

UNCORRECTED PROOF ISSUE

Monday 23 June 2008 - Estimates Committee A (Aird) - Part 1

LEGISLATIVE COUNCIL

ESTIMATES COMMITTEE A

Monday 23 June 2008

MEMBERS

Ms Forrest
Mr Hall (Chair)
Mr Harriss
Mr Martin
Mr Wilkinson

SUBSTITUTE MEMBERS

IN ATTENDANCE

Hon. Michael Aird, Treasurer; Minister for Racing

Department of Treasury and Finance

Don Challen, Secretary

Tony Ferrall, Deputy Secretary, Budget and Finance

Rob Nicholl, Deputy Secretary, Economic and Financial Policy

Craig Jeffery, Director, Government Finance and Accounting

Wendy Sawford, Director, Revenue, Gaming and Licensing

Jonathon Root, Director, Corporate Support

Tasmanian Audit Office

Mike Blake, Auditor General

David Strong, Director, Corporate Services

Department of Infrastructure, Energy and Resources

Bob Rutherford, Secretary

Tony Murray, General Manager, Racing Services Tasmania

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Amanda Russell, General Manager, Corporate Services

Ministerial Office

David Bailey, Head of Office

Sarah Hazell, Adviser

The committee met at 9.30 a.m.

CHAIR (Mr Hall) - Welcome, Treasurer, to this session. We will start with Division 12, Treasury and Finance, then Finance-General, Public Sector Management and then Racing. I think that was conveyed to you as the order in which we are proceeding. Whether or not we need to do Auditor-General is something that is a bit problematic at this stage.

Mr AIRD - You should talk to the Auditor-General. He is independent. I am aware that you are familiar with the Auditor-General and his work via his relationship with the Public Accounts Committee.

CHAIR - I will lead off with a couple of general questions. One is in regard to the public sector - I think I may have asked you this in the budget replies last week, but I do not recall the answer. It would seem that now we have the second-highest proportion of public servants in the country, only behind the Northern Territory. If we look at the Government's 2006-07 final consumption expenditure, it grew by 3.1 per cent, of which 24 per cent was for the public sector in Tasmania, well above the national average of 18 per cent. I am drawing that differentiation. Would you agree that the public service since Labor came to power, I think in 1998, has grown exponentially and it may well, given the salary increases that are in the pipeline, have some budget implications down the track?

Mr AIRD - I have answered this question before. We have an obligation to fulfil our policy positions in terms of the services we wish to provide to the community. Tasmania has a unique geography and demographic and we have to provide services to it. The largest increases in the public sector have been in the Health department because we have been recruiting doctors and nurses and they do not come cheaply. I do not think there is going to be any pressure. We have allowed for a 3.5 per cent indexation factor for salaries in the agencies and they are expected to work within that. There is no indication by the agencies that they are going to be under greater pressure. I have every expectation that they will be able to work within their allocations. If we thought they were not going to be able to work within their allocations we would have had to increase them.

CHAIR - You have mentioned that we have regional differences, but I could argue that many States are much larger and they probably have more significant issues than Tasmania. We are a compact State, in that respect.

Mr AIRD - Services cost more in Tasmania and that has been acknowledged in the past. The fact is that in terms of the Budget and the allocations that are made to the agencies, we can work within them, and there is no indication we cannot.

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CHAIR - Just as a follow-up - and that might be able to be tabled to the committee later on - could you provide a breakdown of numbers since 1998 through until now, the increase and also the salary increases?

Mr AIRD - Within Treasury, or on an agency basis?

CHAIR - No, across the public sector - across all departments, where possible.

Mr AIRD - Well DPAC would be the agency that would hold that information more generally. Anyway, we will see what we can do to assist the committee, but it is more appropriate and really relates to DPAC.

CHAIR - Okay. If I could follow with the three big jobs that you announced, that of chief scientist, chief architect and a social inclusion commissioner, obviously they are positions that attract a high salary. Could they not have been provided from within existing personnel of the departments in the public sector?

Mr AIRD - Just so we are clear on the roles, my role as Treasurer is to provide support to those positions which have been established in other portfolios. It is not my job, per se, to define every single position within the public sector. These positions were created as a matter of government policy - we have made allocations to them. Until these positions are fully established and funded by the budget process, I guess there will be scoping of and allocations made to the various positions. Until that scoping is done, and an assessment is made of the requirements, I cannot assist the committee.

CHAIR - Okay. I turn to the proposed pulp mill. The question is if it does not proceed - and in the last couple of years it has been touted as having quite a significant impact on the State's economy - has Treasury done an analysis of what effect that would have on the economic growth as forecast?

Mr AIRD - Yes, I have.

CHAIR - I do not think I sent you that question, did I?

Mr AIRD - It was assessed that during operation annual gross State product, GSP, is estimated as being between 2 per cent and 2.5 per cent above the level without the pulp mill, with annual investment being around 2 per cent above the level in the base case, annual consumption being up 2.25 per cent, employment levels being 1 600 on average above the base case levels, including about 300 at the mill itself.

Mr MARTIN - Is that 1 600 work force during the construction phase?

Mr AIRD - Employment levels being at 1 600 on average above base-case levels, including about 300 at the mill itself.

Mr CHALLEN - That is during operations.

Mr AIRD - That is during operations.

CHAIR - So in percentage terms, again, just to reiterate that, the -

Mr AIRD - It is during the operation - if it was up and operating - annual gross State product is estimated to be between 2 per cent and 2.5 per cent above the level without the pulp mill.

Mr MARTIN - What about during the construction period?

Mr AIRD - The figures were based on ITS Global. In the construction phase, ITS Global reported that employment in the Bell Bay region is estimated to reach a maximum of 2 200 by the first year and 2 500 at the peak of activity in the second year with approximately 1 000 employed in construction.

Ms FORREST - Has that not been revised downwards of recent times?

Mr AIRD - Only by Gunns.

Mr HARRISS - Mr Chairman, on that matter the Treasurer has just alluded to that Ruth raised, Gunns have indicated that their estimate of construction work force is half that which we have all been aware of in the past. What are the implications of that to an economic driver, if you like, or the total model for the pulp mill in terms of your budgetary position? I think in last year's budget papers you had the two scenarios but not this year. What changes have there been as a result of those changed employment figures?

Mr AIRD - To put it in context, the reason that we have not had two scenarios is basically that Parliament has had its say and given permits, and I think you need to work on that. There may be some doubt about whether it goes ahead or not but that is based on finance. The implications for the Budget are marginal. I have indicated that before. Whether in terms of the employment forecasts of around about 1 000 people, it is a revised forecast by Gunns, and John Holland, I think, made the assessment for them. Obviously, it would still provide a lift in terms of economic growth but, in terms of implications for the Budget, at the margin.

Ms FORREST - Could I just clarify - through you, Chair - that you have not done further modelling based on the ITS Global information but refactored in the figures that Gunns now have suggested would be their employment figures?

Mr AIRD - Treasury has estimated that the total employment in Tasmania will be around 1 000 higher in 2008-09 in year average terms if construction of the pulp mill commences in early 2008-09, compared to no pulp mill construction in that year. That is their assessment of what would happen if it had a start.

Ms FORREST - We have just seen 600 or 700 new jobs on the west coast start up, which is almost getting up to those figures, so you could say that that growth will be achieved without that in those figures.

Mr AIRD - This is growth above what would be the normal base case.

Ms FORREST - So you are saying that that projection considers the known growth on the west coast.

Mr AIRD - Yes, it goes above the base.

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Ms FORREST - The base includes the west coast figures?

Mr AIRD - Yes, it is on average; that would be the implications for the economy and for employment levels in Tasmania.

Mr MARTIN - Are you saying that whether or not the pulp mill was ever approved or built, there is always going to be a marginal impact on the State's economy?

Mr AIRD - I am not saying it is marginal at all. What I have said and what the Government has said is that it is an important project and that it will give a lift to the economy. There is no doubt about it. It will improve the employment levels but it is not the be-all and end-all. We have managed to keep on growing the economy to such an extent that we have the highest growth in Australia and that is without the pulp mill. That will continue. What you cannot argue about is that it will improve beyond that. I do not know if you still support it but the pulp mill would improve the economic growth in this State and would improve employment.

[9.45 a.m.]

CHAIR - If I could go on to the pipeline proposal, Premier Bartlett has made it pretty clear in the last few days that unless there was a public benefit then there would be no assistance for government in that respect, so I need to qualify that. I think it is interesting that the Greens on their Australian Greens' web site have said that all public infrastructure, including pipelines, should remain in public hands. They have supported you in that respect. If there is a public benefit, the Government would consider assisting with that pipeline?

Mr AIRD - It is not within my policy bailiwick to discuss these things in detail, but I will go in a little way to satisfy your curiosity about this.

Mr HARRISS - You would be impressed, Treasurer, as I am, that our chairman is so familiar with the Greens' web site.

Mr AIRD - We have said that there will not be any specific legislation in relation to it. I think it is reasonable that Gunns is taking action to try to establish some land purchase to achieve the pathway for a pipeline. If that goes ahead, well and good. They have not requested any assistance from us. I would imagine that they will be dealing in a normal commercial way to try to get access to water.

Mr MARTIN - If they were unable to acquire rights over one property and that was to stop the project, the Government would not intervene?

Mr AIRD - I am not going to deal in hypotheticals.

Mr HARRISS - From that exchange that has just taken place, is it fair for me to conclude that there is no negative impact on the forward Estimates of a no-pulp-mill scenario?

Mr AIRD - At the margin. It is hard to quantify. If you analyse the commencement dates and so on, any real impact in this financial year would be at the margin.

Mr HARRISS - Or the forward Estimates.

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Mr AIRD - There would not be any implications because we would make adjustments to the forward Estimates on the way through.

Mr HARRISS - Has there been any modelling done on a no-pulp-mill scenario as against the forward Estimates out to 2011-12?

Mr AIRD - I have not asked for any.

Mr CHALLEN - The revenue projections in the forward Estimates are on the basis of the pulp mill proceeding and the working assumption we made, as the Treasurer said, is that construction begins during 2008-09 and then ramps up. That is why there is this rather modest year-average employment effect in 2008-09; we are seeing a ramp-up of employment on the site to a significant number at the end of the financial year, and obviously zero at the beginning, and we get this year an average of 1 000. We have projected the employment activity through construction into the next couple of years of the forward Estimates. It is all embodied in the numbers. As the Treasurer says, it is not big enough of itself to have a huge material effect. It is a very significant project but, as Ms Forrest just said, there are lots of other significant things going on with lots of employees being taken on on the west coast and other activities around the State. In the scheme of things when you look at nearly \$800 million of State taxation revenue it is just very much at the margin. Many other things occur at the margin as well.

Mr MARTIN - It probably frees them up to build houses.

CHAIR - Mr Challen has talked about the private investment in the State and obviously there is something happening down the west coast now and again but there are other issues mentioned in the budget papers like the Musselroe Bay project. Has the Government had recent discussions with the proponents of that? There is some conjecture that it may have stalled.

Mr AIRD - As a tourist development?

CHAIR - Yes.

Mr AIRD - You would have to ask the Minister for Economic Development about that. I do not have any information about that.

CHAIR - Okay. That was specifically mentioned and there was the development at Orford and others. You are not au fait with where they are at this stage?

Mr AIRD - I have an interest in whether they are proceeding but in terms of the detail and the discussions and so on, I have not had any direct discussions with the proponents of either of those potential investments so in terms of detail you would have to ask -

CHAIR - Obviously there is quite a bit of public development, infrastructure development mooted in the Budget for the State but are you happy that there is sufficient private development? If we set aside the pulp mill, it appears to be pretty thin on the ground to me.

Mr AIRD - That is not right. We have had the largest amount of private investment for a long time and if you go to the Readi map that will give you a clue about what potential investments are in the pipeline or under way or planned. I cannot recall exactly the amount of potential private sector investment but it is quite considerable and aligned with that, obviously, is

the \$3.7 billion worth of potential investment from the government businesses, the State itself and the Commonwealth Government. I think there is enough development planned. I can hand you a summary of where private sector investment is. The 11.8 per cent growth I think you can see from there.

Private sector investment in trend terms in Tasmania was \$976 million in the March quarter 2008. A record high level of growth in Tasmania's private investment of 2.2 per cent exceeded the equivalent national rate of 0.4 per cent in the March quarter. The level of business investment in Tasmania increased by 15.7 per cent in the year to March 2008 compared to growth nationally of 11.9 per cent.

I think you have to say that they are pretty impressive statistics, and there is no reason to think that they will not. In fact, some of the levels of investment are understated in some ways. The \$3.7 million does not actually include the potential water and sewerage investments.

CHAIR - If we could just follow on from that, you are predicting that our economic growth will outstrip the national average next financial year. What is the rationale behind that?

Mr AIRD - The fact is we do have \$3.7 billion planned; committed. The private sector is gearing up. There is no reason to believe that we cannot achieve those types of figures, particularly on past performance.

Ms FORREST - Treasurer, this year's budget papers have a different approach to the summary of financial information for all output groups. This year we have four-year forward Estimates in all output groups, which I commend. I think it is really useful. However, the income and expenses is not broken down in any detail at all and this makes it almost impossible to get a sense of significant variances either upward or downward and where they have occurred and makes it difficult to have anything but a broad-brush approach to this scrutinising of the output groups. I ask why this has not been provided. Can these breakdowns of the expenses and income streams be provided for all output groups today to allow us to have a greater level of scrutiny across all departments?

Mr AIRD - I will ask Mr Challen to answer that because he is the expert in the way we report these matters, which is becoming more and more a refined art.

Mr CHALLEN - The breakdown of expenses is provided in each of the agency chapters. For instance, if you look on pages 13 and 15 of budget paper 2 where the Treasury income statement is shown the details of expenses are shown there for the budget in each of the forward Estimate years in the middle of the income statement. In previous years we would have provided a breakdown of those expense categories for each individual output. The reality is that the information that was contained in there was not very rich. What you were seeing was an allocation of those expense categories across outputs and consequently there was a huge amount of repetition. Some things changed in a particular way because the totals changed and we have allocated that total across a whole lot of outputs. It takes up a lot of space in the budget papers to provide that information and yet the information is not very rich; it has not got much more value in it than seeing what is happening to the expense categories.

Ms FORREST - I disagree with that because I think when you do get the breakdowns it allows you to see where the major movements have been in what areas. I agree with you that it can be a bit repetitive but as far as scrutinising the output group and seeing where the changes

have been made is concerned, it is almost impossible to do it in any other way. You have the huge area of supplies and consumables and when we look in last year's budget papers under Health, under supplies and consumables you have nine breakdowns within that group to give you an idea of where the costs are and in an open and transparent approach, surely that makes it much easier for not only people like us to scrutinise it but members of the public who have an interest in it. Will it be provided?

Mr CHALLEN - Sorry, your interest is in more detail in the expense categories rather than allocation of the expense categories across individual outputs, is that right? If it is the former, it can be provided simply by asking the question. That requires a bit more detail under four or five expense categories for each of nine or 10 agencies and that is doable. The other question that I thought you were alluding to was to allocate these expense categories across all outputs, which is thousands and thousands of tables. That is a huge amount of information.

Ms FORREST - No, essentially what we had last year is adequate with the breakdown within each -

Mr HARRISS - Yes, the subsets.

Ms FORREST - Yes, the subsets within. That is what I am asking. Even in employee entitlements there was a breakdown of two there into salaries and wages and other employee-related expenses, which does help to see the movement in wages and salaries more clearly than just having the one figure.

Mr CHALLEN - There is a lot more detail provided in annual reports so, for instance, taking the supplies and consumables one, in the annual report that is broken down into advertising and promotion, communications, consultants, information technology, maintenance and property services, training, travel and transport and other supplies and consumables.

Ms FORREST - That is what is in the budget papers of last year also, but I think the annual report is six months out of date now, or more, nearly a year out of date, and it would be much more appropriate to have that detail recorded in the budget papers. I am asking will it be provided for all of our output groups for the next four days?

[10.00 a.m.]

Mr CHALLEN - I am not sure how quickly it can be provided, I will have to take advice on that. It could be provided for each department relatively quickly but I do not think that we could provide it for output groups at all. Well, not at all; that is not reasonable. It could be provided for output groups but it would take quite a bit of time to produce it because it is a huge amount of work to break it down.

Ms FORREST - So can we expect to have the budget papers revised next year to reflect the way it was the year before pretty much with this breakdown? I appreciate the difficulty of getting that information to us this week but I would appreciate what you could get to us this week to assist us with the scrutiny of these departments. I would like some commitment for next year that we will actually see this level of reporting.

Mr AIRD - Can I just make a comment. I think that budget papers sometimes become distorted with the historical information. I think that annual reports ought to be more robust and contain a body of information. We will take the question on notice. I think that annual reports

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can have more information and I think the budget papers should contain contemporary information relating to the Budget.

A lot of information provided in the budget papers now I think is relevant to the discussions as opposed to historical data that was there. I will take it on notice as to what we can do in the future.

Mr MARTIN - From an Estimates committee point of view in this process, without the historical data it is very hard to -

Mr AIRD - You can go back to the annual reports.

Mr MARTIN - Yes, but that is very difficult when the annual report is a bit out of date.

Mr CHALLEN - It is quite difficult to provide budget figures down at this level of detail because they are subject to huge amounts of change during the year. For instance, the focus in departments is on the parliamentary appropriations which are about the costs of delivering particular outputs, and through the year departments will look at the most efficient ways of delivering the outputs and they will substitute between things like communications, consultants and information technology within an expense group of supplies and consumables if it is efficient to do that.

I think that you have to ask yourself the question down at this level of detail what is the value of the information. Yes, it is numbers on a piece of paper but what is the value of it; is it something that you are going to hold departments accountable to? No of course you are not.

Ms FORREST - I think that it could be. In situations where you have a significant increase in, say, consultants or in advertising or some area like that then I think that is an area that should be scrutinised. If we are seeing a significant shift upwards or downwards in a particular area, which you can only pick up on being provided that detail, then you have the opportunity to get an explanation. Whether or not you are satisfied with that explanation will remain to be seen, obviously, but I think that the departments need to be accountable for where they spend taxpayers' money.

Mr CHALLEN - The focus of the budget papers is on delivering outputs, so we are asking departments to be accountable for delivering certain outputs for a particular cost. Now you want to go two levels below that. You want them not only to be accountable for what they are spending on supplies and consumables but you want them to be accountable for what they are spending on, say, travel and transport. The reality is that they cannot provide the certainty at the beginning of the year, the amount that they are going to provide on a very fine category of expense like that, because mostly they do not know.

The reality is that these expense budgets are built up on historical understandings and a bit of massaging down at the individual categories to get an overall supplies and consumables level. Most of these breakdowns are really done just pro rata using the proportions that existed in previous years. The other point is that I do not think that any other jurisdiction breaks budget data below this broad expense level.

Ms FORREST - If you use the same argument with employee entitlements which is obviously part of their core business, paying their staff, then you only have the one line rather

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than salaries and wages and other employee-related expenses and it makes it more difficult to scrutinise the shifts and provision made for potential increases. For example, when you know there is a wage claim in the offing for a particular sector, if you look at the figures and the percentage that is being considered, whether it happens or not is another matter, and it is nowhere near the percentage that is budgeted for then obviously you have a problem there. Without that information it makes that difficult as well. It is not just the supplies of consumables area that we are talking about.

Mr CHALLEN - The major category of employee entitlements is wages and salaries. In the annual reports you get detail on wages and salaries, annual leave, long service leave, sick leave, superannuation, other post-employment benefits and other employee expenses. For instance, if you look at the Treasury number to 30 June 2007, our total employee entitlements was a whisker under \$22 million. Of that, \$17 million was for wages and salaries, about \$1.5 million was for annual leave, about \$2 million was for superannuation, and the others were down in the few hundreds. That category is dominated by wages and salaries. If you see a significant movement that was not wages and salaries, it would be explained. I hark back to the point I was making about supplies and consumables. What possible value is it to the Parliament and the community to know what the budget for annual or long service leave is? Staff will substitute one for the other through the years, depending on what suits their convenience when they are taking their leave. I do not see how you can possibly get value from budgets down at that level of detail of expenses.

Mr HARRISS - The question then becomes, why have we done so in the past to that extent and why have we made the change?

Mr CHALLEN - We were misguided, Mr Harriss, and we are now trying to be guided. We must not be captives of bad precedent.

Mr AIRD - We will take this on notice, but my view is that we have endeavoured in successive budgets to improve our level of transparency and information given to members and it is much improved. I have an aspiration that we will get the Saul Eslake tick of approval and become the exemplar in the way we present our budget papers. I think it is important; I think the information should be as transparent as possible. There is no issue about withholding information. One of the overall issues I think is that sometimes in the budget process we tend to talk about the inputs and allocations and not enough about the outputs, about what the expected return is on the allocation that has been made. I think it is something that can be addressed in the future. However, Mr Challen has put the argument about why there has been a change and what value. I think every member can make an assessment. I think annual reports are going to become increasingly important in terms of the information and year in year out you will be able to compare. The information that the member for Murchison is referring to now is basically going to be in the annual reports and you can compare against that.

Mr MARTIN - But in the Estimates Committee process what we do not have is the current year's projected figures.

Mr AIRD - I will take it on notice.

CHAIR - I think Ms Forrest has made the point and the Treasurer has said he will take it on notice. It is something we can debate in the Chamber in a couple of week's time and I am sure you will.

Mr CHALLEN - Just to be clear, Mr Chairman, you do have the Budget and all the forward years for each expense group. What you do not have is down at a very fine level of detail. The question is whether that information would be useful and indeed whether it would be meaningful. I have to offer you my professional view that particularly for the forward Estimates the information would be meaningless. You cannot produce valuable information at that level of disaggregation down to the forward Estimates. We were kidding ourselves in the past to think that the information we were publishing in the budget papers was an end value because it was not.

Ms FORREST - I am not suggesting that we need it for the four-year forward Estimates, I am suggesting we need it for this current year and the next financial year. As it has been presented, I am happy to have the four-year forward Estimates. I think it is very valuable.

Mr CHALLEN - The point is that there is a trade-off when you are giving this much detail on the forward Estimates. If you want to break it down even further, the further you go down the less meaningful the data becomes. I would caution you against going down to a fine detailed category of expenses out over the forward Estimates period because the information will not be meaningful.

Mr MARTIN - Given there is change, has that freed up resources within Treasury? If so, is there a saving in staff, or is there a move into other duties?

Mr CHALLEN - No, we have hugely increased the -

Mr MARTIN - There is a lot of smiling going on behind you.

Mr CHALLEN - That is because they are happy people. They love their work. They have forgotten that, like my father, I have eyes in the back of my head.

Mr AIRD - And they love the productivity increases we got from the agencies.

Mr CHALLEN - We have hugely increased the amount of information in the budget papers. It has actually increased the workload for Treasury very significantly because, in the past, we had one chapter which provided forward Estimates at a very high level of aggregation. All you were given in the budget papers in the past was last year's budget and a current year set of budget numbers. We have now given you, for every line in the budget papers, a full set of forward Estimates. The increase in the information in these budget papers relative to last year is massive. The processing load that is associated with that is considerable. The workload for Treasury has not gone down, it has gone up very significantly. In fact, the Treasurer referred a moment ago to Eslake seal of approval. I had an e-mail exchange with Mr Eslake during last week in which he told me that the only respect in which Tasmania's budget papers, in terms of what we publish and transparency and so on, did not meet the very highest standard in the country - which he says is Western Australia - is that we have not produced forward Estimates for the public financial corporation sector. I put it to him that that information was meaningless and he agreed with me. In the Eslake test of meaningful information, we are right up there with the best set of information, the most transparent set of budget papers in the country. Nobody else does this.

CHAIR - Okay, I think we have worked that track tried and true pretty well, as you said. Don, you have given your answers. Some members like to drill down into the minutiae. Other members like to take a more broad-brush view. We will debate that later on. Thank you.

Mr HARRISS - You mentioned, at the outset, the matter of public deployment levels et cetera and the impact on the economy. Your outflows are estimated to increase by 3.5 per cent which is ahead of the inflation projections. Won't that have an inflationary impact on our economy? If so, or if not, but particularly if so, what measures does the Government put in place to attach productivity improvements, efficiency gains, as against the 3.5 per cent on cost estimation?

Mr AIRD - This issue has been raised in other forums. In fact, it was raised nationally with the Federal Treasurer. All the States are very keen to invest in infrastructure. It does have a potential inflationary effect but it also leads to greater productivity. I would not expect, though, that Tasmania and our investment are really going to lead significantly to national inflation rates. The investment we are making in infrastructure is going to provide a lift to our productivity; the level of capital expenditure is considerable. I would think that we are all going to benefit from it by having important infrastructure in place to sustain the economic growth. That is the key here. I am satisfied that we are, in terms of growing the economy, investing in the right areas. There are other areas that I consider to be important as well. We have in the past invested over \$30 million in optic fibre which is going to provide economic growth, and it is a continual challenge for us to make sure that we put it into appropriate areas for productivity growth.

Mr HARRISS - What about productivity gains within the public sector, as against the 3.5 per cent?

[10.15 a.m.]

Mr AIRD - In terms of the investment we, obviously, expect the public sector to perform to its optimum. There is no evidence being presented to me. I know there has been some commentary about it and I noticed the TCCI go on about wanting to see greater productivity, but my observations are that we are getting productivity gains. The output per employee, particularly in Treasury and Finance, has been considerable. There have been greater calls on them to produce a lot of information, do good project work and so on, that we as a government have asked them to do, and they have produced.

Ms FORREST - So we see that productivity is always an ongoing challenge, to ensure if you are going to have -

Mr AIRD - Are you talking about the State sector, or just generally?

Ms FORREST - Generally, but certainly within the State sector. If you are going to reward people with wage increases and other benefits perhaps, have you identified where there are challenges in productivity? You say that productivity in Treasury is not an issue, there have been increases in that department. Where are the problems, do you know?

Mr AIRD - What do you mean by problems?

Ms FORREST - Where are the areas that the productivity needs to be improved?

Mr AIRD - One of the things in terms of policy changes is to make the allocation to the agencies for wages and salaries; it is indexed to the agencies. They have to ensure that they work within their allocations in forward Estimates. They just have to; there is no central pool from which they can come back and say they want more.

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Ms FORREST - Can I suggest that Health are one department that tends to overshoot their budget on regular occasions; would you suggest that productivity is an issue in that department?

Mr AIRD - The fact is that Health is driven by demand, and we do not control demand. We are responding. There have been various issues about productivity and management, as you would be aware, particularly surrounding some of the nursing issues in hospitals. There have been constraints given some industrial arrangements, which have limited some of the productivity gains that may assist us in managing hospital staff. I would be happy to talk to you about that, if you like.

Ms FORREST - Those are the areas I am talking about. It is the medical profession too, not just the nurses.

Mr AIRD - I know. You would be well aware that we live in a competitive environment, nationally and internationally, in terms of wages particularly for doctors and nurses - this is an international problem. If you are talking about productivity gains, the area of interest for us is to try to get some flexibility into the working conditions that would allow us to allocate staff, in hospitals particularly, to the areas of greater need and have some flexibility about that.

It is an issue for us, and we raised that during the last wage negotiations with the ANF. It was agreed that we put on 75 more nurses, broken down in terms of some ENs who are going to be part of that. I think it was 50 RNs and 25 ENs, but I am open to correction on that. Basically, they also agreed to hold off on any further demands in terms of nursing hours per patient day - I always get that mixed up. That is an issue that still needs to be resolved in trying to get some management issues sorted out to allow for some productivity gains in terms of outputs.

I am not saying that there are not other issues relating to others. With demand pressures in the health system you would be more aware than most that we cannot control the demand and have to respond. Also, we have to respond in a national market and international market to have attractive wages and conditions. We have the most attractive conditions in terms of the loadings for nurses in Australia so there is some real attraction for some nurses to stay and choose to work the shifts where they get the higher loadings. That is part of demographic change as well, I may add. Younger nurses are attracted to that type of work. Some of the more mature nurses, who are having families and so on, choose to work other hours.

CHAIR - I thought you answered the Health minister's portfolio quite well there.

Mr AIRD - The honourable member led me there.

CHAIR - I know you are easily led.

Laughter.

Ms FORREST - Can I ask you a quick question in relation to the Treasury specifically then, which you might be happier with. There is a new line item that is listed throughout the budget papers as the retained revenue. Can you provide me with an explanation of what retained revenue refers to?

Mr CHALLEN - It refers to various forms of revenue that are collected by agencies that the Treasurer allows them to retain as an offset against the cost of the output group. So in Treasury's

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case, for instance, there are some liquor licensing fees included there. Recoveries that GPOC - OTTER get from their activities would appear there and there would be a few. It is a very small number for us. If you look, for instance, at the Health budget, in-patient fees collected by hospitals would be the biggest component of theirs. In our case, there are a few things like recoveries for validation costs for gaming machines and things like that. They are very small. Most of ours are liquor-licensing fees.

Ms FORREST - I understand they are right across the whole departments anyway - but in all of them, pretty much, I have not looked at every line to be sure that it is accurate, but when you look at output group 1, for example, under Treasury and Finance, your appropriation is less than the net cost of running the output group. That occurs consistently throughout every output group and every department. Why is that?

Mr CHALLEN - There is a simple reason for that. The outputs are costed on a full accrual basis so the net cost of an output group includes non-cash expenses like depreciation, for instance; that is the biggest component. The appropriation is a cash concept, so we only appropriate cash. The net costs on output group and the appropriation will always differ by the amount of depreciation that is being charged against the output group. For a department like Treasury we do not have a lot of capital assets so our depreciation charges are relatively low. We do have some and that is why our net cost of output groups and appropriations differ by relatively small amounts. But if you have a look at a department like DIER it is a very capital-intensive department; it has a very high depreciation charge and there will be a big difference.

In principle it is just that net cost of output is an accrual concept and appropriation is a cash concept and they will always differ by at least the amount of the depreciation change.

Ms FORREST - Thank you, I knew you would have a good explanation.

Mr CHALLEN - Thank you for asking.

Mr HARRISS - You went to the matter of business or projected investment in the pipeline. The Treasurer suggested that it is probably DEDT's - Department of Economic Development and Tourism, or DEDanT -

Mr CHALLEN - That's a new one.

Laughter.

Mr HARRISS - That is what it is now. The Minister for Tourism told me that.

Ms FORREST - I hope it is not too indicative of what goes on.

Mr HARRISS - I accept that, the REDI map, but your budget Estimates, your whole fiscal strategy, would have factored into it some level of private sector development. My last look at the REDI map indicated about 20 tourism projects, all of about \$5 million or thereabouts or more. So there is a compounding effect of that. Again, my last look at the REDI map indicated to me that a whole heap of projects had been identified, some of which have not even seen the light of day yet and may never do. My specific question would be: what significant private-sector developments in the forward Estimates have been taken account of in formulating your fiscal strategy or your whole budget premise?

Mr AIRD - All of them?

Mr HARRISS - The major ones.

Mr AIRD - We will be able to get that for you. There was always an assessment of various projects and I will get a list for you that we made some judgments on.

Mr HARRISS - Okay, so they are the ones on which the budget papers have been predicated?

Mr AIRD - Mr Challen is very keen to add to this discussion.

Mr CHALLEN - I am not keen, I just thought I would be helpful.

Mr AIRD - Well, if you want to be helpful then you can be as helpful as you like.

Mr CHALLEN - What drives the numbers in the budget papers is our economic forecasts. Those economic forecasts are published at the front in chapter 2 of budget paper 1. We have a constant dialogue with the Department of Economic Development and Tourism in which they tell us about all the projects that are going on that they know about. Our people talk to their people and they make judgments about what are the likely employment and investment effects of individual projects if they proceed and they have a discussion, at the end of which we assign our own probability - not theirs, ours - about whether a particular project will proceed. So embedded sort in the bowels of our forecasting machinery, underneath those economic forecasts, is consideration of a very large number of potential projects but we break them down into those that are just worth keeping an eye on. We have a thing called 'our monitorings' and those that we think are real prospects and then against even those that are real prospects we put probabilities against. For instance, there was a debate at this level last year about whether the Gunns pulp mill should be in or out and, remember, we had included it in the forecasts last year and that is because our assessment of the probability of it proceeding had risen to the point where we thought it should be included in the Estimates. The previous year it was not. We do that essentially for every project. I think we have a cutoff level of \$20 million of investment and we do not bother looking below that level. We still have quite a big list and Economic Development and Tourism just feeds us their list.

Mr MARTIN - Are you going to table that information?

Mr AIRD - I will find some information and give it to the committee as soon as possible if it is readily available.

CHAIR - Mr Harriss, are you okay on the matter?

Mr HARRISS - I have finished on that.

CHAIR - If I could just change tack a little bit and talk about exports, there is a chart on page 233 which talks about the increase in our export value being clear, although it seems to be easing quite a bit. Why is it that over this period we have seen little change in the volume of exports, particularly given that nationally there is a significant growth in volume, and what are the implications of that if we are not going to increase our export rate?

Mr AIRD - In terms of exports, the mineral sector has held up very well and obviously the prices there have been good. I think the mineral sector and exports have been doing very well indeed. It will drop off from time to time.

CHAIR - Yes. They are part of the equation and the longer-term forecast is that now there has been a softening of mineral prices throughout the world.

Mr AIRD - Yes.

CHAIR - That will have an effect on it.

Mr AIRD - It could have an effect, yes. Some prices hold up. Exports are still going to be very good for us, in my opinion, particularly to the budget sector.

[10.30 a.m.]

Mr HARRISS - That is the price return but, as the Chairman said, volume has been tracking fairly flat according to that graph. Here we have a strong economy and yet we have not been able to grow the volume.

Mr AIRD - With a new mine we will.

Mr CHALLEN - Remember these are only overseas exports.

Mr AIRD - We are not talking about exports that go to Melbourne.

Ms FORREST - Mining output does not go to Melbourne.

Mr AIRD - No. That is what I am saying, that is why they are counted as exports. Those products and services that leave the State to go to Melbourne and then go elsewhere are not recorded.

Mr HARRISS - As Mr Challen said, that particular graph is about international exports, it has nothing to do with interstate.

Mr CHALLEN - It is the only thing on which we have any data, unfortunately.

Ms FORREST - Why is that? Why do you not keep data about what might be dispersed beyond Melbourne? Is it too difficult to keep?

Mr CHALLEN - The Australian Bureau of Statistics has had several abortive attempts at trying to collect that data and it is too difficult; the information just does not exist. You can easily track it because it is services that are going across international boundaries, but it is very hard to track movement between States of Australia in the same way that it is quite difficult to track people moving around the country.

Mr HARRISS - Apart from, say, the pulp mill coming on line, which has the capacity to increase the volume of international exports - and a new mine, as the Treasurer has mentioned - what other opportunities are there to grow the volume?

Mr CHALLEN - If it starts raining you would expect agricultural producers' exports would rise. Incat will sell a boat from time to time and that is one of the reasons that our volumes fluctuate a lot. When Incat sells one boat we get a huge kick up. Wherever our economy has the capacity to develop - software development, tourism people when international tourism picks up - in a healthy economy the opportunities are everywhere. The most obvious opportunity is that very strong commodity prices have stimulated a lot of exploration and development in mining. There are a couple of mining opportunities on the west coast that are moving into production. Allegiance, now Zinifex, nickel mine is right now moving into its production stage. They have contracts to sell their concentrate into China. You will surely see that in a lift in export volumes.

Ms FORREST - Metals X is about to start, too.

Mr CHALLEN - Exactly, there is also another mine over there.

Our agricultural sector has been suffering severely because it has not rained for a long time. If we get more normal climate conditions you would expect to see quite a big pick up in agricultural exports.

Mr AIRD - One of the intriguing things about our economy in the future is that our exports, and particularly minerals, reflect what is going on nationally and internationally. What is happening here is not unusual in the national context. The other thing is that I think sometimes we miss the point of our other exports. We are selling education services to London and using broadband where we can. There are companies here earning income from products and services that they are delivering interstate, internationally and it is not reflected. That is one of the problems. I think the attitude to broadband and optic fibre is going to provide another lift to the economy in what we can do internationally. We know that there are people waiting to press a button on their investment and the products they will be able to deliver overseas once we get a competitive regime for broadband. It is not just volume; we reflect what is going on nationally as well.

CHAIR - In terms of productivity and exports, most of our industry relies on fuel of some sort. If oil gets to a predicted price of \$200 a barrel, what impact might that have on the Budget?

Mr AIRD - I do not think we have done that modelling.

Mr CHALLEN - The cost of the Bass Strait islands' electricity subsidy will rise, as it has been in the last few years.

Ms FORREST - If they get more solar panels on King Island you might not be in so much trouble.

Mr CHALLEN - We are working on the windmills and the storage batteries.

CHAIR - But you could concede that it would have quite an effect.

Mr CHALLEN - In terms of our Budget, we are not very fuel intensive. You would see the costs of the government fleet rise a bit. Police and DIER would have a more than proportional increase in their costs. The Bass Strait islands' electricity subsidy is mostly the cost of diesel, and we have improved efficiencies -

CHAIR - That is from a government services point of view, but I am talking about the general economy as well.

Mr CHALLEN - An oil shock, other things being equal, is bad for all economies in the same way that any key raw material price going up is bad for economies. The published evidence is that the Australian economy has become less fuel intensive over the last couple of decades. I am not an expert on this, Mr Chairman, but the expert commentators suggest that we are not going to see the sort of impact on the national economy, and consequently you would not expect it for Tasmania, that we saw from, say, the 1970s oil shocks. That just reflects the fact that our economies are much less fuel intensive now than they were 20 or 30 years ago. Nobody wants it to happen as it is very hard on household budgets. You can see the share of petrol in the average household budget rising a bit so they are spending less on other things, the big tickets presumably and those sorts of things. Even at sky-high levels like \$200, and hopefully we will not see that, you would not expect this to be a major issue.

CHAIR - Obviously, it must be of some concern if the Premier has announced an alternative fuels conference or summit, I think.

Mr CHALLEN - I think the Premier is extremely concerned about the effect that it is having on the budgets of working families; that is where his concern particularly lies.

CHAIR - Mind you, there is another committee that has been looking at that issue for a while and they will have a report out soon which probably will save the Premier having to do that job, but that is another matter.

Ms FORREST - The committee needs to get that report out, clearly.

Mr AIRD - He does not think that the committee has been going too slowly.

CHAIR - Indeed not. It has been very thorough in its investigations.

Mr AIRD - I am sure that if the committee reports before the summit, the chair would be able to participate and share the -

CHAIR - We are only too eager to help.

Mr AIRD - wealth of knowledge and investigation that has been undertaken by that particular committee. It would not be the first committee of that type to report -

CHAIR - Prior to.

Mr AIRD - No, I think there are ideas and suggestions to be made. The issue is that State governments really can do things at the margin, so it is more about a summit that was put forward by the *Examiner* newspaper to suggest that everyone might have a say and see if any good ideas come forward that may be of use. I will be very supportive of it as long as it does not push too much pressure on the Budget.

CHAIR - Any further questions to the Treasurer, in a general sense on the economy?

Mr HARRISS - Net interstate migration has ducked below the line. Is that a concern in looking at budget predictions going forward?

Mr AIRD - What are you referring to there? What page?

Mr HARRISS - In budget paper 1, 2.35; the net interstate migration. For 2005-06 and 2006-07 we had three above, a couple below, but anyway it has taken a dip after three above the line. What implications does that have in regard to our general economy and population generally? We know it impacts on GST revenues.

Mr AIRD - The past two reports have been positive on net interstate migration.

Mr HARRISS - What is that, quarters?

Mr AIRD - Yes. These things ebb and flow a bit. I think that our fertility rate is growing at record levels. I will not editorialise, as tempting as it may be, and I think that we have worked on the contention that if we keep on growing the economy people will be attracted here for a range of reasons - qualitative as well as generally economic gain to those coming here. There has been a lot of talk about special programs and so on and we are not going to be involved in that type of activity but we do keep an eye on it. I think that by growing the economy it does help attract interstate migration. As I said, the past two quarters have shown positive growth.

Mr HARRISS - That is encouraging. I was not aware of that.

Ms FORREST - It was reported in the *Mercury* the other day about the number of people returning to the State to work in the mining industry, which should boost the figures somewhat.

Mr AIRD - Historically, younger people have left Tasmania and I think that is not necessarily a bad thing. It needs to be put in context of their preparedness to come back after they have had some experience in other parts of Australia and the rest of the world. I think that there is evidence to show that people do come back.

Ms FORREST - Do we have any figures that show that movement, like how many people do come back and what brings them back? Is that anything that is investigated?

Mr AIRD - I have not seen any evidence about the reasons; it is generally just anecdotal. There has been some work done by the ABS to try to understand interstate migration; they tend to come from Sydney. They have not really done any further analysis of the demographics. I have had discussions with them about trying to find out specifically the type of person who might be attracted to come to Tasmania as Sydney appears to be the largest area where there is migration. But, again, we just have to provide the right environment in terms of quality of life and economic benefit and getting a job.

Ms FORREST - Do you think trying to get that information is the job of the ABS or should UTas take up some sort of project? Or is it something that maybe someone within Treasury should do, look at the economic impact on the State?

Mr AIRD - ABS generally are the most skilled and have the best modelling. But one of the things that we do discuss at Demographic Change Advisory Council is how we layer the data that is being collected by ABS so that it can be a more useful tool for us in identifying the areas that

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we may need to target to get people to come to Tasmania, or come back to Tasmania, as the case may be. So it could be a mixture of ABS data and university data but generally the ABS are the ones. The university will be doing further analysis and reporting back to the Demographic Change Advisory Council about various trends in migration. I would imagine that we will be drawing on the data that Natalie Jackson undertakes. But that has emerged out of the Demographic Change Advisory Council.

[10.45 a.m.]

Ms FORREST - So she is looking at what is coming back?

Mr AIRD - Some of the trends. I do not know the detail of that until I see her report back to the Demographic Change Advisory Council.

Mr MARTIN - Is there any recent information on whether the average age of people coming back is a lot older than the average the Government -

Mr AIRD - I think that is correct, but I need to clarify that.

Mr MARTIN - I would not mind having the figures on it.

Mr AIRD - There is some data but I think it might be not very scientific. Again, there is some work being done on this at the university and at ABS, and certainly one of the ideas with the Demographic Advisory Council has been to be a bit of a clearing house for some of this information. There have been six or seven publications now about a range of data. The draft strategy paper alludes to some of the interesting trends in terms of population.

We are keen to get as much information as possible because then it may enable us to identify a target demographic interstate and provide another way of attracting them to Tasmania.

Mr MARTIN - In addition to that.

Mr AIRD - I think the program about branding Tasmania could broaden the appeal and position Tasmania as an attractive place to come to live and work - good recreation, the other aspects that others perceive to be a benefit to their lifestyle in coming to Tasmania.

Mr MARTIN - Which is important. We have had discussions in the past with people concerned about the ageing population in relation to our health system and the forward projections.

Mr AIRD - Yes.

CHAIR - The Secretary just made the point, Treasurer, that people coming in - as he has indeed come in from Western Australia - are very intelligent, so we have that advantage.

Laughter.

Mr CHALLEN - There is a lot of variation in the data though, Mr Chairman.

Laughter.

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Ms FORREST - And some of those going out are quite smart too.

Mr AIRD - It could be to everyone's advantage that people are coming to Tasmania and raising our IQ.

Ms FORREST - Speak for yourself.

Mr AIRD - Actually I had not even thought about that. It just shows that I am not narcissistic like some.

Mr HARRISS - Just on the overall issues, because we cover a fair bit at the start of these sorts of sessions, and then the rest of it just falls into place, Chairman, you mentioned a while ago the Premier's announcement of the petrol summit because of whatever concerns he has there, and I suppose everyone shares some concern about petrol prices and so on and the impact on family budgets. Were you consulted about that issue, Treasurer? Is that a matter you have been consulted about? Obviously there are going to be budgetary implications. Further to that, if Mr Rudd removes the GST for the petrol excise component, what impacts would that have on your Budget?

Mr AIRD - I have not considered. Until we get into the nitty-gritty of their having a review on taxation and the fact that that is in the mix we will obviously wait until we are in a position to understand more about how that is going to pan out. GST on any area is going to be of interest to us, of course, because if there were to be any adjustments on GST on any commodity it would have to be done with the concurrence of the States. There would be no undertaking of any reduction of taxation on one level without making sure we are well and truly compensated on another. We are not going to give way on areas of our revenue. That is a discussion that we will have with them. I have made it very clear that no State is going to be readily diminishing its tax base, revenues or transfers from the Commonwealth. If it relates to the GST, we will still be ensuring that our transfers from the Commonwealth are equivalent to what we gain from the GST.

CHAIR - Have you any idea what the quantum could be?

Mr AIRD - No. I have not seen any data and there certainly has not been any engagement at a State level about this matter.

CHAIR - I want to refer to credit ratings with the equity injection from Transend into Hydro. Do you think that that could increase the risk of a credit rating downgrade, given the issues that Hydro has with lack of water in the lakes and everything else, that their debt could blow out even further?

Mr AIRD - No.

CHAIR - I know this is a one-for-one -

Mr AIRD - Yes, but it does not alter the net effect in terms of debt.

CHAIR - No, it does not.

Mr AIRD - There is no evidence to show that either of the credit rating agencies is going to view the situation as though it puts any pressure on our credit ratings. The secretary can add some

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more if he wishes, but I am confident that our credit ratings are going to be maintained. I am working hard to improve one of them.

CHAIR - Do you mean the Hydro?

Mr AIRD - No, the credit rating - Standard and Poor's.

CHAIR - So Moody's have you level with the other States?

Mr AIRD - Yes.

CHAIR - Why is it that Standard and Poor's has us down a peg?

Mr AIRD - They have a different methodology of assessing credit in the State. We put forward a robust argument every year to try to improve that situation and so far it has been to no avail, but we keep on putting forward, I think, cogent arguments about why we should be treated the same way as Moody's has treated us.

Mr MARTIN - Can you explain that in a bit more detail so that I understand it better, what the difference is between the two agencies?

Mr AIRD - It is a fairly technical area. The secretary would be more erudite in his description of it.

Mr CHALLEN - I am not sure that I would be, Treasurer. Reading the entrails of the ratings agencies is a particularly rarefied art. I think what you can say is that the differences are fairly subtle. The AAA with Moody's and the AA+ with Standard and Poor's are both extremely strong credit ratings. At the end it comes to a slight difference in the judgments that the two ratings agencies make about the mix of factors that go into determining our credit worthiness. Moody's has a more elaborate methodology for doing it, in which they break the assessment down into four distinct chunks. The factors are basically multiplied together and out comes a number. Standard and Poor's tend to use a more ratios-driven analysis and apply less judgment. They do not have the frameworks for applying judgment that Moody's has. Split ratings, as it is called, where the two ratings agencies come to a slightly different conclusion is by no means uncommon. There are thousands of examples of it. My expectation is that at some stage, hopefully during the current Treasurer's period in office, we will see Standard and Poor's lift our credit rating to AAA.

On the chairman's original question, we have a policy of continuous disclosure and interaction with the two ratings agencies. They were informed very carefully about the equity transfer between Transend and Hydro and did not raise any concerns at any stage. I am comfortable we will not see any impact on our rating one way or the other from that adjustment.

CHAIR - Are there any further questions of a general nature before we break?

Ms FORREST - I would like an explanation on a line item on page 13.17 Treasury and Finance in the Balance Sheet, and what Intangibles refers to under Non-Financial Assets. There is no footnote.

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Mr CHALLEN - It will be computer software in our case. Intangibles generally will relate to assets like the value of brands or newspaper/television mastheads - those sorts of things. In our case, it is just computer software.

Ms FORREST - Who is responsible for the biggest figure in that section?

Mr CHALLEN - It reflects the fact that we are not a very capital-intensive agency. Our land and building assets are very small and you can see the Intangibles numbers going down as we write off our software over a period of generally five years.

Ms FORREST - So there are no major software investments planned?

Mr AIRD - I think a two-year cycle is the main reason for that.

Mr CHALLEN - We have just completed one huge project, an electronic document management system, and if all goes to plan the rollout of that will be completed this month. That has kicked up our Intangibles numbers. We have been investing more modest amounts in some of our other systems and we are working this year on project plans for a couple of major systems developments, in the tax collection and the liquor and gaming regulation area. I expect you will see those feeding into next year's Budget.

CHAIR - Before we conclude the session, on the matter of the Federal Government's decision to change the Medicare levy thresholds - and I know this is an issue that we will probably discuss on Wednesday with the Health minister - obviously from the State budgetary point of view there may be some significant impacts if we have a whole raft of people who opt out and go into the public system and therefore put pressure on our health services. Have you talked to the Federal Government about that issue and the effects that it could have?

Mr AIRD - No, address that to the Health minister.

CHAIR - All right.

Mr HARRISS - Are you saying there is going to be no impact on your Budget with the inflated waiting lists? The Health minister has not told you anything about that?

Mr AIRD - It will add a margin to demand pressures but I will leave that to the Minister for Health.

CHAIR - It is something that will create a lot of discussion.

Ms FORREST - Treasurer, do you have any idea about the number of people that potentially this could impact on in Tasmania?

Mr AIRD - I have not seen any data on it.

Ms FORREST - Does that not cause you some concern, because this could have huge cost implications for the Health budget?

Mr AIRD - We made the allocation to the Health department -

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Ms FORREST - And they have to work within it?

Mr AIRD - and they have to work within it - exactly.

Ms FORREST - So all those people who can no longer afford or choose not to have health insurance will be the ones who will be assisted?

Mr AIRD - On the other hand if we invest, as we are, in the primary health-care area that could be another way of seeing some of the issues dealt with, without putting pressure on the acute-care system.

Ms FORREST - I will come back to that at a later time; remind me to do that.

Mr AIRD - Take it up with the Health minister.

CHAIR - We have been going for an hour and a half, I think we will suspend for 10 to 15 minutes.

The committee suspended from 10.59 a.m. to 11.17 a.m.

[11.17 a.m.]

CHAIR - I think we have probably covered off in terms of output group 1, 1.1 and 1.2.

Ms FORREST - I thought we were doing the overview still.

CHAIR - That is all right. Have you still some questions?

Ms FORREST - I am interested in looking at the sale of the Hobart airport particularly and in the budget papers I think it appears in appendix 1.3 as a capital receipt rather than revenue. Why would you treat that as a capital receipt rather than revenue?

Mr AIRD - It is transferring one asset from another. We sold an asset to get a cash asset.

Mr CHALLEN - Ms Forrest, could you just tell me where you are? Budget paper 1 presumably.

Mr HARRISS - No, it would be 2 if it is 1.3, would it not, Consolidated Fund estimate. Is that where you are at?

Mr CHALLEN - I have found it. It is in budget paper 2, volume 2, page A1.3.

Ms FORREST - Yes, that is it.

Mr CHALLEN - It is classified as a capital receipt for the purposes of the Consolidated Fund because we have sold the capital asset. It is a receipt, it is a kind of revenue but just classified in that way because it came from selling a capital asset.

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Ms FORREST - Does the capital gains tax apply in a similar way because of a sale and who incurs that capital gains tax?

Mr CHALLEN - The owner of the asset was TasPorts. Hobart International Airport Pty Ltd was a wholly owned subsidiary of TasPorts so the question is whether tax occurs in relation to TasPorts' liability when the airport asset was sold. The revenue to the Crown came from a return of capital being paid by TasPorts back to the Government as owner. TasPorts, like all our government business and State-owned companies, are covered by an animal called the national tax equivalent regime, an arrangement between the Commonwealth and the States which has the ordinary tax law applied to government businesses and State-owned companies but the tax payment comes to the Government as a tax equivalent payment rather than going to the Commonwealth as a liability to the Australian Tax Office.

Ms FORREST - To clarify that point, are you saying that the capital gains tax equivalent will be paid by TasPorts to the Government?

Mr CHALLEN - Correct. But under the national equivalent regime there is a little variation on the theme. The States and the Commonwealth can agree on tax treatments that differ slightly from the ordinary tax law, and in the case of sales of assets there is a provision under the national tax equivalent regime that if an asset is sold on the instructions of an owner, government capital gains tax does not apply.

Ms FORREST - Was that the case here?

Mr CHALLEN - TasPorts did not have any liability for capital gains tax on sale of the asset because, under the national tax equivalent regime, that provision applied. They sold the asset, the receipts came into TasPorts and then were paid back to the Government as a return of capital and no capital gains tax applied.

Ms FORREST - When you look at the National Competition Policy, does that not then give an unfair advantage, I guess, and should there not be some provisions made? Or is some provision made at all?

Mr CHALLEN - No. The argument is that governments are in a special situation in relation to their assets and that they can, on policy grounds, cause asset sales to occur that the board of a company owning an asset might not in the normal course of business wish to do. If, for argument's sake, TasPorts had been a commercial enterprise like Macquarie Bank which owned an airport, the reasons that they would have sold an airport asset would be rather different to the reasons for which TasPorts sold it. TasPorts sold it because the Government wanted to free up the capital that was locked up in the asset to reinvest in other things, whereas Macquarie Bank would only sell an airport it owned if it saw a commercial opportunity from the sale. For that reason it is not regarded as departure from the National Competition Policy.

Ms FORREST - So all the funds that were raised from the sale of the airport and the Printing Authority were transferred holus-bolus to the Government?

Mr CHALLEN - Yes, in total.

Ms FORREST - Thank you.

Mr MARTIN - On table 13.3, performance indicators, there is a variance between budget estimate actual GBE/SOC returns which was fairly high in 2006-07 and the target is <5 for 2007-08. Any idea where that might come in?

Mr CHALLEN - It is explained in the footnotes. It comes from the fact that Transend, Hydro and the MAIB have all produced better outcomes for the year and consequently provided bigger dividends and income tax equivalents than we expected at budget time.

Mr MARTIN - For 2006-07. My question is, what does it look like for 2007-08?

Mr AIRD - Hydro is not returning anything. The MAIB dividends have been flattened out so they are more predictable over the longer term and are not subject to high fluctuations. They did particularly well on equities at one stage so there is a guarantee under the arrangement. Transend, I am not too sure.

Mr CHALLEN - We can get a bit of a lead on this in budget paper 1 on page 8.7, the estimated outcomes. There is a bit of information there about how our current estimate for the 2007-08 outcome compares to budget. You can see that our dividend and tax equivalent income is up about \$20 million on the budget estimate of \$150 million-odd. That is being driven by better outcomes from Aurora and the MAIB. That is the lagged effect of what was going on in 2006-07. As the Treasurer says, we will not expect that to follow through until next year. Transend is up a bit and, as the Treasurer said, Hydro is off a bit. As we know, the special dividend from TOTE is being deferred so that is off a bit, too. Overall we are up for the year.

Mr AIRD - Generally through the forward Estimates it will be relatively unchanged. There will be ups and downs. It is in table 4.6 on page 4.17.

DIVISION 12

(Department of Treasury and Finance)

Output group 1

Financial and Resource Management Services

1.3 Shareholder advice on government businesses -

Mr HARRISS - Treasurer, one of the issues that you and I have often discussed is the off-budget debt. I know that we do not need to go there particularly today because that is for another forum, but nonetheless this line item goes to the issue of GBE shareholder advice and the like. There is a substantial unfunded superannuation liability within the off-budget component - we come to general superannuation liability later, I think, probably Finance-General. At what point do you as Treasurer become concerned about, first of all, the expanding debt? The budget papers identify over the forward Estimates almost half a billion dollars expansion in GBE debt holdings and an expansion in their unfunded superannuation liability. As Treasurer, what is your level of concern, given that expanding debt? I then want to go specifically to the possibility that if TasPorts becomes a rail operator - I know I am dealing in a hypothetical - have you done any modelling on the necessity for TasPorts, for instance, to increase their borrowings by hundreds of millions of dollars to fund a rail rolling-stock business?

Mr AIRD - In the PNFC sector, are you separating the general superannuation - are you combining-

Mr HARRISS - I think we will come to that in more detail later.

Mr AIRD - I am just trying to find the point here.

Mr HARRISS - First of all, if we go to page A1.15 in budget paper 1, I am pretty sure if I go to the total non-financial public sector balance sheet and look at superannuation, it gives me \$4.2 billion or thereabouts. That is a combination of the on budget and off budget, but also factors in the Superannuation Provision Account.

Mr CHALLEN - No it doesn't.

Mr HARRISS - Well, it does not take the SPA out - that is the gross.

Mr CHALLEN - Correct.

[11.30 a.m.]

Mr HARRISS - The net would only be \$2.9 billion or \$3 billion as a round figure, or thereabouts.

I suppose the question is twofold. We can come to superannuation issues later, on budget, but the real nub of my question is, are you concerned about the expanding debt of government businesses? It all comes into the whole budget formulation process; the advice you get from the various stakeholder ministers. Then I went specifically to the TasPorts issue, the fact that off-budget debt will be expanding even further in the event that they move into that business.

My question really relates to your concern as Treasurer about the expanding debt, and also the expanding unfunded superannuation liability of the off-budget component, which is only at the moment \$485 million. Is that right?

Mr CHALLEN - That is the off-budget component, the \$485 million?

Mr HARRISS - Yes.

Mr AIRD - Are you at table A1.18 on page A1.15?

Mr HARRISS - Yes, and back before that A1.10, talking about the net debt of the GBEs, essentially \$1.9 billion but expanding - the figures there suggest that it is going to keep growing over the forward Estimates.

Mr AIRD - What was the other one?

Mr HARRISS - 1.10.

Mr AIRD - The fact is that debt, as I have said before, in itself is not necessarily a bad thing. What we need to do is work out how the debt works for these businesses. They need to continually invest in their areas as long as they can appropriately service that debt. We have to maintain these businesses in a state where they can keep operating, and operating well. Where the debt is being put to good use, which I think is a key factor, and they have put forward businesses

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cases to show that they can sustain this level of debt, I think it is reasonable that they are allowed to do that.

In relation to TasPorts, well quite frankly, we do not know. As I have indicated before, if they were going to be involved as a potential operator of rail then they would have to put forward a business case to show that they could do it and do it properly. If any debt was associated with that then that would need to be part of the business case.

Mr HARRISS - Is it fair to say that the expanding debt is as a result of capital expenditure projections?

Mr AIRD - Principally with Aurora and Transend, and that is because we have a growing economy and there are more connections, and so you cannot have one without the other. You need to have that capacity to keep on building their businesses and respond to the growing economy. I think it is a normal part of business.

It is not as if they are borrowing to cover up some operational failures or prop up the operating accounts and so on. The level of the operations was assessed in terms of the price determination and there was an understanding there was going to be a level of investment in the future, and there had to be.

Mr HARRISS - With regard to the unfunded super debt of the GBEs that likewise is predicted to expand rather than in any way be reigned in, what is your concern about that, Treasurer, half a billion? You are taking account of the on-budget stuff with the Superannuation Provision Account to a large degree.

Mr CHALLEN - This superannuation liability is just the part that is associated with existing members of the closed defined benefit scheme so the reason it is going up is that those members' years of service is growing and their average salaries are growing up. Until the demographics are such that the people who joined the defined benefit scheme prior to its closure in 1999 finally get past the age of retirement and start to disappear those numbers will continue to track up but eventually, a decade from now, they will start to track down again and they will tail off very quickly. I think the critical thing here really is that when you look at table A15 we are seeing the overall aggregate balance sheet of the government businesses and State-owned corporations and if you look at the headline measures down at the bottom, the net worth is tracking up. The net financial worth is going in the right direction and the net financial liabilities is tracking down. What that shows you is that the government businesses and State-owned companies as a group are investing in their balance sheets in their assets in a sensible commercial way that is enhancing the value of those businesses overall. I think if you were an investor in a listed corporation you would not be fussed about an upward trend in their superannuation or their borrowing provided, as the Treasurer was saying, you were confident that they had good business cases sitting behind that.

Mr HARRISS - In terms of the predictions in the budget papers about dividends going forward from the -

Mr AIRD - What page are you on? Is that what we were referring to before with Mr Martin - 4.17?

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Mr HARRISS - Yes. There is a fair fluctuation there for particularly Aurora, 2009-10 ramping up and then back down and then back up. There is some prediction that Aurora is going to have a challenged cash flow for, say, 2010-11 which would see their dividend decline and then the forward Estimate for 2011-12 is ramping right up to almost \$19 million from \$12.5 million. What are the factors which have brought in those predictions? Is it some cash challenge which Aurora is going to have? What impact is that likely to have on electricity prices and the like? Maybe if we deal with Aurora first and then we will come to TasPorts in a moment.

Mr CHALLEN - I think I know the answer but I would like to check.

Mr AIRD - The note here just says 'the increasing dividends from Aurora Energy in 2009-10 and a decrease in dividends in 2011-12 reflects a change in its dividend payment arrangement'. We will get back to you on any further detail relating to that.

Mr HARRISS - It is only a petty thing, but I think there is an inaccuracy in one of the footnotes. The footnote talks about a decrease when it is actually an increase. Maybe it is just a typo.

Mr AIRD - We will get more information and clarify it for you. It looks okay to me.

Mr HARRISS - So you are going to take on notice what the underlying issues were regarding the predictions going forward for the fluctuations in dividends?

Mr AIRD - Yes.

Mr HARRISS - I will move to TasPorts. That likewise for 2008-09 is at about \$4.2 million but then slides back to \$2.5 million. I would have thought that if we have a robust export economy occurring and passenger ships of substantial volume, there would not be any obvious reason, other than what the footnote says, 'Reflects an anticipated decrease in the revenue'. But if we have things of a buoyant nature in both exports and passenger movements, why would there be a decrease in revenue to TasPorts?

Mr CHALLEN - I think the answer to that is because they have sold the airport. The flow of dividend and tax equivalent from HIAP into TasPorts and back to us is not now there because the airport has been sold. We are seeing a little wash-out of that through 2008-09, taking a year to come into effect.

Ms FORREST - So some tax equivalents and dividends will still flow into 2008-09?

Mr CHALLEN - Yes. I think what you are seeing from 2009-10 onwards is a more normal level of dividend after some one-off things worked their way through in 2007-08 and 2008-09. The numbers are about right; they were taking about \$1.5 million or \$1.7 million in dividend from HIAP into TasPorts.

Mr HARRISS - That is the number then, is it not?

Mr CHALLEN - Yes.

CHAIR - I have a question on Forestry Tasmania. They are expected to make only a very minimal contribution in this coming year in terms of dividends. Given that they have now signed

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this major wood supply agreement with Gunns, you would expect that the business would pick. Is there any reason they would not be able to increase their amount of dividend back to the Government?

Mr AIRD - Let us wait and see. Obviously with that arrangement they should be in a better position. I cannot see any reason FT would not benefit significantly from the arrangement they have with Gunns.

Ms FORREST - Under this output group, the note says, 'This also provides advice to government on commercialising the State's telecommunications infrastructure'. I assume that includes the optic fibre?

Mr AIRD - Yes.

Ms FORREST - We have had discussions in fairly recent times in the other setting about the progress that is not being made in that area, or progress that is. Can you provide the committee with some advice on where we are at now and what advice is currently being provided to you to try to speed up this process?

Mr AIRD - It is inch by inch. We will get to a conclusion on this ultimately. I think I have used the expression that it has been a 'vexed issue' from the Government's perspective. We have a significant investment in optic fibre in this State of over \$30 million and we want to see it put to good use. Our intention has never been to get a return per se to the Government; it has been about attracting a strategic partner, which we did in Aurora, to help develop a commercial aspect to this. Our overall aim here is to provide commercial pressure to get a competitive situation that will lower the costs and so that we get comparable rates to those interstate, basically.

[11.45 a.m.]

That has been our objective and that is what we will do ultimately but at this stage we are not in a position to give a clear undertaking in setting time frames. We have had our hopes up at various stages only to have them dashed so I just try to take a neutral position. We aim to reach a situation which allows us to be able to offer this, through commercial competitive pressure and we will be doing whatever we can to achieve that. I think it is very important in giving a significant lift to our economy and anyone who understands anything about this sector will know that there are plenty of people who want to invest it and they will not until we get a competitive regime. We are working assiduously to get it but it has not been easy. As I have emphasised, it has been through no fault of the Government. It has not been through any lack of effort by Treasury, DPAC or Aurora to try to get a deal which is going to assist us to develop a competitive price regime in this State to allow businesses to operate profitably. As I said in the speech, we will not rest until we have achieved that.

I do not want to indicate any time line because, as I said, we have had our expectations dashed before now. Until something is signed, sealed and delivered I am not going to make any public comments about where we may be in the future.

Ms FORREST - It does not give much comfort to the businesses waiting, obviously I know. Can you inform me how much it actually costs Treasury to have the fibre-optic cable just sitting there on an annual basis without being used?

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Mr AIRD - In terms of the value of the asset it would be under \$1 million, I think. It was \$985 000 in 2007-08, under the operations and maintenance agreement.

Ms FORREST - There are no other costs associated with it?

Mr AIRD - Not directly. There are departmental costs in trying first of all to go through the process. There are the costs of getting a strategic partner, the department being involved in discussions and negotiations which are being undertaken. There are costs being borne by the agency. They have invested a fair bit of time and effort concentrated on this very issue.

Mr MARTIN - Mr Chairman, I was intending to ask questions under 2.1 about Housing Tasmania. Is it appropriate to bring them up now, about Housing Tasmania becoming a State-owned company?

CHAIR - In terms of government property, do you mean?

Mr MARTIN - I was going to bring that up under economics, that was the advice.

Mr AIRD - It is up to the Chair.

CHAIR - We will leave it for now and get to it in a minute.

Mr HARRISS - I have a final one on this line item. You have been reasonably successful in the sale of government businesses during recent times.

Mr AIRD - Yes.

Mr HARRISS - Not so in the past. You fell short on three.

Mr AIRD - Which ones?

Mr HARRISS - There was the ports, Stanley Cool Stores and the Grain Elevators Board. You got about half of what you predicted. The airport made up for that well and truly. Are there any plans for further business sales?

Mr AIRD - I am always casting an eye over assets and an asset which is of strategic value to the State needs to be maintained. We have said that we are not going to sell any of the electricity assets, so we will get that done. I have cast an eye over other assets but no determination has been made about that; I would be making a statement at this very moment if we had. In identifying an asset for sale, one consideration would be whether they are going to operate at their optimum position if they are held in public hands or do they have a better opportunity to operate in the private sector, are they capital constrained and therefore do they need a capital injection. Also, is the market ready?

You build businesses for good reasons. It is true that we identified the sale of the airport and all the timing was right so the market responded. I am not saying that we would be able to identify a similar asset for similar types of returns. I have not made any determination about the future sale of assets. My key question is, does it operate better, could it do the same job or a better job? Also, could the returns to the State if we have the capacity against capital asset be put to better use, maybe housing? You never know; we did it once we might be able to do it again.

Those are the types of things that we look at in terms of that. You do not want to predetermine what you do with the sale of assets, but you do want a clear understanding in terms of the general direction. We said when we sold the airport that we were going to put it in infrastructure and we have done that. We have identified the areas, allocated the proceeds and they are locked in to the budget process.

Mr HARRISS - Have Treasury been asked to do any modelling or any predictions as to budget benefit in the event of any identified GBE sales?

Mr AIRD - They have not been asked specifically those types of questions. Obviously, I have discussions from time to time about some of the assets, but in terms of the future I have not received any formal advice about asset. I am not ruling it out.

Mr HARRISS - You said that you had not received any formal advice. Is it fair to conclude then that Treasury may have been doing some modelling about the possibility of sales, and what impact that might have on your bottom line?

Mr AIRD - I have not asked them to do any modelling like that.

Mr HARRISS - Are you aware of them doing any?

Mr AIRD - No, I am not.

Mr HARRISS - Is Mr Challen aware of his department doing any?

Mr CHALLEN - I would hope so. No, we are not doing any modelling.

Mr MARTIN - Is it a now a really firm commitment about selling any of the electricity companies?

Mr AIRD - It is a firm commitment.

Mr MARTIN For the term of the Government?

Mr AIRD - Yes, we have made a public statement we are not selling the electricity entities.

Mr MARTIN - There are no circumstances by which that would change?

Mr AIRD - Not that I can envisage.

1.4 Government property and accommodation services -

CHAIR - It may even fall into debt servicing later on, but in regard to the funding of the new Royal Hobart Hospital, and as you know I have asked the Treasurer several times in conversation about whether or not you have taken advice in regard to PPPs and whether that is an option to fund a very significant infrastructure like that, have you any views on that at this stage? Have you made any more progress on that, given that other States have moved along that model in significant ways, could I say?

Mr AIRD - If you saw PPPs actually costing the State less, then you would be able to see it as an option, but there has never been anything that I have seen that could assist us. We are providing cash for the hospital. We have left room to borrow if need be in terms of the balance, depending on the final price, so there can be an aspect of generational debt if need be. Mind you, by saving our cash and making our commitment to the hospital, there is an element of inter-generational aspects to this generation contributing to it, in any event, as well as past servicing debt.

I have not seen any evidence to say that it would be a better model. There is, generally, a premium to pay in terms of sharing the costs and the benefits. My reading of PPPs is that they are worthwhile exploring when there is a high element of risk and therefore there can be a sharing of risk. In Sydney, particularly with some of the road projects that they have been undertaking, it has benefited the State where the risk is being realised and it had been up to the private sector to pick up the cost of the failure of some of those projects.

In Tasmania we have no intention of developing roads in terms of PPPs and therefore having tolls and other ways of raising revenue against that investment. In terms of the hospital, I think we have a clear strategy of how we are going to finance it.

CHAIR - The reason I asked the question was that in Queensland at the moment the Sunshine Coast and the Gold Coast hospitals are both PPPs and you could argue that that is in a pretty well cashed State where they have gone down that path, and indeed I think the hospital in Sydney, Westmead or whatever it is, was also constructed under it. So I am just wondering why - I know you have given quite an effusive answer there, but -

[12.00 p.m.]

Mr AIRD - I have not seen any example of any other financing of any hospital, and there has been no evidence produced to me that shows that it would be a better way of funding it. It is horses for courses; if other States choose to use PPPs that is their business but in the end there is a premium to pay for that type of arrangement and that falls back on the taxpayer. I prefer to do it this way where we have the capacity to do it. In a more constrained area they might prove to be viable but, do not forget, our net debt situation is very good and that is a good way to be. The other States are increasing their level of debt.

CHAIR - I accept that but, on the other hand, we might have to put a significant amount into rail, for example, so the scenario might change.

Mr AIRD - It does go back to the other discussions. We have made a commitment to rail in this Budget and, similarly, we have used some of the HIAP funds for the Brighton transport hub. If there is pressure on to invest in infrastructure which is going to lead to a productivity increase in general economic growth, either you work out how you are going to do that - debt is one way, you can borrow - or you can sell some asset which can provide a dividend so it can be reinvested back into the infrastructure. The large level of investment between the Commonwealth and the State in rail is quite considerable - \$250 million - and that has all been funded in the forward Estimates. I think we are in a pretty good position with a \$250 million investment in rail. That is going to lead to very significant productivity gains, particularly in straightening out the line down south that is going to halve the travelling time between Hobart and Burnie.

CHAIR - We will have the opportunity to see if Mr Sturges concurs with your view tomorrow.

Mr AIRD - I am sure he will.

CHAIR - He will be instructed.

Mr AIRD - It is not like that.

CHAIR - I think Mr Wing asked questions about the Parliament Square process and what assets might be sold off there and what they might realise. Do you have a time frame for that?

Mr AIRD - We have a three-part process for requests for interest, expressions of interest and then a final tendering process. I think within the next 12 months we should have some conclusion on that. The request for tender is planned to open in late 2008. The developers will provide full development plans in a formal bid for the site. At this stage it is expected to close in early 2009.

I think this is a fantastic opportunity. This site is the jewel in the crown. We must get it right, we are not just seeking a commercial return. We want it to be a project that allows a premium site to get a premium development. It is like Federation Square, architecture does draw a lot of discussion. I think it is good that people have a view about these things and express it. What we would like to do is to ensure that the broader community supports the overall development. They might argue about some aspects of it but there are obviously those buildings which are heritage listed and being considered by the Heritage Council and so on. That is a challenge on the site but there are other buildings which should, in my opinion, be replaced. That is my opinion and, as I said before, my opinion does not have to prevail here. I do expect that, if we get an agreement from the joint House committee and Parliament generally to allow for the building behind here, the 1970s building, to be part of the development and we factor in the future needs of Parliament in the final tender process, that would add value to the project and to what Parliament gets and we can get rid of the PABX building. The only reason people have been interested in the PABX building is that they can see it and they want to put things in it. I think a new building would be better than the old PABX building and the issue should not be about saving a building because it is there and you know you can put something in it, but it is better to have an overall view of the world and plan appropriately and have I think a parliament and accommodation facilities which are in keeping with a modern parliament.

CHAIR - Can we see a 50-storey, glass office tower being built there? We did say that architecture is subjective.

Mr AIRD - Yes, it is subjective.

CHAIR - It is about time something exciting happened in Hobart.

Mr AIRD - I think it needs to be in keeping with community expectations, but there is nothing wrong with it being a bit edgy, to have some modern architecture.

CHAIR - Exactly.

Mr AIRD - It does not need to be big or tall but it can be -

Ms FORREST - It could be underground, if you like.

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Mr AIRD - I would not underestimate what can be put under the buildings in terms of facilities and car parking.

Mr MARTIN - Is there a set of criteria for judging the expressions of interest and where is the advice going to come from? I do not want to suggest for one minute that the sole advice was from Treasury, that it would be on the economic bottom line. How does all that fit in?

Mr AIRD - Can I just say I hear these comments about Treasury all the time.

Mr MARTIN - I was being facetious.

Mr AIRD - I know. It is not about bottom line. Not always is Treasury about the bottom line. The Secretary and I have discussed this quite clearly and our aspirations are very high in terms of the legacy that we leave behind for the State for generations to come. It is a very high level of aspiration, let me tell you. I want a quality redevelopment, hopefully an iconic development which people can be proud of and bask in the knowledge that they have dealt with a major project in a way which enhances the community amenity.

Mr MARTIN - Is there a set of criteria that has been laid out?

Mr CHALLEN - We are working on a document that articulates a set of design principles. It spells out at a reasonably high level the kinds of things that we want to see on the site. That is being developed in very close consultation with the Sullivans Cove Waterfront Authority. It is not ready yet, it is due to be provided to potential developers at the second stage of the process. We are getting near to the end of the first stage at the moment. As we go into the second stage we need to provide this document so we hope to finalise it with the waterfront authority over the next few weeks. That will then be provided to developers and they will respond. As we go into the third stage the Government will have chosen a very short short list of potential developers which will have to put their design proposals to the Sullivans Cove Waterfront Authority. We have hired an internal team of experts, including some new very experienced people. We have a set of contractors working for us, including a team from Ernst & Young's property development area in Melbourne, who are the best people in the country on this. They are very good indeed. We are not relying on traditional Treasury people to do this work, we are essentially project managing and resourcing a pretty significant development.

Mr MARTIN - I applaud what is taking place because, as the Treasurer said, I think it is the jewel in the crown. There is probably no greater development site in Tasmania and it is important to get it right.

Mr CHALLEN - The Chairman asked a question about sales proceeds. It may be that, and I just say may, some dollars come into the Budget as a result of the final set of arrangements, but the Government does not have that as an objective. As the Treasurer said, the objective is to make sure that we get a fantastic development. If, at the end of the day, we take no cash out of it, that does not matter in my view and the Government's view, it is about -

Mr AIRD - Don't get carried away, here.

Mr CHALLEN - For this particular site only.

Mr MARTIN - I really support that motion. But if there is money, all the better but in terms of priorities -

Mr CHALLEN - We have not factored in any sales proceeds for this site.

Mr AIRD - We have said:

'The parliament square site will revitalise the cultural, business and heritage of the Hobart cityscape, providing a strong link from the city centre to the waterfront. Designed to be in keeping with the precinct and to create a lasting place of character and quality, parliament square will embrace Hobart's lifestyle and vibrant character whilst reflecting the focus of the future. A major development that will consolidate Tasmania's reputation as one of Australia's most liveable, unique regions, it will be functional, best practice and welcoming to residents, business, government and visitors.'

Mr MARTIN - If you can fulfil that you will have done a great job.

CHAIR - Any disruptions to parliament business while all that is going on?

Mr AIRD - I would hope not, we cannot have that. We have had enough of that. We are about to experience a bit more of it.

CHAIR - Downstairs, yes.

Mr CHALLEN - We will make sure that suitable arrangements are made for all of the existing tenants on the site and their immediate neighbours. But I think that you have to be realistic; you cannot make an omelette without cracking a few eggs so there may be a little inconvenience as we go through some stages in this process.

Mr AIRD - They will all be factored in.

CHAIR - Fewer sitting days.

Mr AIRD - Not likely.

1.5 Government procurement services -

Mr HARRISS - It touches on the risk management part, but I think that we will deal with that in more detail later.

Mr MARTIN - Before we leave output group 1, there has been discussion on this side of the table about where we can discuss the Economic Social Infrastructure Fund.

Mr CHALLEN - Finance-General would be the obvious place to do it.

Mr AIRD - You will be able to in 5.14 to 5.17.

Mr CHALLEN - There is a section on the special capital investment funds. It starts on page 5.13, volume 1 of budget paper 2.

CHAIR - We move to 2.1.

Output group 2
Economic and fiscal policy advice

2.1 Economic policy advice -

Mr MARTIN - I was looking at the announcement about the future of Housing Tasmania and turning it into a State-owned company. The recommendation from the select committee had a number of parameters attached to it, and also was conditional on some economic modelling being done. Has any economic modelling been done by Treasury or anyone else at this stage?

Mr AIRD - No, we have not done any. It is up to the Minister for Health and Human Services to go into some of the aspects of this. The notion of a State-owned company would be more akin to Metro and it would not necessarily mean that Housing Tasmania would be replaced per se. You might have a range of organisations administering housing in the future .

[12.15 p.m.]

Mr MARTIN - Well that is certainly in line with the select committee report.

Mr AIRD -

We are going to genuinely engage with the community about how this should look and why it would look like this but the model that I have in mind would be more, as I said, akin to a Metro where there is a community service obligation. It would be based on a strong balance sheet. The operations would be done in a commercial manner but it is not about profit -

Mr MARTIN - What do you see as the benefits of the Government looking at this?

Mr AIRD - Why did you make the recommendation in your report?

Mr MARTIN - We have our reasons which are documented but I was just wondering what -

Mr AIRD - We are not too dissimilar. Obviously it would allow for an organisation to concentrate on the asset and to have an asset management plan if it wanted to replace or expand -

Mr MARTIN - It gives the opportunity to borrow on the asset and fund new housing.

Mr AIRD - If there was any level of borrowing it would have to be serviced and that would have to show up as a business case. Certainly, it has the capacity to be a very strong balance sheet but, again, your report alluded to the revenue stream as well. It did not quite come up with a recommendation but it went as close as you could go without making a formal recommendation, but you know the nature of the task in terms of generating our own revenue stream. That aside, it will always require a contribution from the Government to support it under a CSO or a CSA.

Mr MARTIN - Yes, and that is certainly one of our parameters, that would need to be an ongoing community service obligation.

Mr AIRD - Yes, that is right. In the end, there are two parts to the argument - and your committee alluded to this - do we have the appropriate administration, organisational and

commercial structures in place? Your committee said that it did not and that there were possible ways of going through that. Then it comes down to the level of investment that the Government is prepared to make at any particular time in terms of it, so that is another question.

Mr MARTIN - Community sector organisations have been told that there was a report done by KPMG in relation to this. Has that been done or not?

Mr AIRD - I think they have done some work for Housing but I have not seen that report, or if there is a report or what work has been undertaken. I do not even know if they have reported. I have not seen it.

Mr MARTIN - Right, so we would need to ask that on Wednesday?

Mr AIRD - Yes.

Mr MARTIN - You have said there is a three-month consultation period, so you will be consulting with the community sector NGOs and also the Housing Industry Association on that development sector?

Mr AIRD - Yes, the main stakeholders.

Mr MARTIN - Do you foresee any circumstances where the State-owned company might be considered for privatisation?

Mr AIRD - No, absolutely not. There has to be a commitment here to public housing. I would not allow us to walk away from that.

Mr MARTIN - And you wouldn't foresee a circumstance of ever allowing a State-owned company to diminish the stock?

Mr AIRD - Anything that occurs has to be done transparently, and has to be justified on a policy basis. You are aware, as honourable members here are, that there may be a mismatch of stock; there may be a deliberate decision to reduce stock to a level which is sustainable, but I do not want to waste the committee's time about circumstances related to that.

That is why I say there needs to be an asset management plan. That plan needs to be understood well by the community and members of parliament; if you are at a stock level of x and you wanted to increase it, well you could but it would need to be well explained why you were doing that, or if you wanted to reduce it. You would need to be very clear about that.

Mr MARTIN - I had a bit of a discussion with the Secretary about this, but I would not mind putting it on *Hansard*.

Mr AIRD - That is always problematic.

Mr MARTIN - The impact on our ratings - the difference between Housing Tasmania's State department borrowing funds to fund new housing as compared to a State-owned company doing it.

Mr CHALLEN - As I said to Mr Martin at the break, Treasurer, the sort of general ratings agency position is that they are more comfortable with debt occurring in State-owned companies and government businesses than they are with debt occurring on the Budget because they make a basic assumption that if a State-owned company, say, undertakes a borrowing, there will be a commercial business case to sit behind it and there will be a revenue flow from the assets acquired with the borrowing that generates the servicing requirement, whereas when there is borrowing to support the Budget, the debt servicing has to be serviced from general taxation revenue.

I did say that I did not think it would be at all likely that there would be any ratings consequence of us moving housing into a State-owned company, or the State-owned company borrowing to increase the housing stock if that was the policy decision because our balance sheet is so strong and the sort of arrangements that the Treasurer has just described, a sort of Metro-like structure with community service obligations in place, would be precisely the set of arrangements that the ratings agencies would look for. So there would be housing sitting in a State-owned company with a commercial balance sheet, and to the extent to which revenue support is needed because the clients are not able to provide a rental stream sufficient for a commercial business case, there would be a community service obligation coming in from the Budget to support that.

I think we start from the assumption that the policy decisions around this will be sensible and that we will have good-quality structures with transparent community service obligations in place and, that being the case, I do not think the ratings agencies would give it any attention at all.

Mr MARTIN - There is a belief amongst some people that that is the reason you would turn Housing Tasmania into a State-owned company, it would not affect our ratings, but that is not the case?

Mr CHALLEN - The structure of the entity in which our housing activity occurs is probably not going to make any difference to the way in which the entities are classified for the purposes of our budget presentation, so it is pretty unlikely that moving Housing Tasmania into State-owned company will take that State-owned company outside the general government sector. It is still going to be regarded by the ratings agencies, I would think, as a budget-supported activity because there will be substantial support through CSOs or whatever. I cannot see it making any difference. That is not a very good motivation for fiscal restraint.

Mr AIRD - That scenario has never figured in the Government's policy position on this in terms of motivation. Our motivation has been akin to your committee's report, basically.

Mr MARTIN - The comparison to Metro is something that probably identifies some of the concerns amongst the community sector. Metro requires community service obligations to top them up and there is a belief that their funding is not sufficient and, as a result of that, Metro has to limit its services - for examples, there are no services to Chigwell after six o'clock of a night. Therefore the quality of the service provided by the State-owned company is diminished because there is insufficient community service obligations funding given. That is the concern about the future of Housing Tasmania

Mr AIRD - These are the same people who complain about the lack of investment now. Quite frankly, the argument of the CSO is the same as any investment in public housing that has occurred up until now. The structure does not make any difference, if it is underfunded in one area, according to the people who are putting forward this argument. It does not allow us, and it is certainly not a policy position, to reduce our effort in investing in housing. That is not the

reason we are doing this. You might argue about the quantum and do a few other things, but we are proceeding to invest in housing and that will continue. I think the argument is fallacious. Some people prefer to have what they can see rather than try to understand. I honestly believe in having a State-owned company in combination not just a loan. You have TAHL doing its thing which is positive. A State-owned company will have a way of managing assets better and Housing Tasmania will sit as a third party on policy relating to government. In the end I would hate us to confuse the argument about funding as a way of ignoring the possibilities of getting a better and more equitable service with a new structure.

CHAIR - Can I just go back one step, Mr Treasurer, to water and sewerage. I know it is a matter dear to your heart and I thought you would love a question on that. There is a \$5 million allocation for the transition.

Mr AIRD - Directly to local government, but we are also going to pay for the due diligence. I do not think that will be far away from being another \$1 million worth.

CHAIR - I am well aware that a couple of these proposed new authorities, particularly in the north, are moving ahead pretty well and getting consulting-type people in. When can they expect to get some money to deal with those issues?

Mr AIRD - The secretary has been on the committee looking at this. I am not too sure about the cash flows.

CHAIR - 'Project manager' were the words I was trying to think of.

[12.30 p.m.]

Mr CHALLEN - We are aware of that and we are in close contact with them. We have now agreed on a schedule of payments and a method of splitting the \$5 million. From memory, I think the first payment is made in August and there is another one in September. They are comfortable that the funds will flow as the needs emerge.

2.2 Fiscal policy and regulatory advice -

Mr HARRISS - Treasurer, are you aware, with your ear to the ground as usual, of nervousness in the local government employees in the water and sewerage area, both professional and outside work force, and therefore some migration away from the local government work area as a result of the announcement of the water and sewerage reforms? If you are aware of that, what is the Government doing to ensure that these highly skilled people do not, as a matter of nervousness, migrate away from that sector because we will lose a lot of technical expertise? My advice is that that is already occurring because there has been some misinformation communicated and employees at both professional and technical levels are migrating.

Mr AIRD - Migrating to where?

Mr HARRISS - Some to the private sector, some within councils but away from specific water and sewerage. I am aware in some council areas of people moving from one local government authority in the water and sewerage specialist area to another local government authority in roads and engineering.

Mr AIRD - It is very interesting. All the evidence is that there is going to be growth in the water and sewerage sector in terms of engineering. The entities will be investing \$1 billion over the 10 years. We heard during the developmental stage of the legislation and so on that engineers were staying in Tasmania rather than going interstate because they saw some career opportunities being provided for them. There is always, in times of change, some level of anxiety, either real or perceived, about the changes which are occurring.

This is not a new issue. Some councils have different ways of responding to the fact that they will not be dealing with water and sewerage. When the entities are fully up and running they will need to look at what aspects of water and sewerage they will be running directly, whether they will be using subcontracted staff within some of the local government areas, whether local government itself be subcontracting to the entities to undertake other work which may be allied to the water and sewerage work as happens now, et cetera.

I know that Brighton Council's parks and reserve service are provided by Hobart Council. Derwent Valley Council use Hobart Water. That happens now. There will be some crossover; people will choose different career paths, but overall the sector is going to grow and we need skilled, trained people. In fact, in terms of the level of expertise, I would think that the new entities will have a capacity to provide greater opportunities for people to develop and find a career path, particularly when you consider that the fourth entity, the service organisation, will get some economies and provide pathways for people to develop in the sector.

From an overall policy perspective, I cannot predict what choices people will make. They make choices in their own interest, but generally the relationship we have with local government and the way they have been supportive of the establishment of the entities will lead to better employment outcomes than have occurred up until now. Particularly in those areas where there needs to a high skill set, there will be career opportunities that would not have happened in the past.

The committee suspended from 12.36 p.m. to 2 p.m.