LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

SELECT COMMITTEE ON ESTIMATES 2016-2017

(Reference: Appropriation Bill 2016-2017 and Appropriation (Office of the Legislative Assembly) Bill 2016-2017)

Members:

MR B SMYTH (Chair)
MR J HINDER (Deputy Chair)
MS J BURCH
MR S DOSZPOT

TRANSCRIPT OF EVIDENCE

CANBERRA

MONDAY, 20 JUNE 2016

Secretary to the committee:
Ms K Harkins (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

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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 Tourism and Events and Minister for Urban Renewal

Chief Minister, Treasury and Economic Development Directorate
Nicol, Mr David, Under Treasurer
Ogden, Mr Paul, Chief Finance Officer
Miners, Mr Stephen, Executive Director, Finance and Budget Division
Murray, Mr Peter, Executive Director, Infrastructure Finance and Advisory Division
McAuliffe, Mr Patrick, Director, Asset Liability Management, Economic and Financial Group
Holmes, Ms Lisa, Director, Financial Framework Management and Insurance, and Acting Lifetime Care and Support Commissioner, Lifetime Care and Support Commission
Hall, Ms Sue, Executive Director, Corporate
Salisbury, Mr Kim, Director (ACT Commissioner), Revenue Management Division
Goth, Ms Kathy, Director, Economic and Financial Analysis, Economic and Financial Group

Independent Competition and Regulatory Commission
Dimasi, Mr Joe, Senior Commissioner
Hickey, Mr Scott, Chief Finance Officer

THE CHAIR: Good morning, ladies and gentlemen, and welcome to the second day of the public hearings of the Select Committee on Estimates 2016-2017. In the proceedings today we 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 being broadcast as well as being webstreamed.

Before you on the table is the pink privilege statement. Could you please familiarise yourselves with that and confirm for the committee that you have read the statement and understand the implications of privilege.

Mr Barr: Yes, indeed.

THE CHAIR: Thank you, and if any additional witnesses come to the table, could they please make sure that they are also aware of the implications of privilege. The Chief Minister has said that he would forgo his opening statement, so we might commence by acknowledging that the estimates committee is meeting on the lands of the Ngunnawal people, the traditional custodians, and we respect their continuing culture and the unique contribution they make to the life of this area.

Chief Minister, the budget return to surplus still seems to be a little way away. How can we have any confidence that we will actually get to a surplus on the path that we are currently travelling?

Mr Barr: This year's budget represents an improvement in the fiscal position in every year of the forward estimates, as compared to the midyear update. This is in accordance with the budget plan that the government put forward. Of course, in any given year there can be external shocks. The territory experienced one in the context of the election of the Abbott government and experienced another in the context of the Mr Fluffy crisis and the requirements to take out a billion dollar loan and expend large amounts of public resources in order to deal with those matters. Outside those two external shocks, the territory has kept a very strong path of budgetary performance. This year's budget in fact improves upon the trajectory that we outlined in last year's budget and in the midyear update.

THE CHAIR: The history of it is, though, that every year the budget is forecast to return a small surplus in the last couple of years of the budget, and since 2011-12 we have seen balances revised downward. Since 2011-12 up to the current budget, the expected deficit has worsened in each successive budget. The climb-back, to quote the Pegasus review that assisted the committee, has become "longer and steeper". How do we make it shorter and quicker rather than longer and steeper?

Mr Barr: The government has put in place the policy recipe to achieve that outcome.

THE CHAIR: What is that policy recipe? Higher taxes and triple your rates?

Mr Barr: Supporting growth in the economy. The one thing that has tripled in the last three years is the rate of economic growth.

THE CHAIR: There would appear to be two things. If we go to the forward predictions in budget paper B, the outyears are simply based on going back to the long-term average. How realistic are those averages?

Mr Barr: Very.

Mr Nicol: The averages are based on the long-term outcomes so in that sense they reflect the average rates of growth in the various indicators. The use of averages beyond the first forecasting year has been a traditional approach that has been used historically. There has been no change in that approach.

THE CHAIR: State final demand will almost double between 2016-17 and 2017-18. How realistic is that?

Mr Nicol: If the economy returns to trend, which economies tend to do after periods of slow growth, it is realistic in that sense. There are always risks. There are risks on both the downside and the upside to any economic outlook, and they are only averages. They are not an attempt to forecast exactly where the economy will be in two years. They simply reflect the tendency of the economy to move towards its long-term average in the medium to longer term.

Mr Barr: It would be worthwhile pointing out that on every key economic indicator the ACT is performing at an exceptional level. Economic activity, as measured by state final demand in the last quarter, was the highest in the country. Unemployment is the lowest. There are highest-ever levels of domestic and international visitors into Canberra.

THE CHAIR: A long time coming.

Mr Barr: Service exports are growing rapidly. Every indicator for the territory economy is very positive.

THE CHAIR: If every indicator for the economy is so very positive, why is the surplus, as commented on by Pegasus and as is apparent in the papers, still always seemingly beyond our reach?

Mr Barr: The surplus is there. It is a balanced budget in 2017-18 and 2018-19, and then a surplus in the final outyear. So as the economy recovers from a period of considerable economic strain, the budget recovers. We used the budget to support the economy. We kept the ACT economy out of recession. We kept people in employment. We kept the economy growing, and economic growth has tripled.

THE CHAIR: But we have still got record debt. The debt grows.

Mr Barr: We took out a billion dollar loan for Mr Fluffy. Unless you have changed your position on that—no?—in that case the growth in debt is predominantly driven by taking out a billion dollar loan to address Mr Fluffy.

THE CHAIR: So how do we pay that back?

Mr Barr: We pay it back in accordance with the schedules outlined to the commonwealth. It is a scheme that allows for payments of $50 million and $100 million and then a final payment at the end of the process. We recoup some of the costs associated with the Mr Fluffy plan through the resales, but the territory will be left with a permanent legacy of a debt of $400 million.

THE CHAIR: With respect to the ability to, for instance, therefore survive some sort of other external shock, what sort of buffer have we got? If we have record debt and we are not in a—

Mr Barr: We have a very strong balance sheet. As your independent report and every expert commentator have indicated, the territory is in very strong financial shape. We have the capacity should we need to respond to further external shocks. One would hope that they will not be coming in the context of decisions of the federal government. What happens in the broader global economy is clearly beyond the control of the territory government. But we retain that capacity. We have responded to external shocks previously and we can respond again.

THE CHAIR: We will see. Mr Hinder?

MR HINDER: Treasurer, how do the national GDP figures impact on us? If you have a slowing down of the national figures in 2016-17, how does that affect our trend rate? If the national figures slow down, if they sneeze, do we catch a cold? How does that work here in the ACT?

Mr Barr: There certainly has been a shift in the growth engine, if you like, of the Australian economy away from the resource states. The Western Australian economy is in reverse. Queensland is also experiencing more challenging economic times. The growth engine of the economy has resumed in south-eastern Australia, in New South Wales, Victoria and the ACT. We are very well positioned in that context, as we see a move away from reliance on resource-based exports, for example, and rapid growth of service-based exports, and where the ACT in the past five years has outperformed all other states and territories and is well above the national average.

In the bigger picture of where growth is being generated in Australia in the coming years, we are in the right location, and our economy in many regards is in fact ahead of the transition that the Australian economy will undoubtedly be going through over the next five to 10 years, which is where service-based exports take on an even more significant share of overall national exports. For the ACT that puts us in a good position. We have an opportunity with the direct international flights that commence in September to further pursue our opportunities there, and to become a regional hub for the Canberra region, particularly in freight.

It has been pleasing to see the political response on both sides of federal politics in the marginal seat of Eden-Monaro in relation to transport connectivity into Canberra. Possibly the best thing that has happened for the ACT has been the redistribution of the boundaries of Eden-Monaro to entirely encircle the ACT. That means all roads lead to Canberra, and all roads lead to Canberra Airport. That is a particular opportunity for not just exporters based inside the ACT but also for those in the broader Canberra region.

MR HINDER: Has that international connectivity that is being achieved in Canberra factored into forward figures for niche exports for both us and the region?

Mr Barr: The broader economic modelling that was undertaken to support the business case for the direct international flights talked about a benefit from the Singapore flights of around $90 million per annum; in the context of the New Zealand flights, around $45 million to $50 million. That is the work that was done in the context of those business cases, and that is for the broader Canberra region.

We think there is opportunity beyond what we have already seen as people turn their minds to export markets. I have made a very simple proposition that no city of 400,000 people is ever going to grow rich just selling to itself. We need to attract new sources of income into our city. They will be obtained nationally and internationally and they will be driven by service exports. That is the real story for Canberra's economy in the past five years and it will be over the next decade.

MR HINDER: When we say "services", I suppose we are talking about tourists coming in as well.

Mr Barr: Yes. Service exports, in the context of the ACT, are driven by higher education, professional services, tourism and hospitality, ICT, and defence and national security-related areas. Combined, they account for more than $1 billion annually in income that is brought into the city.

MR DOSZPOT: Minister, good morning once again, and good morning, Mr Nicol. In your budget speech, minister, on page 5 under "taxation reform" you said:

> The territory remains a low-taxing jurisdiction.

How can this be a valid claim over the course of this budget when you have a look at the increases in various taxes? Are you talking about general taxes, 52 per cent? Other taxes, including all the various levies, are at 51 per cent, and total taxes are at 43 per cent. How does your speech sit with those figures?

Mr Barr: The ACT's per capita taxation of $3,524 is below the average across Australia, which is $3,755. It is below that of New South Wales, Victoria and Western Australia. I draw the committee's attention to budget paper No 3, page 53, figure 2.3.1, taxation per capita.

MR DOSZPOT: Obviously, since your first budget as Treasurer, across the aggregate of your actual planned budgets, despite the figures you mentioned, you have also had record increases: general taxes, 85 per cent; other taxes including levies, 75 per cent; and total taxes, 59 per cent. These are huge increases.

Mr Barr: The government has been in the business of cutting taxes, too. I notice you excluded all of the taxes that have been abolished from your list. Perhaps if you looked at the other side of the equation as well, you would see that the government has changed the tax mix, moving away from inefficient taxes towards more efficient taxes. Again, the arbiter of taxation per capita, the Australian Bureau of Statistics, in their taxation statistics for 2014-15, as outlined in budget paper No 3, page 53, makes the authoritative statement on taxation per capita in this country and the ACT is below the national average.

THE CHAIR: The national average is buoyed up by the big states, New South Wales in particular and Victoria, and we come in at four. We are in front of places like Queensland and South Australia.

Mr Barr: We are still below the national average.

MR DOSZPOT: How can you possibly argue that overall your government is a low taxing government? Sure, you are looking at various other figures, but the record that stands is that you are a very high taxing government, with high increases—

Mr Barr: The record stands, according to the Australian Bureau of Statistics, and I will take their independent assessment over yours: that we tax per capita below the national average and that there are three jurisdictions that tax more than the ACT.

MR DOSZPOT: Are you prepared to tell us when you are going to stop the spiral of increasing taxation and your ongoing imposts on the Canberra community?

Mr Barr: The government has never been in the business of taxation in the terms that you describe. We are in the business of keeping taxes as low as possible, reforming bad taxes, getting rid of them and ensuring that any tax increases are kept to the lowest possible level whilst also ensuring that we maintain the highest quality services. Canberrans have consistently expressed the view that they want their health and education systems properly funded. I think Canberrans are smart, intelligent people who recognise the importance of properly funded health, education, police and emergency services, community services and municipal services. They recognise that tax has to be levied. They also expect from government that government would levy taxes in the most efficient way and seek to reform the tax system in a way that ensures that taxes are simpler, fairer and more efficient, and that the tax system supports job and growth and that it also puts people first.

MR DOSZPOT: That is something you and I can argue on. One point I do agree with you on is that, yes, we have a very smart community. I think they are very much attuned to what is happening economically in Canberra. When you look at the issues with having a moratorium on rate increases, which I think people are starting to see through, how can that be a moratorium of 4.5 per cent? In an election year, it will be quite interesting to see how the community reacts. My question, Minister Barr, is: when will you cease placing these continued burdens on the Canberra community, such as punitive levies and massive expenditures on capital infrastructure, when a lot of our community are not seeing direct benefits? The obvious one, of course, is light rail but there are a number of other massive expenditures. When will you stop doing that?

Mr Barr: The government seeks to provide the lowest possible level of taxation and the highest possible level of services to the community. We prioritise health and education expenditure, which account for more than half of the territory budget. We keep taxes low, we keep them fair, we keep the system simple and efficient, and we look to invest in our community: in our health services, in our education services, in our public transport services, in our police and in our emergency services. We look to invest in more suburban maintenance. We look to invest in infrastructure projects that will create jobs and keep the economy growing. My budget is about low and fair taxes. It is also about economic growth. Economic growth in Canberra has tripled in the past three years. We kept this economy out of recession when your federal colleagues were taking the meat axe to it.

MR DOSZPOT: We will not mention your federal colleagues, of course.

Mr Barr: We worked very hard to keep the economy growing and we were successful in keeping Canberra out of recession. In the last three years, as a result of the policies of my government, economic growth has tripled. We have the lowest unemployment rate in the nation. Economic activity, as measured by state final demand, in the last quarter saw the ACT as the fastest growing economy in Australia. We have record levels of service exports, growing faster than the rest of the nation, and we have just achieved all-time high record numbers of both domestic and international visitors to our city. Economic growth continues apace. We have the direct international flights starting in September and new opportunities to expand our service exports. That is the engine room of growth for the ACT economy, driven by our higher education sector, our knowledge-based industries and the ACT Exporters Network, whose fantastic work I would like to commend this morning.

MS BURCH: Building on the comments around the growth of our economy and going back to one of the earlier questions around surplus, this budget is a balanced budget, and it will reach surpluses built on the growth, no doubt, over the past few years in Canberra. But the surplus has been boosted by good outcome costs each year compared to the budget review. Can you talk to us about what are the drivers and the elements behind that and what is the foundation of that?

Mr Barr: Certainly the increase in economic activity has lowered unemployment and boosted territory government revenues particularly in terms of retail, payroll, housing market and the like. All of those areas of the economy that can be highly cyclical in nature are in an upswing coming off a very challenging period. On the retail side of the economy in the past 12 months retail sales growth in the ACT has been the strongest in the nation, again demonstrating a return of confidence for Canberra consumers. We have seen important improvements for the territory in terms of dividends from Icon Water and the Land Development Agency.

We have also seen our GST relativity return to closer to its 15-year average. So we took a hit last year. When the commonwealth grants states and territories money for infrastructure projects, that grant money tends to be equalised away in future GST calculations. So in many instances infrastructure gifts from the commonwealth are really just cash advances and they take the money back off you through the GST system later.

We were able to successfully argue in relation to the Majura Parkway project that elements of that project were national in nature and so should be excluded from the equalisation process. That, together with improved population growth figures and the like assisted in the Grants Commission returning our GST relativity to closer to our long-run average. Still not quite there, I understand, but closer to it. That also benefits the territory's revenues.

On the expenditure side, prudent decisions in relation to new expenditure, expenditure restraint in many areas and more efficient management of certain areas of the public sector have contributed to a slowing in the rate of growth of expenditure in certain areas of government outlays. The combination of increased revenues and prudent expenditure leads to an improved budget bottom line.

A growing economy certainly contributes on the upside, just as an economy that was experiencing some stress a few years ago contributed to the need for the territory to use its budget and to use fiscal policy to support economic growth. That is what you would expect government to do. We do not operate as a budget; we do not even operate as an economy. We operate as a society and a community. So the government needs to use its budget to support the economy to support the community, and that is what we have been doing.

MS BURCH: You mentioned revenue and expenses. At pages 36 and 37 of budget paper 3 there are figures in there around the underlying revenue and expenses. Can you talk to us about what that is showing and how they interplay?

Mr Barr: In order to ensure long-term budget balance we need to closely align the rate of revenue growth with expenditure growth. That requires discipline in relation to expenditure growth, but it also requires a degree of reform on the revenue side in order to ensure that we have greater stability in revenue collection. I think that is one of the fundamental cases for reform of the tax mix—that is, to move away from highly volatile revenue sources towards more predictable ones. That ensures greater stability in government finances. It also ensures the fairer collection of revenue. It enables longer term budget planning, and I think that is very important. You cannot plan for the long term if your revenue is highly volatile. We need to address that, and we have been doing that.

MS BURCH: Not being an economist, underlying trends compared to headline growth, how does one feed into the other?

Mr Nicol: What we have done with the underlying trends is we have taken out a few one-off lumpy items of expenditure, such as—

MS BURCH: Super liability?

Mr Nicol: I will let Mr Miners give you the specifics—such as Mr Fluffy—and give you a true picture of where the trend is going. Mr Fluffy added a big cost and it looked like the trend was going down, which it was in headline terms, but in order to give you a truer view and a like-for-like comparison, Mr Miners can do that.

Mr Miners: We pull out anything which we think is going to cause a fluctuation year on year to give us a bit of a trend of where it is going. One of the major things we pull out is, for example, the Mr Fluffy expenditure. That is a classic example where we know that will push expenses up in the short term but that they will drift out over the long term and it does not affect the underlying level of spending. Similarly on the revenue, we will pull out anything which we think is giving it a one-off hit. I do not have the full list of exactly what we pulled out of these, but I can certainly provide that to the committee.

MS BURCH: But that is why you may see a difference in crude numbers as opposed to an underlying trend.

Mr Miners: That is right.

Mr Nicol: We do have to borrow. For the example used, Mr Fluffy, we had to borrow for that so that did increase our debt, but the true test of whether the budget is sustainable is whether in the long-term your revenues and expenditures line up, essentially. That is what we are trying to get to.

MS BURCH: And that is why we are confident we can get to surplus—

Mr Nicol: Based on current policy settings, yes.

THE CHAIR: Some of the technical aspects in the budget: page 453 of budget paper 3 is the whole-of-government staffing, and that is a big part of the budget. For the Chief Minister's directorate, it looks like staffing numbers are going up, but note 5 says some of that is just movements in and some of that is offset by reductions in staff associated with workforce restructuring. What are the ins and outs, and who is being restructured out of a job?

Mr Nicol: Sorry, I did not bring my CMTEDD whole-of-government briefs today; I thought we were doing that tomorrow. But I am sure—

Mr Barr: We will take this on notice for tomorrow. That might be the best way.

THE CHAIR: If you want to do it tomorrow, that is okay.

Mr Barr: Yes, take it on notice.

THE CHAIR: In the output class itself on page 19 of budget statement B, there is a total cost of $41 million for the current year. It goes down to $31 million, and the controlled recurrent payments go from $37 million down to $28 million. What is the reasoning for that?

Mr Ogden: Mr Smyth, it is probably best to explain the movements by outputs 4.1 and 4.2.

THE CHAIR: Because it occurs in 4—

Mr Ogden: Yes, correct. In relation to output 4.1, the main movements with the decreases are essentially the impact of rollovers of the Australian forum investment ready and national insurance schemes from 2014-15 to 2015-16, partially offset by rollovers of capital metro value capture and the impact of the funding profile of previously funded programs. That generally runs through most of the outputs, so it picks up programs that are on and off through funding profiles.

THE CHAIR: Can we have a breakdown of that?

Mr Ogden: A reconciliation? Yes.

THE CHAIR: And that rolls over then in 4.2 as well?

Mr Ogden: Output 4.2 is very similar as well. The decreases are essentially of $8.4 million. Roughly $8.4 million is impacted rollovers from 2014-15 to 2015-16, funding profiles relating to the restructure fund, transfer of digital dividend to output class 1 and offset by new initiatives.

THE CHAIR: So you will give us a summary of that written somewhere.

MR HINDER: So the Mr Fluffy cost to us, we have got a $400 million to $500 million net loss for the territory as a result of dealing with it, eventually?

Mr Nicol: I would describe it as a net cost.

MR HINDER: Right.

Mr Nicol: Yes.

MR HINDER: But we are picking up the tab, are we not?

Mr Nicol: Essentially, yes.

MR HINDER: Yes. So how is it that we are going to return to surplus with that sort of impost affecting us over the next three years-ish?

Mr Nicol: Firstly, on the current policy settings in the budget, the budget returns to surplus, and that includes the cost of Mr Fluffy. Governments have to manage their other expenditures and revenues such that they absorb that cost over time. I think the earlier questions about the delay from earlier budgets to return to surplus was partly the budget doing that, and absorbing that cost and having that impact on the budget bottom line. Those immediate costs were obviously the purchase and remediation of the blocks but also the ongoing interest costs over time.

I think the key with any cost, expected or unexpected, that the budget takes on is the aggregates and the return to surplus that shows that you are managing that cost over time.

MR HINDER: Yes, sure. Do you know what the interest rate is we are paying the commonwealth at the moment?

Mr Miners: It is a weighted average. There were two separate tranches to the loan. The weighted average is 2.708.

MR HINDER: So in layman's terms, what is that costing us each year in dollar terms?

Mr Nicol: There is an appendix in budget paper 3.

Mr Miners: Appendix B, yes. There are a number of ways of working that out. The way we point to it in the budget papers themselves is by looking at the cost of the amounts that are actually drawn down or are outstanding from the scheme. It is on page 347 of the budget papers, and it shows an indicative interest cost in 2016-17 of $17.3 million. That is based on the drawdowns against that loan net of the receipts we pick up from the sale of blocks to offset the cost.

MR HINDER: Okay.

Mr Miners: That is not the direct cost of the loan. At that stage I think there was still the $4 billion drawn down, so we would still be paying the 2.708 of the billion dollars at that point. But that is the cost of the actual scheme at that point.

MR HINDER: Sure. One of the criticisms we heard in the briefing we received was that the projections were described as optimistic. If we are carrying this sort of debt unexpectedly, can we be certain that the impact of that is now fully funded and will be dealt with over the next three budget cycles?

Mr Miners: The cost of the loose-fill asbestos eradication scheme is fully costed into the budget, so the costs are there. One of the ways that the accounting treatment actually did that is it meant that the costs of that scheme impact fully on the headline net operating balance, but the actual receipt of cash from the sale of properties does not. It is due to a technical classification from the accounting definitions. But those funds in terms of the cash flows certainly flow back into the budget and they are taken into account in looking at overall debt levels and the repayment of debt.

Mr Nicol: Mr Hinder, your comment about optimistic assumptions, I assume it is from the Pegasus report. It is a rather broad statement. I personally think the assumptions are realistic. We certainly spent a good deal of time over the past two years ensuring particular lines in the budget were realistic, and we have actually seen in this budget some of those being revised upwards because we were, if anything, too conservative.

MR HINDER: It was the four per cent long-term trend rate they were specifically—

Mr Nicol: Yes, we discussed that earlier. That is the average rate, and if we do not get there, there are obviously going to be implications for the budget. But I point out from my history of this game that you get as many upside surprises as downside surprises. Particularly coming out of a period of low growth you tend to go back to trend and beyond. That is how economic cycles tend to work.

I am not suggesting that will happen, it is just the budget is based on those long-term averages. That has been the long-term traditional way of forecasting those averages. The commonwealth has used that approach. I think two or three years ago they forecast out an extra year. We only forecast out one year. But I have not seen any evidence that that actually improves your accuracy any more than relying on the long-term forecasts.

MR HINDER: Much of our budget is based on the sale of land, and that has been strong. Is there any risk to that not continuing?

Mr Nicol: That is driven by several factors, the largest of which is population growth, and a subset of that is that the growth in population of those demographic groups that actually buy property. If population growth were to suddenly slow then, yes, there would be potentially lower land sales. But on the other side of the coin slower population growth means less capital expenditure, slower growth in service costs et cetera.

There are costs and revenues on both sides of the equation. It is not necessarily all doom and gloom when one particular parameter is lower than average. For example, wages growth was revised downwards given the state of the local market, and that is a worldwide trend, let alone an Australian and ACT trend. That tends to reduce growth in property prices et cetera in the long term, but it also reduces service costs, et cetera.

These variables impact on multiple parts of the budget. I think the key from a Treasury perspective is to have nice, solid growth that is manageable and provides growing revenues in terms of that natural growth in economic activity. Then we have to manage the way we service that growth through the provision of government services.

MR DOSZPOT: Prior to my substantive question, I have a supplementary question on a couple of issues related to Mr Fluffy related expenses and so forth. Minister, I have asked this question of a number of ministers and areas and I have not got any satisfactory answer on it. How many of the total number of people affected by Mr Fluffy and related issues fall into the seniors category? I do not expect that you can give me an answer on this straightaway, but can I just leave that with you as a question?

Mr Barr: Sure. Minister Gentleman has responsibility for asbestos, so I suggest we take on notice on his behalf that that question is coming.

MR DOSZPOT: This question has been asked of various areas and no answers have been forthcoming. I think you will—

Mr Barr: Within the bounds of privacy and accepted definitions of seniors, I am sure some information can be provided, but I will leave that with my colleague, as he has responsibility.

THE CHAIR: Mr Gentleman is now forewarned that we will ask him that question.

Mr Barr: Yes.

MR DOSZPOT: Thank you. Going to my substantive question, minister, have you completed or implemented all the promises that you made from the 2012 election?

Mr Barr: I believe so. We will do a full reconciliation of those before the end of this term. Some circumstances have changed and—

MR DOSZPOT: If you will not, we will.

Mr Barr: We indicated at the time that we would either deliver on our commitments in a slightly different way or we would look to adjust our commitments to reflect those changed circumstances. But by and large that is my understanding—that the overwhelming majority of all commitments that were made have been kept. There are, of course, still a number of months to go in this parliamentary term, and not every commitment that was made was fiscal in nature. There was a range of other elements of commitments made last time. But yes, I think this government is one that keeps its promises, in spite of efforts from those opposite to try to prevent us from keeping our promises in certain areas.

MR DOSZPOT: I am just trying to scrutinise. I am not trying to prevent you from doing it at all.

Mr Barr: That has not necessarily been the flavour of every private member’s day, particularly with your erstwhile deputy leader in relation to a pretty significant project that was an election commitment, but anyway.

MR DOSZPOT: Let me bring you back to one that I think you paid attention to. I think you paid a lot of attention to this particular question I am about to ask in the area of education. Something like $70 million that was promised in the last election has yet to be fulfilled.

Mr Barr: No, completely fulfilled; exceeded, Mr Doszpot.

MR DOSZPOT: Exceeded?

Mr Barr: Yes.

MR DOSZPOT: Okay.

Mr Barr: The capital upgrades budget—

MR DOSZPOT: Please, do tell.

Mr Barr: The capital upgrades budget for education each year, combined with the other allocations into large—

MR DOSZPOT: We are talking about new money, are we, or—

Mr Barr: Our election commitment was $70 million of expenditure in those areas.

MR DOSZPOT: Of new money?

Mr Barr: Obviously you will need to explore the detail of this with the education minister—

MR DOSZPOT: I will.

Mr Barr: We have exceeded it. We have spent more than $70 million on new school infrastructure or renewal of school infrastructure as part of the capital upgrades program and as part of specific budget allocations. I have absolutely no doubt about that.

MR DOSZPOT: Every opportunity has been given to your various education ministers along the line to explain that, and none of them has given us any satisfactory answer. I thought you might have been—

Mr Barr: I do not think you are seeking satisfaction, Mr Doszpot; I think you are seeking something otherwise. Anyway, we will leave that be.

MR DOSZPOT: I am seeking fairness for our community, Mr Barr.

Mr Barr: I think you are seeking to prosecute a political point, but there we go. I think you are wrong.

MR DOSZPOT: There are a number of promises still outstanding. Given that you say that you always deliver on your promises, why are some of those issues still outstanding?

Mr Barr: The government endeavours to utilise the budget process and the machinery of government to deliver on our election commitments. I think we have a very good record in that area.

MR DOSZPOT: You have three months to deliver on the ones you have not delivered on. Can we take that as a firm yes from you that all of the election promises made will be fulfilled in the next three months?

Mr Barr: The government has a very strong record of delivering on its election commitments, Mr Doszpot.

MR DOSZPOT: I can see headlines on this. What will be the effect on the ACT budget if you do implement all of the promises that you have not yet implemented?

Mr Barr: The government has outlined in the context of the 2012 election the costs of our various election commitments. They went through the Treasury costing process and it is available for you to have a look at.

MR DOSZPOT: Thank you.

MS BURCH: I would also say that the effect would be some very good programs coming through the community.

MR DOSZPOT: This is interesting.

MS BURCH: Let me go to the budget paper, 13 through to 19, the basic strategic indicator of maintaining a strong balance sheet. I notice on page 13 that the ACT maintains a AAA credit rating. There could be many a commentary around budget and financial sustainability and economic outlook. A AAA credit rating would be a fairly positive badge of honour for a budget and a jurisdiction to hold, I would imagine. Can you tell us whether there are risks to us not maintaining our AAA credit rating?

Mr Barr: Well—

MS BURCH: And how good are we to keep it?

Mr Barr: There are three Australian states and territories with a AAA credit rating with a stable outlook: the ACT, New South Wales and Victoria. The ACT's AAA credit rating has been maintained by this government throughout its time in office. The territory government places a great degree of importance on maintaining a AAA credit rating. I believe this budget will achieve that end again. In terms of risks, there would be a risk—in fact, I think it would be certain—that for every state and territory, if Australia's credit rating were downgraded, that would flow on to every state and territory. It would not be possible for semi-governments to maintain—

THE CHAIR: So you are worried about the Shorten spending splurge there?

Mr Barr: I am simply making a statement in relation to a AAA credit rating at a national level. That would be one risk to the states' and territories' credit ratings. It would not be isolated to the ACT; every jurisdiction would experience that. It is a reflection of our federal financial relations system.

I am sure the committee would be aware that around 40 per cent of ACT revenues come through commonwealth grants of various kinds: GST and specific purpose and national partnership payments. Of all of the states and territories, the ACT and Western Australia are the least reliant on commonwealth grants. It is about 40 per cent of our budget—and nearly 70 per cent of the Tasmania budget, I understand, to give you a sense of the difference. We are much more economically independent, and we have much greater capacity in terms of our own budget. We are less reliant, anyway, on commonwealth grants. However, clearly the commonwealth's decisions in our economy impact upon what happens in the ACT economy more broadly.

Without a doubt, the state of the federal budget and the fact that the current government has tripled the deficit is the one big risk. I have no doubt that, regardless of who wins the election in two weeks time, the commonwealth will need to tread carefully in relation to expenditures. Both sides of politics federally have been very clear about that. In fact, Chris Bowen was the first to highlight this concern that apparently was not such an issue for Scott Morrison until more recently.

MS BURCH: On page 43 of budget paper 3 it maintains that Standard & Poor's considers that you could achieve a financial outcome including what has been mentioned here—the asbestos eradication scheme and other infrastructure projects. Later in the day we will no doubt get to it around our PPPs and—certainly it has been touched on—light rail. That is a large infrastructure project, with new arrangements with PPPs. Standard and Poor's does not see that as any risk to our AAA credit rating?

Mr Barr: No.

MS BURCH: We can get on and do that?

Mr Barr: They have been very clear in relation to that, yes. And the fact that the project came in at a lower cost than the business case and the provisions that were made certainly reinforces that point.

MS BURCH: And just to take up Mr Doszpot's potentially political point—the risk to our AAA credit rating if infrastructure project contracts were torn up?

Mr Barr: Certainly that creates a significant sovereign risk. Significant compensation, in the hundreds of millions of dollars, would be required to deliver nothing. Anyone doing business with the ACT in the future would be wary about whether a government contract held any value at all, and it would be a significant risk for the territory. One would hope that that path is not pursued.

THE CHAIR: On page 32 of budget paper 3, the expenses for this year are $5.4 billion, an increase of about $270 million on the 2015-16 estimated outcome, yet they dip some $90 million for 2017-18. Why is that?

Mr Nicol: I will ask Mr Miners to take you through that, chair.

Mr Miners: The most significant reason is that the 2016-17 expenses number includes the superannuation liability valuation, which was included for the first time this year, of $87.6 million. In that number there are also two other factors that do have an impact. One is the new initiatives line. There are some initiatives that are funded for one year only, which affect 2016-17 and not 2017-18. If you look at the budget papers, there are about $33 million worth of more new initiatives in 2016-17 than in 2017-18. There are also a number of rollovers that flow through into 2016-17 from 2015-16, pushing up the 2016-17 number. We do not see them flow through into 2017-18.

THE CHAIR: With the one year funding of initiatives, what was the value of that for this year?

Mr Miners: Governments have traditionally made decisions whereby they will often review a program—

THE CHAIR: What was the valuation?

Mr Miners: The valuation of those?

THE CHAIR: How much do the one year—

Mr Miners: I have not gone through and looked at the individual years. The number I have quoted is the difference in the total value of initiatives in that year.

Mr Barr: We will reconcile them, and they are listed in the paper.

THE CHAIR: Yes, they are.

Mr Barr: That is not difficult to do.

Mr Nicol: I think the largest one was workers compensation—temporary funding whilst the government works on implementing a new scheme, and that was in the order of—

Mr Miners: $15 million.

Mr Nicol: I thought it was $20 million.

Mr Miners: No, it is $15.1 million.

Mr Nicol: So that was a large slice of that. That will be a one-year difference.

THE CHAIR: In the outyears beyond that you have a $210 million increase, you have a $180 million increase. Is it believable that in 2017-18 it will actually be less than in 2016-17?

Mr Nicol: For those one-off factors, yes, it is. We can give you a full reconciliation, chair.

THE CHAIR: Yes, perhaps the reconciliation will be interesting. Below that chart, can you explain to the committee the effect of the superannuation liability valuation?

MS BURCH: What page are you on?

THE CHAIR: Page 32 of budget paper 3.

Mr Nicol: The accounting standards require the valuation of our superannuation liability to be used, using a discount rate as at 30 June each year. That is essentially discounting the future expected cash flows of our pension liabilities until 2070-odd, back to today's prices using the interest rates. The accounting standards require the spot rate of a long-dated bond on that date, which is generally the longest commonwealth rate we can find.

The forward estimates are based on a forecast of the long-term average of six per cent for that interest rate. We are in a current period of very low interest rates, so a lower interest rate leads to a higher liability valuation and that has an increase in expenses. It is not a cash item; it is a valuation issue. In the past, with respect to the ACT government—and the commonwealth has done something similar because they have exactly the same problem—the valuation is taken on 30 June and that cost is reported at that date. The government has made a decision this year to essentially recognise that cost because interest rates are not going to return to six per cent by 30 June. The government made a decision to include that additional cost in the budget for the first time, essentially. I think that decision was made—the Chief Minister might wish to comment—because there is an election coming up and the government wanted to be transparent about that expected cost.

THE CHAIR: What was the interest rate at 30 June last year?

Mr Miners: 3.66 per cent.

THE CHAIR: As at 30 June this year what is it expected to be?

Mr Nicol: I think we used a figure of 3.2 per cent. If it turns out to be lower than that, which it currently is, there will be an added cost. If it turns out to be higher than that, the cost would be reduced somewhat.

THE CHAIR: What is the expectation for 30 June next year?

Mr Nicol: We have used the six per cent long-term forecast rate.

THE CHAIR: You just put it back to six per cent.

Mr Nicol: If it is lower, there will be a cost at that time. At some point—and we are discussing this issue with the commonwealth—the question will be raised: what is the long-term discount rate that should be used? Should it be six per cent?

THE CHAIR: What is the effect on the headline net operating balance of using 3.2 per cent?

Mr Nicol: As opposed to six?

THE CHAIR: As opposed to six.

Mr Nicol: I think the figure was $87 million but I will ask Mr Miners to confirm that.

Mr Miners: It is $87.7 million.

THE CHAIR: So it increases the deficit by $87 million?

Mr Miners: That is right.

THE CHAIR: Why take that decision, Chief Minister?

Mr Barr: We have given an estimate. The figure will be confirmed and updated in the pre-election budget update. I have foreshadowed it now, rather than having another ill-informed headline suggesting a budget blowout when it is not a policy decision and there is no cash impact. It is a technical adjustment and a long-term liability. This happened four years ago, so we have signalled it now. If you are listening in media land, this will happen. We do not yet know the exact number because it is that moment-in-time snapshot. It is not a policy decision. It is not spending new money. It simply relates to a technical adjustment on a long-term liability.

THE CHAIR: In the election update you are therefore flagging that the deficit will be greater?

Mr Barr: It will be closer to the number we have outlined here, but by the end of the fiscal year, no doubt, if tradition continues, the commonwealth will throw a lot of money out of the door just before the end of the fiscal year. They have done that every year. There will be an amount of expenditure that the ACT government does not achieve in that fiscal year and it will be rolled over into the next. Mr Miners has indicated how that impacts. So in the middle of the year you tend to have an adjustment in the context of the deficit, and it comes back in. This year, for example, in the midyear we projected a deficit of $480 million. It is going to come in closer to $230 million.

There are a number of factors that contribute to that—rollovers, commonwealth grants and the timing of those, and the way the commonwealth budget operates in a different way. They will tend to want to make their next fiscal year look better by paying money to the states on 30 June rather than on 1 July, and we have to account for it when it arrives.

THE CHAIR: With the discount rate, at the moment we are forecasting 3.2; what is it currently? What is the expectation?

Mr Nicol: I will ask Mr McAuliffe to come and inform us of today's rate.

Mr McAuliffe: The current rate is about 2.8 per cent.

THE CHAIR: So if it drops by that 0.4 per cent, what does that do to the deficit?

Mr McAuliffe: It would be about $15 million or thereabouts.

MR HINDER: Treasurer, I have a question about tax reform—probably a happy place for all of you on that side. I note that it continues in this budget. Can you outline the impacts on growth, if there are any, and what these tax reforms might do to the housing market?

Mr Barr: The removal of inefficient taxes grows the economy more broadly. The modelling for the first five years showed about a $150 million to $160 million boost to the territory economy as a result of the first phase of tax reform which we complete in this budget. That is the growth dividend for the ACT economy from tax reform. What we have seen in the context of the lowering of stamp duty is an increase in activity. There is logic there associated with an inefficient tax being a barrier to mobility within the housing market and also a barrier to commercial transactions. Lowering that rate, together with the economic growth impacts we have seen in recent times, has led to increased activity. That has been of benefit to the territory economy.

That is the value of moving to more efficient taxes that do not tax economic activity. That is the economic basis; every economist in the world over the past three or four decades has recommended a transition away from inefficient transaction taxes. Every major review of taxation in this country recently, and going back into the past, has recommended that states and territories move away from those inefficient taxes. I note your own independent budget review commissioned for estimates also concurred with that policy position. That is the right thing to do in the long term. It is not always politically popular. I recognise that; and there will always be cheap opportunists who will seek to score political points off difficult economic reform. But in the end the right decision for the ACT is to continue to pursue tax reform. The growth dividend is there for our economy. If you believe in jobs and growth, if you fundamentally believe in jobs and growth, you would support this sort of reform.

Our current Prime Minister, in his first political interview of the year on the *Insiders* program lauded the ACT's tax reforms. He noted the level of political courage that was required to deliver them and said they were the right policy to pursue. There is a little bit of bipartisanship possible in this country on tax reform issues, generally speaking, when people are not in direct competition with each other for public office. I am not running to be the Prime Minister, and Malcolm Turnbull is certainly not running to be the ACT Chief Minister, so he can give a perspective from the Liberal Party that is not entirely personally motivated by political opportunism. He can give a more independent assessment from the Liberal perspective and he has endorsed these tax reforms, just as every economist has.

Mr Smyth contests that point, I note, and may have found an intergalactic economist who is not operating in the world at the moment who supports his position that tax reform is a bad thing. But I also note, Mr Hinder, that having opposed every element of our tax reform to date, the Leader of the Opposition indicated that he in fact will be keeping it all in place, just not doing anymore. To the extent that a belated agreement with a reform agenda is a good thing, I commend the Leader of the Opposition for agreeing that what we have done so far was a good thing to do. I look forward in four years time to him agreeing that what we do over the next four years, if we are re-elected, is a good thing to do.

MR HINDER: Notwithstanding the possibility of intergalactic economists going against it, it appears that every economist whose views I have read has applauded the transition away from transaction-based charges to a broad revenue base. What does that do for affordability? Some seem to claim that if you left the stamp duty or transaction charges in place that would increase affordability of housing.

Mr Barr: They would be wrong.

MR HINDER: Not me, just some.

Mr Barr: I do not hear many credibly arguing that having very high stamp duties helps housing affordability. Certainly, from a consumer perspective, I do not get stopped in the street very often by people saying, "I'm looking to buy my first home and I would really like to pay more stamp duty. I'm finding it challenging enough at the moment to—

THE CHAIR: They are worried about high land prices. You might want to address land prices at the same time.

Mr Barr: save up for the deposit, and what I'd really like the government to do is hit me even harder with stamp duty." I do not hear many people say that. If you are serious about putting downward pressure on house prices, if you are serious about improving housing affordability, it is about getting rid of one of the biggest barriers to the purchase of a home. In the context of the ACT, prior to tax reform, for an average property we were asking for more than the banks were in terms of deposits. They would want at least a five per cent deposit from you and the stamp duty was more than that. That is not a good situation and we have been working to address it.

MR HINDER: That covers residential. How do these tax reforms work for businesses and commercial players? What sort of reforms are there? There was the removal of the commercial conveyancing duty?

Mr Barr: Yes. The first phase of tax reform particularly focused on, at the residential end, the bottom half of the housing market. At the commercial end we have made two significant reforms. The first was to bring our top rate down significantly and to have a flat rate for large commercial transactions over a certain value. In this budget we have taken the decision to, over two years, phase out all commercial stamp duty on commercial properties under $1.5 million. About 70 per cent of the commercial property transactions that occur in the city will be stamp duty free within two years. That is a big boost to small business, to small and medium sized business.

We have said we will retain a flat five per cent rate. So we will bring it down even further but retain a flat five per cent rate on large commercial property transactions. That makes us very competitive with New South Wales and Victoria and ensures that we are targeting, in the short term, our tax reforms at the small and medium sized, and the vast majority of transactions. The large commercial transactions in Canberra tend to be undertaken either by large foreign investors or large institutional investors, so maintaining a level of stamp duty in relation to those transactions—

MR HINDER: That is above 1.5?

Mr Barr: Above 1.5, yes. Maintaining a level of stamp duty above, for those larger transactions, over the medium to long term is a defensible policy position. Our focus in the next five years is on the small to medium scale for commercial and particularly working hard to get the residential side. We will focus in the medium term on the residential side in particular. Having made the changes that we have announced in relation to small and medium sized commercial, that is the medium term agenda there. We get that tax free and then we can switch our focus almost exclusively over the next decade to the residential side. So we can maintain a degree of commercial stamp duty on those large transactions at a low rate for the longer term and focus the next 10 years of tax reform almost exclusively on residential. That gets the balance right in terms of where you would prioritise.

You cannot do it all at once. You cannot do it all in one budget. What we have said is that, to support economic activity, to continue to grow the economy we will support small and medium sized enterprises. We will marry that up with our payroll tax cuts, which also support small and medium sized enterprises. We will then focus very heavily on the residential side. I would aim to complete the residential side before we then return our attention to the large-scale commercial side, which would be the last part of tax reform that you would complete. All things being equal, I will not be the Treasurer in the early 2030s to complete this task, but my successors should complete that task. The pathway to get there should be as we have outlined—small to medium sized commercial activity whilst continuing the residential cuts. Once the small to medium sized commercial activity is complete, go hard on residential and through that period maintain a low flat rate for the large-scale commercial transactions. At the very end of the process, look at that large-scale commercial. That is how it should be done.

MS BURCH: Can I ask a supplementary on that?

THE CHAIR: You can have one and then I will have one.

MS BURCH: How do the changes to payroll tax and other changes fit into your overall tax reform, because there is a lot of concentration on rates on residential properties?

Mr Barr: Yes. We sought at the start of the tax reform process to cut three taxes—stamp duties, insurance taxes and payroll tax—and then to offset those with the best and most efficient form of revenue that we have. So we have raised the tax free threshold for small to medium sized enterprises. It is up to $2 million now. I think the interstate comparator now is if you have payroll of up to $5.6 million—that is heading towards 50 to 60 staff—your payroll tax liabilities are lowest in the ACT of all states and territories. That has been a conscious decision to support the growth of small to medium sized enterprises. That is part of the first stage of tax reform.

When you combine that with the insurance tax cuts, together with the removal of a range of other duties that were part of that first phase of tax reform, if you are a mid-sized business in the ACT you are actually paying less tax in nominal terms now because your payroll tax has gone down and your insurance taxes have gone down.

On the other side, yes, your rates have gone up but they have not gone up by as much as those other taxes have gone down. So you are actually paying less tax to the territory government. We have got a number of examples of enterprises in that space who have payrolls between $1.5 million and $5.6 million.

That is a lot of ACT businesses in that context that have been big beneficiaries of the tax reform process. Those who are paying more tax certainly are large multinationals, the banks and the big end of town. They are certainly paying more and we have used the proceeds of the tax reform and changing the tax mix to encourage the growth of small and medium sized enterprises. I think that is the right policy mix for the ACT at this point in our economic development.

THE CHAIR: I will go back to something Mr Hinder raised about housing affordability. You said that nobody has asked to have their conveyancing put up. Have people commented to you on the cost of land in the ACT and the effect of it on housing affordability?

Mr Barr: Yes, that certainly is an issue that people have commented on and they do want to see more land released. So we have delivered that in this budget. I said two budgets ago when the Abbott government was elected that we would scale back our land release program to levels that we thought were realistic in terms of ability to actually sell the land but that if we at any point looked like achieving or exceeding that, we would rapidly bring new supply back into the marketplace, and we have done that.

THE CHAIR: But have you not constrained the market and driven the price up?

Mr Barr: I do not believe so because there is significant competition in land release through englobo and joint venture arrangements. There will be more in the future in the context of the ACT government not participating in the CSIRO Ginninderra site. So that will be available for the private sector. You have got the englobo releases at Denman Prospect that obviously are underway. In terms of LDA only estates, there are a small number in Gungahlin and some delivery in the Molonglo Valley. There are joint ventures underway in west Belconnen and then you have got large private sector involvement already on the ground and then coming in the context of that rezoning of the CSIRO Ginninderra site.

THE CHAIR: But the biggest single factor in the cost of a house is what?

Mr Barr: It depends on the nature of the house.

THE CHAIR: All right, a standard quarter acre block, standard dwelling and—

Mr Barr: A quarter acre block, depending on what sort of house was built on it, would be pretty roughly split between the land and the house, depending on what sort of house is built on it.

THE CHAIR: Have you done any analysis on the effect of the growth of the cost of the land on housing affordability?

Mr Barr: It will depend on where the land is released because clearly some land is more valuable than other land, depending on the location. I know a lot of attention has been paid to Throsby and not so much to the prices at Moncrieff, which are considerably more affordable. Throsby is, by all accounts, a desirable location. It is not to say that Moncrieff is not as well, but there are obviously some areas of land that will attract a higher land value than others in the context of where they are located in the city.

I have no doubt that there will be areas of the Riverview development which will have some pretty spectacular views and would undoubtedly attract a premium. There will be other areas that would not attract that premium and, given the distance from the CBD, for example, would attract a different sort of market.

I have no doubt that there will be very high values paid for the Canberra Brickworks development, for example, but land in Yarralumla is somewhat scarce. You would anticipate there being some interest there. I guess the interesting thing is to look at this in the context of what is happening in the broader Australian market. Certainly compared to Sydney and what has happened in Sydney in the past three of four years, the Canberra market has been reasonably stable. It has not seen the sort of expediential, or seemingly expediential, price growth that has impacted on—

THE CHAIR: Perhaps it had already got there.

Mr Barr: I think, again, that by any benchmark housing affordability in the ACT is much better than it is Sydney, though Melbourne is an interesting comparator. I think they are slightly ahead of us in terms of median house price. Perth was ahead of us but then the collapse in their economy has impacted on the Western Australian housing market. Then you get to Brisbane.

I suspect that a more reasonable comparator for Canberra is how we sit between Sydney and Melbourne but then also how we compare with Perth, Brisbane and, to a lesser extent, Adelaide. But there is a range of factors associated with the South Australian economy that—

MR DOSZPOT: So why are our rates higher than Melbourne?

Mr Barr: Sorry, why are—

MR DOSZPOT: Why are our rates higher in Canberra than in Melbourne?

Mr Barr: It would depend on the area. They are not necessarily. We are both a municipal and a state level government. You would need to combine both municipal and state level.

MR DOSZPOT: Way above in comparison; way above.

Mr Barr: Well, our rates are not just about municipal services. Our rates are a way of collecting revenue for the territory government and to fund state level services. So those councils that you seek to compare us with are not running hospitals and schools. That is the key difference.

MR DOSZPOT: The trouble is that we are not running enough, either.

Mr Barr: Sorry?

MR DOSZPOT: That is okay, carry on.

Mr Barr: I think that was a pretty silly remark, actually. I will not even dignify it with a response.

THE CHAIR: But bringing it back to the value of land, value of land is in many cases half the cost of the package. Government has total control of land release. Have you done enough—

Mr Barr: No, it does not. It does not at this point.

THE CHAIR: Have you done enough to bring more affordable land to the market?

Mr Barr: The government has certainly endeavoured over a number of years to increase the supply of land and we will continue to do so. But I think the point to make now is that we are moving to a situation where the ACT government will not be the predominant supplier of land, given the announcements that have been made just prior to the caretaker period for the commonwealth in relation to large amounts of land that were previously not available for urban development but are under national control. So the commonwealth government is now a major supplier of land. Now, I do not think they are going to be—

THE CHAIR: But that is a recent entree to the market.

Mr Barr: Yes, indeed, but one that has been foreshadowed for a period of time. When you look to the future—I cannot change the past—who will be supplying land? That CSIRO site is 20 years worth of land supply. The ACT government has taken the decision that we will not be the developer there. We will not be a joint venture partner; so it is there for the private sector. That will more than meet the one-third policy requirement that we have for the private sector’s involvement in land release and it will provide significant competition in the marketplace both to joint ventures, to other englobo land sales such as that occurring in Denman Prospect and to the government’s own program through the Land Development Agency. So you are going to have multiple providers of land in the territory. Private joint ventures—

THE CHAIR: In the future.

Mr Barr: Well, it is happening now. It is happening now as a result of decisions that my government has taken in the past two years, particularly in the last 18 months.

MR DOSZPOT: Chief Minister, you made a comment a few questions ago regarding your not running for the prime ministership. Is that a formal rejection of rumours that you will be seeking a safe federal seat that the previous Chief Minister had?

Mr Barr: It is not even 11 o'clock and you are asking me questions about my political career. It is a very kind invitation for you to make, Mr Doszpot, but I will decline to provide political commentary at this point. You are voting for me, are you? You would like to see me go, would you? Is that the—

MR DOSZPOT: On a serious note, have there have been any public interest disclosures in your directorate in the past 12 months?

Mr Barr: In relation to Treasury?

MR DOSZPOT: In relation to Treasury, yes.

Mr Nicol: None that come to mind but I will ask Ms Hall to comment.

Ms Hall: In the Treasury stream we sort of look at PIDs just as a stream. It is one directorate. I will confirm this but my understanding is that we have had one PID this year, which will be reported in the annual report.

MR DOSZPOT: Can you elaborate on that?

Ms Hall: Sorry, one public interest disclosure for CMTEDD this financial year. That will be reported in the annual report, the state of the service report.

MR DOSZPOT: What is the status of that?

Ms Hall: It was investigated and found not to be disclosable conduct.

MR DOSZPOT: Has any action occurred as a result of that?

Ms Hall: Any appropriate action was taken but there was no disclosable conduct found.

MR DOSZPOT: Chief Minister, have there been any reports, formal or otherwise, of bullying in your directorate in the past 12 months?

Mr Barr: Okay; so, again, just in Treasury?

MR DOSZPOT: In Treasury.

Mr Nicol: Can I take that on notice? I am not aware of any in Treasury. I should be because they report to me but Shared Services is the one where I might have to look to see if there was something. But none come to mind. I can take that on notice.

MR DOSZPOT: Could you check if there have been any formal or informal such reports and obviously if there was any action taken against any such perpetrators?

Ms Hall: And that is for all of CMTEDD you are asking?

Mr Barr: For the entire directorate.

THE CHAIR: Yes, specifically for Treasury.

Mr Barr: I appreciate it is perfectly legitimate to ask all these questions but the best place to ask them is tomorrow in the actual broader CMTEDD area rather than here in talking financial management. But we will take them on notice in advance for tomorrow. We may be able to provide answers tomorrow, yes.

MR DOSZPOT: Thank you.

MS BURCH: Going back to infrastructure, can you provide a bit of information to the committee about the infrastructure investment in this budget and trends over the past couple of financial years for the ACT, recognising that there is also significant commonwealth investment that has an impact on the life and function of this city as well? Can you talk to us a bit about that? Is the trend changing in the outyears?

Mr Barr: Certainly we have had a pretty strong annual capital program around the $500 million to $600 million mark—and delivered that pretty consistently over an extended period since the global financial crisis, in fact—the stimulus that was provided and supported by the commonwealth at that time. We have largely maintained that level of infrastructure spend.

The forward projections for this budget show a similarly strong program, with the two public-private partnerships being significant additions to the ongoing government capital works program. For the first of those PPPs, the courts project, construction is underway. Obviously, if you have driven around Vernon Circle and City Hill, you will have noted that that construction is underway.

The light rail project clearly is a significant one. Construction commences very shortly with project completion in late 2018. On top of that you have got the ongoing construction of the University of Canberra public hospital and the secure mental health unit. That is about $100 million in new health infrastructure spending. There is the significant amount allocated to education that I am sure you will have the opportunity to explore with the education minister later this week.

The other element of the capital program most significantly is public housing renewal. It is about $360 million from memory. There is a significant opportunity there for renewal of an important public asset, but also a significant opportunity for the local construction industry, who I know are always highly energised about their opportunity to benefit from government work. They will have that opportunity through the housing program, together with a range of other capital infrastructure opportunities that are outlined in the budget.

It is a strong program. We have a future provision that we have set aside. We will make some further announcements, as you can imagine, between now and the festival of democracy in October so that people will be clear about our infrastructure priorities over the next four years. Those provisions have been made. You will see that there is capacity, particularly in the final two years of the forward estimates period for this budget, for a range of new projects to be brought forward. We look forward to making some announcements on our intentions there in due course.

MS BURCH: It has been quite a chunky infrastructure capital expenditure over the past few years. Your forward infrastructure plan shows that continuing, in the main, accommodated through provisions that you have allocated as well?

Mr Barr: Yes, I think page 187 of BP3 outlines the different components of the forward infrastructure program, including the public-private partnership projects, the provisions and then the government-funded more traditional works programs.

MS BURCH: I raised this in a technical briefing as well. Once things are committed they come out of the provision and they are embedded within the expenditure in capital infrastructure?

Mr Barr: Yes. We made some large provisions for commercially sensitive projects. They have gone to market. We have achieved results and savings against those provisions. The light rail project, for example, is about 10 per cent to 11 per cent cheaper than was forecast in the business case. That obviously improves cost-benefit ratios but also demonstrates the value of the procurement process in terms of achieving value for money for taxpayers.

MS BURCH: Without going to light rail, and I have no doubt it will be a topic of conversation over the next two weeks in various forms—

Mr Barr: You have got to have a whole few hours, haven't you?

THE CHAIR: Yes.

Mr Barr: Yes, that is right, yes.

MS BURCH: But you have made mention—

THE CHAIR: I note that the original cost estimate was 613; so it is not 10 per cent cheaper than 613.

MS BURCH: You made mention of the court under a PPP. These are the first two large projects. I have two questions: what has been the benefit? What was the impact of going through a PPP as opposed to our funding it as a straight capital project? How do people follow that change through the budget papers as well, because this is probably the first budget in which we will start to see that change?

Mr Barr: Yes. The benefits that were anticipated in the context of procurement were that we would achieve savings of around 10 per cent to 11 per cent against the public sector comparator. That was what was forecast at the beginning of the process and has been achieved in the context of the light rail procurement but I also understand in the context of the courts project.

I think it would be fair to say that there is not a great understanding in the community about the flow-on depreciation, maintenance and operation costs associated with a more traditional capital project funded in the budget. The media attention tends just to be on the capital cost of the project and not then its ongoing maintenance and operation.

MS BURCH: So there is an ongoing benefit? There is an initial benefit, but then in the outyears—

Mr Barr: Yes, and with the exception of one project, there has not been a clamour for 20-year projections of operating, maintenance and depreciation costs and the like associated with other ACT government projects. I have not been bowled over with people interested to know, for example, what the 20-year operating cost of ACTION Buses would be, what the 20-year operating cost of—

MS BURCH: You may tempt me to put a question on notice to you, Treasurer.

Mr Barr: a significant roads project—

THE CHAIR: You would have to do that after the tea break.

Mr Barr: would be, for example. So these are issues that I think it is important we have further dialogue on, undoubtedly, with the introduction of the PPP procurement methodology for a very small number of projects. I would hasten to add that we undertake thousands of projects and two—two—have been procured through this methodology.

I would anticipate that that sort of ratio would continue. There will be thousands of projects procured under more traditional forms and a very small number—less than a handful—through PPPs. I think the chair wants us to break for morning tea; so I will conclude on that note and we will have a cup of tea.

THE CHAIR: If the Chief Minister needs a cup of tea, then perhaps we should stop. Members, we will break now till 11.15. We will return to continue output class 4.1, economic management. But do not forget output class 4.2, financial management, on the following page.

Sitting suspended from 10.59 to 11.15 am.

THE CHAIR: We will now resume the first day of estimates for 2016-17. Members, we are on output class 4.1; by 12.30 we need to have covered 4.1 and 4.2, so feel free to range over both areas.

Mr Barr: A free-range type hearing, is it?

THE CHAIR: A free-range discussion on many issues, Chief Minister.

Mr Barr: Not caged?

MR HINDER: Not caged.

THE CHAIR: On page 19 of budget statements B, the second last dot point says:

> … progress reforms to the compulsory third party insurance arrangements in the ACT …

I know we had a few words about this in the Assembly the other night.

Mr Barr: Yes, that is right.

THE CHAIR: What are your reforms? What are your desired reforms to the compulsory third-party insurance arrangements in the ACT?

Mr Barr: I will announce them in due course.

THE CHAIR: What work are you doing? What reforms?

Mr Barr: I am looking at a range of different reform options.

THE CHAIR: This is budget estimates, and we are here to ask questions. Could you explain what that dot point will contain?

Mr Barr: A range of different policy options, looking at CTP schemes elsewhere in the country, in the world, looking at options that will put downward pressure on CTP premiums in the territory. Competition has been important and has delivered benefits to the consumer. In further stages of reform we would look to continue to deliver benefits for the consumer, so I am asking officials to undertake some further work to provide policy options for government.

THE CHAIR: You said in the chamber the other night that you still have a desire to get rid of common law rights. Is that one of the reforms that is being looked at?

Mr Barr: I do not know that I said that, did I?

THE CHAIR: I think you did.

Mr Barr: I am not sure that I did.

THE CHAIR: Are you looking at removing common law rights from the compulsory third-party insurance arrangements in the ACT?

Mr Barr: The government will continue to examine the range of possible policy options that deliver the best possible outcomes for consumers.

THE CHAIR: So you are not ruling out getting rid of—

Mr Barr: We are doing rule-in, rule-out games now, are we? I think the government—

THE CHAIR: If you will not answer the questions, I can play this all day long.

Mr Barr: The government will continue to pursue options for reform, which would need to be brought before the Assembly, which would enhance the situation and the scheme for consumers.

THE CHAIR: We all wait with bated breath.

Mr Barr: We look forward to progressing that work.

THE CHAIR: No doubt. The last dot point on that page says:

> … continue a review and reform of the *Financial Management Act* …

Where is the review at? And again, what reforms do you have in mind?

Mr Barr: We have introduced some legislation already, and I understand there will be more to come. Lisa can talk through where that project is up to.

Ms Holmes: This year, we have been looking at consolidating the reforms that passed the Assembly in September of last year, so there have been a number of guidelines and things that we need to put in place to consolidate that. There has also been some work which has also been happening in the background in relation to particularly the trust area of the act, but that has not been finalised yet. So we have been continuing to do work, but it is not at the point of actually being able to introduce another bill yet.

THE CHAIR: I want to light-heartedly say that you have to legislate to have trust in the Treasurer. What particular aspects of the trust are you looking at?

Mr Barr: Don’t give up your day job. That is all I would say.

THE CHAIR: Oh, I just enjoy being here.

Mr Barr: Being estimates committee chair.

THE CHAIR: No, there are far more things to enjoy than that, Chief Minister. You enjoy your time there. It is under 120 days now.

Ms Holmes: The part of the act which deals with trusts has not been amended since the act was brought in in 1996. For example, there are requirements in there that if, after a certain period of time, trust money has not been claimed, you can move it to the territory banking account. But there is a process around that; it requires putting information in newspapers, for example. That is outdated technology, shall I say, so we are looking at better ways to improve processes. For example, we are looking at what we can do online to facilitate that process. Part of that issue is that it requires certain information that you have to disclose at the moment before it can be transferred over, and agencies do not necessarily even have that information in the first place to be able to disclose it in newspapers.

THE CHAIR: Thanks for that. The third last dot point on that page says:

> … continue implementation of the catastrophic injury scheme …

What is the intention there?

Ms Holmes: As you would be aware, we have, within the last month—

Mr Barr: To continue to implement it.

THE CHAIR: Why would you put it in if it is going to be so inane? You must have some intention of what you are going to do, Chief Minister. Or don't you expect you will be there and so you will not have to implement this; it is just a page filler?

Ms Holmes: Now that the bill has passed to introduce workers into the scheme, there are a number of administrative arrangements that we need to put in place to make sure that they are brought into the scheme in a seamless manner. There is, of course, the ongoing work which is happening at COAG level in relation to the other limbs of the national insurance scheme. There is medical and there is general accidents, neither of which the ACT has actually signed up to do, as with any other jurisdiction, but that work is continuing in terms of researching what that might look like.

THE CHAIR: Thank you. Mr Hinder.

MR HINDER: Treasurer, can I go back to the PPPs once more. Some of the discussion raised another issue for me. You talk about two projects out of a thousand being PPPs. Why do we do PPPs at all? What is the benefit to the territory and why don't we just fund that sort of expenditure ourselves?

Mr Nicol: I might ask Mr Murray to come up. Broadly speaking, I think it is very important to choose the right contracting form for each project. That will depend on the nature of the project, it will depend on the nature of the skills we have inside the ACT government and it will depend on market conditions—how competitive the industry is. Particularly for large projects and unique projects, we undertake a fairly rigorous assessment about which procurement methodology will be likely to get the best value outcome for the territory. I might ask Mr Murray to talk about PPPs in particular.

MR DOSZPOT: Could I ask a supplementary on that?

THE CHAIR: Why don't we finish that one first.

MR DOSZPOT: Okay; sorry.

THE CHAIR: Then we will come to the supplementary.

Mr Barr: Let us have an answer.

Mr Murray: The delivery model for every project is selected on its merits. Certain projects stack up as PPPs. We look for a number of factors when we assess a project's suitability for a public-private partnership. Firstly, there is scale. Typically we are looking at projects from $150 million plus, but we consider any project over $50 million. Particularly in the market, PPPs start around the $150 million range. We look at the relationship between the construction cost and the whole-of-life cost, so we are looking where we can get efficiencies around whole-of-life cost delivery. Also, we look at precedent projects in the Australian marketplace. For example, has the asset class we are looking at been delivered historically as a PPP? It is where there is proven evidence that it is the right delivery model. We see in the two projects that we have embraced in the territory as public-private partnerships that there is a strong precedent in the Australian marketplace of those projects being delivered under this model.

MR DOSZPOT: On my supplementary, Mr Nicol, you mentioned the market conditions you have to take into account, obviously. When you consider the low level of interest we have at the moment, would that not necessitate a closer look at making borrowings ourselves based on—

Mr Barr: Sorry, the market interest rate was the—

Mr Nicol: I did not quite catch that. The low level of interest?

MR DOSZPOT: The low level of interest that is available to us. So for borrowings, wouldn't it—

Mr Nicol: The interest rate?

MR DOSZPOT: Yes.

Mr Barr: So your question essentially is: can the public sector borrow more efficiently or at a lower cost than the private sector?

MR DOSZPOT: Correct, yes.

Mr Nicol: The rate of interest in a sense is not going to have a material impact on the decision. Under a PPP, interest costs will always be higher than what we can borrow at ourselves. If interest rates are lower, the PPP can borrow at a lower rate as well, but that differential is still there no matter where the interest rates are.

That is definitely a cost of the PPP. You can ameliorate that in several ways. One is that you can make a capital contribution at some point in the construction, which is what the ACT government is doing for light rail. What it has proposed to do is make a $375 million contribution, which is essentially us borrowing for that portion of the cost.

The PPP and the higher interest rates that you pay are essentially the cost of the risk management risk transfer that you achieve under the PPP. You have private sector financiers under a PPP project essentially borrowing; it is their money at risk, so they have great incentives to ensure the project is managed well and delivered according to the contract that the government has in place.

As I said, under the light rail project, once the construction is complete, and a large part of that risk has been effectively managed—that is the biggest part of the risk part of the project, having successful construction of the light rail—the capital contribution ameliorates that significant proportion of that interest rate differential cost.

MR DOSZPOT: You mentioned the light rail as an example. What about the law courts? How would we have fared if there was a different—

Mr Nicol: We have not done a specific analysis. We got benefits against the PSC in the law courts, so we got a better lower cost than the public sector comparator. The law courts—we would not make a capital contribution there because of the size of the amount borrowed. You have to have a minimum to have the market interest in financing such a project.

The law courts also gave us very useful experience on how to run a PPP, so I think that was a factor; it was not a major factor. As Mr Murray said, law courts in the recent past around Australia have used PPPs as a way of constructing the facility. I think you have to balance up the advantages and disadvantages of all contracting forms.

MR DOSZPOT: Sure.

Mr Nicol: The advantages are we get an integrated courts facility that is built, constructed and maintained over the life of the facility by the one consortium, so they have very strong incentives to build the facility in a way that can be both maintained and built to the standards we require and to the functional requirements we require within the cost envelope we have set. It provides significant incentives to the private sector to deliver a very high quality product for a long period.

In the public sector you do not necessarily tend to get the full integration between maintenance, operation, construction and design, so that is a risk. It does not mean problems are going to eventuate, but it is a risk.

To your question, yes, in theory, if we borrowed and built it ourselves we could have got a lower financing rate, but we would have taken on more risk in terms of the lifetime operation of the facility. It was our assessment, the government’s assessment, that that additional cost in a sense was more than offset by the risk and the avoidance of the costs associated with risk.

MR HINDER: So part of the attraction of the PPP is the fact that with the margin between whatever the market rate is and what we pay, we are effectively selling the risk back to the—

Mr Barr: Transferring.

Mr Nicol: Transferring some risk.

MR HINDER: Yes, and then that, when you have got a maintenance program on the back end of it, also gives the risk to the other party to maintain it, the cost, or any incident—

Mr Nicol: That is right. The contract will typically have an abatement regime which says we want a facility, whatever it is, operating at a certain standard, and if it does not operate at that standard we do not pay the full amount of payment each year. So that—

MR DOSZPOT: But logic also dictates that if we are passing the risk on, the organisation will be covering that risk by higher expenses for us?

Mr Nicol: I think it depends on who is best placed to manage the risk.

MR DOSZPOT: Sure.

Mr Nicol: So some risks we will retain because, as you say, Mr Doszpot, the private sector will charge a premium and it is more effective for us to manage it. They tend to go to issues such as contamination and the like, for example. But, for example, the private sector is much better at building a light rail system than an ACT government agency because we have never built one before and the private sector—the people who are bidding—are better and have more experience, so they are better at managing some of the technical construction risks and—

THE CHAIR: How many light rail systems has the contractor built?

Mr Nicol: I would have to take that on notice. I do not have that off the top of my head, chair.

THE CHAIR: Chief Minister, have the contractors that won the contract built any light rail systems before?

Mr Barr: Yes. The various consortium partners, yes.

THE CHAIR: No, no, but the head contractor?

Mr Barr: I believe so, but I will need to—

Mr Nicol: Take the exact details on notice.

Mr Barr: Yes.

Mr Nicol: In each PPP, one of the features of it is that essentially the private sector does the project management. So they bring a consortium together of the various interested players, so they will have a constructor, they will have a person who runs the system, they will have a person who does the integration of the systems et cetera, whereas under a traditional model it is the public sector which tends to have several contracts with various parties. Although there are numerous contracting forms and they vary as to how those issues are dealt with, again, that is part of the risk—bringing together the multiple players to construct such a complex piece of public infrastructure is a risk that, under a PPP, part of that risk is transferred to the private sector.

MR HINDER: And the construction consortium would find the appropriate construction partner to partner with in their consortium, which would form part of their bid, I would assume?

Mr Nicol: That is right. This might be something that the capital metro estimates can elaborate on but, typically, we still have a tender process. We still look at the strengths and weaknesses of the bidding consortia. Part of that assessment is to look at whether we think they have the best player in each field and whether, in aggregate, that is the best team: whether they can work together, whether they have worked on projects of similar scale and complexity before. All of those questions are asked and looked at in the initial assessment.

MR DOSZPOT: But if—

MS BURCH: If—

MR DOSZPOT: Sorry, I will just ask this one: when you say the risk is transferred to the contractor, ultimately the risk still remains with the ACT government because should the project come across issues that have not been thought of at the moment, ultimately, in commercial terms, you make a decision to get out of the project. And if you do, the risk is back with the ACT government. Ultimately, the ACT government will own the benefits or the pitfalls of the project.

Mr Nicol: Indeed. More particularly it is who manages the risk; that is where that issue sits. You are correct. We have risks in the project, and so does the consortium. They have signed a contract and that contains risks for them and—

MR DOSZPOT: Which they can—

Mr Barr: Well, one big risk is your lot. A very big risk.

Mr DOSZPOT: That is of benefit to them, I think, in the long run because their involvement will not be as extreme as it is under you.

Mr Barr: I would not take the risk on your lot; taxpayers should not either.

THE CHAIR: You will be pleased to know I have never voted for you either.

MR DOSZPOT: Look, ultimately the risk does sit with the ACT government, and commercial organisations will make decisions based on commercial realities. I will leave it at that, but if you want to comment on that—

MS BURCH: Just one supp on this before Mr Hinder might have another substantive question, you mentioned before the life of a PPP. I noticed on budget paper 192 Juris will have 25 years of managing the project. so there is the build, construct, maintain. Where is that flowed through? Where can you identify it? Everyone talks about light rail, but this is a PPP that will come live within a very short time frame from the building. And once the building is completed I am assuming we move into the 25-year second part of the arrangement. Is that difference publically available, and that goes to the question about you can build your own on low interest, but there is depreciation and if you own it there is the ongoing cost of whatever is in that 25-year contract. Where is that publically held, and how is it reflected in the papers?

Mr Murray: There is a published contract summary for the ACT courts PPP—

THE CHAIR: Summary?

Mr Murray: A contract summary and a fully redacted contract which is published on the—sorry, a full contract which is redacted for commercially sensitive information—

THE CHAIR: A fully redacted contract is very useful, Mr Murray. I think you were right the first time.

Mr Murray: which is consistent with practice around Australia. That contract outlines the public sector comparator and also compares that public sector comparator—which is the cost as if the government had done the project itself—against what the PPP contractual outcomes are.

Mr Nicol: As an add-on comment in terms of risk and innovation as well, in the courts project, the initial proposal that came forward was for the government to build a contemporary facility to enable the staged relocation of people while construction occurred. This was put to the market in terms of inviting bids, and the winning bidder proposed a methodology for avoiding the construction of a temporary facility.

THE CHAIR: No pop-up court?

Mr Nicol: That is right. That saved I think the figure was $14 million in capital that could be invested into the court facility. When you set up a PPP or a design, construct, maintain contract of that nature, you tend to get innovation from the private sector where they can see designs can be changed or processes can be changed that improve the lifetime outcome of the project. The incentives under such structures give the private sector an incentive to come up with more creative ideas.

In more traditional procurements where a design might be settled upon by a government, you go out to contract to build, they build to the design no matter what the design is. So you have to look at whether you have got the best design for construction, maintenance and operations and whether, as Mr Murray said, the size of the contract is such that it justifies some of the costs of those more complex procurement forms, and you make an on-balance judgement.

The other information that might be useful for the committee is appendix C on page 351 which outlines the budget impacts of the two PPPs. That goes to the balance sheet and operating statement and the cash flows. That attempts to describe the various components of the payments under the contracts the government has signed.

THE CHAIR: Just following up on that, if these had been done on budget through appropriation, what would that have done to the AAA rating?

Mr Nicol: The effect on the balance sheet is the same. It does not have an impact. There is a slight timing difference, but with net debt, because it is essentially a finance lease, the finance is taken on as debt.

Mr Barr: The credit rating agencies do not consider PPPs as free money.

THE CHAIR: No?

Mr Barr: They fully factor that into their considerations.

Mr Nicol: With the accounting standard we have adopted, Australia has a draft standard at the moment. It is not yet finalised, so we have adopted the same standard that every other jurisdiction in the country has adopted, which essentially says that, at construction complete, we recognise the asset and liability for that procurement.

MR HINDER: If you ripped up this contract, what do you think that would do for our AAA rating?

Mr Nicol: I do not know. I have not considered—

Mr Barr: There would be a massive headline net operating balance impact hung out for concession. So you would plunge the budget—

THE CHAIR: And what would that be?

Mr Barr: Hundreds of millions of dollars.

THE CHAIR: How many hundreds of millions of dollars?

Mr Barr: Probably three or four hundred.

THE CHAIR: Three or four hundred million?

Mr Barr: Then you would have to repay the commonwealth for the asset recycling initiative funding.

THE CHAIR: Unless you did a different project. So you are saying the payout of the contract is now three or 400?

Mr Barr: It would be hundreds of millions of dollars.

THE CHAIR: You just said three or 400. Is it hundreds or is it three or four?

Mr Barr: Hundreds of millions.

THE CHAIR: So you are recanting the three or 400?

Mr Barr: No, hundreds of millions.

THE CHAIR: Will you confirm the $300 million or $400 million?

Mr Barr: Hundreds of millions of dollars.

THE CHAIR: So you have written in a clause that says $300 million or $400 million?

Mr Barr: The clause has been published. It would not take too much to work it out, and you have $70 million of commonwealth funding that is lost as well.

THE CHAIR: So $300 million or $400 million is what you have signed us up to?

Mr Barr: Including the commonwealth funding.

THE CHAIR: But the commonwealth funding could go to something else. It could go to other projects.

Mr Barr: No, not under the terms of the asset recycling initiative, it cannot.

THE CHAIR: What other projects could be done on a PPP—

MS BURCH: Could I ask something on the asset recycling?

THE CHAIR: You can come to it in a minute. In terms of the PPPs, why haven't you, for instance, considered doing the convention centre as a PPP?

Mr Barr: We are looking at procurement models for the convention centre, and that would be one way of achieving it. The availability payments would be extraordinary; hundreds of millions of dollars.

THE CHAIR: Can the budget carry another large project? Would there be, say, a convention centre, a stadium or something of that ilk?

Mr Barr: It would depend on the timing and nature of the delivery and whether there are any asset sales associated with it.

THE CHAIR: Do you have advice that says any other large projects will affect our credit rating?

Mr Barr: It depends on what you define by "large", when such a project would be procured and under what methodology.

THE CHAIR: Under those conditions, have you had advice that another large project—for instance, like the second stage of the light rail, a stadium or a convention centre—might affect our credit rating?

Mr Barr: No.

THE CHAIR: Ms Burch, do you want to go to something there?

MS BURCH: It goes to the questions Mr Hinder asked about the impact on the AAA credit rating and our bottom line should the light rail contract be torn up. I would imagine your comment about hundreds of millions of dollars was because we would assume that the company would not be happy about that and would seek compensation—

Mr Barr: Under the terms of the contract, yes.

MS BURCH: under the terms of the contract. With the asset recycling—that investment that has gone into light rail—you made mention that it is locked into light rail.

Mr Barr: Yes, the terms of—

MS BURCH: That was agreed by the commonwealth and they accepted light rail as a sensible project?

Mr Barr: Yes, the terms of the agreement signed between Joe Hockey and me and the terms of the asset recycling initiative require projects of a specific nature and delivery in a certain time frame, and that is contractually arranged. So the commonwealth have signed up and provided funding against an agreed schedule of assets for an agreed project that must be achieved within the time frames outlined in the initiative.

MS BURCH: What is the value of that asset? The other may be a bit of an unknown but this is a known.

Mr Barr: The commonwealth's contribution is $67 million and could potentially rise a little higher if the asset sales achieve more than what is anticipated in that schedule. A little under 10 per cent of the cost of stage 1 is commonwealth funded.

MS BURCH: Whilst we may not know what the consortium may seek in compensation, that is a known: that we would have to forsake those moneys?

Mr Barr: Under the terms of the asset recycling initiative, yes.

THE CHAIR: Mr Doszpot, a new question?

MR DOSZPOT: Chief Minister, has the Auditor-General released any reports over the past 12 months that deal with matters relating to Treasury?

Mr Nicol: Almost every Auditor-General's report touches on—

Mr Barr: Touches on some element of it.

Mr Nicol: what Treasury does, given our whole-of-government view of expenditure. It would be best to get you a list on notice, Mr Doszpot.

MR DOSZPOT: Light rail is one of them, I should imagine?

Mr Nicol: Light rail is one. They did one on debt. There have been several. I would like to go back to the records and get a complete list.

MR DOSZPOT: Okay. I have a few other questions on that. What recommendations were made by the Auditor-General regarding issues relating to Treasury? Have any of these recommendations been acted on, including the light rail ones? If any recommendations were not accepted, what were the reasons? Also, what other answers you may or may not have given to the Auditor-General.

Mr Barr: In relation to questions of government responses to Auditor-General's reports, they are, of course, publicly available, so I would refer you to each of those. In relation to audits recently released, the government has a time frame in which to consider those and will respond in due course. So all of the information you seek is publicly available. Your colleague in fact chairs the public accounts committee, so he is in a position to advise you on the work of that committee.

MR DOSZPOT: I fully understand. I thought it was an opportunity for you to talk to the Auditor-General's report if you so wished. But if you do not—

Mr Barr: The government will respond to the Auditor-General's report in due course, as is the tradition of government responses to Auditor-General's reports.

THE CHAIR: Ms Burch, a new question?

MS BURCH: During the community hearings reference was made to the NDIS, the cash put into the NDIS and the flow through that. Could you talk to us about the interactions with ACT disability system and the NDIS? How will that be worked through with the commonwealth and the ACT? There is probably still some settling in to go with that.

Mr Barr: I am advised, Ms Burch, that that question is best asked in the CSD estimates as they have the direct responsibility in relation to the detail you are seeking.

MS BURCH: All right, but at the COAG level, that is through Treasury, isn't it?

Mr Nicol: I think the responsibility is shared. CSD has the lead because it has essentially gone through the policy phase at the COAG level through to an operational implementation phase.

MS BURCH: It is just that often in the media you see that the commonwealth are trying to reframe some of the agreements and arrangements for financing that. Is that a concern to us—not necessarily the policy of it but if there was any change from the commonwealth about what our obligations are? Is that a threat to us?

Mr Barr: It is, but Minister Bourke has been taking the lead on that, yes.

MS BURCH: I will go to another question, given that that one was bumped, so to speak?

THE CHAIR: Sure.

MS BURCH: On page 33 of budget paper 3—you may have spoken to this—there is a table of technical adjustments. It seems to be quite bumpy. Mr Smyth asked about this in relation to the territory banking account. I was a bit late coming back. Can you explain what is behind the lumps and bumps in that? Is it—

Mr Nicol: Sorry, what page are we on?

THE CHAIR: It is page 35 of BP3.

MS BURCH: If I look at, say, the territory banking account, there is a negative in 2016-17 of $16 million. What is behind the lumps and bumps, so to speak, in very crude terms? Sorry for using that language.

Mr Nicol: I will ask Mr McAuliffe to come up.

Mr Barr: Sure.

MS BURCH: Is this expected? Is it managed—all of that?

Mr Barr: Just to work through them, in terms of the "LDA dividend, income tax equivalent and contributed assets," there are variations from fiscal year to fiscal year arising from changes to the land release program, settlement dates, the nature of land release between englobo joint venture and LDA estates.

For example, an englobo release will deliver an up-front cash payment for the land but not the development profit that is associated with an LDA-delivered estate. So it has different impacts in the context of the headline net operating balance, our cash flows and the like. There is variation through those years depending on the nature and the mix of land release and the sheer volume of land release. So there are movements there associated with those factors.

For Icon Water, its dividend and income tax equivalent, of course, are related to the performance of that particular utility. Everything, from the volume of water sold through to questions of their operational efficiency and the like, contributes in the end too to the outcome there.

Taxation revenue reflects adjustments in the context of realised outcomes in current fiscal years and the like: a growing economy, lower unemployment, more payroll tax revenue, lowering of stamp duty, return of confidence in the housing market and more property transactions. In terms of the territory banking account, interest rates are going to affect that. Pat, do you want to add anything?

Mr McAuliffe: There are two things that have happened with the impacts in relation to the territory bank account. The first is that at 30 June last year the account had a higher closing balance, just a higher cash balance. When we are comparing here, these adjustments are comparing with the budget review. We had the flow-on effect from last year's audited outcome.

When we established this year's budget, we had a look at the overall cash balances across the territory bank account and across the balance sheet. We have had a reduction in investment revenue. There are two things there: one is that we have reduced the cash balances, and there are two things behind that as well. There has been a reduction in interest revenue because of lower interest rates. Cash rates have come down in the market.

The benefit of that reduction on that side has been that we have reduced our interest expenses. We have reduced our estimated borrowing outcome this year by about $300 million. That has flowed on right across the forward years. We have also had lower interest cost for funds. Last year's budget was around about 3.4 per cent cost of funds built in whereas this year for our recent borrowing it was 2.65 per cent. That is a large impact on our borrowing projections.

THE CHAIR: But the interest is still about $100 million a year for each outyear?

Mr McAuliffe: We have got new borrowings forecast in the forward years. They are going to be at a lower cost of funds.

THE CHAIR: But the cost is what?

Mr McAuliffe: The cost of interest?

THE CHAIR: Yes.

Mr McAuliffe: Table 8.3.3 has a summary of our estimated interest costs on total borrowings.

THE CHAIR: What page is that, Mr McAuliffe?

Mr McAuliffe: Page 305.

MS BURCH: The Pegasus report raises questions about some of the LDA dividends and the assumptions that you have put into them. Do you want to give us your take on those?

Mr Nicol: I might ask Mr Miners to come up as well. The government, as the Treasurer said, over the last couple of budgets had reduced the forecast release of land under the LDA. I think it is fair to say that that followed a number of years where we did not achieve our targets; so we reduced them. We have overachieved the target in 2015-16. We were actually expecting quite a deal more revenue in 2015-16 from sales. So the government has taken the decision to release more land over the forward estimates.

There have been quite strong demand and prices for that land. I think the program now is at a level that is sustainable from both a supply and demand point of view. We are capable of delivering this amount of quantity and the demand at least at this stage appears to be out there. Subject to not having either a significant increase in demand or a significant reduction in demand, I think that will continue in the forward estimates.

Mr Barr: As I understand it, the committee has heard evidence to suggest that demand is even stronger than what we have anticipated in terms of this uplift. You have heard that from the Master Builders Association, who have very forthrightly said that they want even more land released. It is one of these interesting dilemmas for government in so much as you have a certain set of stakeholders who want even more bullish figures put into the budget in terms of land release.

I said, and I was at pains to say, when we took the numbers down that our expectation when we did that was that if we did not have numbers such as those we had reduced them to, we would have been criticised for being unrealistic. As the Under Treasurer said, you have got to settle on a program that is both deliverable and achievable.

I make the statement again: if the evidence shows that we need to release more land on top of what we have already put in this program, then we have the capacity in a future budget to make a further adjustment upwards if the demand is there. But I go back to the point I was making prior in responding to earlier questions. We have also, as a result of the decisions we have taken, given the private sector and joint ventures greater opportunity to respond as well. It is not just the government who will have the ability to supply more land more quickly in the future.

With that CSIRO site in Belconnen—not many Canberrans understand that, what has happened there. I will predict there will be a significant community backlash the second someone tries to build on it because I do not think people are aware of the change. But that is now a private sector project. CSIRO will negotiate with the private sector to deliver housing on that site and they will face considerable community backlash, I have no doubt, from people who live nearby, but that is their project—

THE CHAIR: So what would you have delivered on the site?

Mr Barr: I would not have rezoned the site.

THE CHAIR: You did not ask for the site to be rezoned?

Mr Barr: No, we did not. This was an initiative of the CSIRO.

THE CHAIR: So you would have just seen it returned to the territory and left vacant?

Mr Barr: No, I would maintain it as a CSIRO site. It is national land; so the ACT government's position was not to be involved in the project.

THE CHAIR: So are you annoyed or upset by that because—

Mr Barr: I think it has got implications.

THE CHAIR: it impacts on your land release program?

Mr Barr: No, it does not worry me in terms of our land release program. I think some competition there is a good thing. But my concern is that most planning changes in Canberra go through a significant process. The Molonglo Valley was eight years from the initial concept of it being an urban development to when we actually started. This has happened in eight months and I do not think people are aware of it. I predict there will be a backlash.

MS BURCH: I understand that the Pegasus report is now public. There are a couple of comments in here where they have questioned some of your forecasting and assumptions. I was curious to know for the benefit of this committee—rather than ask a whole lot of questions around different things—whether Treasury is providing a summary or an information paper in response.

Mr Barr: We will be happy to respond to the—

MS BURCH: Just for us as information.

Mr Barr: Yes. For the benefit of the committee we will provide a response to the—

MS BURCH: That would be excellent.

Mr Barr: I am sure the committee will be very sharply focused on those areas where that report agrees wholeheartedly with the government's policy direction, for example.

MS BURCH: Like on tax reform, yes, but that does raise questions.

Mr Barr: I will look forward to that.

MS BURCH: It would be useful for us to have it in written form.

Mr Barr: Certainly, happy to respond.

MS BURCH: Thank you.

THE CHAIR: Just as a supplementary to the original question on table 2.1.3, can you explain to the committee what is happening with the ACTIA liabilities?

Mr Nicol: It might be best to do that when ACTIA are here. John Fletcher can talk to it in detail.

Mr Barr: When is that? Is that later this afternoon or tomorrow?

THE CHAIR: That is okay.

Mr Barr: We will do that.

THE CHAIR: It is all right. It is just that you explained some of the others; I thought you might want to take the opportunity to explain that.

Mr Barr: Yes, sure.

THE CHAIR: Could we continue the discussion on debt. Why does the net debt reach $2.9 billion in 2018-19?

Mr Barr: There is the impact of the billion-dollar Mr Fluffy loan. There is—

THE CHAIR: What is the impact of Mr Fluffy year on year?

Mr Barr: It is $1 billion of the $2.9 billion, so it is one-third of it.

Mr Nicol: If the question is about the increase in 2017-18 to 2018-19, I refer back to my previous answer. A large part of that—not all of it, but a portion of it—is the recognition under the light rail contract. That is expected construction complete, so the full liability and asset are recognised at that point in time.

THE CHAIR: Is it possible to have a breakdown, across the five years shown there, of what the major components of the net debt are? How much of it each year is Mr Fluffy? How much of it is light rail?

Mr Nicol: We will take that on notice.

THE CHAIR: And then, just to follow up with Mr McAuliffe on the insurance expenses, the percentage might go down but the payments seem to go up—103, 110, 110.

Mr Barr: I think you mean interest, don’t you, not insurance?

THE CHAIR: Sorry, the interest. Can you talk us through that.

Mr Nicol: What page are you on, chair?

THE CHAIR: Page 305.

Mr Barr: That table outlines our market borrowings and the interest costs, the historical commonwealth loans on self-government and then the asbestos eradication scheme. You can see the breakdown there according to the different categories of general government sector debt. Then you have the public trading enterprise areas. The weight lies with the debt carried by Icon, would it not, Pat?

Mr Nicol: Before Mr McAuliffe gives you a more detailed answer, it is important to note that of course the lower interest rates apply to new borrowings only. We do not get low interest rates on our existing borrowings.

Mr McAuliffe: I guess the change that we have is this. If we go back to last year’s BP3 in the equivalent table, our estimated interest costs across the forward years were up in the order of $130 million or $140 million a year, and they are now down to $110 million. I am thinking that is a reflection of the lower buying requirement forecast, the timing of when we actually borrow new money and the lower interest rates associated with those borrowings.

Mr Barr: So about a 25 per cent reduction in borrowing costs.

THE CHAIR: And the effect of Icon on that?

Mr McAuliffe: The Icon Water borrowing has come under the PTE sector.

Mr Barr: Public trading enterprise, yes.

THE CHAIR: They are still expected to roll over a fair amount of debt in the outer years.

Mr McAuliffe: Yes, I think so. They have got an annual requirement, a modest requirement, of new borrowings each year.

Mr Barr: But then their market borrowings in each of the forwards are lower than what was estimated in the 2015-16 budget in terms of the total public trading enterprise sector.

Mr McAuliffe: There is a combination of things going on. A large proportion of the Icon Water borrowings is also attached to some inflation-linked securities. Subject to what the CPI does each year, there is a principal repayment occurring with those each year. Then that is sort of offset by their small new requirement each year as well. So it is a bit of a mix.

THE CHAIR: The strategy to pay down the debt? In 2018-19 it is 2.9; in 2019-20 it is 2.5. That is the payout of light rail?

Mr Nicol: No. Essentially, the debt is derived from both the capital program and the return to surplus, so multiple effects are happening.

Mr Barr: You have got the repayment of loans and the return to budget surplus. Then, also factored into that forward estimates, are the provisions for future capital expenditure.

MR HINDER: There is $50 million a year of Mr Fluffy paid outcomes in 2017-18 onwards, isn't there?

Mr McAuliffe: There are three years of $50 million from 2017-18; then there are three years of $100 million; then there will be the balance at the end.

Mr Barr: Ultimately, in the longer term the debt is paid down through a combination of budget surpluses and asset sales. That is how the ACT finances its infrastructure. It has been the case for 25 years and it will be the case for the next 25 years. The asset sales are predominantly land. That is well established. That was our one big endowment as the city develops. Then, in the context of further debt repayments, yes, it is off the back of running surplus budgets.

THE CHAIR: And the liabilities on page 290—there is the big increase this year because of the discount rate.

Mr Nicol: Yes, that is correct.

THE CHAIR: If the discount rate continues to remain low compared to the six per cent, all of the outyears would also blow out?

Mr Nicol: It is not as simple as that. The actual future liabilities we have in terms of superannuation are driven by things like rates of salary increases, inflation, returns on investments, et cetera. If interest rates were to stay low permanently, you would expect things like salary increases to be slightly lower than we have assumed and inflation to be lower, and they would tend to bring down the costs of our future liabilities. It would be a complex actuarial assessment before we could conclude what the outcome would be.

Mr McAuliffe: There is a statement of sensitivity in one of the appendices at the back. It will show what the expected impact is of, say, a full one per cent change in the discount rate. That is, as the Under Treasurer said, just holding a discount rate solely in isolation from anything else. But the reality is that if you are going to make a structural change to the discount rate, you would have to look at all the other assumptions that sit with that.

Mr Nicol: Going back to your questions, yes, if we left all the other assumptions the same and interest rates were 3.2, I think there would be an internal inconsistency in the long term, but there would be that higher financial liability that would come through each year if you assumed interest rates would stay at the levels they are currently at on a more medium to long-term basis and, as I said, you assume, I think, that our salary increase is somewhere around 3½ per cent. Mr McAuliffe, is that right?

Mr McAuliffe: Longer term?

Mr Nicol: Yes. Between 3½ and four. From an economic modelling point of view, it is difficult to say you will have—perhaps more pertinently, on inflation, if we assume 2½, it is hard to assume that with long-term interest rates at 2½, inflation would remain at 2½ there. They tend to be inconsistent. If long-term interest rates remained at 2½ to three, you would expect inflation to be lower. Our superannuation payments in the future are indexed by inflation. So if you had a lower inflation assumption, lower than 2½, those future payments would be lower and therefore you would be discounting back a lower figure so your current value and your future cash flows would be lower. It is a complex area.

THE CHAIR: Yes, it is, but they are big numbers and there is lots of debt—debt and deficits. All right; thanks for that. Mr Hinder.

Mr Barr: No, they are not.

THE CHAIR: If you look at your record, Treasurer, you have racked up about $2 billion, an aggregate budget deficit of almost $2 billion, since 2012-13. We have seen the surplus which was given for 2013-14, 2014-15 and 2015-16 drift out.

MR HINDER: I have an actual question here.

Mr Barr: I will take that as a comment, not a question.

THE CHAIR: No. You have not delivered, Treasurer. What will be different in the future?

Mr Barr: Mr Hinder, your question.

THE CHAIR: No. You do not run estimates. I do. What would be different?

Mr Barr: You do not make statements. You do not make longwinded statements—

THE CHAIR: It was not longwinded at all. It took about 30 seconds.

Mr Barr: Yes, it was. Mr Hinder, your question.

THE CHAIR: No, no. You do not run estimates, Chief Minister.

Mr Barr: Mr Hinder, your question.

THE CHAIR: Chief Minister, you do not want to end up in contempt of the committee.

Mr Barr: Mr Hinder, your question.

THE CHAIR: You are not in charge, Chief Minister. What will change that will move away from your record debt of $2 billion aggregate since 2012-13? What will change that will actually deliver a surplus and what will change that will see a reduction in the debt and borrowings?

Mr Barr: I refer you to the budget papers. Mr Hinder, you have a question.

THE CHAIR: No. Sorry, Chief Minister. You do not run estimates. I run estimates. I direct the questions.

MS BURCH: I am sure Mr Hinder would like to ask his questions.

Mr Barr: No; a committee runs estimates.

THE CHAIR: No, no. I am the chair. I have been charged here. I have been charged by—

Mr Barr: Mr Hinder, your question.

THE CHAIR: No, Chief Minister. You do not direct the questions. I direct the questions as per a resolution of the Assembly. If you want to be in contempt of the Assembly—I am not finished with my question, Chief Minister. When we go back to the debt, what will change that will see the decrease in the outyears that is of substance?

Mr Barr: I have answered that question previously. You were not listening.

THE CHAIR: I listen all the time to what you say, Chief Minister; that is why I am coming back to it.

Mr Barr: No, you do not. You have a long-term record. What will change for you, Mr Smyth?

THE CHAIR: No. What changes, Chief Minister?

Mr Barr: What changes for you, Mr Smyth?

THE CHAIR: You do not like being questioned, do you, Chief Minister? You do not like being held to account.

Mr Barr: I am here for three days, Mr Smyth.

THE CHAIR: Yes, you are.

Mr Barr: Answering your questions.

THE CHAIR: So why can't you answer the question?

Mr Barr: I have answered it.

MR HINDER: The answer is the budget. That is why we are here. The budget tells us what is going to change. The budget tells us what is going to change.

THE CHAIR: No; there is no commentary from you, Mr Hinder.

Mr Barr: Surplus budgets, asset sales, pay down debt in the longer term.

THE CHAIR: Thank you, Chief Minister. That was not hard, was it?

Mr Barr: I have said that four times already. You are not listening.

THE CHAIR: I am entitled to ask the question in any way I see fit.

Mr Barr: Mr Hinder, you have been waiting very patiently for a question.

THE CHAIR: No, sorry, Chief Minister. You do not—

MS BURCH: Can we move on with this?

THE CHAIR: If the Chief Minister would come to order.

Mr Barr: Your rudeness to your fellow committee members—

THE CHAIR: Come to order.

Mr Barr: Your rudeness to your fellow committee members—

THE CHAIR: No, your rudeness to the committee.

Mr Barr: is setting a new low in these hearings already. We have not even got to lunchtime.

THE CHAIR: Nobody believes that, Chief Minister. If that is your defence, good luck to you.

Mr Barr: No. Your rudeness to your other committee members is a new low.

THE CHAIR: That is kind of the last resort, isn’t it, when you do not want to answer questions?

Mr Barr: We have not even got to lunchtime and you will not let other committee members ask questions.

THE CHAIR: You are very nervous about this, aren’t you? That glass jaw is out. Your chin is out.

MS BURCH: Mr Smyth, I have a question.

Mr Barr: You will not even let other committee members ask questions.

THE CHAIR: Chief Minister, I have let the morning flow consistently. You are the one that is causing the grief here.

MS BURCH: Can we get on with it? We have wasted five minutes.

THE CHAIR: Mr Hinder.

MR HINDER: My question is about land release, Treasurer. The territory is reliant, to a large extent, on the income derived from sale of land. The issue around affordability is something that your government is committed to. Don’t you still have an obligation at the same time to protect what for most of us is our biggest investment in our family homes that we have already purchased? How do you trade those two things off whilst trying to pull down the price of land? Clearly, a federal government committed to reforms around negative gearing would assist with that more so than perhaps we can, but how do we keep the price of land affordable while still protecting the investment that many of us have already made in the family home?

Mr Barr: Indeed. That is a very good question, one I am glad you have had the opportunity to ask, Mr Hinder. It is one of the most significant challenges, undoubtedly, that faces public policymakers right across the country. Whilst there are indeed many passionate calls for significant reductions in the price of land, if you were to pursue a policy to that effect then that would have consequential impacts across the entire housing market—most particularly for those who have recently bought in similar areas, but undoubtedly right across the housing market.

Public policy needs to respond in a number of ways. Firstly, it needs to ensure that the rate of growth is slowed to a level that is more commensurate with price increases in the general economy; in other words people’s wages either keep pace or in fact preferably exceed the rate of price inflation when it comes to land. However, there is a range of factors that you will hear any real estate agent say that reflect reality; that they “ain’t making more land”, and that in certain locations there is no land available. Whilst there might be a significant desire on the part of many to live in those locations in a particular housing form, the supply is necessarily constrained by the fact that there is no more available land.

Responses to that can involve changes in how that land is utilised. Certainly, you have seen in this city perhaps more than in any other in Australia in the past 15 years a response in certain areas of Canberra where there is strong desire for people to live where you see increased density, with more people sharing the available land.

In the context of greenfield land release, that is particularly sensitive to the issues that you have raised. In a hypothetical example, if the government were to say that the next blocks of land we sell in Gungahlin—this is an extreme example—will all be $50,000 each, two things would occur. Firstly, as you have indicated in your question, it would undermine the value of the land that was previously sold; secondly, it would result in a windfall gain for those who purchased the land at that price and then subsequently went to on-sell at a market price. The government has to be very careful in the context of land release to ensure that that balance is struck between protecting the land values of previous releases and ensuring that there is not a rampant acceleration.

There is then a question of nominal versus real price growth. With respect to medium-term policy settings, land prices are not going to fall in nominal terms but they can fall in real terms. That is a more gradual change over an extended period of time. Of course, I go back to the observation I made earlier: land releases in different locations will have different value, and land release in different sizes will allow for a range of housing dwellings to be constructed.

Competition in land release also assists. That is why the government has pursued a policy which, within the broadest possible terms, has one-third of land released through englobo sales by the private sector, one-third in joint ventures between the government and the Land Development Agency, and one-third through Land Development Agency stand-alone estates. We think that generates the right mix of competition in the marketplace, while ensuring diversity of housing product and the opportunity for people to access affordable housing. Particularly in the context of the LDA estates, we have a 20 per cent housing affordability requirement. So we are effectively utilising the estate design process to cross-subsidise and provide for diversity of housing types and housing prices within LDA estates. I know that a number of the joint venture private sector partners also seek similar diversity in their land releases, and to try to cater for the broadest possible market range.

That is on the land release side. You then look at what your policy settings are in relation to taxation. You have alluded to changes at a federal level that would assist homebuyers over investors. That is a very lively debate that is occurring at the national level, and it is good to see that we have that debate and people will have a choice in relation to policy on negative gearing.

You then turn to the state and territory level taxes. There is one government in the history of the Australian Capital Territory that has cut stamp duties, and one government and one party that will take that policy to the next election. We will continue to cut stamp duty, and that is an important contributor to improving housing affordability.

MR HINDER: I have a supplementary. My question was largely aimed at first homebuyers and the younger group starting in the housing market. My supplementary is about the other end of the spectrum—people who are retired or getting older. Mr Doszpot asked a question earlier about seniors in terms of the Mr Fluffy owners. I noticed the seniors stamp duty concession in this part of the tax reform package. It is not widely understood, I do not think, and it has been extended until the end of this year. Is there any plan to continue those?

Mr Barr: There is a pensioners scheme, and there is less targeted, more short-term stimulus. We have drawn a distinction between the two schemes. One was a short-term stimulus to assist the housing market through a difficult period. We have extended that until the end of this calendar year.

MR HINDER: The seniors and the pensioners.

Mr Barr: That is the non-pensioner one, the homebuyers concession. We have continued the pensioner duty concession scheme for a further two years. Those schemes, combined with the general reductions in stamp duty that have been occurring year on year since 2012-13, are now saving those senior Canberrans who are looking to downsize, of which there is a significant number, tens of thousands of dollars in stamp duty, and making it possible for some who would otherwise not have been able to pursue that option, because of a large transaction cost associated with it, to do so.

If you are a pensioner and you are being asked to pay $40,000 in stamp duty to downsize, that will be a pretty significant inhibitor to your making a housing choice that you might want to make. Even if it is $20,000 in stamp duty, even if it is $15,000, if you are a pensioner that is a big impost in the context of making a decision around your housing options for an extended period of time.

The take-up of those schemes has been encouraging. When you combine them with the across-the-board reductions in stamp duty, it is certainly about making the decision at a certain point in life. No matter where you are in the life cycle, whether it is buying your first home, buying a larger family home if your family is growing, or if you are an empty nester and you want to move into something that has lower maintenance costs or requires less of your time to maintain, something that is a smaller space to suit your changing lifestyle, you have that option, and we are not taxing you anywhere near as much as other jurisdictions. Through the combination of those schemes we are providing real incentives. People have been taking them up, and it is good to see.

MR HINDER: Which in turn, I suppose, then relieves pressure on the residential housing market or the family home housing market? It allows that—

Mr Barr: It certainly has flow-on impacts across the housing market when you get a better match in terms of people's housing needs with the available housing stock. There are 160,000 dwellings in Canberra, and in any one year you are adding 4,000 or 5,000 new dwellings. The pace of change is not that rapid when you consider the totality of the housing stock, and you need other mechanisms to get that mix of housing right. Economists would refer to it as allocative efficiency. Real people would refer to it as being able to get a house that suits your needs.

THE CHAIR: Mr Doszpot, a new question?

MR DOSZPOT: Prior to going to my question, could I ask that our records of this committee reflect the most inappropriate and persistent way that the Chief Minister has tried to bully the chair of this committee.

Mr Barr: Oh, you are kidding! Ask your question.

MR DOSZPOT: Very inappropriate.

Mr Barr: Now I have heard it all!

MS BURCH: That is shameful.

Mr Barr: Now I have heard it all. You are kidding. Ask a question and let us move on.

MR DOSZPOT: You are directing me? Okay.

Mr Barr: Yes, you have the call. I am looking forward to your question.

MR DOSZPOT: Chief Minister, referring to BSB, pages 2, 3 and 6, a major theme of your government has been the objective of diversifying the ACT economy. Statistics released by the Australian Bureau of Statistics show that the proportion of private sector employment in the ACT was 59 per cent when the Canberra Liberals government left office in 2001, and since then private sector employment has remained well below that level. What is the current proportion of private sector employment in the ACT?

Mr Barr: I will need to get the most up-to-date figures, but in the context of your question, that came at a time when the commonwealth government had significantly reduced the level of public sector employment and then outsourced a significant amount of public sector employment to the private sector. So the same people were performing exactly the same jobs, but as contractors rather than as public sector employees.

A more useful statistic, Mr Doszpot, rather than looking at shares of the labour market, would be to look at what the labour market comprises now, in terms of the number of jobs and the types of jobs in 2016 as opposed to 1996. You will see that we have a more diverse economy, and we have had areas outside the government that have grown very strongly. I refer particularly to higher education, professional services, ICT, defence and national security, and tourism and hospitality; all areas of significant growth for the territory. As I referred to in an earlier answer this morning, service export growth in the ACT has outstripped all other states and territories in the past five years. So we continue to see a more diverse economy. There are certainly more people employed in the private sector in 2016 than there were in 1996, and in a more diverse range of occupations.

MR DOSZPOT: Will you present the figures to us?

Mr Barr: Absolutely.

MR DOSZPOT: Why will any policy proposals contained in the 2016-17 ACT budget be any more successful in growing the proportion of private sector employment in the ACT than is currently the case?

Mr Barr: We continue to support those areas of the territory economy that have the greatest capacity for rapid growth, to tap into new national and international markets. Undoubtedly the advent of the direct international flights will open up a range of opportunities for the ACT economy that have not been available to us in a direct form in the previous 103-year history of the city.

We also have, through our higher education sector, through the establishment of things like the CBR Innovation Network, an opportunity for further rapid growth. The government, through its budget policy settings, seeks to support economic growth through reforming our taxes, through investing in new public infrastructure and ensuring, through changes to planning policy, for example, that we are facilitating the growth of those leading non-government employers.

I do note that, in the context, for example, of the University of Canberra, the government's changes to the governance arrangements for the University of Canberra, and indeed the planning arrangements around that campus, will facilitate billions of dollars of new investment on the campus. I note that you opposed those particular policy initiatives. It is your right to oppose them, but you do not then have the right to come in here and lecture me about what we are doing to diversify the economy when you oppose every specific measure that we undertake.

Again, you are welcome to hold those public policy views. You are welcome to say that our higher education sector should be smaller than we aspire to. You are welcome to argue that. You are welcome also to argue against measures that go to enhance the opportunity for growth in higher education. You can do that. I am happy to contrast our respective positions, in that we have been actively supporting the largest employment provider outside government: higher education. We have been actively supporting the single largest export earner for our territory: higher education. And we continue to support those other sectors of service export growth, professional services and particularly tourism and hospitality.

The record, to have achieved in the past 12 months the highest number in the history of the territory of both domestic and international visitors to Canberra, before the international flights have started, reflects the success of our policy direction. Our economy is larger; economic growth has tripled. Economic growth has tripled, Mr Doszpot, under the policies pursued by my government in the past three years. Unemployment is the lowest in the country. Retail trade figures are the strongest in the country. We are seeing significant increases in investment into Canberra, nationally and internationally, and locally sourced. Every economic indicator is positive, and in many instances leading the country.

The real success story of the territory economy in the past five years has been that our service exports have grown faster than any other state or territory, and well above the national average, all of which, Mr Doszpot, points to an economy that is growing rapidly, providing more opportunities for residents of Canberra, delivering a much better Canberra. We are already rated as the world's most livable city by the OECD on many different assessment criteria. We are the best place in the world to live.

My government continues, through this budget, to ensure that we have a more diverse economy, that we invest in health and education and that we invest in community services. We have the most comprehensive response to the issue of family violence in the history of the territory and the most comprehensive social inclusion statement. The most successful cities and the most successful economies tap into the talents of all of their residents, and that is exactly the policy direction that we are pursuing. We are opening this economy up to new national and international level investment, bringing major new investors into the city, such as Singapore Airlines and IKEA, and bringing in major national companies like QantasLink to establish their major repairs for servicing their 717 fleet at Canberra Airport. It is a comprehensive business development strategy implemented over a number of years that has delivered a tripling of economic growth in Canberra.

MR DOSZPOT: I presume that your support of all of the various industries you have mentioned also extends to the building industry?

Mr Barr: Yes, we are seeing very strong figures in commercial construction and residential construction.

MR DOSZPOT: I would imagine that you also listen to the advice of some of the key elements of the building industry. The Master Builders Association, whom you mentioned some time ago, made a recommendation to this committee that the MOU with the unions be torn up. Are you going to listen to the recommendation of the Master Builders Association?

Mr Barr: I greatly respect the views of the Masters Builders Association on a variety of issues, but they do not advise me on industrial relations policy.

MR DOSZPOT: They made recommendations to you. Are you going to follow the recommendations?

Mr Barr: No, I will not be taking up the Master Builders' recommendations. They have advice on that particular issue. They have a perspective. I think they have vacated the field in terms of responsible stakeholders in the context of industrial relations. They used to play a very constructive role. They have taken a very different policy approach in recent years, and it has been disappointing.

MR DOSZPOT: Do you feel you have been fair with—

Mr Barr: Absolutely.

MR DOSZPOT: the attention you have paid both to the union aspect of it and to the building industry overall?

Mr Barr: Absolutely. I do not hate workers, like you, Mr Doszpot.

MR DOSZPOT: I don’t hate workers, Mr Barr.

Mr Barr: I seek to support those who undertake difficult work for Canberrans. I do not want anyone to die or be injured on an ACT government worksite. You are proposing, through your suggestion, that I would rip up those arrangements to compromise the health and safety of workers.

MR DOSZPOT: No, I am not. I am suggesting that there are fiscal elements at play—

Mr Barr: You would compromise the health and safety of workers here in the ACT, and I will not have any part of that.

THE CHAIR: We might leave it there, gentlemen. Members, we have reached the end of our time for the morning session. We will return this afternoon at 2 o’clock to deal with the superannuation provision account, the territory banking account, and the compulsory third party insurance regulator and statement of intent.

Sitting suspended from 12.30 to 2 pm.

THE CHAIR: Welcome back, Chief Minister and members. Chief Minister, could you give us a rundown on where the superannuation provision account is, and will we meet our targets of coverage?

Mr Nicol: Yes, we are on target to meet fully funded by 2030.

THE CHAIR: We had some discussion this morning about the discount rate. What effect does that have? I know we are applying the standard rate in the outyears, but how relevant is that to reaching the target in 2030?

Mr Nicol: It will become relevant to the extent that over time actuaries who estimate our liabilities will update those forecasts which, as I said before lunch, would involve the main variables of both not only the discount rate, but the key variables are salary rate increases, inflation and return on investment of various PSS and CSS funds. The discount rate does not actually affect the amount of cash we are going to pay out the door through the next 60 or 70 years. It just reflects the change in the valuation of that cash flow.

But to the extent that the discount rate is linked to those other variables and those variables are updated over time, should the current long-term averages not eventuate in that actuality into the future, that will affect the amount of cash we have to pay out the door and subsequently how much funding the government has to put aside to reach its goal of fully funding the liability. That is no different to how it has worked since the government announced this policy. These variables vary over time. Mr McAuliffe, do you have anything to add?

Mr McAuliffe: No, that is pretty right.

THE CHAIR: Yes, and it does not help to criticise the boss; very wise of you. How is the six per cent calculated? Over what period of time as a long-term average is that taken?

Mr Nicol: Firstly, it is the rate the commonwealth uses as their long-term benchmark rate. So we do not every year recalculate; we accept that six per cent is the long-term average, and generally the "long term" we define as more than 10 years.

Mr McAuliffe: If you have a look at where bond yields have been over the past number of periods, if you are looking at a 30-year average, you are looking around about 6.5 per cent. Bringing that back to around about 25 years we see pretty much on six per cent. Back to 15 years and we are probably getting down to around about that 5.5 sort of per cent average area.

That is why we want to be careful with this. We have had this liability now for 20-plus years. We are going to have it for another long period. Who knows how the rates will go. We have had high rates in the past; we could have them again. We will continue working with the commonwealth government and keeping an eye on what they actually do. Obviously if they have any consideration to changing the rate themselves then we will have to have a look and work with them to see what those potential implications are.

Mr Nicol: We also look to the market on this question. This question becomes an application of the accounting standards issue. We do not set the rate, in one sense, so we will not want to be too different to what the rest of the market considers in this space.

The longer interest rates are below six the more likely I think it is that we will start to question whether we should bring that down. When is a judgement call. When I say "bring that down", I mean for the medium-term valuations. At the same time when you do that you would ask the actuaries to have a look at all the variables and ensure that the model is based on an internally consistent set of assumptions.

THE CHAIR: The standard is set on these matters. Is there an accounting standard that helps?

Mr McAuliffe: AAS119 is the accounting standard that sets out how a superannuation liability has to be accounted for. It goes into the benefit calculation methodology and all sorts of things. It talks about the discount rate you have to use. For the public sector it requires that you use an appropriate long-term, risk-free rate. The only appropriate risk-free rate in the long term is the longest commonwealth bond.

Last year when we did the valuation at 30 June the longest commonwealth bond at the time was their 2037 maturity. This year will be their 2039 maturity bond. So you just take that swap rate at 30 June and annualise that rate.

MR HINDER: We inherited a large cohort of federal employees at the start of self-government. How many different types of superannuation do we administer as a territory?

Mr McAuliffe: At self-government the functions that became territory functions were transferred over and the public service that came to support those functions came with it. At that time the defined benefit scheme that was available to commonwealth public servants was the CSS, so those people came over on the CSS. Subsequently that scheme closed and the PSS was the new defined benefits scheme that was opened.

At the time I guess there possibly was a choice that the government could have opted for our employees not to be part of the PSS but, given the close proximity with the commonwealth and the interchange of public service, the PSS was extended to our public service at the same time. That subsequently closed in 2005, 2006. At that time the commonwealth opened up an accumulation scheme. For a short period of time our new employees joined that scheme. Then access to that was closed from 2006, and our employees are now offered choice of fund.

Mr Nicol: Which is a fully funded scheme. So the superannuation liability we are talking about here that is met by the superannuation provision account is those schemes that are closed to new entrants. There are contributory members of both schemes, obviously. The last scheme we have, of course, is the scheme for parliamentarians—Legislative Assembly members—which I think has four active participants?

Mr McAuliffe: For a bit of context, out of the total ACT workforce at the moment, there are still around 8,500 current contributors to the now closed CSS-PSS defined benefits scheme. So the rest of the public service basically are in the choice of funds accumulation.

MR HINDER: The superannuation liability valuation of $87.7 million on page 31 of book 3, that includes all of those various forms of liability?

Mr McAuliffe: Which page number, sorry?

MR HINDER: Page 31, budget paper number 3, the budget outlook, the last but one paragraph.

Mr McAuliffe: No, that $87 million is the adjustment that has been put through this year. It is related to the CSS-PSS liability, that is correct, but that is the estimated impact of the change that will be an expense at 30 June this year by using the lower discount rate now in our valuation.

MR HINDER: So what is the total liability?

Mr McAuliffe: The full expense for the actual year—so the actual expense—will be around about $540 million in the 2015-16 year—sorry, in 2016-17 it will be $570 million. Page 296 has a table that has the liability valuations as well as the expenses and the estimated benefit payments.

MR HINDER: And by 2030, where will that figure be?

Mr McAuliffe: Our current modelling estimates we will be sitting at around 104 per cent at 2030.

MR DOSZPOT: With reference to 2016-17, BP3 and the summary on page 290, just a little bit of clarification: Treasurer, can you confirm what discount rates apply or applied for superannuation liabilities as at 30 June 2016, 2017, 2018, 2019 and 2020?

Mr McAuliffe: The estimated rate for 2016 will be the 3.2 per cent and the budgets in the forward years will be six per cent.

MR DOSZPOT: All of the others are six per cent.

Mr McAuliffe: All six per cent, yes.

MR DOSZPOT: Can you elaborate on why these discount rates differ?

Mr Barr: We just did that.

MR DOSZPOT: So it is not hiding the quantum of the liability by any chance, is it?

Mr Nicol: No. I think the historical context is the average has been around six, and we have had about three or four years of very low rates. Every year we use the spot rate of the actual rate, and we maintain forward estimates on a return to normal average. In a normal interest rate setting environment, it is difficult to predict what interest rates are going to be in 12 months, 24 months, 36 months.

MR DOSZPOT: Sure, and I recognise that, but the point is that there is a big difference between the 3.2 and six per cent.

Mr Nicol: There is.

MR DOSZPOT: And the market trends would indicate that there is not going to be any sudden change.

Mr Nicol: Certainly a case could be mounted that six is going to be too high, certainly in the short term. But I have also been through interest rate cycles that when interest rates start going up, they go up back to normal. Again, we are being transparent as to what the rates are; people can use their own judgements.

I just refer to my earlier comments that the forward estimates are also based on assumptions about inflation and pay rises and returns on funds invested that are consistent with a six per cent interest rate environment. If you have a lower interest rate environment, you will tend to have lower inflation and lower pay rises, which would tend to reduce the liability a little bit.

Where that would end up is when you have to get actuarial work done to re-estimate the cost of those liabilities under new assumptions. As I said before, at some point if interest rates continue to remain below six, we will be doing that work. I think we would probably want to be consistent with the commonwealth and the way the commonwealth does it and use similar assumptions. We work very closely with the commonwealth. These schemes are commonwealth administered; we pay the commonwealth our portion of the liability for the schemes.

We have had discussions with the commonwealth in the past six months about whether six should continue to be used. The commonwealth made the decision to remain with six, and we also made the decision to remain with six for those forward estimates.

MR DOSZPOT: Moving on to an explanation on the analysis regarding the percentage of liabilities covered in different years, 51 per cent liabilities were covered in 2012-13; 56 per cent of liabilities were covered in 2013-14; 58 per cent of liabilities were covered in 2014-15; but only 36 per cent of liabilities were covered in 2015-16. Can you elaborate on that?

Mr Nicol: The denominator in that percentage is the valuation. So when you get a low interest rate year, the measured value of the liability goes up whereas the amount of funds in the superannuation provision account is not affected by a valuation measure such as that. You get that bouncing around largely because interest rates have changed, and your measured liability has changed. When we model long-term sustainability in the 2030 target, we look at long-term cash flows. Pat, do you want to—

Mr McAuliffe: That is right. I think if we were to use the six per cent discount rate again as at this year, that 36 per cent would be over 50 per cent. That is one of the challenges with this discount rate; if you start trying to change it every year depending on what the interest rate is, we are going to have these numbers jumping all over the place. We are trying to get what is a good, stable measure that reflects that longer term as well.

Mr Nicol: To add one extra point, if interest rates were higher than six per cent, the valuation would be coming down and our proportion funded, at least by that measure, would be going up. I would similarly argue that that is not a good indicator of a long-term liability. You really need to look at the cash flows and whether you can cover the cash flows going into the future.

Mr Barr: And the headline net operating balance adjustment would be positive rather than negative under those circumstances.

Mr Nicol: That is right.

Mr Barr: But it would not be as a result of a policy decision of government or a measure of budget management.

Mr Nicol: That is correct.

MS BURCH: Just on that, again Pegasus raises some questions around the discount rates applying. Going on from where I was before lunch, could you provide to the committee any advice you have where there have been those types of questions raised in the Pegasus report just broadly?

Mr Nicol: Yes, we will do that.

MS BURCH: Following on, they are big numbers—the superannuation liability. I was looking to that, but also looking to investment—how you manage responsible investments and how in the longer term that feeds into offsetting these big numbers and liabilities. Do you want to talk us through your investment strategy—in particular, responsible investment?

Mr Barr: I will ask the man in charge to talk about this.

Mr McAuliffe: Obviously, we have got the broader responsible investment framework sitting around it, but our starting point is looking at our strategic asset allocation. That is the fundamental part of any investment strategy. We have a target long-term return, which is a nominal return of 7½ per cent, CPI plus five. From that target objective, we try to model how much we want to allocate to a range of different asset classes in order to help us deliver that return in what we would hope is a good risk-adjusted way. In that regard, we allocate across equities, bonds, property—those sorts of asset classes. We always revisit that allocation in consultation with our asset consultant and with our investment advisory board, taking into consideration the broader economic environment, long term and short term. We are cognisant that it is a long-term strategy, so again we do not want to be trying to make short-term tactical asset allocation decisions which we do not need to do. We do not have liquidity needs like, say, a super fund, so we can invest for the long term.

Over time, that has proven worthwhile. Our long-term target has been CPI plus five per cent. Measured to 20 years, up to our estimated outcome this year, we are sitting on CPI plus five per cent. That is through the period of the GFC, where we had subsequent years of negative returns, but we also had good returns through that cycle as well. We are currently in a very volatile environment again. Estimated outcome for this year is looking like about a nominal return of 3.1 per cent as opposed to our 7½. Again, that is on the back of, in the past couple of years, a double-digit return.

With that in mind, we continue to look at that asset SAA. For example, we are sitting at the moment on about a 20 per cent cash allocation, whereas our target objective is five per cent. Again, we are not trying to make big shifts but just trying to make sure that we are not just leaving all the money exposed to risk. You do not want to take it away either, because you will miss opportunities.

MS BURCH: You have made mention of short and long-term investments and reviewing your portfolio, for want of a better word. How often would you shift? Is there a split between what you have got your money parked in for a 10-year type of investment to one where you play a bit more—

Mr McAuliffe: You have your long-term SAA, and we have very balanced ranges around that. You might have a target of 20 per cent invested in equities and a range of plus or minus five per cent allocation around that. Depending on what is what, we can let the exposures drift. We do not necessarily make a big active decision and say, "Let's get right out of equities," for example. You will try to manage that a bit carefully. What we are more looking to do is look into other asset classes to better diversify the portfolio. On our current agenda, we are looking to add some new asset classes. We do not have, for example, an infrastructure allocation. The territory has got a lot of infrastructure itself, obviously, but in terms of the investment portfolio—

THE CHAIR: If somebody has a train set, they could sell you shares.

Mr McAuliffe: it is looking to go into more of a fund that will have diversified infrastructure assets. To do that, we can take some of the risk away from our equity exposure. We have also got some fixed interest funds, which at the moment sit more around just your sort of sovereign bond type allocations. We might look to take a bit more of a credit exposure in those going forward. That will bring down that share exposure, again, hopefully, for those broader diversification reasons.

Sitting around that, we have the responsible investment policy. I have been through how that works in the past. Where we are sitting with that is that we have tried to put in place a framework that tries to independently look at the various risks from an environmental and social governance perspective. We do not want to sit here and say, "We do not like that company because it is involved in that company, so let's just take it out." But we have tried to set some broader criteria in the portfolio, that that framework will reassess our exposures on some sort of measured criteria, and if companies do not particularly meet those criteria, for one reason or another, they will not be held in the portfolio. For example, there are a couple of—

MS BURCH: Have there been any changes based on some of that recently?

Mr McAuliffe: There have. Since we first started this, the initial focus was on some prohibited investments—the manufacturers of tobacco, plus ammunition and landmines. We then looked at companies that have a low ESG score, as we call it, and there are some of those excluded on those grounds. But, again, if those companies improve those areas that they are excluded on, they will come back into the investment portfolio.

In mid to late last year, we looked to reduce the exposure to carbon and fossil fuel type exposures. We looked at the framework that looked to see which companies are the high holders of reserves, high emitters of carbon, those sorts of things. We had that built into the portfolio construction process. That has seen a significant change in that carbon footprint, as I will call it. If you look at our international equities portfolio, you will see that it has probably got a footprint of half that of the standard market equivalent index. MSEI is an index provider that has a carbon focused index, and our carbon footprint is a bit better than that. And that is not a wholesale change. I think the difference in numbers of stocks in the national portfolio is that the standard market index holds about 1,500 stocks, and ours, and I do not want any exclusions, if you like, is in the order of about 150. It is not as though there are massive numbers of stocks, but it is those focus companies that are not meeting those certain criteria. In terms of performance, our actual index, the custom index, is performing in line with the standard market. So it is not as though it is massively—

MS BURCH: So being socially responsible is not disadvantaging our bottom line in any way, shape or form?

Mr McAuliffe: That is the way the portfolio is looking at that, certainly at the moment, yes.

MS BURCH: Thank you.

THE CHAIR: Just to follow up from that, on page 284 of BSB you have got your strategic objective indicator of CPI plus five per cent. The estimate in the outyears just seems to be a flat five per cent.

Mr McAuliffe: That is actually showing the return net of CPI. The outyears are the same; we are going to get that five per cent return. It is excluding the CPI. That chart is net of CPI.

THE CHAIR: What has been the average return since 1996, 1997?

Mr McAuliffe: Nominal?

THE CHAIR: Yes.

Mr McAuliffe: It is actually 7½, because with our actual nominal return we are in line with our actual benchmark of CPI plus five.

THE CHAIR: So it is set because history tells us that is what we have received.

Mr McAuliffe: That is right, yes.

Mr Nicol: I am not sure that is quite right. History, I think, says that is achievable, but I think that the past couple of years where we have had double-digit returns brought us back up to the CPI, because we were slightly under, and before the GST we would have been over.

Mr McAuliffe: If we go back to 2008-09, our real return, if you like, was sitting down at about four per cent.

THE CHAIR: CPI at around four?

Mr McAuliffe: At four per cent, and then it has taken—

Mr Barr: Page 284.

Mr McAuliffe: Page 284 on that chart.

THE CHAIR: On the same chart, yes. So the belief is based on long-term figures that CPI plus five is achievable.

Mr McAuliffe: We certainly think it is still achievable over that long term. It is no secret. This year we are looking at getting 3.1 nominal, so there are going to be some challenges.

THE CHAIR: You mentioned doing well by doing good. Have we exercised our voting rights in any of the holdings we have?

Mr McAuliffe: All of our shares are voted. Our target is to have 95 per cent of eligible votes voted.

THE CHAIR: And we did that?

Mr McAuliffe: We achieved that. We have put in place a voting policy where our voting provider, ISS, do the votes on our behalf but do it in accordance with that set policy. That policy is framed in a way where it focuses on certain issues that might be more in the shareholder proposal type resolution area, which tends to be more in that ESG space—to look at those certain ways as opposed to the way a standard vote might be cast, which tends to vote against shareholder proposals. We had that done for us, automated, all through the year.

There is a report we put on our website every quarter which shows all the various voting items, the numbers of votes cast and actually how they went—whether the vote was in accordance with a management recommendation or against it in accordance with our established policy. You can drill down even further and see even the underlying company names and that as well.

THE CHAIR: I am not sure if you answered this, but where we voted, do you look at whether our vote was the side that prevailed or whether we went down?

Mr McAuliffe: We are one small vote in the entire thing. We can only vote in accordance with our policy. I have not looked to see with every resolution how the—

THE CHAIR: I thought you would be across this, Mr McAuliffe. If somebody wanted to know, they could go to the website and they could work it out?

Mr McAuliffe: Yes, that is right.

THE CHAIR: It is a good question for the Chief Minister at last. How many votes have there been?

Mr Barr: That is a very good question.

Mr McAuliffe: On 31 March, there were about 5,000 eligible votes.

THE CHAIR: Maybe in your spare time you can work out how many of those you voted on were good and how many you lost, but we might not task you with that today.

Mr McAuliffe: That is all in the report that sets out the detail—whether we supported a shareholder resolution or we did not.

THE CHAIR: Members, by 3.30 we have to do superannuation, the territory banking account and compulsory third party. Mr Hinder, over to you.

MR HINDER: Just one clarification on the superannuation. With the Pegasus report, we got referred to that CPI plus five as a regressive figure. Would you say that, based on that table on 284, it is probably pretty indicative of where we have been or might have ever been?

Mr McAuliffe: In terms of that report, I think we will address that particular matter in the broader response that Ms Burch alluded to. There is a bit of a misunderstanding, I think, in the way it is linking the discount rate that we use for our liability versus what we do in our investment return. They are two different rates for two different purposes.

MR DOSZPOT: Minister, has the government made any capital contributions into the territory bank account?

Mr Nicol: Into the territory bank account, no. I think the answer is no but I am not sure you would make a capital contribution to the territory bank account. It is an operating account, although it is used for all purposes. It is a cash account. Typically when we look at the territory bank account we try to target an optimal level of cash to ensure day-to-day operational needs. In recent times, as the government has been investing in new capital and running a deficit, we have had to go to the market to borrow. We borrow when we think we will need cash in the territory bank account to meet operational needs going forward.

Mr McAuliffe: Up until the 2015-16 budgets—out of the territory bank account we obviously repay borrowings as they mature. We might refinance them and we repay them and we pay interest on that. We did have a process up until that budget—there was some description around why we did it and why stopped in last year's equivalent budget statement. There was some capital appropriation that was made to the TBA for a portion of debt repayment.

There was only an amount for just one line of commonwealth debt that we still have. It was about $500,000 a year. I guess it was, again, a legacy thing as to why that was there. We took that process out of last year's budget because if the concept is that we are going to apply an appropriation to repay debt, we would probably have to appropriate over $1 billion just to the TBA each year to cover refinancing of maturing debt; so it was a little bit silly to do that.

We took that out because under the Financial Management Act there is a provision, and it is the right provision, for a standing appropriation effectively to repay debt and to repay the interest on debt; so it was a little bit silly. I call it a capital contribution that has sort of gone to the TBA in the past.

MR DOSZPOT: I seek clarification in relation to page 298 of BSB relating to the investment return objective. The graph comprises essentially three straight lines. Can you expand on what sort of information that gives us?

Mr McAuliffe: Yes. Look, it is a difficult—I am struggling to try to think how to present our targeted return for the TBA portfolio. Taking a step back from it, we run a centralised sort of investment operation for all the investments, other than the super provision account, through the territory bank account. We have the TBA's own sort of core cash that is always in the account. There are some agencies, territory authorities and some other specialist accounts—ACTEW, for example—that have money for investment. They invest it through our centralised arrangement.

We end up with an aggregate amount of money that we are investing. So it is very hard to sort of pin, "Here is a target return for this portfolio of funds," like we do for the SPA, for example. All that said, we do still try to look at the money in aggregate and say, "This money is for low risk purposes. It is not out there at the moment in any sort of equities and chasing big long-term returns." But at the minimum we are trying to at least outperform the bank billing debts.

That is basically what one line is. It was more for information purposes really. I put there this year what the cash rate is sitting at just to give a bit of an indication of the difference between where the cash rate sits and effectively that difference between what we expect to pick up through the bank bill index. It tends to be about 20 basis points difference.

MR DOSZPOT: Thank you. There is also a note relating to figure 2, BSB, page 299 that states:

> Varying maturities—

on the ACT government debt—

> also provide relative pricing guidance (comparative cost of funds to peers) to investors.

Given the quantum of the ACT government borrowing, how can the ACT's debt program provide pricing guidance? Can you expand on that?

Mr McAuliffe: When we go out and try to borrow some money, what we do is issue bonds. We issue territory bonds. We do that in the institutional markets. What we are looking for is portfolio managers that might run a fixed interest fund to come and buy our bonds. They are both domestic and international. Notwithstanding that we are a AAA-rated entity, and always have been even when our debt program first started, some years ago when we were really first sub-issuing our longer-term notes out there, the cost of our funds relative to our AAA peers—say, New South Wales and Victoria— was a lot, lot wider than what it actually is now.

It is a function of liquidity. In our budget here we do have a lot of debt—sorry, in the context of our budget we have got our debt levels but when you compare that to some of the other states, Queensland's budget just came out and I think they are looking at a $7.5 billion debt program this year. When we are out there promoting our bonds, we obviously want to get the lowest rate we possibly can. We are hoping to bring that spread down through marketing those.

Mr Barr: Pat and I go on bond roadshows. It is very exciting. We have been in Sydney and Melbourne on a number of occasions to the domestic market. We have been to Tokyo, Singapore, Hong Kong and we present to the market. Sometimes it is the first time they have ever heard of a jurisdiction called the Australian Capital Territory. We are overcoming that now.

What was very pleasing in one of the recent issues was that one of the insurance companies we met with in Tokyo bought into an ACT bond for the first time. What has happened as a result of this exercise in going direct to those who are engaging here is that we have closed that gap quite considerably. A little bit of effort—Pat and I on a roadshow—saves the territory millions and millions and millions of dollars.

Mr McAuliffe: That is our strategy. We want to make sure that when we are going to the market we are placing our bonds in a—it is trying to find that balance. Investors have got their own strategies. So you want to make sure you are presenting your own program. We might go and borrow only once a year. In the last couple of years it has been only once every couple of years to the market. We want to demonstrate to them, "If you buy our bonds, this is how you can expect us to go and issue those bonds to you. We are not suddenly this year giving you a 10-year maturity bond and the year after give a three-year maturity."

If we are going to do that, we will communicate that to them, but it is about their being able to manage their own portfolio and, as the Treasurer said, make them more aware of the ACT and our credit risk so that they do see us as a AAA. Our costs of funds are now a lot closer—we are not quite there—to New South Wales and Victoria. They still get it marginally cheaper because of the quantum of funds that they have got, because people look at liquidity in bonds as well.

Mr Barr: We had a very successful exercise in Sydney on Wednesday. How many did we have—12, 15 people, wasn't it?

Mr McAuliffe: Yes.

MR DOSZPOT: Hawthorn didn't play Sydney, did they?

Mr Barr: It was a Wednesday, Steven; it was a Wednesday.

MR DOSZPOT: They could have had a big match on Wednesday.

THE CHAIR: Ms Burch, a new question.

MR DOSZPOT: Thank you very much.

MS BURCH: Thank you. In respect of superannuation and the territory, one of the priorities is procuring external investment management. You have made mention of that. Is that a single investment manager you utilise across all your investment?

Mr McAuliffe: No, we use a range of managers. It depends what the asset class is and that will depend on what the type of manager is, so—

MS BURCH: Has that changed much over time?

Mr McAuliffe: It has changed periodically. I mentioned that we are looking at some new asset classes. That is why we put that down there as an objective for this year. We are looking possibly to put on some more of these additional asset classes to procure the right manager and product that would suit that asset class.

MS BURCH: You have made mention of borrowings. There is a cost for borrowings. Given that you are flexible with your investment and you will move in and out where you can to get a better buy for your dollar, so to speak, do you chase a cheaper interest rate? How successful are you in that? Tell us where the lowest interest rate is.

Mr McAuliffe: We tend to keep the majority of our debt at prevailing fixed rate. We have been able to take advantage of the yields coming off over the past number of years. The average cost of funds for the territory's debt has averaged down. We do undertake some short-term borrowings from time to time but that is really more as a function around liquidity as opposed to chasing the actual rate.

One of the things I guess we need to be a little cautious about is trying to set in stone a target interest—cost of funds—rate. There are two ways you can do it. You can leave all of your debt at short-term variable rates. Then you will find yourself continually having to go to the market to refinance those. You run the risk perhaps of a volatile market and you cannot actually borrow the money when you want to. You are still running the risk of rates going up or down at a point in time.

The alternative is we borrow at fixed rate and we can leave it set at fixed. If you want to, you can try to manage that interest rate exposure by using derivative instruments such as interest rate swaps. Again, that then will lead to an ongoing program. You might end up with one line of debt here and a whole book of interest rate swaps where you continue to try to fix it and swap it back the other way. We do not actively try to do that. I think that—

MS BURCH: What about—

Mr Nicol: Can I state one point from my perspective? It is pretty important to have as much respect as we can in the market. We act with a lot of integrity. Theoretically, there are things we could do that we know that the market doesn't in terms of the government's plans. We try to avoid doing anything of that nature. We want to be open and transparent and have the trust of the market that when they buy our bonds they are buying a very top-quality product. I think that is what drives longer-term costs. As Pat said, particularly that differential between the other AAAs is our best measure of success.

MS BURCH: You made mention earlier, and we will get to it, of asbestos where there is a significant loan that we have. Do the interest rates we are paying on that compare with other finances? It is probably not be the biggest debt line that we have but it is for a single project.

Mr Nicol: It is fairly large. We went with a fixed rate and the commonwealth gave us their rate at the time. However, if we wish to pay it off early because interest rates fall further, we have the option to do that.

Mr Barr: Yes, we have that option.

Mr Nicol: Essentially, whilst it is fixed—it is not falling—if interest rates fell significantly we would certainly look to see whether we should go to the market and re-borrow.

MS BURCH: So that is built into that agreement?

Mr Nicol: That is correct. Yes, we can repay early.

Mr Barr: Yes, we can repay early.

MS BURCH: That would relieve the end burden to territory if that were to come to a reality?

Mr Barr: Yes, I guess—

Mr Nicol: Marginally.

Mr Barr: Were you to effectively refinance at a lower interest rate, yes, you would reduce your interest cost. But the commonwealth rate will always be lower than the states' and territories' rates at any given moment in time. But as we know, that loan was entered into a few years ago. It is at a higher rate than we have subsequently been able to borrow at but not necessarily such a differential as to—

Mr Nicol: We are slightly under, I think, at our—

Mr McAuliffe: Our differential to the commonwealth at the moment is around 30 to 35 basis points. That is our difference in cost of funds. When we mentioned that—

MS BURCH: But that adds up when taken over $1 billion.

Mr McAuliffe: Of course it does. That is right, yes. But we have got an added advantage with this loan. We are able to negotiate. If we had to buy our bonds back from the financial market—our market-issued bonds—we would have to buy them at the current price. It is a pretty major exercise to do it. With the commonwealth, we have got some flexibility. We can repay it whenever we like if we chose to. It is an annual payment that we make whereas with a lot of other debt we make semi-annual payments. At the end of the day, we got some good loan terms out of that arrangement.

MR DOSZPOT: Is there a significant penalty for early repayment?

Mr McAuliffe: No, there is no penalty.

Mr Nicol: There is no penalty.

THE CHAIR: In budget paper 3 at page 300, in the territory banking account line, it goes from an expected $144 million this year to an outcome of $422 million. What drove that? It drops next year to $211 million. What drives that?

Mr McAuliffe: This is a function that I spoke about briefly this morning regarding when the government's borrowing requirement is formulated. We are looking at the territory banking account being, if you like, the government bank, and we try to maintain a reasonable amount of cash in the territory banking account at any one time. That is just a function of liquidity.

THE CHAIR: So this is unencumbered cash, as such?

Mr McAuliffe: Effectively it is unencumbered cash at a point in time. We can make that number as high as we like; it just means that we borrow to increase it. We are trying to set what is a reasonable average balance that we want to leave there at any one time.

THE CHAIR: So that you can manage your day-to-day affairs?

Mr McAuliffe: That is right. This year's estimated outcome is sitting a little higher. A portion of that is where we are sitting at the moment in terms of our cash. We recently went out to the market and did our annual borrowing requirement. There is effectively what I would probably call a bit of early funding within that borrowing that we did.

THE CHAIR: So it is for a portion of time?

Mr McAuliffe: That is right.

THE CHAIR: In 2016-17 and the outyears you hold it at about $200 million.

Mr McAuliffe: Around $200 million.

Mr Nicol: How many months operations were we targeting? I cannot remember whether it was six or eight weeks or something of that nature. We want to make sure that if something happens and we need cash we can continue operating for a reasonable period. We then have emergency liquidity if we need to—

THE CHAIR: If something turns up, you can—

Mr Nicol: That is right.

Mr McAuliffe: Yes. We have access to short-term debt markets if we need some cash quickly.

THE CHAIR: How does that reconcile with the financial statements in BSB? Is there a relationship between what is here and—

Mr McAuliffe: In terms of the budget statement TBA balance sheet?

THE CHAIR: Yes.

Mr McAuliffe: There is.

THE CHAIR: Can you talk us through how that works?

Mr McAuliffe: Effectively it is the sum. If you look at the balance sheet and go to the interest bearing—

Mr Barr: 302 of BSB.

Mr McAuliffe: Within the interest-bearing liabilities lines in the current and non-current, there are two components to that. There are our borrowings and there are the agency investments that we hold. Obviously, if an agency invests with us then we have a liability to give them their money back. Those numbers on that other page comprise the sum of our non-current and current investment line but it is minus the agency investment components of that interest-bearing liability. They are not separated; that is the function of how they get rolled up in the classifications.

THE CHAIR: How would you find out what the agency components of that are?

Mr McAuliffe: I can provide that on notice.

THE CHAIR: You cannot easily pick it out here?

Mr McAuliffe: I can provide that. You will not find it here, no.

THE CHAIR: That is okay. That answers what I was after.

Mr McAuliffe: Would you like that to be provided?

THE CHAIR: How hard is that to do?

Mr McAuliffe: I can do it.

THE CHAIR: If it is easy to do, that would be fine.

Mr McAuliffe: Actually, I can tell you now. If you give me a second, I will tell you before we go.

Mr Barr: Pat will think about it. Next question.

THE CHAIR: On page 301, why are the amounts for the operating result and comprehensive income negative?

Mr McAuliffe: This is a function of the construct of the territory banking account. It has the gross amount of borrowings in there but it does not actually have the necessary—

Mr Nicol: We are applying accounting standards to a banking account, essentially.

THE CHAIR: Okay, that makes sense. On page 302 the current investments went from $672 million to $1.2 billion during 2015-16. Why is that? It is under "Current assets—investments".

Mr McAuliffe: It might be easier if I provide that to you. It is straightforward. I am happy to provide that.

THE CHAIR: You will give us a summary of that; okay. Mr Hinder, a new question?

MR HINDER: I have one on the banking account. There is a table on page 35 of BP3 which shows a territory banking account revenue reduction over the next three budget cycles. There is a note there that talks about lower earnings. What are the reasons for that, and are there implications for the budget now and for those next three outyears?

Mr McAuliffe: That was, again, a flow-on effect from our audited outcome last year. We had higher cash balances for the TBA at the audited outcome. That was written into the budget review; subsequently we have set this year's budget and we have relooked at all of our cash balances. Our investment balance has reduced. That was because we reduced our borrowing requirement. The expected return on our investments was also lower, reflecting a lower interest rate environment. Some of the offset of all of that is under the expenses side, where we have improved our expenses. We have reduced our borrowing costs as well. Basically we have reduced our cash investment holdings because we have reduced our borrowings.

THE CHAIR: Before I go to Mr Doszpot, Pat, with respect to that question on the investments, where it goes from $670 million to $1.2 billion, then it drops to $496 million, can you give us the ins and outs? Thanks. Mr Doszpot, a new question?

MR DOSZPOT: In relation to the territory banking account, BSB at page 307, what were the capital losses on investments?

Mr McAuliffe: Because our investments are marked-to-market on a daily basis, at any point in time we will take what the values of the investments are. At any point in time if you are going to value a security it will comprise the value it will cost you to realise it at that point in time. So not only do we have some realised losses; we have realised gains as well.

The way we account for those things is that we gross out the numbers. I would much prefer that we put everything as a one-liner, but we cannot. As I say, it is about splitting out that marked-to-market value of our returns at a point in time. It is mainly related to our fixed income investments where we are holding bonds. Where you have a shorter term security and you value those, the value of the price you are going to sell it at, at that point in time, is pretty close to its actual book value. It is more about where you have your fixed interest bonds. There is usually a greater differential.

MR DOSZPOT: There were capital losses realised and unrealised?

Mr McAuliffe: Yes, that is right.

MR DOSZPOT: That is all I have on that one. Can I move to third-party insurance?

THE CHAIR: Yes.

MR DOSZPOT: Looking at page 99, dot point 8, one purpose of the regulator is to detect fraud. What instances of fraud have been detected?

Mr Nicol: I will ask Lisa Holmes to come to the table, Mr Doszpot.

Ms Holmes: The issue of fraud is always of concern to a CTP regulator, particularly when you look at the sorts of trends that you see in New South Wales at the moment. We are always looking at our data to see if there is anything coming through that data which indicates fraud. We are currently doing new reports to be able to assess that even better than we have in the past, given the New South Wales situation, but there is no indication at the moment that we can see of fraud.

MR DOSZPOT: Not even involving other jurisdictions like New South Wales?

Ms Holmes: As I said there is certainly very clear evidence coming out of New South Wales, particularly with claims farming. We are aware of one website which is a claims farming website which does list the ACT as a jurisdiction that it would provide services to. We are certainly aware that people have been getting some phone calls in relation to claims farming. We cannot identify the source of the information that they are using to make those phone calls. Other jurisdictions seem to be indicating that some of it is purely cold calling, and that they are not working off particular information. As I said there is nothing systemic that we have been able to identify for fraud. We are continuing to look at that and write new reports to be able to assess it better.

MR DOSZPOT: So there is no action that you are considering at the moment?

Ms Holmes: As I said we are doing new reports, and certainly watching that very carefully, and what other jurisdictions are doing in this space.

MR DOSZPOT: Have insurers operating in the third-party scheme expressed any concerns about the extent of regulation with which they have to comply?

Ms Holmes: We meet with the insurers regularly, together with the Insurance Council of Australia. That is not something that they have raised with us.

MR DOSZPOT: Is there anything that you would consider to reduce the regulatory burden on those companies? Is there anything that is evident?

Ms Holmes: One of the things we are currently looking at, and we have flagged it with the insurers and have asked for their input, is looking at the guidelines for when they do premium filings to see if there is a way that we can make that process more efficient and effective without stymieing competition.

MS BURCH: On third-party insurance, in 2013 we brought new players into the territory. Has there been much of a market response to that, with reductions in insurance costs?

Ms Holmes: Since the three new brands came in in July 2013, we have actually seen about a five per cent average reduction of premiums across the territory. It is interesting when you look at market share; it is showing that it does not take much difference in premiums to have quite an effect on market share. The market share in relation to which brands people are choosing is very much appearing to be on what the actual dollars are—the cost.

MS BURCH: So people are actively changing their insurer based on price?

Ms Holmes: Definitely, yes.

MS BURCH: Is there a point where—they have to charge their fees to be funded to cover costs—we are safe? We are not thinking that they are cutting their price so much that they are putting themselves at risk? There is no risk to the third-party insurers here?

Ms Holmes: No. There are two criteria in the legislation. When an insurer does a premium filing, it has to go to our scheme actuary. Our scheme actuary has to assess that the premium filing will still fully fund the existing and future claims, and they also have to assess that the filing is not excessive.

MS BURCH: On page 102 it talks about maintaining claims statistics. It seems that there will be a change around how you manage data and systems for collecting that data. Can you talk again about that process and how the insurers and the community are all making sure that there is a seamless data collection?

Ms Holmes: The system we have is the personal injury register. It is the system which basically tracks all the claims data, so it is certainly highly relevant not only to the regulator but to the insurers when they are doing their premium filings. In the past, Queensland was hosting the register for us. Due to resourcing limitations on their part, they said that they would not be able to host it, so we have been in the process of migrating it over to the ACT ICT platform. That is still occurring. At the moment we have a Java developer in who is doing some finetuning for us, but we are now able to load directly onto our platform. Hopefully, in the next few weeks we should have finished that process.

MS BURCH: Has there been a financial burden with that or would that be a benefit for us? Oftentimes it is easier to have a larger jurisdiction and sort of tap into their systems. We were able to do this transfer?

Ms Holmes: Certainly there has been a cost to us from migrating it onto our platform, because we have been dealing with different versions of Java and all sorts of things that the ICT—

MS BURCH: But once all that is settled?

Ms Holmes: Once it is all settled, there is probably still going to be an additional cost to us versus when Queensland was doing it for us.

MS BURCH: One final question. On priorities, it seems that you are entering into an MOU with the Australian Prudential Regulation Authority to provide access to data and other information. What sort of information and data is that?

Ms Holmes: APRA, as part of its responsibilities, assesses insurers from a financial stability perspective. It is good to have an MOU with APRA because it means you get an early heads-up if they have concerns about the financial stability of an insurer. Or if you have the example of a new insurer wanting to enter the market, it is good to be able to go to APRA and ask about their financials.

MS BURCH: Without an MOU, that would be a difficult exchange of information between the territory and—

Ms Holmes: Yes. We have been pursuing an MOU with APRA for a little while. There are privacy concerns that they want to have resolved and totally covered off in their minds—that our legislation meets their requirements—before we can actually get the MOU signed.

MS BURCH: That was a follow-on question for me. What breaches the information for them to tell you if an insurer could be exposed in any way, shape or form? Is that what you are working through?

Ms Holmes: Yes. As you can imagine, that sort of information is highly commercially sensitive.

MS BURCH: Yes.

Ms Holmes: So they want to make sure that they are comfortable with all processes that we have got in place to ensure that that information is correctly held.

Mr Nicol: Just following on, I personally think we should rely on APRA far more than our own assessments of the financial health of an insurance company. CTP generally is a small part of their overall operations, and APRA is the body that is tasked nationwide to do that, so we should try not to duplicate.

MS BURCH: That is good.

THE CHAIR: Thanks for that. On that same page, page 103, the second dot point talks about accidents with light rail vehicles. What is the likelihood of such an accident, and what will happen as you develop these requirements?

Ms Holmes: The issue with the light rail is that it currently does not meet a vehicle definition under the transport legislation, so it has to be created to meet that definition. Then, flowing on from that, we will create definitions and a new CTP class to be able to cater for that. We would then go to the insurers to ask them to do premium filings to set a premium, and the consortium would then purchase the CTP.

THE CHAIR: So they will have to get their own CTP coverage in case one of the trains hits a vehicle?

Ms Holmes: Yes.

THE CHAIR: If a vehicle hits one of the trains, what is the case there? Because you will change the definitions in the act, they will then be covered?

Ms Holmes: Yes.

THE CHAIR: How much of a concern is this; and what are the statistics regarding traffic accidents of this nature or crashes of this nature?

Ms Holmes: We have looked at the other jurisdictions—Queensland, Victoria and South Australia, with their equivalents—and looked at their relativities. Generally speaking, their relativities are about the same as buses. But, as I said, that is very high level. Once we get the definitional changes, we will have to provide all the data that we have, and from other jurisdictions, to the insurers. It will be up to them to set the CTP premium.

THE CHAIR: To set the premium, yes. When you say it is relative to buses, how many bus accidents a year do we have in the ACT?

Ms Holmes: I will have to take that on notice.

THE CHAIR: All right. And the legislation, minister, will come after the election? Or do you intend to table it in August?

Mr Barr: I do not think it would be ready in August.

THE CHAIR: Back on page 99 of BSB, the first dot point says:

> … continue and improve the system of compulsory third-party insurance …

What improvements are underway or being looked at?

Ms Holmes: I mentioned the premium guidelines that we are looking at, and working with the insurers. We have also been in the process of amending the application forms to remove some duplication and to make them more streamlined.

THE CHAIR: When is that likely to occur?

Ms Holmes: We are about to send the latest version of the application forms back out to the Law Society and the insurers for their final look before we actually release them.

THE CHAIR: Are you looking at modifying the act in terms of removing rights that are currently in the act, for instance, access to common law?

Ms Holmes: As the minister already mentioned this morning, we are always looking at what other jurisdictions are doing in that space. However, we look at reform as per instructions that we are given.

THE CHAIR: What instructions will you give, Chief Minister?

Mr Barr: We continue to look at the wide variety of reform options that, as I indicated this morning, would ensure a better outcome for consumers.

THE CHAIR: You are sounding particularly coy on this, Treasurer. On page 102, Treasurer, have you taken the quiz?

Mr Barr: Sorry, on page 102?

THE CHAIR: On page 102. Have you taken the CTP insurance quiz? Are you aware that you have a quiz?

Mr Barr: Yes, I am aware that we have a quiz. I may—

THE CHAIR: There you go. Have you taken the quiz, and was it easy to do?

Mr Barr: I may not have personally taken the quiz. I may have shared it in social media and invited people to take the quiz, but I am not sure whether I have myself. I am reasonably—

THE CHAIR: That sounds as though you have not taken it.

Mr Barr: No, I do not believe so. I may have seen the quiz in its online form that is currently available. But I have seen the makings of the quiz, and the issues behind the quiz certainly are ones that are pertinent for people to consider.

THE CHAIR: All right. How—

Ms Holmes: I can advise that 1,600 people did take the quiz.

THE CHAIR: Sixteen hundred have taken the quiz?

Ms Holmes: Yes.

THE CHAIR: What was the outcome of 1,600 people taking the quiz?

Ms Holmes: Some 79 per cent of participants managed to get five or more of the questions correct.

THE CHAIR: How many questions are there?

Ms Holmes: There were 10.

THE CHAIR: So 75 per cent passed?

MR DOSZPOT: No, 50 per cent.

Ms Holmes: Pretty much everyone got about three to five answers incorrect.

THE CHAIR: What does that tell you? With that data, what will you do?

Ms Holmes: It gives us information as to people's understanding of the CTP scheme. For example, the areas where they were not as aware included the fact that it is an at-fault system, that it does not cover property damage. We are looking at doing some more information to have available on the website to provide people with some more information as to exactly what CTP does cover.

THE CHAIR: Sorry, what was the statistic? Seventy-five per cent got more than—

Ms Holmes: Seventy-nine per cent of participants got more than five correct.

THE CHAIR: Out of the 10 questions?

Ms Holmes: Yes.

THE CHAIR: What actions will you now take as a consequence of this?

Ms Holmes: As I said, we are developing some materials that we are going to make available on the CTP website. We are also just looking at some of the processes that we have got already on the website to see if we can make that a bit clearer for people who need to make a claim.

MR HINDER: I was under the impression they would analyse the findings and consider further steps in 2016-17 to assist motorists to understand key features and benefits—

THE CHAIR: Taking it to the ministry, are we, Mr Hinder?

MR HINDER: It is all right there.

THE CHAIR: Apart from no fault, what were the other basic failings or the large lack of knowledge that people had?

Ms Holmes: No fault; understanding how our scheme varies from those of other jurisdictions; what it covers—as I said, property damage; people do seem to get confused between CTP versus the—

Mr Barr: Comprehensive.

Ms Holmes: Yes; thank you.

Mr Nicol: That is very important for us. We want to make sure that people have the insurance cover they really want and do not end up in situations where, following an accident or a crash, they are not covered because they were not informed of the coverage of each policy.

THE CHAIR: Sure.

Mr Barr: Also, aligned with our agenda to remove taxation on insurance products in order to encourage the take-up of higher levels of—

THE CHAIR: Good segue there, Treasurer.

Mr Barr: Thank you.

THE CHAIR: And are the results of the survey available? Are they published online?

Ms Holmes: No; we have not actually published them. We were looking at putting some of the results into the annual report of the CTP Regulator.

THE CHAIR: Is the committee allowed to have a copy of the results?

Ms Holmes: Yes.

THE CHAIR: Thank you. Mr Hinder. We are in the last 15 minutes for CTP as well as the banking account and superannuation.

MR HINDER: A question about the value of the claims: are you aware of the value of the global claims for CTP at the moment versus the value of the premiums collected?

Ms Holmes: Off the top of my head, no. I am going to have to take that on notice.

MR HINDER: My supplementary you might need to take on notice as well: are there any jurisdictions that self-insure for this?

Ms Holmes: Some jurisdictions, such as South Australia, were doing it themselves. They are in the process of moving to a market base. Victoria with their TAC does it all in house.

Mr Barr: It is a no-fault regime, is it not?

Ms Holmes: Yes. I think that is also the case with Tasmania.

Mr Barr: Yes, that is right.

Ms Holmes: So we have got various models around Australia. Our average claim size is about $150,000. It is always hard to compare the total amount of premiums collected by the insurers with claims paid out in a given year because of the timing. You might have a claim in one particular year but the actual payment itself, depending on the severity, might be a significant number of years later. So it is always hard to do a comparison that I think you have just asked for for that reason.

Mr Barr: Systems that would encourage early treatment and do not have extensive and expensive legal processes associated with them are better schemes.

MR HINDER: I am aware that lawyers like the phrase “maximum medical improvement” before they will decide what the quantum of the damage is.

THE CHAIR: Is this personal experience for you?

MR HINDER: I know some people who may have been in that game.

Ms Holmes: Certainly the more severe injuries take a number of years before they will stabilise to a point where you can start getting a reasonable estimate as to what the lifetime cost of that injury might be. That is if you are talking about quite severe-type injuries.

MR HINDER: But, by the same token, there is an amount each year that is the amount that may have been rolling through from four years ago, which would give you some sort of figure I would imagine.

Ms Holmes: I will have to look at what data we could provide because a lot of the old data which is still rolling through relates, particularly for the more severe injuries, to the time when NRMA was our sole provider. There is still a lot of commercial in confidence around that data because it is still specifically theirs. As we move forward, now that we have four brands it becomes easier to provide information.

MR DOSZPOT: Minister, through you, BSB page 102, why did the Queensland MAIC cease hosting and maintaining the ACT's personal injury register, the PIR?

Ms Holmes: As I previously mentioned, it was to do with a resourcing issue in Queensland. They are moving on to a different platform. They had a number of high priority IT initiatives that they needed to do, and they did not have the ability anymore to be able to host ours.

MR DOSZPOT: So we are now maintaining our own?

Ms Holmes: Queensland has totally withdrawn now. That happened in February. We were running a dual system there for a while. We are now in the last couple of weeks of loading all the data into our system.

MR DOSZPOT: Does each jurisdiction have its own PIR?

Ms Holmes: Yes, they do, or equivalent. It is not necessarily the same software, but everyone has some basis of collecting claims data.

MR DOSZPOT: Is there any responsibility for the previous way information was handled for this new arrangement to come in? Is there any way that the ACT can require more responsibility by the original organisation that was doing it?

Ms Holmes: Sorry, I do not understand the question.

MR DOSZPOT: Well, the fact that we are now having to do our own, is there any way the ACT government can ask the previous holders of this information to continue that? Is there any benefit in what we are doing, or is there a benefit of having a central one?

Ms Holmes: The data is our data. It was never combined with the Queensland data in any way. They were hosting it on their software and their platform, but it was always our data. As part of this, they handed us over the software that we have had to adapt to meet our system requirements, but all of our data is still there. We can still access it all.

THE CHAIR: What is the cost of that going to be?

Ms Holmes: By the time we finish this process and do the enhancements that we are looking to do, we are looking at about $280,000 approximate.

THE CHAIR: Was that found internally or was that an appropriation or—

Ms Holmes: That is being funded out of the CTP levy.

MR HINDER: What was Queensland charging us to host it?

Ms Holmes: I would need to take that one on notice as well.

MR HINDER: So we are no longer paying that one though, I am assuming.

Mr Nicol: My recollection is it was in the low tens of thousands—$30,000 is the memory, but I will double check and we will take it on notice.

MS BURCH: But essentially you had no choice because Queensland said, "We're not doing it anymore."

Mr Nicol: That is right. We did try and ask Queensland to keep us going. On all these sorts of things we look to see if we can work with another state to get the benefits of economies of scale. For example, in the lifetime care and support scheme we are getting New South Wales to do much of our administration of individual claims rather than setting up a whole other administrative structure. If New South Wales at some point in the future says, "No thanks," we will have an issue to deal with.

THE CHAIR: As a supplementary, has it been discussed whether or not there is value in having a national system where all the data goes into one database maintained separately per jurisdiction so it could also be collated at a national level?

Mr Nicol: I have not come across such discussions.

Ms Holmes: No, there have been some conversations around consistent coding, but not a consistent database.

MS BURCH: Staying on the third-party insurance regulator, under the purpose you have timely resolution of personal injury claims and to encourage as far as practicable the rehabilitation of people who sustain injury. You touched on that just before. Whom do you work with? Is it just the insurers? Do you work across various directorates within government? Whom do you partner with and how can you influence more timely resolution of injuries? What are your levers in that?

Ms Holmes: It comes down to the subordinate legislation which is in place which sets the framework as to how the insurers operate in this space. The motor accident notification form which was an amendment from 2008 allowed the fast tracking of small claims under $5,000. Certainly the section 275 review that we had completed earlier this year indicated that that was a successful reform, and it has seen more people doing a claim using that as a mechanism. It means that those people are getting faster treatment under that process.

MS BURCH: Outside of the legislation, you work across other agencies to promote and encourage rehabilitation? It is not just you in Chief Minister's department doing all of this, I am sure—as good a job as you are able to do.

Ms Holmes: Because it is a private system it is up to the insurers around the management of that. What they can do in part depends on how the applicant has put in their form: are they coming through the MAP system for small claims less than $5,000; are they having legal representation; are they going to seek a court settlement? All of those radically impact how quickly someone can get treatment and care.

Sitting suspended from 3.22 to 3.45 pm.

THE CHAIR: Thank you, Chief Minister, for returning for the last session of day two of estimates 2016-17. Witnesses should be aware that the proceedings today are being recorded as well as transcribed by Hansard; they will be published and are currently being broadcast and webstreamed. Mr Salisbury, I think you are the only new witness. Could you confirm that you have read the privilege statement? Please make it clear that you understand the implications of privilege.

Mr Salisbury: I have, and I do, thank you.

THE CHAIR: On some of the revenue lines, Mr Salisbury, I notice that the lease variation charge again has not reached its target. What work has been done to determine why there is a dramatic underachievement and what will make the estimate of the revenue collection for this year so much easier to comply with?

Mr Barr: The work that has been undertaken in relation to lease variation charge reflects a range of stimulus measures that were put in place. The government did forgo revenue associated with that stimulus package. I would also note that there was a very large deed of variation—around $11 million, from memory—that was paid in the current year. It related, under the same principles as the LVC, to a block of land in the city. If you add that deed of variation in with the lease variation charge then the target is achieved.

THE CHAIR: So where does the deed of variation appear?

Mr Nicol: That would appear in the LDA's accounts. It relates essentially to the type of lease that the matter covered. If it was a standard lease it would have been an LVC receipt rather than a payment to the LDA.

THE CHAIR: So why was a deed of variation used rather than LVC?

Mr Barr: Because of the nature of—

Mr Nicol: It was the nature of the lease.

THE CHAIR: What was the difference? What was the nature of the lease?

Mr Nicol: I would have to take that on notice in terms of the particular—

Mr Salisbury: It was a development lease as opposed to a normal crown lease.

THE CHAIR: Is that something we should take up with LDA?

Mr Barr: The principle of the LVC charging was utilised, but because it was not a crown lease, it was a different lease, the revenue line is not shown in lease variation charge, as much as I would have liked it to have been—

THE CHAIR: I am sure you would have loved it.

Mr Barr: because the principle is exactly the same.

THE CHAIR: But it was not a lease variation charge payment.

Mr Barr: It was a variation of a lease but the payment—

THE CHAIR: So why isn't it here?

Mr Barr: Accounting treatments, apparently. The payment comes to the government. It is calculated on the same basis as the lease variation charge but it flows through the LDA accounts. It goes to the principle of the lease variation charge, which is that an unearned windfall gain from a planning variation should be taxed. And it is.

THE CHAIR: So why isn't it in LVC?

Mr Barr: Because of the nature of the lease.

THE CHAIR: What block is this?

Mr Barr: This is the QIC block in the north-eastern part of the city. They sought extra development rights, as in to vary the lease. That was a windfall gain that was granted to them, and they paid an appropriate charge for that, just as other developers should pay an appropriate charge for an unearned windfall gain; otherwise we would just go around changing leases all the time and granting seemingly very significant development benefits. And should there be no benefit to the community?

THE CHAIR: I did not say that.

Mr Barr: That is your policy, though.

THE CHAIR: In regard to whether it is a deed or a lease variation, I have made no comment.

Mr Barr: But on lease variation you have.

THE CHAIR: On lease variation, yes. We think the numbers show that you have failed.

Mr Barr: You do not believe that the community should have any benefit from a windfall gain.

THE CHAIR: The numbers in your outyears are significantly less than even the numbers in the very first budget that had lease variation charge—

Mr Barr: Yes, because we have lowered the rate of taxation via the stimulus package.

So we are saying we expect to collect—

THE CHAIR: It was never collected before the stimulus package—

Mr Barr: less revenue as a result.

THE CHAIR: You can keep saying that; you are not fooling anybody. What analysis of the impact of lease variation charge have you done?

Mr Barr: In terms of what is happening in the marketplace?

THE CHAIR: Yes.

Mr Barr: We look at levels of activity, and they are primarily driven by factors external to the LVC. It has been analysed extensively, both in its original form going back to the old change-of-use charge days and then the work that was undertaken in the context of the transition to the current arrangements. We continue to look at those implications. There are design issues on which we have been working with the Property Council, such as the timing of payment. We are certainly looking at options for reform there.

With respect to the fundamental principle of an unearned windfall gain that comes at the stroke of a legislator's pen to extend development rights, it is appropriate that a proportion of that uplift is shared with the community. It is the public's land, after all. So that is a pretty fundamental principle that you either agree with or you do not. I respect that you can have different views on that. But if you want to 100 per cent privatise all the benefits of a windfall gain then you would not support the lease variation charge. If you believe the public deserves a share in an increased development right then you would support the lease variation charge. I am very happy for that policy distinction to continue to be drawn.

THE CHAIR: As are we.

Mr Barr: I have no problem with that. Overall, let us make a number of other statements that are facts. There is no shortage of developable land—

THE CHAIR: They will be statements, anyway.

Mr Barr: There is no shortage of developable land in Canberra, in our CBD and in our town centres. There is no shortage of developable land. With respect to the amount of transition from one lease type to another, in the context of the CBD in particular, the research and evidence on a block-by-block analysis demonstrate that many leases already have residential as part of their existing lease, so no lease variation charge would apply.

You also see conversion of certain commercial properties to other forms of commercial activity. In that instance little or no LVC would apply, depending on the nature of the commercial change in use. For example, I have publicly declared in the paper and otherwise about Eclipse House, across the road from us. There is a proposal to convert that into a hotel. The building can vary in purpose from currently a commercial office to a hotel without attracting any, or any significant amount of, LVC. However, if they were seeking to put residential there and the lease did not have residential, you would have an uplift in value of the site, and there should be a method of capturing some of that uplift and returning that to the community, because it is a new development right that has been granted. I do not think that is unreasonable.

THE CHAIR: Your justification for the underperformance of the lease variation charge is that you have given remissions—

Mr Barr: There are broader economic parameters. We have lost some revenue through remissions and the stimulus package. There are broader economic parameters.

THE CHAIR: When did the stimulus package begin?

Mr Barr: In 2011. I will go back and check the exact date. It has had various iterations and it has been extended into certain areas and adjusted. I will check that detail.

THE CHAIR: Thank you for that.

Mr Barr: To finish the point, it is also a reflection of economic activity and what other land is available for development. There is only so much demand in the CBD, for example, for new residential product each year. You can have a four-year holiday on it but there will not suddenly be 20,000 apartments built in the city in that four-year period because there would not be demand for it.

THE CHAIR: How many developments are going on inside the city boundaries now?

Mr Barr: At the moment, quite a number. There would be about 15 different proposals—

THE CHAIR: Proposals, but how many developments are underway?

Mr Barr: Underway, you have the two Barry Morris projects, one nearing completion and the other at market at the moment.

THE CHAIR: Is the LVC paid on the second of those?

Mr Barr: That has not yet been paid; they are not at that stage of the process but they will make an LVC payment. That is the basis on which—

THE CHAIR: I bet they are hoping to make it after October.

Mr Barr: Not have to pay? You just want to give them millions of dollars?

THE CHAIR: We want the development. Are you going to get the development with your current LVC regime?

Mr Barr: Yes, they are going ahead with it.

THE CHAIR: We will see.

Mr Barr: Do you know something I do not?

THE CHAIR: No. I just asked you whether the LVC has been paid and you said no.

Mr Barr: They are progressing with a development; they will make an LVC payment if they progress with their development. They have lodged a development application. Unless you have done some sort of special deal and you are saying you are going to let them get out of their LVC obligations—

THE CHAIR: No, I have not done any deals. I do not do special deals like that, like your government does, Chief Minister.

Mr Barr: Your policy is a special deal for everyone in Civic.

THE CHAIR: It is a policy; it is not a special deal.

Mr Barr: It is a special deal.

THE CHAIR: It is not some deal done behind closed doors.

Mr Barr: You are leading with the chin.

THE CHAIR: It is not a deal that has to be investigated by the Auditor-General.

Mr Barr: A special deal, hey? There we go.

MS BURCH: Can I ask a supplementary?

THE CHAIR: You may have a supplementary, Ms Burch.

MS BURCH: You made mention of remissions for the lease variation charge. What is the remission? What benefit is there? Is it location remission, benefit to community remission? What has the community seen as part of that?

Mr Barr: The stimulus package has a number of different categories in relation to remissions. Over time those have included in previous years remissions around environmental performance, remissions associated with certain community outcomes, childcare centres et cetera, as part of the package. There has been a headline reduction in the amount of LVC charged. There was a transition period when the charge was introduced as a result of that work back in 2011, from memory. The remissions were 75 per cent, then 65, 55 and 45, and I think we have held them at 50. Effectively, the benefits of the windfall gain have been shared between the community and the developer. That is a pretty reasonable basis on which to approach this particular issue.

The specific question of when in the development sequence the LVC is payable is one that the Property Council have raised with government to look at ways to delay the timing of that payment. We have said we are amenable to that because it does not change the fundamental principle and premise of the charge; that is, if the government grants someone a windfall gain, by the stroke of a pen gives them massive development rights and says, "Here, go away and make tens of millions of dollars," some of that should be shared with the community. That is a pretty fundamental principle, and that is one that we have adopted.

MS BURCH: That is why, with some of them, such as child care and doctors' surgeries, the remission is fairly substantial, because it goes to a community benefit.

Mr Barr: Because there is a community benefit; yes, that is correct.

THE CHAIR: The collection of rates, both commercial and residential, are we able to give a breakdown of what are genuine rates and the natural increase because of the valuation system we have as opposed to the movement of conveyancing to the rates? It is page 227, budget paper 3.

Mr Barr: As in you are interested in what proportion of annual rates increase is inflation based and land value increase based and then what proportion is the revenue replacement as a result of—

THE CHAIR: As a consequence of revenue replacement, yes.

Mr Barr: Yes, that information would not be too hard to—

Mr Nicol: Let us take it on notice. We might have to make a couple of assumptions, but we should be able to give you a fairly close—

Mr Barr: And then the third factor in all of that would also be growth in the number of properties.

Mr Nicol: That is right.

Mr Barr: Yes.

THE CHAIR: And that was the next question: how many new properties are you expecting in the coming year, and if you could give it as a division of that revenue, that would be kind.

Mr Barr: We will do our best to provide information in that regard.

THE CHAIR: There has been some commentary in the media about the slowdown in the rates, back to 4.5 per cent this year, but it increases in the outyears. Why have you taken that course, minister?

Mr Barr: Why have I taken that course? In this current budget we introduced the safer families levy. Had I done that on top of a rates increase then you would be asking me a different question. We are conscious in terms of any new revenue initiative to keep increases as low as possible. We are also conscious in the context of the forward program to ensure that we have maintained our effort in relation to tax reform but, as we have discussed in the last four budgets and now this one—the fifth—this first round of tax reform included the abolition of insurance duties, stamp duty cuts and payroll tax cuts and that we would transition from those revenue lines which have varying degrees of inefficiency: from very inefficient and some of the worst taxes levied to moderately inefficient to the most efficient revenue line—from memory from the commonwealth Treasury presentation, the most efficient revenue line available to any government in Australia in municipal rates. I do not think there is any commonwealth tax line that is as efficient as that in economic terms.

Mr Nicol: I think it would be close to the top.

Mr Barr: So when the commonwealth presented to us on tax reform back in the days when everything was on the big table under the new Prime Minister and the new Treasurer, they put up a graph and they showed us the best taxes and the worst taxes. In the top column of worst taxes was insurance tax, up there was stamp duty, and in the column of the best possible taxes were municipal rates and land taxes. Then you had the GST and income tax and company tax and payroll tax and a bunch of other ones that sit around the middle.

Commonwealth Treasury in all their wisdom put that information before the federal financial relations council and suggested that jurisdictions might like to look at their own revenue bases and at what might be possible in terms of a transition away from those inefficient taxes. They then talked about growth dividends and what would be possible for the Australian economy if jurisdictions made that change.

In our own tax reform process going back to the work that was commissioned six years ago, that looked at what the growth dividend would be. It is there—there is a dead weight loss associated with those inefficient taxes. You remove them over time and you get a growth dividend for your economy. It is good public policy.

THE CHAIR: So when will they be removed?

Mr Barr: Insurance tax is abolished on 1 July. The payroll tax threshold has moved up, and with stamp duty we will achieve by 2021-22 a 58 per cent reduction for a $300,000; a 53 per cent reduction for a $400,000 property; a 51 per cent reduction for a $500,000 property; a 47 per cent reduction for a $600,000 property; a 44 per cent reduction for a $700,000 property; a 40 per cent for an $800,000 property; a 36 per cent for a $900,000 property; a 32 per cent for a million dollar property; a 29 per cent for a $1.1 million property; and a 27 per cent reduction for a $1.2 million property. That will be at the conclusion of stage 2 of the stamp duty reform program.

THE CHAIR: When will conveyancing go? Last year at this particular session I think we heard some words like, “We’re going to get rid of it,” then “We’re going to be the lowest taxing,” and then “It would go eventually.” What is the objective now?

Mr Barr: Are you referring to residential or commercial?

THE CHAIR: Both.

Mr Barr: As I indicated this morning, over the next five years the focus is to continue on the residential side to achieve those savings that we have outlined in the five-year plan. On commercial conveyancing, there will be particular attention in the next three years to getting rid of all commercial stamp duty on commercial property transactions below $1.5 million and moving the flat rate for large commercial transactions. It started its journey at about 7.25, 7.5 per cent. It is now sitting at 5.17, and we will bring it down to five per cent over the next couple of years, where it will stay for the medium term. We will then turn our attention to the residential side. The residential side: gone in 20 years, and the last bit of stamp duty that will be held onto until the conclusion of the residential program will be those higher value commercial transactions.

THE CHAIR: They have to wait beyond 20 years. How long beyond the 20 years before they get—

Mr Barr: It could be the 21st year, but that will be a decision for the government at that time. But my priority, as I have outlined in this program and this morning, is small and medium sized commercial, gone in two years. That is 70 per cent of the transactions. Then continuing on the path on residential, then once we have completed this next five-year program, were I to be in a position in four years' time to be having a similar conversation with you it would be—

THE CHAIR: You might be chairing the estimates committee.

Mr Barr: Unlikely. We will have different views—

THE CHAIR: What? You are not going to stay if you lose? Is that the deal?

Mr Barr: I do not think I would be chairing the estimates committee.

THE CHAIR: So you are going to leave if you lose, is that the deal?

MR DOSZPOT: Federal government?

THE CHAIR: On your way?

Mr Barr: Steve has got it; that is right: I am on my way to becoming Prime Minister, obviously.

Mr Barr: The point I was making—

THE CHAIR: So you have no faith in Bill Shorten then?

Mr Barr: I will leave—

THE CHAIR: You are on your way. Keep going. Keep going.

Mr Barr: I will leave those gratuitous interjections aside and get back to the point I was making, which is that the focus after this next five years will be on the residential side to eliminate residential stamp duty. But through that period we would retain on those high-end commercial transactions a flat rate. We reserve the right to adjust either the rate or the threshold over that period, but we would be maintaining that in the medium term and focusing on the residential side.

MR DOSZPOT: I have a quick supplementary. Chief Minister, harking back to some of the earlier questions from Mr Smyth about why you retain a real increase in general rates around 4.5 per cent, which is more than double the current rate of inflation, commentary in the community is that this is just a cynical election ploy. You are saying that it is a moratorium, yet this so-called moratorium is still double the rate of inflation.

Mr Barr: No, we have indicated in this year that, given a number of other moving parts of the budget in terms of revenue, we would, as we always do, seek to keep any increases to the lowest possible amount. Taking into account other decisions that were taken in the budget—

MR DOSZPOT: So 7.5 and 10 per cent are the lowest possible amounts in outyears?

Mr Barr: Seven per cent.

MR DOSZPOT: 7.5.

Mr Barr: So it is the maximum amount. Around seven per cent is the maximum amount into the future, and that contains both a tax reform element and a wage price index element. Rate increases have been calculated on the basis of the wage price index for some time now. That has, as you would be aware, been around 3.5 to four per cent per annum, and that is built into forward estimates.

Were you not to proceed with any further tax reform but just continue to increase rates on the basis of the wage price index, then they would be going up around four per cent a year. Were you to deviate from that, then you would be putting the budget under some strain, so you would need to either raise revenue elsewhere or undertake spending cuts.

MR DOSZPOT: Yes, that is your commentary, and there is also commentary—

Mr Barr: No, they are the facts that underpin the budget.

MR DOSZPOT: There is other commentary in the community, not just from us, that sees it for what it really is: a cynical election ploy.

Mr Barr: You are welcome to express that view, as I am sure you will. My response to that is that the government in its budget seeks to keep any increases to an absolute minimum to provide targeted savings to those who need it most, particularly, as we have done in this budget, to provide concessions and assistance to first home buyers, pensioners and those looking to downsize, to cut stamp duty across the board, to abolish insurance taxes, to provide further relief to small and medium-size enterprises through the payroll tax cut, to ensure that we continue to support jobs and growth, and that we also put people first. That is what we have been doing through our investments in health, education and community services , in responding to domestic violence issues and ensuring that our emergency services, our police and our community service workers are appropriately supported, and in investing in the infrastructure that our city needs.

Mr Doszpot, I do not meet many people who enjoy paying tax. I meet a few who recognise they have a contribution to make to a better society but, in the end, if your starting point is that taxation is theft, then you and I have a very different point of view.

MR DOSZPOT: You are misrepresenting my point of view, but thank you for your commentary.

MS BURCH: If I can follow on from Mr Doszpot's question on annual increases in rates, you mentioned that if you did not do anything else rates would increase by around four per cent. Have you thought what would be the impact on budget if they did not rise by four per cent and stamp duty were reintroduced? There seems to be an alternative position that you do not increase any rates and that the move away from stamp duty is wrong. What would the alternative look like? Sorry, that was not very clear.

Mr Barr: If you were to say there would be no further increase in rates—so no increase at all—you would either forego a lot of revenue and make some pretty savage spending cuts or you would need to increase the range of other taxes. The only other taxes that are available to the government that would raise revenue on that scale would be payroll taxes or stamp duties, so you would have to make up a lot of revenue.

In the end, your rate-paying base is the broadest possible base available. If you go to a narrower revenue base then to raise the same amount of revenue you would have to have very significant increases. In terms of stamp duty, about nine per cent of households pay stamp duty in any one year.

MR DOSZPOT: Seven per cent, I think.

Mr Barr: It depends on the—

MS BURCH: So that seven per cent would be paying—

Mr Barr: the number of property transactions in any given year, but between seven and nine per cent pay stamp duty in any given year. If you are requiring that seven to nine per cent to cover the costs for the other 91 to 93 per cent—

MS BURCH: What would stamp duty look like then, as a guesstimate? Not that I am asking the Treasurer to guess, but—

Mr Barr: It would need to increase by a double-digit percentage each year.

MR DOSZPOT: That is if you had light rail, of course.

Mr Barr: Sorry?

MR DOSZPOT: Light rail plays a part in this as well.

Mr Barr: No.

MR DOSZPOT: No?

Mr Barr: No.

MR DOSZPOT: Okay.

Mr Barr: That would just be to fund the ordinary operation of government if you were not to have any rate increases. But I do not think that even the opposition are proposing there would be no rate increases; they are just suggesting there would not be any tax reform component to a rate increase and it would just be around four per cent.

The policy argument is: is it worth paying an extra three per cent to get rid of stamp duty? That is the discussion. That is fair enough; you can have different views on that. We have assessed it and we are going to go to the election saying yes, we believe it is. You have looked at it and decided against. Fair enough.

THE CHAIR: We will see on election day. We might come to Mr Hinder on a new question.

MR HINDER: Treasurer, the authors of the Pegasus report spoke about having reservations about the government's ability to realise the identified offset or the full quantum of identified offsets. Is Treasury able to produce a list of the offsets so we can put that to bed?

Mr Barr: Yes, I think that is—

MR HINDER: I build into my question a supplementary: can we ask Treasury to produce, if possible, a response to the Pegasus report—

Mr Barr: Yes.

MR HINDER: given that in efficiency dividend terms—I hesitate to use the term—we would be much better equipped to deal with some of the questions.

Mr Barr: Yes, yes, that is—

MR HINDER: You might not get some of the questions, I would add—

Mr Barr: That is straightforward.

Mr Nicol: I think that work is underway following our technical briefing.

MR HINDER: Can I request it?

Mr Nicol: The amount of the offsets required to fund those self-funded initiatives—I think that is what you are talking about—

MR HINDER: Yes.

Mr Nicol: is not—

THE CHAIR: Not the offsets on the general rates.

MR HINDER: No, just the offsets.

Mr Nicol: that significant; so we will demonstrate that in our written response.

THE CHAIR: In terms of the offsets, I see that on page 164 it is stated:

> The reduction in revenue from general rates will be partially offset … by the revised method applying to residential general rates assessment for units.

How much of the offset have we made up when it says "partially"? How much is left outstanding?

Mr Nicol: Sorry, what page is that?

MR HINDER: It is page 164.

THE CHAIR: Page 164 of BP3.

Mr Barr: How much is left outstanding? Well, it is the amount that is in the revenue line. The difference between the rate increases that were factored into the forward estimates last year and this year is $15 million, $18 million, $24 million, $38 million, $95 million—

THE CHAIR: Yes.

Mr Barr: and that includes that that is captured, if you like, by the change in methodology in relation to units. So that is the total impact.

THE CHAIR: That is the total after the changes to units?

Mr Barr: Yes.

THE CHAIR: Mr Doszpot, a new question?

MR DOSZPOT: Yes, continuing on with multi-unit dwellings, minister, how much are rates projected to increase on average for units in unit plans between 2016-2017 and 2020-2021?

Mr Barr: The change in methodology means it will be $150 extra in 2017-18 and about $115 extra in 2018-19. That is the methodology change on average. Then it will vary in terms of the particular multi-unit dwelling we are talking about in relation to the valuation changes and the other increases over that period.

To put some context on this, page 7 of the taxation reform booklet states that across the territory the average rate for a unit is $1,156 and for a house it is $2,152. The units pay about half what the houses do. There are certainly circumstances where units that have a market value of around $1 million would pay less rates than a house half that value.

THE CHAIR: But that is because they occupy less land?

Mr Barr: Yes, and that is a factor, but they are consuming in many instances very similar levels of services. I think the important point to make here is that rates are not just a municipal revenue source for the territory.

THE CHAIR: Well, not now, yes.

Mr Barr: No.

THE CHAIR: That is right.

Mr Barr: But they fund state-level services as well. So if the suggestion is that people who live in units do not drive on roads, do not use schools, do not use hospitals, do not use fire, police and emergency services, do not need any community services, that is not a reasonable conclusion to make. The point here is that this revenue line is now beyond just a municipal funding source.

MR DOSZPOT: Will this change in rating methodology that you refer to apply to retirement villages?

Mr Salisbury: With retirement villages, different rating methodologies apply, depending on whether they are commercial or whether they are charitable. There is not a simple answer to that. It will really depend on the structure of the retirement village.

MR DOSZPOT: What about retirement villages such as, say, Ridgecrest in Page, which is unit plan? How will it affect them?

Mr Salisbury: I am sorry, I do not have the detail on that particular unit plan.

Mr Barr: Are they individually titled?

MR DOSZPOT: I understand so. I will have to—

Mr Barr: If you give us some information in relation to—

MR COE: I understand it is unit title.

Mr Barr: Yes.

MR DOSZPOT: Yes.

MR HINDER: But is it a retirement village, then?

Mr Barr: We are happy to look at it. If there is a particular case you would like to bring forward, we are happy to look at that.

MR DOSZPOT: There are retirement villages that fall into two different categories, as we have seen. An example we were asking about is a situation where residents of, say, Ridgecrest at Page pay much higher rates than residents in nearby Villaggio Sant' Antonio and Coral Park, which are on adjoining blocks. But because of—

Mr Barr: It would depend on the nature of the arrangements for those and the leases.

MR DOSZPOT: Yes, that is correct. These are some of the—

Mr Barr: We will certainly happily look at that, but if that is the case now then I do not think this change is going to dramatically impact upon them. If they are already paying differential amounts, that will reflect the commercial nature or otherwise of those particular retirement villages. But happy to look at the detail.

MR DOSZPOT: We will put it on notice.

Mr Barr: Sure, yes.

MR DOSZPOT: Thank you.

THE CHAIR: Mr Coe, do you have a supplementary on the units?

MR COE: Yes, thank you.

THE CHAIR: And then a new question from Ms Burch.

MR COE: With regard to how you are actually going to do the calculation, obviously land value is a relatively established methodology. How will you actually determine what the values are of particular units?

Mr Salisbury: We will use the same methodology that we are using at the moment. We will not change the methodology that the underlying value of the land—it is based on the unimproved value of the land.

MR COE: Sure, but if that is the case, in order for units to actually see an increase, are you either going to reassess the value of the land or is it simply going to be through the increase in the percentages?

Ms Goth: I am happy to answer this one. The way that the general rates would be calculated currently is that the AUV of the property is based on the total AUV of the whole complex. Then it is divided by the number of units. The amount of general rates that applies is often the lowest rate because the AUV is very small. For example, if you have 50 units, it is one-fiftieth of the AUV. The calculation methodology will change so that the rate of general rates that is applied is at the value of the total property.

Again, if you had a block of land that was worth $1 million, then the rates would be based on the rating factor for that AUV. Then that total rates bill would be divided by the number of units. So the rates bill will go up because you are using a higher rating factor as it relates to the AUV of the property. But it all depends on the number of units and the AUV of the land. It is not an exact science. Every apartment is slightly different, depending on the value of the land and the number of units.

Mr Barr: As is the case now.

MR COE: Yes, so in effect the people were not paying the marginal rate necessarily, the lowest marginal rate. It will be the highest marginal rate as applies to the overall block.

Mr Barr: Their share of the overall value of the block, yes.

MR COE: Yes, but—

Mr Barr: But not in that hypothetical example, 50 individual shares.

MR COE: Yes.

Mr Barr: It is the total amount divided by the number of units.

MR COE: Yes, but am I right in saying that it is not actually going to vary in correlation to the unit entitlements for any given unit plan?

Ms Goth: No, it would be exactly the same formula as the way that the shares are divided out amongst the units.

MR COE: Sure. For instance, somebody who has a ground floor—maybe that is not the best example; somebody who perhaps has a first floor unit is going to pay the same if they have the same footprint as somebody on the top floor?

Ms Goth: It is the same proportion based on GFA.

Mr Barr: We will check that.

MR COE: It is a core issue. It comes down to whether it is actually linked to the value of the individual apartment—

Mr Barr: Yes.

MR COE: A top-floor penthouse-type apartment is therefore going to be valued much higher than the comparable floor plan on level 2 of that same building if it is a 12 or 14 storey building. It is quite an important question. What is the answer to that?

Mr Nicol: We do not intend to change the relativities between the number of units and the AUV of the block. Rates are based on AUV, not on market value of a property. The new arrangement will be based on the AUV of the block. Rates are calculated on that AUV. That total is then divided into the number of units, rather than the current methodology where we divide up the AUV amongst the units and then apply the rating factors on the smaller AUV values. But we can give you a detailed explanation of exactly how it will work in those situations.

MR COE: How is it and why is it that this will see 20 per cent next year and 20 per cent the year after? Is it simply because of—

Mr Barr: 20 and 15.

MR COE: 20 and 15; is it simply because the factor is going to be changing or is it due to a phasing in of the new factor?

Mr Nicol: It is the latter. It is a phasing in. It is a decision of government to phase that in over two years.

MR COE: Right. What component is actually being phased? Is it the individual thresholds or is it the actual factors?

Mr Barr: I think there is a rebate.

Mr Nicol: I think we are going to use a rebate.

MR COE: It is a rebate; okay.

Mr Nicol: Yes, of an amount.

MR COE: So is it a fixed amount or is it a proportionate amount?

Mr Nicol: It is a fixed amount, I think. I am going from memory.

MR COE: What is that? What is that fixed amount?

Mr Barr: From memory, it is $100, but I will check that and confirm that it is the case.

MR COE: Thank you. Finally, how does the zoning of a block of land come into consideration with regard to the AUV?

Mr Nicol: I might let Kim comment. The AUV valuation is based on the maximum best use of a block. If you change the lease to a higher use, its value increases and the AUV will therefore rise. Where the highest and best use of a block has not changed, but the block is just used more intensively, in theory this should not have an impact on AUVs. But, obviously, as blocks are developed and new properties are developed, market prices tend to rise. Therefore, AUVs will follow it. Kim, do you want to—

Mr Salisbury: No.

MR COE: What reporting exists between ACTPLA and yourself when leases are varied or when zoning changes occur?

Mr Salisbury: That information is provided to the Revenue Office.

MR COE: Any time that there is a lease variation of any sort does it come through?

Mr Salisbury: Yes, it should, yes.

MR COE: Does that mean that somebody who gets a variation which does in effect deliver increased property rights is always going to see an increase in rates the following year?

Mr Salisbury: Not necessarily.

Mr Barr: Rolling three-year averages.

MR COE: Yes, that is right. But still the unimproved value went up, albeit a third of the AUV—a third of the impact.

Mr Nicol: But there might be other factors going on that is reducing the block relative to other blocks and the value of a certain suburb, for example. All else being equal, I think the answer is yes. But all else is not equal. Other factors come into play. It is the whole; all of the factors are looked at when coming to look at changes to AUVs. I think there is also a practical implication. We do not go and revalue every block every year.

MR COE: Even if there is a lease variation?

Mr Nicol: I will let Kim answer that. If there is a lease variation, it will obviously get more attention, yes. But it depends on the block, it depends on the scale of the change. If it is a very small change, a decision might be made not to go and revalue it. A decision might be made that we do not think this change is enough to change the relative value of that block. But Kim, do you want to—

Mr Salisbury: No, I think that is it. It is a series of calculations across an area, a similar area. It takes into account the ups and downs of what has happened with various properties in that particular area.

THE CHAIR: Mr Hinder had a supplementary, I think.

MR HINDER: No part 4 to your supplementary question there?

THE CHAIR: You can have a part 4 on yours, but do you want to do your supp first?

MR HINDER: All right. Getting back to the unit entitlements and the way that this would be levied, if you got 10 units in a development, it would be calculated and then split equally between the 10 rather than following the unit entitlement?

Mr Nicol: That is the one thing I want to confirm when we look at the operation—

MR HINDER: Because a unit entitlement already splits up the relative values largely.

Mr Nicol: Yes.

MR HINDER: Usually on metreage across the unit holdings.

Mr Nicol: I just want to check, Mr Hinder, if I could, the exact operations.

MR HINDER: It sounds fairer to me.

Mr Nicol: Yes. It will depend, I think, on the administrative processes. We are not intending to change the processes as currently exist in that distribution effect.

MR HINDER: All those things are already lodged—

Mr Nicol: Yes. I just want to check the change that the government is proposing and how that interacts with the way it currently works in the splitting up of rates amongst different-value units. I will come back to the committee with some detail.

THE CHAIR: All right; you will come back with an answer on that.

Mr Nicol: A detailed explanation, rather than trying—

Mr Barr: There has been no policy change.

MR HINDER: No, but they are already used to that. That is how the levies are split.

Mr Barr: That is right.

THE CHAIR: There are big implications. I think Ms Burch had a new question?

MS BURCH: Thank you. Going to page 22, you are processing the homebuyer concessions, the first homebuyer grants?

THE CHAIR: BSB?

MS BURCH: Sorry, yes. Given that everyone is interested in home ownership and moving in and out of the market, what is the activity in the concessions and first homebuyer grants these days? Recently there were some changes about eligibility for first home owner grants. Can you tell us how many grants are being applied?

Mr Salisbury: I have that information; it is just a matter of me shuffling through my folder to find it.

MS BURCH: Page 22.

THE CHAIR: BSB, page 22, in the dot points.

Mr Salisbury: For this financial year to date, with first home owner grants, we have processed 1,307 at a value of $14.25 million. In terms—

MS BURCH: Is that remarkably different from earlier years, given that population grows and you cannot travel north without finding a new suburb?

Mr Salisbury: For the full financial year in 2014-15, we processed 1,705 at a value of $17 million, but that is a full financial year as opposed to an almost financial year.

MS BURCH: That sounds almost on mark, yes.

Mr Salisbury: Going back to 2013-14, we processed 1,860 at a value of $14.6 million.

MS BURCH: Again, the changes, if you can remind me, are into new homes?

Mr Nicol: New or substantially renovated.

MS BURCH: Is there much of a split between those that are getting the grant in new properties and those that are going into a major reno in an older suburb?

Mr Nicol: It is mostly all new properties.

MS BURCH: And that would not be limited by the requirements—the level of renovation that is required?

Mr Nicol: No. I think it is the demographics. First home owners typically buy a new place in a new suburb. If they are buying in an established suburb, they do not generally knock something down and rebuild it; they do not have the financial capacity to do so, generally.

MS BURCH: And the homebuyer concession scheme? How is that tracking this year compared to last year?

Mr Salisbury: Year to date, it is 1,297 at a value of $10.6 million. For the full year last year, it was 1,361 at a value of $12.5 million.

MS BURCH: There is a new initiative in this budget around disability home ownership. Can you tell us a bit about that—eligibility criteria and the numbers you expect through that? I think it is a great idea.

Mr Nicol: I might start, and Mr Salisbury can add detail. Essentially the aim of this concession is to remove some costs in situations where typically families want to provide housing for an adult child. This seemed to be an area of great concern, particularly for ageing parents, where the child has the ability to live on their own and take care of themselves to a degree. We are going to rely on the definition of disability under the NDIA, so we are not creating a new definition for eligibility. We do not—

MS BURCH: So if you are eligible for the NDIA you will be eligible for this concession?

Mr Nicol: Essentially, yes. We are drafting instruments now to just tie that down. We are doing a bit of consultation and thinking about exactly how we phrase that. We do not expect a big take-up. The costs are not large. In a sense, I think any government would rather it be done properly and the houses purchased because they are suitable to be used by the disabled person rather than encouraging people who are not able to take that up. I think we were envisaging a few dozen at most per year, a couple of dozen—that sort of number.

MS BURCH: Is it a capped concession per household? How does it work?

Mr Nicol: My recollection is that they will not have to pay stamp duty.

Mr Salisbury: That is correct. I do not think I have anything else to add to that at this stage, given that we are drafting up instruments and finalising the scheme.

MS BURCH: But it is linked to any property that they are purchasing? It is not like the first homebuyer grant, where it is a type of property?

Mr Nicol: No, no.

MS BURCH: This is about them buying property solely for the—

Mr Nicol: I think we are going to require them to live in the property—the disabled person.

MS BURCH: Yes.

Mr Nicol: So it is not used as an investment.

MS BURCH: Yes.

Mr Nicol: Other than that, I do not think we are looking to place any further restrictions on it. I think the key will be the definition for eligibility.

MS BURCH: And that will come into effect fairly soon?

Mr Nicol: On 1 July 2016.

MS BURCH: Okay.

Mr Nicol: That is our aim.

MS BURCH: On page 37 of BSB, under "Compliance revenue per inspector", it shows $400,000, $800,000, $500,000. Is that just the ebbs and flows of our activity and people?

Mr Barr: They massively over-achieved, didn't they, in 2015-16? It was a good compliance job. Well done, team. And then they set themselves a higher target.

Mr Nicol: Yes; we have slightly increased the target. We deliberately set the target below what is being achieved, because we do not want it to be seen that our inspectors are out to sort of catch people. They are out to ensure that people pay the correct amount of tax that they are liable to pay under the legislation of the Assembly.

MS BURCH: That is all.

THE CHAIR: Chief Minister, you spoke earlier about the domestic violence levy, reducing rates and the domestic violence levy. One of the other big increases is the fire and emergency services levy. On page 233 of budget paper 3, about two-thirds of the way down, it says:

> The Government will increase FESL for residential and rural properties by around $10 from 2016-17.

Is that in the years after 2016-17 or in the 2016-17 year?

Mr Barr: It starts in 2016-17.

Mr Nicol: That was my recollection.

Mr Barr: Yes.

Mr Nicol: From 2016, yes.

THE CHAIR: It says:

> The FESL in 2016-17 will have the following elements:
>
> • a fixed charge of $252 for residential and rural properties …

Mr Barr: Yes.

THE CHAIR: But in last year's budget paper 3, 2015-16, the FESL in 2015-16 was $196 for residential and rural properties. So it has gone up.

Mr Barr: Yes. But if you go to those budget papers, that would have foreshadowed a progressive increase to get to the goal of more—

THE CHAIR: Yes, the coverage. I get the coverage.

Mr Barr: Yes.

THE CHAIR: But it has gone from 196 to 252. That is not $10.

Mr Nicol: My recollection is that there was a measure in last year's budget that had an increase in it.

THE CHAIR: Yes, it did.

Mr Nicol: And the $10 is an increase on top of that increase.

THE CHAIR: They do not seem to equate. On page 204 of budget paper 3 from last year, 2015-16, it says:

> The FESL in 2015-16 will have the following elements:

- a fixed charge of $196 for residential and rural properties (an increase from $130) …

So it has gone up $66 in the current financial year. In the coming financial year, it is going from 196 to 252, which is another 56, which is not $10.

Mr Barr: No. Last year's budget factored in increases over the forward estimates, and we have added another $10 to that increase.

THE CHAIR: You have put another layer on top of that?

Mr Barr: That is correct—$10.

THE CHAIR: Why would you not—

Mr Barr: Because we are trying to more closely align the costs of that service delivery with the change.

THE CHAIR: I get the supposed justification, but it does seem inconsistent that if—

Mr Nicol: The measure last year was 60, and then a further 40, I think. I am going from memory.

THE CHAIR: So the 40 has now gone to 56?

Mr Barr: There is $10 more this year than what was projected last year.

THE CHAIR: So it is a further—

Mr Barr: It is 10—

THE CHAIR: Perhaps it is just the wording. Perhaps it is just a further $10.

Mr Barr: Yes, a further $10.

THE CHAIR: But if you add those three components up, you have your rates with a big increase, you have the domestic violence levy and then you have the fire and emergency service levy all coming through the rates. You can call them whatever you want, but they are rates, and they are rate increases. How is that sustainable for people on fixed incomes, people on low incomes?

Mr Barr: As I say, we endeavour to keep any increases to the absolute minimum, and to have any increases go to the areas of highest priority. The government, through this budget, has sought to increase funding for emergency services and sought to put in place a comprehensive policy response to one of the most significant social issues our country faces in the context of family violence. In relation to the decisions we have taken that could be construed in the context of hypothecation—yes, they are very deliberate in that context.

THE CHAIR: But it is not hypothecated. All the money goes into consolidated revenue and then funds out. You are not putting it into a special trust or anything.

Mr Barr: We have been very clear, in the context of the package of new initiatives that we have put forward and the rationale in relation to the new levy, that it provides—

THE CHAIR: Can you indicate—

Mr Barr: a growth source of funding for this area.

THE CHAIR: And that money is collected and then goes into consolidated revenue.

Mr Barr: But the fact that it is legislated and collected for that purpose provides a very strong signal from the Assembly to the government of the day that they should utilise those funds for that purpose. It would be, in the context of Sir Humphrey Appleby, a very courageous decision for any government in the future to deviate from that. That was the government's intent—to lock in a program and a long-term growth source of revenue—and that is what we have done. I fully accept that some people disagree with that—with the concept of hypothecation at all or with—

THE CHAIR: It would be much clearer if it went into a domestic violence trust, for instance, and was used only for that purpose. It is going into consolidated revenue and you are drawing out of consolidated revenue. So you have reduced the rates. You have said, "We've reduced the rates but we've put this levy back on top," and all you are doing is charging at a higher level and saying—

Mr Barr: If I had done something differently then we would be having a very different conversation now, and you would be inquiring why it is that I and the government did not adjust rates to reflect that we were making changes elsewhere in the revenue base.

THE CHAIR: I am not sure that we would.

Mr Barr: I am certain we would.

THE CHAIR: If it is the scourge and the problem that you say it is—and I think we would all agree that it is—why isn't it a first priority instead of needing a new tax to fund it?

Mr Barr: We have locked in a legislated funding source. It is up to you whether you want to support that or not but the Assembly will pass it in August—

THE CHAIR: It goes to consolidated revenue.

Mr Barr: and it will provide a revenue stream that funds the range of new initiatives, and it is a growth stream. As the city grows, so will the available funds to tackle this problem.

THE CHAIR: Why is it a flat tax and not a proportional tax?

Mr Barr: We looked at the most efficient way to raise that revenue, and the fairest way. There are a number of exemptions and concessions in relation to—

THE CHAIR: So a flat rate can be fair?

Mr Barr: In the context of excluding, in this instance, the lowest income earners in the territory, who reside in public housing, they do not pay, and there are concessions available for pensioners and for other low income earners.

THE CHAIR: Are the people who pay full market rate in public housing exempt?

Mr Nicol: Tenants do not pay rates or any associated—

Mr Barr: They pay it through their rent, so someone who is paying full market rent would be making a contribution in that context, because—

THE CHAIR: Some of the money that Housing ACT collects will go across to the domestic violence fund?

Mr Barr: We have provided a pool of funds. Housing, along with a number of other agencies, will be contributing to the government response.

THE CHAIR: That is okay, but will a full rent-paying tenant in a Housing ACT property pay this levy?

Mr Barr: Not directly. We do not tax ourselves, but their directorate will be contributing to the family safety initiatives, so in an indirect way, yes, through their directorate.

THE CHAIR: They will not be paying the $30?

Mr Nicol: Can I come back to the committee on that? My recollection—a lot happens in a budget; I could be proved wrong and be very embarrassed—is that we did not apply it to ACT public housing.

Mr Barr: No, we did not.

THE CHAIR: So if you are a full rent-paying tenant in Housing ACT and you are paying market value, you are not paying this levy?

Mr Barr: Other than through the market value of your rent, just as anyone who is renting privately is not paying it. It is on property owners. The government is the property owner, so that directorate will be making a contribution to the overall package.

THE CHAIR: But not financial.

Mr Barr: They make a financial contribution, yes.

THE CHAIR: Additional money, new money.

Mr Barr: They will have to put resources into it that they will have to find from their own sources, yes.

THE CHAIR: Perhaps Mr Nicol will check—

Mr Barr: There is the question of whether you want a hypothecation of that element—it is a handful of tenants now, in Housing—but I am happy to ensure that—

THE CHAIR: It is only a handful of tenants?

Mr Barr: A very small number now.

THE CHAIR: That pay full market rent?

Mr Barr: That pay full market rent, yes, a very small number.

THE CHAIR: What percentage pay full market rent? You might take that on notice.

Mr Barr: Yes. It would be one or two per cent, tops.

MR DOSZPOT: I have a very quick supplementary.

THE CHAIR: A supplementary, then we will have to finish.

MR DOSZPOT: Minister, how many other levies are you considering similar to the domestic violence levy?

Mr Barr: In this budget? None.

MR DOSZPOT: Not in this budget, but do you have any further plans for—

Mr Barr: I am not speculating on what may or may not happen in the future.

MR DOSZPOT: I am asking for your forward projections.

Mr Barr: None at this time, Mr Doszpot.

THE CHAIR: We will leave the discussion at that point, and move on to the Independent Competition and Regulatory Commission.

Good afternoon and welcome to the second day of the public hearings of the Select Committee on Estimates 2016-2017. Please be aware that the proceedings are being recorded, they will be transcribed and then published by Hansard, as well as currently being broadcast and webstreamed.

In front of you on the table is a pink card which has the privilege statement on it. Could you please indicate that you have read the privilege statement and that you understand the implications of privilege? Thanks very much. Would you like to make an opening statement in regard to this?

Mr Barr: I am happy to take questions but I invite the new commissioner to introduce himself.

THE CHAIR: Perhaps the new commissioner can identify himself and give us a brief introduction.

Mr Dimasi: I am the newly appointed senior commissioner of the ICRC, and I am happy to answer your questions today.

THE CHAIR: Mr Hinder, I think we are up to you in the questioning order.

MR HINDER: Can you identify any new initiatives in the budget in relation to increased fairness in the 2016-17 years?

Mr Dimasi: Mr Hinder, I am the economic regulator. I am happy to talk to the elements that I am responsible for. With respect to the budget more broadly, I cannot claim to have the confidence and—

Mr Barr: You would defer to me on that one, yes.

THE CHAIR: But some of us would be interested in your view.

Mr Dimasi: I am sure we will have lots of opportunity to talk about many things but that is perhaps a bit broad for my area of involvement.

Mr Barr: The opportunity for the commission now is to undertake further reviews in relation to, for example, water pricing.

MR HINDER: Pricing reviews, for instance?

Mr Barr: Yes. The Assembly has also made some legislative changes in response to previous issues and has sought to clarify aspects of the commission's operations. Pleasingly, it was a unanimous decision of the Assembly to support those changes. I invite the commissioner to outline some of the work that is before the commission in 2016-17.

Mr Dimasi: Thank you, Chief Minister. Over the coming year we will be doing a number of things. In the area of electricity first, we are expecting to get new terms of reference for a new review into electricity prices. You may have noticed we have recently released our price adjustments for the coming year. That runs out at the end of the financial year 2016-17 and we will be looking at a new review beginning on 1 July 2017.

In water and sewerage, there is rather more work to do. As well as the annual price adjustment review, which we have only just released, we are required to review the tariff structures. We will be doing that over the coming year. Again we will be looking for new terms of reference to do a new determination which will begin from July 2018. We will be getting our work underway for both of those two sectors.

MR HINDER: Are they the only two for 2016-17 or do you have others?

Mr Dimasi: They are the two major pieces of work. There is a range of other activities that the government could ask us to do. We are open and available to look at those sorts of issues, but they are the two key pieces of work that we will be looking at.

Mr Barr: In the context of the budget statements, competition policy is another area that will undoubtedly return to the federal-state relations agenda. Regardless of the outcome of the July federal election, the new federal government, and regardless of who the Treasurer is, will wish to engage with the states and territories in response to the Harper competition reform priorities. It may well be appropriate in the context of that work for the commission to provide some further advice to the territory government. There are three elements in the context of the Harper competition reform. Some reforms lie wholly in the responsibility of the states and territories; some are shared responsibilities between the commonwealth and the states and territories; and some sit exclusively with the commonwealth.

There would be room for policy and technical advice in relation to the shared responsibilities and the wholly territory responsibilities. I would not be asking the commission—as interesting as it would be—to undertake work on the wholly commonwealth areas of responsibility but I have no doubt that there will be a need over the next term of our Assembly and the next commonwealth parliament for work in this area.

MR DOSZPOT: Good afternoon and welcome. Thank you for coming along.

Mr Dimasi: Thank you.

MR DOSZPOT: Mr Dimasi, I have a reference to employment on page 239. What is the nature of the increased workload of the ICRC that required additional staff? Can you elaborate on that?

Mr Dimasi: The work program of the ICRC can fluctuate quite a bit from year to year—bear in mind that I have only been there for a month—but looking at its activities over the past, we are a fairly small organisation, as you can see, and we tend to have what might be described as fairly peaky work. We do these determinations for water and sewerage and for electricity which are fairly labour-intensive, which require quite a bit of resourcing. They would tend to be made every three years, with adjustments annually. If we have both of those coming along, you can expect a significant ramp-up in the work; and they are both coming along.

As I understand it, there has been a period of relatively quiet time in the past, but that is certainly coming to an end, and from the work program that I have seen we have got quite a bit of work to do. As I said before, we are reviewing the tariff structures, and that is a pretty significant task; we are working with Icon and other stakeholders on that. The other two projects will also take a significant amount of time and resources. So it is the fluctuation in the workload. And it is whether there are going to be additional requests made of the commission. There is provision for the government to ask us to do further things from time to time, and there are other things that could come in, such as competitive neutrality type issues, but they are things that at the moment I cannot predict; it depends on whether there are complaints and the like. That is pretty much as I see it right now.

MR DOSZPOT: You have been in the position a short time, and I understand that, but I have to ask you a question regarding table 9 on page 245. Are you aware of the explanation for the change from the budgeted surplus of cash of $113,256 there to a deficit of $601,000?

Mr Dimasi: Sorry, can you just run those numbers again? Oh, yes: net cash inflow, 113 to minus 601. I will get Mr Hickey to give you the detailed explanation; I believe it relates to the way we treat income and collect for other regulators, but Mr Hickey can explain the details of that.

Mr Hickey: The negative cash for 2015-16 that we are estimating is a flow-on effect of a change in accounting policy that we have adopted for the current year. In previous years, the elements of income in the utilities licence fee have included income relating to the technical regulator and for ACAT. This, in our reports over a number of years, has resulted in quite a lot of variation in our operating results. We have gone back and reviewed that situation as well as sought external accounting advice on the matter. It has been determined that we are actually operating as the agent in those arrangements, not as the principal. On that basis, it is not appropriate for the income in the expenses to be reflected in our financial statements, so we are moving that off our books into third-party moneys, as I think we call them. We will still administer the funds, but they will not be reflected in our finances.

MR DOSZPOT: Thanks very much.

Mr Dimasi: It makes us look a little less, I guess, liquid; it reflects more accurately the situation.

MS BURCH: On page 235, looking to purpose, it talks about protecting the interests of consumers and promoting effective competition in the interest of consumers. How does one go about doing that?

Mr Dimasi: We are dealing with utilities which have, by their nature, significant market power. You cannot really see them as you might see other businesses where you can choose and as a consumer you are more greatly empowered. You have less choice for these kinds of utilities; they do have significant market power.

The way that is traditionally dealt with, including in the ACT, is that you have an independent regulator that is involved in setting the prices for those organisations that reflect, if you like, a reasonable return for those businesses. The regulator tries to make sure that the costs that are incurred can be justified and are somewhere near the efficient level so that the consumers are not charged any more than they need to be to have those services delivered effectively. We also look at the quality of the services as part of our reporting requirements and report publically, so there is some transparency in what these businesses are doing.

The very nature of our activities is about protecting the community, protecting consumers, making sure that these businesses try to deliver what they are delivering in as efficient a manner as possible and are not, if you like, using that market power to earn excessive profits. That is the nature of the business that we are in and that is what we try to do.

MS BURCH: It is just around gas, water and electricity, but I note, Chief Minister, that you were recently looking at petrol prices. Is there anything that I and this group can look at on this ongoing issue of unfair petrol prices in the ACT?

Mr Barr: The ACCC has principal responsibility there. I did have the opportunity to meet with Rod Sims in Sydney last week, and we have agreed on some further courses of action to assist on that specific issue. But no; I think the ICRC will focus on its core areas.

MS BURCH: I am sure many others would like you to look at this as well.

Mr Barr: Yes. The interesting review that is forthcoming is this one in relation to water, particularly the tiered pricing. That is something that I know the government has had representations from various constituents and organisations on, so I will be particularly interested in the commission's work there. There has been, I understand, an initial round of—

Mr Dimasi: Yes; we have done some initial preparatory work, if I can describe it as that, where we have looked at some of the technical issues that will sit behind that analysis. I will not bore the committee with all the technicalities, but it is looking at elasticities of demand. As I said, I should not describe it in that way. It is about how consumers respond to the different price structures and the different ways of pricing so that it more accurately reflects the costs that are incurred in providing that water. We have done some preliminary work which we have made available—

MS BURCH: What would tiered pricing look like?

Mr Barr: We have it at the moment in the context of a certain kilolitre allowance: up to that amount is charged at a certain price; beyond that, there is a second tier that is charged at a higher price.

Mr Dimasi: Yes.

Mr Barr: Perhaps not surprisingly, larger households, or those who occupy larger blocks who utilise more water, have a particular view about that pricing approach. There have been some very strong representations that I have received; I think the commission has as well.

MR DOSZPOT: From large families, yes.

Mr Barr: Not so much from large families but from an individual in relation to—watering the garden, I think, was the issue.

Mr Dimasi: That is right. It discourages the use of water; hence there is a concern about the impact on their garden.

Mr Barr: These are interesting questions as to whether just two pricing points, for example, would send the right signal—whether they are simple, to a certain extent, or whether there might be a need for a curve rather than just two points.

MS BURCH: I am sure there—

Mr Barr: All things I look forward to hearing from the commission on.

Mr Dimasi: Those with interest, yes.

MS BURCH: Six kids and mum and dad would have a water requirement as opposed to some who may consider it to be an elective use, so to speak, that you are telling me about.

Mr Barr: Yes. And there is an interesting mix between what is consumed inside the home for hygiene, cooking and the like and what is consumed outside. Clearly, in the drought periods there was a lot of investment from households, either in changing the nature of the plants in their gardens or in capturing stormwater through rainwater tanks and the like. There have been some behavioural changes over the past 15 years, but we are about to experience, I understand, the wettest June ever.

THE CHAIR: The wettest June on record.

Mr Barr: We can say the climate is changing and we are seeing more extreme weather events; the commission needs to consider all of these factors as well.

Mr Dimasi: Yes.

THE CHAIR: Unfortunately, we are going to run out of time. I have a couple of quick questions. You talk about pricing points. Is there consideration of a price point for community organisations, like clubs that maintain ovals, bowling greens and tennis courts?

Mr Dimasi: It is too early to talk about that degree of specificity, but we will be looking at how the current pricing arrangements impact on all consumers, including the clubs, and whether there is a better way of pricing to give better signals for the use of water, and for the use of the system as well. That issue will be considered as well. I am not saying that we will necessarily be looking at different pricing for every single body, but—

THE CHAIR: New South Wales has a community organisation price line.

Mr Dimasi: Yes, and we are looking to see what other states do, to see whether there are some lessons for us, bearing in mind that the circumstances here and the costs here may not be quite the same as in New South Wales.

THE CHAIR: On the operating statement on page 242 of budget statement B, can you just refresh my memory as to what is a controlled recurrent payment?

Mr Hickey: That is our new term for government payments for outputs.

THE CHAIR: That is what I thought. Why would you change it to controlled recurrent payment?

Mr Hickey: We did not change it. We just followed the model.

THE CHAIR: I thought you might say that as well. In the user charges, just two down, you have gone from an expectation of zero in the current budget to a 100,000 outcome, but then it jumps to 380 and similar amounts in the outyears. What are "User charges—non ACT government" and why is it increasing so much?

Mr Hickey: It also links in with the controlled recurrent payments changes. What we have identified, as part of a review of the legislation, which fits in with the changes which have come through with NECF, is that it is more appropriate for some of the costs of the commission to be recovered directly—say, with ACTEW, by direct invoicing and things—as opposed to having the funds fed through from the government through controlled recurrent or government payments for outputs. That was previously predicated on the energy levy, so there is a nexus there. Effectively it is a shift from one area to the other. This year, when we identified that, we saw that around 100,000 this year for energy-related activities would be recovered through that mechanism instead of through GPO or controlled recurrent payments.

THE CHAIR: I think that is our time. Thank you for your attendance. Well done to the silent one who managed to answer a question; that is always a good sign.

I welcome back the Lifetime Care and Support Commission. I think you are across the privilege statement. Where does lifetime care and support go to from here in the coming year? Earlier, in a different role, you mentioned not looking at medical and—sorry; what was the other term?

Ms Holmes: General accident.

THE CHAIR: And general injuries. What are the priorities of the fund for the coming year?

Ms Holmes: Making sure that the workers extension is fully implemented; that begins on 1 July. There is a campaign that we are going to be running around awareness of that change. Then there are just a number of administrative things—levies, application forms, changing guidelines, making sure that it is all working seamlessly. There is also a protocol that we are developing between the lifetime care and support scheme and the workers comp insurers: how do we deal with information; what is the contact point between ourselves and the insurers; what information do we share; if someone is an interim participant and it looks as though they might not get lifetime participation, what communication will we have with the insurers and what information will be shared to them as a handover?

THE CHAIR: Ms Holmes, just for the record, could you confirm what position you are appearing in today?

Ms Holmes: I am appearing now as the acting Lifetime Care and Support Commissioner.

THE CHAIR: What is the relationship with the national injury insurance scheme? You said earlier, in a different role, that the next two tranches of activity have not been agreed to. Are they on the agenda at the ministerial council or are they just on the never-never?

Ms Holmes: The national injury insurance scheme envisaged four limbs, as I am going to call it. We have had the motor vehicles. The second one is workers. The third is medical. The fourth is general accident. All jurisdictions, with the exception of Western Australia, signed up to the first two when they signed the agreement for NDIS.

Mr Barr: The west struggle to be in the nation at times.

Ms Holmes: South Australia has signed up for the medical; it is the only one who has signed up for that one. No-one has signed up for the last limb. These two are much harder than the first two. There is a COAG subgroup which is in place which is looking at those two, looking at potentially how it might work; but, as I said, no one has actually signed up to that yet.

THE CHAIR: Did the commonwealth or the working group propose a timetable for the final two?

Ms Holmes: I am not sure there is actually an agreement on the time lines. I have seen various time lines, but I do not think any of them have actually been agreed to.

THE CHAIR: There must have been a proposal that medical and general would be done by such and such a time. Was there a proposed date to include medical? Perhaps the minister knows; he was at the meetings, I assume.

Mr Barr: That is a level of detail I do not instantly recall. I would need to go to the papers.

THE CHAIR: Perhaps you could take it on notice. But at this stage only one has agreed to medical and no-one has agreed to general? Mr Hinder.

MR HINDER: I am looking at page 274 of BSB. I notice that the long-term annualised return is CPI plus 3.5.

Ms Holmes: Yes.

MR HINDER: That seems modest compared to Treasury’s superannuation aim of CPI plus five.

Ms Holmes: Yes.

THE HINDER: Is there a reason for that?

Ms Holmes: It comes down to the nature of the fund, the length of time of the fund. There is appetite as well for the fund. This is a much smaller fund, certainly at the moment, compared to, say, your superannuation fund. There is still a lot of uncertainty as to the cash flows required for the fund. In consultation with some of the asset consultants that Treasury has on board, that was felt to be the most appropriate return. It is also in line with what other jurisdictions that have similar schemes use.

MR HINDER: On the subject of the uncertainty, you have got nearly $15 million in the fund at this point.

Ms Holmes: Yes.

MR HINDER: I know it is early days; we are approaching the end of the second year of your existence. Does that look like enough money at this stage? I notice the expenses are zero for both years.

Ms Holmes: So from a—

MR HINDER: Are you tracking on the right sort of figures there for the levy?

Ms Holmes: From a cash perspective and for the levy, as you indicated, it is only the second year. The nature of these types of injuries means that it is likely to be highly volatile. Whilst the actuary is saying an average of 4.5 in any given year, he also said it could vary from zero to perhaps 12 in any given year. You might have zero in one year; the next year you might have 10.

The other thing is in relation to an average is that last year we had five new participants compared to an average of 4.5. But those participants were much more critical than the average cost. The cost can also move for that reason. It is hard to know at this point in time. It will take a number of years as we look at it every single year to see what is the most appropriate level for that levy.

MR DOSZPOT: Welcome back, Ms Holmes.

Ms Holmes: Thank you.

MR DOSZPOT: Table 5 on page 277 shows revenue from three sources. In addition to the tax on the CTP policies and the proposed tax on workers compensation insurance, what revenue is received for the items under “fees and fines”?

Ms Holmes: The amount that is listed under “taxes, fees and fines” is just the levy. As you have indicated, that is the levy which we charge. Today it is $34 for CTP. The other amount starting from 2016-17 is the amount that we are going to levy on workers comp insurers to do the extension of the scheme.

MR DOSZPOT: That was not applicable in the previous budget, was it?

Ms Holmes: Correct. The legislation passed last month to extend it to workers.

MR DOSZPOT: What sort of feedback have you received from participants about their expectations about the scheme?

Ms Holmes: We undertook a survey in the past three or four months. We actually brought in a professional researcher who sat down and talked to all five of our participants to ask them what their expectations of the scheme were, whether their expectations were being met, whether there was anything that we could do better, how the process was going with New South Wales administering on our behalf. We got some very positive feedback. One participant said that they were 100 per cent satisfied with the scheme. I think pretty much all of them said that they were very grateful for the scheme's existence.

There were some points where we can improve. For example, although we provide information about the scheme when a participant is first accepted, as you can understand at that time there is still high stress and the families do not particularly know what is happening. One of the findings was that three months, six months down the track we should provide that information again so that when they are starting to settle down, they can take it in a little bit better.

MR DOSZPOT: You have actually taken on board some doable options that they are suggesting for you?

Ms Holmes: Yes, and we are talking with New South Wales around some of those things which they are administering on our behalf as to how they can change their processes to accommodate those recommendations.

MS BURCH: You have five people in the scheme at the moment. I am looking at the expenses. But the note relating to "other expenses" is associated with the future estimate for treatment and care costs. Are we not at the stage yet of paying for support to any of these five?

Ms Holmes: Yes, we are.

MS BURCH: You are?

Ms Holmes: Yes. What "other expenses" represents is the cash payments that we are making as well as new movements in the liability. As you can understand, given that it is a lifetime scheme, at the time of accepting the participant into the scheme we book an estimate for their full lifetime cost. As time progresses, we are making payments on their behalf. But they are also being reassessed as to what that lifetime cost might be for that participant, depending on, for example, whether or not they are improving slowly. They might have improved a lot. All of those things can make quite a difference in what the actuarial estimates are for a participant.

MS BURCH: I go back to page 274. It goes to the recent amendments for injured workers on or after 1 July of this year. Before 1 July of this year, how were those injured workers supported? Was it through workers compensation?

Ms Holmes: Yes.

MS BURCH: And it says:

> … or in the course of, the worker's employment and the ACT is the state of connection

Define: what does that mean? Does it mean that they live here or that they worked here?

Ms Holmes: That is aligning with the definitions for workers compensation. There is a slightly different arrangement between CTP, which is where did the accident occur, versus workers comp, which comes down to—this is probably an area I am not particularly familiar with, but it is aligning with workers comp. It is to do with sort of where the employer is situated.

MS BURCH: But it is with the broader workers comp connection?

Ms Holmes: It is. It aligns exactly with how the workers comp works.

MS BURCH: That is fine. And New South Wales continues to administer the scheme for us?

Ms Holmes: Yes.

MS BURCH: And not like Queensland with the other data, this is fairly reliable? We are not forecasting any problems with it down the track?

Ms Holmes: They started in September of last year with the administration. They had been on board prior to that, sort of holding our hand, shall I say. From that day all the agreements were in place. They have then taken over for the day to day. It is actually working extremely well. Both sides are very happy with how it is working.

We asked the participants as part of that survey whether or not they had any concerns. They said that none of them had even realised that there had been a change. We had sent out a letter to them, but from an in-practice perspective they did not notice any difference. One said that they thought going to New South Wales was good because they had a bigger infrastructure and more experience that they could draw on .

Mr Nicol: And we do have a formal agreement with New South Wales for delivering this service. It certainly went to their cabinet for approval and they made some legislative changes as well. There is some real commitment from New South Wales and we are very grateful for their help on this. They were not reluctant at all. They were very keen. We do reimburse them for their costs. But it makes sense for both of us.

Ms Holmes: They certainly see as very positive, for example, the changes that we have made for workers that were passed last month. They actually see that as something which is better than what they have got. That is actually their ideal; so they see it as a win-win for both of us.

MR DOSZPOT: I have a quick supplementary.

THE CHAIR: Sure.

MR DOSZPOT: Just on the agreement we have got with New South Wales, does it protect us from any similar situation that we talked about earlier on where Queensland did not want to carry on? Is there protection for us in terms of a warning period being given should they wish to change the arrangement?

Ms Holmes: Yes, that is built in. There is an IGA in place and then there are agreements that sit underneath that. That is specifically dealt with. I think that one of the differences with the CTP is the infrastructure involved. When it comes to what New South Wales is doing, we are constantly talking with them. We meet with them face to face twice a year. We have a teleconference with them every six weeks. We are constantly monitoring and know what is happening with our participants. If they decided to step back, we would be in a fairly good position to be able to take that on.

THE CHAIR: I have a final question. On page 277 of budget statement B, under "other revenue" you expected $704,000 but came up with zero. The notes would suggest that that is because moneys that were to be invested were not. What caused that delay?

Ms Holmes: We have been working through an investment strategy, which is now in place. The fund that we are looking to do investments through is now in place and set up in terms of our ability to access it. We were building up our cash reserves before we actually started investing.

The other issue at the moment is: when is the right time to start investing, given the volatility of the market. You cannot pick the market, but some of the messages that we are getting at the moment are that we might be getting a better return in our bank account versus starting to invest. That is why we have not yet. We will be starting to invest in July. We will start with small amounts and build up.

THE CHAIR: Unless somebody has got a pressing question, we might finish there.

Mr Nicol: Chair, could I deal with one issue that came up earlier relating to the apartment rates issue? I had a further conversation with my staff.

THE CHAIR: Sure.

Mr Nicol: I am informed that it is based on floor area. That is the way it is divided currently. That will not change under the new proposed arrangements. But with your indulgence I will busily dig out the exact detailed nature of the way that is calculated and I can cover that off first thing tomorrow morning.

THE CHAIR: Yes, no problem.

MR HINDER: When you say "floor area," can you work out whether that means the same as unit entitlement under the Unit Titles Act?

Mr Nicol: That is why I did not want to—

THE CHAIR: It gets a bit technical.

Mr Nicol: because it can get very technical, and I do not want to—

MR HINDER: It is not always the same.

Mr Nicol: put incorrect information on the record.

THE CHAIR: That is fine. We will take that up tomorrow if it is available. Chief Minister, thanks for your presence today. The committee's hearing will now adjourn. A number of questions have been taken on notice. I think the usual standard is providing a response within five working days from receipt of the transcript, which we will endeavour to get to you as quickly as we can.

Tomorrow, members, we return with the Chief Minister for the ACT Insurance Authority, Shared Services ICT, Icon Water, Chief Minister's output class 1 and the ACT executive, amongst others. With that we will adjourn for the afternoon.

The committee adjourned at 5.27 pm.