LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

SELECT COMMITTEE ON ESTIMATES 2017-2018

(Reference: Appropriation Bill 2017-2018 and Appropriation (Office of the Legislative Assembly) Bill 2017-2018)

Members:

MR A WALL (Chair)
MS B CODY (Deputy Chair)
MR A COE
MS C LE COUTEUR
MR M PETTERSSON

TRANSCRIPT OF EVIDENCE

CANBERRA

MONDAY, 19 JUNE 2017

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

By authority of the Legislative Assembly for the Australian Capital Territory

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

APPEARANCES

Chief Minister, Treasury and Economic Development Directorate **65**
Independent Competition and Regulatory Commission **163**

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Amended 20 May 2013

The committee met at 9.31 am.

Appearances:

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

Chief Minister, Treasury and Economic Development Directorate
Nicol, Mr David, Under Treasurer
Doran, Ms Karen, Executive Director, Economic and Financial Group
Miners, Mr Stephen, Executive Director, Finance and Budget Division
McAuliffe, Mr Patrick, Director, Asset Liability Management, Economic and Financial Group
Friend, Mr Stuart, Director, Expenditure Review Division
Salisbury, Mr Kim, Director, Revenue Management Division, and Commissioner for ACT Revenue

THE CHAIR: Good morning, everyone, and welcome to day two of the 2017-18 estimates hearings. Today we will be examining the Chief Minister, Treasury and Economic Development Directorate, particularly in relation to budget statements B. When taking a question on notice, it would be appreciated if it could be stated clearly that the question will be taken on notice so that that can be noted in the minutes and we can follow up on those properly. Mr Nicol, could I confirm that you are familiar with the privilege statement in front of you and you are aware of its implications?

Mr Nicol: I am.

THE CHAIR: Treasurer, I welcome you to round 1, and invite you to make an opening statement.

Mr Barr: I thank the committee for the opportunity to appear and to outline that the economic outlook for the territory contained in the 2017-18 budget shows a period of sustained growth in the territory economy. It is accompanied by a solid labour market outlook. Economic growth is estimated to be 3¼ per cent in the 2016-17 fiscal year and that is consistent with the 3.4 per cent recorded in 2015-16. Growth is forecast in the coming fiscal year to continue to be above trend, before it is assumed that it will return to its long-run trend growth.

The positive outlook is based on a range of sound fundamentals. There is relatively high population growth. Low interest rates are helping to fuel significant levels of housing construction, as well as consumer spending and business investment. The territory is also benefiting from a relatively weak Australian dollar, which is helping to boost ACT service exports, and in particular for tertiary education. The strong economic outlook is expected to be broad based across the territory economy, with construction of new dwellings expected to continue at a high pace. Household consumption is also expected to continue to grow at or above trend pace. Service exports, particularly for education, are also expected to contribute to strong growth over the forward estimates. In the 2015-16 fiscal year service exports were worth

$1.7 billion to the territory economy. Education exports accounted for over $500 million of that $1.7 billion—around a third.

National government consumption and investment are also anticipated to support the territory economy over the medium term. There is a range of recent economic data that supports a very positive outlook for the ACT economy. Service exports grew by 13.1 per cent in 2015-16. Retail trade grew by 3.7 per cent over the past year, April 2016 to April 2017. State final demand grew by 7.3 per cent over the course of the calendar year 2016. Total job vacancies increased by 23 per cent over the past year. Dwelling unit commencements rose by 109 per cent over the course of 2016, and the ACT's population grew by almost 5,800 people over the year September 2015 to September 2016.

Economic growth is expected to continue, representing the creation of over 2½ thousand new jobs in the economy in 2016-17. These came on top of the 4,000 new jobs created in 2015-16. Looking forward, employment growth is expected to be sustained at around 1½ per cent, or around 3,000 new jobs per annum over the forward estimates. These new jobs are expected in a wide range of industries, including construction, education and research, defence, national security, intelligence, tourism and the range of sectors associated with household consumption.

Inflation is forecast to grow by around 2½ per cent in the current fiscal year, and within the RBA's band of two to three per cent over the forward estimates. Wages are forecast to grow by 1¾ per cent in 2016-17 before rising to two per cent in 2017-18 and then growing to 2½ per cent in 2018-19 before rising to the long-term trend rate of three per cent from 2019-20 onwards.

The outlook for the public sector wage price index growth is reflective of what has been a protracted period of bargaining within the Australian public service, and the ACT's wage price index has been growing at a lower rate than the national average in through-the-year terms for the last 14 consecutive quarters. So whilst public sector wage growth is likely to remain subdued until the EBA impasses are broken, the private sector has seen wage growth at a relatively robust amount of 2.1 per cent through the year to March 2017. Taken together, our expectations on our own EBA, the commonwealth EBAs and the private sector outcomes yield a view of a mild outlook for wages growth in the near term, but with an expectation over the forward estimates period, in line with what the commonwealth have projected in their own budgets, of wages growth returning to more normal levels.

That is a quick snapshot of where the territory economy stands, rebounding from the Abbott years quite strongly and poised now for a period of quite significant growth. The 2017-18 ACT budget was framed with a view to continuing that path of economic growth, to meet the government's election commitments and continue our fiscal strategy. Having said that, I am very happy to take any questions.

THE CHAIR: The budget notes that the commonwealth government's consumption and investment spending in the ACT makes up about 60 per cent of the territory's state final demand. You have noted that this has been the case since at least 2011. How does that trend figure compare to the period prior to self-government through to 2011?

Mr Nicol: I do not have figures to hand going back that far. I will see if any of my officials have that data.

Ms Doran: No, I do not have that data with me, but we can certainly search for that for you this morning.

THE CHAIR: My understanding is that the share of state final demand back around the time of self-government made up about 40 per cent of the territory's figure, whereas now it represents more than 60 per cent.

Mr Barr: That would be pretty extraordinary, but we will take that on notice and have a look.

Mr Nicol: Yes, we will.

Mr Barr: Given that there was virtually nothing here but the commonwealth government at the time of self-government, I find that an extraordinary figure.

THE CHAIR: Since self-government, so from 1989 to 2010 is the period that we are looking at, obviously.

Mr Barr: We will see what data is available, going back that far.

THE CHAIR: Okay. Would you then characterise the commonwealth's share in recent years as high and stable, with respect to the make-up of that?

Mr Barr: It has fluctuated, depending on the nature of commonwealth government policies and commonwealth expenditure. So at varying points over the last decade there has been extensive commonwealth stimulus and there have been periods of commonwealth contraction. They are reasonably infamous for the public policies behind each of those particular periods. Undoubtedly, in response to the global financial crisis, the Rudd government undertook a very significant stimulus package. That was rolled out nationwide, of course, but there were significant benefits felt in the ACT economy. On the other hand, the 2014 budget, the first budget of the Abbott government, was even less in its intent if not in the practical outcomes, because not as much of it passed through the Senate as its authors would have hoped. That certainly saw a contraction in commonwealth government spending.

To the extent that that is an issue beyond the control of those of us in this place, it is what it is and we focus on the issues at hand. At times that means responding to decisions that are taken by the federal government. In other instances it means that we can complement; we can set our fiscal policy settings according to the economic imperatives of the time. That is what ACT governments have done over the nearly 30 years of self-government.

I recall in my youth the election of the Howard government and the policies adopted by the Carnell government at the time in an attempt to stave off a recession in the ACT from the impacts of the decisions of that first Peter Costello budget in 1996. It was a valiant effort. It proved in the end to not be enough to stave off a recession in the mid-1990s. But, relative to what happened then compared to our response to the Abbott government's policies, we were able to keep the ACT economy out of recession during that period, although economic growth slowed to, from memory, about 0.7 of a per cent. It subsequently more than tripled over the last few fiscal years.

THE CHAIR: You have stated the impact that the commonwealth has on state final demand and economic activity in the ACT. The estimates in the budget papers have 3¼ per cent as the projection for 2017-18, then returning to a long-term trend of four per cent beyond 2020. That is coupled with the federal Treasurer's statement in the budget that growth in real payments from the commonwealth over the forward estimates from 2017-18 is expected to be at 1.9 per cent per annum, on average—as the federal Treasurer stated, the lowest average real growth in spending in almost 50 years.

Mr Barr: I will invite the Under Treasurer to respond in terms of how treasury arrives at its forecast, but I would make the observation that what the commonwealth Treasurer says and what actually happens, as history shows—and we are very happy to demonstrate it over the last four or five years, in terms of even the commonwealth's own outlays—are quite different things. So we are responding—

THE CHAIR: Just like your surplus projections, Treasurer.

Mr Barr: We respond in the real world to what happens in commonwealth spending, and by and large—

THE CHAIR: You have promised a number of things that have not come through.

Mr Barr: commonwealth spending—I do not think you can interject on your own question. You are the chair here, so it is best if you do not do that. That is going to set the tone for the next 2½ days. You have to step up now, Mr Wall, to the chairmanship of this committee, and interjecting on your own question is probably not a good place to start. As I was saying, the difference between what the commonwealth project over the forward estimates and what actually happens in terms of their own spending is something that we must take into account. I will invite the Under Treasurer to discuss the process of the ACT treasury reaching its forecasts and projections in the outyears.

Mr Nicol: By way of a brief summary, we forecast, in terms of a modelling sense, the major economic variables for the next two years, for the budget year and the following year. In the longer term we use essentially a long-term projection. That is a fairly accepted approach. It is the approach that the commonwealth uses. We model essentially the long-term outcomes for those key economic variables. That is the underlying approach. Generally, in terms of modelling, it is not only a mathematical approach; we also look at what market commentators are saying and what leading economists are saying about the economy. We do not strive to ensure there is consistency, but if there is an inconsistent approach there we try to understand why and try to make sure that we are happy that we have a good reason for departing.

I would say that the economic variables forecast, certainly for the two years in the budget, are well within accepted norms of general economic commentary. To the extent that economists talk about the ACT market as opposed to the national economy, there has been some talk. Some argue that the projections are too high and that they should be lower. I would respond to that by saying that the outcomes for the last year were higher than our long-term projections in many cases. So I am not sure it is a foregone conclusion that long-term projections are not a reasonable approach to take in the outyears.

I would support the Treasurer's comments in terms of the commonwealth's future. They have a budgeting approach that tends to add costs in forward budgets and add to their spending. That has been the history for 20 years—that their forward estimates, particularly for public sector spending, are lower than their actuals. I would not base my forecasts on a biased estimate in that sense. I think that would underestimate the commonwealth's injections—spending in aggregate and spending in the ACT economy. I might ask Ms Doran if she has any other comments to add.

Ms Doran: I certainly agree with what has been said to date. In terms of the long-term projection rates that we use, they are based on historical long-term averages. That is the methodology, as Mr Nicol has said—to revert to those long-term patterns, where we cannot forecast with any reliability four or five years out. In terms of the commonwealth projections themselves, you have cited their projections for real growth in cash payments as growing at a rate of around 1.9 real. In our own modelling we would rely more heavily on their gross operating expenses, which is the component that is more tied to the ACT economy. That is more representative of the wages component of their expenditure, a high proportion of which we know occurs in the ACT economy, as opposed to their broader spending, which can be spread across the nation. Those gross operating expenses are projected to grow at 3.2 per cent real through to 2020-21.

THE CHAIR: What modelling has treasury been undertaking to ascertain the impact on the budget bottom line if the growth in state final demand is notionally higher or lower, at, say, half a percentage point either way?

Ms Doran: State final demand as a parameter does not directly drive any of our estimates either for revenue or for expenditure in the budget directly. So it would be other parameters that we would be looking at that contribute in themselves to the growth of the economy—CPI, wages, the WPI assumption. And we do provide sensitivity analysis in the budget.

Mr Barr: Page 421 of budget paper 3 outlines the sensitivity of budget estimates to changes in a number of different—

MR COE: But not directly state final demand, though?

Mr Barr: No. It has not had a dramatic impact on the territory's bottom line.

Mr Nicol: There are no major outlay or revenue items that are influenced directly by state final demand, in a modelling or an outcome sense. The effects are very much indirect, and they operate through, essentially, population growth and land sales. That tends to be not an immediate effect. It tends to be a lagged effect, because land sales do not directly relate to population growth. There is an intermediary in terms of a development industry in there that will buy land based on its view of future population growth. So it would tend to be a very lagged effect. On the other hand, lower population growth would lead to lower outlays and lower expenses. So it would not be immediately clear which way such effects would occur, and it may be positive and/or negative in the short to medium terms. It depends on the composition of growth. It depends on a range of factors. In short, there is not a major direct effect of state final demand on the ACT's budget.

MR COE: It is listed as one of the indicators that have been forecast. I am just wondering what, in effect, is the significance of including it in the budget statements if it is quite indirect.

Mr Nicol: The budget statements are not only a summary of the finances of the ACT budget; they are also a statement of the economy. The state final demand does have a big impact on our economy, so it could have impacts on wages, employment, economic output or general growth. In that sense, with a lower state final demand, again, you have to describe why it is lower, but generally a lower state final demand will have negative impacts on perhaps employment, wages growth or the general growth of the city, which is of very significant interest, I think, to the readers of the budget. That is why it is included.

MR COE: But there is no internal sensitivity or risk assessment of that scenario, that it is a per cent lower or half a per cent lower?

Ms Doran: We can perhaps express it another way: the state final demand is really the outcome of the other parameters, so it is an overall measure of the growth in the economy. It is a function of the other parameters, like wages growth, CPI and population growth. It is included in the budget to give that overall sense of the state of the economy and the expected future state of the economy. In terms of the projections of revenue lines or expenditure lines, the SFD assumption itself is not directly used; it is the component parts that are relevant to those different lines that are used in that modelling.

Mr Nicol: Taking that a step further, if we have a lower SFD because wages are lower, obviously we have lower purchasing power in the economy and people's standards of living might not be growing as quickly as would otherwise occur. That obviously has potential implications. The economic impacts of that go to distributional effects. Is there general lower wages growth across the workforce or is it concentrated in particular areas of the workforce? Is it a public sector or a private sector impact? If state final demand is lower because of lower employment growth, what does that mean for unemployment, et cetera? We do that sort of economic analysis, I think it is fair to say.

MS LE COUTEUR: I want to move to the asset recycling initiative. It says you have responsibility for that. I am trying to understand that a bit better. I read through the website federalfinancialrelations.gov.au, which suggests that the sales were going to be $447 million. It is not clear exactly what the non-housing items are, but probably in the order of $110 million. I know the biggest is the TAB. So, basically, the sale of housing is in the order of $330 million. Is that correct?

Mr Barr: I will ask Ms Doran to comment. I think we are also selling some office and non-housing assets.

MS LE COUTEUR: I am not talking about the nearest million or nearest $10 million. What sort of order of money are we spending and what are we selling in terms of housing assets?

Ms Doran: I would have to get you the exact figure, but as Mr Nicol has said, taking out ACTTAB from the total, the remainder comprises both public housing sales and some office block sales. Public housing would be in the order of $150 to $200 million of that, so half or slightly more. I can take on notice to get you the exact figures.

MS LE COUTEUR: Could you? If you could take on notice what it actually is—

Ms Doran: I will note that those figures will be based on estimated sale proceeds at this point.

MS LE COUTEUR: Sure. You have not sold it all yet.

Ms Doran: That is right.

MS LE COUTEUR: Am I correct that the 15 per cent commonwealth contribution is based on what you actually sell it for, not what you think you are going to sell it for?

Ms Doran: That is correct.

Mr Barr: Made in two tranches generally. There is a component in one part of the process and then a final component on each transaction.

MS LE COUTEUR: I have a press release from March which says at the end of it that the ACT government is spending $550 million on public housing.

Mr Barr: It is over $600 million now, once you include this year’s budget allocation.

MS LE COUTEUR: So the ACT government is putting in the order of $400 million into public housing renewal? If the cost is about $600 million—

Mr Barr: On top of the asset recycling initiative component, yes. There is an additional—

MS LE COUTEUR: There is additional, about—

Mr Barr: Yes, off our own budget. Yes, that is correct.

MS LE COUTEUR: That is where I was trying to get an idea of how much money we were actually putting in. It appears to me that it is a lot of money, but in fact we were not just returning the buildings there into the buildings—

Mr Barr: No. The program goes well beyond that, yes.

MS LE COUTEUR: Given this huge amount of money, has this been a constraint in terms of how the program has gone throughout Canberra? That would be one of the ACT's bigger expenditures at $400 million?

Mr Nicol: It is a substantial expenditure. The way the government, any government, would need to analyse such an investment is from multiple fronts. Firstly, it has to have the capacity to invest the capital, which the ACT government does, because of our good balance sheet. Secondly, they have to be sound investments. And, thirdly, I think it is also worth noting that these are assets, so it is not only a cash transaction; it needs to be looked at from a whole-of-life asset management point of view.

The properties that we are replacing are very old, relatively speaking. Essentially, they do need replacing. There is also the dimension of the land use, the optimisation of land use. The government, I think, has taken the approach of trying to optimise all of these variables to get the best outcome it can. At the end of the day, it is a sizeable capital investment, but it is also creating a capital asset that has a 30, 40 or 50-year useful life.

MS LE COUTEUR: Hopefully, at least 50 years.

Mr Nicol: Hopefully, at least; that is right. So it is not just a one-off cash cost; it is a lifetime asset that we are building.

MS LE COUTEUR: I am in favour of the expenditure. I am just trying to get a handle on what the expenditure is. I am not trying to argue in any way against it.

Mr Nicol: I know. I am just saying that the government has looked at this from a lifetime perspective, and that has dominated the thinking, not just the cash cost up-front.

MS LE COUTEUR: Again, looking at it from a lifetime perspective, it would seem that in the ACT there was a big sell-off in public housing by the previous Liberal government, but since then the numbers have been fairly static. But clearly the population of the ACT has grown, and thus the proportion of public housing has decreased. I can remember that when I was first in the Assembly 10 per cent was put in as an aspirational goal. No, it was not 10 per cent; I think it was about eight per cent.

Mr Barr: Eight, yes. Seven; then eight or something.

MS LE COUTEUR: And we are now up to six per cent, or rather down to six per cent.

Mr Barr: I am not sure that those stats are right, but we will double-check. I think you might have slightly overstated the starting point and slightly understated where we are now. I would just add one observation. It is important to draw a distinction in how you measure, not just the number of dwellings but the number of bedrooms. A lot of what has been replaced has been bedsits, studios and one-bedroom properties. We are not building any replacement in that context, but we are building two and three-bedroom properties to better meet the needs of tenants. I think you would find that there would be an increase in the number of bedrooms, and that is to better meet the needs of tenants. Obviously you can explore the detail of the housing with Housing later on.

MS LE COUTEUR: With Housing, obviously. I am talking to you as economic managers here.

Mr Barr: But I make the observation that you should not look at it in the context of just dwelling numbers, because that may not tell the whole story of the number of people, for example, that we can accommodate within our public housing system or, if you like, the relative comfort of that accommodation in terms of not having to share bedrooms and having people located in inappropriate housing because that is the only dwelling available. I guess, given the historical construct of this housing, a goodly proportion of it was designed to meet the short-term needs of public servants transitioning into Canberra 60 years ago, as opposed to the contemporary need, which is for a different sort of accommodation.

MS LE COUTEUR: Yes.

Mr Barr: Hence part of the change has been to change the mix of housing too. But I understand. I know you appreciate that.

MS LE COUTEUR: Where I was actually going with this question, Treasurer, was this. Given that you have presumably given a lot of thought to the cost of housing these days, have you thought about what it would cost to try to keep the proportion of public housing static within the proportion of total ACT housing? In other words, regardless of how much the decrease was, there has been a decrease, but we could aim to say, "Okay, we will stabilise a figure."

Mr Barr: Just in raw percentage terms, ignoring location? It would depend on how you model that. You could seek to maintain a percentage simply by moving all public housing to the cheapest possible land.

MS LE COUTEUR: I know, yes.

Mr Barr: That would be one extreme model.

MS LE COUTEUR: Yes.

Mr Barr: And then—

MS LE COUTEUR: I know it is a complicated question, but I just figured that as you have been doing all this work with the 1,200, you might have some idea of a reasonable provision for Canberra.

Mr Barr: Yes. Cabinet has certainly given consideration to and has actively moved on ensuring that in new suburban developments, when new suburbs are released, there is a proportion of land retained for public or community housing, or under the social housing banner more broadly. That has been the case in a number of new areas. The response to that is fascinating. So much of the debate seems to focus on one road in this city, yet historically we have had a policy focus on ensuring that there was public housing pretty well everywhere.

MS LE COUTEUR: Yes.

Mr Barr: There was a period when new suburbs were built, including some in Gungahlin, that contained no public housing. They have subsequently had to have public housing added, and that has not been without controversy.

MS LE COUTEUR: Yes.

Mr Barr: If your starting policy principle is that wherever possible you would seek to locate some public housing in every Canberra suburb, obviously designing that from the start, in new estates, is a sensible way to go. In some instances, it also means taking the opportunity to add public housing to existing suburbs. This place has always had, and will always have, lively debates about that particular issue. More broadly, with the longer term modelling, a bit of this challenge will be having to estimate the extent of new dwelling formation outside the government's land release program: the extent to which there are, for example, large multi-unit developments undertaken by the private sector. If you build 500 units somewhere, in order to maintain an eight per cent or 10 per cent ratio that would require—

MS LE COUTEUR: Ten per cent is easier for the maths.

Mr Barr: That would require 50 new public housing properties to be built. It is not always possible for the government to meet such a strict ratio in that context, but that is a rather long-winded way of saying that we are planning for new public housing in new suburbs and in the context of infill developments. There are a number of urban myths that have been perpetuated by some, for example, that there will be no public housing retained on Northbourne Avenue. There is public housing retained on Northbourne Avenue. Even just walking up Northbourne Avenue, you would see where that is and where new public housing has been acquired. In some instances, though, you could not tell, and that is probably a very good thing.

MS LE COUTEUR: Thank you.

MR COE: Following on from that, what are the conditions on the asset recycling initiative contract with the commonwealth with regard to the overall number of public housing dwellings?

Mr Barr: There was a number at the time we entered into the initiative with the commonwealth, and we must maintain that as a minimum number.

MR COE: Was it 10,800 or something?

Mr Barr: Something along those lines. We will get the exact number.

Mr Nicol: It is 10,288.

Mr Barr: We will get the exact number.

MS LE COUTEUR: I have the web reference where you could look it up.

MR COE: Yes, okay.

Mr Barr: We will clarify the exact number, which is to say that in the change process it can temporarily drop below that but, over the course of the program, we must clearly replace the housing that is being sold as part of the ARI initiative, and we are well on track to achieve that. Again, you can explore the detail of this in the relevant area of estimates. You can explore it with me now—that is fine—and not talk about the budget.

MR COE: How is it actually reported? What sort of oversight is there from the commonwealth with these arrangements?

Ms Doran: The conditions that were set established an aggregate number of public housing stock, as has been indicated, which is reported through the ROGS process. It is a public number in the ROGS reporting.

Mr Barr: For the benefit of those reading: the Productivity Commission *Report on Government Services*, or ROGS.

Ms Doran: Thank you. There is also a requirement that the replacement public housing exist before tenants are relocated from existing public housing. They are the two conditions the commonwealth has placed on us. We report through treasury, through the national partnership agreement. We report to the commonwealth on a half-yearly basis against the process of the asset recycling program and against those two measures.

MS LE COUTEUR: The $400 million in the budget papers, is that going to come through as capital injections into housing? How would I see if it I was that way inclined?

Ms Doran: The asset recycling agreement is actually a two-part agreement. One is the assets that are sold and the second is the infrastructure in which the proceeds are invested. For our asset recycling program the capital funds actually go towards the light rail project.

MS LE COUTEUR: I appreciate that, yes.

Ms Doran: I am sure Mr Nicol will say that budgets are fungible, and so the proceeds to go towards the public housing renewal program come out of budget funding more generally, as the asset recycling proceeds go into budget funding more generally. But in the budget paper, because of the agreement we have with the commonwealth, we report directly on the proceeds that come from the asset recycling program in order to maintain that accountability on what is being set aside for the light rail project.

Mr Nicol: I might ask Mr Miners to come and speak on the budget treatment side, but my recollection was that we are acquiring the houses—either building or purchasing off the market—and then transferring them to Housing ACT.

Mr Miners: That is correct. They are purchased and then transferred across to Housing ACT.

Mr Nicol: In the form of a capital injection.

MR COE: How much money has already been received from the commonwealth as the 15 per cent bonus?

Ms Doran: It is reported on page 217 of budget paper 3.

MR COE: Is that all years or just this financial year?

Ms Doran: That is cumulative reporting.

MR COE: It is cumulative?

Ms Doran: It is starts with an opening balance which has come from previous years and it shows what has been received to date in the 2016-17 year to get to a closing balance.

MR COE: But of that 122, the opening balance, what portion are the proceeds, as opposed to incentive payments?

Mr Nicol: We will take it on notice.

MR COE: Is it 1,500?

Mr Nicol: That is what I assume it is, but we will take it on notice and confirm. The only reason it would not be is if there is something with the timing of payments.

Mr Barr: Because they do pay in tranches.

MR COE: In terms of the contract that was signed with the commonwealth, was any negotiation required in order to bank the proceeds and the payments until the $375 million capital payment is made at the completion of the project?

Ms Doran: No. The only requirement is transparency and accountability: the public reporting in the budget papers. There was no requirement for separate banking or any other vehicle to separate the funds.

MR COE: So if we finish up at $211 million following 30 June 2018 or whenever that $375 million capital payment is made to Canberra Metro, is that accrued funding pool likely to exceed $375 million?

Ms Doran: Based on our estimates at this stage and the schedule that we have agreed with the commonwealth, the pool would exceed that if all sales were completed in time and at the estimated value of those sales. There is a requirement, though, that all sales are completed by 30 June 2019 and that timing imperative may impact on how much of the program is completed by that date. Certainly, based on the schedule we have in place with the commonwealth at the moment, the quantums are $460 million from asset sales and around $69 million from incentive payments.

MR COE: But is a condition of the contract with the commonwealth to put all that money into light rail? If so, how is that going to be done if the capital payment is only $375 million and then there are yearly figures in the vicinity of $60 million?

Mr Barr: I think the condition would be where the asset recycling commonwealth bonus is that service, so that is $70 million.

MR COE: I believe the proceeds have to go in as well, do they not?

Ms Doran: That is true; the proceeds have to go towards the investment. The receipt of the incentive payments is conditional upon that happening. If the ACT chose to limit the capital injection to light rail to $375 million, it would just mean we would not get the incentive payments from the commonwealth on the remainder of those asset sale proceeds. The alternative, if the proceeds look as though they are going to come in above that amount, is for us to enter into discussions with the commonwealth as to what they might otherwise accept as either a different infrastructure program or a different way to contribute more funds.

Mr Barr: Stage 2 of the project.

Ms Doran: That is right.

Mr Barr: Part of the city deal. You never know.

Mr Nicol: Or indeed the availability payment.

MS LE COUTEUR: Or public housing.

Mr Barr: No.

Mr Nicol: No, it has to be economic infrastructure, and they do not classify public housing as economic infrastructure.

MR COE: If I might ask a substantive question: how important is it for the ACT that the commonwealth gets to a surplus in the stated time, be it the fiscal imbalance or indirectly through the AAA credit rating?

Mr Barr: An interesting question. I wonder if it would depend a little on how they got there. If they got back into surplus by cutting payments to the states and territories, then that would not be a good outcome for the states and territories. On the credit rating question, no semi-government jurisdiction can hold a credit rating higher than the sovereign, so with the commonwealth on negative watch with at least one ratings agency, that subsequently flowed on to the three states and territories with AAA credit ratings—New South Wales, Victoria and us. Were the commonwealth to be downgraded then that would flow on to New South Wales, Victoria and the ACT. As I understand it, it is one credit rating agency that has put the commonwealth on negative outlook. It just so happens that they are the agency that we use for our credit rating. So it would be a moderate risk. But then the commonwealth apparently have a clear and credible path back to surplus.

MR COE: As do we.

Mr Barr: The difference is we are actually delivering on ours at the moment, but anyway.

MR COE: If our credit rating is downgraded, what is that likely to mean in terms of a material impact on either interest rates or access to finance?

Mr Nicol: In terms of access to finance, I think it would have nil impact, assuming normal capital market operations. If capital markets significantly tightened it might be a different story, but there are very few sovereigns who are at AAA.

Mr Barr: It is about 26 in the world.

Mr Nicol: So one downgrade notch is not a big impact in terms of capital market access. But in terms of interest rates, it is a small but measurable impact.

Mr McAuliffe: It is hard to say until it actually happens, but from the advice we have received, we think it would only be marginal, perhaps in the range of five to ten basis points. We would not expect it to be something like a quarter or half a per cent. It is certainly not that sort of a magnitude. Regarding access to markets, as the Under Treasurer said, there are only a small number of AAA entities in the world at the moment. With a downgrade such as that, there are actually other opportunities; it opens up a different set of investors that look to invest in lower rated stock. We would not see any access to finance issues at all.

Mr Nicol: But I see the risks of a downgrade—obviously we cannot be ranked above the commonwealth—as very, very small.

MR PETTERSSON: The 2017-18 budget is a landmark budget. It starts stage 2 of the tax reform process. What are the main elements that we can expect?

Mr Barr: We move into a period of more rapid adjustment on commercial stamp duty in the second phase—stamp duty phased out for commercial property transactions under $1.5 million over this fiscal year and next. I understand that this came up in your hearings with the Property Council. It means that 70 per cent of all commercial property transactions in the ACT will be stamp duty exempt. That was the missing figure that the Property Council executive director did not have. It is 70 per cent. The vast majority of transactions in this city in the commercial sphere take place under the $1.5 million threshold. Whilst obviously that is not the prime focus of the Property Council's membership, it certainly is for small and medium-sized businesses in the city. So that is a very significant change in terms of the tax reform process. That is the most significant and immediate phase-out over two years in this second stage.

From there, each and every budget will see a further reduction in both commercial and residential stamp duties on a phased schedule that was published in last year's budget and that projects out into 2021. I think the 2021-22 fiscal year has been projected forward. That means a reduction—just looking at the Under Treasurer's figures here—of 58 per cent in stamp duty since reform began for a $300,000 property, 53 per cent for a $400,000 property, 51 per cent for a $500,000 property, 47 per cent for a $600,000 property, 44 per cent for a $700,000 property, 40 per cent for an $800,000 property, 36 per cent for a $900,000 property and just under a third for a $1 million property.

The savings in dollar terms in stamp duty, at the lower end of the market, would be reductions in stamp duty falling from $9,500 to $4,000 for the $300,000 property; for the $600,000 property, duty falling from $26,250 to $13,900, a reduction of $12,350; and for your $1 million property, duty falling from $49,250 to $33,500. The full details of the table we can make available to the committee.

You would note from that that it is a progressive reduction in stamp duty; so we have targeted the more affordable end of the market for the biggest stamp duty reductions. The second phase of tax reform is necessarily changed from the first, in that the first stage involved reductions in stamp duty, the abolition of insurance tax and a lifting of the payroll tax-free threshold to $2 million. The second phase of tax reform focuses on stamp duty, with insurance taxes now having been abolished and the payroll tax threshold now far and away the most competitive in Australia—higher than any other jurisdiction.

MR PETTERSSON: What are the economic benefits of this tax reform? Why is this a good thing? Why is it a bad thing or a good thing?

Mr Barr: It removes the inefficient taxes. It phases them out over a period of time. That frees up economic activity, so a deadweight loss is removed from the territory economy. Its distributional impacts are to assist those who are looking to enter into the housing market. It is particularly beneficial to those whose housing needs change through the life cycle, be that people entering the housing market for the first time, young families needing a bigger property as the size of their family increases, and older people downsizing as they become empty nesters. At each of those different stages in people’s lives stamp duty has been a very significant barrier to people finding appropriate housing to meet their needs.

I would observe about Canberra that, as it is a working city, on average Canberra residents purchase a property and move once every seven years. That is a reasonably high turnover within the property market. Stamp duty was quite a—well, it was not economically inefficient but it was distorting decision-making about the best housing choice for people at various stages of their lives.

On the commercial side, removing a tax on capital, particularly for small and medium-sized enterprises, allows greater flexibility in investment. It means that businesses wanting to set up in the ACT over the next few years will not face an up-front cost, as in the stamp duty tax on their purchase of commercial property. Seventy per cent of transactions will be outside of that system. Effectively, governments can tax the three factors of production: land, labour and capital. Land is highly immobile—

MR PETTERSSON: Hard to hide.

Mr Barr: Hard to hide. Land taxes are the hardest to avoid. They are the least distortive on economic activity. Capital is highly internationally mobile; so a best practice tax system shifts away from those transactional taxes on capital. It taxes labour as lightly as possible and focuses its revenue-raising efforts on land, because that is the least distortive in terms of economic activity. I think the benefits are being felt through the territory economy.

In any reform process there are, of course, winners and losers through the transitional phase. But if your objection to any reform was that it had to be effectively Pareto optimal, that no-one could be worse off as a result, then there would be not many reforms that would ever take place. That is an argument as to why there has been such a struggle at the national level. The Prime Minister rated this tax reform challenge as the right thing to do, but I think he scored an 11 out of 10 on the political difficulty scale. But he has lauded the courage of this jurisdiction in making that move.

Look, every report that has been commissioned into Australia's taxation system over the last four or five decades has concluded that broad-based land taxes are the fairest ways for governments to raise revenue and the least distortive, and that amongst the worst taxes that are levied in this country are insurance taxes and stamp duties. Hence the government's transition away from those taxes.

From a government perspective, it gives greater surety on the revenue side to a more predictable revenue stream. Given that our expenses tend to be reasonably fixed across the forward estimates, it would be absurd to suggest that the number of teachers, nurses, doctors, ambulance officers, firefighters et cetera would vary year to year based on the number of property transactions and the value of those transactions within our housing market, which is the problem with relying too heavily on stamp duties because they vary from year to year. Mr Nicol, do you want to add anything to that, or is that comprehensive enough?

THE CHAIR: Sorry, Treasurer, just before we move on, you read a number of statistics there from a table about the decreases in conveyancing. For the benefit of the committee, are you able to please table that document for us?

Mr Barr: Indeed, yes. I think it is contained within—

Mr Nicol: We will certainly table it.

Mr Barr: Yes, last year's budget papers have it. It is online. We will provide the table.

THE CHAIR: It is updated to reflect the more general changes?

Mr Barr: The last year's published forward period, yes.

MR PETTERSSON: Are there any dangers to the ACT economy from rolling back any of these reforms?

Mr Barr: It would be an imposition of a deadweight loss back on to the territory economy that was measured in the context of the taxation review going back five or six years now. It would obviously push the price of housing up as a result of an increase in stamp duty, particularly if you were to go back to the levels that it was levied at in 2012-13. It would see a significant increase in the price of every house across the city as a result of a higher clip of tax being taken across the board.

We have seen in jurisdictions where they did not move on stamp duty the revenue that has come into those jurisdictions during periods of housing booms and then you see what happens on the downside. Take WA as a classic example of this. They rode a resource and house price boom. Their revenues went up significantly. Mining royalties were a big part of it but so was stamp duty. When they come down the other side of that, they are in a dire budgetary state. Their property market is in great difficulty and their economy is also in great difficulty.

I think in terms of ensuring a smoother ride between economic cycles, a fairer distribution of taxation and an economic bonus for your economy, this is the right reform path. To unwind it, we would put at risk all of those gains. But in the short term it would push up house prices.

MR PETTERSSON: You mentioned a little while ago that the Prime Minister had lauded these tax reforms. Do you have any examples of people supporting this idea?

Mr Barr: I guess that Dr Ken Henry, the former federal Treasury secretary, would be a recent example, but I am happy to provide to the committee in some detail the various academic, government, economist and other reports over—

MR COE: Ratepayers; can you list the ratepayers for us as well?

Mr Barr: an extended period of time. It is easy for political opponents to take cheap shots. The Prime Minister observed this with his comment on the political difficulty, but we have now had two elections on this issue where it was front and centre of campaigning and two opportunities for it to be reversed. It has not been, and I think it is a good economic reform for the city. It will stand us in good stead in the long term, in both our economy and our capacity to deliver high quality services into the future.

It is the simplest, it is the fairest and it is the most efficient way of raising revenue. It is a very simple question: if a government is faced with a choice of how revenue is raised, acknowledging that there may be philosophical differences between different sides of politics on how much revenue is raised, you would like to think that that government could reach a conclusion that if it is going to raise X amount of revenue it should do so in the most efficient way. We are not quite there yet in this city. We might get there yet.

MR PETTERSSON: Thank you.

THE CHAIR: In respect of the transition, I think where most ratepayers feel the pain is that they bought a house two or three years ago, paid stamp duty and now continue to see—

Mr Barr: Well, it was two or three years ago that they paid their stamp duty. So you are going back a decade now to people who—

THE CHAIR: Five years.

Mr Barr: Six, seven; it has been going a while now.

MR COE: Well, 2012.

THE CHAIR: 2012 is stage 1.

MR COE: First half of 2012.

Mr Barr: We started cutting in 2012; so 2011 would be when you would have purchased.

MR COE: The cuts began in 2012-13.

Mr Barr: It started in 2012.

MR COE: That is what I just said. Five years is 1 July 2012.

THE CHAIR: The commencement of any reduction was 1 July 2012.

Mr Barr: Yes, but if you were buying under the old system you were buying in 2011-12.

THE CHAIR: Regardless, those—

Mr Barr: It started in June 2012.

THE CHAIR: that have paid a hefty amount in stamp duty and are now also paying considerably increased rates are obviously those who feel most aggrieved—and anyone who bought prior.

Mr Barr: Well, some of those people.

THE CHAIR: Was there any other method of transitioning this, even in a grandfathered measure, so that new property transactions that occurred from, say, today forward incurred no stamp duty but a higher level of rating, while those that were—

Mr Barr: That system exists for people to be able to defer duty, yes.

THE CHAIR: That is a deferral, but I am suggesting that—

Mr Barr: And to pay over time.

THE CHAIR: But why was there not an option, or was it considered that instead of a 20-year transition period it was done almost overnight—

Mr Barr: You do it on a block-by-block basis?

THE CHAIR: Block by block, so those pre-July—

Mr Barr: The administrative costs would have been significant and then at various points you would have quite a diversity of arrangements on each block across the city. What if, for example, you made an individual choice every time or just from that point on?

THE CHAIR: I am suggesting that you have an end point—

Mr Barr: This was all examined, and I would invite you to go and read the different options that were considered six or seven years ago. All this has been covered before. We can go through it chapter and verse again, but at a headline level, administratively, it is very challenging if you allow individual choice each time. Say I decided that I would pay more on rates and not pay the up-front amount, but then you came and bought my house three years later and you decided that you wanted to revert back to—

THE CHAIR: I am not suggesting that that choice be given, but instead of a transition period over 20 years, which I think has been your suggestion of the time that this reform is going to take—

Mr Barr: An initial option was to do this over 10, which would have had a much sharper impact on the speed of transition—

THE CHAIR: On the rates.

Mr Barr: and so the decision was taken cognisant of this issue and noting the earlier observation that people move, on average, every seven years—which means, yes, there are some people who do not move over a 20-year period but there are also people who move more frequently than every seven. In any reform process you cannot perfectly design a system that will leave no-one worse off. That would be a compelling argument to never do anything. Yes, we took this approach out of a determination to do better for the territory overall and for the common good. That meant that, yes, in some instances people who had purchased more recently would feel aggrieved; others would not.

People do raise this, yes, and it has been the subject of, as I say, two election campaigns where the option was put to Canberrans to not continue—to either reverse it in 2012 or not continue even further in 2016. In both instances the community voted; everyone voted. It was very clear. I do not think even you guys would say that you did not make clear what your alternative position was. People have made up their minds now. You can decide to make it an election issue again in 2020 and have a third go at it, by all means. Given the experience in 2012 and 2016, why not re-run these things a third time.

THE CHAIR: Third time lucky; you never know.

Mr Barr: You can try being against light rail again. Why not? Have another crack at that; see how you go.

THE CHAIR: On Friday this committee heard from National Seniors Australia, as part of the community group hearings, and the issue was raised of the transition from stamp duty to rates, land-based charges, and the disproportionate impact it has particularly on seniors who are on a fixed or indexed pension and are seeing these charges increase significantly in proportion to the retirement and financial planning decisions they made before this was even conceived. What flexibility or, as we go further—

Mr Barr: There is absolute flexibility for people in those circumstances.

THE CHAIR: What flexibility is this?

Mr Barr: They can defer their rates completely and not pay anymore and just book it on the estate in the end.

THE CHAIR: Like a death tax?

Mr Barr: No, they just defer the payments.

THE CHAIR: It comes out of their estate.

Mr Barr: It comes out of the increased property value over that time. That means they can pay absolutely nothing and defer the charges.

THE CHAIR: How many households in the ACT have taken up that option to date?

Mr Barr: I would need to—

Mr Nicol: Mr Salisbury would be able to tell us, but he is not here this morning. I think he is coming this afternoon. We can have that detail for you.

THE CHAIR: Just take that on notice in the interim.

Mr Barr: But we can certainly do more to promote that option. As we said, it is a very rational option for a lot of people. It would not suit everyone, but it would be a very rational option for a lot of people.

MS LE COUTEUR: What are the conditions on it?

Mr Barr: There are some. We are not giving that benefit to millionaires, but we will look at that.

MS LE COUTEUR: But what if they are property millionaires? What other conditions—

Mr Barr: We will check the criteria for you, but there would be a sensible level of—

MS LE COUTEUR: Fortunately or unfortunately, there are number of places in Canberra where the property is worth more than a million dollars, in the older suburbs. The problem comes when you have older people who are not particularly well off but because of where they are living they are asset rich and income poor. That is why I said “millionaires”. They may well be millionaires if you look at their property, but in terms of their income they are not well off.

Mr Barr: I have been advised that the rate deferral scheme is available to pensioners, special disability trusts, property owners receiving unemployment or other benefits or suffering substantial financial hardship and property owners aged over 65, where the combined income of all property owners is below $89,300—that would fit your income poor—and the unimproved value of the property is higher than the 80th percentile value of $442,000. Certainly your asset rich, income poor person is going to fit that criterion because their property is going to be worth more than $442,000.

MS LE COUTEUR: But that is the unimproved value, not the improved?

Mr Barr: In the case of the million-dollar properties we are talking about, yes.

MS LE COUTEUR: I was actually thinking unimproved. I was thinking of total value.

Mr Barr: Certainly that would be a lot of house for a million-dollar house to sit on land valued at less than $442,000. That is a lot of house.

THE CHAIR: Not really, no.

Mr Barr: Just the building, $600,000.

THE CHAIR: The Mr Fluffy sale blocks highly illustrate that there is a disparity between house value and land value.

Mr Barr: That is my point.

THE CHAIR: Of unimproved and market value.

Mr Barr: My point is that the—

THE CHAIR: A market value of a million dollars is not necessarily on a $400,000 unimproved—

Mr Barr: It is principally going to be driven by the land, not the house; that is what I am saying. Your argument was that the land is worth only $442,000 but the property is worth more than a million; my point is that that would be a lot of house on a $442,000 unimproved piece of land.

MS LE COUTEUR: I think the point is that, while that is true, our improved rating values for couples often seem to be a bit low, and there would be quite a few people who might be caught up in this.

Mr Barr: But this particular example applies to the case you have highlighted of someone on a low income sitting on incredibly valuable land in the inner north or the inner south.

MS LE COUTEUR: That is my question.

Mr Barr: Your question referred to older parts of Canberra. With regard to most land in older parts of Canberra now, particularly in the context of the individuals we are referring to in their 60s, they are sitting on land worth much more than $442,000, and that is why the threshold was set, to address this particular cohort who have low incomes below that $89,000.

MS LE COUTEUR: Have you looked at the age implications of this change? Basically it makes sense, but there is a group of older people whose income is low and the costs for them of moving, even if stamp duty has been significantly reduced, are huge. The cost for our society as a whole is huge, because you end up moving away from your social networks. And the reality that—

Mr Barr: Not necessarily.

MS LE COUTEUR: I was going to say that the reality is that the new, smaller houses in those suburbs, the townhouses, are beautiful new houses and they are going to cost you possibly more than your somewhat decayed 60-year-old house. I have looked at this and have friends who have looked at this.

Mr Barr: It would depend a little on the size of the block and then what you are downsizing into, obviously. But they are all factored in.

THE CHAIR: But it is not necessarily always the downsize.

Mr Barr: But it is an interesting question, yes.

MS LE COUTEUR: Have you looked at it in terms of this?

Mr Barr: I am stunned that no-one asked the question: "What are the age implications of the status quo?" I turn that question right around and say: "Do we want to become a society that locks young people out altogether because we are mostly concerned about the situation of asset-rich, income-poor people? What about asset-poor, income-poor people? Why do we not focus on them a little?"

MS LE COUTEUR: You did tell us how good the changes were. We have had that one explained to us.

Mr Barr: I appreciate that.

MS LE COUTEUR: They are both issues.

Mr Barr: Yes, they are.

MS LE COUTEUR: Absolutely, they are both issues.

Mr Barr: I think the very clear concern of the community, expressed day in, day out now for quite some time, is focused more at the other end of the age spectrum, on the people who are not asset rich and who are not income rich. In designing a system that is trying to reduce inequality in our community, yes, the issues that have been raised are significant and there is a mechanism in place. But if your big-picture, public policy objective is that that is the biggest issue, then I disagree.

It is fine for that to be your political cause. I am not chastising you. For anyone politically to advocate for that, that is fine, and then we have elections and people decide. But in the end, as I said, this reform benefits the community as a whole and is particularly beneficial for one segment. I acknowledge that, but that is a segment that is crying out for government policy intervention. Again, it is a matter of how you philosophically approach why you are in government. I am not here to make rich people richer. I am here to close the gap. That is what the government is about, and this is but one example of how we can achieve that.

MR COE: What evidence has there been of the change in insurance coverage since the abolition of the duty?

Mr Barr: As in whether there has been an increase in the take-up of insurance or the quantum of insurance?

MR COE: A combination. I am talking about coverage. I am talking about a combination of both diminishing underinsurance and also the quantum.

Ms Doran: I do not have anything solid by way of statistics I can provide. Anecdotally, we have not seen any reductions in insurance take-up. At the start of the program we did.

MS LE COUTEUR: There should be increases, surely?

Ms Doran: Sorry?

MS LE COUTEUR: You said you have not seen any reductions. We sincerely hope not. Increases might have been more likely.

Mr Barr: It depends a little on what else is happening in the insurance market. The one thing that we can say with certainty is that the difference between there being a 10 per cent tax on top of insurance prices or not is that it is 10 per cent cheaper than it would otherwise be as a result of there not being a tax. So you have got to always watch the counter-factual here. If policy had not changed, then whatever the current insurance premium is, for whatever product that attracted a 10 per cent tax, it would be 10 per cent more expensive. You would then need to model what the impacts of that would be on take-up.

MR COE: How inefficient was the insurance duty in the ACT? What is the size of the deadweight loss that you talked about?

Mr Nicol: We can get you data on that from the Henry review. It was one of the top three highest deadweight, inefficient taxes.

Ms Doran: Not particularly in the ACT, but—

Mr Nicol: In general.

Ms Doran: Everywhere.

Mr Nicol: I cannot see why the ACT would be particularly different from anywhere else in that regard, though. But we can take that on notice and pull that data out.

MR COE: And is that skewed towards particular types of insurance? For instance, could there be particular types of insurance that are not taken up to a high degree in the ACT? Are we talking, in effect, motor vehicle, residential, commercial—

Mr Nicol: It would be skewed towards, in theory, products that have a more elastic demand profile so that as price rises, demand drops off. Where products are inelastic, the economic losses would be smaller.

MR COE: Because that is, in effect, similar to the GST?

Mr Nicol: Yes, and that is why, as you say, it is an underinsurance as much as people not taking up the product. People who see the price of their insurance product go up want to see how they can save money. They tend to reduce the amount insured or increase excesses or whatever. It is very hard to get solid data on how much of the market is underinsured. You tend to find that out only when there is a disaster, which highlights how many people do not have sufficient coverage. But it is a particularly inefficient tax.

THE CHAIR: Has treasury got any data on what the current percentages of different sectors are for insurance coverage as a whole—the number of households, motor vehicles or businesses?

Mr Nicol: I would have to take that on notice.

Ms Doran: It is not something we collect, but it is data we could access from APRA, which is the regulator of the industry. Again it would be national data, probably, not disaggregated to state level.

THE CHAIR: Treasurer, in budget paper 3 you make this statement:

> The forecast improvement to the headline net operating balance in all years is consistent with the Government's objective of balancing the budget over the medium term, offsetting temporary deficits with surpluses in other periods.

What is believed to be the appropriate number of years to achieve that net balance?

Mr Barr: We have had, for the last five budget updates, the 2018-19 year as our balance target. The fiscal position improved in the current fiscal year, the fiscal year ahead and over the forward estimates in each of those years in this budget. That has been a trend we have seen pretty well since 2014, when the combination of the 2014 federal budget and the cuts to health and education, and simultaneously the peak cost of the Mr Fluffy buyback, hit the territory budget. There has been a $540 million-odd improvement from that period to cover the forward estimates. The actual position has improved by $400 million and there is a projection of further improvement of about $140 million over the period.

From memory, last year the expected deficit was around $200 million, and it has come in at less than $100 million. We continue on that path of improvement. The deficit peaked at $482 million. That was in 2014, with the Fluffy impact. It improved in 2015-16. It has further improved in 2016-17 and that is projected to continue, depending again on a couple of variables, not least of which is the timing of commonwealth payments. The commonwealth have a habit of rushing money out the door at the end of their fiscal year. They did that this year by advancing about $25 million in local government assistance grants that they will pay this side of 1 July. So we have to account for it in the current fiscal year.

More broadly, the fiscal policy has remained the same throughout the last five or six years, in that our objective is multifaceted. Doing what we can to maintain economic growth, to keep unemployment low and to continue to invest in the city's infrastructure are all key objectives of the budget process. The budget is a tool for further economic growth and city building. It is not an end in and of itself. You seek to run surpluses in the future in order to reinvest those proceeds in the city's infrastructure. During periods of economic difficulty the territory has historically been prepared to go into deficit in order to stimulate economic activity.

Over the balance of this century we have had budget surpluses as high as $300 million. We have had that one deficit of $482 million, but we were predominantly in surplus through the first eight years of the century. The global financial crisis hit. We had a temporary dip. Our budget improved dramatically during the commonwealth stimulus because most of that money was directed through state and territory budgets. So there was an improvement in the territory and we ran surpluses in that period. The combination of that stimulus being withdrawn and the election of the Abbott government, with the cuts to health and education funding, and the Mr Fluffy crisis, all hit in a period of two or three years. We are now emerging out of that period and heading back to a balanced budget. That has been the 15-year story.

THE CHAIR: What is the appropriate number of years in a cycle to achieve that balance?

Mr Barr: There is no definitive answer on that because it would depend on the depth of a recession or, as the corollary, the high point of a peak. Overall, at this level of government, running balanced budgets is ultimately where you would be as a default position; then you would look to see what the prevailing economic circumstances were and what the structural community needs were. At some points that would mean running surpluses, but not for the sake of it. A balanced budget is perfectly appropriate—and balanced according to the long-run understanding of what that means in our context. I see that the Leader of the Opposition is now injecting a new fiscal discipline and a new target, that he will obviously hold himself accountable to, that excludes the long-run returns from our superannuation investments. That is how his budgets will be measured in the future, if that is the new standard he wishes to set.

MR COE: How many other jurisdictions use their headline for—

Mr Barr: No other jurisdictions have the superannuation arrangements that we do, so our circumstances require that adjustment. I understand there might have been some commentary that it was entirely suitable to undertake that. David or Stephen, who would like to talk about why we would make this adjustment and why it is entirely appropriate in the context of the territory? It has been done throughout the history of self-government, I understand.

Mr Nicol: We have a superannuation liability, and the expense of that sits on our books. The government has made provision for investments whose purpose is to generate a return to help meet that liability. So I think it is appropriate from a fiscal standpoint to take that into account.

Mr Miners: It is about the unique circumstance, particularly with the PSS and CSS superannuation liability that sits with the ACT. I would argue that including that adjustment actually makes us more comparable to other jurisdictions than excluding it does. If we left it out, it makes a bigger difference in the treatment. If other jurisdictions had the same arrangements, I am pretty sure they would be undertaking some similar adjustments to give a more accurate reflection of the state of public finances.

Mr Nicol: Also, it has some other effects. If you did not include it there would be a strong incentive on the government of the day to liquidate some of the superannuation provision account, because that would improve the budget bottom line by taking money out of the account and putting it into your own budget. That would change the figures.

The other dimension of this, of course, is that we use a long-term rate to determine what the adjustment is made by, so that variations in the rate from year to year do not impact on the headline net operating balance. The other factor is that it has been the consistent approach of the budget over many years, so it gives a degree of comparability over time. It also sets the appropriate fiscal objective in terms of the balance, in that the return on the fund is used to help meet the expense of the liability that affects the headline net operating balance. That gives a more appropriate view of what the balance is.

MR COE: What is the rationale for excluding all the trading enterprises as well from the headline?

Mr Nicol: The headline net operating balance is the general government sector balance; it is the usual approach. It is generally the standard approach that is used across jurisdictions. So for any comparability it is the appropriate approach.

MR COE: Would you use the UPF for that or not?

Mr Nicol: It is based on the UPF.

Mr Miners: Yes. The only difference between the headline net operating balance and the UPF is that superannuation return adjustment. That is the only difference.

Everything else is exactly the same.

Mr Nicol: The other thing is that, with the PTE sector, generally the government does not have day-to-day control over their decisions and their balance. If for some reason one of those businesses—and we do not have many in the territory—ran a significant operating loss, I would argue you would not want the general government sector's operating result to be affected by that. The government should not have to run a tighter fiscal policy, or a looser fiscal policy, depending on what a PTE was doing from year to year.

MR COE: True, but with entities like ACTION and Housing ACT you have reasonable control, don't you?

Mr Nicol: There is greater control over those entities.

Mr Miners: There is. There are some flows between the sectors. Where there are dividends returned, for example, they are recorded in the general government sector. So it is not entirely excluded, but where they are operating on a quasi-commercial basis it makes sense to exclude those from the general government sector and allow them to make those decisions on that basis.

Mr Nicol: I also point out that the budget does, of course, include details of their operating balances and operating performance. It is not as if it is not published and not transparent.

MR COE: Icon is the only one I can think of that has a high degree of autonomy. All the other trading enterprises are, in effect, within an agency, aren't they?

Mr Nicol: Yes, but they have mandates in terms of how they operate. The injections into those entities are recorded on the general government balance.

MR COE: Surely so does Access Canberra and so do the shopfronts and the libraries.

Mr Nicol: Indeed.

MR COE: All of these have comparable mandates to Housing ACT or the buses, don't they?

Mr Nicol: Yes. Essentially, this is a result of the UPF and interstate comparability. Those jurisdictional decisions are made by the ABS; they are not made by us. We are following, essentially, accounting standards in the UPF agreed through the jurisdictional agreements. My explanation of those variances was about the reasons why those agencies are put in one or other of the two sectors.

Mr Miners: It is a very important point that the decision on whether they are PTE or general government sector is made with the ABS. It is not something we can arbitrarily move. It depends on the nature of the organisation, including the amount of operational freedom that they have to make decisions. That is one of the key factors that are in there. Where there are government transfers—for example, if there is funding from the government to provide housing or to ACTION buses for operational support—they are recorded on the budget. So those flow from the general government to the PTE account as an expense to government.

THE CHAIR: We might adjourn there for the morning tea break.

Mr Nicol: Chair, I have one piece of information. There are 189 taxpayers—if I can read my official's handwriting—with deferred rates. That was a question asked earlier.

THE CHAIR: The $400,000 was the 80th percentile, wasn't it?

Mr Nicol: Yes.

THE CHAIR: That answers that question. We will adjourn for the morning tea break.

Hearing suspended from 11.03 to 11.20 am.

THE CHAIR: We are here and we are quorate, so we will kick on again. We are continuing with treasury. I note that this period of time is for section 4.2, financial management. Do you have a further opening statement, Treasurer, or an answer to a question on notice?

Mr Barr: Ms Doran has an answer to a question that was taken on notice.

Ms Doran: I just want to give an answer on the break-up of the asset recycling opening balance from this year. It reflects two years worth of payments. In the 2015-16 year, proceeds from asset sales were $4.7 million and incentive payments $3.923 million. The opening balance, though, at the start of 2015-16 was $113.4 million, which was the proceeds of the ACTTAB sale and the first incentive payment on that, so the 7.5 per cent incentive payment.

THE CHAIR: Thank you.

MS LE COUTEUR: I am not sure if this is the right time to ask, but—

Mr Barr: We will find out.

MS LE COUTEUR: I am about to find out. I have a question on water abstraction charges. Is this the time to talk about those?

Mr Nicol: I think we can cover it now.

MS LE COUTEUR: If it is somewhere else—we have still have two weeks to go—let me know when would be a better time.

Mr Barr: Indeed, yes, but it is better to ask earlier than later in that context. Fire away. We will see what we can do.

MS LE COUTEUR: Have you been reconsidering water abstraction charges, in particular for clubs, especially golf clubs?

Mr Nicol: I will ask Karen Doran to jump right in. Sorry; I have caught her on the hop.

Mr Barr: Water abstraction charges.

MS LE COUTEUR: Yes.

Mr Barr: The policy question as it relates to large users?

MS LE COUTEUR: Large users, as distinct from going through Icon, which deals with the likes of you and me.

Ms Doran: That is right. Effectively, we have two tiers to the water abstraction charge. There is a tier that applies particularly to the larger users, with a differential charge scale reflecting their higher uptake. On top of that, we also allow large users to consider infrastructure investments that they make towards preserving their own water usage as an offset to the water abstraction charge. So there are opportunities there for them to—

Mr Barr: They can reduce their charges by investing in infrastructure that reduces their requirement to use potable water.

MS LE COUTEUR: If I was a club and I put in a bore, for instance, it would not only reduce my water use, which reduces the abstraction charge, but you would give me some credit, as it were, for putting in this bore as well?

Ms Doran: That is right.

MS LE COUTEUR: So it is a double—

Ms Doran: It is not necessarily a double, but against—

MS LE COUTEUR: I get a double bonus for it?

Ms Doran: Yes, against the abstraction charge that you would still be required to pay otherwise.

MS LE COUTEUR: Is the abstraction charge based purely on how much water you are using or does it depend on the type of entity you are?

Ms Doran: As I said, there are two charge scales.

MS LE COUTEUR: Just on size?

Ms Doran: Just on size.

MS LE COUTEUR: Just on the amount of water?

Ms Doran: Yes.

MS LE COUTEUR: Not on whether you are for profit, not for profit or anything exciting like that?

Ms Doran: No.

MS LE COUTEUR: Thank you.

MR COE: Who is charging for the water use through a bore, though?

MS LE COUTEUR: That is the water abstraction charge?

Ms Doran: I would have to check that.

MR COE: Because it has all been—

MS LE COUTEUR: That is what I thought we were talking about.

Mr Barr: Maybe a bore is not the best example of an infrastructure project on one of these properties, these larger water users. Let us go to another project, for example, a dam.

MR COE: That was mentioned—

Mr Barr: Maybe not a dam, then.

Mr Nicol: Or returfing with low water use grass.

Mr Barr: Yes. That is true. That is one that practically has happened.

Mr Nicol: Which has happened. I do not know the others.

Mr Barr: We will get the list of projects.

MR COE: The dam gets mentioned as well, I think.

Mr Barr: I think it might.

MS LE COUTEUR: I thought it did.

Mr Barr: I regret saying that now, as it is a red herring. There are a series of projects that have been supported where the infrastructure costs associated with them have been offset against the abstraction charge.

Ms Doran: That is right. I think there are two issues here. The dam, the bore or the other examples mentioned would certainly count as an infrastructure cost that could be offset against the charge. What I thought you were asking was: is the charge measured on extracting water from that bore? That is the question that I would prefer to seek confirmation on.

MS LE COUTEUR: Can I continue, because it was a comparatively short answer?

THE CHAIR: Yes. I am feeling generous this morning.

Mr Barr: That might send all the wrong incentives in the Q and A.

MS LE COUTEUR: Thank you, chair. I want to go to valuation approaches for rates. I am not really trying to continue in the same vein as before morning tea, but my understanding is that we use average unimproved value—

Mr Barr: On a rolling three-year basis.

MS LE COUTEUR: On a rolling three-year basis. I understand that the taxation review looked briefly at this issue, and I believe Victoria claims that it uses improved capital value, although I am not quite sure how it actually does it. Have you looked at the issue as to what value we use for rates? I am not trying to re-enter the discussion about stamp duty and rates; I am talking about the value.

Mr Barr: Yes. What is the—

MS LE COUTEUR: The situation where, if you have the crummiest house in the street, you are paying exactly the same as the best house in the street. Have you looked at—

Mr Barr: Assuming equal land values, yes.

MS LE COUTEUR: Yes. You know what I mean.

Mr Barr: Yes.

Mr Nicol: We have looked at this question. Any change would be a very significant change to the system and require a significant investment of both effort and intellectual capital, for want of a better word. A capital improved value would be in many ways easier to understand and, in some ways, fairer.

MS LE COUTEUR: Yes; I think it would be fairer.

Mr Nicol: It is just that the thing that has given pause is the cost of any transition. Re-engineering systems, valuations, keeping up with valuations as properties are improved by home owners and things like that become much more problematic under that sort of system. The thinking is very preliminary. I do not think we have got to the stage yet of even advising the government in any serious way on it. We are also in the middle of a tax reform program which is quite ambitious. Karen, do you want to add anything?

Ms Doran: Yes, I may just add a couple of points to that. One is that while there could be merit in going to a capital-based or market-value based system, in a purely economic sense, there is a disincentive in that for people to improve their property, because it generates higher taxes. There is a sort of reverse or perverse disincentive there.

THE CHAIR: It would almost require a house-by-house valuation to physically inspect the property to ascertain what internal—

Mr Barr: That is one of the administrative challenges, yes. That is indeed right. And then, as Karen has alluded to, there are the behavioural economics implications of—

THE CHAIR: It is perverse to good housing.

Mr Barr: Yes. You can imagine the arguments over, "Is that real marble or fake marble?" Does concreting add to the value of a property or not? What about a nice garden versus—

THE CHAIR: Even if you were improving energy efficiency, it would be seen as a capital improvement, which would then—

Mr Barr: Yes, absolutely. There is a myriad of policy questions.

THE CHAIR: So there is no intention of going down that route at all?

Mr Barr: I think we can comfortably say that the myriad of policy issues that need to be grappled with does not see this on the government's agenda. No; that is correct.

Ms Doran: The one particular issue that we did see with the current system, the AUV system, was the disparity that it created between houses and unit properties. That is an issue that we did look at resolving. One of the options we considered in looking at that policy outworking was a shift to a market value rather than an AUV. We felt that the solution we have come up with, which stays with AUV but changes the methodology around that, was a better solution for addressing the issue.

Mr Nicol: Yes. I would add that, given even the cost of transition, the merits of a new system, whether it be market based or another system, would have to be very significant for a government to make that change. As I said, we have looked at it. It is not even demonstrated that it would actually be a better system. I just do not see that the costs of doing the move would justify it.

MS LE COUTEUR: You are quite possibly right. I think, though, that arguably the costs have come down a lot. If you want to Google, there are any number of people who are prepared to give you a value for your house, whether or not—

MR COE: Glebe Park, in fact.

Mr Nicol: Ms Le Couteur, that is essentially what triggered our re-look at this—the online tools that are available. As you say, they are much more available. But when you look at it, they are very much averaging based tools. It is sort of a case of looking at what property with maybe X number of bedrooms sold in that area in the last 12 months. It does not look at the property-by-property approach. As Ms Doran said, the disadvantages with the approach are significant. I agree with you in that I think there is a fairness component that would probably get improved slightly, but—

Mr Barr: It would be very difficult to capture the value of the pool room or the serenity.

Mr Nicol: Indeed.

MR COE: If I might ask a supplementary, I cannot recall whether it was in the briefing or whether it was on another occasion but it was mentioned that an increase to the estate as a whole is determined and then it is attributed to individual blocks. Is that correct?

Ms Doran: This is the unit methodology?

MR COE: No; I am talking about Canberra wide.

Mr Nicol: The rates base?

MR COE: Yes.

Ms Doran: Yes, that is essentially correct.

MR COE: This is the AUV?

Ms Doran: For AUV, yes. Practically, you cannot value every block in Canberra every year, even on an unimproved value basis, as much as a market-value basis. The approach used by the Revenue Office—and the Revenue Office can talk more directly to this—is to use a sampling approach. They will target certain suburbs on a rolling basis and, within those suburbs, value a number of houses and use that sample as a way of adjusting AUVs across the suburb.

MR COE: But it is still only applicable to that area, isn't it? It is not like a two or three per cent determination being made for the whole of Canberra and everyone's block going up by two or three per cent?

Mr Nicol: No. You are right, Mr Coe. We do it on a locality basis. We will have the Revenue Office here this afternoon. Perhaps we can quiz them then, because they have far better detail on this than I do.

MR COE: Yes; that sounds good. I have a question regarding the net financial liabilities, referring in particular to table 8.2.3 on page 280 of BP3. Could you please advise what are those increasing financial liabilities, and what proportion can be attributed to super, light rail, courts, PPP or anything else?

Mr Nicol: We might have to take that on notice to give you the exact detail, because we would have to go through a few tables.

MR COE: There is a fair increase of $700 million from this financial year to the next financial year.

Mr Nicol: In broad terms, it comes about from the government's borrowing requirements over the next four years. This is where I refer back to Ms Doran's description of me sometimes saying that money is fungible; essentially, it is due to the capital program of the territory government.

Mr Miners: The detail of what is sitting in the "net financial liabilities" line is set out in table 9.2, on the balance sheet, which runs through both the assets and the liabilities by type. That is on page 306 of budget paper 3.

MR COE: Specifically with regard to the PPPs in operation—

Mr Barr: Yes, under the finance leases.

MR COE: Is it the finance leases under "liabilities"?

Mr Miners: Yes, that is right. That is the PPPs.

MR COE: The two PPPs?

Mr Barr: That is the PPPs.

MR COE: Just the two?

Mr Miners: And/or the finance leases that are in there, but there are only the two PPPs. Yes, they are both in there.

Mr Nicol: That would be the significant majority of that.

MR COE: But that is still decreasing from 2017-18 to 2018-19.

Mr Barr: From 2018-19 to 2019-20, yes.

MR COE: Okay. Thank you.

MR PETTERSSON: As the budget position improves, there have been a wide range of savings and efficiencies announced. Could you go through some of them for me?

Mr Barr: Sure. They are detailed in both these budget papers and previous ones. The government is investing in a number of system overhauls to bring different areas of government service delivery into a digital-first approach. Within whole-of-government areas—particularly Shared Services and the like—there is investment in the automation of a number of processes to reduce double-handling or triple-handling.

We are spending up-front to address efficiency requirements, in terms of how we can deliver a better service either internally within government to other customers, who are, from a Shared Services perspective, the directorates, or on a customer and consumer basis, out to ratepayers, businesses and the like. There is a significant investment there.

Some of the other savings include workers compensation premiums. In procurement, there are, from memory, some that are energy efficiency related. We have a program where we will invest in improving the environmental performance of government assets, of government buildings, and then reap the benefits of lower operating costs for those facilities. That is a program that reinvests in itself over a period of time.

Some of the other savings include centralisation of property custodianships—moving more into the property group. With procurement, there are office accommodation changes, and there are a few items that have revenue implications for us, or higher offsetting. Previously, for example, with the Manuka Oval broadcast facilities, every time we have had an event, we have had to pay hundreds of thousands of dollars to install temporary facilities. Once the permanent infrastructure is there, we do not incur that cost ongoing.

They are some examples of the savings. We will probably explore this more in the procurement and Shared Services area. There is quite a bit in terms of IT. The savings are not necessarily in the first year but they are in the forward estimates period. David, do you want to add anything to that?

Mr Nicol: I think that is a good coverage. We have also done a hell of a lot on our workers compensation, and we are seeing some premium reductions next year which are quite positive. The government has avoided across-the-board approaches, so it is very much targeting particular areas where we think investments, changes in processes or changes in approach will deliver savings. It is very much a targeted approach to savings. As the Chief Minister said, with those areas, such as improving procurement, we have centralised some contracts and centralised pricing so that we have better pricing power. We have joined with the commonwealth and New South Wales governments in places, which has got us better price deals.

Mr Barr: With things like travel, for example, we are now able to utilise the commonwealth's travel contract. ACT public servants are able to get the most competitive fare of the day through that contract. That is an example of where we have been able to save through smarter procurement.

Mr Nicol: We are investing in our systems in a very measured way. For example, there is a measure in the government to look at our payroll system, which at the moment is based on a legacy system that is quite dated. We are exploring cloud-based solutions. We are very conscious also of risks in doing some of these things, so we are trying to do it in a very measured, risk-managed way. The savings in previous years have been achieved. People have lived within their budgets, which included those savings in them.

MR PETTERSSON: You made an off-hand remark that you had been doing some work on workers compensation and we are going to see some reductions in premiums. Can you expand on that? What is that work?

Mr Nicol: Mr Young is not here; I think that is set down for Wednesday. It has been a multifaceted approach. We have invested in our capacity to assist people to return to work when they are injured. We have found that the longer people are off, the more likely that is to translate into a much longer period. So if we can get to them early, we are much more likely to have a successful return to work. We are doing a lot on preventing injury. If you can prevent a claim, your premium will come down. We have worked very closely with the commonwealth and Comcare. I do not want to overestimate this, but I do not want to underestimate it either: I think we are putting pressure on them to improve their claims management processes as well so that they are applying a rigorous but fair approach to the management of claims.

Those three factors combined have produced quite a good outcome for us. At the same time, Comcare were in a deficit situation four or five years ago. They have now essentially recovered that. They had a temporary levy on people. We have ensured that that was actually a temporary levy, not a more permanent levy. All of those factors combined have produced very good outcomes fiscally for the budget, as well as very good outcomes for our employees. It is much better for them to be assisted to return to work or avoid the accident in the first place. I can go into more detail. I think Michael Young will be here on Wednesday.

MR PETTERSSON: I will gauge the feeling in the room to see if we want to revisit it on Wednesday. One of the other things you mentioned was that you found efficiencies within the payroll system. What exactly was holding the payroll system back? Was it an outdated IT system?

Mr Nicol: Yes. We are looking at a new system to replace our existing system. One small example—and Shared Services is here tomorrow—is that long service leave is not done in our current system. You cannot do it electronically; it has to be processed manually. So the employee in whichever directorate fills in a form, gets it signed by their supervisor, it comes in manually, we manually process it, record it and monitor people's long service leave balances. That is a pretty antiquated way of doing it, and very costly in terms of processing. If we can automate that, which should not be too difficult a task, there are obviously significant efficiency savings just in administration.

MR PETTERSSON: I am almost over-reaching here, but are there any other areas where you are seeing this double-handling and triple-handling that are prospective areas for future improvement?

Mr Nicol: I think there are several. We have not done a comprehensive analysis of it. In Shared Services, for example, we are in the process of implementing an electronic invoicing system so that all the invoices will come in electronically rather than coming in on paper and then doing the processing. We are attacking each system one at a time to make sure we put the right approach in place and get the benefits. We are doing it with our stakeholders, whether they be external to government or internal, to make sure that we can implement it smoothly and manage the risks of changing processes.

I am also aware, although not in detail, that Dave Peffer at Access Canberra is doing similar things in his workspace. I am sure Jon Cumming can talk about whole-of-government improvements as well. A lot of their work to date has been on the digitisation, if you like, but the next step—and we try to do it as we do these things—is to improve the process. So it is not just about substituting an electronic form for a paper form; it is actually about changing the process so that it is more electronically enabled.

MR STEEL: I have some questions about the government's fiscal strategy, outlined on page 39 of budget paper 3. My question is on how the strategy has been implemented in the current and prior budgets and what the impacts have been on the budget?

Mr Barr: The best long-run story is told on page 41 of BP3. That goes back and looks at the territory's headline net operating balance over this century. It highlights the capacity for variation depending on a variety of external circumstances. What it does largely chart, though, is a view that balanced budgets over time would be the 15 to 20-year snapshot of what you see there. The strategy has been focused on using the budget as a tool to enhance a number of economic indicators and economic outcomes particularly.

The focus over an extended period has been on jobs and job growth and keeping unemployment as low as possible. In the entire period of this government we have had only one month where unemployment has gone above five per cent. In the prior years of self-government, unemployment in the territory regularly had a six, a seven or an eight in front of it. We are utilising one of the levers of economic policy in order to support the labour market, to support the creation of new jobs and to enable the creation of new jobs, as well as our own employment policies. Somewhere between nine and 10 per cent of the territory workforce is employed by the territory government in the most diverse range of occupations.

I put this challenge out: can anyone think of an employer that has as many different employment categories as we do? None of the state governments would because they do not have any local government functions. None of the local governments would because they do not have any of the state government functions. There probably would not be another entity in this country that would have such a diverse base. So that has been a priority of our fiscal policy setting.

We have also wanted to contribute to ongoing economic growth, recognising our relative weight in terms of the overall metrics of the territory economy. The government can either be a contributor or a detractor from economic growth, and we have wanted to be a contributor and we have wanted to be an enabler of economic growth. We have in large part, over the last 15 years, been able to achieve those outcomes.

I observed in response to an earlier question that we have not had a technical recession or a recession in this city in some time. Even during the pretty sharp fiscal contraction that was the Abbott era of government we managed to keep the territory economy growing, albeit marginally, just on the positive side of the ledger. I think growth slowed to about 0.71 per cent and then doubled the year after to 1.4 and then doubled again, so we have seen more than a tripling of economic growth over recent times.

Our desire to return to balance is business as usual—your starting point in any budget would be balance. You would run a deficit in the context of wanting to make infrastructure investments or investing in particular community outcomes, and you would run surpluses in order to set money aside for future infrastructure investment or in the context of the proverbial rainy day. Again, if you look at the chart on page 41, over the first part of the decade significant surpluses were run. The global financial crisis was a pretty sharp contraction. Commonwealth fiscal stimulus flowed through the territory's accounts. The withdrawal of that combined with the Hockey budget of 2014 and the asbestos eradication scheme are the reasons for the deficit in that 2014-15 year. We have climbed our way from minus $480 million-odd up to about a deficit of around $80 million, with an expectation of a balanced budget next year.

The actual recovery has been more than $400 million. There is a journey ahead of us, but the expectation longer term is balanced budgets with modest surpluses where we feel we can set some money aside for future infrastructure investment. That is undoubtedly part of the planning in this budget, with significant provisions for the new health infrastructure, together with provisions in education and in transport for the future.

MR STEEL: Are there any significant differences to the strategies in prior financial years, noting that it says here that the government first expressed a desire to return to surplus in 2018-19 in last year's budget? So it is consistent with that?

Mr Barr: Yes, we have now had five budget updates where this trajectory has remained at the centre of the government's fiscal policy. Prior to the asbestos eradication scheme and the 2014 federal budget impacts, we were on that path anyway, as you see from 2011-12 to 2012-13. Then we were hit with both the federal budget and the asbestos eradication scheme. At 2015-16 we recovered basically back to where we were in 2013-14, and we have now marched further ahead towards the balanced budget task and, as we have projected, modest surpluses.

They are not large surpluses, and I do not have an intention of running a half-billion-dollar surplus any time in the future. People would rightly question why you would do that. They would argue that either you were not spending enough or you were raising too much revenue if you were running surpluses of half a billion dollars. That is not an objective. We will move back to balance and run some modest surpluses with a view to reinvesting in the territory's infrastructure needs, preparing the city for the 2020s.

THE CHAIR: Treasurer, could you please outline to the committee what the functions of the expenditure review division are within treasury?

Mr Barr: Mr Nicol will do that.

Mr Nicol: The expenditure review division is a small team whose primary job is either to do in-depth reviews of organisational units within the government and how they are operating or—and this is happening more frequently in more recent times—to have a look at particular policy objectives or priorities and how they are best delivered or how they are currently delivered and how we can improve the delivery of those functions and policies. The division has also done some across-the-board matters that affect everyone in the government from an operational perspective. The division generally is commissioned to do these tasks by the government, following a recommendation from the treasury, and then it forwards them to the government as those projects are completed.

Mr Friend: Going on from that, the division primarily focuses on ensuring that we have effective and efficient services. We often get involved where there are cost pressures or pressures on an area. We will go in and do a deep dive and have a look at an area. There is a bit of a standard approach we take. We will do things like look at their cost centres. We will look at their drivers of costs over the past. We will do benchmarking. We will look for other jurisdiction comparators and have a look there. We will also engage and work hand in hand with agencies to look at options or ways to do things better. We have had committees where we have had agencies and, for example, unions involved in some reviews as well. We will work through issues and try to work out solutions to make things more efficient and more effective to deliver better services.

THE CHAIR: For the current financial year, which areas of government has the division been focusing on or what inquiries and audits have you carried out?

Mr Friend: Do you mean for 2016-17 or 2017-18?

THE CHAIR: If you can do a retrospective of what has been completed and then what is on the horizon for the financial year.

Mr Friend: For 2016-17 we updated our human services financial review. The original review was done back in 2013 and it looked at the efficiency of the resources applied by Shared Services and agencies on HR and finance functions. That 2013 review created a good baseline which set out how resources were being applied. We did not want to lose that, so we updated that this year. We found some interesting things such as that there had not been significant growth in HR and finance effort compared to the size of the public service. We have been monitoring that to make sure that things are still looking to be efficient.

The other review we did last year was we assisted with the work of the human services cluster review. That was a joint review undertaken between Education, Justice and Health, but we provided support for that. That review was looking at services for children aged zero to eight and their families who are marginalised or at risk or disadvantaged. We were looking at the range of services provided, who they are targeted to, what is available, what do we know about them and how much do we spend on those services. That work has largely been completed, but it is yet to be considered by government.

The other thing we did in 2016-17 was work on the review of select budget programs. That was a review from the previous year. We put up a number of options where we looked across government for ideas about how government can do things better. We put up a number of recommendations to government, and agencies have been tasked with further exploring them. We created a coordination network and we worked with those directorates to report back on where they are going and to explain what the options were about. They have been tasked with taking that forward.

One of the other tasks we will look at is how the government can identify opportunities for more commercial approaches for certain services where it is relevant. By that we mean, where services are operating in a market, are they actually operating in a commercial manner, are they benchmarking, are they set up, do they understand their cost base, do they monitor their cost base and do they do regular reviews of their efficiency?

We are trying to work out a process for how we can identify which areas in government might be suited to thinking about changing their approaches to be more commercial. Obviously our primary focus is to make sure that we maintain our services and that they are of good quality. We do not want to put in jeopardy government services; we want to think about where there might be some opportunities for some efficiencies from greater commercialisation.

THE CHAIR: There are a considerable number of savings identified through the budget which pave part of the road back to surplus. What input does your directorate have in informing where those efficiencies and savings come from?

Mr Friend: We will put up options to government and the government will decide whether to take them on. There are a few examples where we have achieved savings. The biggest savings we have had are ones that have cost us more money, which sounds odd, but we reviewed parks and city services a while ago and there were some major cost pressures there. We put up some options to government. Not all of them were adopted, but the government put in less money than if we had not done the review and had not provided options forward. It was similar for the ACTION review, the same approach there. We knew there was a hole in the ACTION budget and that there were some small things the government could do to reduce that cost, and those savings were put in the budget.

Mr Nicol: In the context of ACTION, the review Mr Friend referred to occurred a couple of years ago and really set up a template for what we needed to do going forward to make ACTION a more cost-effective and better service. It is not just about saving. In fact, as Mr Friend alluded to, that is usually quite low on our list of priorities. It is about making a more cost-effective service for the community. If we can get a better service for the same amount of dollars going in, we consider that a significant improvement.

MS LE COUTEUR: One of the things that I understand you do is manage the preparation and presentation of the ACT government's annual budget review and annual financial statements. I draw your attention to the appendix of the parliamentary agreement which states, "Undertake disability and gender impact analysis as part of the triple bottom line framework and ensure that all relevant staff are trained in triple bottom line analysis." I would assume that is you, given that you are doing all the financial statements in the budget and budget review. I sort of thought, okay, that has got to be—

Mr Nicol: I do not think it is treasury in and of itself. It is us combined with—in fact, we are probably a supporting role rather than a leading role—the public service commissioner. It is us combined with CSD—Community Services Directorate—and the various other agencies that have an input into this role, like the human rights commissioner et cetera.

MS LE COUTEUR: Obviously all agencies are going to have to have something to do with it but who is in charge of making sure that this actually happens?

Mr Nicol: Can I take that on notice?

MS LE COUTEUR: Yes.

Mr Nicol: I have to find out. The task has not been allocated to me; so I will find out and let you know.

MS LE COUTEUR: I did not actually think that this was a difficult question from that point of view.

Mr Nicol: No, I am just not aware of everything that is going on in that space.

MS LE COUTEUR: I just wanted to ensure that it was actually happening.

Mr Nicol: Certainly, a lot happens in terms of those issues in the day-to-day construction of a budget, ranging from public consultation to assessing individual proposals from those perspectives. My directorate is responsible for making sure that that happens and happens well. But for the triple bottom line, I think it is fair to say that we are still working it out.

MS LE COUTEUR: Okay. I look forward to hearing more when you have worked it out—fairly soon, because it is an appendix to the parliamentary agreement. I assume that somebody has it on their work plan.

Mr Nicol: We have quite a detailed process inside government. It is the responsibility of the cabinet and policy unit to track not only election commitments but all items in the parliamentary agreement. We have a process of going through that in great detail.

MS LE COUTEUR: I am sure, yes. Can you get back to us—

Mr Nicol: I just cannot recall where that one is at off the top of my head.

MS LE COUTEUR: Sorry, I really just thought it must be you guys.

Mr Barr: Chief Minister's: while there is one directorate, it is Chief Minister's, as David has indicated, in terms of the whole-of-government central area. It has responsibility around implementation of election commitments and parliamentary agreement items. The coordinating role, as David has identified, sits with policy and cabinet within the Chief Minister's stream of Chief Minister, Treasury and Economic Development.

Mr Nicol: I can say that I have not yet had an involvement in processing that but that does not mean that work is not underway. I am just not aware of it.

MR COE: Would you please let me know what the estimates are for the level of commonwealth public service employment in the outyears of the budget?

Mr Barr: Commonwealth budget?

MR COE: No, the outyears of our budget; what level are you—

Mr Barr: You can only rely upon the projections from the commonwealth.

Mr Nicol: The commonwealth only publish employment forecasts for the next year. They do not publish staffing numbers forecasts beyond that. They do publish a set of pro forma financial statements which have things like wages et cetera. From that you can derive an estimate of how many staff they will employ. That has to be based on assumptions of wages growth, location of staff et cetera.

Also, of course—I think we touched on this this morning—the commonwealth pro forma financial statements for the forward estimates do not include, obviously, future budget decisions; so they tend to underestimate what the actual outcome will be when you get around to those years. We do quite a deal of analysis of the risks and impact of the commonwealth's decisions on our budget. I might let Karen talk about that in more detail.

Ms Doran: Thank you. There is probably not a lot I can add to that. David has covered it fairly well. I guess the first point to reiterate is the fact that we do forecast for the current year and one year forward; so beyond that, as we have discussed before, we revert to long-term projections. In our modelling work in those time periods we obviously look at the commonwealth's own forecasts around employment.

As David said, we look at staffing levels within the commonwealth. We do a measure of analysis around the proportions of those staff who reside within the ACT; so the sections of the departments that are here in the ACT. We obviously look at any explicit policies of the commonwealth around hiring freezes or efficiency dividends. With efficiency dividends, we have to make assumptions of the extent to which they will relate to employment, staffing issues or the other cost savings of the commonwealth.

But all of that we do on the more certain time horizon of the period of the forecasts, so the next 12 months forward—this year and the forward year. Beyond that, we do identify areas of risk that are associated with uncertainties in relation to commonwealth spending.

Mr Nicol: Can I add one extra thing? The budget control point at the commonwealth level in this area of spending is at the departmental budget level, which is not the wages versus supplies and salaries. Departments have complete freedom to switch money between the two. We have seen evidence of that in recent years, that often when staffing at the commonwealth level is squeezed, we see contractors expand. Departments shift resources around. Many of those contractors are actually employed in the ACT.

I think Ms Doran is right; we do it on a risk basis and we try to assess in an analytical way. But at the end of the day it is a subjective way as to where the risks for the ACT economy come from with aggregate commonwealth budget decision-making.

MR COE: In terms of this year and the forward year, how does that compare to the long-run average?

Mr Nicol: In terms of commonwealth employment levels? I think from my recollection—Ms Doran will fill in the gaps—we are expecting a small growth in commonwealth employment in the ACT in the next 12 months. The average—I mean, averages can be seen in two ways: rate of growth and level. Level is not as high as it was at its peak. The commonwealth has reduced its staffing levels in aggregate and in the ACT in particular in the past three to four years. But we are certainly not at the lowest level it has ever been, either.

In respect of growth, again, I would not focus on average growth too much for the reasons that the commonwealth often is either in an expansion phase or a contraction phase; so the averages do not quite give you the picture. I think that growth at that level is both manageable and a positive for the economy. That is what I would say. Karen, do you want to add anything?

Ms Doran: No, I do not know that I can really add to that. Certainly, we have come out of the period where the commonwealth had hiring freezes on and we saw losses of jobs in the order of 1,400 in the territory. We have seen those jobs largely recovered over the last financial year. Beyond the efficiency dividend that the commonwealth is bringing into place over the forward period, there is nothing to suggest that we are not back at sort of a stable, more steady state in terms of commonwealth employment.

As I have already said, the efficiency dividend is difficult to interpret in terms of where the cuts may be made. So we have not sought to anticipate that in any explicit way in our employment projections.

MR COE: Are we in a contraction or expansion phase now if the average is not applicable?

Mr Nicol: It is very difficult to judge because it is based on future commonwealth government decisions on staffing costs. As you alluded to earlier, the commonwealth is attempting to get back to balance. With the state of their legislative process and the budget process in the commonwealth, a significant part of their budget on the expenditure side requires legislative change, which is very difficult.

That is a risk for the territory's economy in that a commonwealth budget seeking to return to surplus by cutting spending will focus more on those areas that are within their direct control. Their own departmental costs are a big part of that. That is why you have seen it. Any efficiency dividend is—well, I would not describe it as a positive for the ACT economy, put it that way. But in the last efficiency dividend that the commonwealth adopted—I think it was last budget; not this previous one but the one before—they are reinvesting half of that to support—

MR COE: Systems.

Mr Nicol: systems and IT improvement. I think there is scope there for the ACT economy to benefit from that investment. That is something we should be looking at doing. I think also exactly how commonwealth departmental secretaries seek to sort of meet their budgets is often on their shoulders. It depends; they still want to provide a good service to the commonwealth. That often means having good staff and a good level of activity in the ACT.

I would hope—“hope” is perhaps the wrong word; I would like to think that we are moving more to a stable period of employment levels in the commonwealth. I doubt we will see the growth that we saw in some past periods. That growth generally statistically is associated with strong growth in Australia’s gross national income because that provides the tax receipts to the commonwealth. The commonwealth decides to expand services and that requires staffing and staffing costs.

In that sense, it is difficult to see another mineral boom that we have just had, which had significant national income effects. But, on the other hand, I think you need a level of service, a level of investment, to maintain public services. There will always be pressure on governments to improve public services, and public services are becoming more complex. Even though we have systems to support them, we are dealing with more complex problems requiring more human input, if you like. That will support, I think, public sector employment going forward.

MR COE: Do you actually model what would happen if the number fell to 55,000 or increased to 60,000 in two or three years?

Mr Nicol: Not explicitly, no.

MR COE: The Chief Minister does say that one of the biggest risks to the ACT is commonwealth decision-making. What if we get another prime minister who wants to take a meataxe to the public service? Do you not do that sort of scenario planning as a matter of course to actually understand the sensitivity of the budget to such shocks?

Ms Doran: Not explicitly, is probably the answer, although any modelling involves a measure of subjectivity. Implicitly, we make some judgements around those sorts of factors. More explicitly, we have the sensitivity analysis that is reported in the budget but it is more a dynamic process, I guess, in that we react to those risks as they emerge and become more certain rather than trying to anticipate the uncertainty over a period of four or five years.

Mr Nicol: It is a risk and there is a significant range of uncertainty over what may or may not happen in the future. I think we have a generally good idea about what would happen if the commonwealth froze employment or sought to reduce employment by significant levels. We have, I think, had an experience of that two or three budgets ago. You saw that population tended to fall and state migration happened.

Mr Barr: That is the biggest impact. The interstate migration figure is the one that is most heavily impacted by the robustness of the labour market. The more jobs there are in the city, the more people from elsewhere in Australia are coming in to access those jobs. That is also an anecdotal thing that most people experience in that they meet someone who has moved to Canberra for a job.

People also come here to study or international migration is the other area. Our rate of natural population increase accounts for slightly over half of our population growth each year. International migration has been solidly positive throughout. The one element of our population growth that has been cyclical and impacted by the labour market in particular has been that interstate migration. It was negative during the

Abbott years. It is now basically neutral and I think it might have just turned marginally positive as in a net increase of 100 or something from moving interstate. But in years past, in 2010 during the Rudd-Gillard years, it was positive by about 2,000.

In essence, what it means is that the rate of population growth is sort of at the lower end. If interstate migration is negative, it will be about one per cent. If it is positive, our rate of population growth can increase to up to two per cent, even 2.1, 2.2 per cent we have experienced in the past.

In terms of the other variables with the territory budget, the question also arises of how the commonwealth applies its particular policy prescriptions. If they employ the staff themselves, then they are not captured within our payroll tax net. If they employ staff as contractors, then they are. So, perversely, in some instances, a shift in the commonwealth's employment base might actually increase our revenue if they outsource positions that are then captured in the payroll tax net.

Then you have to look at this in the context of total employment in the city, which is now about 216,000 jobs, with the commonwealth accounting for a little under a third of those. They are still obviously the biggest employer, but they are less of a share of total employment than they were going back a couple of decades. But the interesting issue then is: how many other jobs do they support through their contracting arrangements as opposed to their direct employment.

Mr Nicol: I would also add: this is where government's fiscal policy comes into play. If we were expecting a large commonwealth impact which impacted state final demand, had population impacts, possibly lowered our payroll tax base et cetera, does the government anticipate that? Does "a government", I will say, anticipate that and start cutting services, reducing land release—all of those sorts of measures—or does it allow a cyclical effect to take place in the economy and wait to see with real evidence what its policy decisions should be?

I would use the example of land release. I think in the late 1990s the government of the day did turn down land release a bit. I think that caused a pipeline effect which caused a spike in local land prices, which has negative impacts on housing affordability and so forth. So I think some of these decisions are—

MR COE: That one was in part a correction to previous years as well.

Mr Nicol: True, there are a lot of factors in this. I do not mean to paint this as a simplistic decision. They are very complex decisions. But, personally, on land I would be recommending to any government to keep slightly an oversupply rather than an undersupply from land affordability and land availability points of view and to support the growth of the city as well. I think all of those factors come into play when analysing these sorts of problems.

Mr Barr: I would make one final observation on this: It is that next year will be an election budget as the federal government has to go to an election I think before May of 2019. So next year will be an election budget. I doubt that that would be a sharply contractionary budget on the eve of an election. History would suggest that that will not be the case. Were there to be a change of government at that election, then it would of course depend on the policies of the incoming government.

From what I have seen of the policies of my federal colleagues, I would not be anticipating savage cuts within the public sector, as that is sort of not their philosophical starting point. So the only risk I can see to a dramatic shift in the ACT's fortunes vis-a-vis the commonwealth would be a change within the coalition either back to the former prime minister or someone who has a philosophical outlook similar to his. You two will be the first—

MR COE: What about a meataxe prime minister again?

Mr Barr: That actually, in the end, did not really end up—he might have been big on the rhetoric, but I am not sure he actually delivered the meataxe, and that is—

MR COE: So he was all talk?

Mr Barr: I would not be the first to make that observation, would I? The reality of the situation proved to be a little different from the rhetoric. There is no doubting that. But that would appear to be the only risk. As I say, you two would probably be better placed than I to make a judgement on who the Liberal prime minister will be and what particular fiscal stance they will take vis-a-vis the commonwealth public service. But I would presume that Prime Minister Turnbull, having undertaken the radical U-turn that he did in the last budget, is not about to go back the other way. So unless he is no longer the prime minister by the time of the next budget, it is reasonable to presume in the short to medium term that the commonwealth's fiscal policy settings will remain as they are.

Scott Morrison has given every indication through the treasurers forum that this change in direction reflects his new non-ideological outlook of wanting to continue to meet in the middle for the benefit of the country. I have heard him give that speech more than once. I am sure we all have.

MR COE: Thank you.

MR PETTERSSON: I was hoping you could help me with something. I have never come across this entity before, the Australian Loan Council. What do they do?

Mr Nicol: I was going to say it is a historical anomaly. At one point in the past—and I am going from memory now—all borrowings by states and territories had to be approved by the Australian Loan Council, which is actually all the treasurers.

Mr Barr: Treasurers of the states, territories and the commonwealth.

Mr Nicol: Essentially now the Loan Council does approve all the borrowing requirements of all the states and territories. I do not think the Loan Council has ever rejected one. I do not think they have ever come close to rejecting one. And it is essentially a—

Mr Barr: The meeting occurs annually, as I recall, at the end of a treasurers meeting, and—

Mr Nicol: Takes about five seconds.

Mr Barr: Slightly longer than that, but effectively the commonwealth Treasurer opens the meeting and says, "These are the borrowings this year. Are there any dissensions? No? That is passed. Meeting closed."

Mr Nicol: And there has certainly been talk at officials level about whether it should continue, because we are now essentially our own jurisdictions, we borrow on our own behalf, other than a GFC-type situation when the commonwealth as a sovereign has better access to markets than the states and territories. There is no real role for the commonwealth in our day-to-day bond issuances. I think it is a tenet of good democracy that governments at whatever level are accountable and responsible for their own balance sheets. Karen, do you want to add anything?

Ms Doran: I cannot add to that.

Mr Barr: We approach the market directly now for our own borrowings. Just last week in Sydney, as I have done after my budgets traditionally, I go and present to the bond markets, outline the territory's fiscal position, any future borrowing requirements. I did the presentation in Sydney last Wednesday. There were about 22 at the event. That encompasses the domestic market. I present. Pat's still here. Pat presents. We talk about the program. We do this internationally as well. I will be presenting in Singapore, Hong Kong and Japan. We do this with a view to encouraging competition, to drive the price of our borrowings down. We have had quite some success in recent times in tapping into international finance markets as well, and the cost of our borrowings has come down quite considerably. For a relatively small outlay, the cost of Pat and me going to talk to the bond market traders, we have saved the territory millions of dollars in borrowing costs over the longer term.

MR PETTERSSON: We have our own authorities to borrow but you still present our finances to this meeting for oversight.

Mr Barr: Technically the Loan Council could "not approve" but the second that one state did that to another it would be a bit self-defeating. It is largely a formality.

Mr Nicol: It is historical happenstance that the sovereign, being the commonwealth, was the ultimate provider of financial support to the states and territories. I think most of the international credit ratings would assume that the commonwealth, if a state or territory got into trouble, would step in, although that is, I certainly know, not a policy position of any commonwealth government per se.

Historically the commonwealth—I am going back in my memory now—did borrow on behalf of the states and territories, and the first step in reform was to delegate that but it was delegated with an approval process by the Loan Council, and that has continued ever since. I could get you the date when those decisions occurred but it has been quite some time now since the commonwealth had a direct involvement. I mean decades.

MR PETTERSSON: I was looking at it before, and it was a while back. How serious are these thoughts and discussions about getting rid of it? Is it just a thought bubble that pops up every so often or is it a sustained chorus that we should move on?

Mr Nicol: I have got to be careful. I do not want to verbal any of my colleagues, but I think it is a general position that this serves no real purpose. “Why do we still do it?” It is that sort of sentiment, I think.

MR STEEL: Is there a sovereign risk element to it or not so much—

Mr Nicol: I would not have thought so. I do not think the operations of the Loan Council affect any views of the bond market or the credit ratings really, quite frankly. I think the risk is if one jurisdiction went completely out of control. That goes to questions of how we organise our governments of Australia, and democracy and level of government and all of those sorts of questions, and I do not think the Loan Council is really the right mechanism to manage that risk.

Mr Barr: The Loan Council’s website says:

> The current … arrangements, in place since 1 July 1993, operate on a voluntary basis and emphasise transparency in public sector financing. These arrangements are designed to enhance financial market scrutiny of public sector borrowing and facilitate informed judgements about each government’s financial performance. The Loan Council traditionally meets annually to consider jurisdictions’ nominated borrowings for the forthcoming year.

There we go.

MR PETTERSSON: And one last question: comparing us to other states and territories, how are we going on debt matrix?

Mr Barr: Very well. I believe there are a number of tables in the budget papers that highlight this. I think the big movers in terms of taking on a lot of extra debt in recent times have been the Western Australian government and the Northern Territory government. I think they have been the biggest movers. A while back South Australia did. We sit alongside New South Wales and Victoria comparatively, consistent with the AAA credit rating.

Our borrowings as a proportion of the territory budget, as a proportion of gross state product and as a proportion of our net worth are outlined on page 46 of BP3, the general government sector net financial liabilities as a percentage of gross state product. On the page before—

Mr Nicol: That was on unsourced tax revenue.

Mr Barr: Sorry. The best table is on page 46.

THE CHAIR: It being past 12.30, we will adjourn.

Ms Doran: Can I cover off on one question on notice very quickly?

THE CHAIR: Yes.

Ms Doran: On the application of the WAC—and I apologise for my uncertainty before but I just wanted to make absolutely sure—the WAC applies to surface water and ground water. I have confirmed that that includes bores.

THE CHAIR: Thank you for the clarification. We will suspend for lunch.

Hearing suspended from 12.33 to 2.03 pm.

THE CHAIR: Good afternoon; and we will kick off the afternoon session of today's hearings by continuing to examine the Chief Minister, Treasury and Economic Development Directorate. In this session we will be looking at the superannuation provision accounts, the territory banking account, compulsory third-party insurance and any other questions for which we still have officials.

MR PETTERSSON: Chief Minister, could you step through the superannuation arrangements that apply to current and past ACT public service employees?

Mr Barr: David will start.

Mr Nicol: There are essentially two closed defined benefit schemes: the commonwealth sector superannuation scheme and the public sector superannuation scheme. The CSS was closed in 1990 and the PSS was closed in 1996, from memory. Both of those schemes were commonwealth schemes and applied to ACT employees as a result of the ACT being a big part of the commonwealth service prior to self-government. Those schemes are both defined benefit to the extent that benefits are generally related to questions of length of service, salary at exit, periods of part-time work and amounts of contributions over a person's career.

We essentially have two groups of employees under both those schemes. Actually, there are more than two but there are two main groups: employees that are currently employed in the ACT government, so they are continuing to earn benefits as their service continues and their contributions to the scheme continue; and retired public servants in both schemes who are receiving a pension. There is a third group of people who have resigned from the service or left the service and are not yet retired. They have the option of returning to the service and continuing with their membership or eventually when they retire they will be entitled to benefits depending on the criteria of each scheme and their particular circumstances.

Since 1995 the commonwealth and the ACT moved to a choice of fund accumulation scheme arrangement whereby new employees after that date were essentially entitled to the contribution from their employer under the then governing commonwealth legislation of superannuation guarantee contribution. That goes into a choice of fund on behalf of the employee and that fund is moved essentially with the employee as they move between jobs.

In terms of the budget impacts of those schemes, for the members of the accumulation schemes, essentially the budget meets their costs as we go. The government has no other obligation for those employees in terms of retirement incomes other than the amount paid into their funds, and they are paid out as most other members of the Australian workforce are.

The CSS and PSS, those schemes and their pensions are administered by ComSuper, which is a commonwealth government agency. The ACT government pays the commonwealth the cash requirements of those schemes on a quarterly basis. Essentially the budget meets the cash outlays to pensioners or recipients of benefits from those schemes. The budget recognises a liability for existing employees who are earning benefits as they work through their careers, and those benefits are estimated in Karen’s division with the assistance of actuaries and data on our workforce.

The government’s policy is to establish a superannuation provision account whose objective is to meet the accumulated liabilities of our defined benefit pensioners by 2030. Depending on the measurements of the various liabilities, we are currently at around two-thirds funded at this stage, but the government is continuing to invest in that fund to ensure that by 2030 we are fully funded.

That is an important fiscal measure. It is certainly considered by the ratings agencies in determining our rating to ensure that we are managing our liabilities in an appropriate way. My view is that the ratings agencies give the government credit for their current policy in regards to the SPA. Karen, do you want to add anything else?

Ms Doran: That was fairly comprehensive but I will correct a couple of facts for the record. The PSS closed on 1 July 2005. There was a one-year period when the PSSap—the accumulation plan—was the fund that ACT public servants were entitled to join until 1 July 2006, which is when choice of fund actually came in. It was from that point, as David described, that people had the choice of scheme. In fact, ACT public servants do not have the right to join the PSSap; they go to a choice of fund.

The only other issue is that there are members of our scheme, in terms of us having to cover the liabilities for those members, who are no longer employees of the ACT government nor are they preserved or retired members. They can, in fact, be employees of the commonwealth government who once were employees of the ACT government, and we still carry the proportional share of their liability for the period they were with us.

MR PETTERSSON: Do you know how many existing employees still come under defined benefit schemes?

Ms Doran: It is just shy of 8,000 who are currently in employment with the ACT public service.

MR PETTERSSON: So what is the number of people not covered by that?

Ms Doran: There are around 36,000; some 35,937 hold some form of liability for entitlement through the CSS and PSS schemes with the ACT government. That is existing members, deferred members and current pensioner members.

THE CHAIR: What is the contribution this financial year into the superannuation account to offset the commonwealth liability?

Mr Barr: You will find it in budget statement B.

Ms Doran: In this financial year, as in 2016-17, it is $232.9 million—sorry, I am looking at the wrong table.

Mr McAuliffe: The way it works is that you probably do not think of it like an accumulation scheme where an employer contribution is made to a fund and it just grows. What happens is an appropriation is provided to fund the emerging payments that happen each year. If you go to page 288 of BP3 you can see a line of appropriation that has been paid into the SPA. For 2016-17 it was $155.5 million and for 2017-18 it is $176 million.

THE CHAIR: What happens to those funds?

Mr McAuliffe: They go in but, as the Under Treasurer mentioned earlier, we reimburse the commonwealth for the agreed amount each year and that comes out of the funds. The amount we are paying out in these years is the benefit payment line.

THE CHAIR: Which is the 251?

Mr McAuliffe: Yes that is right.

THE CHAIR: That is what is forecast for next year?

Mr McAuliffe: For 2017-18, yes.

THE CHAIR: So there is an incremental increase?

Mr McAuliffe: Yes. There is a slight gap in 2016-17 to 2018-19. It was in the last budget, I think, where there was a change in the funding profile to go to the SPA. That was based on an estimate of the funded ratio of the account. So that money is basically retained back in the public account but, as you see, if you move out to the forward outyears—2019-20 and 2020-21—you will see that the appropriation going in matches the payments going out.

THE CHAIR: What is the forecasting of what those appropriations are likely to be for the liability to be covered by 2030?

Ms Doran: It is still on track to be fully funded by 2030, and the funding mechanism for doing that essentially is to pay into the fund each year by appropriation the estimated amount of the benefit payment.

Mr Nicol: We will continue to monitor the fund. The key variable here is the return on the fund's assets. To the extent that that is higher than the target, we will be in a position where the government of the day would need to put in less in terms of capital injection. If it is below the target, additional appropriation will have to be injected.

THE CHAIR: There has been a change in this budget from the last financial year to the long-term rates changing from CPI plus 4.75 per cent to CPI plus five, is that correct?

Mr Barr: The other way round.

THE CHAIR: So the forecast for expected earnings is—

Mr Barr: We have taken down our expectations of earnings reflecting market conditions. From memory, the commonwealth future fund has a performance ratio of between CPI plus four to CPI plus five. So we were sitting at the top end of that and we have taken the prudent decision to bring our forecasting down to 4.75. That still sits within the range of the commonwealth future fund allocation but not at the top end anymore. If you like, that is a small "c" conservative treatment so that we are not expecting the fund to perform at the same level as it has in the past.

THE CHAIR: What is the analysis mechanism to determine what that forecasting should be at? To what extent is it done internally or externally?

Ms Doran: We rely on the advice of asset consultants who also happen to be actuaries in looking at that investment experience and the risk return profiles. They do various modelling around that for us and provide us advice on the best positioning of the fund to achieve the sorts of long-term return objectives that we are seeking while managing the risk profile of the fund within our own risk appetite.

Mr Nicol: We put a significant amount of effort and resources into monitoring and managing our investments in the SPA. We have an investment committee with an external chair and external advisers. As Ms Doran said, we hire asset consultants to advise us on appropriate investment strategies to achieve the objectives of the fund, which is to essentially fully fund the government's liabilities by 2030. It is a significant risk exposure for our balance sheet and we want to make sure we manage that risk appropriately.

THE CHAIR: Is the reduction in earning expectation going to have a further incremental effect on the appropriation that needs to be made in further outyears?

Mr Nicol: In and of itself the reduction of the target will not; it is the outcomes that will affect it. To the extent that the reduction suggests that we expect lower outcomes than otherwise would have occurred, then yes, the extra appropriations will be required. But there are countervailing factors, including a lower investment climate. Some of the defined benefits are determined by the investment climate as well. For example, for the CSS fund some pensions are determined by the returns on the funds invested. To the extent that they are lower that will mean pension payments are lower which means liability will be lower. It is very difficult to take one variable and say what the effect will be; you have to essentially model all the variables. They are interrelated and co-related: a reduction in earnings will tend to be associated with lower inflation which will tend to reduce liabilities as well.

Ms Doran: But our modelling has shown that even with the reduced rate for asset returns we are still on target for the 2030 fully funded position.

THE CHAIR: So 2030 is still on track?

Ms Doran: That is right, yes.

MR COE: As a supplementary, that fully funded quantity in 2030 will rest in the provision account and then the principal will start to get used at some point down the track to pay the liability as well?

Mr Nicol: Yes.

Ms Doran: In fact we are already using the account to pay the benefit payments as they arise year on year. The fund continues to grow. The benefit payments are coming out but the SPA capital injections are going into the SPA and, as we mentioned before, the long-term model is to match those two payments. The asset return on the SPA is what is causing it to grow over time to match the liabilities. From 2030 we would continue to pay the benefit payments out of the SPA. There would just be no requirement to make capital injections to the fund anymore in theory. There would still be a continuing monitoring process even after that date.

MR COE: The peak of the liability is in the early 2030s, is it not, 2032 or 2033 or something like that?

Mr Nicol: It is about the early 2040s. The chart on page—

MR COE: The 2040s, is it?

Mr McAuliffe: The liability is expected to peak around 2032.

Ms Doran: The benefit payments are later.

MR COE: At what point will the payments exceed the earnings of the account and the principal starts to be eroded because the need for the drawdown is diminishing?

Mr Nicol: I do not know that we have ever modelled the exact flows beyond 2030 as to when that would occur.

MR COE: You are assuming that the principal is going to be eroded, are you not, or are you thinking that the earnings alone will be enough and you will have a—

Ms Doran: No. In theory the principal will be used up.

Mr Nicol: In theory, by the time the last liability is extinguished you are paying out the last dollar out of the fund.

MR COE: Out of the principal, that is right.

Mr Nicol: That is right. But exactly when crossovers occur, I am not sure what—

Mr McAuliffe: Whilst that balance draws down there will still be earnings on that residual balance, but the way the modelling should work out is that it will just run out to zero towards the end.

MR COE: In 2091 or whatever it is?

Mr Barr: Yes.

Mr Nicol: As Ms Doran said, the government of 2030 and onwards will have to monitor it because sometimes the earnings of the funds will not be sufficient to keep the liability and assets in check and I think the government of the day will have to come up with some decisions about whether you perfectly match that or whether you do it over an average number of years or whether you allow the balance to go into deficit for a short time and surplus for a short time, which would seem to me to be the sensible way of going about it, but I think there is plenty of time to do that analysis.

Mr McAuliffe: Just like an insurance fund would operate, when you get to a much more closely funded position, then you can actually adopt much more of an asset liability management strategy on the portfolio. At the moment because we are only about 60 per cent funded there is still a large growth element of our investment objectives. Once you get close, then you look to do a lot more capital preservation to help manage that risk when you start earning your way at the principal value. But we are a little way off that just yet.

Ms Doran: Which means that in the very broadest of terms the asset fund you would expect to run off in a very similar way to the liability profile. If you look at the chart in the budget papers that shows the way in which the liability is expected to run off, you would expect the assets to follow that fairly closely.

MS LE COUTEUR: I want to talk about superannuation investments. First off, I guess I would like to say that it was incredibly hard to find this document. One member of my staff assured me it was not possible to find a list of the territory's investments. I said, "No. I know they have got it somewhere." I remember that I did an FOI about it, but after that you started publishing it. It is under "Publications." It was really hard to find. Then when I found it, my first comment was: "19 pages of investments." Why have we invested directly in so many businesses?

Mr Barr: It is a very diverse portfolio. To go to the first point about finding the document, there is one page that has all of the treasury publications, and it is there. Directly owned shareholdings and the investment plan are there. There is the policy, the plan, the directly owned shareholdings and the share voting activity, all on the one page, which is straight off the main page of treasury. If you Google it, you get straight to it too.

MS LE COUTEUR: We did Google it but we looked—

Mr Barr: I am not sure how much more prominent it needs to be but I will take that on notice in terms of whether we need another tab for those interested in our shareholdings.

MS LE COUTEUR: What you need to have is the word "investment". We did not find it until I realised you had to search for "directly owned shareholdings investment."

He spent some time and failed using Google. But not everybody realises that you describe it as directly owned shareholdings.

Mr Barr: It is under the heading "Financial investments" and then there is the responsible investment policy. The investment plan, financial investment assets managed by—

MS LE COUTEUR: Google did not find it.

Mr Barr: Again, I will take that on board.

MS LE COUTEUR: That was only an introduction. This was not my first point which, again, was also really an interjection. I could not believe that there were 19 pages of double columns of investments. Why do we have an investment policy which seems to concentrate on the maximum number of entities invested in?

Mr Barr: What, we should have a very narrow policy and have all of our eggs in one basket?

MS LE COUTEUR: No, but there is a difference between one basket and the number of baskets that we are currently in. It seems a very large number of baskets.

Mr Barr: And that point, that sweet spot, would be?

MS LE COUTEUR: I am just wondering why—

Mr Barr: If it had been eight pages, would that have been a different story?

MS LE COUTEUR: It would have been more what I was expecting. But to have such a huge diversity—

Mr Barr: I will confess to being a little surprised by the line of questioning, but with that I will go—

MS LE COUTEUR: Have you got a requirement for very low amounts in each shareholding or something?

Ms Doran: No. Our investment approach, based on the advice of asset consultants, starts with the target returned, which we have discussed already. They then, from that, derive a strategic asset allocation, which is the percentage exposure that we have to various, different types of asset class. And under that allocation our exposure to Australian equities is at 17 per cent, and to international equities at 30 per cent. Once we have got that class exposure, our investment approach is to rely on an index-based, you might call it, passive form of investment. We do not directly go out and choose particular assets or shares. Rather, we look to match an index portfolio and look to track closely to that index.

In doing that, it means that, to match the index, we invest in a proportionate way in every share that makes up that index, with the exception of our responsible investment policy, which Pat will talk to in a moment. With the exception of what is carved out because of that, really what you are seeing there is a list of the shares which make up the indexes in both the Australian market and the international market.

MS LE COUTEUR: Which indexes are you duplicating?

Mr McAuliffe: It has obviously been a long history, this process. But building on all the discussions we have had here and in other places over the years, I guess we have taken on board what is the best way, the most efficient way, to implement our strategy. In terms of the equities, our key investment bodies are set out in the action investment plan, which is documented in that same area as the share listing, our broader beliefs are around not taking any more risks than we need to. The boot of returns tends to be our starting point. That is the market return. That is how, as a result of that, we have ended up with more or less an index aligned investment strategy.

When the government sat down and thought through and agreed on a number of responsible investment criteria, we then had to think about the best way to implement that. In the past we used to have a lot of active managers who would run very small portfolios. The problem that we had with that was that we would do some research on different companies and they would come up and say, "They have got some high ESG risk or something or other." We talked to our active manager. "Yes we were aware of that but they still represent good value." So they still continued to hold them.

We have got to actively drive the strategy here. We have worked through with our advisers and with MSCI in that they run the main indexes and we have actually got two custom indexes that have been developed for our shares. We have got the broad market MSCI world parent index ex-Australia, and we have that customised to take into account—

MS LE COUTEUR: Your exclusions, yes.

Mr McAuliffe: Our exclusion criteria, the same as Australia. We use a MSCI IMI index, again customised to take into account our criteria. If you take the MSCI world, for example, that might normally be 1,600 stocks. With our criteria, I think at the moment there are about 150-odd knocked out of that, based on all the various different rules.

MS LE COUTEUR: That makes sense, if you are trying to duplicate that index, in effect.

Mr McAuliffe: Yes, and that is exactly what we are doing, I guess, in the interests of transparency, because this is part of the whole thing.

MS LE COUTEUR: That makes sense.

Mr McAuliffe: That is why we publish that list.

MS LE COUTEUR: How many stocks do you have in the Australian index? What size Australian index are you looking at?

Mr McAuliffe: It has got about 215-odd. Because of MSCI, we do not use the standards of ASX 200 or 300. We have used the MSCI one because, that way, they can construct it for us.

MS LE COUTEUR: I can understand it, given that, but I was looking through this and thinking, “This is a huge number to do your research on. It’s just a huge thing.” What I did notice was Oil Search, which has recently had an AGM. Can I ask how you voted? There were two shareholder resolutions. I was very pleased, because I printed out your share voting activity, to find that you voted for quite a number of the shareholder-initiated ESG-type resolutions. I thought that was great.

Mr McAuliffe: Perhaps I can explain the voting process. Again, when you see it on there, there are something like 20,000 voting items.

MS LE COUTEUR: I disregarded basically the organisational ones at the beginning. I have got down to the ones about specific issues.

Mr McAuliffe: Given the number of votes that happen through a year, we physically do not have the ability to go through every issue.

MS LE COUTEUR: Of course.

Mr McAuliffe: We have appointed ISS as the proxy voting adviser. We have actually engaged them to execute votes on our behalf, but it is under their sustainability policy framework. It is not under their broad market standard framework; it is under their sustainability one. They have a couple of different layers of policy frameworks which they can apply. That is the one that we have picked at the moment. You can see a very big difference. You can see the number of votes against management on shareholder proposals.

MS LE COUTEUR: Yes, and that is quite different from how you originally voted.

Mr McAuliffe: We rely on them to cast the votes in accordance with that policy. There is another column there that shows that they actually voted in accordance with the policy. I can find out how the vote was cast for that company you spoke about, if you like. Which one was it?

MS LE COUTEUR: Oil Search. It was in May, so it has just happened. There were two resolutions, one about climate change and the other about human rights. Oil Search is operating in PNG. I will not start waxing lyrical on the subject, but I could. The situation is appalling, basically. Do you just take what ISS says in terms of their recommendations?

Mr McAuliffe: Yes, it is an automated process, but if we ever wanted to have a look at something specifically, we can do that.

MS LE COUTEUR: No-one in treasury would have looked at it and said, “We’ve got some shareholder resolutions, yes or no”?

Mr Barr: No, we would need a very large treasury to do that, I expect. How many of you are there? Four of you; is that it?

Mr McAuliffe: Six on the very best day.

Mr Barr: Six on a very good day, yes. So we do not have the capacity to do that, obviously. We have to outsource that, against some broad policy principles.

MS LE COUTEUR: Okay. I would be very interested to know how you voted on these ones. Hopefully, you voted for both of them.

Mr Nicol: I would be surprised if we did not, based on the policy. But we will check.

MS LE COUTEUR: Neither of them is very exceptional, if you know what I mean. The other question I would like to ask is: why is the ACT government even investing in Oil Search? As its name suggests, it is about fossil fuels. The ACT government does have a fairly clear policy of transitioning as fast as we can away from fossil fuels, so it would seem not to be one of the more obvious things that we would want to invest in.

Mr Nicol: I might ask Mr McAuliffe to talk about it, because we have done a little bit of work this year on fossil fuel investments.

Mr McAuliffe: We break the criteria down into a couple of different categories. We have business activity; tobacco, landmines, munitions. If you're in that activity, you're out. There is also the direct coal company. They are out as well, on our business activity screen. We overlay that with more of the risk criteria: your ESG risks. With companies that go through the research process, if they are assessed as having high risk, they are not included in the portfolio. We have another one which looks at global norms; large controversies and things like that. I cannot remember if they are still out, but BHP, for example, was—

MS LE COUTEUR: You have not got BHP.

Mr McAuliffe: No, and that is because they are out on global norms. That was after that tailings dam issue.

MS LE COUTEUR: Which was appalling.

Mr McAuliffe: Yes. It shows that the framework we have picks up on those sorts of issues. The fourth area is around the carbon-type exposure. There are criteria whereby companies with large fossil fuel reserves are excluded: carbon emissions, high carbon emissions and high carbon intensity. With the current criteria, a lot of it talked about fossil fuel reserves. Our policy has gone broader than that. We have companies excluded on other things when they are actually not even a fossil fuel company, because of that. Part of the work we are doing now is to take this next question further—and we have to prepare some advice for the government on this—and that is about going fully fossil fuel free, in terms of those holdings. With respect to the large majority, we do not have them, so it is now a matter of doing some analysis around what taking that next final step actually means.

MS LE COUTEUR: You might want to look at these, as their name is pretty suggestive of what they actually do. Have you looked at gambling as an issue? I noticed you have Aristocrat as one of your shareholdings.

Mr McAuliffe: That is not something that is—

MS LE COUTEUR: It is not something that is an issue?

Mr McAuliffe: It is not something we have specifically looked at. We have been trying to spend a fair bit of time to get to where we have got to.

MS LE COUTEUR: I appreciate that; we have actually gone a long way. It is great, and you probably almost certainly did vote in what I would regard as the right way, which is very pleasing.

MR COE: As a follow-up to that, are all of these stocks directly owned by the ACT government or indirectly?

Mr McAuliffe: No, and that was the problem we had with the implementation before. In the past—

MS LE COUTEUR: That is why I asked about it.

Mr McAuliffe: we were investing in indexed funds.

MS LE COUTEUR: Directly.

Mr McAuliffe: And you have exposure to the whole asset class, but you actually have no control. You cannot vote; you cannot exclude. So we turned those portfolios into separate account mandates.

Ms Doran: Just to be clear, I think I said we do not directly invest, in that we do not directly choose each of those assets, but we do directly own them.

MR COE: Sure. Does the government invest in any synthetic ETFs or anything like that, or not?

Mr McAuliffe: We have not got any direct ETF exposure at the moment, no. There are derivatives that get used in part of the portfolios. ETFs are a newly emerging product, and I am not aware that we have any exposure to those at the moment. That is going to cause us that same difficulty. You are effectively deriving a return that reflects the market and underneath that market there are potentially some of these investments that, under our policy, we are saying we do not want to be exposed to. That is something we are looking at.

MR COE: It reflects the market, but if they are synthetic then it is not quite the same.

Mr McAuliffe: No. I guess it is one of those matters of principle on which we want to apply the policy in full. And it is informing some of our strategies that we have been thinking about. Do we want to go into a strategy whereby you might invest in a fund at the high level, and it has actually invested in the underlying funds underneath? You are going to end up in some of these areas that can be seen as inconsistent with the policy.

MR COE: Yes. I guess there is a lot of discretion involved, because a lot of these companies are still using oil. They might be multi-million-dollar purchasers of stocks that we do not want to purchase, so there are all sorts of—

Mr Nicol: Essentially, that explains the strategy we have taken, which is very much assessing each company through our contracted services on an ESG basis; otherwise you will get, "This one should be in, this one should be out; why is there a difference?" As you say, every company has an environmental footprint, and we are trying to target it so that the ones with the most damaging environmental footprints are excluded first, and work on it from there.

MR PETTERSSON: I had a supplementary as well on that topic. The shareholding voting is conducted, I think you said, by ISS?

Mr Nicol: Yes.

MR PETTERSSON: Is there a broad guideline on how they are instructed to vote? Is there a policy document that outlines it?

Mr McAuliffe: They actually have their own policy documents. They are all on their website. They have a couple of different ones that you can actually choose.

Mr Nicol: Yes, we are not the only owner who is going down this route. Companies are evolving to provide this service because if each owner like us tried to invent our own, it would be resource-intensive to a degree that we could not do it.

MR PETTERSSON: Which one did we choose?

Mr McAuliffe: We have aligned with their sustainability policy. Last time I looked, I think they have about three or four different levels that you could go down to.

MR PETTERSSON: Is there a most forward-thinking policy? Is there a more conservative or—

Mr McAuliffe: It is probably about mid-range, I am guessing. It has been developed to focus and align with the type of investor that might be like a signatory to the principles of responsible investment. So it is taking a much more active look in particular, as Ms Le Couteur said, around shareholder resolutions. That tends always to be the big gap in these sorts of voting frameworks.

MR PETTERSSON: How much do we pay ISS for this service?

Mr McAuliffe: From memory, and I can be corrected, it is about $60,000 a year. So it is not a lot of money for what it actually achieves for us in terms of efficiencies and—

THE CHAIR: What is the impact to the territory's shareholding if you did not exercise your vote?

Mr Nicol: Share voting generally does not have a large impact on the valuation of the company or the future. It sounds a bit perverse, but possibly a better area of investigation for us is whether the exclusion policy has an impact on returns. Our research to date suggests it does not, but—

Mr McAuliffe: That will vary depending on the market cycles, for example, so—

Mr Nicol: Yes, that is right. We will not match the market each year but over time the evidence suggests that excluding some of these companies does not produce a lower return, a consistent return or a higher consistent return.

THE CHAIR: Substantive question, Mr Coe?

MR COE: I am sorry if this has been addressed by what Mr Friend said earlier. Budget statement B, page 26, lists some of the reviews of government programs and functions that were performed in 2016-17 and slated to be undertaken in 2017-18.

Mr Barr: Under outlook 4.2, financial management?

MR COE: Yes, that is right.

Mr Barr: I think Mr Friend did go through—

MR COE: Is that the reference to what—

Mr Barr: This is review of programs and functions, yes.

MR COE: It is?

Mr Barr: Yes.

MR COE: Right.

Mr Nicol: Largely, there may be other work done but that would be captured by that general heading; so I might commission, or the government might commission, other work that I describe as a review—

MR COE: Okay.

Mr Nicol: that Mr Friend's division would not do, but by and large it is his area's work, yes.

MR COE: When some of that work is done externally, is it the same process? Do you go to Mr Friend's area, and they will say, "This is not within our capability," or "This is beyond us; we should get somebody in"?

Mr Nicol: Taking a step back there, the government, across directorates, undertakes a lot of review work—what is described as review work—that does not come anywhere near the expenditure review division at all. There is a myriad of work undertaken by directorates that is just general good management—public sector management—and that involves reviewing what you are doing and looking at ways to improve.

Specifically, the ERD function gives the government a capability and a resource that has specialist skills in reviewing particular areas. Particular issues will arise from time to time that require a more in-depth analysis than you would do through normal business as usual, and the government will make the decision partly with the involvement of the expenditure review division on their capability and resource availability about whether they should do it, whether they should be involved with assisting in other directorates, or whether we should hire an external contractor or consultant in whatever form to undertake the work with or without the involvement of that division. So it is very flexible how we do it.

MR COE: Are there any contractors that are, in effect, permanently in that team?

Mr Nicol: I will take that on notice, but my recollection is no. They are all full-time employees. If we engage someone it will generally be on a project-by-project basis.

MR COE: Right.

Mr Nicol: But unless there is an administrative officer or something we have got through a—

MR COE: A temp agency type—

Mr Nicol: temp agency-type thing, other than that I cannot recall one, but I will take it on notice and correct the record if I am wrong.

MR COE: Sure. What about in treasury more broadly? Does the agency have contractors who are in effect in permanent positions?

Mr Nicol: I have not got my corporate people here. Certainly in Shared Services in ICT I will have contractors, because that is the nature of the market to a degree. I do not think—it is not—

MR COE: In terms of the financial management budget preparation and the like?

Mr Nicol: No. No, I do not think—Ms Doran, I do not think you have any?

Ms Doran: None in my area, no.

Mr Nicol: That is sort of economics and revenue. In the budget area I think I have an employee. I am not sure whether she is a contractor. No, I think she is an employee who is doing our budget system redevelopment. Even she is an employee, I think. Generally we favour employees.

MR COE: There is not a culture of having contractors do these—

Mr Nicol: No. As I said, for example, we employed a consultancy firm to do the ACTION review a couple of years ago because it was just outside our scope of expertise. As I said also, in respect of ICT contractors, we have people on contract. We have a few processing staff on contract in Shared Services as well, but we can come back to that question when we go to that.

MR COE: Sure.

Mr Nicol: I do not have enough knowledge of the new functions that have come into treasury in terms of property management and capital works to answer that for those areas but, generally, no, we do not employ many contractors in core treasury.

MS LE COUTEUR: Continuing with responsible investment, the territory banking account, the superannuation provision account, has an investment. Does it also have the same responsible—

Mr McAuliffe: We employ the policy across the two portfolios but the reality is that the policy really only impacts on our equity holdings because we have got debt-type instrument exposures and things but they are just in your standard bonds in an indexed fund. So there is not a lot of—

MS LE COUTEUR: If you would not invest in the shares then you would not invest in their debt?

Mr McAuliffe: In their debt, that is—

MS LE COUTEUR: So you would use that policy as well?

Mr McAuliffe: That is where we would head with this policy. We have got no such exposure at this time because we have got no directly owned bonds in that regard anyway. We were in the indexed funds. I guess that is a bit of a work in progress, the whole evolution of the broader responsible investment, looking at these other asset classes. Equities are probably fairly simple. With property, a lot of your direct owners in buildings are doing lots of good things. But when you get to fixed income it is not quite as simple.

MS LE COUTEUR: I do not know if this question is part of that or not but the territory obviously has bankers. How do you choose them and is ESG part of it? This relates to the territory banking account presumably.

Mr McAuliffe: We have got one bank. Westpac is the government's current transactional banker. That is done through a procurement process periodically. The last procurement for a transactional banker was done five years ago or four years ago. At the end of the day you have got to find a bank that can deliver the services we need as a territory government. And really it is going to be one of the big four that can provide that service, yes.

MS LE COUTEUR: Is your responsible investment policy part of that?

Mr McAuliffe: It does not apply per se to our transactional banking arrangement.

Mr Nicol: Generally.

Mr McAuliffe: Our responsible investment policy applies to our financial investments portfolios.

Mr Nicol: And general procurement arrangements would apply because, as Mr McAuliffe said, it is a standard, to the extent you can have standard, procurement process for the procurement of our banking services. We changed from Commonwealth Bank to Westpac. The last time this occurred was about four years ago. The government will have to make a decision in the near future about the future of that arrangement. It is a five-year contract. There is a substantial cost in changing, a very substantial cost, but obviously for broader procurement reasons you want to keep that sort of process contestable.

THE CHAIR: Turning to the CTP Insurance Regulator, have any reviews of the ACT's CTP scheme been considered or initiated since New South Wales made substantial reforms earlier in the year?

Ms Doran: The simplest answer is probably no but considering reform of the CTP scheme is a continuous process. We have certainly been watching and discussing with New South Wales their own processes. There are other jurisdictions that are undertaking reform of their CTP arrangements and we will network with them as well. In terms of our own scheme, we undertook a review I think it would be about 12 months ago now. There is a legislative requirement that we review the scheme every three years. We had our authority undertake a review of the scheme, its performance, looking at issues, particularly competition and how that has been affecting the scheme over the past few years.

THE CHAIR: What specific initiatives are being undertaken to keep the cost of premiums down at a modestly affordable level?

Ms Doran: The biggest initiative has certainly been the entry of three new insurers into the market, the competition that has entered our market. And we have seen that play out, probably surprisingly even to us, at a very high level with premium filings quite regularly from the insurers as they look to secure market share in the market. We have actually seen reductions in the premiums in the order of $35 over the—

Mr Barr: In nominal terms.

Ms Doran: In nominal terms, yes.

Mr Barr: The real reductions are even bigger.

THE CHAIR: Adjustment for inflation is larger here.

Ms Doran: That is right, over the period since competition began, which was in 2013.

THE CHAIR: Three of the new players are aligned and are underwritten by Suncorp. Is that correct?

Ms Doran: That is right.

THE CHAIR: What is the market split between their three brands and the NRMA holding?

Mr Barr: It would vary at moments in time, would it not, depending on who has got the lowest—

Ms Doran: It does. It is varying. I am going to have the exact figures soon, maybe, but it is—

Mr Barr: We can get a snapshot of that. But it would appear to be even a few dollars because of the way prices are put on rego renewal and those few dollars do drive a pretty strong shift. But it shows that consumers will change their insurance choice based on price.

Ms Doran: It is very price sensitive.

Mr Barr: When competition first came in there were some interesting aftermarket approaches from some of the insurers to say, "Take CTP with us together with a range of our other products and we will give you a bundled discount."

THE CHAIR: Yes, to get a discount on other products.

Mr Barr: You still get multi-policy discounts with certain insurers. They certainly are competing aggressively on having the lowest price on that renewal slip, which is why we are getting—every six months, is it, that they have been coming out? Has it been more frequent?

Ms Doran: It has been even slightly more frequently than that, yes. It is about—

Mr Barr: They file for a new lower premium to be a few dollars cheaper than the other one. And they have been doing that now—for how many years?

Ms Doran: Since 2013.

Mr Barr: Over four years.

Ms Doran: About four months is the shortest cycle that you can get in a premium filing just because of the various lead times in actuarial reviews and getting it into the system. And we have come close to that point over the past 12 months.

Mr Barr: Presumably it is a little like a 100-metre race and the world record there. You can shave further little bits off but at some point you will not be able to go too much lower.

MR COE: Nobody thought it would be in the 0.5s though, did they?

Mr Barr: Within the current legislative framework. I guess to respond in a bit more detail to your initial question, yes we certainly need to look at what New South Wales have done. We need to look at the Victorian model and the New Zealand model.

There are some good examples, I think, of systems that are better than what we have at the moment that would achieve some pretty positive outcomes for extending coverage of injured parties, for lowering premiums and for reducing some of the legal processes that are currently associated with our system.

I am conscious of the fact that I have attempted in the past and managed to achieve the most unholy of alliances, to have the party to the left of us and the party to the right of us uniting and disagreeing with what the government was intending to do. Lessons learnt!

THE CHAIR: It was probably a good indication that you were on the wrong track.

Mr Barr: You try to achieve a balanced position but you cannot appease either end of the political spectrum. But there we go. Let me put it this way: the reform flame is still there and we will—

MR COE: Eternal vigilance.

Mr Barr: Indeed, that is right, and this is one that I am conscious the Assembly will need to look at again. I would anticipate we would do so in this parliament.

MS LE COUTEUR: As a supplementary directly on that, you have been known to mention third party as a possibility for a citizens jury.

Mr Barr: I did raise it as a potential—

MS LE COUTEUR: Could you explain that a bit more? It does not seem like one of the more riveting issues really.

Mr Barr: I think it is absolutely—

MS LE COUTEUR: Except for a small minority who are directly impacted.

Mr Barr: I get a lot of correspondence from motorists about why our premiums are higher than elsewhere. As to the technical details of scheme design, no that is right. That is definitely a practitioners area but the policy trade-offs go to how our scheme is designed, and from one extreme to the other. Whether you want a high cost, high payout, high legal intervention-type system or a no-file quick resolution process—and they are the differences in the schemes that operate—these are issues that would be interesting for people to trade off and to understand those competing outcomes in any scheme design.

It is one example. It is not the only one obviously that you would consider but it is an issue that has been debated for quite some time. It tends to get tied up in lobbyists and special interests because it is one of those classic situations where 280,000 motorists all pay a little more or several hundred dollars more than they probably could under a different scheme. Everyone has a couple of hundred bucks of skin in the game basically. That is the level of interest that some people will apply to it.

There is a very small cohort who have millions of dollars of skin in the game and they apply a very different set of principles to how they approach this public policy debate. When you look at it from that perspective you understand why it has been difficult to achieve reform, because the winners all get a benefit in the hundreds of dollars a year, and any potential changes could change the economic dynamic of certain industries. You need only watch commercial television or listen to commercial radio in this city to see or hear where a lot of advertising is taking place, what that must be about and who is paying for that advertising. We all are through our CTP premiums. Anyway, I will leave it at that. It is one that is on the agenda for this term of government.

MS LE COUTEUR: Again, do you think the NDIS is going make any impacts on this? One has to hope—

Mr Barr: It has. The NDIS and the NIIS and the lifetime treatment and care have made a difference. Karen, do you want to expand on that in any way?

Ms Doran: The NIIS has made a difference to premiums to the extent that that has taken out the largest end of the planned spectrum from the CTP scheme which is not only the largest benefit payment element but is also the largest element of risk or uncertainty, which also leads to higher premiums from insurers when they have to factor in that risk to their premium levels.

I think the other impact that the NIIS has had in this space is that it has introduced the concept of a no-fault scheme and people are understanding the differences between that and an at-fault scheme. We have seen in our own scheme, where we currently have five participants, two of those would have been ineligible for any benefits under the CTP scheme because there was no driver at fault.

Mr Barr: I do not think people understand that they are not covered by the current CTP scheme if they cannot find an at-fault party and that is—

MS LE COUTEUR: I thought you had to find a car but if it was—

Ms Doran: No. There has to be fault. There are various circumstances. Where you hit a kangaroo or a tree there is no benefit entitlement. If you are a motorcycle rider you are often not entitled to benefits because there is no one at fault. And further, even if it is two cars you get into the scenario where you have to establish fault on the part of one driver. The fact that people do not understand that I think is a reality that we are just coming to understand better as well.

We recently undertook a fairly simple quiz in the space of the CTP scheme to establish how much people understood that, understood what their entitlements were and were not under the scheme and it did demonstrate that there is certainly a lack of understanding amongst quite a high proportion of people.

Mr Barr: I suspect if the level of understanding was greater on the issue the outrage at our current system would be at a volume higher than the dozens and dozens of letters a year and the occasional Chief Minister talkback call and the like. I have been talking about this for a long time and I have tried to fix this because I fundamentally believe there is a problem with the current system. But, as I said, I have learnt the lesson from past experience that if we are going to get reform we have got to go on a journey here. One of the reasons why reform has been difficult is that there are powerful forces with a lot of resources who like the status quo thank you very much.

THE CHAIR: Continuing in the same vein, with the personal injury register that is being set up, how has the rollout of that platform been to date?

Ms Doran: We are in a pretty good position with that system at the moment. Last year, when we were sitting across from the then committee, we were in a situation where we had a system that was being supported by the Queensland CTP regulator. They had decided that they could no longer support that system for us, and we were in the process of transitioning it down onto our own platform here in the ACT. We are now in the position where we have completed that transition. We have the system up and running and performing well, to the standard that it was previously operating under in Queensland. So it is fully functional in terms of the holding of all data and the producing of reports in the form that we used to get from the system.

Now that we have that system more closely under our control, we are looking at what further analysis we can do with the data that we have at hand and what further reporting we could do on the basis of that data back to the industry and to the public more generally.

THE CHAIR: Does that constitute part of stage 2 of the rollout or is there additional work still being done on the next stage of the register?

Ms Doran: No, I think that would be stage 2.

THE CHAIR: That would be the extent of it?

Ms Doran: Yes.

THE CHAIR: What has been the cost of implementing the register?

Ms Doran: I might have to find out the exact costs on that. We have had, for stage 1 of the PIR build and transition, $312,000, which is a cost that has been capitalised in the 2016-17 financial statements. That is a cost that will be amortised and depreciated year on year. We will also have ongoing costs associated with the platform on which the system sits. Those costs are $35,000 a year, to be indexed going forward. For maintenance of the system, which is a contract with an external vendor with the programming expertise to do any maintenance on the system, we have an estimated cost of $61,000, again indexed in the outyears. In 2017-18 we have $100,000 set aside for the stage 2 processes, which will be a capitalised cost.

THE CHAIR: Are there any supplementaries?

MR PETTERSSON: I have one on CTP. There is a line that is standing out in the budget that I have to ask about. The Industry Council of Australia met twice during 2016-17 to improve the operation of CTP, namely, reviewing the treatment of light rail vehicles. Is that a national thing that is occurring or is this mainly driven by some local activity?

Ms Doran: That is an ACT-specific issue, although trams exist in other jurisdictions as well. As we have the light rail coming on board in the ACT, it is considered to be a vehicle that uses the road system; it is regulated under the road transport acts. It is necessary for us to consider how accidents that may occur between vehicles and the light rail would be regulated. It has been decided that that will be managed through the CTP scheme. The way in which we do that is essentially to consider a light rail vehicle as a motor vehicle for the purposes of that legislation.

As I said, this situation exists in other jurisdictions—in Melbourne, Victoria, specifically. In New South Wales, they are also building trams in the city, and this is the way it is managed there as well. So it will come into the scheme as a registrable motor vehicle. It means that for people who may be injured in accidents on the road there will be a consistency in the benefits that they are entitled to. It means that our insurers will come up with a risk assessed premium that applies to the light rail vehicles within the premium rating structures of the scheme.

Mr Barr: We have had to do similar things in terms of establishing a new category under the CTP scheme for rideshare as well. As transport diversifies, there is a need for the scheme to be able to respond, to have premiums for the different classes of transport.

Ms Doran: Appropriate premiums, yes.

MR PETTERSSON: With all these different forms of transport that the government has some kind of stake or interest in, are they all coming from the same CTP provider or do you think there is a chance that the fleet of cars will have a different provider to the light rail?

Ms Doran: I will answer that in two parts. I might start with the fact that there are some 20 different types of vehicle class at the moment covered by the CTP scheme. We traditionally think of the normal passenger vehicle, the family car class, which is the obvious category, but the CTP scheme at the moment covers buses, ambulances, trucks of different capacity, and passenger vehicles used for ridesharing, as we have just discussed.

The insurers, in determining their premium schedules, determine a core premium for the main passenger vehicle class and then establish what are called relativities for all of the different classes, which is a sort of proportionate level of premium determined by reference to the passenger vehicle premium for those different classes, either higher or lower, depending on the relative risk of that class. Insurers are quite used to going through this process. So when a new class comes on, such as the light vehicle, insurers will be asked to determine a premium relativity for that class. That is the first part of the answer.

Because our CTP scheme is a statutory scheme, insurers necessarily have to offer premiums for all types of vehicle on the road. All insurers operating in our market—and at the moment there are four of them—will each come up with a relative premium for the light vehicle class. The choice, so where the competition exists, is that the individuals buying the CTP can then choose which of those insurers they prefer to go to. Light rail will have a choice of four, arguably, different premium points to take out their CTP insurance.

MR PETTERSSON: The crux of the question is: for the government fleet, is it all under one CTP provider?

Ms Doran: The government fleet?

MR PETTERSSON: The ACT government has a wide range of fleet vehicles.

Mr Nicol: Our general fleet.

Ms Doran: I do not know.

Mr Nicol: I will have to take that one on notice.

MR PETTERSSON: Don't worry about it. I was just being curious.

Mr Nicol: We do manage it. I can find out relatively quickly, I think.

MR COE: When will that class be available in the ACT?

Ms Doran: We are having discussions at the moment with insurers and the ICA, which is the insurance association, the Insurance Council of Australia. It is required to have the premium class up and running by 1 July 2018, which is the scheduled date for testing of light rail vehicles on the system, so we want to have the insurance arrangements in place by that date.

MR COE: Given that pretty much all other jurisdictions—most other jurisdictions—have light rail vehicles, is it a fairly straightforward process?

Ms Doran: Coming up with the CTP premiums? It is no different to the existing processes of assessing the risk for different classes of vehicle. Obviously, when you add a new type of vehicle—in our jurisdiction it has not existed before—the insurers do not have access to a lot of actual experience of what risk that might bring that is specific to our jurisdiction. But when that occurs they look to other jurisdictions to form their views around the nature of that risk and hence the relative premium that they will establish.

While it seems very different, when we did set up the rideshare vehicle class, this was exactly the process that had to be gone through, where there was very limited real experience on what the nature of the risk might be for rideshare: the extent to which it would be taken up in the ACT, the extent to which individual rideshare vehicles would be on the road in that capacity. But insurers draw on such data as is available and make their own risk assessments. In fact in that circumstance we had the two main insurers come up with quite different assessments of the risk point for that premium class. But that is the nature of competition.

Mr Nicol: As we get experience, we will obviously be a much more fully informed market, so the premium setting process, I am sure, will lead to refinements in price over time.

Ms Doran: And that is a continual process.

THE CHAIR: I am guessing it is a similar process for autonomous vehicles as well—again, a separate class, or will they fall under the existing traditional car class?

Ms Doran: We are at very early stages of that process. At the moment the ACT is just entering trials with autonomous vehicles. There are some forms of car on the road already which do classify as an autonomous vehicle to a certain level.

Mr Barr: Semi-autonomous at the moment.

Ms Doran: Thank you; semi-autonomous.

THE CHAIR: Yes, it is not completely autonomous yet.

Ms Doran: No. Certainly, we are not close to fully autonomous.

Mr Nicol: This is an area where legislation is trying to keep up with technology, and there is a broader story to be played out, I think.

MR COE: I want to ask a question about BP3, page 224—own-source revenue. There is a line of revenue for motor vehicle registration and it shows a six per cent increase, this year to next, from $128 million to $136 million. The footnote says that it includes revenue from the ACT Compulsory Third-Party Insurance Regulator. What is the relationship between the cost of registration and CTP revenue?

Ms Doran: It is a $1 levy. CTP premiums are collected as part of the registration process, so the revenue is all together in that line. In addition to the CTP premium we collect a $1 levy per policy, which funds the functions of the CTP regulator, such as our PIR system.

MR COE: With respect to that $136 million figure, $250,000 or something like that has been collected through the $1 levy.

Mr Barr: $280,000.

Ms Doran: About $285,000.

MR COE: So that is what the inclusion is?

Mr Barr: That is one of those uncanny facts that you retain—how many cars are registered in the city.

MR COE: That is right.

Mr Barr: It is about 280-something, so there you go.

MR COE: So that is all it is—just $1 from each?

Ms Doran: That is all it is.

MR COE: Is there any relationship between the motor vehicle registration cost and the CTP premium?

Ms Doran: Other than that they are collected together, no. The CTP premium is independently determined by the insurers.

MS LE COUTEUR: Could I ask a brief supplementary to Mr McAuliffe? I am on the ISS website—the benefits or otherwise of having laptops—and you said the voting policy that you subscribe to was available there. I cannot find it.

Mr McAuliffe: I will have a look.

MS LE COUTEUR: If you could send me the link, because I have been playing around and I cannot find it. I am not saying it is not there; all I am saying is that I cannot find it; that is probably two different things, but I have spent a few minutes failing.

Mr McAuliffe: If you go to where you found our share voting policy on the ACT treasury website, there is a link that should take you there, I think. But I will double check for you.

MS LE COUTEUR: I have been on the ISS one, but I will try via ACT treasury. Thanks.

THE CHAIR: Is it possible to have presented a copy of the ISS strategies subscribed to, if it is not commercial in confidence and the like?

Mr Barr: I am sure if it is on a website somewhere then it can be presented.

THE CHAIR: That is going to be the easiest way to funnel it through.

Mr McAuliffe: Yes, I will double check it for you. Not a problem.

THE CHAIR: As there are no further questions on these three areas, we will suspend and resume in 15 minutes.

Hearing suspended from 3.23 to 3.49 pm.

THE CHAIR: Welcome back to the afternoon session. We are delving into output class 6 of treasury, which is revenue management, followed by the Independent Competition and Regulatory Commission statement of intent and the Lifetime Care and Support Commissioner.

Treasurer, in relation to the single utilities concession which is to apply from 1 July, what is the value of the concession expected to be as a whole and also on an individual basis?

Mr Barr: It is a little over $600 from memory—$604 is what sticks in my mind.

Ms Doran: That is right. It is $604 as an individual concession compared to what previously was up to $400 separately for electricity and up to around $400 for water and sewerage, but the latter was limited only to people who owned their own homes. The idea behind the single concession is that it now applies broadly to people who own or rent their homes, but there has been a necessary respreading of the quantum across that broader base.

THE CHAIR: What input does the ICRC have in the determination of treasury figuring out what the concession amount is going to be? I note that subsequent to the budget there has been a determination by the ICRC which has seen, particularly in electricity, substantial increases.

Mr Barr: Indeed, yes.

THE CHAIR: That obviously rapidly then diminishes the effect of the concession.

Mr Barr: A bit; depending on the amount of electricity consumption or utility consumption, yes. The ICRC does not have a formal role; it is a decision of the government what the concession will be from year to year. We were conscious this year that a measure had passed the Senate to provide a one-off boost—I think it was $125 for couples and $75 for singles as part of an agreement with the federal government to get something through the Senate. It was a Xenophon amendment, but it is a one-off and is designed to assist with increased energy prices.

We will monitor what happens after this year with that together with what is happening with electricity prices and gas and utilities and then make some further determinations on whether we would adjust the concession. It has generally moved only in one direction, and that is upwards, each year. But in the specific context for this current year, a measure has been put in place to assist. But I am very conscious that it is only one year; it is one-year boost.

THE CHAIR: How is the territory concession scheme being administered? Is it administered by government or is it administered by the utility providers?

Mr Salisbury: It is implemented by the utility providers. They assess applicants, make the payments and then they seek a refund of those payments through the Revenue Office.

THE CHAIR: So the individual makes the approach for the refund or the utility provider makes the approach for the refund?

Mr Salisbury: The utility provider provides it to the individual and the utility provider makes the claim for reimbursement on a bulk basis.

THE CHAIR: Have all utility providers registered in the ACT been brought up to speed with the new arrangements?

Mr Salisbury: Yes, certainly.

THE CHAIR: What is the process for doing that?

Mr Salisbury: We are in constant contact with those utility providers. There has been an ongoing discussion about how we would implement it and when we would implement it.

THE CHAIR: What communication then flows back to the end users—the home owners or tenants—who have previously relied on the concession or, more particularly, who have now become eligible?

Mr Salisbury: A letter has gone out under my signature block to all the individuals affected advising them of the changes. That goes out with the utilities bill, and it is a letter from the revenue commissioner advising of the change in the scheme.

THE CHAIR: So as far as utility providers go, ActewAGL is not going to be the only provider that can exercise that rebate; Origin or other energy producers can as well?

Mr Salisbury: Correct.

MS CHEYNE: What are the main factors behind the changes in energy prices that we have seen and how we are in comparison especially to across the border?

Mr Salisbury: Ms Cheyne, that might be best held over until the ICRC.

Mr Barr: Who are coming in later this afternoon. They are here in about 45 minutes.

Mr Salisbury: They determine prices and they do the modelling so they can best answer that.

MS CHEYNE: Can you help guide me on what question I might more specifically ask them?

Mr Salisbury: That was a very good question; that will be perfect for them.

Mr Barr: They will be able to give a breakdown of the determinants of the price increase in the ACT. All I can tell you at this point is that the retailers in New South Wales, for example Energy Australia, announced that Sydney power prices would rise by 19 per cent, which is the same as here in the ACT. The comparison I can give of which I have been advised is that an average Canberra household will be paying $1,891 for their energy. In Sydney with that 19 per cent increase it will be $2,643.

The ACT remains, as we understand it, with the cheapest or equal cheapest electricity in the country but obviously, for reasons I think we are all aware of in terms of the public debate around energy security, there are very substantial price increases occurring along the eastern seaboard as part of the national electricity market. But the commissioner will be able to tell you in great detail all of the elements that contributed to the increase here. Those increases have been matched and in some instances even exceeded by retailers in New South Wales in the past few days.

THE CHAIR: With the concession, will it be up to the user as to how they attribute the concession between their various utility providers? Can they choose to have it put towards water rather than electricity or use it to offset their gas bill completely?

Ms Doran: It just comes as a single payment. It will actually come through their electricity bill as a way of processing or administering the payment, but it is a lump sum payment that they use as they choose.

Mr Barr: Yes, the household could make that determination.

THE CHAIR: Even if their electricity is with one provider and water is with another?

Mr Barr: Yes, because the money you would otherwise have spent on electricity is freed up because you would be receiving the concession.

THE CHAIR: There has been correspondence with one constituent whose electricity consumption is relatively low and she has said that the concession has essentially put her energy account into credit.

Mr Barr: Yes.

THE CHAIR: How does that then transfer to offset, say, the water account?

Mr Barr: Good question.

Mr Salisbury: It does not directly; they have a credit on their electricity account and a debit on their water account.

THE CHAIR: So is the subsidy—

Mr Barr: Is the assumption in this case that this household would never spend more than $600 a year on electricity?

THE CHAIR: Yes.

Mr Barr: That is an unusual circumstance.

THE CHAIR: It would be the exception rather than the rule but, certainly, there would be instances of it, particularly with solar and those sorts of things these days.

Mr Barr: Okay. We will look at that one; it is an interesting case. I am happy to have a look at that and see whether there is a solution in that context.

Mr Salisbury: I cannot speak for the utilities, but if you requested a refund it would seem reasonable that you would get a refund from the utility.

THE CHAIR: That puts an onerous step on the consumer to access what had been otherwise a convenience.

Mr Barr: I do not think this is generally an issue. I think you are right; it would be the exception rather than the rule. But if it does become an issue I am happy to look at whether there is a way to address that either for that individual or if there is a group of individuals in that circumstance.

MS LE COUTEUR: Back to revenue; do you have any estimate of how much revenue is actually lost per year?

Mr Salisbury: Do you mean revenue that is owed but not collected?

MS LE COUTEUR: Yes, revenue that somebody should be paying the ACT government and the ACT government does not receive.

Mr Salisbury: Are you talking about tax gaps?

MS LE COUTEUR: Yes, I understand that we are talking about revenue management in this output class.

Mr Nicol: That is a relevant question.

MS LE COUTEUR: That does seem like one of the fundamental questions. How much of what you should get are you getting?

Mr Nicol: Yes, it is, of course, impossible to answer because if we knew it we would collect it. There are various studies I have seen where that is estimated for both national and sub-national level governments. I might have to take it on notice, unless Mr Salisbury has some better memory of this, but I cannot recall a recent report on the ACT specifically.

Mr Salisbury: No, we have done no work in the ACT on it. I can say for sure that there is no tax gap on rates, at least on rates and FESL. The biggest tax gap would be in the payroll tax base, where businesses—

MS LE COUTEUR: Do not tell you.

Mr Salisbury: do not tell us. So we have got an active compliance program that works in that space. We have not, in the ACT, tried to estimate that. I know a number of the other jurisdictions have had a go at doing that. It is a difficult exercise. You can have a sort of a top-down approach, where you use economic aggregates to determine what you think the payroll might be that you are collecting and then work it against that, or you can do it as a bottom-up approach, where you try to look at all the taxpayers that you could identify and work out what they should be paying.

Neither of those methodologies seems to be very accurate. But, as I said, other jurisdictions have had a go at that. They are sort of works in progress. I think Neil Warren from the University of New South Wales has been involved in doing some work with the other jurisdictions on that. I have not been brave enough to walk into that space myself, given the resources available to the Revenue Office. But I am following with interest what happens in the other jurisdictions. Most of the effort has been in the payroll space.

MS LE COUTEUR: You said that you have 100 per cent compliance in the rates space. I imagine that there must be at least one person in Canberra who has considered not paying their rates. What do you do? One hundred per cent compliance is admirable and—

Mr Salisbury: Sorry, I meant in terms of assessing all the properties that are liable for rates.

MS LE COUTEUR: Sure, you send us bills, but what I am asking is whether it is possible that there might be one or two people in Canberra who do not actually pay them?

Mr Salisbury: That issue is slightly different. That is a debt management-type issue.

MS LE COUTEUR: Okay.

Mr Salisbury: There is estimating, at least in the payroll tax base, what you are not assessing. Then there is another question about what you are doing about the tax that you are not collecting.

MS LE COUTEUR: Yes, which is actually where I thought I was going. I am sorry.

Mr Salisbury: We have a series of escalating actions if people do not pay their rates. We obviously send out assessments. We send out overdue notices. If that does not work, often we will send a letter of demand which ups the ante a little in terms of making it a legal type of issue. We have powers to garnishee wages and also bank accounts. We have sale of property actions that are available to us as well.

MS LE COUTEUR: Have you ever gone to the length of selling a property for non-payment of rates?

Mr Salisbury: Not during my time as revenue commissioner, but certainly in the land tax space we have initiated actions to sell properties. I can give you some data on that.

MR COE: In the old commercial space?

Mr Salisbury: Sorry?

MR COE: Is that commercial, do you mean?

Mr Salisbury: No, it is current land tax.

MR COE: Current, okay.

Mr Salisbury: Yes, land tax. We have our land sales program. To date, this scheme has targeted 329 properties. Debt payments of $4.68 million have been recovered through that program. We have not escalated to the stage of actually getting a judgement and selling somebody’s property at this point.

Mr Nicol: The threat is quite effective. It is very good behavioural economics.

MR COE: David comes along with a “for sale” sign to put out the front.

Mr Salisbury: I certainly would not rule out our doing that at some point in the future.

Mr Nicol: The commissioner and I discuss this at some length because of the sensitivity of it. We do not jump to this conclusion first by any means. It is the last resort and we have hardship provisions as well. We also take those into account before we jump to this conclusion.

Mr Salisbury: That action that we take in terms of land sale is only on investment properties, not on people’s principle place of residence at this point. But if a person does have a problem with meeting their repayments, we do have repayment plans that we will enter into with people. We are certainly open to that.

MS LE COUTEUR: I go back to the question that you thought I asked: extending land tax to vacant properties. How do you think you are going to go in assessing the properties eligible for that? That is a newie.

Mr Barr: There is obviously a principle place of residence exemption.

MS LE COUTEUR: Yes.

Mr Barr: So you can only claim that once.

MS LE COUTEUR: It would be obvious pretty much by definition, yes.

Mr Barr: That is a reasonably good method. If you have multiple properties, you can only claim—

MS LE COUTEUR: You can only score one of those, yes.

Mr Barr: Yes.

MS LE COUTEUR: But we could actually have non-resident in the ACT landowners who may not disclose this.

Mr Barr: Yes, we do and we know who they are, do we not?

Mr Nicol: There are a couple of things I would say. We are working through these issues. We will be seeking to consult and have a dialogue with the government on exactly how we run this approach because there are some questions. There will be some cases in the margin. We are acutely aware of those, particularly with older people—a couple both going into care, for example, and that sort of thing. We have to work through those sorts of things. There are overseas postings, which will be prominent in the ACT, that we are also aware of. But we are also aware that this arrangement does apply in most other states; so there are processes to do this.

MS LE COUTEUR: No, I am in favour of it. I am just asking questions.

Mr Salisbury: I am assuming that we would not have to do much active compliance in this space. I think there would be a lot of voluntary compliance once this commences, particularly when we go through the issues of who is in and who is out. I do not anticipate it will require a large compliance program from the Revenue Office.

MS LE COUTEUR: What I would like, instead of a lot of voluntary compliance, is a lot of people actually occupying houses. Do you think that is the likely outcome? I guess that is well outside the purview of revenue management.

Mr Barr: It is, again, a behavioural economics question, isn't it? You may as well earn the income from the property rather than—

MS LE COUTEUR: Yes, pay the tax anyway.

Mr Nicol: It is certainly one of the objectives of the policy. I think that among the objectives I put in the policy is that one, primarily. The second is that there is a little bit of harmonisation across jurisdictions. I think administratively this one might actually be easier to administer when it is up and running. In the current approach, if you have an investment property that is rented out, you actually fill in a return each quarter if it is vacant for the quarter. People have a strong incentive to do so to reduce their land tax. For those reasons, I think it is a good idea. As the Treasurer said, if you are going to pay a charge on it, you may as well seek to collect the revenue through a tenant, which is a good pro-housing availability option and should improve affordability.

THE CHAIR: Sorry, I am not 100 per cent clear on how properties are going to be identified with this charge. Essentially, the home owner is going to need to apply to say, "This is my primary residence. Therefore, the charge is not paid."

Mr Barr: In the instance of a person who is a multiple property owner in the territory, then you claim one as your principal place of residence. That is exempted. In the instance that Ms Le Couteur referred to of someone who does not reside in the territory, then that probably pretty conclusively answers the question too. They have a principle place of residence somewhere else. But it may be that there would be circumstances—

MS LE COUTEUR: That you do not know. Yes.

Mr Barr: Yes. There would be circumstances in which—

MS LE COUTEUR: Where you do not know that they do not reside.

Mr Barr: Yes, and overseas postings are an example of this, or someone who is in the defence forces. When we legislate for this, we will need to take account of those issues.

THE CHAIR: I guess it works both ways. Someone who owns a property in the ACT leaves for a short period, say, 12 months, and leaves their property vacant. I guess the reverse is someone who lives across the border, interstate, and commutes to the territory for work, say every second week or Monday to Friday, and has a second property—

Mr Barr: Living in that property when they are in Canberra, even though they might be splitting time between the two.

THE CHAIR: Will both of those be captured as being liable for the land tax charge here or is the intent not to do that?

Mr Barr: The one outside the ACT, obviously, would not be captured by our revisions.

THE CHAIR: But someone commuting to Canberra who has a second property here—

Mr Barr: Given the degree to which this policy applies in other jurisdictions as well, there can be information sharing between state and territory revenue offices. The individual could not claim, "This is my principal place of residence," in both jurisdictions.

Mr Nicol: And with the commonwealth government, you can only claim one principal place of residence for capital gains tax concession purposes. We will work through these—and it is up to the Assembly to consider the legislation. There would be strong benefits in harmonising with the commonwealth legislation to the extent that we can, but we need to work through how that would be administered. I would not see that we would go to every home owner and say, "Could you declare this as your principal place of residence?" I think we would do the alternative; we would look at those people who would declare that a property was not their principal place of residence.

THE CHAIR: As it currently stands.

Mr Nicol: On whatever criteria are set.

MR COE: Sorry if you have already said so, but what is the rough number, do you think?

Mr Nicol: I think it is $2 million in the budget.

MR COE: But what does that equate to?

Mr Nicol: In terms of properties? Do we have that figure?

MR COE: Is it about 4,000 or 5,000?

Mr Nicol: To be honest, we do not have a good handle on this because these people are not identified in our systems at the moment. It is more using rough rules of thumb about principal places of residence that are not tenanted in general.

Ms Doran: We put it at one to 1½ per cent of the housing stock now.

MR COE: So that is only 2,000 properties now?

Mr Barr: Thereabouts, yes.

MR COE: Will the determinant be simply two properties in the same name or will there be any mitigating circumstances such as families—

Mr Nicol: The government will actually have mitigating circumstances.

MR COE: For instance—and I think this will happen quite a lot—someone who might have a disabled child has bought a second property for that child. Are there going to be ways and means?

Mr Barr: In framing the legislation we will look very carefully at those issues. In that example, presumably, with some potential exceptions, the property that has been bought for the disabled son or daughter is going to be occupied by the son or daughter.

MR COE: That is right, but it then comes to your attention because of land tax as well.

Mr Barr: Yes.

MR COE: But in the previous instance—

Mr Barr: A potential trigger is also how long the property is vacant for. Is the idea that someone has bought a property and, what, they are going to sit it there vacant for a decade whilst they wait—

MR COE: No. What I am saying is that this process may also bring up other cases that look like a conventional land tax situation; however, there are mitigating circumstances.

Mr Nicol: Indeed, and I think under the current arrangements the commissioner has some flexibility. Because you cannot legislate for every circumstance, there is some flexibility—and Kim might want to talk about this—to be sensible in the application of the tax law.

Mr Salisbury: There are a range of discretions available to the revenue commissioner which I seek to exercise in a sensible and equitable way.

MR COE: The figures do not lie. How many times, for instance this financial year or last financial year, have you exercised your right to waive someone's land tax obligations?

Mr Salisbury: I do not recall all the occasions, but one particular incidence does come to mind where a property that was leased through an agent was being used to grow marijuana and the house was destroyed. The house was basically destroyed, I think. They had a large land tax obligation, and I think we came to some type of arrangement there. But that was an exceptional circumstance, and typically that is where we would—

MR COE: But in the circumstances that I flagged earlier, where somebody has purchased a property for their son or daughter and there is not a commercial rent—and there might not even be a board; there is absolutely no money changing hands, it is not attracting commonwealth rental assistance or anything of the sort; it is purely a place of residence for that son or daughter—there is a fair chance that they are not going to come to your attention for land tax. However, I fear that with this new arrangement either way they are going to get stung.

Mr Barr: We will need to be cognisant of that.

Mr Nicol: Also of relevance, the government had a measure in either the budget before this most recent one, or it might have been the budget before that, where in instances like that stamp duty was waived. We do have systems in place to identify some transactions of that nature. It is possible that there is a pre-existing transaction where they paid the stamp duty et cetera, but I think it would be relatively straightforward in those sorts of situations for the legislation to describe the situation at hand and provide an exemption.

Mr Barr: We will look at what the other jurisdictions have done. These issues, obviously, would have been raised in other jurisdictions. There is legislation that we can look at, and then I guess ultimately the degree of discretion that we can enable the commissioner to have in this context too will be part of it.

MR COE: But under the current land tax provisions, is that household liable for land tax?

Mr Salisbury: I could not see that it would be. If no rent is paid—

MS LE COUTEUR: No rent is being paid.

Mr Salisbury: I think rent has to be paid.

MS LE COUTEUR: Rent has to be paid at present.

THE CHAIR: I can speak of one issue I wrote to you about, Treasurer, of a family that had purchased a property for their daughter and were renting out a couple of the rooms and there was a generous concession given there on land tax, given that all the rooms were for supported accommodation. It was a bit of a process, from the constituent's experience, and it took writing directly to you to resolve it.

Mr Barr: Preferably we could have a system that does not require that level of escalation, yes.

Mr Salisbury: Sorry, just to add to that, I am looking at the current exemptions from land tax and there is certainly one for a property with a guardian or manager for a person with a legal disability.

Mr Barr: Yes.

MS CHEYNE: Could I ask some clarifying questions? Is that okay? There has been lots of talk about mums and dads. Is the land tax on vacant properties for individuals or is it also for businesses? Also, we have been talking about properties that have buildings on them, but is it also just land that does not have a building? What I am thinking of here, as a specific example, is a builder who buys residential land, or maybe buys lots of residential land, and then does not build in that 12 months. That is speculation. Is this designed to capture that?

Mr Nicol: I am going to say no, but—

Mr Salisbury: Sorry.

Mr Nicol: I was just going to say—this is what I thought you would answer—that all land owned by a non-individual is subject to land tax. That is my understanding.

Mr Salisbury: Yes, that is correct.

Mr Nicol: So if you are a business or a trust, you pay land tax, whether it is your principal place of residence or whatever. Secondly, land banking is probably dealt with through the extension of a time fee system: if you do not build within certain parameters, you pay a penalty after that date. That is the mechanism to defeat land banking, if you like. But, yes, a builder might buy lots of land in their own name, but I imagine this would capture that from a land tax point of view.

Mr Salisbury: Already, under the current rules, there is a two-year exemption for a builder for land development as they are constructing a new place. There is already an exemption there for a builder for two years, but they do have to apply for that exemption.

MS CHEYNE: You said if they are constructing. Is that as in there is a shovel in the ground?

Mr Nicol: Yes. I would be very surprised—Mr Salisbury might be able to provide more information—if a builder bought land in their own name. They would buy in some sort of legal vehicle name.

THE CHAIR: It is not going to be tax effective.

Mr Nicol: It is also in terms of insolvency protection and the like. They would be subject to those arrangements, so it would not be affected by this measure.

Mr Salisbury: Correct. What I was referring to was that the two-year exemption applies to a land development corporation. It is a very specific entity that is developing land.

MS CHEYNE: Yes. What will this tax achieve, apart from revenue? Is there going to be some projected impact on housing affordability?

Mr Barr: That was the subject of an earlier question.

MS CHEYNE: Sorry, I was too busy thinking about this one.

Mr Barr: Yes. One of the policy goals here is to provide an incentive to get more properties onto the rental market. If you are being charged for land tax—

MS CHEYNE: You have got an incentive to rent it.

Mr Barr: You have got an incentive to rent it so that you can earn some income to offset that. It has tax advantages in the context of the commonwealth and the way they currently structure their tax arrangements, the taxation schemes. You actually have to earn an income off a property in order to claim certain commonwealth tax benefits, so you earn that income by renting property out.

MS CHEYNE: We talked about knowing that exactly what is out there has not been captured yet. I am not entirely sure, but would the $2 million projected for each year be expected eventually, in the further forward estimates, to go down as people are appropriately incentivised to rent?

Mr Barr: The revenue would then be captured under the land tax.

Mr Nicol: Under the current arrangements.

Mr Barr: Yes. Obviously, we will need to monitor and adjust up or down, or hold steady, the revenue projections based on the real-time experience. If it generates the behavioural response that I suspect it might, you would anticipate an initial increase in the number of properties available for rent: there will be a one-off effect as that process commences. Then, over the longer term, you would anticipate that there would be fewer properties left unoccupied for extended periods of time. Someone might be prepared to pay land tax for a year if they have some other plans for the property and do not want to put a tenant in for a year. They might wear that. But you would think that over the longer term, they would not. But people do all sorts of interesting things with properties, and some people are so rich it does not matter. It is a very small proportion, but there are some people for whom there is no level of tax or charge that is in any way feasible at this level of government that would have any impact on their behaviour. There are others for whom there would be a high degree of sensitivity to a measure like this.

Mr Nicol: Could I add that there has been some anecdotal evidence from our interstate colleagues, especially in Sydney and, to a lesser extent, Melbourne, that there are foreign buyers of inner-city apartments who just buy them and leave them vacant permanently. There are cultural and other factors as to why they do not want to rent them out to anyone. In New South Wales, if it is not your principal place of residence, you do pay land tax. Even with the land tax in New South Wales, there is strong evidence of foreign nationals buying property. That is obviously causing some particular issues in the city, with their particular housing market.

Certainly there are measures like the ones the Victorian government introduced, the foreign buyer stamp duty. I think New South Wales followed. That is partly to give more incentive, if you are going to invest, to try to get a return on it. I do not think we have seen, anecdotally anyway, that sort of evidence of buying in Canberra.

MS CHEYNE: Even in apartment blocks?

Mr Nicol: We have not seen evidence, but it does not mean it is not happening. This is one way to put an incentive in the system to get the rental out. But as the Treasurer said, some people will pay it and not rent out their properties. That is their choice, I guess; it is their property.

MS CHEYNE: Thank you.

MR PETTERSSON: In a similar vein, you said you do not know exactly how many vacant properties there are. I am assuming that you do know how many landowners own more than one property?

Mr Barr: We certainly know how many current land tax payers there are. Again—this only just came in, and it is about my ability to retain facts—I reckon it is about 39,500. The stupid things that you remember when you receive too many briefs! There are about 160,000 properties in the city. From memory, it is about 39,000 or 40,000 that are subject to land tax. A bit more? Am I out of date?

Mr Salisbury: It is 41,400.

THE CHAIR: Time for another brief.

Mr Barr: Time for another brief, yes. That must have been last year's. We have probably grown by another 2,000.

MR PETTERSSON: Do we know what the spread is on that, by any chance? Are we talking about lots of people owning just one additional home or are we seeing examples of people hoarding 10, 15 or 20 blocks?

Mr Salisbury: I can only speak anecdotally on this. I have seen people with one, and I have seen people with up to six. I could not comment any more than that.

Ms Doran: We did some analysis around this, although it is probably closer to two years old now. Around 70 per cent, two-thirds to 70 per cent, owned only a single investment property. Then, in the residual, yes, it can be from two up to 10.

MR PETTERSSON: Do you think, as this tax is implemented and you get better data, you will get an even better picture, a more up-to-date picture, of what that spread is on the land holdings in the ACT?

Mr Barr: It certainly will bring some properties into the visibility of the tax net in a way that has not been the case previously. The assumptions that underpin this are about 1½ per cent of the 160,000-odd properties, so you are talking about 2,400 or thereabouts as the expectation. That is quite a lot of potential supply you drag into the market. Not all of it will come into the market, but if a goodly proportion does you have got a considerable supply, which, again, from a renter's perspective, cannot hurt.

The other question, of course, will be about the type of property and location. There will be those sorts of factors that will augment supply in certain areas more than others, I imagine. But, as I say, I do not think it can hurt to have more rental properties in the market, given what we have got in the pipeline, with the current vacancy rates, expected population growth, more houses being built and more houses being available for rent. It is going to be one of the more effective policy levers to put downward pressure on prices and to get some greater equality in our system.

Mr Nicol: I think the big area of data uncertainty is where we have people whose principal place of residence is not in the territory and they own a property in the territory. We do not really know if they have another property, often. We can guess if there are rates notices going to somewhere in New South Wales; that is generally a good giveaway.

Mr Barr: A street address rather than a postal address.

Mr Nicol: That is right: a street address rather than a postal address. It is that group. We could probably, I think, with enough data interrogation, determine those people who have more than one property in Canberra, but even then, even if you get the same name, it is not necessarily the same person, so it does not mean you can prove that they are the same person owning two different properties.

MR PETTERSSON: Still on that analysis that you mentioned, Ms Doran, is there any indication about the types of property that we are talking about? Is there any analysis on whether they own a home or an investment apartment?

Ms Doran: Just to be clear, that analysis was done specifically on investment properties. At the time, we were looking at how many investment properties people owned, to consider the structure of our land tax. No, it did not link back to whether they owned their own home. You would assume that they did if this was an investment property, but the analysis was specific to investment properties.

MR COE: Could you please let me know how many times somebody has appealed a decision of the revenue commissioner and been successful, particularly with regard to the first home owner grant?

Mr Salisbury: The data I have on the first home owner grant indicates that, as of 31 May, there was one objection in our system that we were working our way through. In terms of appeals—that would be an appeal at ACAT, I guess—as at 31 May we had two of those on foot.

MR COE: What about where decisions have been handed down against the commissioner or the Revenue Office?

Mr Salisbury: I may have to take that on notice. I do not have it categorised by first home owner grant, so I will take that on notice.

MR COE: Okay. Would there have been a few? Now, with the "substantially renovated" discretion, I guess it is potentially opening the door for appeals and for disagreements; would that be right?

Mr Salisbury: Typically, a first home owner grant on objection or appeal generally follows compliance activity where the recipient of the grant has not met the conditions of the first home owner grant.

MR COE: Like taking occupancy within 12 months—that type of thing?

Mr Salisbury: Typically, it is around the 12 months. I would not have a record of those who have applied for it and been knocked back. That is something that I would have to take on notice and see if we have the data on that back in the office. I would make the point that most first home owner grants go through banks rather than through the Revenue Office. That may mean collecting data from them on that issue as well. I am sorry; that is the best I can do at this point.

MR COE: Could you take on notice the number of times that, in the last year or two, ACAT has in effect ruled in favour of the applicant or the appellant?

Mr Nicol: For the first home owner grant or in general?

MR COE: Yes, the first home owner grant, and perhaps in general.

Mr Nicol: I think we should have the numbers for in general.

Mr Salisbury: With respect to how many first home owner grants we have approved to 31 May 2017, it was 1,119.

MR COE: I am looking for the number that were originally rejected and then were approved upon appeal.

Mr Salisbury: Okay.

MR COE: Thanks. In terms of somebody who disputes either the valuation or one of the other factors, for things like land tax or for rates, are there some matters that have been in the courts for a long time and there are substantial legal bills?

Mr Salisbury: I would have some information on that.

MR COE: I have heard anecdotally of one or two that have been drawn out for a long time. I imagine the legal bills for both the Revenue Office and the applicant would be mounting.

Mr Salisbury: I can tell you the number of objections and appeals that we have in terms of unimproved value, but I cannot tell you for how long those issues have been on appeal.

MR COE: In terms of your own knowledge, are there some that are into the hundreds of thousands of dollars with regard to your legal bills?

Mr Salisbury: I am not sure I could comment on that. The way that these issues are dealt with is that we refer these matters to the Government Solicitor's office. It is the Government Solicitor's office that then provides the funding to prosecute these cases through the courts. The Revenue Office does not have a budget to prosecute those matters; that is really controlled by the Government Solicitor's office.

Mr Nicol: But we can ask the solicitor's office how much effort—

MR COE: Sure, but in terms of when you are defending your decisions, who is actually paying for those defence costs internally? What sort of account are they being billed back to?

Mr Salisbury: The Government Solicitor's office picks up those costs.

Mr Nicol: And your staff who appear are paid for by you.

Mr Salisbury: Yes, and that is a sub-cost for us.

MR COE: So there is no cost recovery from the Government Solicitor?

Mr Nicol: The Government Solicitor's office is employed on a direct appropriation model, although I think they do operate some fee-for-service operations in certain areas, such as in the land sales area. I think they charge the LDA for additional services. But they do not charge us a fee for this service. We work with them to assess the appropriate approach to various legal matters, including those in the Revenue Office. Where we think it is an important matter of law or we think we have a very good chance of success, and the law demands that, we will pursue it. Generally, we act as a model litigant, so we do not pursue vexatious claims in any way. I am aware of a few cases that have gone on for a period of time, because they are related to complexity. Kim can add some details, but I think we generally have a pretty high success rate when we defend a case at ACAT.

Mr Salisbury: I think it is important that I maintain the confidentiality of my office in cases like this. I really do not want to say too much in relation to that.

MR COE: Okay. I will refine some of the other questions, because I am just looking for some of the stats, really. I will refine some of these questions and put them on notice.

THE CHAIR: One final question while we are talking about the first home owner grant: has any consideration been given, Treasurer, to expanding the first home owner grant to established properties, given that there have been, particularly in the last couple of years, considerable leaps in the underlying land sale price, which obviously then puts the cost of putting a house on it considerably further out of reach for many new people trying to enter the marketplace.

Mr Barr: Yes, we have looked at it on a couple of occasions in the context of pre-election commitments, budget and the like. Fundamentally, though, it simply fuels house price inflation. You give buyers an additional amount of money to chase the exact same number of properties. The advantage of targeting it at new stock is that at least the housing stock is being added to. I always thought it was a misnomer to call them first homebuyer grants. They are first home seller grants. The people who are selling the homes are the ones who benefit, and that is where the actual incidence falls. If you fuel the demand side with extra money, and you have more money chasing the same number of houses, the price of housing goes up.

MR COE: You can say that about stamp duty cuts as well.

Mr Barr: Except to say that there is an offsetting revenue stream vis-a-vis rates. If you were doing that in isolation—

MR COE: From a government point of view. But in terms of demand, that can be leveraged four times to 100 per cent.

Mr Barr: From a household perspective as well. People factor in that they are not paying up-front, but they will be paying over time.

Mr Nicol: Most people do factor that in.

Mr Barr: The economic analysis more broadly has demonstrated that.

MR COE: If you are saving $10,000 in stamp duty, you can leverage that four or five times, and that potentially gives you a purchasing power of another $50,000.

Mr Barr: Maybe, but you would need to then look at what your ongoing payments would be.

MR COE: That is true.

Mr Barr: We can all assume what level of rationality there is amongst consumers, and undoubtedly, for some, they are chasing the extra grant. I think the on-the-ground evidence in this country over 20 years of this policy being in place is that it has tended to not work to assist first home owners into properties. It has just pushed the price up.

MR COE: Then why do we have it?

THE CHAIR: With that argument, was there a price retraction when the grant was removed from established properties?

Mr Barr: Prices did not rise as much in our jurisdiction as elsewhere, although it is interesting that most other state governments moved away from applying it to existing properties as well. So there was generally a recognition across the states and territories. It happened nearly everywhere—not everywhere, but nearly everywhere. It is generally now used by governments if they want to boost house prices—perversely. We have looked at it for the reasons of not wanting to increase house price inflation unnecessarily. We have determined not to pursue that in this budget. You can never rule out a circumstance in which you might want to fuel house price inflation, but I cannot see that circumstance—

THE CHAIR: As you suggested, before an election?

Mr Barr: No, I cannot see that circumstance being relevant in the ACT in the foreseeable future. To the extent that consumers might respond by dramatically lifting demand and house prices, at a certain point in time it could serve an economic purpose. But if the policy objective is to help people into a home, there are better ways of doing that than a grant. I think governments would be wise to pursue those better ways.

One other thing that has struck me as always being perverse about this is that I will hand you your grant—$10,000, $20,000, whatever it is—and I will then take it straight back off you in stamp duty. So why bother having that transaction? Why not just get rid of the stamp duty, if the intent is to provide a further incentive for first home buyers? You are starting to see some jurisdictions doing that. The New South Wales government's move there was to get rid of stamp duty for certain properties under certain thresholds. That is arguably a better policy than, "Here, have a grant and we'll take it straight back off you," which is, in effect—

THE CHAIR: A paper-trading exercise.

Mr Barr: Yes.

MR COE: Why do we have it, then? If you do not support it, why do we have this?

Mr Barr: We have a very narrowly focused one on new supply. To the extent that it acts as an encouragement for new housing construction, that is why it is applied to new only. It still works as an economic stimulus—moderated, though. It is not as high as it once was. There is a legacy issue associated with the introduction of the GST. The grant originally started at $7,000, by way of GST compensation. In most jurisdictions it settled at around that level. Some temporarily boost it if they want to achieve a bring-forward in demand. But normally, what happens is that it just pushes the price of housing up. So if I wanted a short-term stimulus, I would cut stamp duty faster, rather than doing the merry-go-round, if that was the policy outcome you were looking for. I presume that is why you have asked the question; you think there is a—

THE CHAIR: I look at it more from this perspective: where I live in Tuggeranong, there are good-sized blocks with three-bedroom family homes on them that are worth considerably less than what you could buy an equivalent new property for in the territory. And we are talking—

Mr Barr: Yes, and one of the reasons that is the case is that—

THE CHAIR: But we are talking about hundreds of thousands difference, not $10,000 or $15,000 difference.

Mr Barr: But if you want to make all of those properties $10,000 more expensive, put the grant in.

THE CHAIR: But $10,000 on the purchase price in the grant might just be the difference between someone getting into the market and someone not. When you are talking about the disparity between established property and new property in the territory, particularly the way it is at the moment, where the new home is considerably dearer than some of the established housing market stock that we have got—

Mr Barr: There is not a lot of evidence to support that. If someone wants to do the modelling and demonstrate that that is absolutely the case, rather than us having an anecdotal discussion on a Monday afternoon in estimates, that is fine. Again, most of the research on this—these policies have been in place for two decades now—has demonstrated that it does not really hit the target that you want, if the objective is what you have just outlined. What might be a better way—and we do this—is to seek to exempt that property or reduce the stamp duty associated with that. That would be the other thing. A lot of people have to borrow to meet the stamp duty. They are then paying 30 years of mortgage interest on that, and the compounding effect over the life of an average mortgage makes the stamp duty an even larger impost. So given the choice—

THE CHAIR: But the option at the moment for someone trying to enter that established market is to try to save for the stamp duty, or, as you suggest, borrow for the stamp duty?

Mr Barr: Yes.

THE CHAIR: There being no concession or no access.

Mr Barr: My approach has been to do what I can, year in, year out, to reduce the amount of stamp duty they have to pay, so that preferably they do not have to borrow for it at all. Ultimately, I would like to get to a point where there was no stamp duty at all. Whether I am around for long enough to see that day, Mr Wall, is another question. But I am sure there will be a worthy successor in the Treasurer's role who will want to continue cutting stamp duty. I hope so. At some point in the future—

THE CHAIR: Is this a subtle way of suggesting that—

Mr Barr: No, this is not a valedictory speech. I will keep on keeping on!

THE CHAIR: You still have three more budgets to get it right.

Mr Barr: It is good fun. At least three more budgets to deliver; that is right.

MR PETTERSSON: Chief Minister, I was wondering if you could tell me anything more about the reduction in caravan licence fees.

Mr Barr: Yes, we can. Who would like to answer that?

Ms Doran: In a policy sense, we have aligned with New South Wales. The exact figure I am afraid I cannot put my hands on at the moment, but I am happy to take that on notice.

MR PETTERSSON: Do not worry about it; that is good enough for me.

MS CHEYNE: I have a question on some of the revenues that are going up but do not have a detailed explanation why. The two that stood out to me were interstate lotteries going up, from an estimated $13.4 million this financial year to $15.2 million, and that the Canberra Theatre Centre seems to be doing quite well. Do we know on what basis those estimations have gone up? Do you know if the number of people attending events at the Canberra theatre has increased and if the number of people feeling lucky and buying lottery tickets has increased?

Mr Nicol: We will probably have to take them on notice. As to the theatre, I suggest you deal with that when events and venues are on. I know the government is supporting at least one show next year, from memory, so that might be related to it, but they will be best placed to answer that. Interstate lotteries, we can take it on notice and answer in more detail, but it will be basically the current trends and expected continuing trends. That is what I imagine it is, but I do not have firsthand knowledge of that.

MS CHEYNE: It just seems that $1.8 million is a reasonably big difference in a year.

Mr Nicol: We will take it on notice and see if there is anything peculiar other than just general growth.

MS CHEYNE: I am just interested; it is not going to change my life—but it might.

Mr Barr: As much as any question in estimates is life-changing.

Mr Nicol: I think we have had a few big winners in Canberra in the last 12 months.

MS CHEYNE: Exactly. Maybe that is what is driving it.

Mr Nicol: Maybe it is encouraging people to gamble more.

THE CHAIR: The lease variation charge is quite a considerable change from the existing policy. What consultations were undertaken with any industry stakeholders or otherwise as to that change prior to the announcement in the budget?

Mr Barr: The process of establishing the lease variation charge in codified schedules was an extensive one that involved, from memory, three rounds of industry consultation. Part of that work identified that on 1 July each year codified schedules would be updated. So it is not unusual for codified schedules to be updated on 1 July each year. That has been a practice that has been in place since, from memory, about 2010-11. This is the time that these sorts of decisions are taken. There has not been and generally is not a specific discussion on one schedule changing versus another every time we update. There is not a full-blown consultation on that question, and I do not think there is any expectation that there will be.

In relation to this specific issue, the post-2000 residential leases specify the number of dwellings, and then there are the pre-2000 ones that are the subject of the change. We do not V1 or V2 them anymore and we codify now through this new arrangement. To give a sense of the quantum of these, in the five years from 2011 to 2016 across the entire city there were 120, so it is about 24 a year. So there are very few transactions in this—

THE CHAIR: How many dwellings did those 120 then result in?

Mr Barr: In those variations, there were 120 over that period. Some were for dual occupancies, others for two, three and four, so you are talking hundreds, not thousands over a five-year period going from one dwelling to more. But there are not a substantial number of these, and that is the first point to make. This change comes into effect on 1 July, so any development applications currently in the system will be assessed against the previous schedules.

THE CHAIR: Busy month for ACTPLA.

Mr Barr: Well, no, because they were already in the system prior to the update on 1 July. Anyone who lodges before 1 July will be covered under the old arrangements.

THE CHAIR: Yes, that is what I mean—a busy month for ACTPLA because there is a scurrying industry.

Mr Barr: Not necessarily, because there will be a handful, potentially, that would lodge before 1 July. Given that there are such a small number of these in any given year anyway, it is not going to be busy. ACTPLA does thousands of DAs; this could be two or three more. It is not going to be material in terms of their workload. In the context of the number of lease variations that are undertaken in the city at any given point it is not particularly consequential either.

THE CHAIR: The committee heard from the Property Council on Friday a real-life example of three blocks in O'Connor that were purchased for the purposes of putting units or townhouses on, but with the new codified charges the best or the most economic use for those three properties now is three single dwellings.

Mr Barr: So be it.

THE CHAIR: Would you not suggest that in O'Connor that is a reverse incentive to the government's planning strategy, particularly up the transport corridor?

Mr Barr: Not necessarily. If the issue is that you want to boost the supply of multi-unit dwellings in those areas, then you change the zoning. It is open to the government or the Assembly's planning committee, as part of its planning inquiry, to recommend changes to RZ2, 3 and 4 zones as to their footprint or what is allowed on them. That is a perfectly reasonable thing for the committee to contemplate in its hearings and engage with the community on.

THE CHAIR: The discussion at the moment, though, is—

Mr Barr: In the end, the supply is as broad as the planning zoning allows. If the collective view is that you want more in certain locations, then revisit what is allowed in RZ2, 3 and 4 or revisit what RZ2, 3 and 4 actually cover or revisit what is allowed in RZ1.

THE CHAIR: From where I am sitting, Treasurer, we are having a discussion on one hand about housing affordability and downsizing and ageing in place, and this is an example—

Mr Barr: This measure will put downward pressure on land prices because it will remove a speculative element where people have been paying well over the odds because they capture the entire windfall gain, or a very large share of it. If you did a V1-V2 assessment, it would be a lot less than this codified charge. The real world examples of this demonstrate that if the concern is that we want more supply then let us have a look at RZ1, 2, 3 and 4. From the history of this over decades I reckon you are brave going into RZ1, but as to what is allowed in RZ2, 3 and 4 and exactly what is covered, I am sure that planning debate will rage on throughout the ages. There will be more letters and op-eds and news pieces written in the *Canberra Times* on planning zoning issues in this city than we will all have hot breakfasts.

It is what it is. I have no doubt at all that across the land supply equation there is no shortage of land. It is just a question of whether we are capturing an unearned windfall gain or not and the extent to which that leads to speculation and people paying over the odds. People in this business have been publicly commenting that they are regularly in the business of outbidding owner-occupiers to capture these blocks to then amalgamate them and turn them into something else. That is part of the—

MR COE: That is contrary to the evidence that we heard a few years ago with regard to the asbestos blocks: that owner-occupiers were going to outbid investors on almost every occasion because investors have a hard limit at which they will stop, whereas owner-occupiers do not.

Mr Barr: But in this instance that is different for Fluffy blocks. I guess the emotional attachment might be higher for someone who is already determined to sell and the question is who is coming in to buy.

MR COE: There is still a hard limit at which an investor is going to go.

Mr Barr: But there is a hard limit for an owner-occupier.

MR COE: No, there is not a hard limit.

Mr Barr: Most people have a limit.

MR COE: It is a soft limit; it is not a hard limit usually.

Mr Barr: Again, this is a behavioural economics question that we are speculating on. Your argument is that someone will pay over the odds because they have fallen in love with the property and they will pay more than your rational investor?

THE CHAIR: The emotional buyer will generally pay more than the rational investor.

MR COE: There is actually a dollar limit at which an investor will not pay.

Mr Barr: I guess I am left with the question, "And the problem with that is?" I think, on the balance of the two outcomes, is it not more problematic that a potential owner-occupier is squeezed out by a developer than the other way around?

MR COE: But is your argument that by putting in the $30,000 LVC we are actually going to see more units come online or not?

Mr Barr: It will depend on our market circumstances and the elasticity of supply and demand.

MR COE: But you actually think it possible that by putting on a $30,000 increase there could be more units constructed?

Mr Barr: It will lower the land prices.

MR COE: It will be a magical tax if that happens.

Mr Barr: It will depend a little on the zoning and what is allowed, will it not?

MR COE: But they are all independent, because they exist regardless of this tax.

Mr Barr: No. This tax captures the windfall gain from the lease variation.

MR COE: But is the purpose of this to capture the windfall gain or is the purpose of this to get more dwellings built?

Mr Barr: The purpose of this is to ensure that the community does get a share of the benefit of the unearned windfall gain and that removes an element of property speculation in the market.

MR COE: But you think it is better, in effect, for the ACT government to bring in more revenue than it is for more houses to be constructed?

Mr Barr: I do not accept your starting point that the original outcome was leading to more houses being built.

MR COE: But how can the impost of a $30,000 increase not reduce supply?

Mr Barr: Because it is capturing an unearned windfall gain.

THE CHAIR: But it swings the pendulum back in the opposite direction far in excess of what the economics of that gain are.

Mr Barr: No, because—

THE CHAIR: You are getting the reverse outcome.

Mr Barr: You are getting developers paying well above the market value in order to capture blocks in a row and combine them and then build more dwellings at the value that it would otherwise be.

MR COE: Is that not exactly what you want people to do? Is that not why you have these amalgamation policies in RZ2 areas?

Mr Barr: Not in every circumstance, and we do not—

MR COE: It is the point of RZ2.

Mr Barr: Not necessarily.

MR COE: It is one of the stated objectives.

Mr Barr: But the point here, though, is that what we are talking about is capturing that unearned windfall gain, and that comes from the lease variation. If you buy the land and it has got a certain value, you can only build one dwelling on it. If you then can build multiple dwellings on it the land is worth more, and capturing that windfall gain from the planning zoning, or the lease variation change, is what the tax does. That is unearned, and that is entirely at the stroke of a pen. And capturing some of that uplift is the whole basis of a betterment tax and of our tax system.

MR COE: I understand, but there is still going to be a market implication on the number of units that come to market, given that they are going to have a $30,000 price tag.

Mr Barr: Given the number of blocks that this applies to and the market realities and the elasticity of supply and demand in this context—and the fact that you are capturing a windfall gain—you are really asking, "Where does the economic incidence of the tax fall?" Is that really what you are asking?

MR COE: It has got to flow on. How can it not flow on to the buyer?

Mr Barr: Not necessarily. It could impact on the price that the buyer pays.

MR COE: That is right.

Mr Barr: There could be lower land prices. You have removed the speculative element. Or it is a combination of the two, because of the various elasticities of supply and demand.

MS LE COUTEUR: It will be a combination. There is always going to be a combination.

Mr Barr: And the developer profit. You could be taxing the super profits of the developers too. It could be all three.

MR COE: I am sure it will be all three, but it is still going to have an impact on the price of units.

Mr Barr: According to those who are in the business, the real impact on the price of units is the fact that there is a dramatic increase in supply in the areas they are talking about and they are saying that the developments that they want to do are less economic because prices are falling as a result of increased supply. If we are serious about housing affordability, you cannot have a housing affordability conversation and not have that generate falling house prices or else what do we mean when we say "housing affordability"? And that is what an increase in supply generates.

MR COE: Which also begs the question: why are you decreasing the supply of new blocks?

THE CHAIR: And land release.

MR COE: And the land release and why you have adjusted that downwards.

Mr Barr: Because there is a large new player coming into the market to dramatically add to the supply and if we had not done that then you would be sitting there saying, "How can you possibly think you can sell—

MR COE: But why is it that you are doing that for this financial year? You are doing that for 2017-18 and most CSIRO blocks are going to come online in 2017-18.

Mr Barr: No, not in 2017-18, but not long after. And the change in the land program this year is fractional; it is marginal.

MR COE: A couple of hundred, I think.

Mr Barr: A couple of hundred dwellings.

MR COE: And it is 600 the following year or something like that.

Mr Barr: And there is a lot more in the hands of the private sector anyway, through en globo release.

MR COE: But you were aware of all those at the time of setting last year's budget numbers?

Mr Barr: Yes. Again, I make the point that if we put in unrealistic numbers you criticise us: "How could you possibly factor that in? The revenues and all the rest that are in the budget are unsustainable, unrealistic." We put in conservative figures. As I have said in the past, if we can sell more we will, but somewhere you have got to settle on a figure and put that in the budget papers. I prefer to overachieve.

MR COE: You could sell more if you were willing to lower the price.

Mr Barr: We can supply more; we certainly can. And if we can, we will. I have always said that.

MR COE: If there is a shortage out there then why are you not supplying more blocks? You submitted that there is a shortage.

Mr Barr: We have the capacity within various constraints, notably environmental approvals and industry capacity to get blocks to the market. But what is different over the coming period is that we have got LDA estates. Yes, that has always been the case, but we have got joint ventures.

MR COE: And all of Molonglo is approved under the EPBC Act, as is Gungahlin, as is Denman Prospect.

Mr Barr: Yes and they are predominantly available through en globo land. We sold that in the private sector. You have got en globo land, you have got joint venture, you have got LDA and soon you will have CSIRO and their joint venture partners. You have got the commonwealth in the business as well.

MR COE: And each of those you could bring forward and you could make faster if you wanted to?

Mr Barr: Some of it we could, but there are some supply side constraints. Then we have got our own urban infill program as well. If there is demand there, we will do our very best to further supply the market, but so will the joint venture operators, the private sector operators, through Denman Prospect.

MR COE: Aside from Ginninderry, who else is a joint venture operator?

Mr Barr: I will have to take that on notice. Certainly that is one and that is the one big example.

MR COE: And you could bring that forward. They have got a 20-year schedule there. Much of that could be brought forward.

Mr Barr: If there is a need to bring things forward, we will do our very best on that score.

MR PETTERSSON: I have got some questions for the ICRC.

MS LE COUTEUR: Likewise.

Appearances:

Independent Competition and Regulatory Commission
Dimasi, Mr Joe, Senior Commissioner
Rawstron, Mr Michael, Chief Executive Officer

THE CHAIR: I refer the new officials to the pink privilege statement in front of you. Can you acknowledge that you are aware of it and its implications?

Mr Dimasi: Thank you, yes.

MS LE COUTEUR: I want to ask about electricity prices. The cost of living statement said they were going to go up by about 10.9 per cent, but they have gone up by 19 per cent. Presumably, this was an unexpected rise. What is your understanding about what may happen to electricity prices in the future? What are going to be the drivers for any changes in the future and why was it 19, not 11 per cent?

Mr Dimasi: Thanks for your question. The draft report that we put out had assessed the price rise at that point at approximately 11 per cent. We said at the time that that was likely to go up. That was driven overwhelmingly by the purchase cost for electricity, the wholesale market price. What has happened there is that we have seen the wholesale price of electricity double in about a year. May on May, which is the full year, we saw the wholesale price of electricity increase from just under $50 to around $105 to $110. It was more than $110, depending on the points where you compare the percentage increase.

The wholesale purchase cost of electricity is more than 30 per cent of the price of electricity, so that has a big impact. When we estimated the cost at around 11 per cent, we said that if those prices continue to stay where they are, we are going to see significantly higher costs. In fact, they did stay high. So we did see, as expected, higher costs. We were not sure what the number would be, but we knew it would be higher, and it was. It was 18.95 per cent overall, the increase for the year.

The second part of your question was: what is going to happen? What is going to happen is going to depend on a couple of things. Electricity prices are basically made up of three broad components. The wholesale cost of purchase, the cost of electricity and various other things that go with it, the network costs and the cost of retailing. In respect of the parts of the costs that we have seen so far, the network costs have not changed greatly because there has been an appeal of the AER's ruling, which has been held up in the Federal Court. The AER has lost that decision and that has gone back to them to review. That will have some consequence when they remake their decision and unfortunately the balance of that is going to be probably some further increase in price.

In respect of the wholesale price, it does depend on what happens over the next 12 months. The curve has started to come down, so there will be some reduction, but the additional factor here that we need to explain also is that the way we regulate is that we do not allow all of that 100-plus per cent increase. We have a 23-month rolling average, because if we had allowed all of that increase we would have had much bigger price increases than we have seen. We have actually blunted that increase through the regulation. But that means that as the 23 months roll on, if more of those high prices stay in there and some of the lower prices drop off, you will continue to see similar higher prices. Looking forward, we would need to see some significant reduction in the wholesale market for those prices not to go up again.

I am not going to speculate about exactly what will happen, but looking at it in the broad you would have to say that the picture looks like prices will stay high for a while unless we see a dramatic fall-off as a result of announcements at the commonwealth level, whatever happens with the Finkel review and these other changes. If we see the wholesale market significantly come off, then it could be a different story.

Mr Barr: There is quite a bit riding on getting a consensus on Finkel.

Mr Dimasi: Absolutely.

Mr Barr: But that is plain enough for everyone to see.

MR COE: Is there much speculation built into the price or not?

Mr Dimasi: Speculation. Well, the—

MR COE: With the wholesale price?

Mr Dimasi: The wholesale price. There is market price. Whether you call that speculation or what you call it, that pretty much follows what happens in the spot price. The reason the wholesale price goes up is that you have this spot price which settles every half an hour that is run by the market operator. Just to give you an indication, the wholesale prices have gone from around $50 to around $100 at the moment, roughly speaking. The market price, the spot price, could, in previous days, be even negative sometimes, but at peak it can be around $14,000 a megawatt hour. It does not take too long at $14,000 to really cause some damage to retailers and consumers.

When you ask if there is speculation, it is a question of what you mean because the market is designed to allow large variability when you have shortages. What you have is this repeat option—every 30 minutes a settlement—depending on supply and demand conditions in all of the different parts that are locked in. If you have got very hot weather, very cold weather or a breakdown in the interconnection somewhere between the regions, all of those things lead to big spikes in prices and they push up in prices. It can also arise from changes in supply or expected changes in supply, such as the expected change when Hazelwood was about to shut and then when it did shut; that sort of big change. Now there are speculations about where you have the market. I mean, we can argue over the terminology, but it is what has been happening in the market.

MS LE COUTEUR: You talked about the three components. You have talked about the wholesale price. You have not really talked yet about the retail component.

Mr Dimasi: Yes.

MS LE COUTEUR: Presumably with these prices going up, ActewAGL's retail margin will go up. Would that be correct? Thus, the ACT government as a shareholder will be doing mildly okay out of this?

Mr Dimasi: The opposite happened. We cut their margin. Their margin, which was going to be 6.04 per cent has been cut to 5.3 per cent. That was a regulatory decision made by me to cut the margin because of the issue here that the wholesale cost of electricity had gone up. So we decided that some pain had to be shared. There were other arguments, I think, about why we needed to do that as well. So, no, it has not gone up.

MS LE COUTEUR: Okay. While we are at it, you also mentioned network charges. I believe there has been a recent Federal Court decision that you are alluding to.

Mr Dimasi: Yes.

MS LE COUTEUR: How long will that take to work its way through? I assume from what you say that it is not now. What are you seeing happening with that?

Mr Dimasi: That will very much depend on how long the AER is going to take to make its decision, because it is the AER that appealed. The network regulation is undertaken nationally by the AER for each jurisdiction, including ActewAGL here. That decision went against the AER—well, the bulk of the decision I think is fair to say went against the AER. Let me take a step back.

The AER had made its decision originally. The decision was appealed in the Australian Competition Tribunal. The AER lost. The AER appealed its decision and lost that appeal. So it is back now to the AER to remake its decision. That could take a bit of time or it might do it quickly. We do not know. But we are expecting that it will probably take a little bit of time. So when that happens that will flow through. Our commentary was that potentially it will be next year's change, but if they settle on this sooner and they come through with a pass-through, then we will have a look at it.

MS LE COUTEUR: Continuing with the retail margin, what impact is this going to have on the budget, Mr Treasurer? I have been expecting this the other way.

Mr Barr: I think what the commissioner has done is not allow the increase in price to flow through into an increase in the—

MS LE COUTEUR: So the actual dollar amount will stay the same, basically, right?

Mr Barr: Held constant, as opposed to—

Mr Dimasi: Yes, taking the windfall away, if you like.

MS LE COUTEUR: Okay, that makes sense. Yes, a smaller margin of a bigger amount.

Mr Barr: Yes, so there is no windfall. On the subject of windfall gains this afternoon, there is none for ActewAGL through this process.

MS LE COUTEUR: But equally no windfall for losses, which is actually what I first thought you were talking about.

Mr Barr: No, no losses either.

Mr Dimasi: No.

Mr Barr: So steady and staged.

MR COE: Is that why the five per cent was chosen? Is it pretty much keeping it exactly the same? If the wholesale price has doubled and, in effect, the profit margin has been shaved by 20 per cent, it would not seem to be—

Mr Dimasi: No, we did a number of things. In our draft report we had originally proposed that what we should do is index the dollar margin by CPI; so that would leave it unchanged. We received some submissions on that, including from ActewAGL retail, that there were some additional costs that were involved, and I think they made some fair points.

We looked at it and decided that if we had indexed it as we had proposed in our draft report the margin would have been unknown. Depending on the change, the margin can be up or down; so there is no known percentage margin. So we decided the preferable approach was to look at the reasonable range and look at the work that had been done in the past to identify the reasonable range. We picked the lowest end of that reasonable range, which ended up with approximately the same sort of outcome in terms of dollar figures, as it turned out. It was a bit more complex than trying to do that. Per megawatt hour, the retail margin has gone up from $10.73 to $11.27.

MS LE COUTEUR: This may be outside your area, but, given that electricity prices have gone up and are going to continue to go up, have you considered putting into place any measures which could reduce the impacts of such increases on consumers?

Mr Dimasi: We have looked at everything within our jurisdiction that we can do. In fact, we talked about the margin. The other issue that there has been a debate about is a competition allowance, which—

MS LE COUTEUR: Sorry, what is a competition allowance?

Mr Dimasi: The argument by the retailers that they put to us was that there should be an allowance there because they have got customers churning, moving potentially from one to the other. So it is an allowance over and above costs to encourage competition and to deal with those costs. That has been allowed in some jurisdictions and we have not accepted that argument.

We have also had a significant debate with them on metering costs. One of the proposals from the AEMC was to shift the metering function from the distributors to the retailers. That in itself is not necessarily a bad thing, but it will lead to additional costs because the systems have to be developed. There are systems in place now, but you have to have new systems to have competition for the metering function—all done for good reasons but which would lead to costs. There was an assumption that all of those costs would be passed through. In our decision we said, "We are not going to necessarily pass all those through. They will have to be justified as to why they relate to the regulated small business customer base." At best, we are only ever likely to recognise a proportion of those costs, not recognise all of those costs from ActewAGL retail.

We have done everything we can in our space that we regulate, which is the retail component. We have also indicated that we will review all our models after this decision—these were developed in a time of relative price stability—just to make sure that they remain fully relevant and have nothing inbuilt that might need tweaking when we see this enormous volatility in prices. So we will be embarking on work to try to protect consumers as far as we can from further price increases but we are not magicians. You cannot protect consumers from a market increase of 100-plus per cent in the basic component of electricity pricing.

MS LE COUTEUR: No, of course not.

Mr Barr: I can provide some further information. In the context of this announcement, ActewAGL put forward a fund of $250,000 to support low income consumers who are having difficulties meeting the increased costs.

MS LE COUTEUR: Good.

Mr Barr: The ACT government has matched that $250,000 contribution. We now have a $500,000 fund. As we said in the earlier discussion on concessions, it was a one-off payment. That was part of the deal to pass the company tax cuts, would you believe, through the Senate. It was an additional amount of $75 for a single person and $125 for a couple that applies to aged pensioners, disability support pensioners and parenting payments. This was negotiated to cover energy costs. That was the arrangement that the Senate passed that the commonwealth is providing.

Again, that does not cover all of this increase, but it is partial coverage, together with our energy concession increase and this fund. All three combined will go some way towards offsetting this cost. As I have indicated, we will look again in 12 months, cognisant of what happens federally in terms of—hopefully—some sort of consensus on the Finkel recommendations and some bipartisanship, which is undoubtedly going to be necessary to put certainty back into the marketplace.

We will also look at what emerges in the context of commonwealth income support relating to energy price increases. I accept that we have a role to play, and we do through our concessions scheme and through the extra funding that we have made available through the ActewAGL program. But equally, let us be frank here: it has been 10 years of bad policy at a commonwealth level, instability, flip-flopping and politics that have been the major driving factor behind this.

The commonwealth also need to step up to the plate. They have done a bit of that for one year only, though. They will need to do more next year and I am sure that pressure can be applied by those of us in this place, those of us who have colleagues who sit on the crossbench in the Senate. This will be a useful way of using some leverage to address this issue because it will require both levels of government to work on it.

MR COE: I note that the user charges in your financial statements increased significantly, as did the supplies and services expense. That has been attributed to the water and sewerage determination. What work was done, and who did the work, to provide that guidance for the 2018-23 period?

Mr Dimasi: For the?

MR COE: The 2018-23 period.

Mr Dimasi: This is for the tariff restructure. The commission did the work. We also had some assistance from a consultancy that worked with us. We were obliged to review the tariff structure of water, which we did. That was a fairly significant piece of work. This involved a number of technical pieces of research looking at the economics, economic modelling, and the pricing approaches, working out the elasticities. As I said, it was a technical piece of work. Then we did a review and a report where we made some proposals about change going forward. That led to some of that cost. Who did the work? The work was done internally by our internal economists and with the assistance also of—

Mr Rawstron: Insight Economics.

Mr Dimasi: Insight Economics is the organisation.

MR COE: Was all that work published?

Mr Dimasi: Yes, all of it is published.

MR COE: All of it?

Mr Dimasi: All of it, yes.

Mr Rawstron: He was also talking about next year and the increases that cover the cost of doing the water review as well, for 2017 and 2018.

Mr Dimasi: Yes. You might—

Mr Rawstron: Mr Coe, you were talking about 2017 and 2018 and why there was a jump between the user charges. We have to basically forecast our expected expenditure in advance. That is to cover the forthcoming water review. Mr Dimasi spoke about the tariff review which came out of the industry panel. You might recall that the industry panel required that. This is to do the actual price—

MR COE: That is the 2018-23 review? Is that right or not?

Mr Rawstron: Yes. This is tax effective from July next year to 30 June 2023. That is right.

MR COE: Right.

Mr Rawstron: That amount will cover our costs. We have already gone through the tendering process, finding a couple of engineers to help us look at the capital expenditure and operational expenditure of Icon Water. That amount of money is to cover staffing costs as well as our consultants.

THE CHAIR: That brings today's hearings to a conclusion. On behalf of the committee, I would like to thank you, Treasurer, and your colleagues for appearing before the committee. The secretary will be providing a copy of the proof transcript from today's hearings when it becomes available. With any questions that have been taken on notice, could you please get those answers back to the secretary—

Mr Barr: As soon as possible.

THE CHAIR: within five working days, day one being tomorrow.

Mr Barr: We will do our very best.

The committee adjourned at 5.32 pm.