LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Annual and financial reports 2011-2012)

Members:

MR Z SESELJA (Chair)
MS M PORTER (Deputy Chair)
MR B SMYTH
DR C BOURKE

TRANSCRIPT OF EVIDENCE

CANBERRA

THURSDAY, 21 FEBRUARY 2013

Secretary to the committee:
Dr A Cullen (Ph: 620 50142)

By authority of the Legislative Assembly for the Australian Capital Territory

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APPEARANCES

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Amended 9 August 2011

The committee met at 12.01 pm.

Appearances:

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

Chief Minister and Treasury Directorate
Cappie-Wood, Mr Andrew, Head of Service and Director-General
Stewart, Mr Dan, Acting Under Treasurer
Bulless, Mr Neil, Executive Director, Finance and Budget Division
McAuliffe, Mr Patrick, Director, Investment Branch, Investment and Economics Division

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

THE CHAIR: Good afternoon, everyone. Welcome, Treasurer; welcome, officials. I formally declare open the public hearing of the Standing Committee on Public Accounts inquiry into the 2011-12 annual and financial reports. On behalf of the committee I would like to thank both the Treasurer and the relevant officials for being here with us today. The proceedings this afternoon will commence with an examination of the 2011-12 annual report of the Treasury Directorate and will cover budget process, financial reporting, taxation and revenue policy, and fiscal and economic policy, including competition and regulatory reform. The committee will then move to an examination of the 2011-12 annual report of the ICRC.

Can I remind witnesses of the protections and obligations afforded by parliamentary privilege and draw your attention to the blue-coloured privilege statement that is before you on the table. Could you confirm that you understand the privilege statement?

Mr Barr: Thank you, yes.

THE CHAIR: Thank you; that is so confirmed. I also remind witnesses that the proceedings are being recorded by Hansard for transcription purposes and are being webstreamed and broadcast live. Before we move to questions, Treasurer, would you like to make an opening statement?

Mr Barr: No thank you, chair.

THE CHAIR: Treasurer, the government's objective is to return the budget to surplus in 2015-16. I have a couple of questions in relation to that, and I am sure other members will have questions on this. Why is the surplus being achieved using long-term capital gains rather than having expenses lower than revenue?

Mr Barr: The territory is in a unique position in relation to its superannuation holdings. We have, in presenting our budget papers, always presented those long-terms gains as part of our overall bottom line. So we are not moving away from that practice. Of course we will update the budget and the forward estimates later this year, as part of the annual process, and it may well be that future surpluses are in fact larger than what is achieved in terms of long-term capital gains. I think the path back to surplus has been outlined as part of our budget plan, and the government intends to pursue that course.

THE CHAIR: The heart of the question is: is it sustainable to hope for capital gains growth in order to bring the budget back into surplus or isn't there a need for the government to be making more responsible decisions in terms of spending in order to ensure that you are not so hostage to the volatility of capital gains in order to have a budget surplus?

Mr Barr: I think in moving away from the AAS presentation to a GFS presentation, we certainly have—

THE CHAIR: It is a modified GFS, isn't it?

Mr Barr: Accounting for the circumstances of the territory, we have already made a significant shift in the direction that you outlined. From memory, it was in 2006 that that occurred. I think the territory has been making those adjustments and we will continue, as I say, to pursue our budget plan.

THE CHAIR: In terms of some of that spending side of things, obviously the government has made much of picking up some opposition policies like cutting spending on consultants, printing et cetera. In every budget we hear that that is part of the savings plan, and I do not have any opposition to making sensible savings in those areas.

Mr Barr: I am pleased that there is bipartisan agreement.

THE CHAIR: If that is what you are cutting every year, how long before that starts to impact on the capacity of some of those agencies? Or is it your view that in fact there is still a lot of fat when it comes to some of that extra spending?

Mr Barr: I think we would be reaching a point fairly soon where you have exhausted the available savings in those areas of any significance. It is not to say that from year to year there would not be decisions that could be taken, for example, in advertising to move away from old media into new. There are always opportunities, but I would not be suggesting that those savings are in the millions. You can certainly achieve some efficiencies in your advertising by switching to a different advertising medium, for example. We have made decisions in relation to thresholds for publication of documents. So the more that moves online, the more you can save in the areas there. It is a serious question for directorates around how much they spend on producing hard copies of material. Again I am not suggesting that there are millions to be saved there. Across government there certainly are some savings to be harvested. But future savings will require changes to service levels, work practices and also will look at grants programs, the number of people we employ and where we engage with the commonwealth.

THE CHAIR: In terms of the number of people you employ, obviously that is a very large part of the government's budget. Is it your view that those numbers will stay largely constant over the next financial year, will they reduce or will they increase marginally?

Mr Barr: The government's position is that the net size of the public service will remain the same. So we will increase employment, and we indicated that in health in particular, in ambulance provision and community services. There are some areas where there will be increased employment and others where there will be reduced employment, and the net size of the service will remain the same.

THE CHAIR: Where are those other areas where they can expect to have fewer employees within government?

Mr Barr: Those decisions will be outlined in the budget.

MS PORTER: Minister, as you know, the credit rating is a very important part of economic health measurement. On page 14 of volume 1, it talks about the credit rating for the ACT. Could you advise the committee what the current Standard & Poor's credit rating is for the ACT and how does this compare to other Australian states and territories?

Mr Barr: Thank you, Ms Porter, for the question. We are in the fortuitous position, thanks to strong economic management, of being one of only two jurisdictions in Australia with a AAA credit rating on a stable outlook. The other AAA-rated jurisdictions have been put on negative watch and there are a number of larger jurisdictions who have been downgraded in recent times. So as far as the credit rating agencies are concerned, the government's tax reforms and the government's budget management have been endorsed and represent a sound set of budget parameters. We have a very strong fiscal position. We recognise that there are challenges that may confront us, particularly upon a change of government later this year at a federal level. Those risks are well known.

THE CHAIR: Have you already written the federal election off?

Mr Barr: I am just noting the risks that are ahead. You may well be, in a few days, better placed to comment on the plans of your party, although I note your opponent is making a great amount of public comment about how he is the man to save us from what is coming. Time will tell.

THE CHAIR: I have no comment.

Mr Barr: I look forward to working with you, if you are the senator-elect, to ensure that the ACT economy does not go into recession.

MS PORTER: Minister, how important are those reforms you are talking about, going forward?

Mr Barr: They are significant. If we are unable to reform our taxation system in order to create a simpler, fairer and more efficient system then the territory will struggle to generate the revenue that will provide the services and invest in the infrastructure that this community requires into the future. The government's objectives over the next four years are to free up capacity in our budget for two major infrastructure projects, namely, the north side hospital and the light rail project, and two major recurrent initiatives, the NDIS and the Gonski education funding. So we will be making adjustments to our budget in the coming three or four years in order to provide the capacity for investment in each of those key projects.

THE CHAIR: What kind of role has Treasury had in the cost estimates for the light rail project?

Mr Barr: It is not at the point of procurement yet. We are examining a variety of different financial models and looking at a variety of options. We are looking at public sector comparators, all sorts of PPPs that might be suitable. We will be keenly involved in this process as we move towards procurement later in this term of the Assembly.

THE CHAIR: But did the numbers that were put out by the government—from memory, I think it was an allocation of $30 million in preparatory work and some estimates in relation to what it may cost but potentially not necessarily a cost to taxpayers—come from Treasury or were they done elsewhere?

Mr Barr: My understanding is that that work has largely been driven within the ESD, although obviously there has been some engagement as submissions have come through the cabinet process.

THE CHAIR: Did Treasury tick off on those numbers?

Mr Barr: Tick off as in they reflect the sort of work that has been undertaken within ESD. They may not reflect the final cost of the project, depending on particular sorts of procurement outcomes and the nature of the light rail service.

THE CHAIR: So Treasury is not endorsing those numbers? They were put out as pretty definite numbers by the government.

Mr Barr: No, they were not put out as definite numbers; they were put out as indicative. It would depend on a certain style of light rail, a certain level of service. The number of stations et cetera could well change as the project develops.

THE CHAIR: But in terms of developing those numbers, they were all handled internally in ESD rather than Treasury doing that work?

Mr Barr: Engaging with consultants in relation to some of the technical elements of the project. But there is considerable work still to be done before we go to procure a particular light rail solution.

MR SMYTH: So it is when, not if?

Mr Barr: Sorry?

MR SMYTH: You said that there is more work to do before we go to procurement.

Mr Barr: That is correct.

MR SMYTH: So whatever the numbers turn up it is going ahead?

Mr Barr: Yes, we are committed to this project.

MR SMYTH: Whatever the cost?

Mr Barr: We are committed to the project.

MR SMYTH: Whatever the cost?

Mr Barr: You are putting words in my mouth. I am saying that we are committed to the project and we will work through a process.

MR SMYTH: Do you know what the cost is then?

Mr Barr: Not at this point, no.

MR SMYTH: But you are committed to building it whatever the cost?

Mr Barr: No.

MR SMYTH: It certainly sounds that way.

Mr Barr: We are committed to the project.

MR SMYTH: Whatever the cost? Is there a number at which the project will not go ahead?

Mr Barr: No.

MR SMYTH: So you are committed to it whatever the cost?

Mr Barr: No, I am not saying that either.

MR SMYTH: You have just said that there is no number at which it will not go ahead. Therefore, whatever the cost, the ACT government is hell-bent on delivering light rail.

Mr Barr: We will work through a process and procure a light rail service for the territory.

MS PORTER: Minister, is it not true that with some of the costings that were done—some of the indications that came out of Queensland up on the Gold Coast—there were some costs there that we would not entail because of numbers of bridges—

Mr Barr: Absolutely, yes.

MS PORTER: and the type of construction that was going on there that we would not have to undertake here. So that per metre length rail costing that was being bandied around at that time is in fact much lower for us than it would have been for that particular example.

Mr Barr: Yes. The Queensland project is a bespoke project for the Gold Coast that involves costs that would not be incurred in the ACT given the nature of the terrain and the nature of the light rail service.

THE CHAIR: We might pursue this a bit and then I will come to you in a moment, Dr Bourke. You are confident then, obviously, minister—I think the light rail for the Gold Coast is around a billion dollars up-front and then there are ongoing costs for the government.

Mr Barr: Less than a billion, I understand. It is about $900 million. Those are the figures that I have heard.

THE CHAIR: I stand to be corrected. I thought it was around a billion, but even $900 million or a billion in up-front costs to the taxpayer—I think that is split between commonwealth, state and local government in the case of the Gold Coast.

Mr Barr: And there is a PPP component as well.

THE CHAIR: But I think the actual cost to taxpayers, from my understanding, is in that vicinity of around a billion dollars.

Mr Barr: I do not think that is correct.

THE CHAIR: What is the number? Do you know?

Mr Barr: My understanding is that there was a commonwealth contribution of around $300 million, $300 million from the Queensland state government and around $150 million from the Gold Coast council. There have been some levies that I think have been based on ratepayers within the corridor, and there is some private finance as well. The absolute detail of that I can take on notice, and that information can be provided, but I think they are the ballpark figures. The question of operating subsidy is a slightly more complex one given the nature of that particular PPP.

THE CHAIR: I am informed that the operating subsidy is in the vicinity of around $80 million a year that the taxpayer would pay the private partner to run it, with fare revenue coming back to the taxpayer, so whatever the difference is.

Mr Barr: There are some complexities, obviously, in relation to that. You would need to net out an operational subsidy.

THE CHAIR: Indeed, but it leads me to a question. Your view and the government's view is that light rail on the Gold Coast may be around $900 million or a billion depending on all the detail of who is paying up-front. The government's view here is that because of the different nature of the terrain we are looking at something around $600 million, so $300 million or $400 million cheaper—

Mr Barr: And it is a shorter route here.

THE CHAIR: Yes. So you are looking at something considerably cheaper. It is not clear to me, though. The government seems to be saying that it may be that other than $30 million there would be no up-front capital cost to the taxpayer. Is that still your view?

Mr Barr: Those questions will be resolved through the procurement process and we will test a number of different options, as I said in my initial answer. Your starting point would be the public sector comparator. If we were to seek to finance all of the up-front capital cost with our credit rating, what could we borrow the money at? We of course will be working through the detail phase of the project to reduce the up-front capital cost and we will also have the capacity, depending on the time frame of the rollout, to undertake that construction over a number of fiscal years. All of those options will be considered as we move through into the procurement phase. We will test the variety of different options. There are a number of ways that you could pursue this, and we will be testing those.

THE CHAIR: But the election promise was costed at $30 million, from memory.

Mr Barr: In terms of the initial commitment, it was $15 million from the ACT government, seeking a matched $15 million from Infrastructure Australia. If we were unsuccessful in that then we would provide the other $15 million. That would not necessarily need to be provided in the same fiscal year. We would undertake that initial work, yes. That is the level of commitment in the budget at this point.

THE CHAIR: We would expect that in the budget forward estimates there would be no other additional cost but if there are going to be capital costs to government over and above that $15 million or $30 million, that will come post 2016-17?

Mr Barr: That will depend on the initial work.

DR BOURKE: On page 5 of the report, it talks about the major reform of the ACT system which was delivered as part of the 2012-13 budget. It talks about the reform making the "ACT tax system fairer, simpler, more efficient, while supporting economic growth, housing affordability and our high standard of living". Treasurer, what are the benefits for business that you have seen from this tax reform?

Mr Barr: Certainly the payroll tax cut has been very well received. The latest employment data from the ABS is showing, and we are seeing, in spite of our expectations of no employment growth in the territory, some employment growth. I am fairly certain that is not coming from the commonwealth government, given efficiency dividends. I know we have had some increase in our staff in the Health area. We employed about 16 extra ambulance officers. This increase in employment accounts for a little more than that. Presumably it is coming from the private sector.

It has been interesting to note that our payroll tax receipts have in fact been growing. There is certainly increased employment in the territory, which has been a good thing. It is not keeping pace with population growth at this point in time. We are seeing a slight upward trend in unemployment over the last six to 12 months in particular. That is a reflection really of a slowdown to almost zero growth in employment in the public sector.

DR BOURKE: Are you able to quantify that number of jobs that you are saying have come about?

Mr Barr: The ABS obviously put out monthly data. We can look at data published by the Public Service Commission in relation to levels of commonwealth employment. We know our own employment figures. We certainly can reconcile those. I think it is a useful exercise to undertake on an annual basis. When that information becomes available, it provides a snapshot of employment in the city. Importantly, we have been seeing for some time, as each month's data is updated, record levels of employment in the ACT, which is obviously a good thing for the territory economy.

I do not mind where that employment comes from. I support more jobs, regardless of whether they are in the public sector or the private sector. More jobs in Canberra is good for the territory economy. We will continue to pursue a set of tax policies that encourage private sector employment growth and we will look at our own employment and seek to work with the commonwealth government in relation to their employment levels in the city.

DR BOURKE: That is talking about the quantitative feedback that you have received. What about qualitative feedback from large employers in the ACT?

Mr Barr: I think there is some evidence emerging that the impact of efficiency dividends within the commonwealth is flowing through to their use of consultants and the like. We are undoubtedly experiencing a period where there has not been the level of growth that we have seen in years past. It is important in that context to be looking at new ways to encourage private sector jobs growth in the territory. We have new strategic partnerships and we are working with those sectors of the economy that are able to continue to grow employment.

The tertiary education sector is one that has been the beneficiary of significant additional commonwealth government and territory government investment. Making decisions like the location of the new sports hub at the University of Canberra and locating the new north side hospital at the University of Canberra certainly assist in allowing that institution to grow and to grow employment opportunities outside the commonwealth government.

DR BOURKE: How does this compare with other jurisdictions?

Mr Barr: There is a mixed story in employment and taxation policy around the country at the moment. We are certainly seeing growth in the resources sector. Jobs are moving north and west, and economies in the south-eastern part of the country, outside the ACT, have not been performing particularly strongly. That data is clear in terms of quarterly reports that are provided by Commbank, for example, Dun & Bradstreet, Access Economics and others who provide snapshots of how other jurisdictions are faring. It would be fair to say that Tasmania is experiencing some economic challenges at this point in time.

I think some of the uncertainty around the GST distribution has created anxiety in smaller jurisdictions. The threats of the larger states to want to do away with horizontal fiscal equalisation and potentially put at risk about $4 billion worth of funding that is provided to the ACT, the Northern Territory, Tasmania and South Australia in order to allow those four jurisdictions to provide an equivalent of service have certainly been of concern in those jurisdictions, particularly within the business community.

MS PORTER: Minister, employment is obviously a good economic indicator, but there are other economic indicators. Could you talk about those?

Mr Barr: Certainly. We have been experiencing strong levels of economic growth which, again, have been largely driven by investment by government, but the private sector is making a contribution. There are a couple of particularly large projects in our pipeline that are coming to conclusion. There is a $400 million dam, a $400-plus million investment at Canberra Airport and a half-a-billion-dollar ASIO facility—three very large projects that have contributed significantly to the economic growth of the territory in recent times.

It has been pleasing to see, in spite of a high Australian dollar, our tourism sector continuing to contribute in the order of about $1.5 billion. In a $50 billion economy, that is a good contribution.

DR BOURKE: Still on the subject of employment, minister, what progress has been made by Treasury in implementing the ACT public service employment strategy for Aboriginal and Torres Strait Islanders? I note that in your annual report you have 0.8 per cent of Aboriginal and Torres Strait Islander employees within Treasury and the strategy is to double that by 2015. What strategies will be put in place to achieve that?

Mr Barr: Mr Cappie-Wood will respond to that.

Mr Cappie-Wood: The principal targeted employment strategy within Treasury that looks at intake is through our traineeship and graduate programs. There has been a traineeship program in the year that we are looking at, in terms of 2011-12, particularly related to ICT. The graduate program is one that we are now engaging with the universities on. We have brought together the graduate program of Treasury and Chief Minister’s and the rest across the ACT to better target that. We have got a proactive program of working with the universities to try and identify upcoming people whom we consider as worthy of trying to attract into the ACT public service. We particularly want to target more ATSIs. Our representation is below target—we recognise that—but we are putting in place strategies to work proactively with the universities so that we do not just wait till they graduate but we try and identify them during the course of their studies in Canberra to make sure we can secure them for the ACT government.

MS PORTER: I am doing my best in my office. I have had three Indigenous cadets so far—I am on my third one at the moment—studying at ANU.

DR BOURKE: Which is part of DEEWR’s commonwealth cadetship program. Has

Treasury made use of that particular program or are you doing your own?

Mr Cappie-Wood: Is it DEEWR's?

DR BOURKE: Yes.

Mr Cappie-Wood: We have had conversations with the federal government around a range of their cadetship and graduate programs to see how we can potentially streamline and work together rather than separately. We are instigating a six-monthly program of joint discussions around targeted employment arrangements so we do not target the same pool of people constantly—in fact, we are causing some consternation among many people by chasing the same pool—and thinking about how can we work better together in that sense. That reflects a range of improved relationships with the federal government in trying to coordinate with them and the Public Service Commissioner on how we can work together, including opportunities that the ACT government presents that the federal government do not present, which is more hands-on experience. There are opportunities for people in the federal government to get practical experience, if you like, in service delivery which others cannot do.

Mr SMYTH: Minister, the restructure—there is an org chart on page 2 of volume 1 which does not show Treasury in the context that it now sits. How do the new arrangements work? I acknowledge Mr Stewart, who is appearing as the Acting Under Treasurer?

Mr Stewart: That is right.

MR SMYTH: Where is the process for replacing the Under Treasurer?

Mr Cappie-Wood: The Under Treasurer recruitment process is drawing to a conclusion. There has been a process of identifying an appropriate candidate pool. We will be bringing that to a conclusion shortly.

MR SMYTH: So how do the new arrangements work? Does the Under Treasurer report to you and you report to the Treasurer on Treasury matters? How does it work?

Mr Cappie-Wood: The new arrangements are that there is a combined directorate and that combined directorate incorporates some of the elements that you see in that organisation chart. Other elements have moved off to the new directorate of Commerce and Works, which is more of the enabler as opposed to what is seen as the strategic advisory centre. As such, it is the strategic centre of government which incorporates Chief Minister's and Treasury. It means that I am responsible to the Chief Minister. I am also responsible to the Treasurer for the Treasury functions and I am responsible to the Minister for Industrial Relations for those aspects which he has responsibility for as well. So there are three ministers I am responsible to.

In so doing, they are having a clear focus for Treasury under an Under Treasurer. This is still an important process. One of the key benefits associated with the directorate being brought together is that the strategic and coordinated advice to government is more effectively and efficiently achieved. We are seeing considerable strides in how the two central agencies can collaborate on some of the major challenges facing the public service.

MR SMYTH: Is there a loss of independence there for Treasury to be able to independently advise the Treasurer or is it filtered through the filter of Chief Minister's Directorate?

Mr Cappie-Wood: They are ensuring that the Treasurer has immediate and unfettered access to the Under Treasurer and the advice of Treasury, as it should always be.

MR SMYTH: The cost of the restructure?

Mr Cappie-Wood: It is budget neutral, and that was one of the specifications government had.

MR SMYTH: Have there been any jobs lost?

Mr Cappie-Wood: I am unaware of any job losses and that was not the intention of this process.

MR SMYTH: "Unaware" does not mean that there was not. Can you check to see whether there are any job losses?

Mr Cappie-Wood: There was no diminution in the jobs as a result of this. There were job movements between the directorates, but that is different from the process of trying to achieve efficiency through this process.

MR SMYTH: On page 5 under the overview and highlights, the third-last paragraph talks about the lease variation charge. Treasurer, given the singular failure of the lease variation charge to meet any of its targets in the last six quarters, have you undertaken any reviews of the lease variation charge since it came into place on 1 July 2011?

Mr Barr: It was obviously captured in the Quinlan review of territory taxation. As I indicated when you have asked me this question three times before now, I think, we review taxation as part of the budget each year.

MR SMYTH: Has Treasury or any other government agency commissioned a review of the lease variation charge?

Mr Barr: No.

MR SMYTH: No.

Mr Barr: No, other than the Quinlan review, which looked at the charge, and the work that was undertaken in codification and rectification. All of those reviews and recommendations are publicly available.

MR SMYTH: Are you aware that the Quinlan review is no longer available on the Treasury website?

Mr Barr: No, I was not, but I am sure it can be made available. It is just a case of linking to a document.

MR SMYTH: I just wonder whether, if it is the basis of your tax reform and the review of lease variation charge, why would it be removed from the Treasury website. Indeed, the government's responses are also no longer available on the Treasury website. Is there a reason for that?

Mr Barr: I do not know what the reason would be and I am happy to instruct that it reappear.

Mr Stewart: I am happy to answer that. It is simply the fact that we are upgrading the Treasury website to reflect new brandings and to improve its look and accessibility. Those documents will be reloaded once we have the new structure in place, and we are progressively doing that at the moment.

MR SMYTH: When will they be reloaded?

Mr Stewart: I could not give you an exact date but I would imagine in the very near future.

MR SMYTH: Given the lease variation charge has not delivered that which you have promised and you have now downgraded the estimated take this year from something like $23 million to $19 million, when will you admit that the lease variation charge has failed?

Mr Barr: The lease variation charge is excellent public policy and will not be changed.

MR SMYTH: Is it not becoming, for instance, your mining tax—

Mr Barr: No.

MR SMYTH: in that it has lots of promise but fails to deliver?

Mr Barr: No.

MR SMYTH: You have said that there are unpaid assessments.

Mr Barr: That is correct, yes.

MR SMYTH: Why aren't those assessments paid?

Mr Barr: They are being progressively paid. New ones are coming in and adding. It is a process of flowing through a system. Developers have a number of years, once there is development approval, before they can commence construction and make payments. The tax continues to collect revenue. New applications are made and flow through the system.

MR SMYTH: But they are not bills as such. They are assessed. They are only payable if they go ahead.

Mr Barr: That is correct.

MR SMYTH: So why did the lease variation charge only raise $2 million in the half-year against the $9.7 million that was expected?

Mr Barr: Those applications are in the system. Some of those developments are yet to commence. Payments will be made in due course if the developments go ahead. Obviously, there are market circumstances in play. I am very confident that this is the correct public policy position. You can continue to talk about it for four years, but it is not changing.

MR SMYTH: You have been very confident now for six quarters and it has not met its target in any of its six quarters, in any of the half-years or in any of the full years. When will it meet the target?

Mr Barr: We will continue to levy a lease variation charge—

MR SMYTH: That is not the question.

Mr Barr: and will make assessments as to our expectations of the revenue and update those in the budget and in the mid-year review.

MR SMYTH: So why did you downgrade the $23.4 million that was expected for the full year to $19.4 million?

Mr Barr: As a result of market conditions and expectations of future revenue.

MR SMYTH: You yourself said in committees that every tax has a drag. Have you created a drag that has caused this downgrading?

Mr Barr: No, I think you will find there are other market conditions, as I have indicated.

MR SMYTH: So the lease variation tax has had no impact whatever. It is still the perfect tax.

Mr Barr: Mr Smyth, I do not think I can make this any clearer. We support this tax. It is excellent public policy and we are not changing it.

DR BOURKE: Perhaps you can tell us what those other market conditions are?

Mr Barr: Thank you. We have certainly seen in the real estate market in the territory, as the result of a significant increase in supply, a catch-up in the market, particularly in meeting unmet demand. So we are seeing particularly some anxiety as to what may happen in Canberra following a change of government if that were to occur. People are now starting to factor that level of risk into their decision making.

If taken at face value, we are talking somewhere between 12,000 and 20,000 jobs, depending on whether you believe Mr Hockey or Mr Abbott in terms of their public statements on what the growth in public service positions has been in the territory since 2007. I have heard either figure but regardless, if you take 12,000 jobs out of a 210,000 job economy, it is going to have an impact.

I think that people in the business sector are concerned about that and are factoring that risk into their decision making at this point in time. It will become clearer during the course of the year exactly how, if there is a change of government, those at least 12,000 positions will be shed. We are hearing natural attrition as the expectation. That may be hard to achieve if people do not leave their jobs because they do not have another job to go to. We certainly can say from an ACT government experience as an employer that our churn rates are reducing as people are perhaps less likely to leave their employment as a result of the uncertainty.

THE CHAIR: Just on that, you are saying that there is uncertainty presumably because of fears of what is happening now, as you pointed to, but also what could happen if there is a change of government. But you have got a responsibility to be accurate, at least. When you talk about 12,000 by natural attrition, you know that is across the entire public sector around the nation. And it is important, is it not, that if you want to breed confidence, accuracy is important if you are talking about public sector jobs.

Mr Barr: I think Mr Hockey has referred specifically to Canberra in making those statements on the *7.30 Report* and on ABC radio and recently in a debate with Bill Shorten on 3AW in Melbourne. He referred specifically to Canberra.

THE CHAIR: But you have seen the policy, so I think it is important—

Mr Barr: You may well be needing to clarify this much more in a few days, obviously—

THE CHAIR: I am doing it from the perspective of a local representative—

Mr Barr: What do you understand it to be?

THE CHAIR: I certainly understand what the policy is, and—

Mr Barr: And that is? I would like you to tell us.

THE CHAIR: Indeed, and I have made my views clear on it.

Mr Barr: Well, what is it?

THE CHAIR: It is across the entire—

Mr Barr: For the benefit of me and for the record—

THE CHAIR: Indeed.

Mr Barr: What is the position?

THE CHAIR: The stated policy is across the entire public sector around Australia in relation—

Mr Barr: So what proportion of jobs do you believe will be lost in the ACT as a result of that?

THE CHAIR: That would be around one-third of those jobs. So I think we need to be clear. I do not think anyone would argue that any job losses in Canberra are a good thing. But I think we should not overstate what they are, either. So if we are going to have—

Mr Barr: So when Mr Abbott says 20,000 has been the growth in the public service since the Rudd government was elected in 2007 and he says that that is 20,000 too many—

THE CHAIR: I am not sure that that is what he says.

Mr Barr: Well, he has said it. He has certainly identified 20,000 as the number.

THE CHAIR: I think it is important that you look at the policy. And I think from an ACT perspective, if you are fair dinkum about wanting to breed confidence then accuracy is probably an important part rather than overstating—

Mr Barr: So it is my fault that their policy is bad for Canberra?

THE CHAIR: I think it is important that you do not twist it in terms of what it actually is.

Mr Barr: Okay.

THE CHAIR: That would help any debate going forward. Going back to some figures in terms of inaccurate numbers that you may have put out today, the Gold Coast light rail website refers to cost. You said it was $900 million but that not all of that was from government. I am told that on the website the contribution from the commonwealth government is $365 million, the Queensland government $464 million, and the Gold Coast City Council, $120 million. My quick addition on that is that it is about $950 million as a contribution from government to an overall project of around $1.2 billion in capital. It goes back, then, to the point we had before: is it realistic that the ACT could deliver a similar project for half the cost to government—certainly half the cost up-front as to what is occurring at the Gold Coast?

Mr Barr: I would need to check what element of that was land acquisition and what level of engineering works was required. I understand there are a number of complexities in relation to that particular project that simply do not apply. It is very much a bespoke project for the Gold Coast. I do not have the benefit of that website in front of me. I am happy to look at that. As I said, I did take elements of that question on notice. I did not suggest in terms of the splits between the various governments that my figures were absolute but that that was the ballpark. I think you have basically identified that what I said was pretty much within the realms of what was spent. I would need to have a look at the detail of the different components of the government spend in Queensland and what would be relevant in the ACT and what would not be.

We would not be in the position of having to acquire any land for our project that they may have had to undertake on the Gold Coast. Certainly, we do not have the number of engineering issues that they have in that there is a corridor reserved. There was not on the Gold Coast, as I understand it, and they had to rip up the main street—

MS PORTER: I have been there, minister, and definitely they were ripping up—

Mr Barr: Yes, it was a much more disruptive project, as I understand.

THE CHAIR: The flipside, of course, is: how do the services down Northbourne Avenue and their potential disruption compare to the Gold Coast?

Mr Barr: That is an interesting question and one that needs to be explored. It may well be that there is a light rail solution that does not require the relocation of those services.

THE CHAIR: It would be a very, very light rail solution, would it not?

Mr Barr: That is correct, yes. That is correct.

MS PORTER: Minister, talking about land, could you tell the committee whether the review has identified whether or not the land rent initiative has been successful and whether or not many Canberrans have taken up this scheme?

Mr Barr: Certainly it has been a very successful project. It was an innovative policy formulation that provided an opportunity for those who would otherwise not have the opportunity to enter home ownership to do so. Having both a concessional scheme and a full rate scheme has provided a variety of opportunity for people to enter the market. We have seen a very strong take-up. In yesterday's Economic Development hearing, we were able to provide some figures on the take-up.

MS PORTER: I was unable to attend that hearing.

Mr Barr: It has been in the thousands. It has certainly been a well-supported program. We have made some further changes to the scheme in order to ensure that, as we move ahead with it, it continues to have a very targeted focus on households who are genuine about entering into home ownership and who will receive the benefits of the scheme.

Putting in place a security deposit requirement ensures that there is no speculation, particularly by people seeking to enter the scheme at the four per cent rate and hold for a year and then transition into a standard lease. There is a cost associated with undertaking that process. For concessional entrants, it is only a $2,000 security deposit, and that counts towards the purchase of the land.

THE CHAIR: What is your understanding of the level of transfer from land rent to purchase of the land? In some of the newer suburbs there have been some releases where virtually everything gets taken up on land rent initially. Presumably many of those would be looking to convert, either as builders or as owners. What is the proportion that is shifting to a purchase of that land?

Mr Barr: It has varied from estate to estate and between the concessional and the full-rate participants. I will take the detail on notice and give you numbers as at today.

DR BOURKE: Those numbers will be in the *Hansard* from the committee hearing yesterday?

Mr Barr: I am not sure. They went to a slightly different question. Some of them will be. I think the element of transfer across to a standard lease may not have been part of that question but we can certainly provide that information.

THE CHAIR: What risks are there for the territory in this? This is an interesting one that has been raised with me by a number of people in industry. At one level, our long-term concern about land rent—there have been a couple—is that people miss out on the capital growth. The flipside of that is that at a time of low capital growth or no capital growth or potentially negative capital growth, it is in many people's interests simply to rent the land rather than purchase it. What is the risk to the territory in cash flow terms at least of not seeing that cash flow coming for the sale of land and, instead, just getting a small proportion in rent?

Mr Barr: You are, in a way, forgoing an up-front payment in order to receive an ongoing revenue stream. Look at the question: would the land have sold but for this purchasing option? We have obviously had to forgo some revenue but then there is a social benefit to that. These are the decisions that the government can choose to make: forgo some revenue up-front in order to achieve a social outcome and an ongoing revenue stream. Yes, there is an opportunity cost. That is true but the extent of that would, presumably, depend on prevailing interest rates. If we had the money invested in something else, would we reduce the need for expenditure in other areas? There are a range of issues you could look at. It would vary over time.

THE CHAIR: Has an assessment been done by Treasury? Obviously that would be potentially a significant risk.

Mr Barr: Obviously, in the context of the second appropriation, there is a transfer of capital amounts. That is quantified in budget terms and presented.

THE CHAIR: You would see it as low risk? Even if the market were to remain flat, would you see it as low risk? Intuitively it seems it could become a reasonable risk to territory revenue?

Mr Barr: We will need to monitor the take-up of the scheme. We are certainly doing that. We have made some adjustments to it. The report into land rent indicated that it was achieving its end. We would continue to support the scheme but we would reserve the right to make some adjustments in the future.

THE CHAIR: Those adjustments may be designed to protect territory revenues?

Mr Barr: We will have a look at those questions, the question of whether we need to continue with a normal scheme, as in the four per cent scheme, or whether we just focus on the concessional scheme. We will make all of those decisions in the coming years.

DR BOURKE: Treasurer, you have been talking about support for low income households, particularly through the land rent scheme. Perhaps you could detail how the tax reforms have been targeted to low income earners.

Mr Barr: Certainly through a combination of concessions policy and our tax reforms, we have sought to provide the greatest level of assistance, through those changes, to low and middle income earners. The changes to our land tax arrangement particularly sought to encourage supply of new rental properties at the lower end of the market. We are reducing levels of taxation there.

In terms of stamp duties in particular, we are abolishing those from the bottom up, phasing them out over a number of years. We are delivering the biggest stamp duty savings on lower value properties that are in the market space and that will be particularly attractive to low and middle income earners.

Through our targeting of concessions, we have sought to provide additional support to pensioners and concession card holders in terms of both rates and utility rebates. There has been a very strong focus, as part of the package of reforms, to ensure that additional support to assist in the cost of living pressures goes to low and middle income households. When you combine that with changes in federal taxation arrangements, particularly around the tripling of the tax free threshold, the household assistance that has been provided by way of compensation for carbon pricing, lower income households end up coming out ahead. That is a good social justice outcome.

In a city that has the highest average incomes in the country, if you are not a beneficiary of that then you need that targeted support. The work that the Chief Minister and Minister Burch undertook around those targeted concessions, combined with the tax policy settings, put in place a very robust framework to provide targeted assistance to overcome this.

MS PORTER: One of the pressures that low income earners and middle income earners have—and it is probably across the board—is the CTP. I constantly get people talking to me about that and the disappointment around the fact that the reforms did not go far enough, as far as they are concerned. They do not see any change. Can you talk to us about that?

Mr Barr: This is an area that will continue to be a major public policy challenge. We have a situation and a system in the ACT which sends all the wrong signals and really works to the benefit of plaintiff lawyers. We have seen, in the political donations that were made in the recent campaign, just how hard people will fight to protect their vested interests. It is a classic example of microeconomic reform that needs to occur and that has been held back by gratuitous self-interest. I will continue to campaign on this issue.

We will look at a variety of different reforms and consider a variety of different options but to suggest that we can just leave the current arrangements in place for another four years would mean a very poor public policy outcome. So I look forward to being able to deliver on some reform in this term of the Assembly and we will look at a variety of different options in order to achieve that. But the goal has to be to put downward pressure on those premiums and to have a focus on rehabilitation for those who are unfortunately injured in a motor vehicle accident.

THE CHAIR: Why have your government's reforms failed—

DR BOURKE: What sort of savings could accrue to the community on an individual basis from those CTP reforms if they were implemented?

Mr Barr: One need only look across the border. The premiums are hundreds of dollars a year cheaper for people who live in Queanbeyan under the New South Wales system. Or just go to Victoria and look at their system.

MR SMYTH: But they are very different systems.

Mr Barr: They are. There are a number of different reform options.

MR SMYTH: Claiming it is cheaper in a different system is not a true representation of what goes on.

Mr Barr: That is right, and we need to change our system. We will not get cheaper premiums unless we change our system, and so far—

MR SMYTH: So when will you introduce a whole-of-life care system?

Mr Barr: So far all attempts to get meaningful reform in this area have been blocked. One need only follow the trail of money to see why that is the case.

THE CHAIR: You had a majority government and you made reforms. Why have they failed?

Mr Barr: They certainly achieved some advantage, but they did not go as far as they should have.

MR SMYTH: They did not achieve anything.

Mr Barr: I think you will find that had those reforms not been in place premiums would be even higher than they are now.

MR SMYTH: The promise was cheaper premiums, more compensation and better outcomes for the injured.

Mr Barr: And compared to—

MR SMYTH: Premiums went up—

Mr Barr: Premiums will go up because of a variety of factors, but we are serious about getting it—

MR SMYTH: Are you going to take the credit for—

Mr Barr: If we are serious about getting an outcome here, we need to change our system.

MR SMYTH: But the 2008 reforms failed.

Mr Barr: You continue to provide an obstacle to meaningful reform. If that is your role in public policy, Mr Smyth, you are welcome to that.

MR SMYTH: We took you at your word in 2008. We voted for your reforms.

Mr Barr: If we had not reformed the system in 2008, premiums would be even higher than they are now.

MS PORTER: But more work needs to be done.

Mr Barr: There is more work that needs to be done; we are not giving up on this issue and we will look at a variety of different reform options. One would hope that those who profess an interest in addressing cost of living issues and who profess an interest in assisting those who are injured in motor vehicle accidents might sharpen their focus a little more on this.

THE CHAIR: That is why we promised to lower rego. Getting back to the change of use or the lease variation charge, you made a number of claims that it is not like the mining tax. It seems very similar in both its philosophical underpinnings and in its outcome. The philosophical underpinnings are very similar—the government taking a very large proportion of either value or profits—and the outcomes have been similar in that you are getting very little revenue out of it. Isn’t this simply your version of the mining tax?

Mr Barr: That is, I think, the third time you have sought to ask that question.

THE CHAIR: It is the first time. I have not actually asked that question.

Mr Barr: Mr Smyth asked a very similar question. My answer remains the same: it is an excellent tax, it has a very sound basis in public policy, and we will not be changing it.

DR BOURKE: But isn’t it true, minister—

THE CHAIR: Dr Bourke, we will go to you in a minute. You can come in in a minute. In terms of the tax, the other similarity is that you have allocated, apparently, revenue from it for certain purposes. What is the status of that spending? Does that spending now not happen because you have had less come in, or will you just find it and was it a ruse in the first place—it was always out of the budget and it had nothing to do with this particular tax?

Mr Barr: We provided a year's revenue gap between the collection of this revenue and its expenditure. So there was no expenditure allocated against that particular revenue in the first year. We have indicated that we will commit lease variation charge revenue to our urban improvement fund. We have allocated some projects against that fund, but not all of what was in the forward projections for revenue from the lease variation charge. And of course, from budget to budget, we will make those decisions. What I can commit to is that every cent that is raised in the lease variation charge will be committed to urban improvement projects.

THE CHAIR: Does that mean that now there will be less for urban improvement than you have previously promised?

Mr Barr: No, I do not believe that that is the case.

THE CHAIR: But the revenue has come down. You had a fund coming from that and every cent is going. Where is this coming in? How are you now spending the same as you would have had revenue come in?

Mr Barr: We obviously have a variety of sources of funding for urban improvement programs.

THE CHAIR: So you will find the money anyway so it does not really matter what you raise from the tax?

Mr Barr: No. Again you are putting words in my mouth. We have indicated that we will commit every cent that is raised by the lease variation charge to urban improvement programs. We will, from time to time, provide more for urban improvement programs.

THE CHAIR: That sounds as though it is not really linked then.

Mr Barr: It is particularly linked, yes.

DR BOURKE: What sort of urban improvement programs, Treasurer?

Mr Barr: The urban improvement programs that we are pursuing include a variety of projects within the Territory and Municipal Services Directorate and the Economic Development Directorate across a variety of programs and priorities. Within EDD that can include investment in sport and recreation facilities, also in things in the public realm like the CBD improvements that we have seen in recent times—the continuation of those programs, so upgrading the public realm, playgrounds, parks, public spaces, shopping centres. The principle that underlines the lease variation charge is that if you buy nothing other than a change in your lease that is granted by the government, achieve a windfall gain, you will contribute some of that windfall gain back to the community. It is the community's land. The lease is issued on behalf of the community. If you have significantly increased development rights, you will share some of that profit with the community.

THE CHAIR: Some being 75 per cent. "Some" is an interesting descriptor of a 75 per cent tax.

MR SMYTH: Knowing the first year lag, given that you only raised eight million out of approximately $21 million in the first year—does that mean that there will only be $8 million worth of improvements in this financial year?

Mr Barr: No. I have told you this about 12 times in the last 12 months. We will hypothecate all LVC revenue into urban improvement programs and we will make additional allocations from budget to budget for urban improvement.

THE CHAIR: So it is a ruse. The money is going to be spent one way or another and you are just attaching it with some accounting tricks. It does not actually make any difference to what you are going to spend on urban improvement.

Mr Barr: If you do not have the revenue coming from the LVC, which presumably was the position you took to the election, so you do not support the principle of the LVC, all that you do—what was the position of the Liberal Party?

THE CHAIR: Given that you do not get to ask the questions, I will not allow you to—

Mr Barr: I am very interested in this line of attack against—

THE CHAIR: But for the sake of completeness—

Mr Barr: From memory, I think you actually ended up supporting it in the election. You were not prepared to forgo the revenue.

THE CHAIR: For the sake of completeness. And in fact I think it is quite arguable that there would be more revenue if you had kept it at a reasonable rate.

Mr Barr: Oh, you would review it? You did not write the revenue down at all.

THE CHAIR: If you had kept it at a reasonable rate you would actually get some revenue. You are getting less now, it seems, than what you used to get before you changed the system. Again it is the mining tax writ large. I guess that makes you—

Mr Barr: How long did you work on that line for?

DR BOURKE: Treasurer, the mining tax cannot really be compared with the lease variation charge because—

THE CHAIR: It just came to me this moment.

Mr Barr: It just came to you? Right. It fell pretty flat, didn't it?

DR BOURKE: Mr Seselja actually ignores the fact of royalty payments to states, which is embedded within the tax. Therefore his comparison is rubbish.

Mr Barr: Yes; it is possibly one of the more tenuous links I have heard in the public policy debate—to link a lease variation charge.

THE CHAIR: I am just trying to get this clear, Dr Bourke. Because there are no royalties now there is no comparison?

DR BOURKE: Are you asking me questions now?

THE CHAIR: Yes; I am just having an exchange here.

DR BOURKE: I think you ask him questions, not me.

MR SMYTH: You are running interference here.

THE CHAIR: It seems to me that we are blurring the lines between who asks questions.

DR BOURKE: I ask questions.

Mr Barr: You can continue on your fantasy tax mix and suggestions that there is any relationship, but good luck to you, frankly. I do not think you will be talking much about it in a few days.

MR SMYTH: When do you expect the lease variation charge to actually realise the numbers that are mentioned in the budget?

Mr Barr: We will provide updates on the lease variation charge in our mid-year review and in the budget.

MR SMYTH: But the mid-year review has already downgraded it by $4 million. Where will that $4 million shortfall come from in terms of the urban improvement fund and what programs will you cut to provide that money?

Mr Barr: As I have indicated, we have the capacity, through the annual budget, to provide additional revenue into urban improvement projects should we determine—

MR SMYTH: Because your lease variation tax is halved.

Mr Barr: Should we determine to provide. And it was always the case that the total amount expended on urban improvement programs far exceeded the lease variation charge. What we were being very clear about was that every cent we raised from the LVC we would spend on urban improvement projects.

MR SMYTH: However small that is.

Mr Barr: Which is more than not having the charge at all, Mr Smyth. If you do not think developers should make any contribution when they get a windfall gain and you believe that developers should get away tax free—if that is your position, state it. I am very happy to have that debate.

DR BOURKE: Treasurer, what has been the reaction of other jurisdictions to the ACT tax reforms?

Mr Barr: It would be a case of very strong support through to some trepidation. I certainly heard the Victorian Treasurer say that it is just too hard for Victoria to do. I have heard colleagues in South Australia and New South Wales say that they are very interested in elements of the reforms we are undertaking. And Mike Baird, the New South Wales Treasurer, is pursuing some reform in insurance tax, I understand, in New South Wales. The federal Treasurer has been very supportive of the reforms that we have undertaken.

I think that anyone who assesses what is necessary to ensure viable public finance for this territory in the future recognises that this reform is critical. We will continue to pursue it and I am very pleased that I am sitting on this side of the table and able to see through the abolition of insurance duties in this territory—see the vast majority of inefficient taxes reduced. We will continue to pursue tax reform, because it is important for the long term. History will judge very favourably those who are prepared to take on these challenges, and those who sit with their heads in the sand and run meaningless scare campaigns will just be a footnote in the future.

THE CHAIR: Why do you not clarify for us, then? Tell us: how much will people's rates go up in coming years? Why do you not clarify that?

Mr Barr: By $2.35 a week on average.

THE CHAIR: $2.35 a week on average. So for the householder on an average sized block in O'Connor, how much will their rates go up over the next four years and the next eight years as this is rolled out?

Mr Barr: There will be a revenue—

THE CHAIR: $2 a week, do you think?

Mr Barr: There will be a revenue replacement component that will transition through the abolition of insurance taxes. The remaining four years of this parliamentary term will see the abolition of insurance duties. Once they are gone, there will be no more call on revenue replacement in relation to the rates base for that. We will provide updates in the budget on the rates assessment—

THE CHAIR: So you cannot actually say how much—

Mr Barr: Well, the way the formula for rates works is that there is a rolling three-year average. So without the benefit of the data on what—

THE CHAIR: The Treasury has projections on those things?

Mr Barr: your average block—

THE CHAIR: You must have an idea of what you are going to get.

Mr Barr: Well, we have an idea of the total, because we cap the total rates collection and then divide that amongst the properties within the territory. So, yes, we cap the total amount that we collect. But the individual assessments for particular blocks depends on a rolling three-year average of the unimproved value of that land, and that is then weighed up against all other properties in the city, and then the marginal tax rates plus the fixed rate are applied.

THE CHAIR: So would the short answer to my question be that people in O'Connor in that circumstance could expect significantly more than $2 a week?

Mr Barr: Or significantly less, depending on the—

THE CHAIR: Do you think there will be people in O'Connor on those kinds of blocks who will get significantly less than a $2 a week increase—

Mr Barr: It depends on what sort of block you are talking about and what its unimproved value is.

THE CHAIR: I said an average sized block in O'Connor.

Mr Barr: Well, I would need to have a look at the data of what an average size block in O'Connor is at the moment. Given there is a degree of—

THE CHAIR: But is this not the issue—

Mr Barr: subdivision occurring in O'Connor, the average size would be reducing.

THE CHAIR: Is not issue that you have not put out the data? You must have done this kind of analysis to give people an indication of what they could face. All you have been prepared to say is, "No, they won't triple." But you will not actually say what they will do and how you will get that extra $350 million of revenue that you are forgoing.

Mr Barr: The revenue replacement occurs over a 20-year period.

THE CHAIR: That does not answer the question, though.

Mr Barr: And there is growth in the number of households over that period. I do not accept it is $350 million—

THE CHAIR: How much is it, then?

Mr Barr: It is less than that.

THE CHAIR: Was it not $347 million?

Mr Barr: From my recollection, the stamp duty amount was about $290 million. We will collect stamp duty over the 20-year period. It is not abolished in one year, so we are not having to replace $350 million or all the stamp duty revenue in one year.

THE CHAIR: No, but once you have completed the reform, how much are you forgoing?

Mr Barr: Insurance revenue replacement is in the order of about $40 million.

THE CHAIR: So—

Mr Barr: So $290 million and $40 million ain't $350 million.

DR BOURKE: So what sort of money will an average household in O'Connor be saving on insurance premiums?

Mr Barr: Sorry?

DR BOURKE: What sort of money will the average household in O'Connor be saving on their insurance premiums?

Mr Barr: Depending on the level of insurance they have—

DR BOURKE: Say it is, combined, $1,000.

Mr Barr: It would be around 10 per cent. So with $1,000 worth of insurance, the saving would be about $100 a year. Most households would have more than $1,000 worth of insurance when you add in motor vehicles, building and contents. So the savings would be more than $100—$200, $300, $400, $500 a year, depending on the level of insurance.

THE CHAIR: Getting back to this forgone revenue—you say it is around $330 million, I believe it is around $347 million, but, either way—that amounts to thousands of dollars per household. So does that not mean that the only way you can do it is for each household to be paying thousands of dollars more in their rates bills in order to replace that $330 million to $347 million revenue hole?

Mr Barr: If you phase out the taxes over a 20-year period, then, in your example, that would be about $100, $150 a year extra, so about $2.35 a week.

THE CHAIR: Sorry? We are talking on an annual basis—this is annual revenue. This is not $340 million over 20 years; this is what you collect each year.

Mr Barr: That is right. But we are not not collecting $350 million this year.

THE CHAIR: No, but the point is, at the end of it, that is what you have forgone on an annual basis.

Mr Barr: Yes, that is—

THE CHAIR: It will be on an annualised basis.

Mr Barr: That is correct, yes.

THE CHAIR: So that is thousands of dollars per household.

Mr Barr: So $2.35 a week per year.

THE CHAIR: No, but if there is thousands of dollars per household, how do you get to $2 a week when you are forgoing over $300 million of revenue and putting it on households?

Mr Barr: Each year rates go up by just over $100.

THE CHAIR: To the point where people are then paying thousands of dollars more per year in an ongoing way on their rates.

Mr Barr: In 20 years time.

THE CHAIR: So you are acknowledging that once this reform is completed, people will pay thousands of dollars more each year on their rates bills?

Mr Barr: There will be more households in 20 years time.

THE CHAIR: But this is today's dollars. You will have more expenditure, too. This is based on today's expenses and today's revenue.

Mr Barr: Yes, but we will be collecting revenue from a variety of sources. We will not be charging any stamp duty or any insurances.

THE CHAIR: Indeed, but people will be paying thousands of dollars more every year in order to cover that revenue hole. You have acknowledged that. It is just going to take a while for you to get there, and it will be in today's dollars that they will be paying thousands more.

Mr Barr: Over a 20-year period we will be replacing revenue, yes. The exact level of revenue replacement over a 20-year period that is required will, of course, depend on spending and other revenue decisions over that period of time. But, yes, rates will be going up.

MR SMYTH: So they are going up.

Mr Barr: Of course. They go up every year.

THE CHAIR: This is over and above inflation, of course.

Mr Barr: Yes, that is correct. I have always said that—$2.35 a week on average.

THE CHAIR: You have not said that at the end people will be paying thousands of dollars extra per year. You have studiously avoided saying that.

Mr Barr: It has been very clear that each year of revenue replacement will see rates increase, but all other taxes are abolished. So people will be paying the same amount of money they are paying, but rather than giving it to the government each time they move—

THE CHAIR: Not if they are not planning on moving.

DR BOURKE: Treasurer, what sort of community consultation did you do around these tax reforms?

Mr Barr: Considerable, and we had been through an election. We had a result. The parties that supported tax reform achieved a majority of the vote and a majority of the seats in the Assembly.

THE CHAIR: It is amazing we got more votes than you, but anyway.

Mr Barr: Well, there you go. As I said, the parties that supported tax reform achieved a majority of the vote and a majority of the seats in the Assembly.

DR BOURKE: So that would be the ultimate stamp of approval.

Mr Barr: It would have been a case of everyone had a chance. There was certainly no doubt in the election campaign where the two sides stood on this particular issue.

THE CHAIR: Except you kept denying that there was going to be any pain and you have acknowledged today that there will be significant pain once this reform is implemented.

Mr Barr: No, at no point did I deny there would be pain, but you suggested that people would be paying thousands of dollars a year more in rates in the next four years of this Assembly.

THE CHAIR: No, we did not. You would have to point to where we said that.

Mr Barr: It was possibly one of the most dishonest election campaigns ever run—

THE CHAIR: If you cannot—

Mr Barr: You are so shamed by your appalling election campaign that you are having to leave this place.

THE CHAIR: If you can’t point to where I said it—

MR SMYTH: Dishonesty? Goodness me!

Mr Barr: You cannot even sit in here for four more years and face up to the fact that your election campaign was based on a big lie. You are wanting to cut and run so quickly. So confident are you in your position that you will not even stay to contest it again in 2016.

THE CHAIR: You spent the whole election pretending there would be no pain for people in this reform and now you have acknowledged—

Mr Barr: Now you are off to cut and run—

THE CHAIR: Now you have acknowledged, after the election—

Mr Barr: You cannot even sit around—

THE CHAIR: that Canberrans will be paying thousands more.

Mr Barr: The bloke who ran second in your little campaign has been dumped from the leadership.

MR SMYTH: Oh, Andrew! It took you so long—

THE CHAIR: You are not wanting to talk about the rates issue, are you?

MR SMYTH: How catty are we today?

Mr Barr: Here is team Tuggeranong this morning, the grand leadership team, and neither of you will be in your positions. You have already gone and you are going.

MR SMYTH: We will see where you are in four years then. Turning to volume 2, page 87 of your annual report, I note the payables have gone up $217 million. Why is that and what has contributed to it? The payables have gone from $144 million to $361 million.

Mr Bulless: At page 110 of that same volume there is a note there under "Note 53 payables—territorial". I do not profess to be an expert in this area—unless Mr McAuliffe wants to come up—but I quote:

> The increase in payables to the Territory Banking Account of $104.2 million—

MR SMYTH: I think Mr McAuliffe should come up.

Mr Bulless: He is shaking his head—

> is mainly due to increased cash in the Revenue on Behalf of the Territory (RBT) bank account awaiting transfer to the TBA, and increased receivables at 30 June 2012.

MR SMYTH: So it is perfectly clear.

Mr Bulless: I think it is largely related to the timing of the flows of appropriations in and out of the TBA. Mr McAuliffe is coming up.

MR SMYTH: He is not sure of your answer, but here comes Mr McAuliffe. Mr McAuliffe, does the land rent scheme have any impact on this line?

Mr McAuliffe: The debt accounts, the territorial account of Treasury, collect a lot of government, territorial, revenues—your taxes, fees and fines. A lot of commonwealth funding goes to that account. Basically, that is the accrual that is taken up on the time of the payment of those revenues across to the territory banking account.

MR SMYTH: What is the difference? When we put the budget together it was expected to be 144 million; now it is 361 million. Why is that?

Mr McAuliffe: I do not know the detail of that because I do not prepare that part of the budget.

MR SMYTH: It just seems an enormous variation. Can that be taken on notice?

Mr McAuliffe: Yes.

Mr Bulless: Mr Smyth, can I answer the second part of your question, which was about land rent? Note 2 on that same page reflects the increase in land rent blocks that were attributed by LDA. What happened towards the end of 2011-12 was that the LDA had a significantly larger number of land rent blocks than they anticipated. We had an accrual there effectively which recognised that payment the territory would make to LDA, which was made in this financial year—2012-13.

MR SMYTH: On page 107 of volume 2: in 2011, nine per cent of the receivables were greater than 60 days old and this has increased to 15 per cent in 2012. Why is that?

Mr Barr: We will take that on notice.

MR SMYTH: Do you have no idea why?

Mr Barr: We will take it on notice.

MR SMYTH: In volume 2 on page 30, it says that all amounts are usually settled within 30 days after the invoice date. What percentage of payables are paid outside that time frame?

Mr Barr: You are referring to page 30 of volume 2?

MR SMYTH: I am not sure of the page reference; I do apologise. What percentage of payables are paid outside the 30-day time frame?

Mr Barr: I will have to take that on notice. Commerce and Works will provide that information.

MR SMYTH: In volume 2, page 97, the commonwealth national partnership payments decreased by $30 million. How is that affecting ACT government programs?

Mr Barr: It would appear to be BER project money. It is in a note that is on the page. So that is what it is. You just read the notes; it is not that hard.

MR SMYTH: I am just wondering whether you have read the notes and whether you know.

Mr Barr: It is as indicated in the notes. That is what they are there for.

MR SMYTH: You have as one of your objectives to be among the top four jurisdictions in taxation revenue forecasting accuracy. We were ranked eighth. How is that being addressed and how are we going with it?

Mr Barr: Moving away from inefficient and volatile taxes will certainly assist.

MR SMYTH: Like the lease variation tax?

Mr Barr: No, I was thinking more of stamp duty and insurance taxes, actually.

MR SMYTH: But you have had to say that your forecasting on the lease variation has been pretty volatile?

Mr Barr: It has not been volatile.

MR SMYTH: Has it been accurate?

Mr Barr: There have certainly been some timing issues—

MR SMYTH: Has it been accurate in its delivery of revenue to the government coffers?

Mr Barr: The timing of payments has certainly not to date.

MR SMYTH: But they are only paid if they go ahead. If they are not going ahead, you do not get any money at all.

Mr Barr: Unless we revisit this issue for the ninth time in these hearings—

MR SMYTH: Do you want to deal with the top four strategic objectives?

Mr Barr: Certainly, and we will make assessments of our expectations of lease variation charge revenue in the budget and update them in the mid-year updates.

THE CHAIR: Going back to one of your earlier answers, you talked about unfunded superannuation liability, and that has blown out considerably to around $5½ billion, which is now considerably more than the annual territory budget. You compared us to other jurisdictions in a range of other areas. As a proportion of the budget, how does this now compare to other Australian jurisdictions?

Mr Barr: Everyone has been hit by this.

THE CHAIR: Sure, but proportionally now it is about 120 per cent or 130 per cent of our budget.

Mr Barr: It is a moment-in-time snapshot. They will look at the particular rate on 30 June. I think it is important to stress that, in 12, 24 or 36 months time, with a different prevailing long-term commonwealth bond rate, this figure could dramatically improve. If you went back to the long-run average, we would find ourselves in a significantly improved position. So whilst I note this has been the subject of some interest, in terms of our long-term liability, one would not want to draw any conclusions from the current circumstance, given where interest rates are, in terms of their historical position. So this is not a particular cause for panic. It is not a cause to deviate from the longer term strategy for providing for our superannuation in the long term. I am not suggesting any change in policy as a result of this particular circumstance.

THE CHAIR: Okay, but with that proviso—I think someone just passed you a note—are you able to answer that question?

Mr Barr: The note I have just been passed is from Tom Sefton, Liberal candidate, talking about how the ACT Labor-Greens government plan to triple our rates in the next few years, which is the material you were putting out. So you were claiming that it would happen in a year's time. So you lied to the people of Canberra, but there you go. It is not unusual.

THE CHAIR: You are very good at making all sorts of accusations. Could you now answer—

Mr Barr: I am happy to table for the committee the material that you were putting to the election.

THE CHAIR: Could you now answer the question? The question was very straightforward—

Mr Barr: So you do not want this tabled?

THE CHAIR: Could you answer the question?

Mr Barr: You are refusing me tabling this document?

THE CHAIR: No, table what you like.

Mr Barr: Thank you.

THE CHAIR: I will get you to answer the question now. The question was: you have given a long answer about provisos as to why it is $5.5 million, but how does that compare to other jurisdictions?

Mr Barr: I would need to look at other jurisdictions' positions—

THE CHAIR: So you do not know?

Mr Barr: Well, we know everyone's circumstance has deteriorated, but can I tell you as a percentage of every single jurisdiction's superannuation liabilities off the top of my head right now—

THE CHAIR: You must know where we are broadly in comparison. Are we much better than other states? Are we worse than other states? Are we somewhere in the middle? Do you have any idea where we sit comparatively as a proportion of our budget on unfunded super?

Mr Barr: We would need to have a look at it because not everyone updated their position at the same time as us, so I would have to go and look at every jurisdiction's mid-year update. I am happy to provide that information. But what I can say is that every jurisdiction experienced this issue. There was a report in the *Financial Review* that I think had a table for the six states but excluded the ACT and the Northern Territory. From memory, in that particular article some jurisdictions were impacted particularly—Tasmania and South Australia. I will need to go back and review that article. I confess that I am not closely following the superannuation issues of other jurisdictions.

THE CHAIR: Surely that is a pretty reasonable comparison. You do it for so many other areas.

Mr Barr: And we can provide that information.

THE CHAIR: But you are saying it is not relevant here—

Mr Barr: No, I am not saying it is not relevant. I am saying I will get that information for you. But it moves constantly depending on the budget updates of those jurisdictions.

THE CHAIR: And short of a dramatic change in things like the long-term bond rate, what implications will it have in coming years for cash injections and cash flow? Are we now going to see a drain on the budget in order to deal with this unfunded super issue?

Mr Barr: The government will make determinations on that in due course. I am not going to be speculating on that today.

MS PORTER: Minister, we all know that occupational health and safety is extremely important and we know there have been a number of reforms. The annual report on page 26 volume 1 mentions successful implementation of a multi-agency occupational health and safety information system. What does that actually mean? Is it a computer-based system?

Mr Cappie-Wood: That relates to an IT system which is designed to hold the data associated with prior and actual cases and to be able to track those, look at trends et cetera. We saw that, in trying to manage the workers compensation arrangements and trying to make sure that we have active management of that, we needed improved systems to be able to do so. This is implementing that system. We are looking forward to being able to reap the benefits of that investment. We see it as critical to manage the workers compensation arrangements.

MS PORTER: So this will give you better information going forward?

Mr Cappie-Wood: Yes, it is better data management, better ability to interrogate to get trends and better ability to manage individual cases and making sure that the linkages between the information we receive from across the directorates and our insurers in the form of Comcare are integrated with that as well.

THE CHAIR: I think this is something we will be coming to in another hearing. Mr Smyth.

DR BOURKE: Chair?

MR SESELJA: Yes?

DR BOURKE: My turn.

THE CHAIR: Well, Mr Smyth got my attention. If you want to go after Mr Smyth, you are very welcome to ask questions.

MR SMYTH: Minister, on pages 97 to 104 are all the principal contracts. The vast majority of them seem to be single select. Are you happy that so many of your contracts are done in this way, and what have you done to assure yourself that the use of single select was appropriate in each case?

Mr Barr: Page 94?

MR SMYTH: Volume 1, pages 97 to 104. Are we seriously saying there is only one provider of secure office paper recycling services in the ACT and only one accounting firm that could do a home loan portfolio financial review? Provision of hardware and software support for territory revenue systems was single select. It just seems to be that the vast proportion of these are single select.

Mr Barr: There are some single select, yes.

THE CHAIR: And he has listed some of those for you, helpfully.

Mr Barr: Yes, yes. There is a mixture. That is fine.

MR SMYTH: You are happy with—

Mr Barr: I am content, yes.

MR SMYTH: So on something like the provision of secure office paper recycling services—which was done on single select—there is only one firm in the ACT that offers—

Mr Barr: Well, in terms of individual tenders, I am happy to take that on notice. I have no role in tendering. I do not—

MR SMYTH: Yes, but you oversight the department.

Mr Barr: Certainly, yes.

MR SMYTH: Are you happy with this?

Mr Barr: I am happy with the way the department conducts itself in this area, yes.

And there will always be a good reason for a single-select process.

MR SMYTH: If you could review the single select and provide a reason. I note that there are footnotes, but footnotes are not necessarily—

Mr Barr: If there is any further useful information we can provide you, Mr Smyth, we will.

MR SMYTH: Footnote 1 refers to suppliers of specialist knowledge and relevant specialist experience. There would be a number of accounting firms that could qualify under that. All right, take it on notice; that is fine. A number of systems have been upgraded: the revenue management system and the home loan portfolio. Did the home loan portfolio system go live on 1 July 2012?

Mr Barr: These are Shared Services related questions.

MR SMYTH: Of course they are. Sorry, I do apologise. I will save these questions for Shared Services.

MS PORTER: I made the same mistake, Mr Smyth.

DR BOURKE: Just going back to single-select tenders, what would be the reasons that you would be using the single-select tender, for example?

Mr Barr: There could be a variety of circumstances, such as, as indicated in the footnotes, around specialist skills. There may be time frame issues. There would be a variety of reasons why. In the context of answering Mr Smyth's question and his obvious concern in this area, we can provide some information on individual contracts as appropriate.

MR SMYTH: With regard to the superannuation provision account, the Auditor-General said in the financial audits that there are two risks to the long-term health of the budget. One is the superannuation provision. The other is the borrowings. In the mid-year review you have $100 million worth of borrowings. In light of what the auditor said, do you have concerns about the level of borrowings, and how would you address what the auditor has said?

Mr Barr: We are certainly restructuring our budget in the years ahead to reduce our borrowings in order to free up capacity for priority projects. We will be making regular assessments of our borrowings. It has been important to undertake borrowings in order to provide infrastructure. I do not think anyone is arguing that all infrastructure provisions should be on the basis that the government saves up money and then spends it. There is considerable merit in borrowing for our quality infrastructure projects, and that is really prudent in terms of managing community needs. Does that mean that there is no limit to borrowings? No, it does not, and we need to ensure that, when we do borrow, it is for high-quality projects that are a priority for the community.

MR SMYTH: Were the concerns of the auditor taken into account when you increased the borrowings?

Mr Barr: Yes, and we will continue to monitor our borrowing requirements in future budgets.

MR SMYTH: If we could go back to my previous question on the home loan portfolio system, where does the home loan portfolio now sit?

Mr Barr: With commerce and works.

MR SMYTH: Is it possible to get an updated chart for each of these?

Mr Barr: Yes. I will publish that in the budget.

THE CHAIR: I am looking at the time. We said we would move to the ICRC about now. If members and others are happy, we will call officials from the ICRC. Thank you.

Mr Barr: Thank you.

THE CHAIR: Mr Gray, welcome. I will get you to confirm that you understand the privileges statement there before you on the desk.

Mr Gray: I do.

THE CHAIR: Would you like to make any opening statements?

Mr Gray: No.

THE CHAIR: I will move to questions. Dr Bourke.

DR BOURKE: Could you expand on your statement at page 11 of the report in regard to the urban waterways and stormwater harvesting programs and the associated built wetlands? You referred to:

- Report on opportunities for a commercial market in greywater in both commercial and domestic applications …

What has been the progress on that?

Mr Gray: The major finding in that report was that, given the present level of water in the dams, urgent pursuit of secondary water options really was not required. We raised a number of possibilities that might facilitate further involvement by the private sector but we have not pursued those. We have provided some advice but it was preliminary in nature.

The major recommendation in that report was the need to integrate and make adaptive and strategic the management of the overall water resource within the ACT. Within that envelope, you would look at that particular topic.

MR SMYTH: Looking at that report, the Treasurer's advance was used to fund that project, I believe?

Mr Barr: Yes, that is correct.

MR SMYTH: Why was there a need for the Treasurer's advance to be used in this case?

Mr Barr: I understand we received a request from the ICRC for that. It was obviously outside the budgeted appropriation.

MR SMYTH: In that regard, Mr Gray, is the appropriation for the ICRC adequate?

Mr Gray: Yes. There is not an appropriation for the ICRC as such. That report was commissioned following a resolution by the Assembly. The Treasurer sent us a reference. Under the terms of the ICRC Act, when we receive a reference like that, we are entitled to bill the territory for it. That is what we did.

MR SMYTH: I notice on page 3, second paragraph, you have a reference to a previous CEO of the commission, Mr Primrose, having filled the breach. Has he now stepped out of the breach?

Mr Gray: Yes, he has. It was always a temporary arrangement.

MR SMYTH: Perhaps you could pass on our thanks to Mr Primrose. I second what you said earlier in the report. I always found him to be a good servant of the community.

Mr Gray: I would be happy to do that. He is now doing some work in another territory, I understand, further to our north.

MR SMYTH: I notice that there were no notices sent through by the minister for the year, no ministerial directions. Is that normal? How many have there been in previous years?

Mr Gray: I am not aware of any ministerial directions. The conditions under which the minister can provide directions to the ICRC are quite limited and mainly relate to the administration of the licensing arrangements for utilities. In terms of the references themselves, apart from the formal process of sending us a reference and possibly amending it should he so desire, the Treasurer largely leaves the ICRC to do the work as it sees fit. I think that is essentially the mechanism that is anticipated in the ICRC Act.

THE CHAIR: Looking at the pricing path for water, I am interested in an update on where that is up to. ACTEW have expressed some views in terms of what they would like. They seem to be, from memory, pushing for an annualised pricing determination. Where is that process up to and where do we go from here?

Mr Gray: Where the process is up to is that we are proposing to issue our draft report on Tuesday of next week. That will respond to the submissions that ACTEW have made to us, including the specific point that you make reference to. It will elucidate the way out, both the commission's position and the reasons why we have reached that conclusion.

THE CHAIR: A decision has been made but you cannot reveal it here? Is that the position?

Mr Gray: That is about the size of it, yes.

THE CHAIR: In weighing up all those different options, what is the commission's view on the need for change or the desire for change? From one view, there is some logic behind ACTEW's argument in terms of the ability to respond to changing conditions and the like, without necessarily revealing the decision. What are the main factors that the ICRC has considered there?

Mr Barr: What can you say without saying what you are going to say on Tuesday, is really what you are asking?

Mr Gray: I can say that—

THE CHAIR: I am doing my best not to get Mr Gray to reveal it but I am just trying to get an insight into—

Mr Barr: Right.

Mr Gray: What I can say is that ACTEW is understandably very concerned about receiving the revenues that are determined as necessary in order to fund its prudent and efficient operations. During the current regulatory period, which finishes at the end of June, that did not occur. The commission has taken that outcome very seriously and has given very careful thought to the best way of dealing with that.

We will explain what we think the best way of dealing with that is in the report that is released on Tuesday but we have weighed carefully the arguments that ACTEW have put to us and spent quite a bit of the effort that has gone into the report dealing with that particular issue.

THE CHAIR: So Tuesday is the day you will be releasing it.

Mr Gray: Yes.

THE CHAIR: Thank you. Do members have other questions?

DR BOURKE: I understand that ACT electricity prices are substantially lower than those in Queanbeyan. In fact, Queanbeyan families pay 70 per cent more for electricity than families in the ACT. What contributes to this?

Mr Gray: It is a question you ought to address to the regulator of the electricity prices in New South Wales. We have a different methodology for determining the regulated price than New South Wales does. We rely much more on market-determined figures, which fluctuate from year to year.

That has been one of the contributing factors. New South Wales has a much more complicated way of calculating their regulated price, which has tended over time to produce a higher outcome. Moreover, they have, in particular, distribution assets that are much older than ours. It has cost them much more to upgrade and maintain those than the territory has needed to lay out in this regard, because our infrastructure is smaller, more concentrated and in an urban area, and it is newer.

THE CHAIR: Based on that, are the risks then coming for the territory? As you say, one of the reasons those prices have gone up in New South Wales is that they have had to spend a lot of money on the infrastructure. Presumably, that day is coming for the ACT. We have newer stock at the moment, but it is ageing. So would you see those risks in the coming decade or two, that we will have to invest more than perhaps we have proportionally compared to places like New South Wales?

Mr Gray: Clearly, as the assets age you are going to have to do more replacement. We do not see in the immediate term any serious risk. Prices for those distribution and transmission services are set by the Australian Energy Regulator. They have opted to provide fairly long-term time paths for the increase in costs. So there is a degree of predictability over a two or three-year time horizon. Certainly, I would not see any cause for concern on that sort of time frame.

I think beyond that, being an urban area, an urban conurbation is a big advantage when it comes to things like reticulating water and distributing electricity because you are such a concentrated group. You do not have long pipes or long wires to worry about.

THE CHAIR: The converse of Dr Bourke’s question, of course, is that when it comes to water, we pay a lot more than other jurisdictions. Yet we have all those advantages that you just pointed to. Why is it then that we in the ACT have to pay so much more even though we have those advantages that you state?

Mr Gray: I cannot give you a full answer to the question but it has got to do with the scale of the water assets that we inherited from the commonwealth when the territory was established as a self-governing entity. Those assets were designed to serve a substantially larger population than we currently have. Maintaining those assets is a substantial cost, which is being distributed across a smaller number of customers than perhaps was anticipated when the commonwealth made those investment decisions some years ago now.

THE CHAIR: Do members have any other questions? We thank you for your time. Before we close, there are a couple of administrative matters. Answers to questions taken on notice during this hearing are due with the committee secretariat within two weeks of the proof transcript becoming available. Written supplementary questions from members covering the budget process, financial reporting, taxation revenue policy, fiscal and economic policy, including competition and regulatory reform, sections of the Treasury Directorate annual report and the ICRC annual report should be provided to the committee secretariat within two working days of the proof transcript becoming available.

Finally, on behalf of the committee, I thank you, Treasurer. I thank you, Mr Gray. I thank all other officials who have appeared today, along with members of the committee.

The committee adjourned at 1.51 pm.