LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

SELECT COMMITTEE ON ESTIMATES 2019-2020

(Reference: Appropriation Bill 2019-2020 and Appropriation (Office of the Legislative Assembly) Bill 2019-2020)

Members:

MISS C BURCH (Chair)
MS B CODY (Deputy Chair)
MRS G JONES
MS C LE COUTEUR
MR M PETTERSSON

TRANSCRIPT OF EVIDENCE

CANBERRA

MONDAY, 17 JUNE 2019

Secretary to the committee:
Ms Annemieke Jongsma (Ph 620 51253)

By authority of the Legislative Assembly for the Australian Capital Territory

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

APPEARANCES

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Amended 20 May 2013

The committee met at 9.31 am.

Appearances:

Barr, Mr Andrew, Chief Minister, Treasurer, Minister for Social Inclusion and Equality, Minister for Tourism and Special Events and Minister for Trade, Industry and Investment

Chief Minister, Treasury and Economic Development Directorate
Nicol, Mr David, Under Treasurer
Miners, Mr Stephen, Deputy Under Treasurer, Economic, Budget and Industrial Relations
Vroombout, Ms Sue, Executive Group Manager, Economic and Financial Group, Economic, Budget and Industrial Relations
Whybrow, Mr Mark, Executive Group Manager, Finance and Budget, Economic, Budget and Industrial Relations
Beaumont, Mr Andrew, Executive Branch Manager, Macroeconomics, Economic, Budget and Industrial Relations
McAuliffe, Mr Patrick, Executive Branch Manager, Economic, Budget and Industrial Relations
Holmes, Ms Lisa, Executive Branch Manager, Financial Framework Management and Insurance
Salisbury, Mr Kim, Executive Director, Revenue Management
Gwilliam, Mr Stephen, Director, Government Office Projects, Property and Venues
Bailey, Mr Daniel, Executive Group Manager, Property and Venues
Clarke, Ms Liz, Director, Venues Canberra
Gordon, Mr Garry, Director, ACT Property Group

Independent Competition and Regulatory Commission
Dimasi, Mr Joe, Senior Commissioner
Weier, Dr Annette, Chief Executive Officer

THE CHAIR: Welcome to the second day of public hearings for the Select Committee on Estimates 2019-2020. The proceedings today will examine the expenditure proposals and revenue estimates for the Chief Minister, Treasury and Economic Development Directorate in relation to budget statements B.

Please be aware that the proceedings today are being recorded and transcribed by Hansard and will be published. The proceedings are also being broadcast and webstreamed live. When taking a question on notice it would be useful if witnesses used the words "I will take that as a question on notice." This will help the committee and witnesses to confirm questions taken on notice from the transcript.

Witnesses are asked to familiarise themselves with the privilege statement in front of them. Can I please confirm that you have read the privilege card presented to you and that you understand the implications of the statement?

Mr Barr: Yes.

THE CHAIR: Thank you. As we are not accepting opening statements today, we will proceed straight to questions. First we will turn to revenue estimates. Chief Minister, can you please explain the rapid increase in revenue across the forward estimates, what is driving this growth and whether growth of this kind is realistic and sustainable?

Mr Barr: Sure, yes. As is the case in every budget every fiscal year, there will be a range of factors that will contribute to increased revenue. We can provide those for the committee.

THE CHAIR: Thank you.

MRS JONES: On notice or now?

Mr Barr: They are in the budget papers. We could certainly provide that information. How would you like it presented? Differently from what is already in the budget papers?

MRS JONES: The reason we have you here is to give us your overarching view on why the increase in income is so rapid.

Mr Barr: I am not necessarily sure that I will accept the loaded elements of the question, but if you want to know the factors that are leading to increased revenue, there are many of them and we can detail those. If you would like me to go down to individual dollars, which has been the practice in the past, we can do that, but I would do that on notice rather than going through each one in the thousands of dollars.

MRS JONES: You do not have a summary position on that?

Mr Barr: Yes, and we will provide that to the committee.

MRS JONES: On notice?

Mr Barr: Yes. I can give it to you today probably, but I am just not sure what the—

MRS JONES: That is fine. It is just that at the beginning of the day we suggested that if you were taking something on notice you would say "on notice", because then it is clear to everybody what you are saying.

Mr Barr: We will provide that information as soon as we can. If there is any clarification on the form in which you would like that that is different from what is presented in the budget papers, let us know and we will endeavour to do that for the committee.

THE CHAIR: Given how rapid the increase in growth over the forward estimates is, is it the treasury's view that this is realistic?

Mr Barr: Yes.

THE CHAIR: And is this sustainable over the longer term?

Mr Barr: Yes.

MS CODY: We are growing by about 8,000 people a year?

Mr Barr: In population terms, yes.

MS CODY: What does that mean for the cost of delivering demand-driven services like public education or health?

Mr Barr: Certainly increased population leads to increased demand for that range of services. We see that most directly, as you have indicated, in terms of enrolments in schools but also in presentations within the health system and demand for community services—really across the suite of ACT government service delivery. Many aspects of the budget have automatic provisions that simply increase the resources available based on predetermined formulas. For example, in education there is an enrolment adjustment that occurs. That is provided for in this year's budget, as it has been previously. And it is similarly the case in health. Again, there is obviously a lot of detail within the budget papers on new initiatives that go to meet increased demand that is driven by population growth.

MS CODY: With the population growing quite rapidly, by the sound of things—8,000 a year is pretty good—is it feasible to freeze or reduce revenue from its current point whilst continuing to provide the same level of services that we expect as Canberrans?

Mr Barr: Those two factors are not compatible. Revenue also has an element of growth that is tied to population increase. But then we also need to provide for a more diverse range of services as our community grows and becomes more diverse and needs are more diverse than they perhaps were if you were to go back to the start of self-government. We have a very different community in 2019 that is more diverse and has a wider range of needs than has been the case over the last 30 years. As you project into the future with increased population growth and quite different service level needs, you can see that there will be a need for future revenue.

MS LE COUTEUR: I would like to ask about the review of taxation reform which is listed on page 24 of the budget paper. I am sure you do not need to look at it. Can you just go through what that is covering?

Mr Barr: I will invite either Mr Nicol or Mr Miners to talk about this. It is the review.

MS LE COUTEUR: You do not need page 24; I am sure you know what I am talking about.

Mr Miners: Sorry, could you just repeat the question? I did not quite hear.

MS LE COUTEUR: The fifth dot point on page 24 says "facilitate review of taxation reform". I am asking for an outline with a bit more detail as to what is in it.

Mr Miners: We are establishing a tax reform advisory committee which will look at tax reform in terms of how the reforms have gone to date, and looking forward. The intention is to examine a number of elements of the tax reform. First of all we will look at it from an equity perspective in terms of the equity distribution over time. We will also look at the efficiency of the taxes and any changes in the efficiency flow through into the economy, and benefits around simplicity, stability and other factors that are fundamental principles of the tax base.

At the moment we are still establishing the committee. We are in the process of seeking some independent members to be on that committee. I cannot give you the names at the moment because I am in the middle of conversations with those people. We are looking to get a really broad range of people with expertise across those efficiency and equity and simplicity type arguments so that we can do some really good analysis around it.

MS LE COUTEUR: If you establish a committee, it sounds like they will be the sort of people who will look at someone else's results rather than actually doing it themselves. What work have you done to date? How are you getting the stuff for the committee to work on?

Mr Miners: Yes, as part of that work we will actually commission some research to be done, particularly looking at the equity and the efficiency arguments, or the impacts of the tax reform to date. We will do that as part of that review. That will flow into the committee to help us evaluate those and to make sure we have actually got some really good, robust data to look at.

MS LE COUTEUR: But that has not started as yet?

Mr Miners: No. The work to date has been on scoping exactly how we are going to go about it—trying to identify the key bits of information we need, identify some people to be on the committee to help provide advice and to get that good mix. At the moment the focus has been around scoping the exercise to make sure we get it going right.

Mr Nicol: We are also looking for the committee to guide us as to exactly where we should target our resources in terms of research and modelling to inform their views and advice to the government.

MS LE COUTEUR: It sounds like there is going to be a substantial body of useful information. How are you going to make this public, because clearly the committee members will not be the only people who will be interested in this?

Mr Miners: At this stage the advisory committee has been established to provide advice to government. The decision on how to provide that information more broadly will certainly flow into decisions taken by government in respect of the budget papers. But there has been no decision taken at this stage around what other information will be made public.

MS LE COUTEUR: I hope there is a presumption that it will become public.

Mr Barr: Yes, as part of the budget.

MS LE COUTEUR: And not until the budget?

Mr Barr: It is to inform next year's budget. That was what the motion in the Assembly required—

MS LE COUTEUR: Yes.

Mr Barr: So I would not release it ahead of—

MS LE COUTEUR: But hoping it was a little—

Mr Barr: We would not release it ahead of the budget, no, because cabinet has to make decisions based on the information within it.

MS LE COUTEUR: I was thinking that the information could come out to the public and to cabinet and that other people could be looking at it.

Mr Barr: There will not be time—not before next year's budget.

MRS JONES: It does not take very long to release a document to the public.

Mr Barr: It takes a long time to pull it all together and then for cabinet to consider it, yes.

MS LE COUTEUR: I guess the point is that, in terms of the research that you are commissioning, that could be released before so that the public gets a chance to consider it simultaneously with cabinet.

Mr Barr: It would not necessarily be best practice in terms of how cabinet would go about considering these issues. But ultimately, yes, it will all be public.

MR COE: When will the rest of it be complete?

Mr Barr: I do not know; when it is complete.

MR COE: Obviously.

MS LE COUTEUR: And will it all be public—at the latest, by this time next year?

Mr Barr: Yes, if it is work that was—

MS LE COUTEUR: Yes, I know—

Mr Barr: required by the Assembly resolution to inform—

MS LE COUTEUR: Yes.

Mr Barr: next year's budget, and then the next phase of tax reform, which we are committed to outlining in next year's budget, then that is when it becomes public. But I cannot—

MRS JONES: Just a supplementary—

Mr Barr: I mean, we cannot have a process that does not allow cabinet to see this material and then make some decisions to inform a budget process. I cannot make those decisions in May of next year. They will have to be made before then—

MRS JONES: I have a supplementary to that. I think the question that Ms Le Couteur is getting at is that if there is research that is empirical about how the tax reform to date has gone, why not release that ahead of decision-making about the budget, because it will not be in full release with the budget. It will have informed the budget. It will not be the budget. It will not be, word for word, published in the budget. Very little is published in the budget. The point is this: if the taxpayers funded that body of research and would like to see and understand how the decision-making process will be made, based on what information, why can that information not be released before you make final decisions? It is not unusual in government to have, heaven forbid, a discussion paper about something. So why can that not be released?

Mr Barr: I will consider that matter, but until I have seen it and until I have seen the breadth of the work and the advice of the committee, I am not in a position to make pre-emptive statements in relation to that. But usual practice would be in a Westminster system, with a cabinet style government, that cabinet would get to see material, make decisions and then release information.

MS LE COUTEUR: But you are committed to release it all—

Mr Barr: Yes.

MS LE COUTEUR: even if—

Mr Barr: Yes.

MS LE COUTEUR: budget day is the day—

Mr Barr: Yes, that is correct.

MS LE COUTEUR: of the release.

Mr Barr: Yes.

Mr Miners: Can we just—

MS LE COUTEUR: With Mrs Jones, I would love it to be earlier, of course.

Mr Miners: It is not entirely clear exactly what it all will be.

MS LE COUTEUR: No.

Mr Miners: Some of this may have confidentiality around it due to taxpayer records. There may be a number of reasons. Until we actually know exactly what analysis is there, it is very hard to say that it is what it is. That is part of the scoping, as Mr Nicol mentioned, of bringing experts in. It is to help us to think about how we actually do that analysis. So it is very hard—

MRS JONES: Mr Miners, I do not think anybody is recommending that taxpayers' individual information be published. It is the outcomes of a piece of research. I think it is a bit disingenuous to suggest that that would be the reason that you could not release it.

Mr Miners: I think my point is that I—

Mr Barr: I am not sure that that sort of commentary reflecting on officials is particularly helpful.

THE CHAIR: We might move on to a substantive, Mrs Jones.

MR COE: Can I ask something on that? When will it be scoped—the analysis that needs to be done?

Mr Miners: We are in the process of doing that now. As I said, I am engaged in conversations with the people we would like to have on the advisory committee. As I said, there are a range of experts. I cannot reveal names at this stage as we are still in conversations with them. But that started last week and hopefully will continue this week as well. In the next couple of weeks, we should have that committee formed.

MR COE: So are the experts scoping it or are the experts doing the analysis?

Mr Miners: No, it will be a combination of the two. We have begun some of the scoping already. That work has already commenced. But it will done in consultation with the experts to help us make sure we have scoped it correctly.

MR COE: What scoping work has commenced?

Mr Miners: Most of it is thinking about the types of research we think we might need to do. But at this stage, it is all very preliminary.

MR COE: Yes, so what are the types of research?

Mr Miners: As I said, we think that we need to look at the equity components as well as the efficiency arguments and then assess both the efficiency and effectiveness and the distribution of the tax reforms, as well as looking at the benefits around the stability of the tax base.

MRS JONES: Chief Minister, I want to ask you a question about your view on the superannuation collected on behalf of members of the public service. In your view, who does that money belong to?

Mr Barr: The superannuation collected behalf of—

MRS JONES: Your employees in the government sector.

Mr Barr: Sure. I think we have a discussion on the superannuation provision account later this afternoon; so it might be appropriate to raise—

MRS JONES: No, this is in reference to the budget outlook. I would like you to answer the question of who you believe the superannuation belongs to?

Mr Barr: The rules in relation to superannuation would be that it would be entitlements of employees—

MRS JONES: Yes, and they would give it in—

Mr Barr: and the employer then manages those. We do so through our superannuation provision account. Of course, there are different superannuation arrangements that apply to different staff members, depending on when they joined the ACT public service. There are a range of different schemes that operate across the territory.

MRS JONES: Would it be reasonable to say that that money belongs to the workers and is for them and not for government to spend?

Mr Nicol: Perhaps you could be more specific about which money you are referring to?

MRS JONES: The superannuation that is collected on behalf of employees by the government?

Mr Nicol: Again, as the Treasurer said, there are several different schemes applying to different people. Perhaps I can work through each one.

MRS JONES: No. You have got an overarching superannuation return in your budget outlook. I am talking about the superannuation and how it is considered, how it is used by government, how those dollars are managed. They are presumably the property of the employees—correct?

Mr Nicol: No, they are not. The superannuation provision account is not. It is an amount set aside by the government to pay the future liabilities related to those costs. The government has to meet those costs under any circumstance, and it does so.

MRS JONES: So these are funds that are not collected from employees? This is a liability fund?

Mr Nicol: That is right. It is the government's employer cost for these employees. All the money collected from employees goes to a separate account, which is—

MRS JONES: Private.

Mr Nicol: Well, for CSS and PSS members it actually goes to Comsuper, the commonwealth government. So it is, again, outside the ACT government's control. But, yes, the superannuation provision account is essentially the government building a fund from its own recurrent expenses to pay the future liabilities of these employees.

MRS JONES: And that fund is for liabilities which you will have to pay?

Mr Nicol: That is correct.

MRS JONES: It is not a hypothetical amount that you need and—

Mr Nicol: There are assumptions about what the amount will be, based on actuarial advice on inflation and decisions about pension life, age at death, age at retirement and those sorts of questions.

MRS JONES: I am just trying to understand why the ACT is the only jurisdiction in the country that puts the superannuation return, that fund, in the calculation of the net operating balance.

Mr Nicol: We are the only jurisdiction that has the peculiar arrangements of superannuation that we do.

MRS JONES: Which peculiar arrangements of superannuation?

Mr Nicol: There are two peculiarities. One is that the scheme is not our scheme; it is a commonwealth scheme, so we do not directly own or control the scheme. Our past and present employees are members of that scheme. That is the first peculiarity. The second peculiarity is the way we manage the fund as a separate superannuation provision account. Other jurisdictions generally do not do it that way.

MRS JONES: Do you know how other jurisdictions do it?

Mr Miners: Yes. Part of the issue with the ACT is that, as Mr Nicol said, part of the scheme is outside. The actual payments are through the commonwealth, outside the ACT, but the superannuation provision account sits inside the ACT. With most other jurisdictions it is either all inside or all outside. We have this split across the two, which is why we need to do it. The key focus on this is making sure we are actually recording the full amount of our super liabilities and also the assets that underpin that. The reason we need to do it is that if we do not do it this way, all the future liabilities are hitting the headline net operating balance but the returns are not. So this is a way to make sure that we are balancing the two out and getting a consistent treatment.

Mr Barr: There is expenditure on the other side of the equation, so you have got to count both. That is what the Australian accounting standards require. It is what the Auditor-General requires. That is why it has been consistently presented this way.

MRS JONES: For about 10 years.

Mr Barr: Longer.

Mr Miners: The reason it is unique is that in most other jurisdictions it is in already.

Both sides are in or they are both out. It is that split—part in, part out—that means we need to do it this way.

MRS JONES: Yes. But you can understand how someone looking at the budget from outside might say, "Why is that included in a headline net operating balance which looks like it is in a surplus, when that money has to be used and is not just available for government expenditure in general?"

Mr Nicol: Another way to look at it is that if the government had not set up a superannuation provision account, debt would be much lower and therefore debt interest costs would be much lower. So if you did not include this adjustment you would effectively be giving a misleading picture of what the true underlying financial position of the government is. You would in fact have an incentive not to have a superannuation provision account, because if you did not have one, as I said, your net debt would be a lot lower, your interest costs would be a lot lower and your balance would be a lot better. It does sort of neutralise those two effects. The other relevant factor here is that it is a normalised return on capital amounts. The reason why it is normalised is that returns on investment accounts can swing wildly, so we take an average return to essentially ensure that—

MRS JONES: Smooth it out.

Mr Nicol: if there is a boom year the budget does not look a lot better than it really is, and if there is a bad year on investments it does not look a lot worse than it is.

MR PETTERSSON: The government's fiscal strategy remains a balanced fiscal position, which includes a surplus over the forward estimates. Why do you believe that this is an important objective at this time?

Mr Barr: I think it is an important objective all of the time. It has underpinned the approach to budgeting in the territory pretty much since self-government, in fact. It is something that governments of both political persuasions have largely focused on. There have been different periods in the transition from commonwealth provision of services in the territory, and adjustments have been required over that 30-year period. In this current phase it is important because it not only sends a very clear signal in relation to consistent long-term fiscal planning for the territory but also guides both revenue collection and expenditure decisions over the longer term. In the simplest possible terms, whether the ACT budget is in surplus or deficit longer term is not going to have any massive macro-economic impacts on the Australian economy. We are not crowding out private sector investment if we invest. But at the same time obviously the territory needs to live within its means.

There is a lot of fluidity between fiscal years in the timing of, for example, commonwealth government grants, which do comprise a reasonable proportion of our budget, although a relatively lower proportion than those of most other states and territories. A practical example of that is that the commonwealth will often, to make their fiscal position look better in the coming fiscal year, drop out their local government assistance grants on 30 June, the last day of the previous fiscal year. They will hand that money over then, which means their coming year is marginally improved in terms of their own bottom line. What that does is bring forward money into our accounts by one day, but that means it is presented in the current fiscal year, not the next one. That impacts on the year-to-year headline net operating balance for the territory.

But in the end we really must focus beyond just any one fiscal year and look across a longer term program. The history of the headline net operating balance for the territory this century is presented, I think, between this year's budget papers and last. You get 20 years of that position. At various points we have had headline net operating balance surpluses and at other times deficits. Over that period of time they are largely in balance, which shows a reasonably consistent approach to budgeting and fiscal management over an extended period of time.

MR COE: Going to the consolidated total territory operating statement at page 394, can you talk me through what significant events or factors are going to influence next year's bottom line as opposed to this year's?

Mr Barr: When you say next year do you mean—

MR COE: 2019-20.

Mr Barr: As opposed to the current, 2018-19? So the current fiscal year versus the next fiscal year, on page 394?

MR COE: That is right.

Mr Nicol: Which figure in particular, or just in general?

MR COE: The bottom line is a significant one, but there is—

Mr Nicol: The bottom line in the consolidated territory financial statements is a derived figure from both the general government sector and the PTE sector. In terms of the general government sector, the main influences on next year's budget are outlined in the budget papers, but I would surmise that the major change from the 2018-19 outcome is that we are expecting lower dividends from the Suburban Land Agency as a result of their land sales forecast.

We are expecting continued relatively reasonable growth in revenues. Expenses are likewise growing within their accepted norms. Noting the Treasurer's earlier comments that a lot of changes go into preparing a budget outcome, those are the three general factors that are driving the outcome from the general government sector into next year and they are the overwhelming factors driving the total territory sector.

MR COE: With the PPP arrangement, how does light rail and the courts coming online this financial year impact the net lending for this year?

Mr Nicol: Essentially the accounting standards we have adopted require that the implicit borrowing included in the PPP arrangement is recognised on the balance sheet, and similarly the asset is also recognised on our balance sheet.

In terms of our operating statement, we will recognise depreciation, we will recognise the financing costs of the PPPs and we will recognise the operating costs of the PPPs. Essentially, given the fact that it is a PPP rather than some other form of contract, the accounting standards we have adopted have been to minimise the differences on the effect of the operating statement and the balance sheet compared to if it was a direct construction or some other form of procurement.

MR COE: So where are the financing costs included in the budget?

Mr Barr: Pages 349 through 352.

Mr Nicol: Those tables present, as I think I have just summarised, the impacts of the two PPPs on the operating statement and the balance sheets, and cash flows as well.

MR COE: With interest and any financing costs?

Mr Nicol: Yes.

MR COE: Is that the actual financing cost or is that the financing cost that is stipulated through the contract? For example, have you normalised it over the course of the 20 years or is it as per payments that are made?

Mr Nicol: I will have to confirm that, but my understanding is it is actual. I will confirm that.

Mr Miners: That is my understanding as well, but we will confirm.

MRS JONES: So you will take that on notice?

Mr Nicol: Yes.

MR COE: It was not particularly clear as to how much capital was being repaid in any given year. Obviously the final amount of capital is clear in the contract, but I cannot recall seeing how much of the capital is repaid in each year.

Mr Nicol: I will take that question on notice as well and get you information on the breakdown between the capital repayments. I think it will depend on the contract exactly when this capital can be repaid—do you pay it up front or do you pay it at the end, depending on—

MR COE: Exactly right. And that is why I am thinking about the operating statement as well.

Mr Nicol: I just cannot recall the exact form and the nature of how the contract discharges that obligation. We will take that on notice.

MR COE: Why is it that we are looking towards a net lending of $1 billion next year, as opposed to $447 million this year, and then $542 million the following year? So what is significant about next year?

Mr Nicol: I would have to take that one on notice as well. I do not have the details. It could be related to the timing of payments in the broader program, but I will take it on notice.

MR COE: Are any projects running late or are there any that you have brought forward to 2019-20 as opposed to 2020-21?

Mr Nicol: I think we detail that in the infrastructure chapter. There are a number of projects that are behind. Typically our programs tend to run to budget but tend to run late for various reasons that we have discussed here before. So that will be part of the reason for a change in net lending requirements from this year to next year.

Obviously in 2019-20 there has been a slight deterioration in the budget balance that will then add some requirements for borrowing. I am just thinking the timing of the capital payment for light rail should not have made a difference. But all of these things can have an influence on the timing of borrowing requirements et cetera, which might be driving it. I will have to get back to you on notice with the details that are driving those numbers.

MR COE: If projects have been pushed back, is that the reason for the interest liabilities coming in under?

Mr Nicol: There would be two reasons, one is—

MR COE: Interest expense, I should say.

Mr Nicol: Well, it depends on what to what. Our interest liabilities are less for two reasons—one is that there have been some delays but, secondly, the cost of finance has fallen in the last two to three months in particular well below what it was prevailing at 12 months or even six months ago.

MR COE: Have there been new borrowings undertaken in the last few months?

Mr Nicol: Yes. We undertook a new borrowing. We can go through this in greater detail in the territory banking account section this afternoon, but we did undertake a $675 million, 10-year—

MR COE: Is this the May 2020-29 at 2.25?

Mr Nicol: Yes, that is correct.

THE CHAIR: Going to page 226 in the budget paper 3 and the table showing general government sector revenue, gains from contributed assets double between the years 2020-21 and 2022-23. What is the reason for that increase?

Mr Nicol: Principally the Kingston arts precinct, which is being returned to the government at that point. The accounting standards require us to recognise it essentially as a revenue, which is about $77.9 million. That is the reason for that change in those two years.

MS CODY: I think I am in the right session to talk about commonwealth underinvestment. Can you please describe how the ACT has fared in terms of commonwealth infrastructure investment in recent years compared to other jurisdictions, and can you give us an outline of how that has impacted on the ACT?

Mr Barr: The short answer to the question is: we have received well below our population share of national infrastructure investment. That has been a pretty consistent pattern for the last six years. The cumulative effect of that would be in the order of a little over $300 million. That would be the difference between what has been allocated in terms of commonwealth spending inside the territory and what would be our per capita share.

The commonwealth can make infrastructure investments in a variety of ways internal to the territory. They do not necessarily always need to make infrastructure investments in partnership with the territory government. They could, for example, invest in their own assets in the territory. There are ample opportunities for the commonwealth to do that with their own assets. That would be a capital expense for them. I am aware of a number of commonwealth assets that are in desperate need of further investment. There is a long list: national cultural institutions, the Australian Institute of Sport, the parliamentary triangle itself. Commonwealth Park would be another example.

At the very least the commonwealth could probably fund and maintain its own owned assets in the territory. If you were to purely set aside what can often be the politics that is played between different levels of government in the nation, at the very least the commonwealth could do some more on its own owned assets. It can then claim the sole political credit for those improvements: for example, the National Gallery, Questacon, the National Library, the National Museum. The commonwealth have indicated a long-term funding proposal for the Australian War Memorial but there are other national cultural institutions. Our new National Film and Sound Archive would be another example. There are numerous others. Relocating AIATSIS into a more suitable and purpose-built facility would be another example.

Obviously there is considerable discussion now around the future of the Australian Institute of Sport and that broader precinct. Of course, the commonwealth own a stadium and an arena in that precinct. Renewed investment in those assets or in some alternative would be a useful thing.

More broadly, obviously there are areas where the commonwealth and the territory are partnering on infrastructure projects. They are mostly roads—the Monaro Highway being one such example, and the major arterial road between Belconnen and Gungahlin being another.

MS CODY: In discussions that you have had with the media, particularly since the release of this budget, you have talked about a shortfall of around $300 million in infrastructure investment. What is that actually equivalent to? There are many in the community for whom $300 million is a lot of money. It goes beyond my brain sometimes.

Mr Barr: Largely hundreds of dollars per head per year is what that means. I am a realist about what is possible, and I think a reasonable expectation for taxpayers in the

ACT is that they at least get their per capita share. We pay more tax to the commonwealth per capita than any other jurisdiction. Our higher incomes mean we pay more income tax. I do not think it is an unreasonable thing that some of the tax that is paid by ACT residents to the Australian government comes back in the form of infrastructure investment.

The commonwealth owns more assets in this jurisdiction than it does in others, I think, certainly proportionally and probably absolutely. Canberrans benefit from those nationally funded areas.

The list I have given would be a starting point. I am sure there would be others, but we do not even need the commonwealth to work in partnership with us. They could lift their investment in their own assets in the territory. Of course, we would welcome the opportunity to partner on a number of other projects and we are working constructively on the Monaro Highway and the Belconnen-Gungahlin link road, the duplication of that. They are good, practical examples of what can be achieved when the two levels of government work together.

MRS JONES: Have you had any particular discussions about the investment in the federal assets that are here? Have you done that in recent times or is it more—

Mr Barr: Granted, we have had a bit of churn in terms of ministers in certain portfolios, but in the correspondence I have sent since the federal election to both the Prime Minister and the Treasurer I have raised a range of these issues. I had the opportunity for a brief face-to-face at a function with the new arts minister, Paul Fletcher, at the National Gallery the other night. I will take those opportunities and I am happy to put on the public record my support for Australian government investment in their own assets in the ACT. I hope the National Capital Authority is better funded in other ways to meet both its ongoing infrastructure maintenance requirements as well as its recurrent costs around the presentation of the parliamentary triangle, for example.

MRS JONES: Just briefly on that $300 million that you talked about, the NCA's funding, do you have an opinion about where that really should be at, compared to what it is?

Mr Barr: As in the level of funding they receive or how they spend their money?

MRS JONES: I am talking about the level of funding they receive. I think it is well known that that has decreased over the years.

Mr Barr: It has, yes.

MRS JONES: They have a bit of parking revenue, but I doubt that makes up for it.

Mr Barr: I think part of the challenge for the NCA is that the breadth of responsibilities that they have is broader than their financial means at this point. They require a periodic budgetary top-up, either for specific initiatives or to undertake any large-scale infrastructure works.

MRS JONES: Project based?

Mr Barr: Yes, indeed. That is likely to continue in terms of large scale. I do not think they are just going to be given hundreds of millions of dollars each year and the complete discretion to determine—

MRS JONES: Their administration seems to function?

Mr Barr: Yes. They are not going to get complete discretion in terms of infrastructure investment. But adding new assets into their asset base is one thing. How they maintain their existing assets is another thing. One obvious example that they have brought into the public arena is Commonwealth Avenue Bridge. I imagine Kings Avenue Bridge is also of a similar age. That will at some point need a similar mid-life assessment and—

MRS JONES: Rejuvenation?

Mr Barr: And rejuvenation. Again, we would be very happy to have—and we are engaging with the NCA at this point—a discussion on what a sensible, perhaps combined investment, particularly in the Commonwealth Avenue Bridge infrastructure, could do to enhance public transport access, pedestrian and cycling access on that bridge. If it is going to have a mid-life makeover or some change then it would be very sensible—and I am pleased that those discussions are taking place—for both governments to work together in that regard. That is what we are doing and that is what we will do.

MS CODY: What has the ACT government been doing in response to this lack of investment?

Mr Barr: Obviously as part of our responsibilities around meeting the infrastructure needs of our growing community we have stepped up to increase our infrastructure spend. That is undoubtedly implicit in not just this year's budget but in recent budgets. We have been flexible and adaptable to accessing various commonwealth programs. For example, the asset recycling initiative was a positive feature of Joe Hockey's second budget, from memory, going back to 2015.

He still talks from Washington about light rail stage 1. In fact, it was the first project he highlighted at the National Governors Association joint meeting of heads of Australian states and territories and heads of the US states. He wanted to highlight that because it demonstrated a conservative national government working with a progressive subnational government on a sensible project.

I understand from our New South Wales colleagues that there has been a call for the commonwealth to consider a restart of the asset recycling initiative. I think that is something that has merit if they are looking for—

MRS JONES: Economic stimulators?

Mr Barr: Yes. We have got a big infrastructure program underway on the east coast of Australia at the moment but, a few years ahead, those projects will start to taper off.

It would make sense for the commonwealth now to give some consideration to this, given the time frames that are generally necessary for large-scale infrastructure, were they to consider restarting that program with a view to projects for the early to mid-2020s. That would be a sensible decision to make at this point of the Australian economic cycle, and clearly there is a need for economic stimulus. The Reserve Bank has made that clear and, undoubtedly, when the federal parliament resumes it will deal with the question of potentially bringing forward income tax cuts. To hand back some of the bracket creep in recent years would be something that would be sensible to consider.

MRS JONES: You were mentioning commonwealth grants and the money that comes into the ACT. My understanding is that the Commonwealth Grants Commission's calculations are impacted by our changing stamp duty intake: that their calculation involves stamp duty as one of the indicators of something, and there is a possibility that we may lose out unless that is changed.

Mr Barr: I explicitly asked that question of the Grants Commission previously and was—

MRS JONES: What response did you get?

Mr Barr: An absolute guarantee that they would not seek to disincentivise good tax reform in this nation by punishing jurisdictions that undertake it. So I think your—

MRS JONES: But we have not had a resolution yet?

Mr Barr: We have, because our share of the GST pool actually increased, so we have effectively been rewarded for a range of other factors. The biggest drivers of GST allocations are the various assessments that go with the horizontal fiscal equalisation criteria. I am cautious, and we will not be supporting change to those criteria. We, along with all of the other smaller jurisdictions, have resisted calls, mostly from New South Wales and Western Australia, for a straight per capita allocation of GST funding. But that is a separate issue from infrastructure funding.

There is an element of equalisation within the Grants Commission process around certain commonwealth infrastructure grants, but not all of them, and they are not all fully equalised. Stephen, do you want to add any further detail on that?

MRS JONES: As far as the stamp duty influence is concerned, you have not seen that yet?

Mr Nicol: It is very complex, because it relies on what is happening in every other state and territory as well.

MRS JONES: That is why we have you here.

Mr Nicol: As a small jurisdiction, our GST from any policy change we have is very small, so we think it is unlikely to have a major impact on those distributions. As the Treasurer said, we continually lobby the Grants Commission to make sure that they are aware that, as far as possible, when they are looking at the system, they do not put in any arrangements that disincentivise any jurisdiction from trying to undertake any reform of any nature and in fact do the opposite: try and encourage it.

MRS JONES: So far, we have not lost any money as a result of their calculations?

Mr Nicol: We have not identified an amount that we have lost. No, that is right.

MRS JONES: After asking them to change, they gave you a commitment. Did they make any changes that you know of?

Mr Nicol: I would have to ask my experts, who are not here in this session.

MRS JONES: Would you like to take that on notice?

Mr Nicol: We will take it on notice, yes.

Mr Barr: We will take it on notice.

MRS JONES: Thank you.

Mr Barr: But, no, I do not believe so. In fact, as I said, relatively speaking, partly driven by factors in other jurisdictions, our share of the national GST pool has actually gone up.

Mr Nicol: I am just racking my memory. I do not think they have made any explicit change, but I think that is partly because they do not think that we are being penalised. I will confirm that, but I am sure that is the case.

MS LE COUTEUR: I want to talk about the fixed component of residential rates. How do you decide what that is going to be each year? Do you have some target?

Mr Barr: There is an assessment each year. The overall revenue goal is set and then there is an assessment based upon a combination of factors that go also to growth in the number of ratepaying properties. The fixed component has traditionally been, from memory, around 40 per cent of the—

MS LE COUTEUR: I have the figures in front of me. In 2012-13 it said that a percentage of the residential revenue for a fixed charge was in relationship to total residential rates, land tax, FESL and FSL revenues. In 2012-13 it was down at 33 per cent, but it has gone up to 44 per cent in 2017-18. I asked quite a while ago about this.

Mr Barr: Yes; that is where I remember seeing the figures.

MS LE COUTEUR: So the answer is that it actually has increased significantly over that period?

Mr Barr: Yes. One of the things that has changed, obviously, through tax reform, has been the introduction of progressive marginal tax rates based on land value. Prior to tax reform, there was one fixed rate component and one rate of taxation regardless of the value of land. As tax reform has proceeded, we have had a range of different tax brackets for the non-fixed component. That has to be a contributing factor in terms of our thinking as to what level the fixed component is of the total charge for a household.

MS LE COUTEUR: I cannot quite see why it would. It is good that there are different marginal rates; that is a big tick for progressiveness there. But why do you want to significantly increase the fixed part, which is the regressive, non-progressive part? That is my question. Why is that going up? You could have had the same amount of money from the marginal rates.

Mr Barr: It becomes a question of how progressive the system is, and that is a values decision that we make. At the moment, the range will be from around $1,000 a year at the lower end to some households paying more than $10,000 a year at the upper end. That will, obviously, be very much linked to both the quantity of land and the value of that land.

We already have a much more progressive system than we did seven years ago, when the range was much less between your highest value land and your lowest value. We make a choice each year. It largely goes to distributional impacts, but you need to assess it based on where we have come from over a longer period. If each year you determined that there would be no increase in the fixed charge then over time you would see an even greater distribution in terms of the range from the highest to the lowest. So keeping the relative proportions—it has increased a little.

The answer is that cabinet makes a decision every year, and that is based on relative progressivity of the system over time. But it is not purely progressive or else you would not have a fixed charge at all, and nor is it purely regressive and you would not just have a flat rate. It is a hybrid system somewhere between the two.

MS LE COUTEUR: It is clearly a hybrid. My question is: why have you decided to increase the fixed charge as a proportion of the total rates, which would appear to make the system more regressive compared to 2012?

Mr Barr: I guess I fundamentally—

MS LE COUTEUR: They are the figures that I have got.

Mr Barr: Sure, but if you had asked the question looking back to 2011, before reform commenced, it was much more regressive in that instance when you only had one rate of taxation on land. Now you have multiple and more progressive rates of taxation there, and you have got to factor that in. If your question on notice had gone back a few more years, you would see that the system we have in place now is much more progressive than was the case previously, before tax reform commenced.

MS LE COUTEUR: I will put a new QON in, unless you would like to take it on notice.

Mr Barr: Sure.

MS LE COUTEUR: You know the question I am asking. You know exactly what

I am asking.

Mr Barr: I do, absolutely. Yes.

MS LE COUTEUR: If you could do that for a couple more years?

Mr Barr: Sure. We certainly can.

MS LE COUTEUR: It certainly appears that we are not getting more progressive.

Mr Barr: I strongly contest that, and I will show you the figures to demonstrate that.

MRS JONES: General government sector net debt will exceed $3 billion in the coming financial years. How much does that work out per household? Have you done that calculation?

Mr Barr: Obviously, a number of factors, including a change in accounting standards, are highlighted. So there is not new debt in relation to that change. It would be simply a function of dividing the number of households by that level of debt. That is a mathematical calculation.

Mr Nicol: And we can do that relatively quickly.

MRS JONES: Thank you. That would be fantastic.

Mr Barr: You could probably do it yourself.

MRS JONES: I do not have a whole department at my disposal, as you may be aware. When will it be paid off in full? What is the total amount of interest paid on that debt? What is the expectation?

Mr Barr: There are a number of different components to that debt. About a third of it is the Mr Fluffy loan. We are scheduled to pay that in 2024. I have written to the commonwealth Treasurer today, seeking to remove penalty clauses from some historic debt that the commonwealth gave to the territory upon self-government. That is at a much higher rate of interest than we can currently obtain. We are looking at ways to pay back more quickly debts owed to the commonwealth because at the moment the rates of interest on those loans are in excess of what we can get in the general market with our highest possible credit rating of any sub-national government in the nation.

MRS JONES: You wrote that today? You sent that letter off today, did you say?

Mr Barr: I signed it this morning, yes. We have other elements of debt that will not be repaid in the short term. I think it is prudent for the territory to have a certain level of debt because that reflects a degree of intergenerational equity on the provision of assets that are going to—

MRS JONES: Everybody is going to use; yes, that is right.

Mr Barr: Everyone is going to use over the next 50 to 100 years.

MRS JONES: Yes.

Mr Barr: I think the important thing, Mrs Jones, is that we seek to maintain a level of debt that is consistent with the highest possible credit rating. When I met with Standard & Poor's last week, as I have done every year that I have been the Treasurer, we continued that conversation about—

MRS JONES: How we are going—

Mr Barr: wanting to engage with them on that metric. That is something that certainly informs cabinet's decision-making in relation to the forward infrastructure program and forward borrowings—what is consistent with keeping that credit rating.

MRS JONES: Keeping that rating. Yes.

Mr Barr: Then we also look, of course, at what is occurring across the Australian states and territories, where—

MRS JONES: The broader economy.

Mr Barr: Yes, the broader economy—the state of the global bond market in that we can only source a reasonable amount of our government borrowings domestically, largely from the bank balance sheets. Part of our debt issuance does see ACT government bonds being bought by international traders.

MRS JONES: My question really related to the total amount of interest paid on the debt each year.

Mr Nicol: That is outlined in the tables on page 309 of budget paper 3.

MRS JONES: Does that also explain what percentage of the ACT government's total taxation or own source revenue goes to paying off debt? If not, can you get me that figure?

Mr Nicol: No, you would have to take those numbers and divide them by the total revenue lines.

MRS JONES: Can you take that on notice, please?

Mr Nicol: We can do that.

MRS JONES: Thank you. The $3 billion debt figure, compared to other similar-sized jurisdictions—have you done any comparison with other jurisdictions?

Mr Barr: Yes.

Mr Nicol: Yes, there is some comparative data in there as well. We will dig that out for you and let you know.

MRS JONES: Thank you.

Mr Barr: Just on that, every jurisdiction's net debt went up as a result of the change to the accounting standards around treatment of leases.

MRS JONES: Yes.

Mr Barr: From my quick scan of jurisdictions' budgets, so far this budget season, perhaps with the exception of Western Australia, where my state colleagues over there are doing a lot of work to undo Colin Barnett's debt frenzy, it would seem that every other state and territory certainly is utilising this point in terms of historically low interest rates and the need for infrastructure investment to get some things done, yes.

MRS JONES: You just mentioned the treatment of leases. My understanding is that there are some additional accounting standard changes that will come into effect next year relating to public-private partnerships. Currently, the tram is being treated as a lease in the accounting standards. Is that correct?

Mr Nicol: Under the accounting standards, the two public-private partnerships that we have, the ACT law courts and the light rail, were both commenced under an arrangement where there were not Australian accounting standards dealing with those sorts of contracts. So we used the relevant UK standard, which every other jurisdiction used. The new Australian accounting standards are due to come in—

MRS JONES: January; is that right?

Mr Nicol: January or—

Mr Miners: July next year.

Mr Nicol: July next year; it is virtually the same.

MRS JONES: Is it?

Mr Nicol: The only real difference is when you recognise the assets and the liabilities under the UK standard. They are recognised on the completion of construction. Under the new standard they are recognised—

MRS JONES: As you go.

Mr Nicol: as you construct.

MRS JONES: As real-time value or projected value?

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

MRS JONES: Please do.

Mr Nicol: I think it would be, effectively, as you spend. You would assume that the asset equals what you have spent.

MRS JONES: Okay. It is not that you can sell a half-built—

Mr Nicol: Yes, it would be pretty hard to take another approach, but I can confirm that.

MRS JONES: But that changed. I understand there was some communication between us and the decision-makers about that. Is that coming in for everybody at the beginning of next year, the standards change for the public-private partnerships?

Mr Nicol: The standards changes are promulgated by the Australian Accounting Standards Board—

MRS JONES: Yes.

Mr Nicol: They consult broadly before they introduce the standard.

MRS JONES: So was there any correspondence between you and the Accounting Standards Board?

Mr Nicol: There would have been. I can confirm that I am the chair of the Heads of Treasury Accounting and Reporting Advisory Committee in Australia, which provides input to basically all accounting standards. So I can go back and look at what I signed off on that.

MRS JONES: Could you provide on notice the correspondence on that issue, please?

Mr Nicol: Yes, we can dig that out. That is fine. Now that the light rail stage 1 has been accepted, the accounting standard, as I understand it, will be essentially the same as we have adopted in the budget.

MRS JONES: So it will not change—

Mr Nicol: It will not change the numbers.

MRS JONES: for the next ACT budget?

Mr Nicol: No. With the courts, we are still doing stage 2, so that could have some small changes in terms of the recognition of assets and liabilities. But I would not expect to have a big—

MRS JONES: In the following budget.

Mr Nicol: Yes, I would not expect it to have a big impact on expenses. Mr Coe, I return to your earlier question and confirm that the numbers in appendix B for light rail are the actual interest costs and the lease payments are the actual lease repayment in those tables.

MR COE: Thank you.

MR PETTERSSON: What share of the government's expense base is made up of staff costs?

Mr Barr: Around 50 per cent.

Mr Nicol: I think 47 per cent was the last that I recall.

MR PETTERSSON: What effect would freezing rates have on staffing in the ACT government?

Mr Barr: Absent increases in other taxes, charges or other forms of revenue, it would mean one of two things: either no future pay rises or a reduction in the number of staff.

MRS JONES: What would occur if the budget were to be managed by different people who made different choices and different decisions? How would that affect the opportunity for pay rises, Mr Barr?

Mr Barr: If those different decisions were to employ fewer staff or invest less in certain areas of government expenditure then that would potentially free up resources for other allocations. But there is no magic pudding, Mrs Jones—

MRS JONES: No, that is right.

Mr Barr: in that, unless, of course, there is a population decrease, as a result of a different set of people managing the territory, with lots of people leaving. That would—

MRS JONES: I think there are a few people leaving currently.

Mr Barr: Apparently not, according to the population data.

MRS JONES: You only have to drive around Jerrabomberra to find them, and Queanbeyan and the neighbouring regions.

Mr Barr: And they would be more than being replaced by a net positive intake of people from across Australia, because our population growth is being fuelled by more births than deaths, international migrants and an increase in net interstate migration. There are more people moving to Canberra than there are leaving each year. But our city has always had a degree of population transience; that is true.

MR COE: What unallocated capital exists in the outyears in the budget?

Mr Barr: It will be outlined in the chapter on capital works. There is a general works provision unallocated, which is $100 million.

Mr Nicol: Well, we have allocated 20—

Mr Barr: Except we have already allocated $20 million of that each year over the forwards to the public housing growth program.

MR COE: What makes it unallocated, then, if it has been allocated?

Mr Barr: The provision is $100 million each year; then we have allocated $20 million of that over the forwards.

MR COE: Isn't that $80 million then?

Mr Barr: That would then leave it at $80 million, yes.

MR COE: Does the budget say $80 million or $100 million?

Mr Nicol: The budget, on page 197, has a summary of the 2019-20 infrastructure investment program. About three-quarters of the way down, infrastructure investment provisions include allocated provisions—provisions that we have allocated particularly to SPIRE. I can get you a list.

MR COE: Yes, please.

Mr Nicol: That includes, as the Treasurer said, from 2021, a $100 million general provision, and $20 million of that has been allocated to support housing renewal. So $80 million is there which has not been allocated at this point to any particular projects. The remainder of the number in that line has been allocated to particular projects.

MR COE: Have you taken that on notice?

Mr Nicol: We can get you a breakdown of what is included in that.

MR COE: Thank you. What depreciation expense, therefore, is included for that unallocated capital?

Mr Nicol: Perhaps I will go back a step: for all allocated capital, we include a costed depreciation expense. My recollection is that we include a general provision for depreciation. It is an assumption based on what general capital you might use for that $80 million, but it is a general provision for depreciation in the expense line.

MR COE: How do the directorates calculate their depreciation expenses, especially for projects that have not started? Some of the big ones would be Education and Health. Do they calculate it and send it through to you, or do you calculate it?

Mr Nicol: Generally, a director will prepare a business case which will include costings for a project. There are depreciation schedules for different sorts of capital projects and different components in capital projects. For example, a new facility will have both the building and equipment in the building, which will have different depreciation schedules. That is submitted generally during the budget process. In that process, treasury QAs those numbers and confirms that they are accurate. It then goes through a budget cabinet process. Cabinet can accept it as proposed, in which case those numbers will go in the forward estimates, there might be some modification by cabinet in terms of timing, scope or something, in which case we will re-cost it, or cabinet may reject the proposal, in which case it does not go in the forward estimates.

MR COE: How do you ensure that the same policies are being applied across the board?

Mr Nicol: That is our job, working with directorates. These are the same depreciation schedules that we and directorates apply to existing assets, so we have a fairly good understanding. We have some rules of thumb. If a project is delivered on a slightly different time line than forecast, depreciation might start later or earlier, and we recognise that when we go into technical adjustments for each budget. The accounting rules require that assets are revalued on a periodic basis, and revaluing an asset will change its deprecation schedule. That is taken up in each budget. As with all things in a budget, and especially new initiatives, they are estimates. They are well-informed estimates, but we keep them under review as we roll out budgets and update as necessary.

MR COE: What is your policy as to when depreciation commences? Does it commence midway; does it commence at the end of the project or as investments are made?

Mr Nicol: My recollection is that it commences after the project is completed.

Mr Miners: That is correct, so it commences in the year after a project is completed. We do not depreciate them until they are being used.

MS CODY: That would be in line with the accounting standards, I would imagine?

Mr Miners: Correct.

Mr Nicol: Mr Coe, going back to your earlier question about what is in the infrastructure provisions, a list is outlined on page 199 of budget paper 3.

MS LE COUTEUR: Could I ask some more about the infrastructure provisions. You said there was $100 million, and we spoke about that just now. I cannot see any figures on page 197 which equal $100 million.

Mr Nicol: The $100 million is a component of the infrastructure investment provisions line, the line starting with 6,226.

MS LE COUTEUR: So in there is an unallocated $100 million and you have just—

Mr Barr: Well, it is now $80 million because we have allocated $20 million.

MS LE COUTEUR: And you have said that $20 million of that each year is for public housing.

Mr Barr: That is correct.

MS LE COUTEUR: What other sorts of things would come out of it? In my electorate you are looking at design work for moving, say, Woden Community

Service. Would that be the place where the money would be sitting? I am just trying to get an idea, what is in this. Is it a few potholes?

Mr Barr: In terms of the $80 million component.

MS LE COUTEUR: Yes, you have $20 million going to public housing—great. What is the rest going to?

Mr Barr: There would be a range of projects. This year's examples would be useful. They are outlined on—

MS LE COUTEUR: Page 197 then turn onto 199.

Mr Barr: For example, there will be a capital fit-out of new nurse-led walk-in centres. That is an example of a project that would be funded out of that provision, and some of the new school infrastructure, the active travel infrastructure and those sorts of projects. Given the scale of that fund, it is more likely to comprise a large number of small projects.

MS LE COUTEUR: But some of them would be potentially $20 million or $30 million projects?

Mr Barr: Conceivably.

MS LE COUTEUR: If it is a few million dollars to do a design and feasibility study, you expect it will be at least tens of millions to do whatever it is.

Mr Barr: Yes.

MS LE COUTEUR: And those moneys would be sitting in there?

Mr Barr: Yes, generally speaking there will be an expectation that once you commence a feasibility study—

MRS JONES: You then give it its own line item ultimately.

Mr Barr: Yes, but how can I put this? Agencies have an expectation, and there is agreement by budget cabinet to a feasibility study. They then go, "Of course that means we're going to build it." Cabinet's view might be that we are investigating the feasibility of something, which is different from design.

Once something is moved from feasibility into a detailed design being done, it is reasonable to assume that we are going to be building this piece of infrastructure. Feasibility studies are a little bit different because they might come back and say that it is not feasible or that it might be feasible but it is going to have a price tag of X. So that distinction I would draw; I think that is important.

MS LE COUTEUR: If money has been allocated for a project at design stage it is reasonable to think that it is likely and that there is some—I know I should not use the term "hollow log"—

Mr Barr: It is a provision. That is what it is called.

MS LE COUTEUR: The technical term for a hollow log being a provision, and that is sitting in here.

Mr Barr: It is, yes. Rather than the hollow log, I think the better answer is to say that money is set aside in the forward estimates. One of the issues we often encounter is what is the feasible time frame for the construction of a project, and most projects will fall over multiple fiscal years.

Then there is the question of the physical completion of a project and the progress of physical works versus the timing of payments to a contractor. So, depending on the nature of the procurement, the type of project and the level of risk associated, the government will often make its final payment after a defects period, for example. So a project will be physically completed but not financially completed.

The difference between physical and financial completion regularly goes over a fiscal year and sometimes, depending on the nature of the new build, the defects period might be even longer and the final payment is not made until all those matters are resolved. Particularly in the circumstance where there is a defect and we seek its remedy under the contract then we may—and we have in the past—hold off making the final payment until the thing is fixed and delivered according to the agreement.

MS LE COUTEUR: Given that it is a bit fluid, if there was not as much spent on something else presumably you would expand another component, potentially? You can always build more public houses.

Mr Barr: To a certain extent, the point you have hit on there goes to the purpose of the capital works reserve in that the financial management rules do not allow agencies to spend beyond their appropriation. So if a project is proceeding ahead of schedule and wants to draw forward some money to get it delivered ahead of time there is that mechanism now, whereas previously it was very difficult to fast-track projects because everything would be within that constraint.

Mr Nicol: In an operational sense most projects are budgeted at the project level. Whilst it is technically possible to switch money between projects within one appropriation, even that comes with risks under the old system because that means one project might be behind and short of funds by the end of the year. That is another reason we have—

THE CHAIR: What are the criteria for agencies wanting to access that capital works funding?

Mr Nicol: We are still working on the detailed criteria, but in broad terms a project has to be ahead of schedule, there have to be funds in the forward years for that project. So it is not an expansion of the project; it is just delivering the project as scoped. Therefore, it will be a bring-forward of that funding. Beyond that there will be some operational requirements in terms of access to cash et cetera, but they are the two main criteria still.

THE CHAIR: Who is the approval authority on that?

Mr Barr: Ultimately it would come as a recommendation through directorates to the Under Treasurer, who would then make recommendation to the Treasurer.

MRS JONES: But the Treasurer's decision ultimately?

Mr Nicol: Yes, but we are trying to give directorates as much confidence as possible that this will be approved if they are ahead of schedule. That is one of the big institutional barriers about slowing things down—people want to live within their budgets, which is very good, but this gives them the opportunity that if they can accelerate we will support them.

Mr Barr: That would then be reported to the Assembly on a quarterly basis, if the reserve has been utilised.

Mr Nicol: We do not see this as an increase in funding because it is within the project funding envelope over time. It is just a moving of funds between years.

MRS JONES: I believe that the federal Treasurer has a similar fund, the advance to the finance minister.

Mr Nicol: That operates very much like our Treasurer's advance.

MRS JONES: The point has been made to the committee by our independent advisers that perhaps the scrutiny of this particular fund, this appropriation, is not at the same level of something like that. You just mentioned that the Assembly would be notified if it was used. But that was not made clear, I think, in the budget papers, or from our reading of it.

Mr Barr: It was in the legislation that the Assembly passed to create it.

Mr Nicol: It will be made public.

Mr Barr: The advisers may not have seen the enabling legislation. We did debate this in the—

MR COE: We made all these comments.

Mr Barr: Yes, you did. Yes, we had this discussion.

MRS JONES: That is why it is excellent having all these members on the estimates committee: we get to delve into the details of things that we otherwise might not. The advance to the finance minister is scrutinised every year by the auditor. Is that level of scrutiny going to be applied?

Mr Barr: Yes.

Mr Nicol: It will be a decision of the Auditor-General as to what they scrutinise, but this can be scrutinised.

Mr Barr: In terms of the territory annual financial statements, yes.

Mr Nicol: This will be very transparent.

MR COE: Let us go back to the depreciation, from a little while ago. It got hijacked. On page 148 there are a few examples I am keen to tease out a little. In the top one, Franklin Early Childhood School, you have $253,000 depreciation for 2020-21. I am guessing that that is partially completed.

Mr Miners: That is right. The schools are normally completed for 1 January so that you can start the school year, so there will be some depreciation. It will be a half-year depreciation in those years.

MR COE: In 2021-22 and 2022-23, why are they both exactly $589,000?

Mr Miners: I will double-check, but I assume we are using a straight-line depreciation method.

MR COE: But you could not have a capital expenditure of $3.4 million in the same year and then in the next year have exactly the same depreciation in those two years.

Mr Miners: It could be a couple of things. It could be that the financial close is different to the physical completion. So it could be that just some of the payments are going to flow over into that year. It may be that there is some slightly additional work. But you are right. We can have a look at why the numbers are exactly the same.

MRS JONES: Could you take that on notice?

MR COE: It seems to me it would be near impossible to have a situation where you have got capital expenditure in the same year and therefore it is still going—

Mr Nicol: Mr Miners's point was that physical completion might be in 2021. I do not know. We will look. They might be just indemnity or warranty type periods and holding final payments until final close.

MR COE: If you could explain that one, that would be good. With more places for students at the Gold Creek campus, you have a similar sort of situation where you have pro-rataed depreciation.

Mr Nicol: It would depend on the type of construction it is as well. Again, we can take that on notice. Some of these projects are more self-contained; others require changes to existing assets, for example.

MR COE: Sure. How does depreciation increase in more places for students at north side schools in 2022-23 from 2021-22 when there is no capital in that year, if it is straight line?

Mr Miners: We will have to take it on notice.

MR COE: Obviously it is complex stuff. I am the first to admit to that. It is complex for an opposition doing costings as well, I might add. What assumptions do you make as to what the actual depreciation period is for a building? The building has also got electricals at a different depreciation rate. It has light fixtures, IT et cetera. How do you make a call?

Mr Miners: There are schedules for depreciation for each of those items.

MR COE: I realise that, but when you are looking at whole new projects—

Mr Miners: The overall depreciation will be a factor of all of those things taken together and put into the project. That is a fairly common way for that to happen. As Mr Nicol said earlier, that is done at the directorate level initially. They will do that as part of the proposals. We will scrutinise it to varying degrees, depending on the actual proposal. But they are done in a way that is consistent with the accounting standards. We can certainly have a look and come back on those specific examples. Each project will have a depreciation schedule that reflects the components of the project according to the schedules of depreciation.

MR COE: Expanding Franklin Early Childhood School has a life of exactly 50 years. That cannot be a compilation of electrical and IT and everything; it is exactly 50 years.

Mr Miners: Buildings are often depreciated over a single time frame. But the rate of depreciation that is in the schedules is a composite of all the components of them. We can go back and have a look at that. I am not sure if there is anything I can add.

Mr Whybrow: The depreciation we use is consistent within each agency. The agencies themselves have financial statements. In those financial statements they document their accounting policy. In relation to schools, while the asset is capitalised, it is the entire asset that is depreciated over that 50-year period. During that time the Education Directorate will spend money on maintaining the asset, R&M, which will replace elements of things which operationally deteriorate more quickly than that full life cycle. It is the entire asset that is depreciated over the 50-year period.

MR COE: That is why I am particularly curious about that more places for students at north side schools one where the final year is different to the second-last year.

MRS JONES: Mr Whybrow mentioned the basis of accounting. Part of the advice independently given to the committee was that in some areas of the budget it is not described what the basis of accounting is and what accounting policies are used. Are they somewhere else? For example, we have been pointed to chapter 9 of BP3, where there is not an explanation of the basis of accounting and the policies.

Mr Whybrow: We follow the general accounting principles. Each agency, in their financial statements, has documented accounting principles in line with their financial statements. We follow that. Where there is a major variation—for example, the changes to accounting leases—that has been documented as an exception within the statements. Also, as you have already discussed and referred to, a significant accounting treatment was the public-private partnership. They are documented.

Excluding that, they are consistent with the accounting standards and consistent with the agency treatments, and their standards are documented in their annual financial statements.

MRS JONES: Is it unusual that our budget papers do not have a paragraph that describes that? The point was made to us that this is unusual for a government budget document.

Mr Whybrow: From my experience, not all governments put in their published budget papers a full disclosure of their accounting standards. Looking at any set of financial statements, your accounting standards tend to run between 10 and 20 pages of detailed treatments. The other thing you may find is that within an overall government there may be slightly different applications in different agencies. For example, they might have different average lengths of buildings and asset classes, which actually makes it really difficult to put that in a—

MRS JONES: For the standardised treatment, are you able to point us to a document or bring us a document that may be 20 pages long that has the accounting standards in it that you refer to, or at least refers to an online version or something like that?

Mr Whybrow: I cannot point you to a document that talks about the standards here. Within those we follow the standards in each agency and we are consistent with the Australian accounting standards. Opportunities for improvement in the future, adding an appendix or something like that—

MRS JONES: It is just an interesting point.

Mr Barr: I will take it on notice and see what we can provide for the committee.

MRS JONES: Thank you.

THE CHAIR: We will take a short break.

Hearing suspended from 11.02 to 11.16 am.

THE CHAIR: As we have quorum present, we will start again. I turn to page 186, general government sector expenses. It is stated that supplier and service expenses comprise supplies, repairs, maintenance, and consultants and contractor expenses, as well as payments for ACT Policing. Can you provide a further breakdown of those expenses by those categories?

Mr Nicol: Yes. We will take that on notice.

THE CHAIR: Thank you. What is the difference between a consultant and a contractor? Is there a classification to determine the difference between them?

Mr Nicol: There is. I am going from memory now and it is not my area of expertise. I think it goes to questions of control. A contractor is under the direction of the purchaser and a consultant is more arm's length and might be working to terms of reference or a general direction rather than a day-to-day control. That is my recollection of the difference.

THE CHAIR: Can you please provide how much the ACT government is spending on both of those categories each year?

Mr Nicol: We will endeavour to do so. I do not know whether our chart of accounts goes to that level. We will endeavour to see what we can get.

THE CHAIR: Do you track how many consultants are hired? Is there any kind of cap on the number of consultants or contractors?

Mr Nicol: There is not a cap. I am just thinking whether we have any tracking. I will confer with my colleague Meredith Whitten to see whether her area does any tracking, but I do not think treasury does any tracking of that nature, unless it is recorded in the general ledger.

THE CHAIR: So you would have the expenses but not the number of people.

Mr Nicol: That is correct; that is my understanding.

MS CODY: I have some supplementaries on Miss Burch's line of questioning. I know that there was a commitment in the budget to move away from insecure work like contractors and consultants. Can you tell me how that is going, where we are headed on that and what it looks like?

Mr Barr: Sure, and we will take up part of this also in the public sector management area that is coming. But in broad terms, a number of directorates have looked at situations where they are largely employing the same people doing the same tasks on a regular basis. So they have determined the relative balance of the two employment categories. It just makes sense to provide more permanent ongoing employment in certain areas.

I think that is particularly the case, in this budget, within TCCS. Also, the Education Directorate has reached that conclusion in relation to cleaning services. There is also a specific initiative to look at the use of casual and temporary employment across directorates.

MS CODY: That is probably where I was heading.

Mr Barr: Yes. I think we can talk more about that in that area of the directorate that will be undertaking that.

MRS JONES: What page is that on?

Mr Nicol: Page 90.

MRS JONES: Of BP3?

Mr Nicol: Yes. I could add that, from my perspective, we keep a fairly close eye on that question of temporary-casual versus contractor-consultant, because we have a large contractor workforce in our IT area, for example. We aim to use contractors only where it makes the financial and operational sense to do so—genuinely using temporary when it is short term and avoiding temporary employees where it goes on for years and years. That tends to be more expensive and less reliable.

In the contractor space, in the IT contractor space, sometimes that is more difficult because the market sometimes operates like that. They tend to want to be contractors. We factor all of those factors in; we take in all those factors to determine the best employment solution—in my directorate, anyway.

MS CODY: Thank you. I wanted to ask a question about the relationship between interest rates and the sustainability of government borrowing. I know that we touched on it earlier with Mrs Jones, but I want to know how that impacts the ACT's budget?

Mr Nicol: In broad terms, like most governments and most corporate entities as well, all entities have leverage and borrow a certain amount. It tends to be an efficient way to finance and fund various things. For governments particularly, it is an efficient way to allocate costs of long-lived assets across generations. At this point, I will ask Mr McAuliffe to come up to the table.

In broad terms, we have an infrastructure and borrowing program that tries to achieve several aims. One obviously is to meet the financing costs of the government. Two is to ensure that we have liquidity to meet our bills as and when they fall due. I have that as a very important task for myself and my team. The third one is to try to do it in an efficient way at the lowest cost possible. We are a small government and, compared to some bigger borrowers, we have a low level of liquidity in the market. That means we generally pay a slightly higher interest rate than a similarly rated sovereign.

Going back, the other thing I said is that we have a borrowing program where we try to avoid having refinancing issues focused at particular years—so we try to spread our refinancing risk. At the moment, as you suggested, Ms Cody, interest rates are at historic lows. That obviously reduces the cost of our new borrowings and the cost of our refinance borrowings. But, of course, interest rates can go up as well—

MRS JONES: That is right.

Mr Nicol: and we have to be aware of that. But at lower rates now, there are obviously opportunities to finance infrastructure at better rates than would be the case in other circumstances. I will pass to Mr McAuliffe to see if he can fill out my answer on our borrowing program.

Mr McAuliffe: Just to add to that, we try to be very careful with when we do look after our borrowing program. As you say, we do not have a lot of regular borrowings. So we have to be very careful about how we do it. We are very conscious about trying to issue bonds in a way that meets our credit rating. We are not just going to do a borrowing for the sake of doing it. We want to make sure that it attracts the right metrics and that the rates that we get are in line with where we are—our credit and, importantly, our liquidity.

As Mr Nicol said, whilst we have a AAA credit rating, because we do not have the volume of bonds on issue as, say, New South Wales or Victoria, who are also AAA, we pay what is called an illiquidity premium because of that. It is about 10 basis points, so it is not astronomical but we want to make sure that we can always borrow at a rate that reflects our profile.

MRS JONES: Mr McAuliffe, have we got any plans to fix any proportion of our borrowings whilst interest rates are so low?

Mr McAuliffe: That is right where I was about to go. The other thing we are conscious of is interest rate exposure.

MRS JONES: Yes; that is right.

Mr McAuliffe: We also want to be careful about budget certainty.

MRS JONES: That is right.

Mr McAuliffe: The majority of all of our bonds on issue are fixed rate.

MRS JONES: Is that bonds as opposed to borrowings or—

Mr McAuliffe: Sorry, what did I say? The form of borrowings that we undertake—we issue what is called fixed rate medium-term notes. I do not have my budget paper, but in the debt chapter in BP3 there is a table in there that has actually got a list of all of our bonds that are on issue.

MRS JONES: Yes.

Mr Nicol: Yes, as Mr McAuliffe said, the vast majority of our borrowings are at fixed rates.

MRS JONES: And at fixed rate at the time—

Mr Nicol: At the time they are issued.

Mr McAuliffe: At the time they were issued.

MRS JONES: So some of them will be fixed a bit higher than the current interest rate?

Mr Nicol: That is correct.

Mr McAuliffe: That is right.

Mr Nicol: So a low interest rate does not lower the interest on all of our borrowings.

MRS JONES: No.

Mr Nicol: But when we refinance, we refinance—

MRS JONES: But do you regularly refinance those bonds?

Mr Barr: That is a very good question. Yes, as they mature.

Mr McAuliffe: As they mature. We have really only started to get a bit more of a mature bond program over the last number of years.

MRS JONES: When did our bond program start?

Mr McAuliffe: We have had a number of borrowings for a long time, but probably about 2016. I would have to have a look, sorry.

MRS JONES: Yes.

Mr McAuliffe: I just lost my—

Mr Nicol: Generally, it does not always make good financial sense to refinance an existing bond before it matures because—

MRS JONES: And they have got fixed periods on them also?

Mr Nicol: That is right, and their values will change according to prevailing interest rates and the coupon rate.

MRS JONES: Only because we currently have such low interest rates. Is there a way of fixing some of our more mature bonds now?

Mr Nicol: The biggest opportunity we have is with the commonwealth Mr Fluffy loan, because that is a fixed rate and we can repay at face value. Potentially, depending on discussions the Treasurer has noted with the commonwealth, we could repay that early, because they were the terms we negotiated. We would prefer some sort of forgiveness of that debt, obviously.

MRS JONES: What rate is that at?

Mr McAuliffe: The average rate is about 2.7 per cent.

MRS JONES: Yes, but the Mr Fluffy rate.

Mr McAuliffe: Yes, that is at 2.7.

MRS JONES: Are you hoping to get it at a lower rate from the commonwealth?

Mr McAuliffe: We did a 10-year borrowing last month, which was a 2029 maturity. The issue yield on that was 2.36 per cent. That is where rates have fallen to over time.

MRS JONES: I think some of us would not mind if our borrowing was at 2.6 per cent.

Mr Barr: Maintain a AAA credit rating.

Mr McAuliffe: The opportunity for us over the next little while is that, as some of those longer term outstanding bonds start to mature, we will be able to refinance those at lower rates than where they were. The risk to the budget in terms of a negative interest rate exposure is limited at the present time because interest rates are so low.

MRS JONES: Do we have any borrowings that are not bonds as such? Do we have any other major borrowings?

Mr McAuliffe: The only non-bond borrowing is the historic loan, the loan that we have with the commonwealth. There is the Mr Fluffy loan and there are a couple of other loans we had that were from the time of self-government.

MRS JONES: Are you able to take on notice the scope of our bonds and when they mature, when the plans—

Mr Barr: That is in the budget papers.

MS CODY: On what page?

Mr McAuliffe: Pages 311 and 312.

MR COE: With the June 2040 and June 2042 ones at 4½ per cent to the commonwealth, with about 110 outstanding, when were those ones issued?

Mr McAuliffe: At the time of self-government. They all relate to the commonwealth-state—

Mr Barr: We got dudded at the time of self-government on a number of issues, because there was no-one negotiating for the ACT at that point.

MRS JONES: Yes, that is right.

MR COE: On the contrary: 4½ per cent in 1989 was a cracking deal.

Mr McAuliffe: That is right.

MR COE: It was not that you were dudded at all; it was actually a pretty good deal back then.

MRS JONES: I think the households were on about 12 per cent then, weren't they?

Mr Barr: There are penalties for early repayment, we understand.

MRS JONES: Penalties, are there?

Mr Barr: Yes.

MR COE: But 4½ per cent in 1989 was a steal.

MRS JONES: When households were on 12 per cent or something.

MS LE COUTEUR: Sixteen per cent.

MRS JONES: I was too young; I cannot remember.

Mr McAuliffe: Those loans were all part of the commonwealth-state housing agreement arrangements. House assets and different things came with those loans. Because of the way they were provided back in self-government, there are no explicit loan agreements in place for them. The advice we have had from the commonwealth today is that if we want to repay them early, they would say that they would basically do a net present value calculation at current interest rates, which means we will have to pay to get out of that.

Mr Nicol: As if we kept them until 2048.

Mr McAuliffe: Therefore giving a cash flow stream at 4½ per cent at the current rate. If we could get some sort of an arrangement where we did not have that penalty, we could look to refinance those.

MRS JONES: Is that part of what you have raised with the commonwealth today, Mr Barr?

Mr Barr: That is correct, yes.

MRS JONES: And in recent times?

Mr Barr: That is correct, yes.

MRS JONES: Well, best of luck.

MS LE COUTEUR: I want to go to the lease variation charge: BP3, page 172. Clearly you have started it and clearly you have not yet finished. How far are you along?

Mr Nicol: I will ask Ms Vroombout to come to the table.

MS LE COUTEUR: It starts off with the heading "Improving lease variation charge". Where are we up to in term of progressing this?

Ms Vroombout: The budget outlines the outcome of the lease variation charge review. There are a number of things where the government has announced it is going to proceed with particular changes and initiatives. Then there are a number of other things where further consultation is to be undertaken with industry to progress them.

MS LE COUTEUR: When you said it had announced the outcome, that gave the impression that you had finalised it for a while. I have page 172 in front of me. The impression I get from the answer you have just given me is that the bottom three dot points, which are about the application of codification, will be a while off. You said there were outcomes, which are the top bits.

Ms Vroombout: Yes, the first four dot points are the firm outcomes of the review. The final three dot points are things that, subject to consultation with industry and further decisions of government, may proceed, but they are dependent on consultation with industry and further decisions of government.

MS LE COUTEUR: So you will proceed to review those three dot points?

Ms Vroombout: Yes.

MS LE COUTEUR: You just do not know what you are going to do about it. It seemed that those were the most important ones, in order to work out where the controversy was, you could say—the bottom part rather than the top part.

MRS JONES: Is there a time frame for that consultation on the bottom three?

Ms Vroombout: We do not have a fixed time frame.

MS LE COUTEUR: Indicative?

Mr Nicol: It will be in the short term.

MRS JONES: Within the next year?

Ms Vroombout: Yes.

Mr Nicol: Yes. We will start consultation, subject to resources, in the next couple of months, I imagine.

MS LE COUTEUR: When is that likely to finish?

Mr Nicol: That will partly depend on the outcome of the consultation and what is proposed. I would like to put something to government for consideration for the next budget, either one way or the other, on these matters.

MS LE COUTEUR: You are doing consultation about these issues. Will there be some sort of public report that people will be able to—

MRS JONES: Access.

MS LE COUTEUR: access or will there just be a line in the budget saying that the LVC is now based on whatever it is based on?

Mr Nicol: We were not envisaging doing a review or a report. We will obviously put some propositions in our consultation as to how these might work, and options. Part of the reason why they were not considered is that they are very complex and have impacts on stakeholders that are pretty extensive. Part of the issue is: can we get an improvement into the existing system that fits within the existing system and in terms of costs et cetera?

MRS JONES: That gives you a similar outcome, basically—or a better one.

Mr Nicol: Yes, that might make it easier to operate et cetera. That is right.

MRS JONES: As you may know, we had some presentations on Friday about this. Obviously, they were talking about the huge variation that can occur for developers, in the millions, and they do not know at the start of the project what that will be. I am assuming you are suggesting you would be looking into how to have it in a simpler form so that it is all predictable.

Mr Nicol: Yes. We understand that that is a key issue for industry.

MRS JONES: Do you feel confident that that can be achieved?

Mr Nicol: The risks are, of course, that you do not often know at the start of the process everything that is going to happen until the end of the process. That is the challenge. Until we explore those things, I am not sure I can add much further detail.

MS LE COUTEUR: You mention here a new remission for community housing providers, but it is the only remission that is actually mentioned on this page. I am aware that there have been existing remissions. Are they continuing or have they been cancelled? What is the situation?

Ms Vroombout: There is an environmental sustainability remission which is ceasing on 1 July or 30 June, so that one is not continuing. The other remissions that are in the legislation are continuing. There is one for child care and petrol station remediation. Those ones are continuing.

MS LE COUTEUR: Those two will continue, but the environmental one is—

Ms Vroombout: Is ceasing.

Mr Nicol: We found that people were exceeding the requirements just from the demands from the market, anyway.

MRS JONES: Yes, so it did not apply anymore.

MS LE COUTEUR: I probably would have suggested that it be updated to something that was more challenging, rather than ceasing. I appreciate that it did have to change from what it was. Will you be looking, in your further work, at any other remissions that might be useful?

Ms Vroombout: They were explored as part of the initial review. The one that the government decided upon was the one for community housing providers. More broadly, remissions were considered as part of the review and the decision was taken to not continue the environmental and sustainability one and to add a remission for community housing providers.

MS LE COUTEUR: With the environmental one, did you look at making it more challenging? I appreciate that it had become outdated; I am not trying to argue about that.

Ms Vroombout: That was explored as part of the review and the decision was taken that a change to standards, particularly building standards, was a more effective mechanism for achieving environmental outcomes. The lease variation charge only applies to particular developments where a lease needs to be varied, so the view was taken that the regulatory arrangements through building standards were a more effective way of achieving those environmental outcomes.

MRS JONES: Chief Minister, do you have a view about whether you are able to achieve a more predictable model over the next year for the LVC?

Mr Barr: We will endeavour to, yes.

MRS JONES: When we were spoken to on Friday, people were suggesting what your view was. I thought it would be better if you said what your view was.

Mr Barr: I have expressed this probably a thousand times in the last decade: I do not resile from the principle of taxation of unearned windfall gains. I am happy to support a process of engagement that seeks to provide the greatest amount of certainty within that broad tax principle.

MRS JONES: There was not any pushback on the principle. On Friday there was not.

Mr Barr: I think it would be fair to say that we have won that public debate. Those of us who have been advocating for this sort of taxation principle have now comprehensively won this political debate. To the extent that we are no longer arguing over whether such a charge should exist but arguing over elements of its application where there are more complex interactions, that is a win in regard to what the community have clearly asked of government.

MRS JONES: My question was really about whether you think you will be able to get to a point of actually having things codified so that they are much more predictable.

Mr Barr: Certainly more predictable. It would seem that you are asking me to speculate on how long is a piece of string here.

MRS JONES: Not really; I am asking what your intention is.

Mr Barr: To further streamline the system as per the initiative in the budget.

MRS JONES: I want to go to the large-scale generation certificates in BP3, at pages 243 and 431. Spot and forward prices for large-scale generation certificates have decreased again since the 2018-19 budget review. We would have been in a better position if we had surrendered them, potentially, during the financial year they were credited, as per the government's original policy. Why were the certificates not surrendered and why did we hold onto them while they were depreciating so rapidly?

Mr Miners: The accounting treatment with those was that the revenue from the certificates was booked at the time they were received by government and then the expense was captured at the time of the surrender. That allows the government to have that decision about what they are going to do in the meantime. They have now made it clear that that surrender will take place in the 2020-21 year, I think is right.

The impact of the drop in value on the budget this year is actually a slight improvement as a result of that, the reason being that there are a greater number of certificates being surrendered than there are coming on to the books, which means that the expense actually falls very slightly compared to the revenue. It is actually a very small improvement in the bottom line.

MRS JONES: Was the time line extended for a reason?

Mr Miners: At the time, our advice was to give the government time to think about what they wanted to do with those certificates and to confirm the decisions around surrender and when the best time to do that was.

MRS JONES: When will you have them all surrendered?

Mr Miners: I think they are all surrendered from 2020-21 and then, as new certificates come on in the following years, the expense is being recorded at the same time. They are being surrendered in the same years.

MR COE: What aspect did you say is actually better than expectation?

Mr Miners: Because of the timing between the receiving of the certificates and the surrender of the certificates, there are more certificates being surrendered over the budget forward estimates than there are being received. Therefore, a reduction in the market price actually leads to a slight improvement because the cost of the surrender falls very slowly.

Mr Barr: It is at the margin.

Mr Miners: It is at the margin.

MR COE: With regard to the estimated outcome for 2018-19, as opposed to last year's budget, why is there a significant fall of $60 million in certificates?

Mr Nicol: That would have been a result of a reduction in the value of the certificates when we received them.

MRS JONES: Perhaps they should have been sold earlier.

Mr Nicol: Sorry?

MRS JONES: Could they have been sold earlier at a higher price?

Mr Nicol: We are not selling them.

Mr Miners: They would be surrendered.

MRS JONES: Sorry, surrendered at a higher price?

Mr Miners: That would have been a higher expense, had they been surrendered at that time.

MRS JONES: We would have got better outcome.

Mr Miners: No, because when they are surrendered there is zero price for them. The timing would not matter in terms of the proceeds from the sale of them.

MRS JONES: But it does impact on the budget by $60 million?

Mr Nicol: It is largely a timing—

Mr Miners: Timing issue, yes.

Mr Nicol: And that $60 million, in fact, is the difference between what was estimated earlier at a higher price and what is estimated now at the lowest price.

MR COE: What is actually that market price?

Mr Miners: The market prices these things. We use their forward curves to actually look at what the price will be and we use that as the pricing information.

MR COE: Is exactly the same policy being applied this year as was applied last year?

Mr Miners: That is correct, yes.

MR COE: The value of the difference is halved this year?

Mr Nicol: We can get you the exact details of pricings and timing in terms of when it changed.

MRS JONES: Yes, please, on notice.

Mr Nicol: They have fallen very significantly over the last 18 months, yes.

MR COE: Do you think this still is an appropriate financial treatment for these?

Mr Nicol: We are following accounting standards, essentially.

MR COE: I know. Last time, I think, you came back and advised that they were treated as non-financial assets or something like that.

Mr Nicol: Yes; I think that is correct.

MR COE: Something like that.

Mr Miners: Yes.

Mr Nicol: I would have to confirm that but, yes, that is my recollection.

MR COE: But given the intention is to write them off, to surrender them, why is it that you still leave it as an asset? How does that actually capture the intention of the government?

Mr Miners: There are two things. At the moment they are sitting on the books. They are there as an asset. The government actually holds them. And my understanding is that the final decision will go back to cabinet as a final decision to sell them.

MR COE: But cabinet have decided to sell them, have they not?

Mr Miners: My understanding is that—

Mr Nicol: Surrender. It is a very important difference between sell and surrender.

MR COE: Cabinet have decided to surrender them, have they not?

Mr Miners: Yes. That is the intention that is in there and then we would always confirm that right at the point of sale.

MR COE: But has cabinet decided to surrender them or not?

Mr Nicol: The answer is yes, but when that actual physical surrender occurs is when the expense occurs.

MRS JONES: For accounting purposes?

Mr Nicol: That is right. It is an accounting treatment.

MR COE: But the books are also meant to reflect not purely and simply accounting schemes but also the actual position?

Mr Miners: Yes, and it does that. The point of surrender is 2020-21, which is when they are being recognised, as the surrender is in that year.

MRS JONES: Do you expect the value to continue to plummet?

Mr Nicol: I do not speculate on the value of—

MR COE: Which one is being surrendered in 2020-21?

Mr Nicol: While Mr Miners looks that up, I have a chart.

MR COE: You have got assets being held in 2022-23.

Mr Miners: Yes; that will be new ones.

Mr Nicol: We are generating new certificates every year and we are surrendering the certificates generated two years ago in those four years, as they are presented.

Mr Barr: The timing of the surrender also, of course, impacts on the territory's renewable energy or renewable electricity target.

MRS JONES: You have to make a decision with that in mind?

Mr Barr: That is a factor as well.

Mr Nicol: Whilst Mr Miners digs that out, I have a chart here. I am reading from a chart rather than a table. The spot price of certificates in mid-June last year was $80.25 and in early May this year they were $40.50 spot price.

Mr Barr: We will take it on notice.

Mr Miners: On the surrender in 2020-21, there is $77.7 million worth of certificates being surrendered, and that shows up as an expense in that year.

THE CHAIR: Which page is that?

Mr Miners: That is additional information. We can certainly provide a table that shows the flows across the years.

MRS JONES: Would you provide it on notice?

Mr Miners: Yes.

THE CHAIR: Do you also have an expected schedule of revenue and expenses over the forward estimates?

Mr Miners: Yes. The revenue line is separately identified in the budget papers. We can provide that line as well.

MR COE: Are these expenses included at page 184, the GGS expenses, by function?

Mr Nicol: Yes, they are in there. They are recognised in the budget, yes, going to page 184. We can confirm under which function they are recorded. But I cannot remember off the top of my head.

MR COE: If you could.

MRS JONES: You will take that on notice?

Mr Miners: Yes.

MR PETTERSSON: One of the main attributes of the ACT economy that is referenced throughout the budget papers is its increasing diversity. By what measures is the ACT economy diversifying?

Mr Barr: I think the principal measure is gross state product. That is the most useful one. Obviously that is reported annually and indicates all of the contributing sectors to the territory's GSP, which is approaching $40 billion—so larger than the Tasmanian gross state product even though our population is somewhat smaller.

We have seen that pretty well all the sectors outside of public administration are contributing to gross state product growth in recent times. I am happy to get the latest ABS data in terms of the relative contributions of those different sectors and how they have grown. That can be made available for the committee, and I think that provides the most comprehensive snapshot of how the territory economy is performing.

MR PETTERSSON: Why is a diverse economy important to the ACT?

Mr Barr: Undoubtedly—and with reference to an old cliche—having all your eggs in one basket does not necessarily give you the greatest protection against various economic risks and shocks. An emerging trend for the ACT has been the growth of service exports from the territory, to the point now where per capita we are Australia's greatest service exporters. In the simplest terms, that means we are bringing new money into this city from outside of domestic or commonwealth-sourced locations.

Clearly the big drivers of increased revenue, more employment and more economic activity have been those internationally exposed trade sectors, particularly higher education and tourism and, to a certain extent, professional scientific and technical services that have grown very significantly in recent times.

MR PETTERSSON: We have seen over the past decade a consistent decline in national government expenditure. Do you expect that to continue to decrease, moving forward, or to flatline?

Mr Barr: Interesting question. Long-run historic trends tend to be that the longer a commonwealth government is in office the more it spends. That seems to be the case regardless of the political colour of a particular government. We have discussed this at previous estimates committee hearings, but at one point at the end of the Howard government, for example, they were seeking to duplicate the state and territory TAFE system with Australian technical colleges. You had the Australian government suddenly involved in all of these activities that had traditionally been a responsibility of the states and territories.

There was a change of government and things changed, and there has been a change of government since and various things have moved around. There is no doubt that there are some longstanding bipartisan commitments around share of GDP that will be spent on, say, defence and national security and the like, that clearly are driving an increase in Australian government expenditure in that sector of government activity, a lot of which is taking place in the ACT.

Other factors you could observe are that the spending on consultants and contractors at a commonwealth level is quite significant. There have been staffing caps within the APS, but the work still needs to be done for the commonwealth and they are outsourcing a lot of that, largely to the big four consulting firms. That is very good for them and we have seen growth in that area.

Some areas of the commonwealth apparatus or a private sector ecosystem attached to that commonwealth spend are growing. Then it really depends on the direction of policy as it relates to, for example, higher education funding. Clearly the uncapping of places and the incentives in recent times have driven universities in this country to have a much larger international student intake than might have historically been the case. They can charge fees for those students, and that has the benefit of bringing revenue into our city.

The next question really will be to what extent some of these recent commonwealth announcements in terms of engagement in the space industry, for example, will see a fair amount of activity in our region. The decision around headquartering the agency in Adelaide is what it is; we can all reach our own conclusions on why that is the case. But there is still 40 per cent of activity here. I think about a quarter of all jobs in the Australian space industry at the moment are in Canberra anyway. That is an example of where I think the commonwealth may grow.

There are other areas where they will seek to contract or reduce their expenditure, or at least the rate of growth. You see these economic forecasters predicting that there is always the risk of a major commonwealth contraction. We have seen one successfully executed in recent times, in the 1990s. But the Senate generally stands as a pretty big obstacle to dramatic change.

By and large, it is a more benign outlook. I have seen some of the commentary, including that prepared for this committee, and it is unduly pessimistic. There are always risks, but the prevailing pessimism of Pegasus has been the case for the last few years. They have been wrong the last few years and I hope they are wrong again this time.

MRS JONES: Pegasus has informed us that commonwealth consumption is trending slightly up at the moment. Was that what you were referring to at the beginning of your answer?

Mr Barr: Partly, yes. Some of the areas where they are growing—

MRS JONES: And household consumption is trending slightly down. But that is not a prediction; that is what they read into the current state of play according to the budget.

Mr Barr: Sure, but I am not sure to what extent they factored in the interest rate cut and presumable presumptive handing back of bracket creep in one form or another when the federal parliament resumes. There is going to be some change.

THE CHAIR: Pegasus advise that there is no evidence to suggest that diversification has taken place, looking at ACT final demand.

Mr Barr: They raised that last year as well, yes.

THE CHAIR: You mentioned that you assess it through gross state product, so how are you making that assessment?

Mr Barr: Obviously the number of different industry sectors. So you can diversify within the same share, if you like. I have been clear on at least a dozen occasions, including last year. So, Pegasus, if you are listening, the point here is not just about the relative share of commonwealth versus non-commonwealth activity in the ACT. It is: what are the different contributing factors to those different shares? That is unambiguously the case.

I know they refuse to look at GPS, and I think that is criminal oversight in terms of what you guys have paid them to look at it. It is data available annually. They should look at it, and it does show diversification. So I contest that one of many elements of their commentary.

MRS JONES: And they based their advice on which figure?

THE CHAIR: ACT final demand, yes.

Mr Barr: There are other ways to look at the diverse and more diverse contributions.

MRS JONES: I guess they are saying that there has not been a massive increase or there is not, in their view, a trending increase in the overarching scope. But within it you are saying there is a diversification.

Mr Barr: Yes; that is the point.

MRS JONES: It is good to have the discussion to get to the bottom of it, even if they are of different opinions.

Mr Barr: Figure 1.2.2 at page 13 of BP3 does—

MRS JONES: That is what you were referring to?

Mr Barr: Yes. So there is a countervailing view to Pegasus.

MR COE: Whilst we are on this broader economic outlook, in particular the forecast for the ACT property sector, firstly, how does the property market impact the ACT? I know you have some scenarios in there about changed interest rates and the like, some sensitivity analysis, but do you have sensitivity analysis for the property sector as well?

Mr Nicol: Do you mean in terms of impact on the economy or impact on the budget?

MR COE: Both: financial and economic.

Mr Nicol: We do not do specific sensitivity analysis on the link between, say, turnover in the property market and the economy more broadly, other than the view that, obviously, if you have a slowdown in the property market, you have a slowdown in a number of subsidiary industries as well as the industry itself.

It is important to differentiate the cause of the slowdown in the property market. That drives the economic impact. If the slowdown, which I think we are seeing now, is a result of perhaps a bit of uncertainty, a bit of tightening of prudential standards by the banks in response to their external environment, that is one reason. Another reason for a slowdown in the property market might be higher unemployment, higher interest rates et cetera, which is not the case. We are seeing a slowdown in the property market nationally, which is probably affecting the ACT less than our counterparts in New South Wales, Victoria and Queensland, but I think the cause of the slowdown is the important thing to differentiate.

There are reasons that we are seeing now where those causes might be ameliorated to some extent. There will be naturally some swing back in terms of prudential standards. APRA have loosened their standards just a bit, and there has been an interest rate cut. That could stimulate demand.

MRS JONES: I think your question was about the impact if it occurs.

MR COE: Yes, scenario planning.

Mr Nicol: We do not scenario model that because I do not think it is possible to do so. I think the current slowdown has a lower impact on the economy than perhaps slowdowns caused by other factors, but it will certainly have an impact. It will have an impact on that market in terms of the property transaction market and it will have an impact on, I imagine, other markets related to household formation, such as durable goods et cetera.

MR COE: What impact would a national slowdown and then a subsequent slowdown here or an independent slowdown here have on AUVs or UVs?

Mr Nicol: Again, that will depend on the nature of the slowdown. In relation to what we are seeing in Canberra compared to, say, Sydney and Melbourne, Sydney and Melbourne have seen larger house price and unit price falls than Canberra has, partly because they went up further than we did. We have seen a flattening of our pricing.

MR COE: Is that reflected in unimproved values by the valuation office?

Mr Nicol: That will influence unimproved values in the long term, in the path of unimproved values. Again, it will be the nature of the slowdown. Is it just people putting off selling and buying decisions, or is it depreciation in the market? I think at the moment we are seeing the former in Canberra. We have a bit of a slowdown in turnover, particularly in new properties.

MRS JONES: It also happens around the federal election every time.

Mr Nicol: Yes, the federal election creates uncertainty in the territory. I agree, Mrs Jones. We are certainly feeling it on the economy side, but to nowhere near the extent that Sydney and Melbourne are feeling it.

MR COE: What evidence do you have to suggest that there has been a slowdown in the turnover?

Mr Nicol: We have seen a slowdown in our Suburban Land Agency sales.

MR COE: But that is not turnover.

Mr Nicol: It is for new properties, obviously. It is new household formation.

MR COE: Yes, but—

Mr Nicol: With general turnover, we have reduced our forecast for stamp duty receipts both in the budget review and again in the budget. It is not a dramatic slowdown there, but it is a slight slowdown.

MR COE: What percentage of established properties usually are turned over in a given year?

Mr Nicol: Sorry, could you repeat that, please?

MR COE: What percentage of established properties are sold in any given year?

Mr Nicol: I might ask my experts to come, rather than try and read a table very quickly.

Mr Beaumont: When we look at modelling some of the revenue outlook, we use existing rates of turnover or recent averages. In recent years you are looking at around the eight per cent mark turnover for the total property market. It does vary a bit from year to year.

MR COE: How does that differ from the long term?

Mr Beaumont: That is very similar to the long term. Right at the moment, in very recent times, you do have a fall in turnover.

MRS JONES: This year?

Mr Beaumont: Yes, that is right—the last 12 months. It is a slight softening, if you like.

MR COE: Fall to what?

Mr Beaumont: I would have to get you the exact figure, but it is a softening rather than a dramatic fall out of the total stock. That is how I would describe it.

MR COE: With regard to the Suburban Land Agency's lower dividend that is expected next year, what are the reasons for that?

Mr Nicol: The Suburban Land Agency obviously take a dividend of all of their profits, and there is a link between turnover, their revenues and their expenses, and profits. There are accountant issues going on as well, so I am going to give you a broad descriptor rather than an in-depth accounting response. We have seen significantly lower sales of new properties in recent months, and we have flowed through an expected reduction in the turnover, essentially, of new properties, broadly, over the next 12 to 18 months, we think.

MRS JONES: The turnover of properties or the price at which the land will sell?

Mr Nicol: It is more a sales figure than a price figure. There will be small reductions in prices of what they are achieving, but at the moment we are seeing it in turnover.

MRS JONES: I understand that between Taylor and the next suburb that has been released there has been quite a reduction in that baseline.

Mr Nicol: It is hard to compare releases, because they are different products. I would really recommend that you take those questions up with the SLA, because they can give you a far better in-depth discussion of particular markets, although the Treasurer probably could give a pretty good description of that as well. We are seeing it more in turnover. That fits with the rationale that people with uncertainty are putting off decisions. One factor we have seen, for example, in the prudential space is that it is now taking banks up to six weeks to approve a loan, whereas before it was two days. That is going to influence how auctions go, how people approach the market. The market has to work through those sorts of structural financing issues.

MR COE: What about the outlook for unit prices in the ACT?

Mr Nicol: We have seen some softness in unit prices in recent times. There has been speculation that that has been driven by a large pipeline of supply coming through and the demand effects we have seen. That is quite possible. We still see, though, underlying factors that are very strong. Population growth still is strong. Vacancy rates are still very strong. That is why at the moment we see the property market slowdown, if you want to call it that, as a short-term phenomenon. That could change as we see things unfold in the next six months, but that is the view of treasury.

MR COE: Do you see the unit market being a risk to the ACT in any way?

Mr Nicol: Not particularly. My personal view is that if people overreact to the current slowdown and the current market conditions, we could be in a situation where, in 12 months time, demand bounces back and we do not have the supply ready to meet the market. That is something the government has certainly taken into account in terms of its own land release strategy. We are very keen not to—

MR COE: I am specifically talking about units, though.

Mr Nicol: I know, but I think the same will apply to units. I think the underlying demand is there, but at the moment there are factors that suggest that the market is a bit quiet. My view is that, on current trends, we will see strength in the market once the market turns, whether it is with interest rates or whether it is with prudential requirements in banking, and what the banks do. Once the market considers that we are moving to a new normal, I think we will see that pent-up demand come back in.

MR COE: Are there any risks of serious or substantial negative equity in parts of the ACT?

Mr Nicol: I do not see that yet, but it is always possible in individual circumstances, depending on how buyers have approached the market. I should say that all markets have downside risks. Things can happen that we do not expect, and things might not play out in the way we expect. At the moment I have not seen significant reports of negative equity. That might be the case in Sydney and Melbourne, because we have seen price falls in the teens there, in terms of the general housing market. Again the risk at the moment, even there, is only with house price purchases in the last two years, which is less than 20 per cent, I imagine, of the property stock, and most of that 20 per cent would be upgraders. Many of them would have substantial equity in their homes. I have not seen reports of significant negative equity in the market in Canberra at the moment.

Mr Barr: It is a potential risk, obviously, with, effectively, the bridging finance that the commonwealth are offering, between a five per cent deposit and what the banks might previously have loaned at, requiring 20. Obviously, the commonwealth have thought about that, in the context of the program that they are offering. It covers that gap around mortgage lender insurance. I am sure they have given that due consideration, and they will talk to the states and territories a little more about that, I am expecting, at the next federal financial relations meeting or the next COAG meeting, depending on whether the Prime Minister or the Treasurer take the lead on that program.

When it was initially released, I am pretty sure the policy statement said there were only going to be 10,000 nationwide that would be eligible. I subsequently heard media reports—I will give that qualification—that the cap was going to come off that. When asked, the Prime Minister said, "If it gets to 10,000 we might go beyond." We will obviously check that once they get to 10,000 with this program.

Clearly, the other overlay is where the banks go with lending practice. But it is a risk for anyone if they are borrowing 95 per cent of the dwelling price. It does not take much of a shift for negative equity to occur. As long as you can meet your repayments, the market can, and invariably does, rebound; so you can move out of that situation. It is not a permanent thing; if prices fall for a period of time, you will not be forever in a situation of negative equity. Obviously, if you are making principal and interest repayments then you are increasing your equity in the property as well.

MR COE: How many first home buyers are there in the ACT in any given year?

Mr Beaumont: I will have to take that on notice.

Mr Barr: It varies between about 15 and 20 per cent of the market, generally speaking.

MR COE: Of purchasers in the market?

Mr Beaumont: Are you talking in terms of financing or just first home buyers as a share of—

MR COE: First home buyers in general. The number of buyers, the number of people purchasing.

Mr Beaumont: For the purchase of—

Mr Nicol: We will take that on notice.

MR COE: Yes. If you are able to take the value as well as the number.

Mr Beaumont: There were 133 first home buyers, for example, in April. That accounts for 11.6 per cent of the total value of housing finance commitments at that point in time. That is the latest figure.

MRS JONES: In April.

Mr Nicol: That is value, though. You would expect first home buyers to be lower value, so probably a higher proportion.

MRS JONES: Would you still like to take it on notice?

Mr Nicol: Yes, we will take it on notice.

MR COE: You said 133 purchasers?

Mr Beaumont: That is right; in April.

Mr Nicol: In April.

MR COE: Maybe 1,500-ish?

Mr Barr: About 1,500 to 2,000. It obviously depends; some months are—

MRS JONES: Higher or lower, yes.

Mr Barr: higher or lower.

MR COE: Finally on this, is there any particular risk to the ACT associated with building quality issues?

Mr Barr: In relation to finance associated with properties? I asked Westpac, when I last met with them a few months ago, whether they saw any risks in terms of their lending to developers in the ACT. This was particularly following the case of the Opal Tower. They assured me that there was no way they would lend to developers in that context, that they have a very—

MR COE: You would like to think they would say that.

Mr Barr: Yes. They have a very prudent approach to who they lend to in order to—

MR COE: But as we know—

Mr Barr: And that they have the greatest risk.

MRS JONES: Yes; it is their money.

MR COE: But as we know, obviously people are lending. Someone did lend for Opal Tower. Someone did lend for Mascot Towers. We have had numerous issues in the ACT in the past, and it is the nature of construction that mistakes do happen. Is there an endemic issue, potentially?

Mr Barr: Not according to Westpac. I will check with some of the other banks, when I next meet with them, as to whether that is impacting at all, and whether they see any risks associated with lending for development. There are some developers in the ACT who do not need finance, who undertake it all internally. There is obviously a range of other insurance that can be undertaken.

MR COE: The sorts of buildings that we are talking about here generally do require finance. There would not be too many self-funded developers that are doing the ones that are actually a risk to—

Mr Barr: That is true. Obviously, the banks, in lending in the first place, have a lot of money at stake at their end.

MR COE: That is right, but it still happens. We have seen Opal Tower and we have seen what happened on the weekend in Sydney.

Mr Barr: Sure. That is a relative risk, in the context of all bank lending and all development that has occurred in Australia over an extended period of time. I am not as familiar with the New South Wales examples. There has been a little bit more work done on the Opal Tower and the one that was reported on the weekend. As I said, there is not a clear answer. I will be meeting with a number of the banks in the coming weeks, so I will ask that question and see whether they have any concerns in relation to building quality being an issue.

MR COE: We know that there are many instances of bodies corporate taking either the developer or the planning directorate to ACAT or other forms of mediation due to building quality issues. Given that the ACT does have a direct role in approvals and certificates of occupancy, does the ACT not have any liability in the event that a building does have a serious issue?

Mr Nicol: I do not think you can give a blanket answer to that question. Generally, no.

MR COE: What you are saying is that there is no identified risk for the ACT?

Mr Nicol: I have not seen a significant economic risk come out of this issue.

MR COE: Or financial?

Mr Nicol: Or a significant financial risk. There are risks here, clearly. It has been explored in New South Wales and found in New South Wales. The ACT government has recently taken steps to improve and increase the quantity of building regulation.

MRS JONES: Yes, that is right.

Mr Nicol: So it is an issue that the government has recognised, I think. But I do not see it as a financial, economic risk. I see it as a quality product risk that governments need to get their heads around—in the ACT, I am talking about.

THE CHAIR: I turn to the economic management statement on page 24 of budget statements B. Can you elaborate on what research and modelling has been completed specifically on cost of living pressures and what advice has been provided?

Mr Barr: Yes. There is obviously a chapter within the budget papers that models a number of different scenarios relating to cost of living questions. Some of the assumptions within that chapter, of course, were prepared prior to certain regulatory decisions that have subsequently been announced, more so in the areas that are outside of the direct control of the territory government. They are regulated by independent regulators.

Then I guess the other interesting element, particularly on some of those largest costs, is some of the after-market retail discounting that is occurring now. Obviously, in the energy space, for example, there are some very significant market offerings that are sometimes 25 to 30 per cent cheaper than the standard rates as a result of competition between retailers for electricity and gas. Clearly, these are amongst the biggest individual bills that any households will have in the ACT.

We are also seeing that in the context of CTP insurance. There are two elements to that now. There is the introduction of competition and then, obviously as we move to the new system next year, I am expecting there to be some downward pressure on cost of living in that regard.

The other side of the equation is that it is people's incomes, which obviously go a long way towards their capacity to meet their expenses. That side of the equation is an important one. Again, where there is direct control within the ACT government purview—we are the second largest employer in the city and cover the most diverse range of occupations—I think our approach to enterprise bargaining has seen a very fair outcome across our workforce.

Private sector salaries in recent times have slightly outstripped public sector ones in terms of WPI growth. We look at both sides of this equation. I am not perhaps as optimistic as some forecasters about where wages will go in the short term. It depends a little on what is happening in unemployment. Clearly, a factor that will impact on cost of living will be what the federal parliament determines on the timing and level of income tax cuts and really how much bracket creep will be handed back and how soon. That is the question. Given that the single largest tax bill that anyone pays is pretty much to the commonwealth, that is probably the biggest single factor that will determine the incomes of—

THE CHAIR: What modelling specifically is being undertaken in 2018-19 and what is planned for 2019-20?

Mr Barr: The modelling that is undertaken is outlined in the budget papers in that chapter, as well as on the budget website in relation to ACT government taxes and charges. An interesting piece of work will be that we will get some information from our energy retailers on what proportion of market take-up there has been of the discounted energy offers. As I have said, that would be one of the single largest bills that anyone experiences, particularly in our winters. Getting those sorts of discounts from the marketplace is a good thing. They are some practical examples. I am happy to take on notice any more—

Mr Nicol: I could give you some. We also brief the government. The Treasurer mentioned the process for setting rates. We do a comprehensive analysis of the impact by suburb and region, as well as—

THE CHAIR: And have rates increases been shown to be adding to cost of living pressures?

Mr Nicol: If rates go up, they increase your cost of living. But rates are one factor. We have also had reductions in general insurance taxes, for example, and reductions in stamp duty, which reduce cost of living pressures for those purchasers.

Mr Barr: Clearly, there are variable impacts within the community. Suffice to say that an individual stamp duty payment of $20,000 or $30,000 is a very significant cost of living impact. If you have to borrow for it, that it is an ongoing one. There are different cohorts within the community who will benefit more or less from changes each year.

If you are a first home buyer with a combined income under $160,000, from 1 July you have a massive cost of living improvement coming your way. But if you are anyone who consumes energy services in this city at the moment who potentially takes up one of those offers that are 25 to 30 per cent off, you are going to have a big benefit as well.

MS CODY: While we are talking about stamp duty, would keeping rates flat across the forward estimates while continuing to reduce stamp duty result in a reduction in revenue?

Mr Barr: It would seem difficult not to increase rates at all and sustain the same level of services. I am presuming that, aside from the growth in the number of properties each year, it is not an absolute cap as in a proposal where we receive X amount of revenue in one year and even if there are more properties the next year we will still only receive the same amount.

Given the somewhat generous assumption that a rates cap means that if there are more tax-paying properties there will be some growth in rates revenue, it would seem very difficult for there to be any further reductions in stamp duty if there is not an offsetting revenue source.

Having said that, obviously the proposal that has been outlined has been a little silent on what will happen to all of the other taxes and charges that are levied and whether the proposal is that none of those will increase at all. If that is the case, you are largely fixing the territory's revenue base. Yet its expenses will grow year on year. There are then two options: either a budget deficit emerges and widens every year into the forward estimates or there is a reduction in expenditure.

I think most people have looked at this and said, "Right, how are you going to do that? How are you going to answer the question on how your services and infrastructure be funded into the future?" They are fair questions to ask. Then you pile this on top of previous statements such as, "We will abolish payroll tax." Between a rates freeze and the abolition of payroll tax, that is a very large part of the territory's own source revenue. It would have to mean dramatic cuts to services. But I am not proposing that. That is an alternative policy position that was outlined. Journalists and the community will rightly ask a whole swathe of follow-up questions about what that actually means. Generally speaking, if things look too good to be true, that is why: they are too good to be true and it will not be possible.

MRS JONES: Not a problem that has been occurring with Mr Barr.

Mr Barr: It will not be possible to try and be all things to all people. Identifying the salaries of a couple of individuals and saying that that will fill a $600 million hole is no answer to budget management, either.

MS CODY: What share of the government's expense base is made up of staff costs?

MRS JONES: I think we went through that, did we not? It was 47 per cent.

Mr Barr: It is about 47, roughly half.

MS LE COUTEUR: There has been some discussion that the level of fees and charges in the ACT might lead to people living over the border in Queanbeyan, Googong, Yass et cetera but still basically having the ACT as their—

Mr Nicol: Workplace.

MS LE COUTEUR: My question is: have you looked at the financial impacts of that? Obviously there are some things that you would not have to provide for them because they are not living in the ACT, but equally they do not pay rates. How does that all work out?

Mr Barr: It obviously varies depending on the nature of the individuals in terms of what level of government services they would consume versus what level of contribution they would make through various taxes and charges. For example, someone who lives in New South Wales but works in the ACT and drives their car will still pay parking fees. That may or may not be to the ACT government, depending on where they choose to park. But there are a number of different factors in that regard. What is commonly misunderstood is that GST allocation is not where expenditure occurs but where people are residents.

MS LE COUTEUR: Where you have got Medicare registration?

Mr Barr: That certainly impacts in terms of population, yes, how the ABS determine between the five-yearly census periods exactly where people live. That internal migration question is one where more data would be better, I think. But certainly the last two Australian government census processes, the 2011 and 2016, have found more people living in the ACT when they do the actual headcount than they had anticipated in their assessments between those periods.

One of the challenges is that some federal financial relations payments are lag indicators—we experience the expenses by way of enrolments in schools, presentations within the health system, demand on community services—but the revenue adjustment for that occurs in arears. We have had that experience where we have had our GST payments topped up recently to reflect that there was an incorrect assessment of what our population would be. It is actually a lot stronger. And that feeds into our future planning and the framework by which we can undertake all of that. That is a small snapshot of it.

By and large we have also analysed where within the ACT people settle and what impact that has on the cost of service delivery and, unsurprisingly, where you can utilise more existing infrastructure.

MRS JONES: Where you need new ones?

Mr Barr: Yes.

MS LE COUTEUR: I thought that, sometime in the past, the ACT government said that basically you were okay with people who lived outside the ACT but who did all their stuff in the ACT and that financially this was a reasonable deal. But it does not seem very likely to me, particularly with education.

Mr Barr: We get a GST adjustment in relation to education rollout. But on the health side, would I like a better deal with New South Wales in terms of rate of growth and contribution to health infrastructure? That is probably the greatest weakness in terms of the cross-border health arrangements. New South Wales are only, I think, growing their funding by about two per cent a year. I think that is unrealistic, particularly when we and the commonwealth are at the 6½ per cent for hospital funding. New South Wales is contributing growth at only two per cent. That is not good enough. But we are working on that.

The big issue is health infrastructure, in that, aside from some relatively modest commonwealth contributions, we do not get a lot of infrastructure contributions. It is one thing to provide an annual payment for the level of services utilised, but we obviously have to build bigger in order to service patients from outside the ACT.

But the flip side to this is that sometimes that extra population that comes from outside the ACT enables us to have a sufficient number of procedures in health to offer a service that we probably could not. I am not sure there is a particularly sophisticated understanding of the level of population you need in order to offer a particular health service or to offer it with a frequency that would mean that you can attract the best surgeons. The Under Treasurer uses this example a little. If you need brain surgery, are you going to go to the brain surgeon who does a thousand operations a year or the one who does one?

MRS JONES: It has been put to me that around 35,000 people—although the number that I could source was 27,000 people—drive into the ACT for work every day. That has been a fairly increasing number. Do you have a number that you rely on for your own calculations?

Mr Nicol: We do have a number. It is in the policy cabinet division. I will check on that.

MRS JONES: Can you get that for me?

Mr Barr: Yes, of course. Clearly the surrounding region has been growing—not as fast as the ACT, but it has been growing, yes.

MRS JONES: And could that number be provided perhaps over the last four years or so?

Mr Barr: Yes.

Mr Nicol: Certainly.

THE CHAIR: On that note, we will suspend for lunch and reconvene at 2 pm.

Hearing suspended from 12.33 to 2.00 pm.

THE CHAIR: I remind witnesses to confirm when speaking for the first time that they have read the privilege statement and understand its implications. My first question is to the CTP insurance regulator. How are you preparing for the implementation of the new scheme?

Ms Vroombout: In this capacity I am the CTP regulator. As CTP regulator, as distinct from the policy and implementation function that sits within the economic and financial group, the key function is providing knowledge on how the existing scheme works and liaising with other regulators with a view to assisting the implementation being done in the economic and financial group side of treasury.

THE CHAIR: Will all staff allocated to the regulator be moved across to the commission?

Ms Vroombout: The commission will have a broader range of functions and some additional staff. Some of the staff currently working on the arrangements will work for the new MAI commission. The arrangements are that we do not specifically employ staff either in the CTP regulator or in the Motor Accident Injuries Commission. They are employed within CMTEDD and work for and are funded by the commission.

THE CHAIR: Do you expect there will be any redundancies?

Ms Vroombout: No, I do not expect there will be any redundancies.

THE CHAIR: What consultation is taking place with stakeholders?

Ms Vroombout: We are engaging actively, particularly with the insurers, on what they will need to do to implement the new scheme around systems and processes, including ICT systems and how they will integrate into our new ICT system as well. We will also be consulting with insurers around the development of some of the regulations that are particularly relevant to the legal profession.

THE CHAIR: What are the biggest priorities for the regulator and the commission in setting up the new scheme?

Ms Vroombout: Firstly, finalising all of the regulations and guidelines under the scheme, finalising arrangements for the new ICT system that I mentioned, procurement processes around the information support provider as part of the new scheme, and procurement arrangements for the independent medical examiner. Is there anything I have missed, Lisa?

Ms Holmes: There will also be a number of actions required in relation to the actual setting of the premiums. The insurers will set the premiums, but the commission will be required to assess those premiums.

THE CHAIR: In terms of your priorities are you looking to reduce premiums? Are you looking to speed up the claim process?

Ms Vroombout: It is more what the new scheme is aimed at. The new scheme was aimed at giving more people access to earlier treatment and care.

THE CHAIR: Speeding up the claim process, then?

Ms Vroombout: The way the new scheme works is that people are entitled to earlier treatment and care.

MRS JONES: Estimates for the new scheme originally indicated that Canberrans could save between $10 and $99 on premiums for the CTP scheme. However, the budget notes that further amendments may potentially reduce that saving. The CTP levy has now increased to $16, which could effectively erase the savings. Have you got a more current estimate on what the savings on the CTP scheme will be?

Mr Barr: The levy is included in the savings. It does not eat it away; it is already factored in, so I can correct that.

MR COE: The increased levy?

Mr Barr: Yes, that was already factored in. So all of that reporting in the media was incorrect.

MRS JONES: Well, that is why we are here.

Mr Barr: Sure. I welcome the opportunity to correct the record on that issue.

MRS JONES: Do we know what the premium will be, as of the new scheme starting?

Mr Barr: No, not yet. But we will.

MRS JONES: When will we expect to have that information?

Ms Vroombout: Part of that is the process of the insurers doing their premium filing. They file their premiums with us. It is a whole process and an actuarial assessment of their premium fund.

MRS JONES: What is the time frame for that process and when does it start?

Ms Vroombout: The chief announced February next year as the commencement date.

MRS JONES: So we will know by February next year?

Mr Barr: Yes; that is correct. Probably a little in advance of that.

MRS JONES: How will the commission influence premiums and measures to reduce them going forward?

Ms Vroombout: The insurers file and we do an assessment of the premiums fully covering the liabilities and not being excessive. Part of the actuarial assessment is doing that assessment of the premium filings.

MRS JONES: That means whether you accept or do not accept the price they put on it, essentially?

Ms Vroombout: Yes.

Mr Barr: Within the legislation obviously there are a number of safeguards against gouging.

MRS JONES: What initial profit margins will you allow for insurance companies? There was some information in the hearings about what has been allowed in the past, but do you have a benchmark you are looking at?

Ms Holmes: Part of the assessment of those premium funds is to look at what level has been included. The new legislation has allowed the government the ability to put in place some mechanisms around profit, and that is by way of a regulation.

MRS JONES: And what level of profit will be allowed?

Ms Holmes: That regulation has not been set. What was intended is that it will be monitored as to the estimated level of profits which we see coming through insurers. If it is considered that it is not appropriate, that it is too high, for this particular industry, we have the ability with the regulation to put mechanisms in place.

MRS JONES: I understand that, but the question, very specifically, was about what level of profit will be acceptable. Is it based on a benchmark? Is it based on a national standard? Is it based on an average? What is it based on?

Ms Holmes: It is based on the industry.

MRS JONES: Across Australia?

Ms Holmes: Yes. It is a long tail insurance product, so what is reasonable needs to be looked at for that particular industry, because it is a higher risk industry than others.

MRS JONES: From memory, the filings of the ACT insurers were 13 to 15 per cent in the previous scheme in recent times.

Ms Holmes: No, it is lower than that.

MRS JONES: So you would be hoping it stays at a similar level?

Ms Holmes: The filings are what our actuary provides us advice on and what they consider to be a reasonable level of profit for that industry. The annual report includes the range of the estimated profits which are included in those premium filings. My recollection is it is somewhere between nine and 11 or 12 per cent.

MR COE: On that, do you actually need to stipulate or issue a regulation, or is it just an option?

Mr Nicol: It is an option, I think we would be cautious about signalling too much of what we expected, because we might be a price setter. We would like some competition to work. Obviously we also want the industry to make a profit, because we want a sustainable market. We want insurers to be able to operate and continue to operate. So we are going to monitor the situation using benchmarks and other indicators of what we consider to be a reasonable profit level. If we find evidence that it is not operating at a reasonable profit level, that is when, I expect, the commissioner will advise me and the government as to what action should be taken.

Ms Holmes: The issue is what drives the difference between the profits which are estimated in a premium filing versus the actual profits. A lot of those factors are outside the insurer's control. How many accidents and hence claims do you subsequently have? What is the severity of those?

MRS JONES: Could you compare the prediction of profit with the actual profit once it is a couple of years down the track, or is that not the role of the commission?

Ms Holmes: The section 275 three-year review which was tabled in late March of this year was the first time you had an assessment of the estimated actual profits which insurers are making. I am very deliberately using that wording because until such time as all those claims have been finalised you do not know what the actual profit is going to be. And for some of these claims, particularly if they are large and they are going through a court process, it is 10 years. You will not know the actual profits for the particular year until they are out. We can look at their predicted level of actual profits but it is just that: a prediction. If we find that those predictions are showing that there are higher profits coming through, that is when the government will consider what to do in relation to the regulation.

MR COE: With regard to the IT investment that is required, how far progressed are you?

Ms Vroombout: We are quite well progressed. The data warehouse that will support it is largely in place, and portals to enable the insurers to access the database and provide the data are currently being developed with the insurers.

MR COE: What about the ongoing systems to monitor the claims and the whole industry?

Ms Vroombout: Again, that is well progressed. As I said, the data warehouse that will be the repository for all of that information has been developed. We are working with the insurers around all of the fields of information that we will be seeking from them as part of monitoring the new scheme. We have provided them with schemas of the sorts of fields that we will be looking for from them. Very well progressed is how I would describe the ICT system.

MR COE: How much data do you need to give the insurers for them to requote on the new system? Do they just go on their existing information, or are you providing a suite of data that any insurer can apply for?

Ms Vroombout: We will be working very closely with the insurers and the actuaries who did the costings for the legislation, EY, as well as our scheme actuary, Finity. There will be detailed workshops and meetings between those parties to assist the insurers with premium setting under the new scheme.

MR COE: Will it just be the existing insurers that have access to that, or will you offer that data to potential new insurers?

Ms Vroombout: If a new insurer came to us indicating that they were interested in entering the ACT market, we would work with them in the same way as we are working with the insurers that are currently in the market.

MR COE: What sort of information is included in that package?

Ms Vroombout: It is quite detailed actuarial information that EY used to cost the premiums under the new scheme. Some of it is based on data from experience in New South Wales and some of it is based on data from experience in Queensland.

MR COE: Do you have collated data about the court-imposed payouts that have taken place in the ACT over the past 10 years?

Ms Holmes: We have the information from the time that the existing legislation came into force, which was late 2008.

MR COE: What has been the cost of developing the IT? Has it been done in house, or have you got an external firm?

Ms Vroombout: It has been in house in the ACT government. The revenue office has been providing support to us, and their in-house people have been working on the system for us.

MR COE: Have the revenue office been charging you?

Ms Vroombout: Yes.

MR COE: Does the revenue office have that capacity in house, or have they got consultants or contractors in place?

Mr Salisbury: We have a team of IT contractors within the revenue office who are developing a warehouse capability for use for both the revenue office and the project we are discussing today. Doing this project has given us a capacity. There were specialist skill sets that we had to get for the project, and we have been able to leverage off some of those skills to help build our warehouse capability for the revenue office as well.

MR COE: How much has it cost so far, and what do you expect will be the final cost of the IT required?

Ms Vroombout: The budgeted capital amount is $2.9 million. The majority of that will be spent in the next financial year. The additional consultation processes which occurred, which meant the bill was introduced later and hence the start date is later, have had an impact on the timing of the work happening in this financial year versus next financial year.

MR COE: The total is $2.9 million. Are you on track to spend just that?

Ms Vroombout: At the moment we are under budget. Whether that is where we end in February next year, I do not know, but we are currently running under budget.

MR COE: That has been entirely spent through the revenue office?

Ms Vroombout: Correct.

THE CHAIR: In relation to the initiative delivering the motor accident injury scheme, can you elaborate on what specific additional resources would be covered for ACAT?

Ms Holmes: The justice directorate received funding as a budget initiative through this budget. You will see in the budget for the commission a collection of an amount through the levy to fund those net costs. Basically that net amount that we are collecting is being handed through to the government and then being on-passed to JACS to fund that initiative.

THE CHAIR: You cannot tell us what specific resources ACAT will receive out of that?

Ms Holmes: No. That is a question for JACS.

MS CODY: I wanted to ask what the government is doing about the issue of unearned premium surplus. Have we answered that one?

Mr Barr: We largely covered that.

Ms Vroombout: With premiums reducing under the new scheme and people taking out CTP insurance over the next nine months, there is potential for difference in premiums, which could result in unearned premium income. We are still working through the processes for how we will address that issue.

MS CODY: Can you step through how it will work with someone who has an ongoing claim from 1 February? How will that work and how will they interact with the new scheme?

Ms Vroombout: Claims in relation to accidents that occurred prior to the commencement of the new scheme will continue to be dealt with under the current arrangements. The new scheme will only apply in relation to accidents occurring after 1 February.

MS CODY: They will not switch over to the new scheme or anything; they will just continue on the old scheme?

Ms Vroombout: Yes.

MS CODY: So it is really only for anyone who has an accident post 1 February; they will automatically be on the new scheme?

Ms Vroombout: Yes.

THE CHAIR: If there are no other questions on CTP, we will move on to the lifetime care and support fund.

Ms Vroombout: It is same people. I will just put on a different hat.

THE CHAIR: Over the past year what proportion of revenue for the lifetime care and support levy has come from motor vehicle registrations?

Ms Holmes: All of the levy is charged at the same time. When someone registers or re-registers, the amount they are paying for the registration includes a number of things, such as the CTP. It also includes a levy to deal with the lifetime care. All of that levy is being paid through that process.

THE CHAIR: But in terms of the revenue from the lifetime care and support levy, what proportion of that is broken down from motor vehicle registration versus workers compensation or—

Ms Holmes: Workers, sorry; my mistake. $3.8 million is charged through to the private sector insurers for the workers compensation. The balance is for motor vehicles.

MRS JONES: And what is the total?

Ms Holmes: The total for the levy, if I look at the estimated outcome for 2018-19, is $14.6 million.

MRS JONES: I want to ask about small increases to levies. Why has the government deemed it necessary to increase the lifetime care and support levy from $36.50 in 2018-19 to $37 in 2019-20? What is the projected increase in revenue due to the increase?

Ms Vroombout: Again, this is an area where we get advice from actuaries around a potential number of new claimants under the scheme and possible costs under the scheme—

MRS JONES: And then you reverse engineer that to the price?

Ms Vroombout: Yes, it is based on that advice and particularly advice that estimated costs per participant have been higher. So based on that advice, the decision was taken to increase the levy.

MRS JONES: Is that the same reason why the veteran, vintage and historic registration levy went from $7.30 in 2018-19 to $7.40?

Ms Vroombout: Yes.

MRS JONES: Why has the government left the lifetime care and support levy on workers compensation insurance and self-insurers unchanged?

Ms Vroombout: Again, based on—

MRS JONES: Same advice.

Ms Vroombout: actuarial assessments—

MRS JONES: Yes, so we are not applying CPI or something?

Ms Vroombout: No, it is—

MRS JONES: We are actually reverse engineering the cost—

Ms Vroombout: No, it is based on estimates of number of participants and estimates of cost per those participants.

THE CHAIR: There being no further questions on the lifetime care and support levy, we will move to revenue.

MS LE COUTEUR: My questions are about the land tax exemption scheme, which was recently passed. It commenced on 1 April. My first question relates to what administrative procedures and processes you have in place.

MRS JONES: In what sense?

MS LE COUTEUR: I am asking about the land tax exemption scheme for people who rent out their houses via a community housing provider at a 75 per cent market rent. It was passed and it came into operation, at least officially, on 1 April.

Mr Salisbury: Yes.

MRS JONES: The YWCA is administering—

MS LE COUTEUR: Yes, my question was about—

Mr Salisbury: Sorry, what is the question?

MS LE COUTEUR: My question is about what administrative systems and processes you have in place for it.

Mr Salisbury: As far as I am aware, there are not any administrative processes in place at the moment. We have not received an application at this point, as far as I am aware. Is that not correct?

MS LE COUTEUR: Your statement may not be 100 per cent correct—

Mr Salisbury: Okay.

MS LE COUTEUR: because I am aware of someone who is renting out their place through YWCA. They are certainly of the belief—they have had considerable interaction with ACT government. I certainly believe that your statement that there are no admin—

MRS JONES: I have been told that there are three properties at least already.

MS LE COUTEUR: I think there are three at least. There is one that I know more about, let me put it that way, and it is not me. I certainly figure I should not get involved with it.

Mr Salisbury: Alright. I have not been briefed on that issue. I will have to take that question on notice.

MS LE COUTEUR: I think I know the answer, but your first answer was correct. There are not any administrative systems in place as yet.

MRS JONES: Maybe that is the problem.

MS LE COUTEUR: I fear that your answer is correct and I think that that is probably the problem. When you do come to putting some in, can I make a suggestion? Based on the interactions to date, there seems to be an idea that every quarter there will be a certification that the person concerned is still eligible. The idea of putting this through a community housing provider was that that is the work they do. Just get the community housing provider to say that they are happy. You do not need to go back to the landlord every three months. It would make life a lot easier for everybody. But, yes, I think your answer was unfortunately correct. Given that there is in fact more than one client, I would urge you to do some work on it. Talk to the clients and to the YWCA.

Mr Salisbury: Certainly.

MS LE COUTEUR: Given that situation, what are you putting in place for people who have signed up with the Y and who are of the belief that they are now land tax exempt? Given that there are quite high penalty tax charges if you do not pay your land tax, what is going to happen?

Mr Nicol: Mr Salisbury has been away from the revenue office for the past few months, which is why he is not fully up to speed. We are working through those issues. We are also working through broader issues with land tax. The principal place of residence change was made last year. We will look to make a practical balance between the processes of collecting the tax and basically compliance arrangements. As I said, we have not put the process in place, but we will have to communicate with those landholders as part of that process.

One of the things we are working through is how we limit it to the 100 places, which was in the legislation. We are working through first come, first served, versus other arrangements, particularly if properties come in and out, potentially. So if a landlord leaves the scheme, does that open it up for a new person and how do we keep the new person in, given there is a time dimension to this as well? These are not things that we have not put our mind to. We just have not got around to the details of how that will work.

MRS JONES: Perhaps for those who have signed up to the scheme, that is quite disconcerting.

Mr Nicol: It is important and we are working very quickly through that—

MR COE: Especially given it was actually a government bill.

MS LE COUTEUR: Have you put your mind around making life easier for yourselves by removing some of your problems, i.e. the limitation of 100 houses and the time limitation? If you look at the transcript from Friday, you will find the YWCA speaking quite strongly about how this is the most cost-effective way we have to provide affordable housing and how they feel that those two issues are hobbling the scheme. It is making your admin unnecessarily hard and it is making it much harder for them to recruit landlords, because the two-year maximum time frame, given that you are going to have to change your real estate agent to do it—it would be hard for many people to do that.

Mr Barr: We will look at all of those.

Mr Nicol: The scheme was a pilot to test what works and what does not, and what we need to do if the government chooses at a future date to expand it to a broader range. We are particularly interested in its effect on behaviour. So we do want to know what the demand is going to be. We do want to see how much interest there is in the sector. That is going to be a key factor in the government's consideration of this, I imagine.

MRS JONES: Some of the feedback that we have received is around the enthusiasm from people who own homes that perhaps have housed their relatives or something like that. There is a group out there that is quite keen to get involved. They are not making a greater profit through this scheme but it does make it stack for them to be able to do something else good with that property, as far as they see it. That is feedback that we have heard here in the committee.

Mr Nicol: This is a learning process. I must emphasise that that is how we are viewing it.

MR COE: This is a government bill that was introduced on 14 February and passed in March.

Mr Nicol: I have to apologise. There is work this is going on and has been going on in the commission. I am not fully across it. Mr Salisbury has been at another directorate. I will take on notice what has been done and where we are up to. I am just not across the fine detail myself.

MS CODY: In evidence we heard on Friday, it sounded like it was already proving to be quite a successful endeavour. Because it is a pilot project, what sort of evaluation are we going to do of the project as we get further into it and that sort of stuff?

Mr Nicol: We will be doing an evaluation, because it will determine the future of the program. Demand, I think, is the first criterion, and that will be as it comes through. If demand is very strong, we will want to look at the composition of the participants. Who are they renting to? What are the arrangements they are renting under? Are we seeing in a segment of the market the demand being met by this scheme? So are we targeted at vulnerable groups? Then at the end of the day we will make a judgment as to whether this is a cost-effective way of providing additional accommodation for those groups. That is what I imagine any government would want to look at to determine its future.

MS LE COUTEUR: When are you envisaging this will happen?

Mr Nicol: Towards the end of the pilot.

MS LE COUTEUR: That would mean that if you were a landlord involved in it you would have to work on the assumption that it will stop at that two-year date and—

MRS JONES: It might be something for our recommendations. You may have to do it after one year.

Mr Nicol: It could be—

MS LE COUTEUR: I think there will be a recommendation.

Mr Barr: I appreciate that. I think I have already commented in the context of the bill to indicate that it would make sense after a year. That is why it was extended to two, not one: so that we would have a year's worth of data and we could then advise. I take on board the observation that the earlier we can advise around both an extension and the quantum of participants the better, clearly. But I pose the reverse question to the committee. If we get 40 participants, say, what constitutes a success? One, 40, 90, over 100? That is the—

MRS JONES: The advice we have had is that it is not going to be a problem filling those 100 spaces. That is already the experience on the ground.

Mr Barr: If that is the case and that happens, then we could certainly call the pilot a success. I just want to get a bit of an understanding. Hypothetically speaking, if only a handful of people took it up, does that mean that—

MRS JONES: It might mean that we do not have the housing problem we think we have, but we do.

Mr Barr: it has not achieved it? This is an interesting question. I have an open mind on this. I am very happy for it, if it is very popular, to be extended.

MS LE COUTEUR: Equally, though, you could argue that if it is not very popular you should extend it, because the concern seemed to be that if it was popular it would cost the government money and so—

Mr Barr: The government? No, look—

MS LE COUTEUR: I mean that seriously. That did seem to be the concern.

Mr Barr: You have answered my question. In any context, regardless of its uptake or not, we should extend it. That is largely the position you are putting. That is fine. I just need to understand where you are coming from.

MRS JONES: That is one person's position.

Mr Barr: Okay. That is good to know, Caroline. I am not surprised by that. I understand that. But in the context of an evaluation, let us just be fair dinkum about it. You do not actually want it evaluated at all; you just want it extended. So just say that, and then we will factor it in.

MS CODY: I would like it evaluated.

MRS JONES: There are a lot of different views on this panel, Mr Barr. We try to work together. Generally we ask you the questions.

Mr Barr: I appreciate that.

MRS JONES: I want to ask about general rates revenue for units. It was $73.7 million in 2018-19, which was up more than $2 million from the previous budget, when it was $71.6 million. Rates are expected to increase by 11 per cent, presumably to $82.1 million next year, and up to over $107 million at the end of the forward estimates. That is an average increase of nearly 10 per cent each year, and around a 45 per cent increase between 2018-19 and 2022-23. How are we able to say that the heaviest lifting is over when some Canberrans are still facing a 45 per cent increase in residential rates over the forward estimates?

Mr Barr: The first observation I would make, Mrs Jones, is that there will be more apartments every year, so there will be a broader base. Your maths there would be correct in the context of the total volume collected.

MRS JONES: If we did not have an increase, that is right, but—

Mr Barr: We are certainly going to have an increase.

MRS JONES: What do your numbers tell you it will increase by?

Mr Barr: My numbers tell me that there will be a lessening of the rate of increase for units over the forward estimates period, and that, on current projections, once the readjustment that was instituted several years ago is complete, the level of increase for units would realign with the level of increase for—

MRS JONES: True, but when is that new system intended to be complete?

Mr Barr: I believe 2020-21.

MRS JONES: And what is the number of units? What is the prediction for the growth in the number of units that you are basing this off?

Mr Barr: I will take the absolute detail on notice. We are talking about 4,000 to 5,000 additional units each year being supplied by the market, so that growth is heading towards double digits each year. There is obviously significant growth in the number of dwellings, but I will get the detail on those.

MRS JONES: Okay.

Mr Barr: I want to make an observation that would probably be a statement of the bleeding obvious to many people: yes, there are more apartments being built every year.

MRS JONES: But in order for anyone to have an understanding of what is likely to happen to the percentages over that period of time, they need to know what your modelling is based on.

Mr Barr: Yes. We, of course, will make a statement in next year's budget on what we project five years ahead. Again it is a pattern that no other government—

MRS JONES: Numbers of units?

Mr Barr: No, of the rate of increase.

MRS JONES: That is the information this is based on; that is right.

Mr Barr: Just to be clear that we are talking about the same thing, we will provide a five-year statement of the annual increase in percentage terms that we are targeting over the forward estimates; not the number of properties but the increase per property. We have done that on a five-yearly basis for some time now, which provides more certainty than any other government in the history of self-government has ever provided. Previously, rates have been set every year with no forward projection, so we are actually providing that level of information and certainty more so than any other government has. It opens it up to—

MRS JONES: Questioning, yes.

Mr Barr: No, not questioning but to political scare campaigns. I have seen a few of those over the past seven years.

MRS JONES: I think we have seen them on both sides of the aisle, Mr Barr.

Mr Barr: I am sure I will see a few more as well.

MRS JONES: I am sure we have seen plenty of scare campaigns throughout political history, Mr Barr. I have another question on that topic. There is obviously an intention of having more people living in apartments, if that is their choice. I am trying not to put words in your mouth. With this increase in rates, which, as you have explained before, is adjusted because of the anomaly that you saw that was there before, does it not concern you that people have potentially moved into apartments in order to live in a less expensive situation, but that these increases are quite steep, after they have made that calculation?

Mr Barr: In making this change over a number of years, rather than as a one-off, and providing rebates and the like, that was one of the things that we considered. We also looked at the relativity of the average level of rates for a unit owner versus a stand-alone property owner, and a unit owner pays about 60 per cent of the rates of a stand-alone property owner.

The other factor that we needed to consider was relative fairness in terms of property value. There is no system that gets this absolutely perfect, unless you move to the model that Ms Le Couteur has advocated, which is to take on board improved capital values as well. There is a range of pros and a lot of cons with that approach, in terms of both administrative complexity and a different set of incentives within the property market. All of those factors have to be taken into account.

There is a fundamental question, which, again, is misunderstood a lot. Because of the hybrid nature of territory government, our rates do not just fund municipal services; they fund all of the services that are provided by the territory government that we all consume every year. The underlying principle behind everyone paying something every year is that everyone consumes some of the ACT government services which are not just municipal but also the state-type functions every year.

MRS JONES: I guess there is a change in expectations. People in the past have probably assumed that rates paid for the services under the building and that type of thing, and apartments perhaps have certain efficiencies when it comes to those types of things.

Mr Barr: In terms of land use per person, sure.

MRS JONES: Yes, and the general understanding of rates and what they are for.

Mr Barr: Yes, but, as I say, rates do not just cover municipal services; they cover all ACT government services. Those who live in apartments often have a body corporate levy that they need to pay, but those who own their own home have to take all of the responsibility for their own property maintenance. It is not as if, because you own a home, you do not have to spend any money on maintaining your—

MRS JONES: That is exactly right, yes. The other thing I wanted to point to is this: you mentioned in your answer before that you have done this change with respect to units over several instalments, but did you consider doing it over a much longer period of time because of those types of calculations for the individual householder?

Mr Barr: Certainly, we were conscious of dollar amounts as well, in terms of where the average lay. For example, if you were paying $1,000 a year in rates, which many apartment owners were, and your rates went up by $100 to $1,100, that is a 10 per cent increase. But it is $100; whereas if a householder was paying $2,000, it would be a $200 increase. The other thing is that we are not just looking at percentages; we are also looking at the absolute dollar increase. We are also looking at the interaction with concessions, and at how we can make various adjustments across our concessions program as well, to partially ameliorate some of those impacts.

One factor that we need to look at is that, in this instance, we are talking exclusively about home owners, not those who do not own their home.

MRS JONES: The assertion, of course, is that it does affect them in a third-party way.

Mr Barr: To the extent that some costs for landlords can be passed on; others, obviously, are a tax deduction to the commonwealth, so the cost shift is not to the renter but to the Australian government, through the various—

MRS JONES: Through negative gearing.

Mr Barr: Amongst other things, yes; not necessarily negative gearing, but you can claim the costs of earning your income—

MRS JONES: Depreciation—

Mr Barr: Yes, so you could have a positively geared property, but you could still claim some of your expenses in generating that income as a tax deduction. It is more complex than just a straight pass-through.

MRS JONES: It is about the calculations that people had done about their lives and the speed at which the changes occurred.

THE CHAIR: When you were taking all of those different factors into consideration, were there any other options or other models that were considered as well?

Mr Barr: In terms of time frames—

THE CHAIR: More broadly than that, in terms of the calculations and the methodology.

Mr Nicol: My recollection is that the main method chosen was a rebate method. We did look at having phased rates over a couple of years. The rebate method was chosen because it was the simplest to implement and to understand. We looked, certainly internally, at several different methods of readjusting the rates base for units. In the end, as I said, the rebate method was the simplest.

MRS JONES: Simplest for government or simplest to communicate, or both?

Mr Nicol: Both.

MR COE: How much additional revenue will the progressive marginal ratings system have for units, compared to what it was—the more progressive?

Mr Nicol: Do you mean the system that was introduced in this budget?

MR COE: Yes. It is more progressive.

Mr Nicol: It is a different scale. I do not think we have done a full analysis of the progressivity of it, but the change itself will not raise additional revenue. It raises the revenue that we were forecast to achieve under the old system; we just calculated a new system that would raise that revenue.

MR COE: That means that there are some winners and there are some losers.

Mr Nicol: That would be right.

MR COE: So who are the winners and losers?

Mr Nicol: We can take that on notice.

MR COE: It is a pretty significant part of the budget. You must have a fair idea.

Mr Nicol: We do have that data; I just do not have it in front of me.

MR COE: But this must have been a pretty significant decision for budget cabinet to take.

THE CHAIR: You were considering all the different options and different factors.

Mr Barr: Yes. It is on the budget website in terms of how the changes impact in terms of dollar and percentage increases in the different tax brackets. If you go to the treasury socioeconomic analysis on taxation and concession policy that is on the budget website, that shows the distribution of the actual numbers of dwellings in each category in terms of both the dollar impact and the percentage impact. You can see from that system that the changes to the methodology see a much greater coalescence around the mean, around the average increase, rather than very large disparity. So in essence the—

MR COE: What document are you referring to there?

Mr Barr: It is the ACT treasury socioeconomic analysis on taxation and concession policy. It has three sub-tabs: cost of living examples, rates examples for seniors, and distribution rates impacts.

MR COE: I have not got it here.

Mr Barr: It is on the budget website.

MR COE: But is this specifically about the changes to unit-type properties?

Mr Barr: Yes. It details by categories. The number of units that have had a fall in their rates in 2019-20 is 18. The number of units that have had an increase of between \$0 and \$50 is five. The number of units that have had an increase of between \$50 and \$100 is 15,306. The number of units with an increase between \$100 and \$150 is 14,197. Then it scales down from that. Some 30,000 units in the territory have had an increase of between \$50 and \$150 in their annual rates bill. In percentage terms—

MR COE: But what would make it more relevant would be to see how this year's numbers compare to the former scheme had it kept going.

MRS JONES: Do you have that analysis?

Ms Vroombout: The issue is that there would be an entirely different set of rating factors if we had not split between houses and units. We would have developed an entirely different set of single rating factors this year than if we split them as we did.

Mr Barr: Last year there was just one set of factors for all dwellings. The issue, the accusation, was that too many units were falling into the highest marginal tax bracket. In response to that specific issue, amongst others, treasury—I think it was one of the recommendations of either this committee or some other process—

MR COE: I think it was either the select committee or PAC.

Mr Barr: Yes. It made some recommendations, and in response to that we split the two and put in place a different set of arrangements.

MR COE: Can you take on notice the number of properties that are in each of those thresholds?

Mr Barr: They are there on the website.

MR COE: They are here? Not just the revenue but the actual number?

Mr Nicol: We will confirm and take it on notice.

Mr Barr: Yes.

Mr Miners: In each bracket on the units it is the zero to 150,000 and 150,000 to each threshold?

MR COE: Exactly, each threshold.

Mr Miners: Each threshold, okay.

Mr Barr: That bit is not on here.

MR COE: That is right. Also, can you report on how many were in the previous thresholds as of last year?

Ms Vroombout: From the year before?

MR COE: For last year, yes.

MR PETTERSSON: I was wondering if you could tell me what changes have been made to help people better understand what support and concessions may be available through the revenue office?

Mr Salisbury: In relation to the rates deferral scheme there is now a website. The website has been updated. It provides two cameo examples of instances where the hardship criteria would be applied and where they would not be applied. No doubt with the changes that the government has made to homebuyer concessions there will be a range of products going up on the website to advise people of the details of that scheme.

Ms Vroombout: In relation to that latter, just to add something, a fact sheet has been prepared and provided to real estate agents and financial institutions to assist them in informing their clients as well.

MR PETTERSSON: In relation to those new websites, what existed before? Was there no web presence for these schemes and concessions?

Mr Salisbury: There was, but we have been through a process of updating the website and changing the language. Also, for deferred rates we changed the application form to make that more friendly.

MR PETTERSSON: Have there been any changes to the design of rates notices?

Mr Salisbury: We are currently going through a process based on community feedback from the rates notices last year. We are just in the process of finalising those rates notices.

Mr Nicol: The intent is that those notices will have more information, or at least links to where you can get information, on the various concession schemes that are available.

MS LE COUTEUR: Are you designing those with other people or are you just using people within the office? Obviously quite a few of them would have received rates notices.

Mr Nicol: We have been working with the media people, our communications people.

MS LE COUTEUR: Can I suggest that you also look at people like Care financial, the people who deal with the sorts of people who are having real problems with rates, rather than just the well-off affluent who are not so scared when they see one big figure.

Mr Nicol: We are happy to do that. It is fair to say that we have received quite a lot of feedback on the rates notice in the past 12 months. It has all been noticed and we are taking it into account.

MRS JONES: Good on the Canberra people, making their opinions known.

Mr Nicol: We are very conscious of it, I assure you.

MS LE COUTEUR: Good. As you remember, we had so many complaints that I moved a motion about it last year. Apart from the rates notice, which clearly you have in hand, part of the motion was about training for revenue office staff in how to deal with customers' financial hardship. How is that going?

Mr Salisbury: We have had Care Inc into the revenue office. They have provided two three-hour sessions. Staff from our debt management area and our call centre attended those sessions. Those sessions covered issues from identifying people in financial hardship right through to tailoring communication and offering assistance to those people. There are a number of activities within those workshops as well to help people empathise with people who contact the office.

MS LE COUTEUR: That sounds good. Are they likely to lead to changes in policy as to how you deal with people, particularly people who have come into arrears? Often, by the time people come to complain to me—and I assume other MLAs and you—they have managed to accumulate a substantial amount in penalty interest. They might have been able to pay off the original, but they have no chance with adding that.

Mr Salisbury: There were a number of suggestions that came out of the workshops that we will be taking forward and considering.

Mr Nicol: Can I just add to that. It is a matter that has come up in discussions between me and the commissioner in working through what arrangements we might be able to usefully put into place. I am being cautious because we have not got to the stage of deciding on any recommendations to the government in this area and I am also acutely conscious that the job of the revenue office is to raise revenue and enforce the laws that are passed, but it is clearly an issue that is on our priority list and that we are looking at.

MS CODY: While we are talking about rates notices I have had a few people talk to me about what happens after rates notices are sent out. I do not actually understand this part; so this is a genuine question. They are sent out—I do not know—in July or August or whenever they are sent out.

Mr Salisbury: It is 3 July, September, October.

Mr Barr: Yes.

MS CODY: I have had several contacts to my office from people being unable to get another copy of their rates notice if they have misplaced their notice or if they want to know whether they are in credit. Is there a glitch in the system? Is there a reason why that is quite difficult? I am talking about 15 people.

MRS JONES: That is a fair number when it comes to an MLA's office.

Mr Salisbury: People who did not receive their rates notice?

Mr Barr: And they want to get another one because they lost it?

Mr Salisbury: Yes, you can certainly contact the revenue office and we will provide another copy of the notice.

MRS JONES: What is the contact for the revenue office?

Mr Salisbury: The telephone number?

MRS JONES: Yes. Do you know what it is?

Mr Salisbury: I do not know, off the top of my head.

MS CODY: It is on Google.

Mr Salisbury: But I can easily find it.

MRS JONES: We have often had people put that on the record and it becomes easier for us to—

MS CODY: But there should be no issue there?

Mr Salisbury: There should not be, and also with the new IT system—

MS CODY: Just to let you know, I was one of those people. I was also informed that I could not get a copy of my rates notice.

Mr Salisbury: Thank you for the feedback, because I think that is—

MS CODY: That is why I am raising it, because it is interesting—

Mr Salisbury: No, that is not acceptable. That is not acceptable and we will look to fix that. That is certainly not an administrative policy.

MRS JONES: For the record, I believe the number is 62070028.

MR COE: They have never had any problems sending out invoices before.

Mr Barr: That is correct, 62070028.

Mr Nicol: And we will also be looking to join the rates notices up with the—I keep struggling to remember what iConnect is now called; sorry, that is embarrassing—the digital account. People can log on and actually look at their rates notice.

Mr Salisbury: That is the medium-term vision.

Mr Nicol: Is not my area. It is not only what the revenue office does in this space; it is also the personal account IT system. And the government injected some new money.

MRS JONES: Are we going to get an online drivers licence as well soon?

Mr Barr: Inevitably. Everything is heading in that direction.

Mr Nicol: They are questions for the chief digital officer, who is very knowledgeable and very keen on pushing services into this space, which we are all very keen to do.

MR COE: Turning to rates for households, again if the heavy lifting has been done, are you saying it will then revert to WPI or something?

Mr Barr: We will announce the next five-year schedule of tax reform in next year's budget and at that point we will make some decisions around the elements of tax reform that will continue, principally stamp duty reduction because we have now abolished the taxes on insurance. From a household perspective, any further movement on payroll tax will not have an implication for household rates. It is simply a question of the stamp duty-rates trade-off.

MR COE: In which case, if it is a trade-off, how can you go back to WPI?

Mr Barr: You could do that in a number of ways: by slowing the rate of stamp duty reduction in the next phase or targeting only specific sectors.

MR COE: But if you are actually looking to shift revenue from stamp duty to rates, if normal is WPI do you not have to be above WPI in order to get additional revenue?

Mr Barr: It will depend. The forward estimates beyond the certain period are not set. You can do what you want in that regard but you will just need to—

MR COE: Make sure it adds up?

Mr Barr: That is right.

MR COE: But if you want to shift revenue from A to B, B cannot be normal; B has got to be above normal, does it not?

Mr Barr: It depends on what normal is.

MR COE: WPI?

Mr Barr: That is not necessarily a benchmark that you could return to. You may not. You may return to CPI. You may return to a hybrid of WPI and CPI.

MRS JONES: But one of those measures of the costs of living—

Mr Barr: What I can say is that I am not proposing to do what you are proposing, which is to freeze increases altogether. But what I am saying is that the rate of increase in the next phase of tax reform will be lower than is currently the case.

MR COE: Notionally. It is obviously a considerably higher base now than when it began.

Mr Barr: That is, I think, entirely consistent with my point that the heavy lifting has now been done.

MR COE: It has not now been done. It happens every year because you have now got a base such that the heavy lifting is done every single year. It was not just in the past and now it has gone; now you have dropped it. It was not a one-off lemon.

Mr Barr: No, it was not a one-off lemon, but the heavy lifting of tax reform was to shift our revenue base away from stamp duty, which was 21, 22 per cent of own-source revenue before the tax reform began, to now 13 per cent and falling. That is the heavy lifting: abolishing insurance tax. I do not need to do that again because it is already done, unless you are proposing to bring it back.

MR COE: But that is because that revenue is now embedded in rates. The heavy lifting is happening every single year.

Mr Barr: I do not need to find that new amount of increase each year because it has already been done.

MR COE: Because you have already got the additional increase.

Mr Barr: Because I am no longer levying that range of other taxes.

MR COE: Which then begs the question: if you are proposing to get rid of $290 million of stamp duty does that not mean that it has got to go on rates?

Mr Barr: Over time, yes.

MR COE: Therefore we have got to have above normal rates increases.

Mr Barr: No. What is normal?

MR COE: It is 7½ per cent this year. Is that normal or not?

Mr Barr: No, that is a second phase of tax reform level of increase.

MR COE: Will it go down by 7½ per cent next year or will that 7½ stay?

Mr Barr: No, it will not go down by 7½ per cent.

MR COE: It will be embedded for all time.

Mr Barr: No, because I am not proposing to put stamp duty back up like you are.

MR COE: For all time all this heavy lifting is going to keep being absorbed by Canberra households.

Mr Barr: The purpose of tax reform is to transition away from asking the seven or eight per cent of the population who buy a house each year and who were contributing up to a quarter of our own-source revenue. That is not fair. We are stopping that. But money does not grow on trees. We have got to properly fund the services that this community needs. As you know and as we have discussed every budget estimates since tax reform started, there is nothing new in this. But we are collecting revenue through the fairest means available to us.

Of all the taxes we levy, which one is the hardest to avoid? Rates. Which one has the least economic impact in terms of distorting investment decisions? Rates. Which one contributes the most to stability in revenue? Rates. Of all the taxes we levy, it is the least worst. Even if your starting point is that all taxation is bad, which is your starting point—

MR COE: Tell that to the Charnwood family that is now paying $1,000 a year more than what they were—per year.

Mr Barr: My answer there is that it is not fair to levy a quarter of the territory's revenue each year on seven per cent of the population who buy a house, and that we have to be fairer to young people in terms of not hitting them with stamp duty on their first property purchase. We need to be fairer to young families who buy their second property when they have kids and need a bigger house. We need to be fairer to pensioners and to people who are downsizing once their kids have left home.

MR COE: Has turnover increased? Has property turnover increased?

Mr Barr: Over the cycle, yes, because it is less of an inhibitor to move.

MR COE: By how much has property turnover increased since the reforms?

Mr Barr: The reforms are being implemented over a number of years, but—

MR COE: You are talking about all of these great benefits. How has—

Mr Barr: I can tell you how much each household has saved at each level.

MR COE: No. You said that one of the clear benefits of tax reform was that we would have higher rates of turnover of properties.

Mr Barr: Yes.

MR COE: What does the evidence suggest?

Mr Barr: And absent other market fluctuations. We do not operate in a vacuum from what happens in a broader—

MR COE: Yes, but it is the same city. Compared to 10 years ago and then each year, what is the trend?

Mr Barr: Sure, we can have a look at the—

MR COE: What is the trend in turnover?

Mr Barr: The trend overall is more properties turning over.

MR COE: What was the rate of turnover prior to the scheme?

Mr Barr: The rate of turnover prior was in a smaller city with a fewer number of property transactions.

MR COE: Yes, but it is a rate. We are talking about a percentage.

Mr Barr: It was around six to seven per cent, and it has increased slightly. One of the factors, obviously, also is the number of new people who are coming into the territory who are buying for the first time. But it is hardly going to have a negative impact if your transaction taxes are lower.

MR COE: Can you please give us data for the past 10 years of established properties that have turned over, and the number for new properties as well?

Mr Barr: It has to include new properties as well.

MR COE: Separately—new properties as well.

Mr Barr: To the extent that that data is easily obtained and it is not going to cost a small fortune to—

MR COE: One of the critical decisions for tax reform is the efficiency of turning over properties. If the evidence is not clear, surely that puts a cloud over the nature of the efficiency.

Mr Barr: No, I do not think it does. The underlying economic efficiency of tax reform is clear and is evidenced in every report on taxation reform.

MR COE: But that is dependent upon removing transaction costs because that is going to increase turnover. But if turnover is not actually increasing then the efficiency has not been realised.

Mr Barr: No, that is only one element of the overall economic efficiency of a change in the tax mix switch. You have entirely ignored the benefits of the lower taxation on labour, which has seen our unemployment rate fall and our level of employment grow. You have overlooked the fact that—

MR COE: You are talking about payroll tax changes?

Mr Barr: Yes, that insurance taxes no longer apply.

MR PETTERSSON: Chair, this has run its course. Can we continue with normal questioning?

Mr Barr: You cannot just take one element of tax reform in isolation and not look at the totality.

MR COE: It is just the one that people are wearing every single year.

Mr Barr: That is part of the inherent fairness. I go to the earlier point I made: we all consume the services every year, so we should all pay every year rather than paying once every seven or eight years when the average Canberran transacts and buys a new property. That is the inherent fairness here. If the argument is that you are only entitled to consume services in the year in which you buy a house, because that is the only year in which you have contributed significantly to the cost of service provision—

MR COE: In which case you should have grandfathered the spend. You should have grandfathered it.

MRS JONES: Going back to an earlier answer to a question, when you say the heavy lifting has been done, do you mean the heavy lifting in the changing, not necessarily the heavy lifting in paying the bill, for ACT government?

Mr Barr: No—

MRS JONES: The heavy lifting, as in your heavy lifting as the Treasurer, in changing—

Mr Barr: No. The tax reform involved getting rid of insurance tax—done. Raising the payroll tax free threshold to the highest level in the nation, to have 90 per cent of businesses in the territory not paying any payroll tax—done. Reducing stamp duty progressively over 20 years—we are seven years into that, so about a third of the way through, with some significant milestones along the way.

MRS JONES: So it is not yet the heavy lifting for the rates increase that is completed?

Mr Barr: No, because—

MRS JONES: It is the heavy lifting for the overarching—

Mr Barr: It is, because in the first phase of tax reform we were making changes to three taxes and shifting the revenue base to one. Now we are only doing one for one.

MRS JONES: But it is still worth $280 million that will have to be shifted.

Mr Barr: But if we had left it alone—

MRS JONES: Do you plan to leave it alone?

Mr Barr: If it was 22 per cent of our total revenue share, stamp duty would be approaching $450 million to $500 million now.

MRS JONES: True, but there is still $290 million to shift onto rates, essentially.

Mr Barr: Over two decades, yes. That is a pretty small amount each year.

THE CHAIR: Moving on to commercial rates, they are set to increase by around 29 per cent between 2018-19 and 2022-23. How can you say that the heavy lifting is over when businesses are still facing a 29 per cent increase in rates? When will commercial rates slow to be in line with WPI?

Mr Barr: The increase in ratepayers is also a contributing factor. One must be careful, Miss Burch, in not assuming that there is a fixed number of rate-paying businesses, because there is growth in that every year.

THE CHAIR: Sure, but it is still a huge increase.

Mr Barr: The level of increase is six per cent. Again the similar changes that have occurred for business have been the elimination of stamp duty on 70 per cent of commercial property transactions, and a $200 million annual benefit in terms of payroll tax threshold increases. Our tax expenditure statement shows that if we levied according to the New South Wales scheme we would collect $200 million more in payroll tax. So, hypothetically speaking, Mrs Jones, if you wanted an answer to one possible tax mix switch that could get rid of two-thirds of stamp duty, you could put it all on the payroll tax base.

MRS JONES: You could.

MS CODY: Which would include businesses paying more payroll tax.

Mr Barr: Yes. Why wouldn't you do that? Because we have three factors of production: land, labour and capital. The two that are most mobile are labour and capital, and they are the two that are most lightly taxed in this jurisdiction. They are the choices. You could tax labour more heavily. You could copy New South Wales, and you would bring in $200 million of additional payroll tax revenue. But where would that be coming from? Small businesses and medium-size businesses.

THE CHAIR: My question is: when will the heavy lifting actually be over for businesses and when will commercial rates return to be in line with WPI?

Mr Barr: It is the same answer as I have given—

MRS JONES: Because you have not decided yet.

Mr Barr: in answer to the other questions: we will announce the next phase in next year's budget. This year the increase is six per cent. That is lower than has been the case previously, and it is lower than is the case in the residential sector, because we have achieved a lot of the reforms in terms of payroll tax threshold increases, insurance tax abolition and stamp duty abolition for 70 per cent of commercial property transactions. And we have brought the top rate down for larger commercial transactions from over seven per cent to under five per cent. A lot of the heavy lifting has been done in terms of tax reform at the business end.

This is the discussion I had with the Property Council at the event I spoke at last week. We will engage with them about where they see the next priorities in relation to any further stamp duty reduction for the commercial property sector. If they decide they do not want any more then we can immediately revert. But that is not the message they were giving me last week.

MRS JONES: The difference obviously being that a borrowing for stamp duty is eventually paid off but the replacement tax never ends because it is rates and it is every year. So first of all you have a group of people in the ACT who, as we have discussed before, have already paid off their stamp duty and who are now being asked to contribute that cost to government for its services again. Secondly, you have a group of people who may be able to borrow for their stamp duty but then eventually that figure will be finished, over, completed, paid off. That is not the case under the new system.

Mr Barr: The answer to the first part of your question is your assumption is that stamp duty paid in the past factored forward as opposed to putting back to back the services that you had already consumed.

MRS JONES: If government was in debt, yes, of course, but—

Mr Barr: So this assumption that because you paid stamp duty in 1989 or 1987 does not then mean you are then free from any obligation to pay for the services you consume after that.

MRS JONES: No, and people did pay rates then. But the fairness argument is fairness for government or something, but it is not fairness for the individual who has paid that sum.

Mr Barr: It is territory interest over sectional interest.

MRS JONES: Over individual interest.

Mr Barr: Over sectional interest in that there are winners and there are losers.

MRS JONES: And the losers are predominantly people on single incomes, are older and have already paid their tax base.

Mr Barr: No, I do not believe that is a fair characterisation in light of many of the concession programs that apply to exactly those people.

MRS JONES: Single income families and older people are the ones who keep coming to us and saying they are finding it difficult.

Mr Barr: But to answer the second part of your question, one of the responsibilities of government is that you have to take the total community interest. That means being fair across the board. I do not and the government does not just frame policy to ensure that the two groups you have identified are better off because you excluded from that list first homebuyers and people who are downsizing. What about all of those people whose personal circumstances change for whatever reason—and they can be good reasons or bad reasons in their mind—and they are forced to sell and they have to buy something else? That can be for happy reasons of a growing family or happy reasons of a shrinking family if you want your kids to move out of home. But it can also be in circumstances that are less happy: if a relationship ends or someone dies. There is a range of circumstances.

The argument that if anyone is potentially worse off then no change is possible is one of the reasons why it is very difficult to reform anything. But having attended a state funeral on Friday for our nation's greatest prime minister, one of the things that was very clear was that someone has to look at a national interest, or in our context an overall territorial interest, and make a judgement on what is best for the community overall.

MRS JONES: So are you trying to say that Hawke would have done what you are doing?

Mr Barr: This approach to tax reform is exactly the sort of economic reform the Hawke government undertook in the 1980s.

MRS JONES: It is nothing like the Hawke government.

Mr Barr: With the greatest of respect, Mrs Jones, I think I am in a better position to judge Labor Party reform than you.

MRS JONES: I object to being laughed at by members of the committee, and I object to the suggestion that I do not know what it was like to live under Hawke's government.

Mr Barr: I did not say that. But how old are? You are younger than me.

MRS JONES: You are asking me to tell you my age?

Mr Barr: Well, how old were you during the Hawke government?

MRS JONES: I was a child, but I remember it very well.

Mr Barr: Right, okay.

MR PETTERSSON: I was wondering if you had some numbers on objections to rates valuations. How many complaints do you get per year?

Mr Salisbury: In relation to the 2018-19 year to date, as of 7 June we had 144 objections related to unimproved values and 181 land tax objections. All-up we had 416 objections.

MR PETTERSSON: How does that rate as a percentage of total ratepayers?

Mr Salisbury: From recollection our UV objection is around 0.36 per cent of the total base. I think that is consistent with other jurisdictions; I think New South Wales is around 0.4 per cent.

MR PETTERSSON: How many people are getting access to support or concessions in their rates or deferrals?

Mr Salisbury: In relation to rates deferrals there are 45 current ratepayers under the aged category, 55 under the hardship category, and 273 under the pension category. That represents $2.57 million dollars.

MR PETTERSSON: And have those been consistent over the past couple of years or have those numbers been changing?

Mr Salisbury: I can give you the 2018 figures in comparison. It was 41 under the aged, 50 under the hardship, and 180 under the pensioner. So if you would like me to present it in another way, under the aged category that has increased from 2018 from 41 to 45, the hardship has increased from 50 to 55, and the pensioner has increased from 180 to 273.

THE CHAIR: Do you have that data going back to the beginning of rates reform?

Mr Salisbury: In front of me I only have the 2017, 2018 and 2019 data.

THE CHAIR: Can you take that on notice, please?

Mr Salisbury: Certainly.

MR COE: Do you actually have a form that people can fill out to object to rates?

THE CHAIR: What is the process for objecting?

Mr Salisbury: I believe you can do it in a number of ways, but you can actually log on to our website and lodge an objection through our website.

MR COE: Yes, but do you have a form that people can fill out, either electronically or in paper form?

MS CODY: I think that is what Mr Salisbury just said.

MR COE: No, the form.

Mr Salisbury: To be honest, I am not familiar with a form. I am sure someone will tell me about the form.

MRS JONES: Will you take that on notice?

Mr Salisbury: Yes, certainly.

MR COE: Of the objections, how many were successful?

Mr Salisbury: I have that data with me.

Mr Barr: Whilst he is working on that, yes, there is a form on the revenue web page. You fill in your customer reference number and select from what you would like.

MR COE: Is that the "contact us" form you are talking about?

Mr Barr: That links off to rights, obligations and lodging an objection. In respect of lodging an objection to unimproved value, it says, "If you believe your unimproved land valuation is incorrect you can lodge an objection. You must reply in writing, or through our "contact us" form, or by post."

MR COE: It is generic. You get pointed to the generic "contact us" form and then you—

Mr Barr: And you can then select a topic—

MR COE: have to script it yourself. That is pretty daunting for a lot of people, just to have a blank text box in which you have somehow got to create your narrative to object to rates. There is a reason why designing forms is an art form and is very important. That is not at all encouraging or welcoming for somebody who actually objects.

MS CODY: Chief Minister, did you say that you can also contact the revenue office by telephone?

Mr Barr: Yes, obviously there is a range of different ways.

MS CODY: Those who may have a few issues by doing it online, they can actually pick up a phone and talk to someone in person to ask as many questions as they need to to get the right answers for what they are looking for?

Mr Salisbury: Yes, they would. Somebody on the phone would help craft the objection.

THE CHAIR: So somebody would assist them in crafting that? They would not just be sent back to the web form?

MR COE: Can you take a verbal objection?

Mr Salisbury: Yes, we do that.

MR COE: Is there a charge for objecting?

Mr Salisbury: There is no charge for an objection.

MR COE: Did you get the information for the number of successful—

Mr Salisbury: In 2018 there were 503 objections decided. Seventeen of those were allowed and 486 were disallowed, part allowed or withdrawn.

MR PETTERSSON: What does "part allowed" mean?

Mr Salisbury: Some element of the assessment was reviewed and changed.

MR COE: You can imagine that being a pretty daunting exercise for someone when they know that the success rate is pretty low. You are looking at a success rate of a couple of per cent.

Mr Barr: I guess that the alternative way to look at that is that the system is robust and is generally not prone to error.

MR COE: Yes, or people just know ; you can try to create a virtue of the fact that relatively few people are objecting, but if in reality everybody knows that objecting is not going to achieve anything—

Mr Barr: It is evidently—

MR COE: It hardly means that everybody is satisfied with their rates notices.

Mr Barr: It is evidently not the case. In respect of your question in the context of satisfaction, people may object to how much they are being asked to pay but that is very different from objecting to the calculation of that amount. I think for most people who would raise an objection it would be based on the belief that their unimproved value had increased by, for example, more than they thought it would, that there was some form of administrative error or some mistake in the context of presentation. That is a different issue from objecting to being asked to pay rates. But the equivalent—

MRS JONES: I do not think anyone is talking about people completely objecting to the idea of paying rates.

Mr Barr: But the equivalent analysis would then need to be undertaken on the number of complaints received about paying stamp duty under the old model, the complaints received when people dived into their insurance bills and found that line at the bottom, "ACT government tax: 10 per cent on top of all of your bills." I understand that many people do not enjoy paying tax, but many people benefit—

MRS JONES: I do not think anyone enjoys paying tax.

Mr Barr: from the services that are provided by our collective contribution through consolidated revenue.

MR COE: Where are you at with the revaluation hit squad that is going to all the commercial areas and hiking up the valuations?

Mr Barr: Well, I think that sort of language does not do you or this committee process—

MR COE: Where is it up to? It has obviously gone through Phillip. We were advised that they are looking at Mitchell, Belconnen and Fyshwick. Where are they at the moment?

Mr Barr: The process of assessing market values, which would be a perfectly reasonable way of asking that question rather than the way you did—

MRS JONES: I do not think you get to demand how questions are asked.

MS CODY: As a committee member, I took offence at the way that was asked, actually.

MRS JONES: It is not an offensive term.

Mr Barr: The implication of it could be that you have got a team of people in the revenue office who are out to hit people, which I do not think is particularly useful.

MR COE: Are they in Belconnen at the moment or are they in Fyshwick?

Mr Barr: If the question is, and we can agree, that you are seeking information around how the market valuation process is going within the revenue office, I will ask the commissioner to respond to that question.

Mr Salisbury: Valuations for 1 January 2019 have not been settled at this point in time. The valuers are still working through their process.

MR COE: I am asking about after the project got underway to go to specific commercial and light industrial areas to do in-depth revaluations. I know it went through Phillip. I have a response to a question on notice that clearly states where you are going to go to. Where are they at?

Mr Salisbury: That will become apparent when the valuations for 1 January 2019 have been finalised.

MR COE: I understand that. I understand it will become apparent when they get bills, but what are they working on right now?

Mr Salisbury: They are working on finalising the valuations for 1 January 2019.

MR COE: But is there a particular area that they are focusing on?

Mr Salisbury: They will be looking for where there is market evidence that values have changed in a particular precinct.

MR COE: And what part of Canberra are they looking at?

Mr Salisbury: They are looking at all parts of Canberra for the market evidence that values have changed significantly.

MR COE: But the government provided, the Treasurer provided, an answer to a question on notice to me which stated that the team had gone through Phillip and were then looking at other areas. So it is hardly a secret. I am just curious as to where they are at. Can you tell me whether the revenue office has a particular area where you are doing a disproportionate amount of work at looking into the market?

Mr Salisbury: I refer to my previous answer to this question. We will be looking for evidence of where market values have changed substantially.

MR COE: And what areas do you think might have had changes to valuations?

Mr Barr: I think the commissioner has answered the question.

MR COE: I do not understand why you would refuse to answer that.

Mr Barr: Well, I think the commissioner has answered the question.

MR COE: No.

Mr Barr: Yes, he has.

MR COE: No, he has refused to answer the question.

THE CHAIR: We are out of time.

MR COE: Treasurer, why won't you say it? Why will the Treasurer not say it?

Mr Barr: The answer—

THE CHAIR: We are out of time. We will suspend for a 15-minute break and return at 3.45.

Mr Salisbury: Can I beg an indulgence of the committee? My office have been very keen to put on the record the fact that they have been working very diligently on the land tax exemption for community housing—

MS CODY: There we go; good!

MS LE COUTEUR: Good.

Mr Salisbury: There is something on the website. The eligibility criteria are on the website. There is also an application form. I am advised that we have received one application at this point. It is in the process of being approved and considered. We are also aware of two other likely applications at this point. Thank you.

THE CHAIR: Thank you.

Hearing suspended from 3.32 to 3.45 pm.

THE CHAIR: We will move to property services and venues. I want to go first to the whole-of-government office strategy. There has been an extra $362,000 allocated this year above the $500,000 allocated for the years 2020-21 to 2022-23 for office accommodation. What is going on with that measure? And have strategic indicators been put in place to measure the ongoing effect of this?

Mr Nicol: What page are you on?

THE CHAIR: It is page 370 of budget paper 3.

Mr Nicol: It is capital works. I am going from memory, and will have it confirmed, but the government will be moving into two new office buildings in the next 18 months: the Civic building, which I am sure you are all aware of, and the building at Dickson. There is a new measure in the budget, and I think this is the capital element of that measure—as I said, I will confirm that—as to some of the associated costs with moving into those new buildings. I will ask Mr Bailey to comment further, but it is things like setting up a common fit-out, removal costs and the make-good costs of existing leases. We are moving to an ABW environment, an activity-based work environment; that will involve extra costs like wayfinding in buildings so that people know where they are going and where people are. And there are other associated expenses. I will pass it over to Stephen.

Mr Gwilliam: Thank you for your question. I am just confirming that it was page 370 for the item that you were looking at? Or was it 369?

THE CHAIR: Page 370.

Mr Gwilliam: As David was saying, in relation to the government office buildings, we have two projects that government will be leasing for the next 20 years. We have two buildings, one in Civic and one in Dickson. The capital cost for 2019-20 is $6.5 million and we have 3.374 for 2021. Are there specific questions about the specific buildings?

THE CHAIR: Not specifically, but is there a strategic indicator or accountability indicator to measure the effect in terms of the strategy?

Mr Gwilliam: My understanding is that it is part of a hub and spoke model for government and a consolidation of our existing leases to support an ABW fit-out of both buildings.

MRS JONES: For those listening who are not aware of what an ABW fit-out is—

Mr Nicol: Activity-based working.

MRS JONES: I understand the words; it is the concept.

Mr Nicol: I can explain more what the concept means. Essentially it is a range of different approaches to working in an office environment. At one end of the spectrum, you get your own desk, your own pod; you own that forever. At the other end of the spectrum no-one has their own desk; you work at 80 desks to 100 people. We are implementing something in the middle. We will have regional neighbourhoods in the building where groups of people will work, but they will be flexible at the edges so that—

MRS JONES: If someone does need an office with a door, that will still be available.

Mr Nicol: That is right; that will be available. We will be able to form teams on an ad hoc basis much more easily; we will be able to accommodate new tasks more easily with new teams. We are not at this stage looking at full ABW where you rush for your desk and try to grab your desk every time you move into the building.

MRS JONES: It would not be great for the working mums, would it?

Mr Nicol: Stephen, did you want to add anything to that?

Mr Gwilliam: I think the opportunity that presents itself is for a much more open, collaborative work environment for the staff that will be inside both buildings. The intent is that we have multiple directorates inside the same buildings, so naturally we would expect that there would be a greater synergy in the communication between directorates on a whole range of policy matters that could be of benefit to the ACT.

MRS JONES: Which directorates are you planning to go into the two new premises?

Mr Gwilliam: At this stage, if we start at Dickson, perhaps, because that is the first building that comes on line, next year, on 13 February 2020, we have—

MRS JONES: Just before Valentine's Day.

Mr Barr: Yes, that is true. I am not sure it was targeted to that date specifically, but—

Mr Gwilliam: We have agencies like the Suburban Land Agency, Canberra Transport and City Services and EPSDD at this stage going into the Dickson building. In relation to the building next door to the Legislative Assembly, we have chief minister's going in, and treasury as well. We also have the Community Services Directorate, Education, and Justice and Community Safety, mostly the policy elements of those specific directorates.

MRS JONES: The idea is that you can form up teams between departments? That is part of the beauty of this system? Is that right?

Mr Gwilliam: The building, in the way the fit-out is designed as a construction fit-out model, allows a significant degree of flexibility going forward into the future as well.

MRS JONES: So you can change walls and so on?

Mr Gwilliam: And it is receptive and flexible enough to be able to cope with things like administrative changes and so on, if required.

MRS JONES: That is always a good idea in government.

MS CODY: There have already been some refurbs of buildings in the past. Access Canberra in Woden comes to mind for me. Is what you are talking about here based on similar principles?

Mr Gwilliam: Yes. We have a couple of principal projects that over recent years have demonstrated elements of activity-based work principles. The Cosmopolitan building in Woden is definitely a good example in the way that that building is utilised. The design of buildings such as Winyu out in Gungahlin is another example of the different ways that buildings can be used. Both of those projects provided some insight and understanding; when these two projects came on line, they informed some of that thinking.

MS CODY: Can I talk about some venue matters as well. I want to ask about the additional seating at Manuka Oval. I believe we are also doing some covered seating. Is that correct?

Mr Barr: That is correct.

Mr Bailey: I can start. We are looking at covering over five different bays, five extra bays, within Manuka Oval. That will be weatherproof seating. Along with that, there will also be a new camera deck. Liz, did you want to provide more detail?

Ms Clarke: Yes. With the canopies that we are putting in place there will be 60 per cent coverage right across the venue. The additional five canopies will certainly make a big improvement.

MS CODY: The additional seats that are also going in at Manuka, will part of those be undercover or will they be mainly out in the open?

Ms Clarke: There is no additional seating. It is just retrofitting canopies over the seats that are already in place. We have been working with the design, and the DAs—the development applications—are out at the moment for the public to review.

Mr Barr: The extra seats came in terms of corporate space with the media centre. When it is in AFL mode those are then available for use.

MS CODY: Is there any other work coming online for Manuka? I know we have got some fabulous international matches coming up there, particularly the women's T20 matches.

Ms Clarke: That is right. To prepare for that, we are doing work on our players' change rooms, as well as the officials' change rooms, to ensure that they are also female friendly. That is really important. We are also doing that at GIO Stadium.

MS CODY: Talking of GIO Stadium, are we doing some additional work there? I think there are some screens. Is that correct?

Ms Clarke: We have got funding to bring in a new video replay screen. It is going to be about twice the size of the current screen, bringing it up to speed with a lot of the other stadia around the country. That will mean that the stadium will have two screens, because we will keep the older one in retro and then we will put the new one down at the south end, which will be fantastic. We know that is something that the sporting codes have asked for. They are thrilled, both the Brumbies and the Raiders, to be able to have such a screen. We are also, as I said previously, including upgrading the players' and the officials' change rooms.

MS CODY: At both GIO and Manuka?

Ms Clarke: Absolutely, to be female friendly.

Mr Barr: And some security upgrades as well for Canberra stadium.

MR COE: Are they cameras, pretty much?

Mr Barr: A mixture predominantly, but—

Ms Clarke: There are a range of security measures that we are putting in place at the stadium. We are working through those projects, but they will all be finished by the end of the financial year.

Mr Barr: A lot of this work is informed by the work at a national level, through COAG, on securing large gatherings, mass gathering places, yes.

MS CODY: I recently had the opportunity to go to the Christchurch stadium, the current temporary stadium, and part of their security measures included only allowing in bags that were smaller than 30 centimetres in width, I think, and depth and something and something. Will we be looking at measures similar to those or are we mainly just looking at what is happening here in Australia across—

Ms Clarke: We get advice on what is happening in Australia and also internationally. We do bag searches and, obviously, random checks. Yes, we are very aware of what other measures are in place.

Mr Bailey: We certainly looked at that and we wanted to stay up to speed on what is current happening. There are certain logistical challenges in Canberra, where a small bag like that will not fit the blanket you might want to bring in or something like that—those couple of blankets.

Mr Nicol: I think it is fair to say that we will be constantly looking at security and how to improve it in a visitor-friendly way—constantly.

Mr Barr: It is a risk-based assessment too. Different events attract a different level of security and risk.

MS CODY: It was quite interesting having to put my bag into a tent halfway across the other side of the stadium and carry a plastic see-through bag. It was really confronting.

Ms Clarke: At this stage we are not considering reducing the size of the bags coming into the stadium or Manuka Oval.

MS LE COUTEUR: I want to talk about the property services part, rather than venues, and about the community facilities that you manage. I know a couple of years ago there was a project to rationalise—I think that would be the word—how you charge per square metre. How is that going?

Mr Barr: Minister Steel has direct responsibility for that area. It is actually in his portfolio. There is a direct community facilities part, and I have brought that together with Community Services, but it is a little different from the other areas. Those specific questions might be best addressed to him.

MS LE COUTEUR: In that case I will move on to EPIC. We have been reading that there is planning going on for EPIC. You are possibly aware that the Greens have publicly said we would like to see EPIC remain a venue for major events: the Folk Festival and the farmers market et cetera. My question to start with is: are you part of this review of EPIC or is it happening somewhere else?

Ms Clarke: Definitely we are part of it. We are undertaking a sort of analysis of what the needs are for our major event organisers. We are doing this analysis to feed into the Kenny study that is also being undertaken through EPSDD. But the part of the work that we are doing is to understand exactly what our clients need for the delivery of their event at our venue, not just currently but also what is going to happen in the future. For example, you would know the National Folk Festival has had different sized footprints over the years. We need to understand: are they planning to increase their footprint and what would that mean? Do they need more power? Are they going to have noisier events that we would need to move from where their marquees are set up to another location? We are gathering all that information to understand and then provide that to government for them to consider.

MS LE COUTEUR: Looking at that, are there any facilities at EPIC which you would need to have replaced if it does continue, as I hope it does obviously, to be an entertainment venue?

Ms Clarke: One of the challenges we have is that we have buildings that are getting quite old. Obviously they are very adaptable, with the size, but we need at some stage to look at how we can do better improvements. For example, is our third-largest building, Fitzroy, really useful for the events that we have here or not, or do we need to have a much larger building? They are the sorts of things that we are going through at the moment. I must say that all our clients that we have met with, the Folk Festival, Summernats, the agricultural society—

MS LE COUTEUR: Lifeline?

Ms Clarke: Pardon?

MS LE COUTEUR: Lifeline?

MRS JONES: For the book fair?

Ms Clarke: Yes, and the farmers markets. They are all very excited about this because they can see opportunities. They all are very passionate about being in Canberra and understanding what benefit there is for their events, not only for a commercial return but also for the community return. As you know, at the farmers market we get over 10,000 people on Saturday mornings. I was at A Pooch Affair on Saturday morning and over the day I think it attracted over 3,000 or 4,000 people with their dogs indoors. There are so many opportunities there, for the community, at EPIC. We are very carefully going through all of that analysis at the moment.

MS LE COUTEUR: One of the big opportunities EPIC has is that it is next to the light rail. However, the light rail stop appears to be for the racecourse more than for EPIC. Have you got any plans to rebuild EPIC so that there is an entrance near the stop?

Mr Nicol: This study is very timely, not only because of issues like the integration of the stop with the facility but also because of the age of the buildings, the future of the area, given the growth of the surrounding region in terms of population, the need for additional schools in the area and the future of the racecourse. All of these questions go into ultimate decisions for government. I envisage that the government will make a set of decisions that will include how we restructure and rebuild, in a sense, the facility we have and how we make best use of it. That question is part of that decision as well.

Mr Barr: If it would assist in ending some urban myths, there is no intention to convert Exhibition Park to housing. There was not ever really a need to call for that not to happen because it was never contemplated. It is my understanding that the racing club wish to stay on their site as well. So the urban myth that Exhibition Park and the racecourse are suddenly going to convert to housing is just that—an urban myth. There is no such suggestion that that will occur.

MRS JONES: I want to ask a question on the smarter government spending policy in the annual report, at page 105, volume 1. What, if any, savings have been achieved by this policy to date?

Mr Nicol: Sorry, I did not bring my annual report with me, Mrs Jones. Perhaps I can take that one on notice. The smarter modern procurement savings process was a multi-year program. It certainly achieved substantial savings; it did not quite achieve its full target.

MRS JONES: What was its intention?

Mr Nicol: Its intention was essentially to look at how we procure certain common services across directorates and find ways to improve our cost per service for those services. For example, we looked at procurement of electricity costs and instead of having multiple contracts across multiple directorates we formed one contract, where we could. So I can certainly give you a detailed breakdown.

MRS JONES: What, if any, savings have been achieved, which no doubt you at least scoped out before the decisions?

Mr Nicol: We have the detail, I just do not—

MRS JONES: And also are there any plans to commence a review of the policy to assess its impact regarding property services management?

Mr Nicol: There was a proposal to essentially bring all property services and maintenance under one contract. That went out to market and we chose not to go that route.

MRS JONES: Because?

Mr Nicol: It was a range of factors. The biggest factor was one of risk in terms of achieving efficiencies.

MRS JONES: It may not have achieved them?

Mr Nicol: It may not have achieved them, and it involved a significant risk of putting all your eggs in one basket. It did not work in terms of a provider relationship—it would have been in a difficult spot. The secondary issues were of timing of various needs across directorates. They were not in synch.

MRS JONES: You could not have a simple response; it would have to be multifaceted.

Mr Nicol: That is right. And bringing everyone in at once—which is what the tenderers tended to prefer—would have been very challenging because other contracts were still going on et cetera. We are currently looking at whether we could package that in a different way.

MRS JONES: Similarly, under the topic of ACT property upgrades, output class 9.1, what accountability indicators are attached to the funding allocator for these upgrades? Are there set targets for completion of the works within this funding?

Mr Bailey: In terms of the infrastructure funding, the upgrades are based off condition assessments we undertake of the building. We have a rolling program of works that are risk rated. Basically, each year, with our funding we allocate projects to that.

MRS JONES: Does that include Health property or is that totally separate?

Mr Bailey: No, I would imagine they have their own fund as well. These are just the

260 properties that ACT Property Group currently manages.

MRS JONES: What is the nature of the tenders for contractors to undertake the property upgrades?

Mr Bailey: Again, it all depends on the value and the type of work. A lot of these may be a whole series of small works, and ACT Property Group have a number of panels. But if they are large HVAC works or something like that they will be—

MRS JONES: What is the threshold at which you go to open tender?

Mr Bailey: Over $250,000 is the default, but if we are a little bit unsure we can go to the open market.

MRS JONES: Is any funding allocated for upgrade work this year being utilised to finish off works under the last financial year upgrade schedule?

Mr Bailey: I would imagine there are. I will get Garry to confirm that.

MRS JONES: I would not mind knowing what they are and why they are not yet completed.

Mr Gordon: That is a really good question. We base, each year, the project funding on where projects are up to. Projects by nature roll across from year to year. We just revise our estimates according to where the progress is on projects. It can be for various reasons that a project might slip. It might be because there is another, higher priority project or it might be the time in the market in relation to procurement.

MRS JONES: Can you take on notice which works have been carried over, the nature of those works and why?

Mr Gordon: Yes, we can do that.

MR PETTERSSON: I am not sure if you have coverage or if this resides with the Office of the Legislative Assembly: improving accessibility to the Legislative Assembly in regard to the works at Constitution Place.

Mr Barr: The Assembly manages itself. There is potential for a bit of overlap, so ask the question and we will see what we can usefully add.

MR PETTERSSON: How are you planning to improve access to the ACT Legislative Assembly?

Mr Barr: That is principally an OLA matter, but once the construction—

MRS JONES: Are we getting a bridge?

Mr Barr: No, I can certainly rule that out. There is a project that relates to the publicly owned land between what will be handed back to us from—

MR PETTERSSON: Page 161.

Mr Barr: Yes, and will interface with the curtilage of this building that falls outside the responsibilities of the Speaker and OLA. That is still public land. There is an initiative in the budget—

MRS JONES: There is a precinct—a little section. Will there be a cafe?

Mr Gwilliam: Mr Pettersson, did your question relate to the area between the Office of the Legislative Assembly and the new Constitution Place precinct element?

MR PETTERSSON: Yes.

Mr Gwilliam: Is there a specific area that you wanted me to discuss and provide you with a bit more detail on?

MR PETTERSSON: The budget papers say that it will improve accessibility. Put simply, I have no idea what the scope of this project is. If you could enlighten me in any way, I would appreciate it.

Mr Gwilliam: I can talk about the Constitution Place building and the interface that it has with the open space that goes between both buildings.

MR PETTERSSON: Sure.

MRS JONES: Please do.

Mr Barr: That is it.

Mr Gwilliam: I just want to be clear; thank you. In terms of the user experience, at this point in time there is a specific MLA car park. I will take the example of an MLA user experience, in the first instance.

MS CODY: Good job!

Mr Gwilliam: You would be interested, I am sure. There is a secure parking arrangement on basement level 3 in the building that is being designed. It will have its own specific lift that will take you to the ground floor. The ground level has an external exit and that will be opposite and parallel to the current Legislative Assembly members' entrance. That space across the void between the two will be a park design. The intent is to have it shaded. There will be, as part of the Constitution design, a restaurant element and an alleyway that links the back of the Canberra Theatre lane straight through to the site. That site will have a range of food and beverage outlets. I understand the developer is putting that in place at the moment and negotiating on it.

In terms of access, there will be a vehicle turnaround located on the corner of the building that is in the laneway. There are also some secure barrier arrangements that are part of the clever landscaping design that ensures that pedestrian safety is also paramount and that the precinct area meets the disability standards in terms of the design.

MRS JONES: Wheelchair accessible for an MLA and that type of thing?

Mr Gwilliam: That is correct, yes.

MRS JONES: That will be a good improvement.

MS CODY: I am assuming that, because of the accessibility, the lighting will be quite good there, for the theatre, and that safety and those sorts of things will also be incorporated into that?

Mr Gwilliam: Yes, my understanding is that there will be appropriate lighting for that whole precinct, and specifically for after hours, because we have such a large proportion of staff that will be in the buildings at certain times of the year, particularly around budget time and at other times. There will be quite a lot of life, and the expectation would be that that will become quite a lively spot that supports the theatre operations during the seasons.

Mr Barr: It will be a very different experience from the dark, dingy car park.

MR COE: Are you any closer to being able to issue leases for long-term tenants at EPIC? I gather harness racing, in particular, is struggling to get certainty.

Mr Bailey: The team have been in discussions with the harness racing group and are working closely with them. We are also undertaking this feasibility study. We want to make sure that it is an outcome that satisfies both.

Ms Clarke: That is right. We have been working very closely with harness racing. They are aware of and are participating in the study. We will wait until the outcome of that, and we will work closely with them on that lease. It is about more than just the leasing of their training facility; it is also about working with them on the race meetings that they have in the main showground.

MR COE: Obviously, a lot of people depend on that industry, so certainty is required. The threshold question is: do the government want harness racing in the ACT and do they want them to continue at EPIC?

Mr Barr: The answer to the first question is yes. The answer to the second question is: if that is where they would like to operate from then we will endeavour to meet that. If they determine, as part of this work, that they wish to operate from somewhere else then we can look at those options, should that arise.

THE CHAIR: We will move to the Independent Competition and Regulatory Commission. Can you confirm that you have read the privilege statement and understand it?

Mr Dimasi: Yes, I understand the statement.

Dr Weier: Yes, I have read the statement.

THE CHAIR: The government is currently undertaking an audit of the feed-in tariff scheme, after it was revealed that the data provided was incorrect and consumers have been ripped off. What involvement has the ICRC had in this audit?

Mr Dimasi: We are not involved in administering the feed-in tariff scheme. Our involvement relates to the setting of retail electricity prices. In the process of doing that, the AER, the Australian Energy Regulator, takes into account the costs of the scheme, and that is something that we then take into account as part of our process of setting electricity prices. But we take those costs as given, because they come through the AER. We do not regulate it; we do not control it; we do not have any input into it.

MRS JONES: And you do not look into it?

Mr Dimasi: No.

THE CHAIR: In your role, did you identify any anomalies or data issues?

Mr Dimasi: We do not go into it to identify that. The AER are the effective regulator for that purpose. Once they make a decision, we take that as an input into our decision-making; it is not something where we then go and redo and review it. That is a question for them.

MS CODY: The price direction you issued for 2019-20 allows for price increases of less than one per cent, which is great news for households. What are some of the factors that have led to this determination?

Mr Dimasi: Basically, as you say, 0.85 per cent is the overall increase. The reason for that fundamentally relates to the wholesale cost of electricity having slowed up. We have not seen the big increases that we have seen in the past two years; the wholesale price of electricity has been fairly stable. That has been the main driver.

In terms of the other impacts that have explained what is going on, there is a table in our report that basically sets out every component. I will not go through all of it, but I will just pick out a couple of the highlights. One of the things that have had an impact upwards has been the national green scheme costs, which have gone up a little. The network costs have gone down a little. The ACT government feed-in tariff has put pressure upwards on prices. But offsetting that, the energy losses through the system have come down. AEMO's explanation for that has been that the reduction in the energy losses has come about as a result of greater local generation and less power having come through the transmission systems via Queensland, New South Wales and Victoria. On the one hand, you have had the greater costs from the feed-in tariff scheme as the feed-in scheme applies to more and more projects. At the same time, you are seeing these network losses come down. So you have had a balancing of those effects.

They are probably some of the main things. Retail costs have come down slightly. On balance, once we went through all of that, it was a very small increase of 0.85 nominal, which is less than the inflation rate, which of course means a decrease in real terms compared to the inflation rate.

MS CODY: How do ACT electricity bills compare with other jurisdictions?

Mr Dimasi: We have a little table that shows that as well. The ACT bill is at the bottom end of jurisdictions; the ACT bills are quite low compared to all the other jurisdictions. Some of the other jurisdictions—for example, Tasmania, where Aurora's price is also regulated—are a bit lower. However, their adjustment is happening very shortly. Once that happens, we will have to see how that works out. Others are also in the process of change. But, at the end of the day, the ACT is near the bottom. When I say the bottom, I mean the lowest cost, not the bottom of the ladder in terms of performance.

MS CODY: It is one of the lowest.

Mr Dimasi: Lowest costs, yes.

MRS JONES: You gave an explanation about the loss in transmission because of local production versus the feed-in tariff pushing costs up a bit. What are the exact numbers on that? Do you have a model on that?

Mr Dimasi: No. AEMO, the Australian Energy Market Operator, are the body that are responsible for calculating energy losses. They have a model, and we rely on their numbers and their model.

MRS JONES: Have you got a table or something where you have compared their numbers for the energy that we have retained to the additional costs to the system that would have ensued? You say that they even each other out but—

Mr Dimasi: No, I did not say they even each other out. I said one—

MRS JONES: One is up; one is down.

Mr Dimasi: One is up and one is down.

MRS JONES: Can you take on notice to show us how—the numbers that you have looked at that have given you that impression?

Mr Dimasi: We can certainly show you the numbers we got from AEMO and the numbers that we have about the feed-in tariff rate, and show you how we came to that.

MS LE COUTEUR: I want to move to water.

Mr Dimasi: Sorry if I sound as if we cannot do some of the things you are asking.

MRS JONES: That is all right.

MS LE COUTEUR: Have you looked at reforming the water abstraction charge in a way that would create more incentives for lower water use? I believe there are only two tiers of charging. Could there be more? What do other jurisdictions do?

Mr Dimasi: The water abstraction charge is determined by the government. We take that charge, which is imposed by the government, and factor that in in calculating the charge that we determine for water. We are not the responsible body; in fact, that is a policy question for the Assembly.

MS LE COUTEUR: Mr Barr, who is the responsible body? I have some more questions. You?

Mr Barr: In terms of setting the charge, yes, but by cabinet.

MRS JONES: But you are the one responsible in this place? Is that right?

Mr Barr: I am not the water minister, no, but the treasury—

MS LE COUTEUR: Who is?

Mr Barr: Between me and Minister Gentleman, we would have primary responsibility.

MS LE COUTEUR: Given that I have some more questions about this, do I keep on going?

Mr Barr: Keep on asking, yes.

MS LE COUTEUR: We appear to have entered into a drought, and there are predictions for more droughts under climate change. Have you considered reviewing this charging structure to encourage people to consume less rather than more?

Mr Barr: The water extraction charge itself would serve part of that purpose, I would have thought. But if you are talking about the tariff, the tariff is the ICRC's role.

MS LE COUTEUR: Well, between you two gentlemen have you considered adjusting your charging regime to encourage people to consume less rather than more?

Mr Barr: Rest assured that this has been the subject of conversations that the commissioner and I have had in the interaction of the various charges. Icon Water are also necessarily involved in relation to providing advice on a range of these areas. The conversations are ongoing. Is there scope for change in the future? Yes, these policies are not locked down for all of time. I will now hand to the commissioner to talk about some of the thinking from the commission's perspective.

Mr Dimasi: In setting the water charge we set the overall increase—if an increase is justified—which we try to keep to a minimum, an efficient minimum to protect the ACT community. But we also look at the structure of charges. We looked at this a couple of years back, and one of the issues we were looking at was whether the two tiers should be modified. Indeed, there was significant feedback to the commission from some of the larger users that we should either remove the second tier or significantly reduce it.

The balance between the fixed and the tiers is a very complex issue. We thought about it a lot. At the end of the day we decided to keep the two tiers and not to rebalance between the tiers so that the higher tier goes up in proportion to the lower tier simply because we felt the community feedback we received did not want a change in that, because of the sorts of issues you are raising. So that is something that we do think about and have thought about. Obviously, we will keep thinking about it as circumstances change.

It is also worth noting that at that point in time the dams were 90 per cent-plus full, which they are not now. Of course, it is also important to think that the vast majority of the charge reflects the cost of the capacity, the dams and the network and not the water itself. The water abstraction charge is almost a de facto charge on the value of the water that is in the system. There is nothing else. So that is the base on which we operate and that is the base on which we would make a decision.

MRS JONES: What is the point at which the second tier kicks in?

Mr Dimasi: It is the first 200 kilolitres, going up to $2.46. Above 200 kilolitres it goes up from $4.88 to $4.94.

MRS JONES: Do you know how many households go into the second tier?

Mr Dimasi: We do, but I cannot carry every number in my head, I am afraid.

MRS JONES: Could you take that on notice. The other question that comes to my mind is the unintended consequence for larger households, for example, that are using less per person.

Mr Dimasi: There are a lot of trade-offs to think about, and that was exactly one of the issues. These things are by their nature complex and have winners and losers and you have to balance all of that.

MRS JONES: Can you provide an update on your monitoring and reporting on the impact of ACT beverage prices and competition since the introduction of the container deposit scheme, and what feedback have you received since the progress report was released?

Mr Dimasi: We released a progress report, as you have indicated, where we looked at the cost of the scheme, the price impacts of the scheme and any other feedback we received from industry and other players. Wholesale price increases were around 12.4 per cent. They were non-promotional wholesale price increases, not the price increases that consumers pay. I should stress that. We found that direct costs were about 7.1 per cent per container.

MRS JONES: So some of that was absorbed by the businesses?

Mr Dimasi: That is a bit unclear. What they told us was that there were additional costs over and above the 7.1 per cent that led to the 12.4 per cent. That was not too different to New South Wales, given the difference in size of New South Wales. We also looked at retail price increases from the ABS data set and we compared Canberra to Sydney when the schemes were introduced, and we used Melbourne as a base because of the different timing available. Again, we found that the price increases in Canberra were no higher—in fact, possibly a bit lower—than they were in Sydney.

MRS JONES: One things that have been raised is the fact that suppliers have said there might be some issues because the payment is required in advance.

Mr Dimasi: Yes; correct.

MRS JONES: There might also be some volatility issues in the current scheme. Could you elaborate on the potential risk factors associated with the scheme and any negative effects on business?

Mr Dimasi: Because it is a pay-in-advance scheme, in the early days in particular it meant that, depending on your forecast of what the return rate was going to be, it could be quite expensive and, of course, it would be trued up at the end of the period, based on what was returned. Meanwhile, it could be quite costly. We suggested looking at an arrears scheme to overcome that, but we also were conscious of feedback across the board from industry that harmonisation with New South Wales was important.

We said it was maybe worth looking at an arrears scheme. However, if New South Wales does not introduce an arrears scheme then we are probably better to harmonise as closely as possible with New South Wales as the preferred route, rather than having the arrears scheme and going out and being different. Having said all of that, the point I make is that what we have seen since is that the return rate has been steadily increasing and it has now significantly improved since the time we did the report. So those sorts of issues are probably less than they were.

MRS JONES: And possibly people setting up new businesses?

Mr Dimasi: Correct. I think it will settle down. We have to make our final report and we have got to balance it all to make the trade-off. But having a harmonised scheme so that there is less cost in trying to administer it and so that businesses here are not having to reinvent the wheel with New South Wales is something we have recommended and we will keep looking at that for the final report.

MRS JONES: And will that conclude about the impacts on market and consumer behaviour?

Mr Dimasi: It will.

MRS JONES: So we are not quite at that point yet, are we?

Mr Dimasi: No. We did comment on it. Our finding, based on all the information we had at that time, was that the market was workably competitive and there was no reason to suggest that there was anything untoward or any gouging unnecessarily going on.

MRS JONES: Are there enough stations for these bottles?

Mr Dimasi: There was clear feedback that more stations were needed. But we seem to be getting better feedback. But, again, that is something we will be able to assess for the final report.

MR PETTERSSON: How do electricity prices in the ACT compare with other jurisdictions?

Mr Dimasi: Pretty well. Prices in the ACT are among the lowest. Certainly, the bills for ACT consumers would rank amongst the lowest of the other jurisdictions—states and territories. When we have made a comparison we have looked at the regulated standing offer prices, compared to standing offer prices in other jurisdictions which are not regulated. They are standing offer prices. There are a whole bunch of market offers in the other jurisdictions which you really need to take into account to see how that stacks up. It becomes very complex once you start introducing those market offers.

Mr Barr: There are some very good ones in the ACT as well that we have been observing.

Mr Dimasi: The market offers are making their way into the ACT as well. You will, of course, be aware that because of the confused state of the market there has been a move for there to be default market offers, so that, when you are being told that you will get 20 or 22 per cent off if you pay on time, you know what that 20 per cent is off. It is not 20 per cent off some inflated rate.

These are extraordinarily complex comparisons to make. One of the requests that the government has put on us in the terms of reference for the next review is to have a look at that comparability, to see if that can be improved in the ACT. My short answer, after that long answer, is that, as far as we can tell from the standing offer prices, we are doing pretty well. It is more complex when you look at the market offers—

MRS JONES: The specials, yes.

Mr Dimasi: with the specials and all the rest of it, and they have all sorts of conditions attached to them. That is something that we will look at a bit further in the next review.

MR COE: Could you talk me through what impact Icon Water's capital investment program has on your decisions for the cost of water?

Mr Dimasi: It is pretty significant. In working out the water charge we would look at the capital program. We work out the rate of return and we look at the demand and usage. There is a regulated asset base which is the existing capital base of the organisation. We deduct the depreciation. We add the new capital projects that are deemed to be prudent and efficient before they are allowed to be rolled in and we apply the return on the weighted average cost of capital that we determine is the appropriate one to apply. The capital program is a major component of determining the water price. In a broad sense, that is what we do. I am not sure if there is anything more specific that you are asking about.

MR COE: We frequently hear about the ageing water assets in the territory. There is talk about various levies and the like. What funds or reserves should Icon Water have for major upgrades such as the inner north sewer network?

Mr Dimasi: With the way that the regulatory approach works in this regard, we have a system where Icon Water is allowed to charge based on the capital program, the capex, opex and so on. It is allowed to return its cost of capital. That means a return on the capital that it invests—a return on capital and a return of capital. That is the depreciation charge. The depreciation charge means that it should have available the funds to keep the network going at the level that it is going at, barring expansions to the network, new requirements or additional requirements that need to be factored in. Fundamentally, it is allowed to get a return on its capital and of its capital.

MRS JONES: Does that mean they have to present to you a plan for what they need the money for?

Mr Dimasi: They do.

MRS JONES: Does that include upgrades to old parts of the system?

Mr Dimasi: Yes.

MRS JONES: Is that a public document or an internal document?

Mr Dimasi: Part of the process of the determination—not the annual reset—that we do for each period of time, depending on when the government gives us the terms of reference and so on, is to get them to justify their capital program and the basis for what they need to do, and to make sure that the money is there. Also, it is about making sure that they do not come back, term after term, and say, "We needed it then. We weren't able to do it. But next time round we really do need it." We have to keep track of what is going on.

MRS JONES: With the process of keeping track, is there a document, and is that document available to the committee?

Mr Dimasi: No, there is not a particular document. We have now set the prices based on our decisions in our review and the scrutiny of the capital asset base last time. When we review it next time around, in a couple of years time, we will be looking at what they are putting up as their capex program and at what they have done since. We do not just do that internally; we get expertise.

MRS JONES: From the previous review, is there a document that you used to determine whether the capital works program was reasonable?

Mr Dimasi: We made that decision as part of our report, yes. There is not a document. The report is the document.

MRS JONES: There are no background attachments or anything that the committee can see?

Mr Dimasi: No.

Dr Weier: We had a consultant in engineering expertise look at their proposed capital program and we released that report on our website. It is redacted. We had to remove the commercially sensitive information. That redacted document is on our website.

MRS JONES: That would have a bit of info in it?

Mr Dimasi: Absolutely, yes.

MRS JONES: What is that called?

Dr Weier: I can send it through.

MRS JONES: Send us the link. That would be great.

MR COE: In terms of your understanding of Icon's finances, do they have the reserves that they need?

Mr Dimasi: We are not the auditors. We are satisfied, with the job that we did, that the prices we allowed them, and the price increases that we are allowing them, are adequate to maintain the system to the standards that are required by the other regulators—the EPA, health and safety, and all the rest of it. We have to make sure that the returns are available for that. We are satisfied that they do have the funds available. That is the basis on which we made the decision.

MR COE: Does the government's dividend policy have an impact directly on your decision or is it indirect?

Mr Dimasi: No. We make a decision regardless of what the dividend policy is. The government, as owner, or as the representative of the community as owners, can then decide what dividend it chooses to take. That is a decision. We do not, if you like, make allowance for a dividend and have a higher price as a result. That is not how it works. We make allowance to get the most efficient price and outcome. As part of that, it has a return, and the government, as the owner, can then decide what dividend it requires.

THE CHAIR: The committee does not have any more questions for the Independent Competition and Regulatory Commission; thank you.

Mr Dimasi: Thanks very much.

THE CHAIR: The Auditor-General has identified that the unfunded superannuation liabilities have not been accurately reported in previous budgets. Why has this consistently been found to be higher than what has been reported in budget papers?

Mr Barr: I am not quite sure I would characterise it in that way.

Mr Nicol: I have seen that description.

Mr Barr: But the discount rate would be the issue that I think they are referring to. Who would like to start?

Mr Nicol: I will start. If you are referring to the discount rate, under Australian accounting standards we have to value—I will go back a step. Our liabilities are a future series of cash flows going out to 2070—something of that order.

Mr Barr: It is 2079 in the budget papers.

Mr Nicol: To value that as a liability we have to discount that back, using a discount rate. The Australian accounting standards require us to use the spot rate on 30 June of the year, which we do. We use the spot rate of an equivalent long-dated bond on that date. Our financial statements include that actual liability.

For estimates purposes we have to estimate what the future liability is, and we use estimates also to essentially determine the funding profile of what funds we have to build to meet that liability by 2030, according to the government's commitment to fully fund the liability by 2030. What we do in terms of that estimate is use a longer term average of that discount rate. It has been the case that the longer term average has been higher than the spot rate in the last few years. A lower interest rate means a higher liability as you discount the cash flows back.

When we come to the actuals, the actual reported liability is higher than the estimate. It is only an estimate of a liability; it does not change the cash flows. It has no impact on the cash flows. The schemes are the same schemes. They are the commonwealth schemes. This approach that we use is exactly the same approach as the commonwealth uses. We adopt the same interest rates as they use and the same approach to valuations as they use.

We believe that for planning purposes a longer term rate is more appropriate to determine the liability. If we use a rate that is lower than what we think the long term till 2079 will be then we will reserve more assets than we need to reserve, which means either higher taxes or lower services to build that asset base up. That is a very important decision to make. But I think that is the nub of the difference that is found. I look at Mr McAuliffe to see if he has anything else to add. We have lowered the discount rate.

Mr Barr: I think that is an important point to make. When the commonwealth moved on that, so did we.

Mr Nicol: We did as well. The commonwealth may move again. I think our advice to the government would be to be consistent with the commonwealth, because we pay the commonwealth, who pays our pensioners. All our estimates of our liabilities and our cash flows have to be consistent with the commonwealth. It makes sense not to try and manage two different systems. I suspect that if interest rates remain at the rates they are then the commonwealth will lower their estimates over time and we will, I imagine, follow them.

MS CODY: How are we tracking against our objective of fully funding the superannuation liability?

MRS JONES: By 2030?

Mr Nicol: I will pass to Mr McAuliffe to answer that question.

MS CODY: We were talking about 2030 a minute or so ago.

MRS JONES: I think that was the date they put on.

Mr McAuliffe: At the moment that long-term objective remains feasible. The budget estimates assume, as Mr Nicol just said, a viability evaluation using a long-term discount rate of five per cent and a long-term return on our investment assets of 4.75 per cent plus CPI. When we model up all those estimates and look at the projected cash flows against the liability going forward to 2030, on our current modelling we are sitting at about 95 per cent at 30 June. This is such a large number, I think, that five or 10 per cent either side of that this far out is a good estimate.

MS CODY: How much are we putting away towards the liability that you just mentioned? How is that calculated?

Mr McAuliffe: What happens is that each year we actually pay the commonwealth the estimated amount of benefits that have been paid for ACT employees. And the budget at the moment funds that annual emerging cost cash flow. We are not necessarily putting money aside into the fund. That is a pass-through amount, but that meets the emerging cost cash flow, which means that the assets that are actually held on investment can effectively remain unencumbered and we can let them just do their job and grow by the investment routine.

Mr Barr: That is beautifully outlined in table 8.3.3, on page 303. It is a very eloquent table.

MS LE COUTEUR: I am going to move to the other part, how you invest. I am very pleased that, looking at page 257 of budget papers B, you have got:

> (c) Completion of the Principles for Responsible Investment Annual Reporting and Assessment Framework.

Before that you have got:

> (b) The exercising of ownership voting rights for directly-owned shares.

I suggest that you do this in a more fulsome way. In the middle of May Minister Rattenbury and I wrote to you, Mr Barr, as Treasurer, suggesting that it is really good that the ACT government now exercises its voting rights for its shares—brilliant—on resolutions. But you could go to the next step by co-sponsoring some of those resolutions—resolutions that you will no doubt vote for if they manage to get moved. I was wondering whether you had had a chance to look at that and form any views.

Mr Barr: No. Obviously quite a bit has been going on since you wrote that. I will of course respond to that correspondence in the not too distant future. We will track a direction that we have been heading towards. I will give that due consideration. My principal concerns are to not employ additional staff and create an army of bureaucrats to advise me on voting on shareholder matters. As long as we can do it within reasonable—

MS LE COUTEUR: You already have employed that army. You have outsourced them and they talk to Mr McAuliffe as to what you should vote on. I suggest that your proxy advisers are your small army.

Mr Barr: Yes.

MS LE COUTEUR: Which we have already employed.

Mr McAuliffe: We have got the share-voting process obviously outsourced through ISS and they vote our share rights in accordance with an established framework. Looking at co-filing or sponsoring shareholder resolutions is a different element to that altogether, I think. We are working on some advice for the government on your letter at the moment.

MS LE COUTEUR: I think it is not so much a difference as an extension.

Mr McAuliffe: When you have got a broad framework and you have suddenly got to drill down and isolate individual areas that you want to suddenly separate, I guess we need to think through what that would involve. But we will work through that.

Mr Barr: I look forward to receiving that formal advice and replying to your correspondence in due course.

MS LE COUTEUR: Thank you. I do not envisage that it would take a lot of work. You would only be voting on things which were abundantly in accordance with ACT government policy. They will generally be climate change disclosure—things which we know we agree with.

Mr Barr: Yes. I understand.

MRS JONES: One of your key outputs of 2019-20 is raising new territory borrowing as required. Can you give us some more information on how you raised the new borrowings? Is it just more bonds? And is there a debt level or ceiling for the territory? Have we got a nominal one? We do not have a legislated one, I presume.

Mr Barr: There is a process that we undertake before we go to the market. Part of that is direct engagement. For example, next week I will be presenting to the Sydney market on the territory budget. I have also presented in Singapore, Hong Kong and Tokyo; we undertake a level of international engagement. Whilst historically a fairly large proportion of our government bonds are taken up by domestic, largely bank, balance sheets, there has been quite a—

MRS JONES: Some international.

Mr Barr: Yes, quite a considerable uptake, and, pleasingly, entities we have engaged with, so that is useful.

MRS JONES: That disperses it out across markets.

Mr Barr: It does. It lowers the cost of borrowing, which is a pretty astute investment, given the potential savings from a more heavily subscribed issuance. That is part of the work. And that is what—

MRS JONES: Do you have a debt ceiling you work to or that you have a preference for?

Mr Barr: We have, I guess, a degree of guidance.

Mr Nicol: You have a delegation to me. Pat might want to talk to that.

Mr McAuliffe: One of the things that we established a number of years ago, because there is no legislative requirement to have a borrowing limit, is that we have the Treasurer approve, effectively, a treasury authorisation periodically which sets an overall borrowing limit which is limited to what is in the forward estimates of the budget.

MRS JONES: What is that at the moment?

Mr McAuliffe: I cannot tell you off the top of my head; I can take that on notice.

MRS JONES: It changes. I am sure it does change.

Mr Barr: In the broader policy context, I go back to the earlier comments today around our engagement with credit rating agencies. With S&P, we talk with them around what sort of borrowing is consistent with the highest possible credit rating. We are very clear that I would not wish to inadvertently trigger a credit rating downgrade. We engage closely with them so that they understand and we understand what that notional—

MRS JONES: No surprises type of thing?

Mr Barr: Indeed.

MRS JONES: But you will take on notice what the current level of accepted debt is?

Mr McAuliffe: Yes, what that current limit is.

MR COE: Would you please talk us through what probity and governance arrangements are in place for the investment decisions?

Mr Barr: Around the superannuation provision account investments?

MR COE: The amount being rolled into the territory bank account. They are almost one and the same.

Mr McAuliffe: On the treasury website under "Publications", there are a number of documents. One of them is basically a responsible investment policy. That sets out the broad responsible investment framework. There is a new document we introduced towards the end of last year: our investment governance document. That document steps through the legislative basis on which we make our investments; who the relevant delegated authorities are; and what other governance oversight arrangements we have in place. For example, we have an independent advisory board that we use to run policy ideas through. Ultimately, a recommendation of a change of policy will go through the Under Treasurer and through the Treasurer.

Then we set out how we have the money invested. We do not manage any money in house ourselves; we always employ specialists, funds management organisations, to do that on our behalf. That is done under strict investment agreements that set out effectively the rules of investing.

MR COE: Who are the main fund managers that you use?

Mr McAuliffe: The manager that we have the majority of funds with is Vanguard Investments, a global investment provider. A large part of our strategy is to invest our money passively, as we call it, targeting an index. There are a whole lot of arguments about having active management and trying to beat the market with active return. You pay a lot of money for that. I do not think that we are going to get rewarded if we tell the government that we have just lost a whole lot of money because of active management.

MRS JONES: It is more risky.

Mr McAuliffe: We can say that we made a lot of money, but if we lose it, the managers lose it. We think that the index approach is a prudent way for these public moneys. Vanguard can provide the management for international and Australian equities, and our fixed interest, both international and domestic interest funds. We have a specialist inflation bond manager. We have some specialist active Australian equity managers, a number of property managers and private equity infrastructure.

MR COE: Are Vanguard on a percentage?

Mr McAuliffe: They earn a basis point fee, based on the value of funds under management. We went to market last year for that mandate. Following a full procurement process, Vanguard have just been reappointed to provide that service for us for the next five years. Details of that should be on the contracts register.

MR COE: Is there a view that a manager should only be rolled over a certain number of times?

Mr McAuliffe: Not necessarily. In terms of the type of manager for that type of mandate, there are probably only three globally that really have the amount of funds under management at that scale to give us what we need. We go through a tender process and we assess all respondents on the merits of that response and make the decisions on that basis.

Mr Nicol: It would be less of an issue with a passive fund, where really the job of the investment manager would be to match the fund that we have defined, devised, under the investment policy.

Mr McAuliffe: They are provided with the index, which they just have to match.

Mr Nicol: That is about driving down your management fees. You should get the same basic index investment outcome. The bigger players have economies of scale. There is not a professional judgement element per se in the make-up of the investment portfolio and those things. The negative of having the same person with the same biases is not there with those indexed funds.

Mr McAuliffe: With a lot of that arrangement, it gets down to things like transactional costs. The bigger the manager in that space, they can do a lot of cross-trading when they have advice or securities. You get the benefit of that scale.

MR COE: With regard to the consolidation of the territory banking account and the superannuation provision account, what does that mean in practice?

Mr McAuliffe: Through the territory banking account, for as long as I can remember we have always had the arrangement where it has been the central investment pool, if you like, or structure. Agencies like ACTIA and Lifetime Care, where they have moneys to have invested, have come through our centralised pool. Historically the super provision account was always separate. It faced the market directly because it always had the scale. Over recent years we have suddenly seen these other pools of money build up—ACTIA and the new workers comp fund—so we suddenly have a large amount over here. We thought it made sense to consolidate all of that money together. We have one ACT entity facing the market at all times. We have the scale we can create through our custody and administration arrangements. There is, again, just that one entity. It is all about that scale and efficiency.

We have a unit registry structure that sits in between. We have the territory bank account facing the market and the underlying agency investors. SPA will have its $3.5 billion with the TBA. We then invest that on the strategic asset allocation required by the SPA's investment plan. We get that exposure for them and then they get delivered back a unit price based on that investment with the TBA. And that applies against all the other agency investors. We can set up different investment strategies through them that way. They all have a different risk tolerance. We can set that up for them.

The other thing is that we can have a consistent application of our investment policy as well. Prior to us doing this, if any agency that invested through the TBA structure needed equity exposure, we did not have the scale to get them directly invested into equities; we had to go through a managed fund. Now if they come in and they want equity exposure under our responsible investment policy, all the rules can be applied equally across the board.

MR COE: You mentioned the unit registry. Are they both trading out of the one actual bank account and then you have just got accounting and the unit registry to separate them?

Mr McAuliffe: Yes. That is all done by our master custody investment administration provider, which is currently Northern Trust.

MR COE: When did that consolidation happen?

Mr McAuliffe: December—effective December just gone. It was a pretty big exercise in restructuring—

MRS JONES: A big change, yes.

Mr McAuliffe: but I think for the better.

MR COE: What portion are the superannuation units of the overall investment portfolio? They are still reported separately in the budget here.

Mr McAuliffe: Totally, yes. For the superannuation account, the same as the other investments, at the end of each month they get a valuation statement which says, "You have units in all these different sectors and here is your total valuation." They can bring that into their own accounting, the same as Lifetime Care or ACTIA. It is all totally separated.

MR COE: Yes, but you are saying that the portion that is superannuation now is less than what it would have been had they been consolidated 10 years ago, due to the building up of other funds?

Mr Nicol: No, I do not think so.

Mr McAuliffe: No, sorry.

MR COE: Like a bigger pie, I mean.

Mr McAuliffe: No.

MR COE: A bigger pie.

Mr McAuliffe: No.

Mr Nicol: It is certainly a bigger pie.

Mr McAuliffe: We have just got a bigger pie now.

MR COE: Yes.

Mr Nicol: In one sense it is a small proportion of the bigger pie because of the—

MR COE: That is what I mean.

Mr Nicol: But the amount is the same.

MR COE: I am not talking about the amount. I am talking about proportion. I guess a further question is: what is actually the total value of the fund?

Mr McAuliffe: The total value of the fund at the end of May was $4.7 billion and the STA portion of that is 4.1.

MR COE: Is that an extra $600 million that previously did not exist?

Mr McAuliffe: Not to that—

MR COE: To that extent?

Mr McAuliffe: Not to that extent. ACTIA has something like $380 million. Lifetime Care has $50 million-odd, which is growing. As per the budget papers, when the workers comp fund is funded through the asset transfer from the commonwealth, that will be in the order of $300 million. You can see those special pools. I think it has just been driven by having a much greater focus on those areas. They have a defined liability which we are trying to fund; so it makes sense that we actually have some defined investment strategies for them.

To the extent that we can provide the diversification they need to meet those return objectives, we want to make sure we get a structure that can support that, whereas if we had just kept going the way we were we would be trying to build up these structures in the territory banking account. It would take time to get the scale we need to create the common arrangements we have now.

MRS JONES: I have a question about the variations due the consolidation of the SPA account across the different financial years for estimated outcomes. Basically, it relates to the big variations in income and expense versus assets and liabilities. Do we know what they are due to? There are some significant variations between 2018-19 and 2019-20 in the estimated outcomes in the budget. The notes also say that many variations are driven by agency activity during and between financial years. Could we go through the lines with large variations, to be clear about what is being reported? This is at pages 273 and 274, budget statements B.

Mr McAuliffe: Taking dividend revenue, for example, as a result of the consolidation of particularly the SPA investments into the TBA, the TBA now has a large asset holding in equities. We never had any dividend revenue, to the extent that we had. For 2018-19 we have a part year, because the transition did not occur until December. Then, moving through the forward estimates, we have a full year's recognition of our estimated dividend returns from share investments.

MRS JONES: And the distribution from financial investments, is that—

Mr McAuliffe: That is exactly the same.

MRS JONES: Yes. Gains on investments?

Mr McAuliffe: Again, that is the same.

MRS JONES: Other revenues?

Mr McAuliffe: The bulk of other revenues actually is notional employer contributions that agencies make for their CSS-PSS members. What we do, to make sure that agencies properly reflect their full costs through their books, even though those schemes are not funded schemes—

MRS JONES: No, you put them in a line item.

Mr McAuliffe: We basically need to make sure that they show their full expense that reflects that activity. So the majority of that line there is that contribution. The reason for the increase, effectively, is that that notional contribution rate has just gone up across the forward years.

MRS JONES: Because the age of the workforce has changed?

Mr Nicol: I think it is PSS largely and that is—

MRS JONES: More expensive.

Mr Nicol: Because returns are lower, the value of the super is much higher. In the CSS it is the opposite.

MR COE: The capital that is required to—

Mr McAuliffe: But the important thing to note from an agency perspective—whether this is going to cost an agency money—is that they actually get funded for their super contribution through the budget. So it is a bit of a round robin.

Mr Nicol: It is a bit of a pricing mechanism.

MRS JONES: Yes, but at least they accept that it is for their people. The other expenses line?

Mr McAuliffe: There are two components to other expenses. That is our funds manager fees that we pay for our investment arrangement. Also, when we go and borrow money and issue our bonds, we do that through a process called syndication; there is a dealer fee that goes with raising the money.

Mr Nicol: With those manager fees there are similar arguments for the dividend revenue that are taken on part way through the year.

MRS JONES: The agency investment expenses?

Mr McAuliffe: When we have to pay the agencies their returns on their investments, that is effectively the amount that we transfer back across to them.

MRS JONES: Why is there such a change in that? Is that because we are doing better?

Mr Nicol: Again, it has been drawn into the TBA and it is now going up for the first time.

MRS JONES: So that is why there is a big change this year. On the assets and liabilities side, cash and cash equivalents have a big change, big variability.

Mr McAuliffe: The large increase this year—we spoke about this this morning—was that we have done a borrowing transaction this year which is effectively pre-funding some of the 2019-20 borrowing requirements.

MRS JONES: That is the Treasurer's decision-making.

Mr McAuliffe: That was the 10-year borrowing that we did back in—

MR COE: The May 2029 maturity?

Mr McAuliffe: Yes.

MRS JONES: Receivables seems to have changed a lot as well.

Mr McAuliffe: The territory bank account is the ultimate recipient of all the territory taxes, fees, fines and grants. They all flow back into the TBA. A portion of that receivable number will be receivables on revenues owed to us; the other component will be our loan assets, mainly with Icon Water.

MRS JONES: The investments?

Mr McAuliffe: Again, investments are just the sum of agencies' estimated investment activity.

MRS JONES: Through that fund?

Mr McAuliffe: Yes, through us.

MRS JONES: Interest-bearing liabilities?

Mr McAuliffe: Again, that is all of our borrowings and loans. There are the loans to commonwealth. There is current and non-current there. The sum of that is our loans to the commonwealth—

Mr Nicol: After 12 months, bonds issued get moved from current liabilities to a non-current liability. We had the big borrowing that we talked about, which next year, in 12 months, will be a non-current liability and not a current liability.

Mr McAuliffe: In May next year we have a $570 million bond maturing. We also have some short-term borrowings on the books at the moment which mature through this year. Because they are maturing within the next 12 months, we have that—

MRS JONES: They were in that?

Mr McAuliffe: As well as the $100 million—our estimate to repay the commonwealth loans. That sits as current as well.

MRS JONES: The interest bearing liabilities are not those loans, because they have already been accounted for?

Mr McAuliffe: No. You have interest bearing liabilities, both current and non-current.

MRS JONES: Sorry, I did just ask that. Agency investment deposits?

Mr McAuliffe: That is the sum of—

MRS JONES: The whole lot of what has been put in?

Mr McAuliffe: Yes.

MRS JONES: Accumulated funds, budget and forward estimates? That seems to have quite a discrepancy as well.

Mr McAuliffe: That is just your residual of what happens from your previous years, from your operating result through your P&L.

Mr Nicol: These numbers are derived essentially from everything else that goes on in the budgets.

MRS JONES: Yes, sure. It is just a bit of detail that we were wanting to understand a bit better. It can't hurt to ask, can it?

Mr Nicol: Absolutely.

THE CHAIR: Before we adjourn, I have one matter that has been brought to my attention. Earlier today, Chief Minister, when we were discussing the Pegasus Economics independent review into the budget, you accused Pegasus of criminal oversight in their assessment. Can I ask you to explain what you meant by that?

Mr Barr: By not including GSP analysis in their commentary in relation to diversification. That was the context in the discussion at the time. I was asked whether I agreed with their assessment and I said no. You guys, the committee, are paying that group to give you analysis, but for them simply to say that an annually produced budget cannot be assessed against an annually produced GSP analysis I do not think is reasonable. That is my position. I do not agree with everything they say in their report. I have not every year. Some things they say I agree with; other things I do not.

MRS JONES: I guess that is why it is a different perspective, isn't it?

Mr Barr: Yes, indeed. They are entitled to put a view and I am entitled to put a view. I think they should look at GSP.

THE CHAIR: On behalf of the committee I would like to thank the Chief Minister and all the officials who have appeared today. The secretary will provide you with a copy of the proof transcript of today's hearing when it is available. If witnesses have taken any questions on notice, could you please get those answers to the committee support office and committee secretary within five working days of the receipt of the proof. If members wish to lodge questions on notice, please get those to the committee support office within five working days of the hearing, with day one being the next working day after the hearing.

The committee adjourned at 5.20 pm.