LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Inquiry into ACT Budget 2021-22)

Members:

MRS E KIKKERT (Chair)
MR M PETTERSSON (Deputy Chair)
MR A BRADDOCK

PROOF TRANSCRIPT OF EVIDENCE

CANBERRA

WEDNESDAY, 20 OCTOBER 2021

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Secretary to the committee:
Mr S Thompson (Ph: 620 50435)

By authority of the Legislative Assembly for the Australian Capital Territory

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APPEARANCES

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Amended 20 May 2013

The committee met at 2.08 pm.

Appearances:

Barr, Mr Andrew, Chief Minister, Treasurer, Minister for Climate Action, Minister for Economic Development and Minister for Tourism

Chief Minister, Treasury and Economic Development Directorate
Miners, Mr Stephen, Acting Under Treasurer, Treasury
Holmes, Ms Lisa, Acting Executive Group Manager, Revenue Management Group, Economic, Budget, Revenue Group
McAuliffe, Mr Patrick, Executive Branch Manager, Asset Liability Management, Economic and Financial Group, Economic, Budget, Revenue Group
Asteraki, Mr David, Executive Branch Manager, Infrastructure Finance and Reform Division, Economic, Budget, Revenue Group

THE CHAIR: Good afternoon, everyone. Welcome to the public hearing of the Standing Committee on Public Accounts for the inquiry into the ACT budget 2021-22. The proceedings today will examine the expenditure proposals and revenue estimates in the budget outlook paper.

On behalf of the committee, I would like to acknowledge that we meet today on the land of the Ngunnawal people. We respect their continuing culture and the contribution they make to the life of this city and this region.

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 these 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.

I remind witnesses of the protections and obligations afforded by parliamentary privilege and draw your attention to the privilege statement. Could you confirm for the record that you understand the privilege implications of the statement?

Mr Barr: Yes.

THE CHAIR: Thank you, Chief Minister. As we are not inviting opening statements, we will now proceed to questions. Page 37 of the budget outlook says that inflation is higher than expected and leads to a need for the RBA to begin interest rate increases earlier than anticipated, and this could adversely impact growth. Are you concerned about inflation and the potential impact on interest rates, Chief Minister?

Mr Barr: The risk of higher inflation could lead to the Reserve Bank beginning to increase interest rates earlier than they have currently forecast, which is 2024. However, the Reserve Bank Governor has been very clear publicly and in meetings with the national cabinet and the Council on Federal Financial Relations around the Reserve Bank’s intention to keep interest rates low for as long as possible.

There was a higher than expected inflation figure in New Zealand earlier in the week that led to some market fluctuation and speculation in Australia, but the latest minutes of the Reserve Bank Board indicate that the current policy framework, as publicly articulated by the Governor of the Reserve Bank, remains the bank's position.

THE CHAIR: Interest expenses as a share of revenue increases from 3.1 per cent in 2020-21 to 4.6 per cent in 2024-25. What would the share of revenue be if interest rates rose to, say, four per cent?

Mr Barr: Our interest payments are fixed by way of the bonds that we have issued, so we would not be impacted in terms of our existing borrowings. That would not be impacted by an increase in interest rates because we have bonds issued over 10 years or longer at lower interest rates that are fixed.

MS LEE: Treasurer, have you done the modelling in terms of how much the interest rate would need to rise to jeopardise our current credit rating?

Mr Barr: No; our credit rating would not be impacted by the interest rate.

MS LEE: At all?

Mr Barr: Sorry, what was the question?

MS LEE: That has no impact whatsoever?

Mr Barr: No. The interest rate in the economy impacts all borrowers, not specific to the ACT.

MS LEE: I know that, but in terms of the credit rating. Have you done any modelling on how much higher the ACT debt would need to be to cause a fall in the credit rating?

Mr Barr: Credit rating agencies need a benchmarked jurisdiction. We are the only AAA-rated jurisdiction in Australia now at a subnational government level and one of only a handful in the Southern Hemisphere. To downgrade the ACT would mean that there would be no AAA-rated jurisdictions. Our credit rating agencies obviously have some relative metrics as well as some benchmark ones in relation to the institutional framework of a jurisdiction, its capacity to raise revenue and its ability to meet its financial obligations. You cannot model that. What you can do is work off the institutional framework and understand how credit rating agencies perform their tasks.

MS LEE: Even if you cannot model it, surely you would have had some work done to come to a view about what, for example, would be the three biggest potential risks to the credit rating. Can you take us through those?

Mr Barr: The biggest risk would be the Australian government losing its AAA credit rating as no state or territory can have a credit rating higher than the sovereign national government. That is the biggest risk. The next biggest risk would be that the Australian economy collapsed. The third biggest risk probably would be a collapse in the housing market.

MR PETTERSSON: On page 55 of the budget outlook it states:

> … the government is aware of the disproportionate intergenerational impact that downturns have on the prospects of young people.

What is the government's strategy to ensure that young people recover from this economic shock?

Mr Barr: Clearly, a quickly rebounding economy, support for people who find themselves out of work at this time, and looking at the industries that have been impacted by the pandemic demonstrate that it is important for the ACT government, together with the commonwealth government, to be providing support and connection for young people with the labour market and with skills and training.

It will be important in the next period for programs like JobTrainer and our broader skills and training effort to be stepped up, and there are initiatives in the budget that focus on those areas. It is also important to keep the economy growing, because a growing economy creates more jobs and more opportunity, particularly for younger people as they do not have an accumulation of wealth to draw upon.

In the Australian context, the older you are, generally speaking, the more wealth you have acquired over your lifetime and the more assets you have. Those who are most at risk of economic downturns tend to be younger people who do not have as much work experience, who do not have as many skills as older workers and who can find themselves detached from the labour market.

MS LEE: Treasurer, you talked about, obviously, the importance of investment in skills. The MBA have raised ongoing concern about the lack of investment for apprentices and traineeships, which of course will disproportionately affect young people. Do you believe that the investment that you have made in the current budget in that regard is going to be sufficient?

Mr Barr: Yes, we do. There is a very significant investment jointly funded between the territory and commonwealth governments. Of course, it is not just the responsibility of government to invest in training. In fact, it is businesses who stand to benefit the most from having a skilled and productive workforce. It is businesses that need to step up at this point to attract new workers by offering competitive wages, salaries and conditions, and it is businesses who also need to retain their existing workforce, again, by offering competitive wages, salaries and working conditions.

Given the demographic change that is occurring in Australia, there are fewer people as a percentage of the population of working age, so the labour market will be tight for some time unless there is a dramatic increase in migration. We have obviously lost, as a nation, half a million migrants that we would otherwise have received during the pandemic, because the borders have been closed. Unless there is an active decision at the national level to significantly increase migration, and particularly skilled migration, we are going to experience a period of labour market shortages and mismatches.

The onus will then be very much on employers to invest in the skills of their existing workforce and also to be prepared to hire people who have undertaken short courses and approved training that is delivered either publicly funded or jointly between government and industry. Not all training occurs publicly funded or, indeed, through a public training organisation. I would say that the biggest factor around skills shortages would be the wages and salaries that employers offer and their attractiveness as an individual employer. In the end, it is not cities—other than, in our instance, people who work for the government—that attract workers; it is businesses, because they have job vacancies and they are considered good employers.

We are going to see a lot of healthy competition, I suspect, now between employers to attract the available skills that are in our labour market. This is an opportunity for Canberra businesses to be better than businesses elsewhere in Australia and indeed elsewhere in our region. That will be the main factor that will attract people to work in Canberra.

MS LEE: What is your government doing to support Canberra businesses to be more attractive in Australia to attract those workers?

Mr Barr: We will be running a series of programs around overall city branding and addressing particular areas of skill priority with our higher education institutions, with the Canberra Institute of Technology. But the heavier lifting has to be done by business. This cannot be done by government alone because government will not be employing all of these people.

In the end, if you have skills in a particular area that is not an area that the government employs in then your choice will be around which employer you want to work for. If there are better employers in Sydney or Melbourne, who pay more, who look after their staff and who value them better than the equivalent employers in Canberra, the Canberra employers will miss out. They simply have to do better from hereon in to attract staff.

MR BRADDOCK: I would like to get an understanding of what changes there will be to stamp duty and also to rates and land taxes over the next four years contained in this budget, as a result of tax reform.

Mr Barr: Rates will be increased at 3.75 per cent on the residential side each year. That is the commitment under stage 3 of tax reform, and that stamp duty will continue to be reduced each year as well, with an emphasis on stamp duty reductions for the lower half of the housing market.

MR BRADDOCK: As stamp duty starts to get phased out, at the moment it is quite a progressive tax in how it has been structured because of the way it has been cut. We are going to lose a progressiveness in the taxation system. Will there be consideration in terms of a rates system to build some of that progressiveness back into it?

Mr Barr: I think your analysis is completely incorrect. What we are doing on stamp duty is lowering stamp duty on the lowest value component of the housing market. So stamp duty is becoming more progressive through each stamp duty cut because the tax rate is being cut at the lowest end of the market. If you are buying properties over $1 million, at the high end of the market, your tax rate is not being cut as much proportionately as if you are buying a $500,000 house, apartment or townhouse in Canberra. That is on the stamp duty side.

On the rates side, we have a range of progressive thresholds and marginal tax rates. The higher the value of the land, the higher the tax rate and the more you will contribute. The land value is an excellent proxy for income and wealth, because you do not stumble into a $2 million unimproved value block of land if you have no income or wealth.

MR BRADDOCK: I apologise if I was not clear, Chief Minister. What I was referring to was this: when it comes time that we remove the stamp duty off those $2 million blocks of land, that is essentially starting to remove some of the progressiveness of the tax system. That is the point in time that I am interested in.

Mr Barr: That is not in the next five years.

MR BRADDOCK: Thank you.

MS LEE: Treasurer, I want to take you to a few questions on infrastructure and the review of the ACT budget by the Centre for International Economics. On page 50 it says that capital expenditure in the budget is significant but that it is allocated over a period of five years, as opposed to previous budgets that are allocated over four. It also says, "Compared to the 2020-21 budget, total infrastructure and capital investment expenditure is down by $153 million for 2021-22." It concludes by saying, "Overall, the 2021-22 budget provides a minor boost to investment over the comparable forecast period in last year's budget." Do you agree with that conclusion and, if not, can you talk us through your reasoning?

Mr Barr: I noticed you conveniently omitted the next sentence in relation to page 50 of the CIE report, Ms Lee, which was very disingenuous of you. That refers to a change in capital provisions for the fiscal year 2021-22. The report by the Centre for International Economics does indeed highlight that there is an increase in the infrastructure spend. The net new capital table within the budget papers—you asked me this question in the Assembly—also indicates that that is the case. So nothing has changed from when you asked me this question in a slightly different form a couple of weeks ago.

MS LEE: In answer to that question in question time a couple of weeks ago, when I suggested it was a 4.2 per cent increase over the four years, you said it was more like 10 per cent. Can you expand on that?

Mr Barr: The net new capital was around $455 million of a program that was around $4½ to $5 billion. Once you added in the net new capital, it became five billion. Of course, I have not mentioned at all the $1.4 billion of public trading enterprise infrastructure that includes the Suburban Land Agency, the City Renewal Authority and Housing ACT. So the total infrastructure spend beyond the general government sector is approaching $6½ billion.

MS LEE: Your calculation is based across and allocated across five years, is it not?

Mr Barr: The infrastructure program is a 10-year program. The budget papers outline the next five.

MS LEE: Would business confidence and private sector investment be higher in the ACT if the government delivered infrastructure on time?

Mr Barr: Business confidence is very high. The construction sector has a pipeline of activity larger than it has ever had before—across the general government sector and public trading enterprises, $6.5 billion. They have got certainty now on a five-year program with a 10-year infrastructure plan. No other government has delivered this much certainty in the history of self-government in the territory.

MS LEE: When you look at figure 3.7.1 on page 281 of the outlook, that figure shows that there is a significantly higher delivery of the infrastructure program within two years when it is done as a PPP as part of the program. Are you considering future PPPs to deliver infrastructure programs and, if so, which projects?

Mr Barr: Not at this time, but we do not rule out that procurement methodology. It needs to be a particular scale of project and there needs to be an appropriate risk transfer from the public sector to the private sector that is costed appropriately. That was the best procurement methodology for the first stage of light rail, given the territory had not delivered a rail project before. It was also an effective procurement methodology for the courts upgrade project. I think that, as a bottom line, they need to be very large projects and risky, have elements of risk transfer to the private sector at an appropriate cost, in order to see PPP as the preferred procurement methodology.

MS LEE: Has your government been approached or have you had any discussions about potentially signing up to the Chinese government's belt and road initiative to fund and deliver any infrastructure projects?

Mr Barr: Not that I am aware of, no.

MR PETTERSSON: Chief Minister, with interest rates being so low, have we got the balance right when it comes to investing in infrastructure? Is there scope to do more?

Mr Barr: There are limiting factors around how much infrastructure can be delivered, given the size of our market. The biggest factor, though, is what is happening elsewhere in Australia. Pretty much every state government on the eastern seaboard is also concurrently seeking to deliver its largest ever infrastructure program.

There is a very clear and consistent public policy approach that has been encouraged by the Reserve Bank Governor. He presented to national cabinet and the Council on Federal Financial Relations that an appropriate economic response to the pandemic and the economic impacts was for governments to borrow and invest in productive infrastructure. He was very clear, though, that we should not just dream up imaginary projects and try and rush them forward; we should be going to our infrastructure plans that, fortunately, we have developed, and drawing from those plans the projects that should then be delivered over the medium term. That is what we have done in this budget. We will update the infrastructure plan next year to reflect the delivery of projects and what works will be in progress as well that have been funded in this and previous budgets.

THE CHAIR: Chief Minister, what is the government's long-term plan to return the budget to surplus and in approximately what year do you think this will be achieved?

Mr Barr: The government will seek to end one-off expenditure associated with the pandemic at the conclusion of this fiscal year. You will see in the budget forward estimates that there is half a billion dollars of expenditure that is one-off this year that is associated with business support grants, with the COVID vaccination program and with a range of responses that are necessary as a result of the pandemic.

We begin that journey back with a very significant first step at the end of this fiscal year, going into the next one. The extent to which the fiscal consolidation will pick up pace will be determined in large part by where our single largest revenue source tracks over the next three to four years. That is the goods and services tax. That tax is principally driven by consumer behaviour in the larger jurisdictions. Sydney, Melbourne and Brisbane are the three largest economies in the country, and then Western Australia.

When we see a consumer recovery and more spending, which we are already seeing in New South Wales, we anticipate that that will flow through into the goods and services tax. That accounts for a quarter of all of the territory's revenue. That is the single largest revenue source and the greatest capacity to improve on the revenue site. Of course, our own economic recovery will see a rebound in some of our own source taxation lines—payroll tax, for example. The stronger our labour market and the more people who are employed in businesses that are required to pay payroll tax, the stronger that revenue line will be, and the stronger the economic recovery, the stronger our revenue will be. The greater our population is, the greater our share of the GST pool will be and the greater number of ratepaying households and businesses there will be in the ACT.

On the revenue side, we very much need a national economic recovery. The early signs are encouraging. On the expenditure side, we need to drop off all of the one-off COVID-related expenditures. We cannot continue to provide half a billion dollars in business assistance every year, so we will not be.

THE CHAIR: Chief Minister, you briefly touched on tax. Will the ACT government achieve surplus without increasing tax rates and charges or cutting service delivery?

Mr Barr: It is not the government's policy to cut service delivery. The government has set its tax policy in terms of increases across own source revenue and decreases in stamp duty have already been set for the next five years.

THE CHAIR: Will you rule out introducing tolls on Canberra's major roads to help return the budget to surplus?

Mr Barr: We do not have any toll roads, Mrs Kikkert, and I do not believe there will be any. The New South Wales solution to budget management is to put tolls on and then sell the roads to the private sector. We have seen that play out. I can definitely rule that out. We will not be introducing toll roads and privatising roads in the ACT—absolutely not.

THE CHAIR: Chief Minister, my question was: will you rule out the introduction of road tolls here in Canberra? Will you rule it out? That is my question.

Mr Barr: Yes, I rule it out and I rule out privatising toll roads, like New South Wales do.

THE CHAIR: Thank you. Mr Pettersson.

MR PETTERSSON: Thank you; I enjoyed that one.

THE CHAIR: There will be more to come.

MR PETTERSSON: Chief Minister, this budget is the first step in embedding a wellbeing framework into the budget. How do you think the process has gone so far?

Mr Barr: It has been a really valuable process for Treasury and the various ACT government directorates in preparing business cases and assessing those business cases against a wider range of policy requirements and metrics, looking at more than just the economic implications of particular decisions.

This is the first budget presented in this way. We will continue to evolve the process, but I think it has been a valuable one. It is an Australian first. We will continue to learn as we proceed through this process of inventing the framework. We have got data against most of our key indicators, but not all of them yet. There is still a journey to go here, but I think it has been a very good start and we intend to continue.

MR PETTERSSON: What are the key indicators that you still lack data on?

Mr Barr: We have got about 90 per cent of the data that we would like. There are some areas where we need to collaborate with the Australian Bureau of Statistics, or data is only available on a five-yearly basis through the census. Across more than 100 indicators across the 12 domains, there are a handful. I will take it on notice and give you the full list, as I do not have them all memorised.

One of our challenges will be how frequent the data source is collected and who by. In some instances, we collect the data. In others, it is collected by the ABS and it can be monthly, quarterly or annually. That suits budget reporting and annual reporting. There are other times when we have commissioned the University of Canberra and other research organisations to undertake research on our behalf that we probably do either annually or every two years. Then there are some other elements that are captured by the five-yearly ABS census.

MR BRADDOCK: I was just interested in what lessons were learnt or key improvements that we might see next year in terms of the budgeting against the wellbeing indicators.

Mr Barr: It is probably a little early to have definitive answers on that. I can make the observation, as chair of the expenditure review committee, that we have seen much better business cases that are required to articulate benefits against the wellbeing indicators. That has led to more information being prepared in business case development.

It will always be somewhat subjective as to how the ERC and then ultimately the cabinet weigh up competing priorities. We had a lot of very good business cases, but we cannot fund them all in any particular year. Clearly, in this budget we had to prioritise the COVID response. We wanted to ensure that the money that was spent this year would have an enduring legacy and it would be well targeted.

I am just flabbergasted by what I read at lunchtime. The Parliamentary Budget Office has revealed that $187 million of JobKeeper funding went to businesses in the ACT whose revenues went up. We have just seen the most outrageous waste of taxpayers' money in Australian history. We have now got a dollar figure for the ACT, and that is just on businesses whose revenue went up. And they still received $187 million of JobKeeper.

So a good idea, appallingly executed, has led to the waste of $187 million of taxpayers' money. This is a really good example of why we need good business cases and good policy development and why you must consider a range of metrics before government makes a decision to allocate scarce public funding. I shake my head. It is outrageous what we have learned today. It is the biggest waste of money in Australian political history.

MR BRADDOCK: I have a question in terms of the stimulus effect of government spending. Is any evaluation made of the benefits that might be from, let's say, constructing a piece of infrastructure versus implementing a program that will involve more expenditure on people's employment? Is that consideration made as part of the stimulatory measures?

Mr Barr: Yes. Assessments are certainly undertaken around the economic multiplier effect of a particular spend and a particular area. It can, of course, vary depending on the nature of the infrastructure project and its productivity benefits for the economy. Some things are able to be captured in a more tangible way. Others might contribute, for example, to a time saving or the more efficient operation, for example, of a transport network. It can be difficult to put an exact dollar cost on people's time. That will vary, of course. You need to then look at what might be economy-wide benefits.

However, that is quantifiable in terms of an increase in territory final demand or gross territory product—GSP. Then, of course, your counter is: if you spent an equivalent amount of recurrent expenditure just simply employing people, would that have some economic benefit, on the presumption that you are not crowding out private sector investment or spending? In a period of economic downturn, such that we have experienced, I do not think there is any doubt that government expenditure has added to the total output of the economy and, indeed, the total amount of economic activity. I am very confident that we have not been crowding out any private sector investment in this period.

MR BRADDOCK: Is there a gender lens applied as part of those spending decisions as well? For example, construction is a male-dominated industry versus, you might say, other industries which are more female dominated.

Mr Barr: Yes, we certainly did look at it, in our various stimulus policies and programs, through a gender lens. We also then looked at the data around where employment had been lost. Initially in the first phase of the pandemic, when a lot of personal services, professional services, had to be closed because of the pandemic, there was a more significant fall in employment amongst women. That quickly recovered. For the period from the middle of last year through until this more recent lockdown, the greater employment effect, in terms of lost jobs, was actually amongst men.

Then we went back into lockdown again for nine weeks. That impacted again on personal and professional services, on retail, hospitality and the like, which had a disproportionate impact on younger people. Through the gender lens again, we see slightly more impact on women. But now that those services are reopening, employment recovers quite quickly in those areas.

Whilst you can look at different periods of the pandemic and draw particular conclusions, the fact that construction went back earlier did see a recovery in male employment but we are also seeing more diversity in the context that some industry sectors are working pretty hard to be less dominated by one particular gender. But I do acknowledge there is, for example in construction, still a way to go.

MS LEE: The question that I have is under output class financial management, if that is okay?

THE CHAIR: We can go on to financial management.

MS LEE: Treasurer, on pages 235 to 236 of the Budget Outlook, the 2021-22 community service obligations are reported.

Mr Barr: Yes, I have that open.

MS LEE: Why are CSOs not reported for the forward estimates?

Mr Barr: I understand that it has always been a single-year presentation because there are often one-off elements within the community service obligations. But we can certainly take into consideration whether it would be useful to be able to publish across forward estimates. But we do, of course, report every year.

MS LEE: Whilst acknowledging that it is the way it has been in terms of the one-year, do you have, or do you know, the figure in terms of the total and the specific agency CSOs for the three-year forward estimates? I am happy for you to take it on notice but do you actually have those?

Mr Barr: No, we do not. We will provide next year's next year.

MS LEE: What is the CSO related to Transport Canberra operations—and you might not know this—forecast to be per annum upon the completion of light rail stage 2? Do you have that information?

Mr Barr: Not in front of me but obviously the Transport Canberra operations would be all of the concession fares. That would be for students, pensioners et cetera, et cetera.

THE CHAIR: I refer to page 34 of budget statements B. One of the financial management outputs is reviewing government programs and functions. Is it undertaken in a regular, structured program of review or on an ad-hoc basis as problems emerge?

Mr Barr: Both.

THE CHAIR: Both?

Mr Barr: That is correct, yes. There is obviously regular review of government expenditure each year through the budget, and then there is also the capacity to undertake periodic or targeted reviews in particular areas.

THE CHAIR: Could you outline, perhaps as a question on notice, what are those reviews and what were the problems behind those reviews in the last 12 months/two years?

Mr Barr: Yes, we can do that.

MR PETTERSSON: Noting a link between consumer confidence and the current health settings we might find ourselves in and the acknowledgement we have only just recently emerged from a lockdown, is there any early data on how we are recovering from lockdown?

Mr Barr: Yes, we have some early indications coming out of the banks, who obviously can effectively live-monitor consumer expenditure. The first report I have seen out of the Commonwealth Bank relates to credit card spending in the ACT, and I will just pull that up. I think they have got the largest share of customers; so it is a pretty good indicator.

We have seen expenditure at the beginning of the lockdown drop by nearly 15 per cent on 2019, sort of a non-COVID impacted year. It has recovered all of that already and is now tracking just above 2019 levels. Even just the last week or so has seen credit card spending in the ACT sharply climb back. It is now about four per cent above the equivalent time in 2019.

MR PETTERSSON: Are there any other data sources you will have an eye on in coming days and weeks to continue monitoring the response?

Mr Barr: Yes. We will look at what data is available from other banks. The CBA, I think, has about a quarter of all customers. CBA with the others, ANZ, NAB, Westpac—the big four—would account for probably 80 per cent of the market. So we can certainly look at whatever data they are able to share in their reports.

A slightly longer lag indicator is retail trade figures. It will be interesting to see September, October and November's data in that regard. We would be anticipating a quite significant recovery. If the New South Wales figures on credit card spending are anything to go by—they are up 22 per cent, I understand, on pre-pandemic levels—we can expect that is where our economy will track over the next month or so.

MR PETTERSSON: You said recently that you thought the ACT would have a V-shaped recovery. Do you still think that is going to occur?

Mr Barr: Absent further shocks, either COVID-related or economic-related or something that comes at us really from left field, the indications are very positive for a strong rebound in the ACT.

MR BRADDOCK: I have got a question in terms of the tax on vacant rentals. I was just wondering if you have got any metrics in terms of: has this had the desired effect, how many households might have been affected by this, any observations you might have from it?

Mr Barr: We do not have any data to hand right now. I appreciate it is an interesting question, and we will have a look at it once we have got some more data that comes in, but it is probably a bit too early to draw any conclusions at the moment. But I will take it as a standing point of interest, and we will have a look at it for you.

MR BRADDOCK: Just to help set my expectations, when do you think such a point in time might be that we can have some meaningful data and a discussion about it?

Mr Barr: Officials are telling me that it would require a reasonable amount of work to separate out the land tax properties that have tenants and those that do not. So let me just consider and I will get back to you. But it is not going to be in the next couple of weeks; let me be clear on that.

MS LEE: Treasurer, can I take you to page 311 of the outlook? Referring to interest expenses in 2021-22, which is at $229 million, with the net cash deficit at $328 million, why are we borrowing to make interest payments? Is this sustainable? Is it not akin to getting another credit card to pay off a credit card?

Mr Barr: No, because government budgets are not like household budgets. Governments never retire and economies continue to grow into the future so that is not a particularly good analogy. But yes, we will be running and operating a cash deficit this fiscal year. The alternative would be to not pay out half a billion dollars in business assistance, but that is what we are borrowing to do.

THE CHAIR: We will move on to output class 5, revenue management, unless any other members or Ms Lee have a question about economic management, financial management. Let us roll on. Referring to the accountability indicators on page 55 of budget statements B, the interim outcome for indicator A shows the level of overdue rates as a percentage of total rates of revenue. It is 10 per cent for 2020-21 compared with the target of five per cent in 2020-21. The interim outcome for general rates is $612 million. Could you give a breakdown of the overdue rates into residential and commercial? How many households and how many businesses are we talking about?

Mr Barr: We will take that one on notice. There is a reasonable amount of detail, I think, associated with that.

THE CHAIR: You may want to take this on notice or you may have the answer with you: how much of the overdue payments are from authorised deferrals and how much are unauthorised non-payments?

Mr Barr: Yes, we will take that element on notice too. Obviously there is a considerable amount of agreed deferred payments that are pandemic related.

THE CHAIR: Is this problem confined to 2020-21 or is there also abnormal overdue rates revenue in 2021-22?

Mr Barr: There are some rates, concessions and deferral arrangements that are applied as part of the COVID supports but I think it would be a bit early in the fiscal year to draw a conclusion on that at the moment.

MS LEE: Treasurer, the footnote to that table talks about debt recovery activities to resume in 2021-22. That has got to be quite a complicated, time-consuming process. Can you just take us through what the planning is for that?

Mr Barr: I will invite Lisa Holmes to talk about that.

Ms Holmes: I have read and understood the privilege statement. As you have said, Ms Lee, debt recovery is largely suspended at the moment and we will then start resuming over the rest of the financial year. We need to take into consideration the number of COVID initiatives which are in place across the various lines when we make decisions on when we start resuming across those lines. So it will be staggered.

MS LEE: Do you expect to write off some of the debt and, if so, have you done any modelling about how much of that would be a write-off?

Ms Holmes: No, we have not done that modelling. It is really too early to make those sorts of considerations. We really need to get through COVID and then start having those conversations with the various taxpayers. If they, in fact, say that they cannot make a payment the first thing we would automatically do would be to have a discussion with them about a timed phase of them actually making repayments.

MS LEE: There will be options discussed with them about their capacity or not, as the case may be?

Ms Holmes: Yes.

MS LEE: How many of those discussions have actually been conducted or has that not happened as yet? Is it still too early to have those discussions?

Ms Holmes: Those conversations have not started yet. At the moment, the focus is very much on the COVID initiatives which we are providing. There are various initiatives which have been put in place which have different time lines when deferrals might be through to.

MS LEE: Do you have an estimate at all of the debt to be recovered in this budget year and the forward years? Have you looked at those figures?

Ms Holmes: No, not at this point in time.

MS LEE: Finally, if that has not been looked at, is it fair to say that the recovery of the debt is not included in revenue in the budget in the forward estimates?

Ms Holmes: The revenue is reflected in the year in which it is actually levied. When it comes to the collection, it is actually a balance sheet measure.

MR PETTERSSON: Throughout the budget outlook, it identifies lots of potential risks to the ACT economy. I was hoping you could talk me through, Chief Minister, what the implications are for some of the things identified. I was wondering if you could tell me what impact you think the state of international borders will have on the ACT economy.

Mr Barr: I think it has probably been a little more encouraging news in that regard, since the budget was printed. We are very keen to see a resumption of international migration. We are very keen to see a return of international students and, in time, we are keen to see a return of international tourists. I think the commonwealth have been clear on that. In spite of my New South Wales colleague's announcement, the Prime Minister came in over the top and was quite clear that the first priority would be returning Australians and their families. I would hope not long after that the commonwealth will make a decision in relation to the migration program, both the size and makeup of that program for this current fiscal year and fiscal years coming.

We have been in discussions with Canberra's universities and have a settled arrangement around the return of international students for 2022, subject of course to the commonwealth issuing visas for those students. I understand the commonwealth's visa requirements will be that individuals are fully vaccinated with a vaccine that is recognised by the TGA.

With those things in place there is perhaps an expectation—and I think the CIE commentary for the public accounts committee talks about it—of some potential upside for our economy if migration and international students and international tourism resume more quickly and in greater numbers than we have forecast. We have been conservative in our forecasts here, and we think, on balance, there is probably considerable upside if everything goes well. But if things do not go well then it will not have as much of a downside impact on our forecasts, because of the conservative nature of them.

Certainly there is a degree of excitement amongst the universities, from students, in the tourism sector, in the business sector, about a staged and successful reopening of the Australian border. But I acknowledge that that is ultimately a decision for the Australian government. I will not make an announcement on behalf of the nation. But what I will do is say that the ACT stands ready, as soon as the commonwealth makes that decision, to be able to benefit from it.

I know that everything from family reunion to friends, to students, to tourists, as long as it is managed in a COVID-safe way—and the commonwealth, I am sure, will put in place appropriate requirements around entry into Australia—means we can see ourselves in a better position for 2022.

MR PETTERSSON: You mentioned an arrangement with the local universities to get international students back by 2022. Could you expand on that? Are there any further requirements for the universities to reopen properly?

Mr Barr: Not that the ACT government would put in place. Our expectation is that students would be able to return next year, once the Australian government starts issuing visas.

MS LEE: Treasurer, I was actually going to mention that the Centre for International Economics reports that your figures were conservative. I am sure that you have never been accused of that before. Have you short-changed yourself? In light of that report have you looked at it and gone, "Yes, we are still working on those conservative figures from the budget," or have you got a bit more of an optimistic outlook?

Mr Barr: Obviously, the team at Treasury have to frame their forecasts based on information at the time. I do not think it is appropriate quite yet, because we are anticipating announcements—we have not yet had them confirmed. But it may be that when it comes to updating our budget forecasts next year we will be in a better position.

MS LEE: You have already spoken briefly about discussions with the universities. Have you spoken to any other education institutions about getting international students back and getting prepared for that?

Mr Barr: Across the sector, yes. That would include CIT. Clearly though the process will simply be one of the Australian government issuing visas. We made our announcements earlier in the week in relation to requirements that the ACT will have or not have around quarantine and otherwise. Really it is a case of when the Australian government issues visas people can start coming back or coming to Australia for the first time.

MR BRADDOCK: Just in terms of international student numbers returning, have you heard of any implications in terms of the new university campus for UNSW on—I have forgotten the suburb name—Constitution Avenue, just across the road from CIT? Was that dependent on international students being able to sustain its business case?

Mr Barr: It had an element of its course offerings having an international student focus, but UNSW have indicated as recently as the last few months that things remain on track in terms of their longer term vision for the project; so there is no reason to be concerned in that regard.

MR BRADDOCK: Just coming back to land tax. I see many examples of community shops which have been left vacant or underutilised for an extended period of time.

Has the government given any consideration to how we might be able to incentivise the development and use of those lands for the community's benefit?

Mr Barr: We do not levy a commercial land tax.

MR BRADDOCK: My question is: has the government considered incentivising the development of that land through some form of land tax?

Mr Barr: As in putting a land tax on vacant commercial properties? No, we have not.

MR BRADDOCK: Is that something the government is looking to consider at any point in time, or is there any way the government may consider the levers at hand that it has in order to try and ensure those properties are available and utilised by the community?

Mr Barr: When you say "utilised by the community" do you mean for the purpose of the lease or to have the lease varied?

MR BRADDOCK: It could be either. What I am looking at is: there are some instances, like in my electorate, where a property has remained vacant for over a decade, and hence we need to start thinking outside of the square on how we might incentivise the utilisation of that property so that the community can actually have somewhere they can go and buy a litre of milk or have a coffee or whatever it may be.

Mr Barr: In that instance that commercial property owner would still be paying commercial rates for that property and presumably not earning an income from it because it was not tenanted. That is the scenario you are talking about? I am just trying to understand exactly what you want. You want the government to encourage the tenancy of unused commercial space? Is that the—

MR BRADDOCK: I am stating from that one example in Giralang but it is repeated many times across the territory where obviously, despite paying rates, there is not enough incentive there for the owner to actually do something meaningful with that particular piece of land. Maybe we need to change the incentive settings to basically encourage the actual use of that piece.

Mr Barr: Sure. Certainly the planning system has certain requirements around the use of land for the purpose for which a lease has been granted. I would not say that we would use the tax system in this instance. I guess the other thing to factor in is that we do operate in a market and not every site or every business would be viable.

I think the issues that pertain to Giralang are partly driven by some market factors in relation to a particular large duopoly or otherwise of supermarket providers—perhaps not a duopoly but it is certainly not a highly competitive market. There are only a certain number of potential tenants for the owner of that land to lease to. Giralang is perhaps a separate and unique circumstance. It has even made its way to the High Court of Australia in terms of the planning elements associated with it. But more broadly on economic policy settings, we cannot come in and say that a landlord must lease a certain space for a certain business type other than what is constructed through the planning system and the leasehold system.

When you say "use by the community" the property owner could seek to change the lease purpose to some other purpose and then utilise either the land or the building for some other purpose. But it is a market and if there is not a tenant there is not a lot the government can do about that.

MR BRADDOCK: I would agree with you in terms of Giralang being a special case, but it is not necessarily an isolated one, in that there are examples in every single electorate across the ACT where there are vacant commercial properties.

Mr Barr: But there are vacant commercial properties in every city in the world. You would be pretty hard pressed to find any economy anywhere that has no commercial vacancy across its commercial property types. I guess there are some broader structural issues around demographics and planning in Canberra and the way things were rolled out half a century ago, which did not really account for ageing populations or shrinking populations in particular areas.

Without moving into other ministers' policy areas or indeed speculating too much on possible solutions, clearly there is a demand factor that will drive the supply of a particular good or service. If you are particularly concerned about a local shopping centre that does not have enough businesses there, one of the factors that would be driving that would be not enough consumers or consumer preference shifting to purchase the good or service from another provider either in a nearby suburb or online. There are some big, meta things occurring in terms of bricks and mortar retail as well, and the pandemic has only accelerated those. We could talk for hours about this. I think the rest of the committee are looking on the screen like they do not want us to; so I will stop there.

MR BRADDOCK: Maybe I will have a meeting with you, Chief Minister, about that one.

MS CLAY: So as not to bore the committee for hours talking about this one—I am interested in it too—we have a lot of shopping centres, as my colleague has pointed out, that have this situation where there is somebody who holds the lease and there is no active shopfront, there is nothing happening there, and it seems to happen for a long time. We were on this through the planning committee and we have heard that Access Canberra does not really have the tools and the planning minister is not really involved. I actually am quite interested in whether there are any economic tools that you are looking at to encourage people who hold a lease but are not currently delivering services in that lease—if there are any economic tools in the way you either decide to waive rates or decide not to waive rates or decide to set those rates. Is that an active policy conversation that you are having?

Mr Barr: No, we would not use rates policy to try and address a supply and demand imbalance across the general economy. I think the answer to the specific issue will be: we need to fuel the demand side if we want to see more supply of goods and services. Markets reach an equilibrium and unless you boost aggregate demand in the economy you are not going to see an increase, say, in the supply of goods and services.

What we would need to see is an increase in disposable income in a particular area, in aggregate, which could either be driven by more population or higher wages for the existing population, noting of course that what cuts across this is a demographic impact. And that goes to household size and it goes to expenditure patterns. The nature of a particular suburb's population and the demographics of that suburb will have a big impact on the demand for local goods and services. Then you have got to overlay that with, as I touched on before, some of the broader trends and what are the complementary or what are the competitive service delivery opportunities that might be in the adjacent suburb.

Let us pick a hypothetical example. I live in Dickson. I have about four different shopping centres that are within walking distance of my home; so I have got a reasonable amount of choice whether I shop at a major brand supermarket, at an independent brand supermarket, at a specialty store. And many suburbs have that choice.

Many people will also then travel further to a group centre or a town centre if they perceive that the quality of good or service on offer is better or cheaper or meets their particular consumer desire. Not every suburb in Canberra would have a supermarket that stocks a full range of vegetarian and vegan goods, as one hypothetical example.

I guess one of the issues here is around entrepreneurship and innovation, and again we could talk for hours about how particular commercial spaces, with the right entrepreneur, can be turned around. A good example in your own electorate is the Aranda shops. They were derelict for quite a while but an entrepreneur came in with an idea and a willingness to invest and risk some private capital and has turned that shopping centre around.

I think another thing that could certainly aid that would be—and this is where it does go back into the planning space—increasing the population density around local shops so that people can access services easily on foot. One planning change that has been in place for a while now is residential zone 2, which allows for an increase in density around local shopping centres. And that has over time seen redevelopment and more people living in and around local shopping centres, which I think has to have had a positive contribution to their renewal.

But another big trend, and this has been exacerbated during the pandemic, is people shopping online. Every online shopping transaction is presumably taking business away from a bricks and mortar retailer who might be proximate to where the customer is making their online order from. That is another factor. I am not sure that our tax system or indeed even our planning system can overcome those sorts of consumer trends.

MS LEE: At the risk of the committee not wanting to be interested in this topic, as Treasurer and indeed as Chief Minister, does it worry you that we see these vacant signs? Is it a sign of weakness in the private sector economy?

Mr Barr: I think there will always be a level of churn in commercial vacancies. That is healthy in terms of pricing for would-be tenants. If there were no available tenancies then the price would go up. If there was a shortage of available commercial spaces then—

MS LEE: I think Mr Braddock's original question was about the long-term vacancies, and obviously he talked about Giralang. Ms Clay referred to Aranda. In our own electorate, we had the situation with Downer before it got revived. You have talked about the factor of online shopping, but a lot of these vacancies have been around a lot longer and way before the pandemic.

Mr Barr: Downer, for example, renewed because there was an infill policy to put hundreds of new residents immediately surrounding the shops under the RZ2 zoning. That then triggered a sufficient population renewal and demographic change and an increase in the number of customers, which led to a private investor buying the shops and doing them up and then attracting tenants. That is capitalism. That is the system and the economy that we live in. That is how the exchange of goods and services occurs.

We regulate in the ACT perhaps more than other states and territories, through our leasehold system. I think there is a very legitimate philosophical argument to be had about whether the planning framework and the way Canberra suburbs were laid out in the 1950s, 1960s and 1970s has stood the test of time. I would argue that no, it did need an active planning intervention. That was the RZ2 zones, and they have been in place for about 15 years now. That has helped and that has seen the active rejuvenation of many local shopping centres.

Because of the development patterns in the ACT, what tends to happen is that new suburbs reach their peak population very early in their life, as young families are attracted into those new suburbs. That has been the pattern of development in Canberra for a century now. But as those suburban populations age and kids leave home and the number of people in each suburb reduces, it has an impact on the level of aggregate demand for goods and services at a local level.

Of course, you see suburbs rejuvenate. Some of our suburbs are old enough now to have seen multiple generations of people move through. If you go back and have a look at when the peak population is reached for a particular Canberra suburb, it is almost consistently across the board early in its development, unless there is a really active urban renewal program undertaken.

To give an example, I think Braddon has more people now than it did when it was first settled 100 years ago. As a result of having more people and more aggregate demand and more planning flexibility, including mixed-used development et cetera, you now see Braddon completely transformed. I lived in Braddon when I was first elected to the Assembly. There was nothing in Lonsdale Street other than car yards and three restaurants. There were no pubs—nothing. In 15 years, it has completely transformed. Part of that is planning policy and part of it is population and demographic change. I think they are the major factors that contribute to urban renewal.

It is a fascinating policy area. Cities across the world are endeavouring to undertake this sort of urban renewal. The state of your general economy as well feeds into it. I would expect over the next period, as consumer spending recovers, that there will be more local spending, because the pandemic has changed certain habits. Unless your total pie grows, the money just moves to a different part of the city.

I will conclude my remarks by observing that in this city and in most other Australian cities, with a greater prevalence of working from home, you have seen a shift in spending away from CBD goods and services—because everyone was coming into the city to work, or a big portion—out into the suburbs and town centres. We are going to see that trend at suburban coffee shops. Suburban businesses are busier than the CBD. I think there will be a permanent change in the way people work in this city, in other Australian cities and clearly around the world. That will be a long-term legacy of this pandemic.

MS LEE: Page 305 of statements B, strategic objective 2, states:

> To fully fund the defined benefit superannuation liability by 30 June 2030.

Looking at the figure, it shows a little bit less than 60 per cent of the liability being funded on 30 June 2004, with it going all the way across. The figure is a little bit less than 40 per cent by 30 June 2021. Is it important for the ACT government to fully fund the defined benefit superannuation liability?

Mr Barr: Yes, it is. This question comes up every year. What you see in terms of the fluctuation reflects the difference between the prevailing interest rate—the 10-year commonwealth bond rate at this time—and the long-term discount rate that is set for a liability that extends over an extended period. When the current 10-year interest rate is lower than the discount rate, you see an increase in the liability and a reduction in the proportion in terms of a percentage. Of course, this is not a one-year thing. This is a liability the territory has had since self-government and will continue to have into the future. That is why there is a dip in the percentage. I will get Mr McAuliffe to provide some further detail on that for you.

Mr McAuliffe: I have read the privilege statement and I understand it. What happens is that, under the accounting standards for our 30 June annual reporting, we have to do the valuation of the liability at the prevailing discount rate. At 30 June this year that was 2.26 per cent; whereas, for the purpose of our long-term planning, our current liability is valued at the discount rate of four per cent. That is why we had this dip in the short term.

If we look at the plan over the budget in the forward years, based on current assumptions of our investment return objective, the cash flow pattern that comes out of the liability valuation and the like, at the moment we are still on target to fully fund the liability. It is a bit short of the 2030 mark at the moment but, again, we have had a lot of volatility in the markets. By way of example, I think that by 2033 we are at about 102 per cent funded. Give or take a little bit of a range, the funding plan is still on track. We will obviously have to keep monitoring that from year to year.

MS LEE: How can you be so confident when, if you look at the graph, which has very helpfully been extracted out from 2004, you see that even just in the last 10 years it has hovered at between that 30 and 45 per cent range and the high of a little over 70 was back in 2006, 2007.

Mr McAuliffe: This graph is reporting the valuation on 30 June actuals each year, which is what the discount rate is that is being applied to that valuation. When we look at the funding plan we are actually looking at how much cash we are going to have in our investment account to cover the emerging costs at that point in time. When we do that on a more normalised long-term discount rate, that is the way we are looking at it. It does not quite look like that when you see it presented in that short-term little snapshot.

MS LEE: How long has the ACT government had the target of 30 June 2030 as getting to the point of fully funding it?

Mr McAuliffe: It has pretty much been the objective since we set up the super provision account for this purpose. It is the best part of 25 years now since we set up the SPA. In the early days it may not have had such a clearly defined year target. We probably developed that over a little bit of time, but certainly it was always the objective to have this funding strategy in place.

MS LEE: What are the factors that would impact and require you to review and reassess that 2030 deadline?

Mr McAuliffe: There are two main ones. The first one is the liability valuation itself. They have now closed the CSS and PSS schemes. There is still quite a large number of contributing members in those schemes. As the demographics of those people change, so will the valuation. A trend over recent years has been that a lot more people, particularly in the PSS scheme, have not been taking a lump sum. Instead, they have been waiting and converting their benefits into pensions. We have a much greater take-up of pensions, which means that we have to pay a liability for a longer time. We also have mortality rates; people are living longer. All of those factors will influence the liability.

The other key one is our investment return. If we do not achieve our current objective for this particular portfolio—CPI plus 4.75 over the life of this scheme—obviously that will come short. For the 25 years to 30 June this year, we have achieved a return of CPI plus 5.6 per cent against our target of 4.75. The funding strategy is doing its job. When we first set it up we started off with, I think, about $223 million in assets. It is now over $5.1 billion. We do not use the fund to pay emerging costs; we use appropriation for that. So it shows that the funding strategy is working.

MS LEE: Presumably, this is reviewed each year, as with the ordinary budget process, in terms of whether you need to adjust that.

Mr McAuliffe: Yes.

Mr Barr: That is correct. Mr McAuliffe has done a sterling job, through a long and distinguished public service career, in looking after this for the territory. His observation about more people taking pensions is also a reflection—and you look at wellbeing—of life expectancy and people taking the view that they are going live for a long time and have long and happy retirements. This is a lived experience of literally thousands of people making that rational choice, which speaks volumes about the quality of life in our city. Perhaps it should be another metric in the wellbeing indicators, he says—

MS LEE: I am sure you will look into it.

Mr Barr: is he allowed?

MS CLAY: I asked a question last time, and I would like to get an updated answer on it this time and add a bit more. I was interested in how much the ACT government is investing in fossil fuel companies and companies with significant exposure to fossil fuel, but I would also like to update that with companies that manufacture weapons or are weapons adjacent. We have found that quite a lot of the companies that are not directly providing weapons contracts to government are perhaps specialising in laser systems and weapons guidance systems. We would consider those to be weapons manufacturers and companies. Are you able to provide an update on that, perhaps on notice or now?

Mr Barr: We can certainly provide some detail on those. Mr McAuliffe has some headline information now.

Mr McAuliffe: Since we last spoke, Ms Clay, we have been through some further reviews of the policy with the Chief Minister. At the moment we are in the process of amending a number of the criteria we have around our investment exclusions. One of those is to move towards no fossil fuel reserves at all. We are in the process of implementing that here and now. I expect that, by the end of this calendar year, that will be implemented.

MS CLAY: That sounds like excellent financial policy as well as excellent ethical policy.

Mr McAuliffe: On your question around how much we have got, it is around one per cent of our total portfolio. There is not a lot there. I think we spoke about some of the numbers last time. We are in the process of implementing that now.

In terms of the munition side, as you are probably aware, at the moment the screens we have exclude cluster munitions and landmine manufacturers. Again, we have expanded that criteria to controversial weapons manufacture. I suspect that will pick up the types of other weapon manufacturers that you referred to.

MS CLAY: It probably would. How are you defining what controversial weapons manufacturers are? As I have said, some of our research has indicated that a lot of companies have one branch perhaps directly involved in weapons but the other branches are involved in something quite closely adjacent. They are very closely financially related. Maybe one of them is doing laser guidance systems that go on the top of the tanks, but they are not doing the tanks. I would consider that to be involved in weapons manufacturing, but I am not sure if that would trigger your test.

Mr McAuliffe: We use MSCI ESG Research to help us define that criterion, because we need to have some very clear rules around that. I have not got right into that detail here, but we are expanding that criterion to capture the controversial weapons category that they apply across all of their types of indexes that they develop that might be in this sort of space.

MS CLAY: Can I get some detail, on notice, on that one?

Mr Barr: Yes, we can provide some information. This will always end up being a very tricky area, because the predominance of the work of some companies, for example, is in the space industry and that is associated with launching satellites and precision platforms and systems. In theory, that could be utilised for targeting other things. We have to always be a little cautious around how and where we draw the line here, but I acknowledge the intent of the government's policy has been well articulated by Mr McAuliffe. I appreciate that the devil will be in the detail for many.

Mr McAuliffe: In terms of the definition of that criteria, I can tell you what that is. It is companies that have any ties to the cost of munitions, landmines, biological and chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons and/or non-detectable fragments.

MS CLAY: Thank you.

MR BRADDOCK: What about countries dealing with nuclear weapons?

Mr Barr: Depleted uranium, I think, covers that.

MR BRADDOCK: Not plutonium?

Mr Barr: I make no comment.

MR BRADDOCK: On defence and the acquisition of nuclear submarines, I would be very interested in the territory's stance.

Mr Barr: I do not think we have any investment in the commonwealth government.

MS LEE: While we are talking about investment in certain companies and what they do, has the ACT government looked at its investments in Barry, Callebaut, Hershey, Mondelez and Nestle?

Mr McAuliffe: Not directly by name. I would have to look and see where they fall within our investment holdings and criteria.

MS LEE: The reason I raise it is that there is some concern about these companies being alleged to having engaged in child labour and slavery.

Mr McAuliffe: There are a couple of other elements to the criteria. There is ESG criteria, so companies get an environmental social governance score. Some elements of that underlying assessment will look at those sorts of issues. We also do a UN global norms assessment. If any company is red-flagged under the global norms assessment that we have as part of our investment construction, they will not be held either.

MS LEE: How is this managed? How do you do your checks and balances and your due diligence to ensure that the companies that the ACT government does have investment in meet those criteria?

Mr McAuliffe: We have got the process in place where we have engaged MSCI, a well-renowned company, to develop indexes and do the ESG research. To the extent that they are applying the criteria that is part of that, I guess we need to rely on that assessment being done. We cannot sit down and look at every single holding. The number of individual stocks—

MS LEE: I understand. I guess what I am trying to say is: what process is there to make sure that you do regular reviews? Say you come across companies that you may have thought were okay but it transpires that something comes up and legal proceedings have commenced or they have had very serious allegations like child labour attached to them? Surely you would not do one check and then move on and that is it forever?

Mr McAuliffe: We are always looking at our frameworks and their underlying criteria. We will brief the Chief Minister on that all the time—what the criteria are and how companies are going. We do not go out and look for a particular company if it makes the news. We are hopeful, with our process, that it is being done for us in the back end—that it is occurring at that level.

MS LEE: How often does that take place? Is it once a year?

Mr Miners: I acknowledge the privilege statement. The work in that space is ongoing. There is a continual review of the screening that we are applying to these things. It is not something that is set and forget. It is an ongoing process that is run through the companies we use to do that for us.

MS LEE: If we come back at next year's estimates hearing and ask about these companies, there should be some update in terms of action on these companies, for example?

Mr Miners: Again, it is whether we can pull out the specific companies at that point in time, but if there are things that are picked up through the criteria we are setting, there is an ongoing check to make sure that those companies we are investing in are consistent with the frameworks we are trying to invest in.

THE CHAIR: I refer to page 298 of the budget outlook. Why does the superannuation liability drop from $13.2 billion in 2020-21 to $10.1 billion in 2021-22?

Mr Barr: That is the discount rate that we have been talking about earlier.

THE CHAIR: For the 2021-22 superannuation liability, why not adopt the 2020-21 assumptions for discount rate, inflation and salary growth?

Mr Barr: Because we have to, by Australian accounting standards, report up to 30 June against what the interest rate is at that time each year. We do the valuation on what is a 30-year liability based on the discount rate that is a fixed one, which is four per cent, that applies over a 30-year period. The rationale for that is that over 30 years interest rates might be lower than four per cent or higher than four per cent. They will vary because interest rates move from year to year. To set a consistent benchmark, you use the discount rate. This is what the commonwealth uses. This is not unique to the ACT. This is what every asset valuation is utilised against, a discount rate that is a long-term asset. But from year to year, depending on what the prevailing interest rate will be, it means that the snapshot on 30 June has a different valuation. If the current interest rate was six per cent then it would be a much lower figure.

MR PETTERSSON: I am back on revenue. Over the past 18 months we have seen revenue fluctuate significantly over a number of different revenue lines. What has been the impact of tax reform on your ability to forecast ACT government revenues?

Mr Barr: Much greater certainty, because the tax lines that have the greatest fluctuation are reducing as a share of own-source taxation. Stamp duty was once 26 per cent of territory own-source revenue. It is now 12 per cent. The most predictable revenue line we have is municipal rates. It is the fairest and most efficient tax line available to local government, and its economic distortions are the lowest of all taxes levied in Australia. It is simply the fairest and most efficient form of taxation available in this country to local government.

We rely more on that and less on the highly economically inefficient and volatile transaction taxes. The worst of those was insurance tax. It is now no longer levied in the ACT; we have abolished it. Stamp duty, which once was 26 per cent of territory own source revenue, is now 12 per cent. So that means much greater predictability in territory own source revenue.

MR PETTERSSON: Can you talk about the experience going through the pandemic, knowing with some certainty what ACT revenues were? Did that help guide the ACT through the pandemic?

Mr Barr: It certainly reduced the volatility of our revenue lines. Own-source revenue is about a third of the territory budget. The GST in and of itself as a single tax line is about 25 per cent. It has obviously been volatile. When it was introduced by the Howard government the expectation was that it would grow at seven per cent a year or more as more goods and services were consumed that were not taxable under the GST arrangements. That rate of growth was falling to five to six per cent. I think in this most recent year the pandemic impact has been around one to two per cent growth. We would hope to see a resumption of consumption that would see an increase in the GST pool, because it is the single largest revenue source of a single tax line for the territory.

MR PETTERSSON: On the topic of the GST, your counterpart in New South Wales has recently called for a new carve-up of the GST, which was rebuffed by Western Australia. Do you have any comments to make about the GST carve-up?

Mr Barr: Western Australia got a very good deal out of then Treasurer Morrison. I think there is a fundamental problem now with the GST distribution, as much as my Western Australian colleagues will not want to hear me say that. On the other hand, former Treasurer now Premier Perrottet’s view that GST should be allocated on a strictly per capita basis would significantly disadvantage smaller jurisdictions and would see a massive flow of GST revenue go from the ACT, South Australia, Tasmania, the Northern Territory and Queensland to New South Wales and Victoria.

I think he has a point that there is a problem, but I do not agree with his solution that essentially it be on a per capita basis. I think it is reasonable that the principle of horizonal fiscal equalisation—that is, that the GST pool be adjusted to reflect the revenue-raising capability of each individual state and territory and the desire to be able to offer a similar level of services to all Australians, regardless of where they live in the country—is a more important principle than a straight per capita allocation of the goods and services tax.

That has been the ACT's position. I would note—and you see this in what is determined as the relativities—that for every dollar of GST that is raised, the ACT receives slightly more, at around $1.15, but that, of all of the jurisdictions that receive more than their per capita share, our relativity is lower. South Australia gets more per capita than the ACT does and Tasmania gets significantly more. Even Queensland, a lot of the time, gets more per capita in terms of the GST redistribution. The principle is there. We are not always necessarily the greatest beneficiaries of it, but it is a sound principle in a federation as diverse as Australia.

MR PETTERSSON: What do you think the likelihood is of there being changes to the GST?

Mr Barr: I know it is talked about every time state and territory treasurers get together as a group, through the Board of Treasurers, and when we gather with the commonwealth. It requires commonwealth agreement. The GST legislation also has in place inbuilt protections around requiring the agreement of all states and territories. The commonwealth's arrangements for Western Australia have involved them having a no-disadvantage top-up to the GST pool for the other states and territories and effectively an underwriting of floor in the Western Australian GST allocation. It has effectively meant that the commonwealth government has made the GST pool larger.

The problem that Dominic Perrottet has identified—and I, together with Tim Pallas, the Victorian Treasurer; Peter Gutwein, the Tasmanian Premier and Treasurer; Rob Lucas, the South Australian Treasurer; and Michael Gunner, the Northern Territory Chief Minister and Treasurer, have identified—is that the no-worse-off guarantee that the commonwealth put in place for the other states and territories when WA got their special deal has an expiry date. That is coming up in 2026-27. There will certainly be a lot of pressure on the commonwealth to ensure that that no-disadvantage arrangement continues whilst ever WA are receiving the top-up payments that they are receiving. It will be an issue, I think, in all other states and territories ahead of this coming federal election and, indeed, every year until the guarantee is extended.

MR BRADDOCK: I go back to the superannuation fund, with its approximately $5.1 V GG billion worth of assets. How much of those are held within the territory in terms of investment locally?

Mr McAuliffe: All of our investments are made through institutional investment-type funds or managed by institutional managers. We do not do any direct investing ourselves. We are spread across all asset classes, but we do not buy or invest in the government's own property, if you like. We are on the same balance sheet, so it does not make much sense.

Mr Barr: Given the types of companies that we invest in, I think you could assume that our share of the national economy, as a rough rule of thumb—it would not be absolute—would not be a huge amount. We obviously have international investments as well. Australia's share of the world economy is less than two per cent. The ACT's share of the Australian economy is a little over two per cent. So not a huge amount would be the answer overall, because it is a balanced investment. Its priority is to fund the superannuation entitlements of our staff. It is not a vehicle for the government or the Treasurer of the day to make strategic internal investments in projects in the ACT. I do not think that would be a good public policy outcome.

MR BRADDOCK: If there was a build-to-rent investment opportunity, we would not be seeing the superannuation fund being utilised?

Mr Barr: No, not the superannuation fund. We would not use the superannuation fund for that. Housing ACT is engaged in a very significant build-to-rent venture to the tune of $3 billion or more of assets.

MS LEE: Can I take you to page 57 of statements B, table 53, the assessments of unsolicited proposals completed within prescribed time frames. When we look at those figures, we see an outcome of 40 per cent, compared to a target of over 85 per cent. Can you tell us why that outcome is so poor and what is being done to achieve the same target of 85-plus for 2021-22?

Mr Barr: Before I hand over to Mr Asteraki, who is online and can answer this question, we do not receive many unsolicited proposals. I think actually reporting them as a percentage is amusing on one level. We would receive a handful a year. The difference between 40 and 80 per cent might be one versus two. I will hand over to Mr Asteraki to provide that information.

Mr Asteraki: I have read and acknowledge the privilege statement. The Chief Minister is correct. Last financial year we were processing five unsolicited proposals at various stages during the year. Unfortunately, for three of those we did not make the time scale that we had put into the guidelines for unsolicited proposals on our indicative timetable for responses at key points of the process. At all times we kept the proponents informed of any delays. As it became obvious that we would not be able to make the time scales, we kept them informed of that. We did not receive any complaints from them. They were grateful for being kept informed.

The nature of unsolicited proposals is that they can be quite complex. The reason they come through the unsolicited proposal process is because they often cut across a number of different directorates and agencies. So there is a fair degree of coordination that we need to undertake to make sure that we have a proper consideration of proposals first before we go to the unsolicited proposal steering committee, which consists of the Head of Service, the Under Treasurer, the Director-General of EPSDD and any other directors-general whose portfolios are related to the proposals.

We need to make sure that we have a proper consensus view to make a recommendation to the UPSC. Quite often the UPSC then come up with a number of queries that they need to have answered before they can make a final decision on a proposal, if they have indeed received a presentation on that proposal.

Over the course of the financial year 2020-21, we did have some logistical difficulties of getting hold of people because of the amount of time that people were spending responding to the pandemic. Things took longer than we would have liked. I think we generally take the view as well that it is better to have a proper full consultation and consideration for a proposal rather than trying to meet a deadline which, in some cases, can be arbitrary.

MS LEE: Out of the five that you received last financial year, how many were actually approved?

Mr Asteraki: None have been approved, as such. During this financial year, one has now moved into stage 2 of the three-stage process for unsolicited proposals, which is the proposal from BindiMaps, which is a way-finding system for the visually impaired, where we are looking at a potential pilot project. That will need to go through the rest of the process, including approval by cabinet and signature of a contract before it actually happens.

The others did not progress to that stage. In some cases, the unsolicited proposals steering committee declined to receive a presentation. In a couple of instances that was because there was a better route for the particular proposal to be taken forward. One that I think we inadvertently mentioned in last year's annual report was for an air quality monitoring system, where the proponent ending up being on a trial that is being run by the Health Directorate.

Another is being dealt with directly by EPSDD in terms of certain planning and land availability issues. It was more appropriate to deal with it directly like that rather than through the process. Regarding the other two, ultimately the government decided not to proceed with those to the stage of inviting them to make a presentation. Another one is now wrapped up into a procurement that is ongoing on a competitive basis. With the other one, there had been an earlier trial and the proponent was seeking to expand its offering to the ACT. From our perspective, the trial did not go particularly well and we had significant concerns about the desirability of continuing any further.

MS LEE: Please correct me if I am wrong, but does that mean that there are two out of the five that are still going through the process this year?

Mr Asteraki: There is one that is still going through the process this year, yes.

MS LEE: Do you have any updated figures on other ones that you have received this year?

Mr Asteraki: We have not had any formal proposals this financial year, as such. We are having a number of discussions with potential proponents. At this stage, until they make a formal proposal and the UPSC decides to invite them to make a presentation, we do not release details. Some of the proposals are, shall we say, more robust than others. We tend not to publicise the ones that are not quite so robust. The ones that are would go forward, at least to a presentation.

Mr Barr: That is the most diplomatic way I have heard it put, Mr Asteraki. Thank you.

Mr Asteraki: Yes.

MS LEE: And I thought you were the politician, Treasurer! What due diligence is conducted on the parties submitting unsolicited proposals, including the relevant conflict checks?

Mr Asteraki: We undertake considerable due diligence. There was one proposal we received where that due diligence rapidly identified that the particular proponent had made similar proposals elsewhere and were claiming to be something that they were not and had actually been taken to court in another jurisdiction as a result. That one was terminated as quickly as we conveniently could.

We will make investigations of the individuals concerned, the company—if it is a company—including, potentially, looking at their finances if we are reliant on them for making an investment. We would go into some detail on the individual proposal to see whether it was something that was suitable for an unsolicited proposal, which would mean that it was either unique or there was some other aspect which meant that we might be willing to negotiate directly with the proponent, rather than have a competitive procurement process. Generally, as I was saying earlier, it is trying to identify whether what the proponent is offering is of any interest at all, and in some cases it is definitely not.

MS LEE: Presumably, as part of this process, you would also be looking at their capability in terms of ability to deliver on what they are proposing, financially as well as competence-wise, if that makes sense?

Mr Asteraki: Absolutely, yes. That is definitely part of our due diligence checks.

MS LEE: Whereabouts in the process does this check happen?

Mr Asteraki: It is an ongoing check. We would make an initial check upon receipt of a proposal. It is part of the advice that we give to the unsolicited proposals steering committee as to whether the proponent has that capability. In some cases, if they clearly do not then it probably would not get as far as the UPSC. That would then continue through into phase 2, which is where the proponent submits a detailed business case or fully worked up proposal. In that case, we would be definitely looking at what the proponents would need to do as part of the proposal and whether they had that capability.

MS LEE: How is the conflict of interest check part of it dealt with?

Mr Asteraki: In terms of whether there is a conflict with anybody in government?

MS LEE: Yes. Canberra is a pretty small place. Presumably, it comes up every now and then.

Mr Asteraki: Yes, there have been some instances where there were potential conflicts, not formal, but just because a particular member of the proponent team was well-known to certain people within government. We manage that sort of conflict quite carefully. Certainly, in terms of going forward towards an eventual contract, we would make sure that anybody involved did not have any conflicts of interest. Generally, our responsibility as public servants is to ensure that where we are dealing particularly with the private sector we either do not have those conflicts or we openly declare them to the appropriate official to make sure that the individual's continued involvement is appropriate or not, or whether they should withdraw from the process.

MS CLAY: I am interested in whether the ACT government and the ACT superannuation fund are using activist shareholder voting rights at all. It is part of a growing movement. There are a lot of ways you can do it. You can do it directly and you can issue your proxy to a company who adheres to the principles that you give them to use those activist shareholder voting roles. Are we looking at that at all in the ACT?

Mr Barr: No, we have not been. Effectively, they are asking for political interference from, presumably, the Treasurer of the day in a long-term superannuation investment on behalf of tens of thousands of public servants. I certainly would not presume to be an activist shareholder. I can do so on my own money, on my own investment decisions, but I do not think it is appropriate to do so on behalf of tens of thousands of other people.

MS CLAY: Does the ACT government or the superannuation fund vote on any shareholder resolutions in any context?

Mr Barr: There are some that we would, yes.

Mr McAuliffe: I should probably clarify that all of our investments are in the name of the territory. The superannuation account is effectively an investor in our broader platform. For all of our territory share exposures, we pretty much have a process that all proposals get voted on. We have a policy framework that is implemented through ISS. Basically, they will vote our shares in accordance with that policy framework. Over the last year, for example, there were 22,000-plus proposals for the year. We would have had a vote exercise, one way or the other, for all of those proposals.

MS CLAY: So that actually means that you are voting on activist shareholder resolutions.

Mr McAuliffe: We are not going out and proposing shareholder proposals or things like that, but certainly where there is a shareholder proposal put up, that proposal is assessed in accordance with the policy framework that we have in place and then a vote is made.

Last year—these are only rough numbers—in our holdings I think there were something like 480-odd shareholder proposals. Under our framework, probably around 70 per cent of those votes were in support of those proposals. That is a high percentage. A lot of the time, as you would know, management of the companies will generally recommend that shareholder proposals are voted against. We have quite a large percentage, because of the policy framework, that goes against the management recommendation, because they are voting in accordance with the policy framework and on our Treasury publications on the website.

Mr Barr: To be very clear, I do not issue an instruction on 22,000 different votes. It does not come anywhere near me. It is not a political decision.

MS CLAY: Which is how most large investors would work. Mostly they are not voting on individual resolutions. Mostly they give their proxy or they set an ethical standard—

Mr Barr: Yes.

MS CLAY: and then all decisions are made by—

Mr Barr: And that is what we have done. We have that ethical standard. I do not become involved. In terms of the question to me, I do not have time to go through and put a recommended voting position on 22,000 different resolutions across our entire asset pod, and I just do not think it would be appropriate to do so.

MS CLAY: It is probably now down to us to have a little look at those guiding principles and see whether we think there is any improvement to be made.

MS LEE: I refer to the report by the Centre for International Economics, page 63, where they talk about ACT residents that do not qualify for the commonwealth government concession programs and do not receive any special dispensation. That has been acknowledged in the cost-of-living statement attached to the budget. Treasurer, can you outline what measures or initiatives et cetera are in place to ensure that our most vulnerable Canberrans or, I suppose, the lower income Canberrans who are most vulnerable to increases in costs and charges, are being looked after?

Mr Barr: The ones outlined in the budget papers in the context of all of the initiatives that we have. You would know from the statement that we provide free health and education and we provide subsidised public transport services. We provide access to a range of ACT government services across all directorates at either no or low cost. That is the main way. Then we have a concessions program that provides direct financial assistance to low income households. That is outlined in the budget papers. Included amongst that this year is the $1,000 utilities concession. But there is also assistance with motor vehicle registration, with drivers licences and with a range of other fees and charges. I will not list them all now. They are in the budget papers. You know them. We could give you the list if you would like us to write them down again.

MS LEE: No, I was more asking about, obviously, the concession scheme being limited to those who are eligible for the commonwealth concession scheme as well. I am just wondering whether there is anything aside from that, given the limitation?

Mr Barr: There would be some elements of ACT government concessions that would go to people who are not on commonwealth statutory income payments or are on partial commonwealth statutory income payments.

MS LEE: Can I have a list of that, please?

Mr Barr: Sure.

MS LEE: So it is taken on notice?

Mr Barr: Yes, it is taken on notice.

MR BRADDOCK: I am interested in the impact of Airbnb on the local rental market and whether you have seen any changes from COVID. What proportion of Canberra houses are listed on Airbnb, if you happen to have those figures?

Mr Barr: Not off the top of my head. Certainly, COVID has impacted—I think it is pretty clear—the short-term rental market, because a lot of that was derived for tourists and, I guess, short term, as opposed to longer term rentals. I think it would be reasonable to speculate that people who thought they would earn more over the course of a year by several hundred short-term rentals as opposed to one long-term rental might have seen the economics of that decision somewhat impacted by the lack of business and leisure travellers to the ACT over the last period.

I guess we can look at some data in relation to the total number of properties that are subject to land tax that are not declared principal places of residence. Airbnb, though, often does allow you to even just rent out a bedroom within your principal place of residence. I would not necessarily just use one company, too, because they are not the only platform for short-term rental. I suspect that we will be able to give you a little bit of data, but not a lot, on this.

MR BRADDOCK: Thank you.

THE CHAIR: On behalf of the committee, I thank the Treasurer and officials for their attendance today. If witnesses have taken any questions on notice, could you please provide answers to the committee secretary within five working days?

The committee adjourned at 4.15 pm.