think we are all aware, and what may or may not happen in the future in terms of that business is for them to determine.

THE CHAIR: Should you have put in stronger terms and conditions to protect the jobs?

Mr Barr: I guess, were we to have done that, we would have lessened the price the territory received for the business.

THE CHAIR: So it was price over jobs?

Mr Barr: In the context of realising the value of the asset for the broader community we have obviously had to make some balancing decisions but, in the end, the buyer was always going to integrate the small ACT business into its future plans. Everything it said it would honour, it has.

THE CHAIR: But honouring a three-month commitment is not particularly hard to do.

Mr Barr: It would have come at some fiscal cost to them, presumably.

THE CHAIR: So it was profits over jobs.

Mr Barr: No, that is your language. The benefit for the territory is the value of new jobs that are created by the unlocking of the value of the business and being able to reinvest that into growth of the territory economy and into a project that will create 3½ thousand jobs.

THE CHAIR: Which I assume will be of great consolation to those who left their jobs.

Mr Barr: There are some people who are impacted, undoubtedly; others were looking to retire or move into other industries. That is the nature of this workforce. Yes, the government no longer owning the business meant there was going to be change for the workforce, and we said that at the time.

THE CHAIR: No, you said that the potential was that the number of jobs would expand.

Mr Barr: I said it could go either way. I made public statements to both effects—that it would depend on the nature of business decisions made by the new owner.

THE CHAIR: On page 211 on budget paper B it says that it is expected that the wind-up of the company will be completed in 2014-15. Has the company been wound up or are we doing it in the next 15 days?

Mr Johnston: We have lodged the deregistration, or we have started the deregistration process. There is a two-month notice period with that, so we expect the deregistration to come through in mid-July.

THE CHAIR: What has to be wound up now? What still has to be done?

Mr Johnston: Nothing really. Part of that process was that we had to make sure that there was less than $1,000 in assets, and that is the case now. It is a process now of just going through ASIC.

THE CHAIR: Who handles this on behalf of the government? Is this in Treasury?

Mr Nicol: Treasury oversights the agency.

THE CHAIR: And Treasury is happy with the winding up as it has gone?

Mr Nicol: I am. I will call Neil Bulless, as it is in his division.

Mr Bulless: My role is to oversight the two GBEs that came from the Commerce and Works Directorate—so Icon and former ACTTAB. As part of the process of winding up and dealing with the residual issues of former ACTTAB, there was a sales steering committee that was formally headed up by Megan Smithies, and then Gary Biles took that role over, to make sure that the sale was done and executed. That has gone quite smoothly. We are in the process now of dealing with the residual issues like what we do with the files. There are 1,200 files of records, so we have to become responsible for those. There are other minor issues, the very low-level administrative issues that we have been dealing with. Most of those have been resolved. We see no impediments to the final wind-up of the company occurring in mid-July.

MS FITZHARRIS: Is it still going to be called ACTTAB?

Mr Bulless: In terms of Tabcorp?

MS FITZHARRIS: Yes.

Mr Bulless: I think Tabcorp are continuing to use the ACTTAB name.

Mr Kourpanidis: I suspect there will be some tinkering around with the logo and the name but, again, this is anecdotal evidence that I have picked up from the current owners. It will probably stay as is for a little bit longer and then be converted over to the national brand. It would be the smartest synergy from their point of view with advertising and the money that gets spent around the country to have them all consistent.

DR BOURKE: Treasurer, can you remind us what commitments the ACT government required for workers as a result of the sale?

Mr Barr: I will need to take that on notice. There was a long list of issues, and I do not have that in front of me at the moment. Someone may have a copy of that in the audience or will look it up now on the internet. There was a series of requirements in relation to continued employment for a period of time and a number of agencies that would continue to operate. Tony knows.

Mr Hays: Part of the conditions of sale was that the employees would get a minimum of three months employment on existing terms and conditions. There were also a range of terms and conditions relating to funding for the racing industry, community support and the problem gambling fund. Tabcorp has also undertaken to spend at least $2 million over the next few years in refurbishing the gambling outlets, the TAB outlets.

DR BOURKE: The retrenchment of workers from Tabcorp—have those workers received their full entitlements of conditions?

Mr Hays: I am not aware at this point in time that anyone has been served with notice. It is a condition of the sale agreement that they get all their conditions and entitlements. At the time Tabcorp bought the business they indicated they thought it would take about 12 months for them to finalise the transition, and as part of that process there would be the prospect that a number of duplicated jobs would be rationalised. They also gave an undertaking, but no guarantees, that they would seek, wherever possible, to redeploy any staff that lost their current positions within their operations elsewhere. I am not sure how practical that would be for any of the casual staff that might be impacted. There may be full-time employees that are not willing to go interstate, but they were going to make a genuine offer to people where they were able to.

DR BOURKE: Are these conditions which were attached to the sale contract usual between partners when they sell businesses?

Mr Hays: It depends on the nature of the sale. The general principle is that if they are going to be essentially doing the same work that they were doing before the sale, under the transmission of business rules the new owner is required to offer them the same terms and conditions of employment and recognise prior service.

MS LAWDER: Given that you are winding up, are there any outstanding risks or issues that you are facing at present or is everything proceeding as planned?

Mr Kourpanidis: Not that I am aware of. I do not think there are any outstanding issues or potential liabilities. The only very small ongoing liability to the territory would be in respect of the unclaimed dividends, moneys that have been accumulated over many years, where tickets have been lost and an amount of money sits in limbo waiting for someone to possibly find their missing ticket and present it and have that paid out. But outside of that I am not aware of any other ongoing liabilities.

Mr Hays: That is right. There is about $280,000 the territory is hanging on to. People claiming the dividends will make the claim with Tabcorp and then Tabcorp will invoice us to reimburse those costs. That arrangement expires in October this year.

MS LAWDER: Is the unclaimed dividends level commensurate with other TABs?

Mr Kourpanidis: I am sure it is very much comparable to any TAB anywhere. It invariably is a result of things like the euphoria of Melbourne Cup Day where once a year punters have a bet and either not realise they have backed a wining horse or have lost their ticket. Over 40-odd years this money has accumulated in dribs and drabs and, quite frankly, I doubt whether much of it will ever have a claim against it. The old adage of the older it gets, the colder it gets very much applies to this sort of pool of money.

MS LAWDER: So after October, if someone magically comes up with their ticket, it will be no longer—

Mr Kourpanidis: It will be honoured; it will be paid out.

THE CHAIR: Who will they go to if Tabcorp is not doing that?

Mr Bulless: They will go to Tabcorp, as they are doing now, but Tabcorp will not be able to come to the territory and ask for a refund. It is Tabcorp’s cost.

MS LAWDER: So Tabcorp will have an obligation to pay it out?

Mr Bulless: Yes.

THE CHAIR: Mr Kourpanidis, how long have you been on the board of ACTTAB?

Mr Kourpanidis: I think 12 years.

THE CHAIR: And how long have you been chair?

Mr Kourpanidis: About 12 years.

THE CHAIR: Thanks very much for all your service over the past 12 years.

Mr Kourpanidis: Thank you. I did not say anything earlier, but in hindsight I want to add something and for it to be taken the right way. When the professional advisers were called in to give us an idea of what the business was worth and what the government could expect to receive for the sale of the TAB, those numbers were around the $30 million to $40 million mark. I dare say if that was the result that was achieved we would all be sitting around saying, "Oh, well, we achieved what we were told we would achieve. It was a pretty good result—30 or 40 million." $105.5 million is a long way from 30 or 40 million, so I think everyone should be pretty pleased with the outcome.

THE CHAIR: Perhaps that might be an appropriate way to finish. We now close the books on ACN 071 257 504 Ltd. Con, please pass on to all the staff our thanks for all their good service.

Mr Kourpanidis: I will. Thank you.

Sitting suspended from 3.24 to 3.47 pm.

THE CHAIR: We will resume the hearing of the Select Committee on Estimates 2015-16. Mr Salisbury, there were some ongoing court cases concerning payroll tax. Have they been resolved?

Mr Salisbury: Yes. This is the issue we discuss that we do not directly discuss.

THE CHAIR: Yes, regularly.

Mr Salisbury: I can say in relation to that issue on 1 May an in-principle agreement was reached and a settlement deed has been drawn up concerning assessments of payroll tax, penalty tax and interest for the period in dispute.

THE CHAIR: Does this set a precedent for any other outstanding court cases?

Mr Salisbury: Not necessarily, no. We have to treat each case on its merits and what we can negotiate with the taxpayer. I guess there is always a willingness on the part of the Revenue Office to enter into discussions with taxpayers on issues in dispute and come to some sort of commercial arrangement.

THE CHAIR: Last year one of the issues was the application of payroll tax to those individuals who thought they were just small businesses. Individually it was meant to collect $10 million in the full year. It was put back to a half year, so I assume it was to collect $5 million. How much has that change to the payroll tax netted the government?

Mr Salisbury: The estimate was $5 million—I think you are right—over the half year. Indications are it is tracking a little over that figure at the moment, but that is purely anecdotally. It is quite hard to track these things because a lot of things happen in the payroll tax space—you have general economic impacts, you have employment impacts that affect the payroll tax outcome. We think it is tracking slightly above that figure at the moment.

THE CHAIR: When will you know, and when can we know?

Mr Salisbury: We have only got three months of anecdotal data at this point. We still have to do a fair bit of analytical work on that.

THE CHAIR: When will that knowledge become available? When do you expect to have that knowledge?

Mr Salisbury: I think we would like to have 12 months worth of payroll tax data to get a good sense of where that has actually fallen.

THE CHAIR: I am not sure if you heard discussions about changes to the lease variation charge and the Treasurer informed the committee that it was to be done in your area. What are you doing with these variation schedules and when will we know what changes will be made, if any?

Mr Salisbury: Under the Planning and Development Act, at the end of each financial year advice has to be put to the Treasurer on the schedules. We are currently going through that process.

THE CHAIR: Have you given that advice before?

Mr Salisbury: Yes, we give that every year in the lead-up to the financial year, in accordance with the requirement of the legislation.

THE CHAIR: The advice up until now is not to change the schedules?

Mr Salisbury: The advice is the advice.

Mr Barr: The commissioner's task is to have schedules; it is up to the Treasurer whether the schedules are updated. The commitment the former Chief Minister gave when she announced the stimulus package going back a few years was that we would freeze the schedules at their previous levels, which I think are 2010-11, from memory. We have had an increase and then, as you have correctly identified, a decrease. Freezing the schedules at those earlier levels kept them lower. Unfreezing them, obviously I will see the next iteration from the commissioner. But the policy decision to update schedules will be enacted if they are lower. I am not going to increase the schedules, if you understand. I will keep them at the older levels rather than increase them.

THE CHAIR: You have increased everything else. Why would you not increase those, consistent with your record?

Mr Barr: I will leave that gratuitous comment be.

THE CHAIR: You have thrown in a few today. What is the time frame on this review and when are people likely to get an answer? Or is this not until March next year when the exemption is finished?

Mr Barr: That is obviously a matter for the cabinet to consider, but I have committed to responding to the issues that were raised in the Property Council and Canberra CBD Limited discussion paper. Given this is one of the issues and not the totality of the issues they have raised, we will give consideration to that plus the other questions. It would be preferable to make an announcement this year on what will happen beyond March 2016.

THE CHAIR: When is the work likely to be committed, the review of the schedules?

Mr Salisbury: That will be done before the end of this financial year.

THE CHAIR: It will get to cabinet sometime early next financial year?

Mr Barr: In the coming financial year, yes, But I have said I would like to resolve the position this calendar year, as in the government's response to the Property Council and CBD Limited paper that includes this amongst a range of other issues. There will be a total government response to all of those issues that include lease variation charge, but other things this calendar year to inform what will happen from March 2016 onwards.

THE CHAIR: There are only two weeks to go in the year.

Mr Barr: No, calendar year.

THE CHAIR: You will get the detail and resolve everything before December this year?

Mr Barr: Yes, before Christmas this year as to what will then apply for next year, yes. Because the current regimes are in place until March 2016, as you have identified.

THE CHAIR: You do not intend playing Scrooge this Christmas; is that what you are saying? So you do not think he looks like Scrooge?

MS FITZHARRIS: No, I was trying to match up your two separate commentaries, which seemed contradictory to me.

THE CHAIR: Well, we can go the Scrooge line if you want, Ms Fitzharris. How many businesses are registered in the ACT that currently do not pay payroll tax, so with a turnover of less than $1.85 million?

Mr Barr: Something like 23,000, from memory. There are more than 25,000 businesses in the territory. I am getting a nod from the cheap seats. My recollection is it is around 23,000. I have a feeling I have used that figure before in a speech a couple of years ago now probably, so we will double-check that figure. But it would be in that order.

THE CHAIR: How many businesses, say, fall between the $1.85 million and the $2.5 million turnover?

Mr Barr: I do not know. Why have you chosen $2.5 million?

THE CHAIR: Well, let's do two and then we will do three, four and five. I was just making it easy for you.

Mr Barr: Because we have a stated policy intent around raising the threshold to $2 million, which we will do in next year's budget. The previous iterations of raising the threshold by $100,000, $150,000 tended to exclude somewhere between 50 and 100 additional businesses from payroll tax. It will be a moment-in-time analysis of how many are currently there. But the other point to make is there would be some businesses whose payroll would be growing towards $1.85 million and potentially beyond who would remain excluded from the payroll tax system by a movement in the threshold.

THE CHAIR: Perhaps you want to take on notice how many businesses fall between $1.85 million and $2 million and how much they contribute each year in payroll tax. And then, say, for $2 million to $2.5 million.

Mr Barr: Yes. The answer to between $1.85 million and $2 million would be 6.85 per cent of that gap. You are talking then around 12,000, 15,000 annually for those sized businesses. I know the cumulative impacts of the previous payroll tax cuts for businesses have been in the order of about 20,000 to 23,000 for all the businesses that were paying payroll tax. They are cuts I have delivered since becoming Treasurer. I am sure I have used presentations that say 21,775. Again I am getting the nods from the cheap seats. So it is more than $20,000 and less than $25,000 in terms of payroll tax cuts for businesses who have been paying payroll tax.

THE CHAIR: If we could do it for, say, the $1.85 million to $2 million then in half million increments up to $5 million. How many businesses fall and how much do they pay?

Mr Barr: That would have to be retrospective.

THE CHAIR: Yes, that is okay. For the last financial year would be fine. And then how many fall in between $5 million and $10 million and then, say, greater than $10 million? Do any businesses pay—

Mr Barr: Yes, there would be heaps of businesses with more than $10 million—universities, major banks, Woolworths, Coles.

THE CHAIR: So if we do $5 million to $10 million then greater than $10 million, that would be kind.

Mr Barr: We will look at a meaningful way that we can give a sense of who pays without identifying, yes.

THE CHAIR: Absolutely, without identifying anybody. Ms Fitzharris.

MS FITZHARRIS: Thank you. A supplementary. On budget day you mentioned one significant benefit to the ACT would be if the commonwealth were to pay payroll tax. I take it that is not something they would be willing to look at.

Mr Barr: It is an option under tax reform associated with if they wanted to have a meaningful reform of the GST. If the commonwealth paid payroll tax, the ACT would not need to be their beneficiary in terms of our GST relativity. It is a policy reform option for them to deal with the territory in the context of GST, and some of the reform panel's recommendations in the past have included excluding the territories from the system. The way the commonwealth could have a separate arrangement for us would be by paying payroll tax. That would remove a distortion in our system that potentially would allow us to have a lower rate.

At the moment we have one-third of all employment in the territory—that is the commonwealth—excluded. We do not pay payroll tax to ourselves, obviously, so there is another 10 per cent of employment in the territory. You have pretty much half the labour market excluded, and that is a unique circumstance to the ACT, I think. Maybe the Northern Territory might be in a similar position. It is a reform option for the commonwealth. As the shadow treasurer said, good luck with it, but we could at least put the argument.

MS FITZHARRIS: But they do not pay payroll tax to any jurisdiction?

Mr Barr: No.

MS FITZHARRIS: Thank you.

THE CHAIR: If the commonwealth paid payroll tax, have you calculated what it would be worth to the territory?

Mr Barr: I think we have done some back-of-envelope calculations. More than we receive in GST.

Mr Nicol: It is a complicated question; you have to calculate the effect on GST.

THE CHAIR: Would it then affect our national capital payments?

Mr Barr: Conceivably, yes. The Grants Commission makes an adjustment because of the narrowness, so they would have to unadjust or re-adjust to reflect that. I think the sense is that the compensatory amounts we get through Grants Commission and GST probably do not fully cover it, yes.

THE CHAIR: Could you take that on notice, the back of the envelope?

Mr Nicol: We would have to see what he have.

Mr Barr: We can give some rule-of-thumb indications, yes.

THE CHAIR: Lovely.

MS FITZHARRIS: I want to ask about rates. Could you explain for us why there is a marginal rate and a threshold rate within the rates charges?

Mr Barr: Yes, we have a fixed charge component and a series of progressive marginal rates associated with land values, a rolling three-year average unimproved land value. There is a very high correlation between the value of land that people occupy and wealth, not surprisingly. Those who tend to be on the lowest incomes tend not to own property; they tend to be renters. Those who are on the highest incomes and have the highest levels of wealth tend to own large amounts of high value land. So there is an element of progressiveness in our rates system.

That progressive element was introduced in 2012. At that time we provided a reduction in rates for a quarter of properties in the territory, those lowest value quarter of properties. That was a deliberate attempt to introduce a degree of progressiveness into the system. The balance between the fixed rate and the rate associated with land value reflects to some extent the cost of provision of municipal services.

It is important to recognise in our unique system that although the revenue raised from rates might, in the minds of some, be seen as solely about municipal services, rates are now making a contribution to health, education services and things that would be more traditionally seen as state government responsibilities. I do not think we have ever strictly had a delineation or a hypothecation in the territory’s history. But there is no doubt that as the tax reform process continues revenue that is collected through municipal rates funds health and education services. Health and education are more than half the territory budget, so of course there will be a contribution from that own-source revenue towards provision of health and education services.

That is a unique circumstance that the territory is in, but the arguments in favour of that certainly outweigh the arguments against. I do not think anyone is seriously contemplating introducing councils in the ACT, and for this level of government to just focus on state functions. So our revenue sources will continue to move towards more efficient means, but our funding requirements, the areas of greatest growth, are health and education.

MS LAWDER: I have a supplementary. Treasurer, on rates, on page 201, the top two tables, table 6.1.3 and table 6.1.4, show the marginal rates for residential and commercial properties. Are you able to tell me how many properties and how much revenue fall into each of those marginal rates?

Mr Barr: We would have that data. I can provide an answer to an earlier question which will help guide that. There are 152,342 residential properties, 172 rural and 6,207 commercial leases. So the total is 158,721. That is the total of all three categories. Within the 152,342 residential, I believe it would be possible to break down how many are in each category, noting that it is a progressive rate. So all properties are in the band zero to 150,000, and then there is—

MS LAWDER: It is not quite what I meant, but—

Mr Barr: Yes. There will be a certain proportion beyond that. The answer to the first part of your question is 152,342, and there will be a reducing number according to land value beyond that.

MS LAWDER: Sure, and you can provide that to us?

Mr Barr: We can provide that.

MS LAWDER: And the revenue for each of those, associated with each of those?

Mr Barr: We will certainly do our best to see whether that can be broken down.

MS FITZHARRIS: Obviously rates will increase if the value of land is increasing?

Mr Barr: Yes. That is a relative assessment of value of land in different parts of the city. In the context of how the overall rates burden is shared, there are variances depending on rates of growth on a rolling three-year average across the city. For example, if there were to be a transport infrastructure project that raised property values by what has been understood to be the general outcome across the country and around the world of around 25 per cent, those areas would therefore meet a greater share, relative to other properties, of the future rates take.

THE CHAIR: Dr Bourke.

DR BOURKE: Thank you, chair. Treasurer, what assistance is provided to taxpayers to enable them to fulfil their tax obligations?

Mr Barr: Revenue commissioner, what assistance can you provide?

MS LAWDER: Where to start?

Mr Salisbury: Indeed; where to start? The first place probably is the Revenue Office website, which provides a whole range of information on taxes and also concessions available with taxes. That is probably the most comprehensive area of taxpayer education that we utilise. Of course, there are tax professionals who work throughout the city who advise clients on their tax obligations as well.

Mr Barr: The commissioner also provides information—I know, because I receive it—in material from the government in terms of land tax and other obligations. When you receive your rates bill you get a series of information pamphlets that outline your obligations if your property is rented, for example. That is an annual communication with ratepayers as well.

DR BOURKE: For instance, a suburban home owner who wants to rent out their granny flat would be liable for land tax. How would they determine their liability?

Would they ring up your office and seek advice?

Mr Salisbury: Within 30 days of their renting out that place, they have an obligation to contact the Revenue Office and advise the office of that. We would then determine whether that particular residence was assessable for land tax. If it was then we would assess them for land tax every quarter.

DR BOURKE: What processes do you use in that assessment? How do you go about assessing them? You do not go out and have a look?

Mr Salisbury: The average unimproved value of the property determines the amount of land tax that is payable. In the case of a granny flat or a self-contained unit, there is a proportion of the value of that granny flat, as opposed to the rest of the property. So it is on a proportional basis where only a part of the property is rented out.

Mr Barr: Land tax has two components as well—the fixed charge and the marginal rate. So there is a fixed charge of $945 and then a series of marginal rates based on thresholds that are outlined on page 201.

DR BOURKE: Basically that proportion of the property which is used to gain income would be land taxable at the marginal rate—

Mr Barr: At the marginal rate, yes.

DR BOURKE: and a fixed charge would also be paid, which was extended last time to include flats and units as well?

Mr Barr: The introduction of a fixed charge meant that the burden of land tax that was being disproportionately born by single residential properties was shifted a little away from them and more on to units and townhouses. The nature of the average unimproved value for two properties that might rent for the same amount would be entirely different if they were single residential versus a unit. The average unimproved value of the unit would be considerably lower because it would be sharing its land, if you like, with a number of other properties.

That reform meant a significant rebalancing of the land tax burden and a much fairer system, because a landlord can rent out an apartment for a very similar price in some instances to a residential property, even though the differences in land value under the old arrangement would have meant that someone renting a $400 unit would pay a lot less land tax than someone renting a $400 house.

Mr Nicol: Another reason for introducing that reform was that, with a progressive rates scale on land tax and rates, the more you densify, you will actually lose aggregate revenue because the value of the land is divided amongst a larger number of properties. So the sum of the individual land tax paid on a number of properties on one residential block will be less than if there was one residential property on that block. So as the city densifies, without doing that sort of reform—

DR BOURKE: Sorry, I do not understand that.

Mr Nicol: It is perhaps best highlighted with an example. If you have a block that is worth a million dollars and it has one house on it, it pays land tax and rates at a high marginal tax rate.

DR BOURKE: Because of the margin; now I understand.

Mr Nicol: If you divide it into five properties, they are worth $200,000 each, all else being equal. If you densify, AUVs might climb a little bit, but they would be worth less individually and you would be applying a lower marginal tax rate on each one, so you would tend to lose revenue. The purpose of these revenue lines is to provide services, obviously, and as we densify and grow population, service costs go up; they do not go down. So it is more of a longer-term revenue protection measure than a short-term measure.

DR BOURKE: How are you ensuring that people with granny flats are actually paying their land tax?

Mr Barr: The revenue commissioner's team works—

DR BOURKE: Tirelessly?

Mr Barr: Works tirelessly. You have an amnesty at the moment—

Mr Salisbury: We do at the moment.

Mr Barr: for people to do the right thing.

Mr Salisbury: We do it by way of education and we take out ads from time to time advising people. There is also a notification that comes with the rates notice about land tax. From time to time we will have an amnesty, which we currently have, to encourage people to declare their land tax. It also provides some publicity around the issue of land tax. So it is all about increasing education and advising and making sure people have the knowledge that would allow them to comply with the tax laws.

DR BOURKE: How is this articulating with the sharing economy we were talking about before with Airbnb?

Mr Barr: An interesting question. There are rules in the legislation, are there not, about how long a property has to be rented in any given quarter? But that is not about short-term rentals. A good question, Chris; we might need to think about this.

DR BOURKE: You can take it on notice.

Mr Barr: We might do that. We will take it on notice.

MS FITZHARRIS: Can I ask a supplementary?

THE CHAIR: You may.

MS FITZHARRIS: The Under Treasurer said earlier that, as we densify, the land tax has shifted. Are we doing the same as other jurisdictions in terms of our tax treatment of high density redevelopment?

Ms Doran: There are a range of different issues there. For one thing, some jurisdictions tax on a different base. We use an unimproved value; other jurisdictions use a market value. In that sense it captures more of the equitable value, you might say. There is also the issue of aggregation. We tax solely on each individual investment. Each individual investment gets the full benefit of the marginal rate scale. In other jurisdictions they aggregate investments, so that if you have a number, they are added together and that pushes you into the higher tax rates on the aggregate figure.

Mr Barr: The arguments in favour of that approach are that your mum and dad investors, who might have one property, do not pay as much as your institutional investor or someone who has an extensive portfolio. That is why many jurisdictions adopt that aggregation approach.

MS FITZHARRIS: Does that have any impact on affordability in any way for renters?

Mr Barr: It would depend on the state of the market as to how much is passed on in rent. The ACT's circumstances are that, when acquiring properties, leasehold gives a range of tax benefits federally that are different, as I understand it, from a freehold acquisition. So property investment in the territory is a little different. Our circumstances, our tax settings, go to those differences. The fundamental reform to ensure better equity in land tax was the introduction of a fixed rate. That means the burden is shared much more equally. But if you have multiple properties then you are paying multiple fixed charges too, so I guess that is an alternative way.

THE CHAIR: Ms Lawder, any questions?

MS LAWDER: I have a question about motor vehicle registration. It looks like the revenue is forecast to grow by approximately 30 per cent according to budget paper No 3, page 199. What is the growth based on?

Mr Nicol: Which line are you on?

MS LAWDER: Motor vehicle registration.

Mr Nicol: I have got three per cent growth in the table in front of me.

Mr Barr: Table 6.1.2, page 199.

MS LAWDER: Revenue.

Mr Barr: Yes, taxation revenue, motor vehicle registrations and transfers grows at three per cent.

Mr Nicol: From $29.3 million to $30.3 million.

MS LAWDER: What is the growth based on?

Mr Nicol: That is just underlying growth in—

Mr Barr: Increases in the number of vehicles registered, and there was an increase in the rego charge.

THE CHAIR: It does grow 10 per cent over the outyears, a total of 10 per cent over 2015-16 to 2018-19.

Mr Barr: That is 2½ per cent a year, three per cent a year. And there is a growth in the number of vehicles that have been registered as the city grows. I would not have thought that was a highly unusual level of growth.

Mr Nicol: That is a standard growth. We are not expecting any more.

MS LAWDER: Some of it is that you are looking at reducing the administration charge for half-yearly or quarterly administration.

Mr Barr: Yes, that is correct.

MS LAWDER: So are you anticipating any change in the proportion?

Mr Barr: I guess as the admin charge drops there may be some people who choose to pay six-monthly or quarterly who otherwise might have paid annually but you get a two per cent discount if you pay annually. So the difference between annual payment and four quarterly payments will be the quarter bucks plus a two per cent discount.

MS LAWDER: So your predictions did not anticipate a real shift?

Mr Barr: Not a dramatic shift, no. The reason we have been progressively reducing the admin charge has been an equity issue. It used to be $25. For someone who could only afford to register quarterly that is an extra 100 bucks a year, which is a lot. Our last couple of budgets have continued to reduce that amount and I hope to be able to continue to do that in future budgets until we get to the point that that admin charge covers really only the administrative costs of that transaction which, as we move to a more digital system, get much lower.

MS LAWDER: I notice that changes like motor vehicle rego are reflected in the cost of living statement. Whilst they might only be small amounts like the ambulance levy—and I know it is not levied on the individual—surely insurance companies will pass that increase on to their members. Is that the usual case when these types of levies go up?

Mr Nicol: I think it depends on the state of the market and how competitive the insurer wants to be. In general I suspect over time a higher levy would lead to, all else being equal, higher premiums but predicting how much and over what time period is very difficult.

MS LAWDER: I quite like the cost of living statement. It gives you a snapshot but obviously there will be many households who feel they do not necessarily fit easily within one of the five examples. Have you given any thought to moving along a bit with the cost of living statement and perhaps going to deciles or quintiles and the people who fit within that?

Mr Barr: We certainly expanded the cost of living statement in recent times to provide different circumstances. I guess there are some limits on information available to us but certainly I am happy to have a look at that and see what else we might be able to provide. But to a certain extent we will be limited in our capacity to do that. We have to make a series of assumptions, I guess, which we can do. But I always note the interrogation of the assumptions can be a highly politicised thing as well. In considering how we might present future statements we can look at perhaps providing a few more examples of households that would come within the different quintiles but I think we have done reasonably well and have defined it here so that we do cover a broad spectrum.

Mr Nicol: I have not thought about that question of quintiles or deciles particularly or if we could add to the information in some way. Your income is not the only determination of eligibility for certain concessions and payments. There would be multiple scenarios for each quintile potentially. But we can certainly have a look, as the Treasurer said, and see what we can do to provide more information.

MS FITZHARRIS: Hopefully you will have the benefit of the CIE report that we have had the benefit of. To follow up on that question, they provide an example of the UK's budget reporting of quintiles in particular which might be worth exploring a little more.

Mr Barr: You are all reading from that document and I have not seen it.

MS FITZHARRIS: I know. I am conscious of that.

Mr Barr: In this case I should be thumping the table and moving motions in the Assembly demanding the release of the—

THE CHAIR: For your information the final only arrived today. The committee has not had time to work towards releasing it. I think if you check last year's record we got it out quite expeditiously, unlike the government.

Mr Barr: I look forward to reading it.

MS FITZHARRIS: Further to that, obviously a cost of living statement in this context can only really talk about the government-related decisions, not broader economic decisions which the government may have in some way or other affected either positively or negatively which could lead to increases. I must say that I was surprised to see the recent *Choice* survey on the cheaper supermarkets in the country and Canberra having one of the cheapest supermarkets in the country.

Mr Barr: Then there are things that might change during the fiscal year such as today's example of the AER decision in relation to electricity prices and the ICRC's announcement there, about $80 a year cheaper for the average household, network costs and the like.

THE CHAIR: Treasurer, if we could go to the fire and emergency services levy. At page 204 of budget paper 3 it says:

> The increase in 2015-16 is in part due to the Government's decision to raise an additional $6.3 million in FESL revenue each year over the next four years …

It is then going to the ESA but in no year do you only raise $6.3 million. The first year it is about $11 million; the second year is about $8.5 million; the third year it is about $8.8 million; and the fourth year it is about $9 million. Why are you raising over and above what you need to increase what you are giving to the ESA?

Ms Doran: If you are comparing year-to-year estimates there are other elements of growth built into those estimates that come from initiatives in previous budgets. We have had a series of decisions in the FESL space. The $6.25 million is this year's initiative. Last year there was an initiative which was raising around $4 million a year to replace some funding that was lost from the commonwealth government. And the year before that there was an initiative that raised, I think, $2 million to $3 million a year, which was the first stage of trying to bring the revenue under this head somewhat closer to matching the expenditure for the service.

Mr Barr: I think it is reflected somewhere in the budget papers. It still only accounts for 75 per cent to 80 per cent of emergency service provisions costs.

Ms Doran: And that will end by 2018-19.

Mr Barr: That is where we will end, after 2018-19.

THE CHAIR: Can we have a breakdown of what those initiatives were and how they impact in each of the years?

Mr Barr: And noting obviously there is a big program of infrastructure investment in emergency services.

THE CHAIR: But for anybody reading this without having had the benefit of sitting through estimates for several years or staying up late at night to read previous years' budget papers—you say you will raise $6.3 million—you do not raise that amount and there is no quick explanation.

Ms Doran: I think we do go on to describe the $3 million announced in the 2013-14 budget.

THE CHAIR: If we could have a reconciliation that would be kind.

MS FITZHARRIS: Presumably with land release there are more—

Mr Salisbury: Because you generate more lines—

Mr Barr: That is correct, yes. As the city grows every year, there are more rateable properties, yes. But the level of that growth is not perfectly uniform, yes.

MS FITZHARRIS: I have a question around the new revenue management system. Obviously it is important to collect all this revenue and have a sturdy platform. Can you give us an update on how that is going?

Mr Salisbury: Yes. We are currently in the tender evaluation phase of the program. The tender went out earlier this year. We had a number of respondents to it. We are currently going through the technical and the costing phase of the evaluation. Once that is complete we will be in a position to shortlist and then move on to negotiating with the preferred respondent.

In the meantime, in the Revenue Office we have a team of business analysts who are in the business and are actually mapping our current processes so that when a vendor comes on board we have a very good sense of what we currently do now that we will be able to feed into the process. Those business analysts are also looking at the potential future processes as well but you cannot finalise that work until you understand the system that you are actually buying. So there is a fair bit of activity going on in the Revenue Office in preparation for that.

I have also got a change manager working with the business to ensure that the staff are in a position, once the new system is rolled out, to quickly adapt or upskill to use that new system. We have acquired some expertise around contract management as well and are also managing the contracts that we currently have and dealing with those contracts. So we have accumulated a series of skills and we are doing a fair bit of work in preparation for the formal process unrolling.

We have put a number of governance arrangements in. We have a program board that is made up of a number of senior executives throughout the public service whom we report to on a monthly basis about tracking how the program is going. We also have a design authority that is made up of managers in the business who look at the detailed questions about how a new system might operate or make decisions around how we physically do things. So we have our governance set up as well. Did you want to add anything?

Mr Nicol: No. I think that is right. I chair the project steering board. This is obviously a very important project for the territory. I think a very big part of it is a cultural change process within the Revenue Office and also in the design process in terms of future state, an important feature which I know Kim and his team are looking at. It is not only designing a tax system to fit a computer system but designing a tax system that is easy to use. I would like a tax system, if I could—and there are compromises here—where we do not have to catch people out. The system is designed such that people pay their taxes appropriately and we reduce disputation, we reduce the need for penalties and late interest charges, and all of that.

You can design things in your tax system—how we transact properties, how we monitor, linking our revenue system with the Rental Bond Board so that we know when a property is more likely to be rented out—so that you can get that trigger, get that alert and then approach the person straightaway and say, “We notice you have got a rental bond paid on your property. Are you aware that you have to pay land tax?”

Features like that, I think, are very important, and that is what we are looking at putting into the new system, making it a much more user-friendly system.

MS FITZHARRIS: By "users" do you mean "taxpayers", as opposed to administrators of the—

Mr Nicol: Both. Taxpayers will not directly access the system but the system will affect how they interact with the government on taxation.

MS FITZHARRIS: So what impact will it have on taxpayers in that sense, do you think, apart from it no longer being a "gotcha" or a "catch you out" sort of system?

Mr Barr: I guess the iConnect system has—

Mr Nicol: It has the potential, yes. I will ask Kim to add, but we will be linking through iConnect so that people can pay online and see their payment histories et cetera. I would imagine that the information we get is going to be more readily accessible for our staff and more up to date so that when we interact with clients we come across as a much more professional, informed revenue office. I think we will get to know information about taxpayer transactions more quickly so that, as I said, we do not have situations—and I have come across them after taking on the Revenue Office—where there are a lot of disputes that have gone on for a number of years. I want to try and shorten those periods, as does the Revenue Office and as does the taxpayer. A good, contemporary system is the way to do that.

Mr Salisbury: There was a lot in that. I guess we would be looking at "easier, cheaper, faster", which is the phrase that was coined when the ATO went through some of this reform stuff. But it is exactly what we want it to do. We want it to be an easier interaction both ways, we want it to deliver services more cheaply and we want it to be quicker. We want it to happen quickly so that assessments go out quickly, we identify taxpayers quickly, taxpayers can self-identify quickly and we can just move quickly into that space of moving through the transaction.

THE CHAIR: So is that a supplementary?

MS FITZHARRIS: Yes.

MS LAWDER: You are talking about the business analyst and the change manager. Are they ACT public service staff or from a consulting firm?

Mr Salisbury: It is a mix of both. Some are ACT public servants and some are consultants that we have got in.

MS LAWDER: Are they with a particular firm? Have you engaged a—

Mr Salisbury: Not a particular firm. We have gone out to the market to try and select the best people. They might be associated with particular firms.

MS LAWDER: Would the system be an off-the-shelf system or a custom-built system that you are looking at?

Mr Salisbury: Part of the business case and the requirements were for an off-the-shelf system.

MS LAWDER: You expect that to be completed this coming financial year?

Mr Salisbury: The next financial year.

Mr Barr: Not in the next 15 days.

MS LAWDER: The rollout of the whole system by the end of next financial year?

Mr Salisbury: I guess it really depends on how the evaluation goes and how the negotiation goes, but I would really like to roll out some elements of this by 1 July 2016.

MS LAWDER: You mentioned the ATO experience. Was that for a similar type of project—a revenue system or just another IT sort of implementation?

Mr Salisbury: We are hoping to have one system that does everything that we need to do in terms of our revenue system. I think the tax office has got hundreds of systems because they have got hundreds of tax lines and they are big. But the general idea of doing things easier, faster and more friendly is a concept that we would like to embrace.

MS LAWDER: We will be like NASA: faster, better, cheaper. That was one of their spacecraft things.

THE CHAIR: I have a supplementary. Mr Nicol, you mentioned that you wanted to have all objections processed within a year. Is that what you said?

Mr Nicol: I do not think I put a time line on it. I think my statement was that I preferred for them not to drag on for a significant amount of time. However, the commissioner has included some new performance indicators. You might like to talk to them, Kim.

THE CHAIR: You are right. The question would relate to b and c on page 32 of BP B. It says in respect of new measures:

> Internal reviews of Objections within 6 months … 85%
> Internal review of Objections completed within 12 months … 100%

The question would be: what are they currently?

Mr Salisbury: We have got a series of guidelines at the moment. We report on those internally. I can give you the details of what those are. The internal guidelines are: for routine objections regarding unimproved values, rates, we try to do those within three months. For routine objections regarding land tax, payroll tax and duties, we try to do those within six months. Everything else that is classified as difficult we try to do within 12 months.

THE CHAIR: And what is your compliance with that currently?

Mr Salisbury: For unimproved values—so rates-related ones—we are achieving those objectives. For others, like payroll tax, we had 190 objections. We did not hit the guideline on five of them; so it is three per cent that we did not achieve.

THE CHAIR: While we are there, I have a question about the compliance revenue per inspector. In 2014-15, it was $360,000. Then it was greater than $500,000. In 2015-16, it is now $400,000. If you got greater than $500,000 as the estimated outcome, why would you back-pedal down to $400,000 for the coming year?

Mr Salisbury: I think the thing about compliance is that you can often get lots of money in a couple of years and not do so well in other years. Often a compliance investigation might take a number of years to complete. You might get a number of assessments in one year as a consequence of wrapping up a compliance investigation. But in other years that work might still be underway and you might not have those compliance assessments. It is a bit swings and roundabouts in the compliance space. You might have a very strong year one year. You might have not so strong a year another year.

THE CHAIR: How many inspectors have you got?

Mr Salisbury: We have got 18 inspectors at the moment.

THE CHAIR: When you say that greater than $500,000 is the expected outcome, how much greater than $500,000?

Mr Salisbury: More than $500,000 is our best guess. We have still got a month to go; so it might be somewhat more than that.

Mr Nicol: The other thing I would add—the commissioner and I had a discussion about this very indicator and the very question you raised—is that I think it is important for cultural reasons that the compliance officers are not seen as revenue raisers, that they have not got a target.

THE CHAIR: They are compliance officers. What else are they meant to do?

Mr Nicol: They are there to make sure the taxpayers pay the right amount of tax. The old stories about—

THE CHAIR: A fine distinction, I suspect, to the person at the other end of the pencil.

Mr Nicol: That is right. We want it that they should be treated fairly and appropriately according to the law; so that is an important thing. Mr Smyth, I elaborate on one point: when I referred to old disputes, I was specifically referring not to objections from taxpayers but where a taxpayer has not met their obligation for a number of years and we have just discovered it. We might be imposing very significant penalties under the act which can be quite high with cumulative interest and penalties. I want a tax system that avoids those unfound obligations for the period of time that I occasionally see. It does not happen often but it happens enough to potentially impose a significant bill on someone.

DR BOURKE: How does that compliance rate per inspector compare with other jurisdictions?

Mr Salisbury: It is difficult to compare because we have got a different tax base to other jurisdictions. So it is quite difficult to compare.

Mr Barr: I am not sure there is a ready comparison.

THE CHAIR: A ready reckoner of compliance officers. There is no national award for compliance officer of the year?

Mr Barr: Yes; and if not, why not?

THE CHAIR: I am going to dive in and have perhaps the last question. Parking fees are up 11 per cent this year.

Mr Barr: Six per cent. You are differentiating between fees and revenue.

THE CHAIR: Sorry; the revenue is up 11 per cent this year. What percentage of that is attributable to the extension of the paid parking hours?

Mr Barr: For the five car parks in Civic, a very small proportion. It is in the—

Mr Nicol: It is about $1.5 million.

Ms Doran: Yes; it is less than $2 million, from memory.

Mr Nicol: I thought the new measure was about $1.5 million.

THE CHAIR: Do you want to take it on notice?

Mr Nicol: Yes; we can take it on notice and do the calculation.

THE CHAIR: At that, unless someone has a pressing question—

MS FITZHARRIS: Just to be clear, I recently parked in the city on a Saturday evening and paid for parking in a private car park. So this is not a new—

Mr Barr: No. I make two points. First, yes, New Acton, Canberra Centre, Wilson parking—there are numerous car parks around the city—are 24/7. Some of the government car parks have been paid parking till 9 pm on Fridays for as long as I can remember. I am not sure there is a massive difference in trade in Civic between Friday nights and Saturday nights in terms of the hospitality industry. The car parking fees are not even likely to be the price of a bottle of sparkling mineral water at some of our high-end restaurants. So people who are spending $100 on a meal—

MS FITZHARRIS: Drink tap water and they are even.

THE CHAIR: Is that your financial advice—drink tap water instead of sparkling? A former chief minister said, “Turn off the Foxtel.” But that is okay.

Mr Barr: I suspect that the idea that someone is going to be deterred from their $100 dinner by a $5 parking fee is—certainly, there is no evidence to suggest that no-one goes New Acton because you pay the parking.

MS FITZHARRIS: In fact, it is hard to get a park because so many people go there.

Mr Barr: Yes, indeed. And there will still be a lot of free street parking and even free service parking in the CBD.

THE CHAIR: Members, we are out of time unless you have a very quick question.

DR BOURKE: I want to go back to land tax again, Treasurer. We talked a little around granny flats and Airbnb before. What about commercial activity in residential premises?

Mr Barr: The home business?

DR BOURKE: Yes.

Mr Barr: I think that if it is allowed under residential lease as an ancillary activity, it would not attract a different tax arrangement.

DR BOURKE: If you base your business in a residential property, you will not pay any land tax but if you are in a commercial property you will.

Mr Salisbury: It depends. The owner of the property—

DR BOURKE: All commercial property pays land tax, which is now being incorporated within the rates.

Mr Salisbury: But if a corporation owns the private residence, then land tax applies.

THE CHAIR: We will have to leave it there. We are over time. Treasurer, thank you to you and your officials for attending today. As per the standard, the transcripts will be available shortly. For any questions taken on notice, the committee would appreciate a response within five working days where possible.

With that, we will move to the ICRC. Good afternoon, gentlemen, and welcome. Thank you for your attendance here at the public hearing of the Select Committee on Estimates 2015-2016. The proceedings today are being recorded and transcribed by Hansard and will be published. Proceedings are also being broadcast as well as webstreamed. In front of you on the table is the pink privilege statement. Could you please confirm for the record that you have read the statement and understand the implications of privilege?

Mr Gray: We have and we do.

THE CHAIR: Thank you very much. Would you like to make an opening statement before we go to questions?

Mr Gray: No.

THE CHAIR: Commissioner, in respect of your recent activities in overseeing and implementing the price determination for water and waste services, does the ICRC still stand by the methodology it used?

Mr Gray: Yes.

THE CHAIR: In regard to clarification, so that perhaps such things do not happen in the future, is there any need to amend the act in any way to make it more clear how you conduct your business?

Mr Gray: I think there is plenty of scope to improve the way that the system functions while retaining the key features of it. We have read with interest Peter Grant's recommendations in his report to the Treasurer. We agree with much of what Peter had to say about the scope for improvement.

THE CHAIR: In regard to the dividends now and the taxes that we get from ACTEW as a result of the various determinations, are you happy with the process that was followed there?

Mr Gray: By the industry panel, do you mean, Mr Smyth?

THE CHAIR: Yes.

Mr Gray: No. We think that that will lead to Icon Water not receiving sufficient revenue, particularly on the water side of the business, to meet its costs and will lead to a substantial reduction, perhaps elimination in the worst case, of the profits that it will have available to pay the government.

THE CHAIR: Thank you. Ms Fitzharris. Remember that we only set aside 15 minutes this afternoon, so we need to cycle through quickly.

MS FITZHARRIS: Thank you. In terms of your role, how do you encourage long-term investment in utilities? That is part of your role. How do you go about doing that?

Mr Gray: Mostly by ensuring that they are paid an adequate return on their capital investment.

MS FITZHARRIS: What is available to you to do that?

Mr Gray: You mean how do we make the assessment?

MS FITZHARRIS: Yes.

Mr Gray: By looking at benchmarks and by looking at current market conditions and seeing what sorts of returns are being earned by similar entities exposed to the same degree of risk in similar sorts of businesses.

MS FITZHARRIS: Thank you.

THE CHAIR: Dr Bourke.

DR BOURKE: What effect do you think the development of home storage battery devices is going to have on electricity pricing in Canberra?

Mr Gray: It is hard to give you a very precise answer to that, Dr Bourke. I do not know whether you have been following recent press comment, but there have been various estimates of the speed at which the prices of those things will come down to the point where it will actually pay the typical household to make that sort of investment. What is critical is how quickly that technology penetrates. If it were to penetrate very rapidly, it would reduce the call on the grid for power and could have a deleterious impact in that it would drive prices down but it would also drive generators out of business and present the regulators, and indeed the government, with some very tricky problems. My sense is that the rate at which that penetration will occur has probably been exaggerated and that there is still quite a lot of technological development to be undertaken before those battery technologies make a significant impact.

DR BOURKE: Of course, the capacity of the Australian market to uptake technology has been phenomenal in a range of other areas.

Mr Gray: It has, but battery technology has been the one area in which it has been very difficult to make progress. We are only now getting a transition away from the old lead-acid accumulators, the car-type batteries, which have been heavy, expensive and dangerous to use, towards the lithium ion technologies that are now being made available. The problem with those lithium ion technologies is that they are still very expensive relative to their storage capacity.

DR BOURKE: Thank you.

Mr Buckley: Can I add to that, Malcolm?

Mr Gray: Sure.

Mr Buckley: We have two things happening. We have the impact it will have on the generation market of electricity, where you would assume that batteries would recharge at off-peak hours, overnight. That would have an effect on base load generation and it would then reduce the demand for electricity from the network at peak times when batteries are drawn down. That would allow consumers to purchase electricity; it would reduce their peak use. It would be the difference between peak load electricity and off-peak electricity, so there would be a saving there.

But as Malcolm commented, it would then impact on the network in exactly the same way as it does at the moment, in that the way the network is regulated is that the demand for electricity would only shift the time at which electricity was used. That could be beneficial to the efficiency of the network and reduce the amount of investment you have to have in it. To an extent, that potentially would be a long-term saving in network charges, but the immediate effect would not be that great. So you would have to make up-front investment in the battery and you would get savings over time as the network did not have to be upgraded to cope for peaks. So it would depend on the extent to which you could smooth out peaks in the demand for electricity.

DR BOURKE: Of course, there might be the potential for individual consumers with a home solar power scheme to be able to sell back at times which are best for them, for example?

Mr Buckley: That would affect those, but you are still only dealing with shifting the demand from off peak to peak. People who invest in it could benefit from that, but the amount at which you win would be the extent to which power in the peak times is reduced. That may see a flattening in the prices between peak and off-peak electricity. But as we notice now, if you encourage people to go off the network, all you end up doing is sharing network costs over a smaller number of people, and that drives up the network costs for people who remain on the network.

DR BOURKE: Thank you.

THE CHAIR: Ms Lawder.

MS LAWDER: Has the large-scale feed-in tariff scheme contributed to an increase in costs for consumers or small retail customers?

Mr Gray: Is it increasing costs? Yes, but not terribly much.

MS LAWDER: How does it contribute to increased costs?

Mr Gray: The way these feed-in tariff schemes work, basically, is that the distributor is compelled to buy a certain amount of energy from the feed-in tariff source. That amount spent is then assessed by the Australian Energy Regulator and included in the revenue that they are allowed to collect through their network charges. Those network charges in turn are paid by the retailer, which recovers its costs, in turn, from the electricity customer. It is a rather convoluted route, but ultimately the bill ends up with you and me.

We have just released today a report determining electricity prices for the coming 12 months, reducing them by 4.6 per cent, as you may have seen. In that, at the request of the Treasurer in his terms of reference, we make an estimate of the contribution of the so-called jurisdictional schemes where the tariffs are included to overall costs. The contribution from the large-scale scheme is, in round figures, a number like four million in 248 million. So it is a relatively small proportion. But that is with one operator, one large-scale operator, currently delivering energy to the network from the Royalla facility.

MS LAWDER: Are other jurisdictions also likely to decrease their prices in the same way? And are the ACT electricity prices cheaper by comparison because of our smaller geographic area and because we are not subsidising rural and remote areas?

Mr Gray: We certainly benefit from being a relatively compact jurisdiction. We do not have the extended reach of, say, Queensland, which has a huge distance to cover north and south of the state from the main centre of population in Brisbane. But above and beyond that, the method of regulation that has been in use for the territory for some time, and it pre-dates the accession of Commissioner Buckley and me to these roles, has been very effective in striking a balance between maintaining viability of the retailer and keeping electricity costs within bounds for the consumer. It is a regulatory model that stood up very well when we compared it against the criteria that the Australian Energy Market Commission established in the report that it released in 2013. I think we are still probably at the bottom of the pile in terms of our electricity prices.

The answer to the first part of the question, Ms Lawder, is that we would expect there to be a general fall in prices across jurisdictions, because the principal driver of the price reduction in the ACT has been a reduction in network charges by the Australian Energy Regulator, and that is part of a general pattern of reducing in those charges that stretches across New South Wales and I think into other jurisdictions. So it has been a particular component this time around which has driven that price, which is national with the exception of Western Australia and the Northern Territory.

THE CHAIR: I understand that in New South Wales they have special pricing for community groups—for instance, groups that run clubs, golf clubs or bowling greens—that we do not have here in the ACT. Has there ever been consideration of a community rate for the supply of water?

Mr Barr: I believe there is a concessional rate for the supply of water for clubs. And in schools, definitely, yes. It is part of the concessions program, basically.

THE CHAIR: I know you get it as a concession, but has there been consideration of giving an up-front class that is looking after, for instance, particularly, golf courses and bowling clubs?

Mr Gray: You mean as part of the regulatory process rather than at the discretion of—

THE CHAIR: Yes, rather than as a concession.

Mr Gray: Not to my knowledge, but the commission is about to engage on a review of the tariff structure. If there were community interest in having us look at such a scheme, that would be the appropriate method by which it could be given some attention.

THE CHAIR: Thank you.

Mr Buckley: Unlike electricity, we have residential and non-residential charges. In the case of water, it is the same for residential and non-residential, unless you are a golf course which uses non-potable or, as they now call it, non-drinking water. If they get those, they get that at a different rate. But everybody pays the same: tier 1 or tier 2.

THE CHAIR: Thank you for your time this afternoon. I do not think you have taken anything on notice. I am sorry that we had such a short time but there is much to do. A copy of the transcript will be provided when it is available. If you want to offer any corrections or suggestions, we would be pleased to receive them.

We will now hear from the Lifetime Care and Support Commissioner of the ACT. Where are we at with the arrangements with New South Wales and have we signed an agreement yet?

Ms Doran: We have progressed a long way with the arrangements with New South Wales. We have signed a number of agreements or had instruments put in place. As I said last time, it was quite an involved process to put these arrangements in place. It required legislative change at the New South Wales end and a regulation to be introduced at our end.

We have signed an intergovernmental agreement between New South Wales and ACT. That was signed by the New South Wales minister for finance on 3 February and by the ACT Treasurer on 19 February. That is the main head of agreement that sets the framework for this arrangement to go forward. The legislation that was required at the New South Wales end and the regulation have both been made, and the regulation required at the ACT end has been made. We have two documents which have gone through considerable drafting and consultation between the two bodies which define the more operational ends of this agreement.

Under the IGA there is an operations manual and what is called the care and support agreement. Essentially, that is the service agreement between ourselves and the New South Wales authority, and then the operational agreement gets down to the real nitty-gritty of the day-to-day activities. Those documents exist. Both sides have approved it at officials level. I have it on my desk and could sign it today, but it is still awaiting New South Wales processes, for it to get through their minister's approval. They want to take that to the minister for approval.

There is strong commitment on both sides to have this arrangement in place by 1 July, so we are at the last stages of making this happen. As I said last year the support that we have had in an informal sense from the New South Wales authority over the last 12 months has been nothing short of exceptional and we are very appreciative of that.

THE CHAIR: I think you said earlier there are now five people in the scheme?

Ms Doran: There are. We have five what we call interim members of the scheme. All participants, when they are first assessed, come in as interim participants for a period of two years, at which time they will be assessed again before coming in as lifetime members. That is the structure that New South Wales use and have found from experience that it is the best way to do it. It allows us to bring members in immediately and then recognise that sometimes the nature of their injuries can take time to develop. So we have two years to monitor and then make a full assessment at the end of that period.

MS FITZHARRIS: How do you set the levies for the scheme?

Ms Doran: The levies are set by an actuarial evaluation and report. Essentially, it is a process of estimating the number of claims that might be expected and estimating the quantum of those claims. The levy covers the full lifetime cost of each expected claim for each year. Our scheme has its own actuary. That actuary has relied heavily on experience in other jurisdictions. We have looked closely at the New South Wales scheme, on which ours is modelled. That has certainly provided a lot of useful information in terms of the expected cost of claims. In terms of numbers of claims, we have tempered the New South Wales experience by our own understanding of our crash numbers in the ACT.

DR BOURKE: What are the key benefits of the scheme?

Ms Doran: It is a scheme that is targeted at catastrophic injury—people with spinal injuries, brain injuries or severe burns from a motor accident. It provides for those people basically what are reasonable treatment and care costs for the remainder of their lives. At the initial time of the accident it will be the necessary hospital and medical costs. Depending on the nature of their injuries and the stage of life that they are at, it will then provide, for instance, home modifications. It can provide occupational therapy. It will provide physiotherapy. It will basically provide whatever is needed to allow them to have as close to a normal life as they can. The whole scheme is targeted at getting them to a stage where they can live and contribute to society and participate in employment again, if possible. So it takes them through all of those support stages.

DR BOURKE: Why is this better than previous arrangements?

Ms Doran: There are two fairly fundamental levels. Initially, this scheme is a no-fault arrangement, so it is extending cover to all people who may be injured in this way, regardless of how that accident has occurred. It is also an arrangement that is not a compensation arrangement, so it is not subject to the law court processes. It is not subject to any sort of dispute or considerations. It is simply that, if you are injured in this way and you are found eligible to join the scheme, you come into the scheme and you get immediate access to benefits and treatment. So the stresses and delays that can come from the common law processes are avoided in this scheme.

The main intent was to ensure that these people are brought back to health and get full treatment as quickly as they can to improve their life as soon as possible, rather than their having to experience other stresses, delays and what might be the wrong incentives in terms of treating them in their circumstances.

MS LAWDER: In general terms what are you looking for when you talk about a mechanism to collect feedback from participants? Are you looking to develop an online system? What type of thing are you expecting?

Ms Doran: It is a good question. Obviously, the scheme is still in its early stages, but we felt it was something that we needed to build into our work program sooner rather than later. Having only five entrants at this stage, and hopefully not too many more in the near future, it would probably be something at a more personal level in the first instance—some form of contact with the participants, with their family, just to try and get an understanding of how they found the experience and what we could do better, and to get their feedback.

MS LAWDER: Will you be looking at what other jurisdictions are doing?

Ms Doran: New South Wales, of course, are our role model in all of this. We have picked up this idea from what they have done in their environment. I think it is important for us to do it with our own participants, and to understand how they have experienced it within the ACT, particularly right from their point of entry to the hospital system and how quickly we made contact with them here in the ACT. We also want to explore the relationship that they have between us as the commission and New South Wales as the service provider, and make sure there is no confusion or stress being caused through those lines of communication.

THE CHAIR: We will call it a day. Thank you, Chief Minister, and your officials for attending today. A transcript will be available shortly. For any questions you have taken on notice, if we could have a response within five working days, that would be good. Members, if you have further questions once you have the transcript, if you could get them in quickly, that would assist.

The chair's award this afternoon was going to go to Mr Salisbury for saying what was the opposite of assets, but upon reflection I thought the answer earlier in the day from Ms Doran that she was going to conduct an annual update every two years was, on balance, a better outcome. There was a vote for the use of the technical term "heads of damage", but after consideration, doing something annually every two years is a worthy winner of the chair's award. There endeth the lesson for this day.

The committee adjourned at 5.14 pm.