

Tuesday 4 June 2013 - Estimates Committee A (Giddings) - Part 1

LEGISLATIVE COUNCIL

ESTIMATES COMMITTEE A

Tuesday 4 June 2013

MEMBERS

Hon Rosemary Armitage
Hon Ruth Forrest
Hon Greg Hall
Hon Paul Harriss
Hon Leonie Hiscutt
Hon Tony Mulder
Hon Robert Valentine

IN ATTENDANCE

Hon. Lara Giddings MP, Premier; Treasurer, Minister for the Arts

Department of Premier and Cabinet

Rhys Edwards, Secretary
Rebekah Burton, Deputy Secretary
Greg Johannes, Deputy Secretary
Michael Stevens, Tasmania Bushfire Recovery Coordinator
Philip Foulston, Director, Executive Division
Jeff Reeve, Director, Corporate Services
Louise Mills, Deputy Director, Corporate Services
David Strong, Manager, Finance
Katrina Sage, Manager, Human Services
Tim Bullard, Director, Policy
John McCormick, Director, Policy
Ann Herbert, Acting Director, Social Inclusion
Frank Ogle, Director, State Sector Management Office
Kathy Baker, Director Service Tasmania Unit
Mathew Healey, Director, Bushfire Recovery Unit/Office of Security and Emergency Management
Mitchell Knevelt, Director, Office of eGovernment
Piero Peroni, General Manager, TMD
Michael Mulley, Commercial Manager, TMD

Department of Treasury and Finance

Martin Wallace, Secretary
Tony Ferrall, Deputy Secretary, Budget and Finance
Craig Jeffery, Director, Government Finance and Accounting Branch
Wendy Sawford, Deputy Secretary, Economic and Financial Policy

Chris Lock, Director, Economic Policy Branch
Fiona Calvert, Director, Shareholder Policy and Markets Branch
David Bailey, Director, Budget Management Branch
James Craigie, Director, Intergovernment and Financial Policy Branch
Richard Sulikowski, Executive Director, Electricity Reform Project, Policy and Project Group

Tasmanian Audit Office

Mike Blake, Auditor-General
Ric De Santi, Deputy Auditor General
Patricia Johnson, Office Manager

Department of Economic Development, Tourism and the Arts

Mark Kelleher, Secretary, Department of Economic Development, Tourism and the Arts
Jacqui Allen, Deputy Secretary, Culture, Recreation and Sport
Craig Watson, Deputy Secretary, Corporate Support
Glen Dean, Finance Manager, Corporate Support
Bill Bleathman, Director, Tasmanian Museum and Art Gallery
Katherine Hough, Director, Arts Tasmania
Karena Slaninka, Director, Screen Tasmania

House of Assembly

Peter Alcock, Clerk

Legislative Council

Nigel Pratt, Deputy Clerk

Legislature-General

Jason Hendy, Manager, Finance

Government House

Anne Parker, Official Secretary
Andrea Bull, Budget and Research Officer

Ministerial Office

Phil Reed, Chief of Staff
Jessica Radford, Deputy Chief of Staff
Richard Dowling, Adviser
David Richardson, Adviser
Cam Crawford, Adviser
Margot Dawson, Adviser

The committee met at 9 a.m.

DIVISION 11

(Department of Treasury and Finance)

Output group 1

Financial and Resource Management Services)

CHAIR (Mr Harriss) - Premier, we are ready to go. Can I make a couple of comments regarding the recording process and the *Hansard*. Even though the microphones are above the table there is only one channel which feeds back into the *Hansard* recording, so we need some discipline from both sides in terms of speaking. If you are answering a question, Premier, or one of your advisers, we will let that roll. If we are cutting across it will not be able to pick up like it does in the House. Even things like clicking folders can affect the speaker system in terms of recording capacity, and even pouring glasses of water. If you think of it, turn away from the table and fill your glass with gin and tonic and come back when you are ready.

Premier, if you would not mind for the purposes of the record introducing the people at the table and then there will not be any further contribution from me as we go through the process.

Ms GIDDINGS - To my right is my adviser Richard Dowling, to my left is the Secretary of the Department of Treasury and Finance, Martin Wallace, and Deputy Secretary Tony Ferrall and Deputy Secretary Wendy Sawford.

CHAIR - Thank you. We are happy, Premier, for you to provide some opening comment if you wish and then we will move into the questions.

Ms GIDDINGS - Thank you, I will not keep you long. This state budget of 2013-14 is a budget which concentrates very much on the agenda of the government around jobs, people and opportunities. Within that, there is a key focus for supporting jobs and jobs growth across the state. There are elements that are looking at how we can reduce inequality in our community and look after people, as well as create opportunities for future generations of Tasmanians.

This year we have suffered the worst of the bushfires with the January bushfires and it has had an impact on our budget. We are still dealing with continuing high levels of unemployment, higher than we would like to see, which is why there is such a concentration in this budget on trying to grow jobs.

We are having to deal with further falls in commonwealth revenue, particularly in GST, where the pool of GST has shrunk. These challenges have put further pressure on the state budget at a time when we are still feeling the effects of the initial \$1.8 billion of revenue that we were expecting to get that disappeared after the global financial crisis and the effect started to be felt across the national economy. We lost some of our state revenues that we were anticipating that have not ever eventuated.

We are not alone in facing these sorts of difficult and challenging times. Every state, and even the commonwealth, is having to deal with these sorts of pressures and as a result you are seeing deficits and debt increasing across the nation. We are seeing some dramatic progress and some of the most important and far-reaching reforms that this country and our state has ever seen. The Gonski education reforms, the National Disability Insurance Scheme and the forestry agreement are historic opportunities to deliver long-term benefits for Tasmanians for generations to come. For the first time since the year 2000 we have been able to create some change in the payroll tax system for our business community to encourage them to employ more Tasmanians and that has been increasing the threshold from around \$1 million to \$1.25 million, which will start on 1 July this year.

Our challenge as a state and as a government is to strike the right balance between addressing the problems that we face today and investing to build a better Tasmania for tomorrow. I firmly believe that balance has been struck in this budget. To have gone harder and faster with further cuts would have been the wrong thing to do in this current environment and would have set back the fragile, but there, turnaround in the economy that we are starting to see. An example of that was yesterday, six months consecutive growth in retail spending, with an increase of 0.7 per cent - was it 0.7 per cent - certainly 1.7 per cent accumulative, over the year, of growth we have had in retail spend. It is a sign that the consumer is starting to gain confidence in the economy and in their future, that they are willing to spend again and we do not want to damage that.

To have spent more money in this current environment and gone into further debt would not be sustainable. Therefore, we have that balance right in this budget.

We will continue the financial discipline that is returning our finances to a sustainable position and we will make further progress on the savings targets that we set two years ago and increased in last year's budget, other than for police, education and health.

We will also invest in jobs, better education for our children, the bushfire recovery, the transformation of disability services, energy reform and the future sustainability of our forest industry.

CHAIR - Thanks, Premier. I cast my mind back to the 2011-12 budget papers and the forecasting for this year 2012-13. The forecast was a positive \$48.4 million operating budget and yet this year it is \$425.7 negative. Over that three-year period, that suggests a 980 per cent blowout. We can go to the budget papers from last year and we are 50 per cent worse from that which was forecast last year, as to the current budget year, but just over that three year cycle, a 980 per cent blowout. Is that all attributable to the declined revenues?

Ms GIDDINGS - Are you talking about the net operating balance?

CHAIR - Yes.

Ms GIDDINGS - There is a combination of factors. We have continued to see our revenues decline in recent years. The latest commonwealth budget has seen a further decline in GST revenues and our own state revenues have been softening as well. We have had to continue to deal with that element. We have been cutting our own government spending and we have managed to reduce expenditure from a growth of about 6.6 per cent prior to the GFC down to about 1.7 per cent over the forward estimates. Expenses were growing at 6.4 per cent up until 2010-11 and revenues were growing at 6.6 per cent, just slightly above. Since the 2010-11 budget period, we have brought expenses down to 1.7 per cent and revenues are growing at about 1.8 per cent per annum over the forward estimates. There has been a dramatic decrease in the levels and the rate of expenditure.

We have had some other impacts on the budget that were not anticipated three years ago, two years ago and 12 months ago, which we continually deal with. The downturn in the forest industry is

a prime example. We have had Forestry Tasmania going into decline financially which is reflected in the private industry in the forest industry and we have had to find additional resources to put into Forestry Tasmania.

We have also had the bushfires, some \$45 million hit in this last 12 months, which had been unexpected, and we had to find those funds.

There have been some other elements that have come out of the blue like the Abt railway that you have to step in and pick up. That was a \$3 million hit in recent times for us.

There have been some pressures in some parts of the system, which have required additional funding that we did not anticipate. For instance, you would have known in the recent debate of the supplementary appropriation bill that the Legislative Council passed last week, we had additional dollars for out-of-home care and child protection because of the demand pressures in those areas.

I do not think your spin, if I might put it that way, of saying 900 per cent would be right or fair in terms of what the actual outcomes are year on year, so it's not a figure that I would encourage you to use.

The other element, of course, is that forecasts are forecasts, estimates are estimates. They will only ever be that. That's what they are and you do your best in trying to estimate what you require for the future 12 month period. We have made changes in terms of the - well, we didn't end up changing it but - the Treasurer's reserve, for instance, is only \$20 million which is not a lot of flexibility within a 12 month period to deal with those sorts of pressures like \$45 million for bushfires.

You do have to go back to parliament at times and ask for additional resources, which is what we've had to do.

CHAIR - Yes, in terms of your suggestion that it's spin, it's simply fact; it's not spin. I'm just reflecting on the fact that over that three-year cycle in terms of me, as an individual member of parliament for the people of Tasmania, generating sufficient confidence in the forecasting so that we can be certain as we go into the future that where we are tracking is likely to be achieved. As I mentioned, Premier, we are 50 per cent out of whack for this year. Over that cycle, it suggests to me negative \$474 million compared to the forecasting. That suggests some real challenge in terms of confidence about the forecasting because we have a paper thin -

Ms GIDDINGS - But they're not forecasts. You really need to understand that they are estimates, not forecasts -

CHAIR - If I could finish; we have a paper-thin estimate for 2016-17 of \$9.9 million positive. That's going to require a whole heap of things to fall into place to even get there and for the 2013-14 year, where you are suggesting a 37 per cent improvement on the estimated outcome for this year. That's a massive improvement, 37 per cent, when we've just had a 50 per cent worse result than forecast and that figure which I've shared with you over the three year cycle. What sort of confidence can we have in terms of achieving even the \$266.9 million negative in 2013-14?

Ms GIDDINGS - I think you can have as much confidence as you possibly can when you're talking about estimates or when you are forecasting what revenues you might receive. It's not an exact science, Mr Harriss. This is the same debate that's been had in recent times in the commonwealth estimates, which you would have seen; Martin Parkinson, the head of the commonwealth treasury, having this same discussion. There's a reason that they're called forecasts and there's a reason they're called estimates. It's not an exact science but I think you'll find that, on a reasonable measure, we have stuck fairly closely to our budgets over that period of time against

some emerging challenges which have not been easy to deal with. If you want to, in a sense, look at what you can judge a government on, in what it can control, then I think you would have to say, by any fair measure, that we have delivered what we said we would deliver. If you are going to judge the government on factors that are outside of our control then I think you are unfair in that sense of trying to say that somehow we can influence or change the outcomes. We can't. We deal with what is thrown at us - things like GST, for instance.

Just to help you with an explanation around the forward estimates and that issue of estimates and forecasts, the forward estimates are not to be read as forecasts of expected outcomes. You can't do that. Future policy decisions, variations to the assumptions, underlying economic parameters and external influences will all have an impact on the outcomes. In this sense, the forward estimates are projections of outcomes under a particular scenario rather than forecasts. It's just impossible; unless you have a crystal ball, you cannot actually do what you're implying is possible in your question.

CHAIR - One significant measure which a government always has available to it, of course, is savings measures. You've indicated in your introductory comments that you believe you've struck the balance because you've decided not to proceed with any more major savings measures in the emerging budget. But also, you have indicated in the past that this is the biggest economic and financial upheaval since the 1930s.

[9.15 a.m.]

Ms GIDDINGS - Absolutely.

CHAIR - That was last year and then in this year's budget speech you indicated that the challenges that you have been facing had not gone away.

Ms GIDDINGS - No. But the work we have done to address those challenges is paying off. When I first came to you in the 2011-12 budget, where we were facing all these challenges, in fact I first came not to this estimates committee but with the midyear financial report when I became Treasurer, which was in the 2010-11 year. That was when we first outlined just how bad things had got quite quickly in that context.

In the 2011-12 budget, I had to set out in front of you what exactly was happening with the revenues and what our plan was to deal with those revenues. We had a number of strategies in place, which we are delivering on: state wages policy, for instance - we are delivering on that. The cuts to the agencies - we are delivering on that. There have been pressures within Health and whereas we first expected Health would be able to achieve around \$150 million in the out years, realistically we had to bring that back in to \$110 million. To do otherwise would have been too hard and too fast so we had to recalculate that once we started to see the impact of our saving strategies on that area of government.

The other areas of government have pretty much found their savings. I think Education might have been a little bit softer in being able to achieve all its savings, but virtually everyone else has. Treasury has, being my own department and DPAC has, which we will talk about later, being the departments in my area on economic development.

We have delivered what we set out to deliver in that respect. We also looked at increasing dividends where we increased dividends from our government business enterprises from 50 per cent of the underlying profit, I think it is, isn't it?

Mr WALLACE - Yes, Liz had a different number for each business, but generally there is an increase in most of them.

Ms GIDDINGS - We increased most of them, the biggest one being Hydro Tasmania, to 70 per cent of that dividend payment at that time. With a number of levers that we had, we have been able

to demonstrate fiscal responsibility and fiscal restraint.

However, we have also had to deal with other challenges. This year, yes, we have an additional challenge of further GST dropping off and this current financial year we will see the biggest deficit that we estimate. We will start that journey back towards a surplus on our net operating balance in this coming financial year.

I think we have a very strong track record in our budget management.

CHAIR - I mentioned a moment ago the position in that net operating balance. You have forecast an improvement of 37 per cent, from the negative \$425.7 million to a negative \$266.9 million, and I also commented that is a pretty dramatic improvement. What are the significant components to that which give you confidence that you are going to get that 37 per cent improvement in the new year? In a moment I might go to some of the policy and parameter statements in the budget papers in terms of how they might impact particularly policy, not so much parameters.

Ms GIDDINGS - In 2012-13 there were a number of one-off events that occurred that have hit the bottom line, the January bushfires being a prime example of that; but also there have been some of the payments in forestry and it is mostly the jobs package that we felt that the local economy needed to get some level of stimulation from the state government as the unemployment situation started to deteriorate last year. By December of last year we were concerned that we were not seeing any turnaround in regard to that and therefore it was timely for us to be able to develop some small jobs package in that respect to try to stimulate some investment from the private sector. We are starting to see that turnaround in that respect.

The other aspect is that we are considering the GST itself. While the pool has shrunk, which has affected all states, our actual relativities within the GST stream we expect to improve as the Royal Hobart Hospital funds have washed through the impact on our relativities now with GST. We are expecting revenues to increase over the out years.

Mr WALLACE - And the expenditure growth being kept under 2 per cent.

CHAIR - Martin has just mentioned the expenditure growth to be kept under 2 per cent. Clearly that is to be commended. Earlier you attacked the expenditure growth, which had been about 6 per cent prior to the GFC. Then, post the GFC for a couple of years the efficiency dividends which you aspired to as a government you did not reach because for the first couple of years after the GFC expenditures were still running at 4, 5, 6 and 7 per cent above the targets.

Ms GIDDINGS - There was commonwealth stimulus as well, though, in those years.

CHAIR - You indicated earlier the cuts to the agencies you are delivering on, which takes me to policy decisions and their impacts. If I am reading the budget papers right in the appendix A2.9 in budget paper 1, the impact of policy decisions on additions for the out years, so 2013-14 through to 2016-17, is cumulative - about \$400 million. That is new spending so in the context of the biggest financial upheaval since the 1930s how can I understand 'be responsible' in terms of that extra process from policy decisions?

Ms GIDDINGS - What you need to understand is revenues are growing, and Martin just made that point. We are ensuring that our expenditure does not exceed our revenues. Revenue growth over the forward estimates is about 3.5 per cent. We anticipate that, with that revenue growth coming back, we should be able to keep the lid on expenditure and start to be able to pay down the net debt issue that has gone into positive territory and also, of course, get the deficit down on our net operating balance. This is all part of that sensible financial management as you start to move back into a growth phase.

If you look at the policy parameters on A2.7, for instance, that will go through what we are spending some of those funds on that you highlighted, so things like the Asian Century initiatives that are all about planning for the future and ensuring that we are ready to take the best advantage we possibly can of that jobs engine that we talk about in China, for instance. We have to invest in cultural awareness and language literacy, we have to invest in things like signage here to be translated into Chinese if you are going to continue to attract - - thank you very much, I am happy to share these. You will notice that they are FSC.

Laughter.

Ms GIDDINGS - That is what we have been aiming to achieve.

Mr Mulder - So you are not buying Tasmanian now?

Ms GIDDINGS - No, I am not.

Mr VALENTINE - Not a lot of carbon retention in it, though, that is the trouble.

Ms GIDDINGS - We are not allowed to have this much fun.

There are those sorts of issues which I will be happy to go through more in my DPAC estimates with you.

Things like the Aurora Stadium lighting upgrade - that was part of our jobs package. We were looking for projects across the state that were about investing in jobs immediately to try to help stimulate those local economies.

The Blundstone Arena redevelopment - \$15 million - is in conjunction and in partnership with the Australian government to ensure that that facility is upgraded and is ready to take on World Cup events and the AFL as an AFL standard for the future. If that funding did not happen then we would be at risk of not being able to have those events held there in the future.

The DairyTas Filling the Factories conversion: again, all about trying to grow the dairy industry around the state and make sure that we have these developments happening within the manufacturing sector in dairy, but we need the milk to be there to fill those factories.

Hollybank Mountain Bike Park is part of the stimulus package; the Lion assistance package is part of the dairy industry; the Netball Tasmania grant is about the only women's sport that gets any support here; the Seaport boardwalk expansion; and the list goes on - the innovation investment fund; they are all there as part of the Tasmanian jobs package to get jobs happening in the state.

The Tasmanian Museum and Art Gallery: that \$0.8 million that you see there is about keeping the core of the team together around the redevelopment of that facility, because the \$30 million is only stage one. There are more stages to come and I will be happy in the arts estimates to talk to you a lot more about that.

The Theatre Royal Performing Arts and Education Centre: again, in our minds it is about the pipeline of construction activity about jobs; it is also about fixing long-term problems at the Theatre Royal - disability access, inadequate toilets and a terrible foyer space that is not big enough to deal with the problems there. It just happens that the University of Tasmania is looking at new premises for their conservatorium, so it has all come together.

Tourism marketing: supporting jobs in that industry again. They are virtually all either part of

the Tasmanian jobs package or they are fairly small elements in the scheme of things in the various portfolio areas. I think in the whole it is about \$39 million extra in this coming new financial year - \$39.2 million, which I think you will find is a reasonably small amount of money when you are talking about a budget that has now grown to \$5 billion.

CHAIR - Can I go to some analysis by political commentators of the position which we now find ourselves in as a state? Tony Gray, who writes for *The Examiner* regularly, has suggested that some of the problems we now have are as a result of the election promises made in the lead-up to the 2010 election. Can we be assured that, against that sort of a backdrop, you will not go down that path as we lead into an election in 2014?

Ms GIDDINGS - He also, apparently, has commended me for my expenditure restraint as Treasurer. I can only be judged on the time I have been Treasurer and I think you will find there has been a huge amount of expenditure restraint in my time. This is the budget that will lead us into the next state election, which is due in March next year. If it were going to be a big-spending budget, you would have seen that now. There are not any other funds around. If for some reason there are funds that become available in the second half of this year and that is a possibility with the sale of the Aurora retail arm for instance, and those funds will be on the public record, they will be part of the pre-election budget information that will be provided to all political parties who will make their own judgements as to how they will tell the Tasmanian people they would responsibly, or arguably irresponsibly, spend that money in the following four years.

My intention would be to follow what I have done as Treasurer, which is to ensure that any additional dollars that may come into our budget are used responsibly to pay off debt. That is a very important thing, that we do not burden future generations with unnecessary debt.

Every political party will be making promises for the following four years that they will take to the Tasmanian people. That forms part of your agenda for the new government and I will be doing that alongside any other political leader in this state. I hope you will agree that we have proven we can be strong financial managers, responsible financial managers in challenging times and that is a reputation I intend to continue to strive for - to have the community believe in me.

CHAIR - That expenditure restraint has been acknowledged. Your comments suggest that there was not sufficient expenditure restraint by previous treasurers.

Ms GIDDINGS - I would never say that the decisions at that time were the wrong decisions because I was not the treasurer, nor was I the Premier. You make the best decisions for the time that you are in.

Hindsight is a fantastic thing but I have in the first 12 months of my time as treasurer gone around the state highlighting to people what the story was from the 2008 GFC hitting, through to when I became treasurer in December 2010 and brought down the mid-year financial report in January 2011. It was a very difficult, turbulent time. We anticipated revenues dropping and revenues increased. We anticipated revenues increasing and revenues dropped. We anticipated revenues dropping and what happened? They increased again.

It was a very unusual period which was volatile following that October 2008 GFC. What we have found since then is that there has been more stability in that system. There have still been further drops in revenue that we were hoping would not occur and we do not know yet how those challenges will go, other than we are now anticipating that there will be this uplift in GST, and would hope that through our stimulus and the measures that we take in this budget that we will see some uplift in state-owned taxes. Property taxes, for instances, with the stimulus in the first home builder's scheme, as a prime example of that.

The forecasts that treasury have in the economic section of our budget papers, talk about there being further GSP growth in the coming years and about 9 000 new jobs being created over the forward estimates which is about 1 400 in the next 12 months.

CHAIR - With the expectation of jobs growth in the next 12 months, of that 1 400, that is against the forecast growth of 2 per cent. Are we talking about a 2 per cent growth?

Ms GIDDINGS - Yes, it is.

CHAIR - Is it not true that unless we get to a 3 per cent GSP growth or economic growth generally that we have a deterioration in the unemployment? Unless you are at 3 per cent growth you do not have employment growth.

Ms GIDDINGS - No, that is not true.

CHAIR - That is what David Crean told us all those many years ago and I trusted him.

Ms GIDDINGS - He might have been right for his time.

Mr WALLACE - The 2 per cent growth is a real number. If inflation is 2.5 per cent then it is roughly 4.5 per cent. If you assume that productivity changes around 1 per cent to 1.5 per cent, then the 2 per cent growth will generate new jobs.

Ms GIDDINGS - It depends on the inflation rate, does it?

Mr WALLACE - No, because it is a real number, it is in real terms. That real increase should generate extra jobs. I am not sure what the context for the previous treasurer's comments was.

CHAIR - I will check.

Ms GIDDINGS - I am sure he told you the truth.

Mr WALLACE - I think he might have been talking about nominal.

CHAIR - I may have been his adviser at that time and a good adviser, I might say.

Laughter.

CHAIR - Treasurer, at the moment it is difficult to track down our gross state product. The last one that I have seen published was about 2010-11 by the ABS. Do we have a later one?

Ms GIDDINGS - No, 2011-12 we had the GSP come out.

CHAIR - In 2010-11 was about \$24 billion, I think. It is a number that interests me.

Ms GIDDINGS - I introduce Chris Lock who is the Director or Economic Policy Branch. Chris is the expert in these areas.

Mr LOCK - For 2012-13 we will get the GSP estimates in late November, possibly early December this year. We have 2011-12, which was 0.5 per cent growth, as I recall, but I can check. We will get the GSP estimates in about six months' time. They're published by the ABS.

CHAIR - They always have been but the last I could find was 2010-11. It is a matter that interests me, with the budget papers suggesting the GSP will decrease by 0.75 per cent in the financial year about to end, but increase by 2 per cent in 2013-14. There is going to be that 2 per

cent increase that Martin has already addressed his mind to for 2013-14.

Mr LOCK - Yes. That is on the basis of the information we have to date.

Ms GIDDINGS - We will not know the GSP figures until November. Treasury are predicting that there will be a negative growth in the economy for this current year.

CHAIR - In 2011-12, even though you might not have the figure with you, do you have a roundabout a figure?

Mr LOCK - It was 0.5 per cent growth in real terms.

CHAIR - If the 2010-11 was about \$24 billion, then 2011-12 was just 0.05 per cent.

Mr LOCK - That is right. I should warn you though that every year the ABS revise their previous GSP estimates. We have some years where they might have told us the year afterwards that it was 2 per cent growth and in some cases they revised it backwards to minus 0.75 per cent and revised it up again to plus 1.5 per cent. They are quite volatile in their estimates and that is why we expressed concern in our chapter that we do not consider, for a small state, similar to the other small states, that their guesstimates are particularly reliable.

CHAIR - People like Saul Eslake have suggested other measures to take account of in terms of measuring our economic performance.

Mr LOCK - That is right.

Mr HALL - Premier, following on with a couple of questions that the chair had regarding the savings measures or targets, I think it was the TCCI that mentioned that there are 58 new spending initiatives announced in the budget and only one savings measure. It is hard to believe that there are no other savings that can be found in this budget. I know you have answered that partially.

Did you consider any new savings targets or did you instruct Treasury to devise any? Were you provided by Treasury with any new savings targets?

Ms GIDDINGS - I do not go around instructing Treasury at all, I take the independent and fearless and frank advice and consider it. We felt that we could achieve what we need to achieve over the forward estimates period without having to cut harder again.

Remembering that in 2011-12 we set our first savings strategy and then we backed that up last year with another set of savings strategies, with the only three exceptions being police, health and education. Those savings strategies are still in place and they will have to be delivered on until 2015-16. In this financial year, health, for instance, has to find an additional \$10 million on top of the \$100 million they have had to find over the past two years. In essence, if they've found those, in theory it should only be another \$10 million on top of that with this coming financial year.

So those savings targets are still in place and expected to be delivered on.

Mr HALL - Yes. From what you are saying there, police and education are still sanitised from any -

Ms GIDDINGS - Education - not from the initial. There have been two rounds of cuts on our department. In the 2011-12 agency savings, as I mentioned in my overview comments, we had to cut health back. In this year they were going to have to find \$150 million and we found that that was going to be unachievable without hurting too hard and hurting too many people, we pulled that back to \$110 million rather than \$150 million.

Economic development: in 2013-14 they need to find \$8.1 million in additional cuts this year, plus with the second round of cuts in 2013-14, they also have to find an additional \$3.4 million.

Then we have health - \$110 million.

Infrastructure - in this next year, will find \$6.6 million plus an additional \$1.7 million.

Justice has to find \$1.1 million. They have an addition amount of \$2.4 million.

Ministerial parliamentary support - there is a whole list that you would have available to you in the past two budgets. If you need them, I can always provide those to you.

Mr HALL - Given what you've just said about those departments still finding those cuts, does that mean that some of those have to - I know you've had the redundancy program in place - have they got to continue? Is there any expectation of how they will achieve those cuts or is it up to the department?

Ms GIDDINGS - There is no expectation from me as to how they will achieve those cuts. They just have to deliver and in my Treasurer's role I will be asking them how they are going; I want targets to come in on budget.

Mr HALL - You've got the big stick waving at them.

Ms GIDDINGS - Yes, because they've given their budget which has built those cuts in so they have to deliver on that budget. How they deliver that is between them and the minister. If there are specific programs that have to be cut as a result, that will be a decision made by the department or the minister. If they decide to do it through further vacancy control, it is within their ambit to do that. I think the voluntary redundancy program is still in place if they choose to undertake further redundancies and there's support with Treasury to assist in the cost of those on a loan basis with government departments. So they have a number of avenues available to them and it will come down to their decision as to how they find those savings.

Mr HALL - Thank you. Chair, a couple of other questions, very much of a general nature, I suppose, Premier. Thinking about where we sit in the world, and in Tasmania where we are at the moment, and I think people are concerned that probably, in some ways, we are relying on almost two-thirds of our income stream coming across from the commonwealth. Given that our own revenue and taxes and other domestic revenue totals about 29 per cent, I think, looking down the track, how do you think we might rectify this sort of situation? Might it be that we have to go to an increased tax regime, for example, or how are we going to increase our revenues? I did note that you mentioned in the forward estimates that there were increased revenues of about 3 per cent or something like that.

Ms GIDDINGS - We don't have a lot of leverage available to us at the state level.

Mr HALL - No.

Ms GIDDINGS - So, unless you're going to increase land taxes or payroll taxes, those sorts of things, which we are not going to do and we have made a decision in this budget not to introduce any new taxes or increase existing taxes. What we have done as part of our stimulus drive is to increase the threshold on payroll tax to reduce the amount of payroll tax payable and a smaller side issue is to get us in line with all the other states around the duties that were on caravans and camper trailers.

Mr HALL - Would you agree that one of the major ways to increase revenue is through private sector stimulus and private sector activity?

Ms GIDDINGS - Yes, and confidence. That is why we have the deliberate jobs package and we have put other measures into this budget which is all about jobs.

We are expecting our revenues to increase so GST revenue is estimated to be \$1 800 500 000, an increase of \$99.7 million or 5.9 per cent over the 2012-13 estimate and the Australian Government payments for specific purposes estimated to be \$956.7 million which is a decrease in respect to that. There is some movement going between those agreements, particularly around Gonski and NDIS coming in, as being a new funding source and we will see some decrease there.

Mr HALL - Quite rightly, you point out that they are estimates but we do see them, unfortunately, keep falling short in regard to our estimates or revenues over some time. You have more confidence down the track than we have had?

Ms GIDDINGS - I have as much confidence as you can possibly have and when you look at some of the discussion that has been had, nationally, as much as across the states, around this and when you talk to people like the head of treasury in the commonwealth, Dr Martin Parkinson, they are scratching their head in relation to how the economy is reacting at the moment. Things like lower interest rates they thought would have a different effect than they have. Chris and Martin would be able to talk to you in more depth around having a situation where you have such low inflation and low interest rates at the same time.

Normally, interest rate levers push inflation up or interest rates go up to try to push inflation down. To see a situation where you have both running low at the same time is quite unusual. For forecasters it must be difficult thinking these reactions within the broader economy are not usual.

Mr WALLACE - There is quite a lot written in the commonwealth budget paper about the current dilemma. To get revenue forecasts correctly, this is more applied nationally than locally, for reasons I can explain. You have to assume that the relationships that existed in the past between the economic aggregates and the tax revenue remain and those relationships have changed as a result of the GFC.

You have to get the estimates of growth correct and the components of growth. Both those things have to happen to get your revenue estimates close to what you estimated. There have been fundamental changes to the economy which are impacting on these past relationships but, as well as that, a very unusual environment at the moment in terms of the aggregate, the economic indicators and what historically has gone together which does not go together now. We have had, nationally, very low nominal product growth but increased real gross product growth rate which implies that prices in the economy are falling and that is a very unusual set of circumstances.

With the state a lot of our revenue is dependent on the commonwealth. Roughly about 20 per cent of our revenue comes from state taxes, about 7 per cent from government businesses, and about 40 per cent from GST. Of those, we focus on protecting state taxes. The government business revenue is mainly from electricity businesses, which is largely determined by national events - national electricity market prices and carbon prices, et cetera. With GST, as you know, we do our own relativity projection but the commonwealth does a projection of the other factors which impact on the GST, so a lot of what influences our revenue are national indicators or estimates that we have to rely on - electricity prices, carbon price, GST pool, the population of each state as projected by the ABS. The thing we are most confident about is state taxes but, as you say, those estimates have been reduced but they are still within a couple of percentage points of what we estimated. The main impacts on us have been through these changed national factors.

Mr HALL - Just one final general question, Premier. I think it was Jonathan West, in his essay - I can't remember whether it was in the *Griffith REVIEW* or where it was - made those very simple

analogies that in Tasmania we have over 30 per cent of our people relying on commonwealth grants, pensions, all those sorts of things; 30 per cent plus employed in the public sector and the other 30 per cent in the private sector, of which 20 per cent are service industries so you really only have a tax base of people actually producing anything of about 10 per cent. Is that a concern to you and how do we start to try to turn something like that around to make us more sustainable?

Ms GIDDINGS - That is what education is all about and investment in education because if we do not have a skilled workforce then we do not have the productivity, essentially. That is why I am keen to try to work with the Australian Government on the Gonski reforms - reforms that we have not yet signed up to but we have made provision for within the budget.

There are certainly opportunities out there and there will be a lot more in the future, but they are going to be different jobs to what we would anticipate. Even in things like the dairy sector, for instance, it is going to become less and less hands-on with automation becoming more popular and lifestyle reasons, all sorts of things. People are moving into technology.

Mr HALL - I did milk cows for a lot of years.

Ms GIDDINGS - I thought you might like that dairy analogy.

What it is showing is that our jobs are changing from a lot of the hands-on, manual labour that we used to have; a lot of it now requires more of a highly educated workforce so retaining children in the education system is going to be really important. Looking at our role in the Asian century is a huge part of what we are looking at now as to where the future jobs growth will come from. There is a lot of work we have been doing, through DPAC mostly, and our work with the white paper process that I will talk more about later on, and the role of economic development with the Economic Development Plan looking at how we grow that private sector. We certainly have no ambition to see future growth through the public sector for jobs in Tasmania. The public sector is very important and plays a critical role but the real growth will be, and should be, in the private sector.

Ms FORREST - Last year we were given details of the GST relativities that you mentioned a moment ago. The federal budget versus the state Treasury might have been of use in our budget but not this year. There is no commentary around that this year. In the last two years in the forward estimates, GST revenue was \$34 million higher than the federal budget papers - budget paper No. 3 - in 2015-16 and \$113 million higher in 2016-17. In last year's budget paper GST in 2013-14 was estimated by our Treasury to be \$124 million higher than the federal estimate, \$229 million higher in 2014-15 and \$324 million higher in 2015-16, and the forecast, I accept, would be close around estimates. There is no reference to these estimates this year in our budget papers -

Ms GIDDINGS - I will explain that for you. It was not intentional; it was just that the numbers from the commonwealth came out late for us, so in order to make sure that our numbers were as up-to-date as possible we really were going right to the wire in getting the numbers in, so the level of commentary is just because we had the time to put it in.

Ms FORREST - Looking at the federal budget paper number 3 this year, the difference between our state Treasury estimates and federal estimates is considerably closer to the mark; 2013-14 is the same, 2014-15 \$16 million lower, 2015-16 \$34 million higher and then 2016-17 \$140 million higher. I am not talking about the size of the pool but the size of the pool has some impact, I suspect. Most of this is accounted for by incorrect estimates as to the relativities, so given the differences that are much smaller, as implied in this year's budget, are you using the same model you have used in the past and does it lack credibility because of these changes?

Mr WALLACE - No, we are using the same model; in fact the model is accurate. There is a whole heap of effects going on. First of all, as the Premier said, we do not have the same amount of

detail in budget papers as last year because the commonwealth budget only came a few days before so we did not have time to update all the tables and get our budget out in time.

In the relativity forecast, as you know, we developed a new model last year to project our own relativities; we projected for 2013–14 a relativity of 1.64, it came out as 1.61 and the commonwealth budget had 1.52. If we had not developed our own model and used the commonwealth estimates, we would have understated GST by more than \$100 million. So the relativity model that we have used for the first year this application has come in very close to the actual relativity.

I am not going to promise that is always going to be the case because the Grants Commission methodology is a very complex thing and the commonwealth's budget has quite a lot in it about why the commonwealth feels it cannot - their model is not sophisticated enough to forecast relativities for each state, so there is quite a strong caveat there about not taking any notice of their relativity projections. In the GST review there is quite a long section in the vision review about how commonwealth relativity projections are not a reliable measure and it notes that virtually every state now has developed its own model to check these -

Ms FORREST - I have read most of that.

Mr WALLACE - Yes, so the first year we used it we have come in pretty close.

Ms FORREST - Does the model project things like the change to the Queensland relativity that is going to increase 98 per cent per capita to 105 per cent? Does it pick up those sorts of things?

Mr WALLACE - I do not have the information in front of me about whether the model projects the relativity for each state -

Ms FORREST - So your model looks at the other states as well?

Mr WALLACE - Because relativities are, by definition, relative, the model produces a set of relativity estimates for each state but the most important thing is to get a Tasmanian relativity right, so every state's model focuses on their component of the total more than each individual state. It does generate a number - I cannot remember whether the Queensland number was close or not - but as I say, in the first year of its operation the Tasmanian number was very close. What happens is that we update the model when we get new information, either from a Grants Commission report or from other states' budgets, so we have reduced our relativity projection now for 2014–15, as you can see, and that is largely a reflection of not only updating for the Grants Commission's latest report but importantly, most states have written down their forward revenues and those revenues have a big impact on our relativity.

[10.00 a.m.]

Ms FORREST - You've taken into account Western Australia's situation, because that's going to impact us, obviously.

Mr WALLACE - Yes, that's right. We'll update the relativity model again - we have to look at whether we do it for the midyear report or the pre-election report. You really need every state's budget to come out to make it worthwhile to update because that's the latest. All it's doing is picking up what each state says about its future revenue. Tasmania is no different to any other state in the commonwealth where all treasury departments have written down forward revenue estimates over the last couple of years.

Ms FORREST - So Queensland will become a mendicant state as well, according to Western Australians? You'd think that would be the assessment they'd make.

I'll move on. According to the Commonwealth Grants Commission formula, Tasmania will get \$528 million to compensate for lack of revenue-raising capability and \$308 million for expense compensation; that's 2013-14. In regard to the amounts of the Commonwealth Grants Commission compensation in 2012-13, is it possible to say that this compensation was enough or too much? In other words, how did our revenue raising of 2012-13 eventuate, given the extra we received?

Mr WALLACE - Sorry, I don't fully understand.

Ms FORREST - The extra money we get to compensate for the lack of revenue-raising capability that Tasmania has, compared to other jurisdictions, and it goes to the revenue and expense side. Do we have to demonstrate that that was the right amount of compensation?

Mr WALLACE - It's a policy-neutral estimate of the ability of Tasmania to raise revenue compared to the other states if we applied the same policies; so, having exactly the same tax rates, exactly the same exemptions for each revenue base, the grants commission calculates, if we were to apply a national average policy, how much revenue we could raise, given our base compared to everybody else, and the grants commission tops that up.

So, revenue, as you've indicated, is the most important driver of our relativity; it's more important than expenses or the big cost disabilities. What we actually do in terms of our revenue effort, doesn't have any impact on the calculation for two reasons. One is, it's basically a policy-neutral measure and, secondly, we're very small; 2.5 per cent of national total. What we do with our revenue doesn't impact on what the grant commission's assessment is because it's assuming a national average policy.

Ms FORREST - The \$380 million that we get additional to compensate for the extra expenditure we incur because of a range of factors in Tasmania - our dispersed population and a range of other things - is roughly about 8 per cent; is that right?

Mr WALLACE - Eight per cent of what?

Ms FORREST - That's the difference of the -

Mr WALLACE - Oh yes, sorry, our level of service provision rate. I think it's about 8 per cent higher than the average for Australia; that's right.

Ms FORREST - How much more, as a percentage, do we incur to deliver than the national - is it 8 per cent or is it more?

Mr WALLACE - I haven't got the numbers in front of me but assuming that the number is 8 per cent, effectively what the grants commission is saying is that the cost of Tasmania to deliver the same set of services as the other states is 8 per cent higher than the average for the other states if we had the same level of efficiency.

Ms FORREST - Is that across all core services or does it vary across health, education -

Mr WALLACE - The cost of service provision ratio varies depending on the service because we get different disability factors for different services.

Ms FORREST - Is it possible to have a breakdown of the various areas and what the differences are?

Mr WALLACE - Yes.

Ms FORREST - It is one of the things that Saul Eslake often comments on and we don't seem

to get to a point where we can really say this is why it costs us so much more. It would be interesting to see where the areas are that have a higher percentage. I'm assuming 8 per cent is the average.

Mr WALLACE - That's right; 8 per cent is the average. The grants commission provides these cost ratios for every 'service', as they define it. They break up states into about 12 or 13 services so they have a cost ratio for each. All we can give you is what the grants commission provides us.

Ms FORREST - If we were to deliver services and acquire whole financial assets, as the commonwealth grants commission expects us to, what would the deficit of surplus be? In other words, there must be a current imbalance. Do you have a figure of what that is?

Mr WALLACE - I would have to have a look at the numbers. How much money we spend compared to what the grants commission says, provide the average level is less than 100. We are therefore, on average, more efficient than the other states. We are pretty close, in total, to what the grants commission estimates. I can check but I am pretty sure that the ratio for the latest yields is less than 100.

Ms FORREST - So you can provide that information?

Mr WALLACE - Yes, we can provide that. I do not have the numbers in front of me.

Ms FORREST - No, that is all right. Commentators speak about the extra additional costs that costs Tasmania, if we could deal with some of that it may affect the relativities but it also means we could have more money for other things, potentially.

Mr WALLACE - What we will give you is what the grants commission publishes. So for each area service they say how much we spend compared to what their allowance is for us.

Ms FORREST - Yes.

Ms SAWFORD - The information that we are talking about is published on the grants commission website.

Ms FORREST - Okay, and does that gives us a comparison with a national average?

Mr WALLACE - Yes.

Ms FORREST - So you will provide that as well?

Mr WALLACE - Yes.

Mr MULDER - Mine is fairly short and it should not be too hard. The GSP is around \$25 billion and a \$5 billion state budget, there seems to be a proportion of around 20 per cent, how does that compare with other states in the national proportions? I am comparing the budget to the growth statement.

Mr WALLACE - The public sector costs in small states is a higher percentage of GSP than in the big states. It goes roughly according to the grants commission order of things. The costs of providing services in the big states - New South Wales, Victoria - is much less than the cost of providing services in the small states.

As a result, small states' cost of public sectors is a greater percentage of GSP. If ours is about 20 per cent - I cannot remember what the numbers are now - but the big states are probably in the 15 to 18 per cent, maybe a bit less. Then you go to the Northern Territory which is very small in

terms of population and their public sector is grossly out of proportion with their total economy.

Mr MULDER - Those figures are available somewhere?

Mr WALLACE - Yes, we can provide them.

Mr MULDER - Do you have the national level? How does that operate?

Mr WALLACE - We can provide that. Basically the commonwealth outlays its percentage of GDP.

Mr VALENTINE - Premier, you were talking about staff cuts and different ways of achieving those sorts of things across departments but when you are delivering those staff cuts there is always a danger of corporate memory loss, increasing the risks of making the same mistakes twice, and implosion through stress, unless you are cutting services in concert with those staff cuts. What mechanisms have been put in place to mitigate those risks, if any? I know from my own experience that there are knowledge management systems in place in a couple of departments that really work well in terms of knowledge transfer, but are there guidelines or is there training provided to various people in agencies who are actually undertaking these staff cuts?

Ms GIDDINGS - It would be more a question for my DPAC estimates and the role of the public sector office.

Mr VALENTINE - It is just that you mentioned it today.

Ms GIDDINGS - In this estimates committee I am probably better to talk to you about my Department of Treasury.

Mr VALENTINE - That is all right. It is just that you mentioned it, that is all. I am happy to hold that.

Ms GIDDINGS - As a general comment about those sorts of things, you are quite right, you can lose far too much knowledge but that is if you just take the long-serving people out. You also need renewal and refreshment.

Mr VALENTINE - I understand that.

Ms GIDDINGS - It is a bit of both in that respect. Again, it will come down to the secretary and the directors, managers, all the rest, down the line to say 'Can we afford to lose that person or not?' It is one of the reasons why we have had a targeted voluntary redundancy program and not an open slather one so that people can be told their expertise and knowledge base would be lost to the system and we cannot afford to lose it, so we are not going to accept their offer of a voluntary redundancy, we will take somebody else instead.

The stress level issue comes down to the management of those areas and we have encouraged ministers to look at reducing specific programs so that we no longer provide that service rather than expect a smaller number of people to continue to work.

Mr VALENTINE - Increasing stress levels.

Ms GIDDINGS - Yes, across a lot more programs but that comes down to the management of individual areas.

Mr VALENTINE - It is the systems I was interested in - seeing the knowledge transfer take place. I understand the renewal issue but I was interested to know whether you are actively looking

at introducing knowledge management systems which actually help with that transfer.

Ms GIDDINGS - I am not aware but if we talk to Frank Ogle about that there may well be.

Ms FORREST - In that line, I notice the Treasury report on structural change refers to 'frontline' positions and 'non-frontline' positions and how the non-frontline positions have been reduced by twice as much as the frontline positions. Do you have figures on that or is that more of a [10.12.59] yes-or-no question? The Treasurer made the claim; I thought I should ask him first.

Ms GIDDINGS - I think it would be better to raise it with him.

Ms FORREST - Do we have the average costs associated with the non-frontline versus frontline staff cuts?

Ms GIDDINGS - Again, it would come down to the individual management of those areas to determine how they make their savings.

Ms FORREST - There is a lot of talk about the government growing jobs and you have mentioned that, Premier, in your overview and a focus of the budget of the economy and the role over and above service delivery on a cost-effective basis, but there is a sensitivity section in budget paper No. 1 that suggests that even if employment grew - and I think Mr Harriss might have gone into this a little bit - by an extra 1 per cent and that employs about 2 400 people, payroll tax only increased by \$4.4 million so growth will have a negligible effect on the government's financial position. Is that a fair comment or not?

Ms GIDDINGS - In terms of trying to grow the jobs, they are being grown through a number of different strategies across not just payroll tax; it is one element of it. What we wanted to do in reducing it is try to keep it as budget neutral as possible in relation to the impacts of those changes. The payroll tax has predominantly been paid for by a reduction in the first-home builders' boost so there is a little bit of overlap where there is some cost for us but -

Ms FORREST - The point I was trying to make, Premier, is that you suggested the jobs growth that the government is trying to do - and it's commendable to try to improve the job situation - but if it grew by an extra 1 per cent it's not going to have a huge impact, so is the government's role overstated in this regard and should the government concentrate more on service delivery and provision of infrastructure and leave the rest more to private enterprise? Isn't that perhaps the debate we should be having, rather than the government trying to do all things for all people?

Ms GIDDINGS - I quite rightly think that the government cannot control the unemployment rate. We can't control that, but what we can do is incentivise jobs growth and that's what we're trying to do here. The Tasmanian Government Innovation and Investment Fund, for instance; we will now have three rounds of that. There are tangible results that come out of that where you stimulate investments or you bring forward investment which a company would do at some point but not at this point in time. More than 400 jobs have been created through those grant programs that we can absolutely identify.

Ms FORREST - Are they still there?

Ms GIDDINGS - Yes, absolutely. Also, through the Tasmanian Payroll Tax Incentive Scheme, we have businesses sign up for those jobs to be payroll exempt for two years and we can identify through Treasury how many jobs that has helped to create. I can point directly to Vodafone where there are 750 jobs that otherwise might not have occurred if it were not for the support of the state and federal governments.

Ms FORREST - Are we able to get a breakdown of some of these areas? You're stating that Vodafone is one but are there others where that payroll tax incentive has resulted in employment and where are these jobs? There would be some that are nearly two years in now. It was two years ago that it was first introduced, wasn't it?

Ms GIDDINGS - I've just been advised there are about 750 jobs that we've got through the first round of payroll tax exemption.

Ms FORREST - In the first year it was implemented?

Ms GIDDINGS - The first year it was implemented. So we would expect a similar number in this next round; I have the numbers here. The first round resulted in \$5 million being paid out to 118 businesses, supporting the creation of 876 new positions.

Ms FORREST - Did you say \$5 million was paid out?

Ms GIDDINGS - Yes, because they pay the payroll tax and we reimburse them. That's how we know exactly how many jobs are created through that. Through the second grant round, it is expected to support the creation of at least 850 jobs by providing payroll tax relief of \$3.5 million over three years. As at 1 December 2012, we had 307 employers registered. That registration period finishes at the end of this month and with 68 already receiving payments to support 843 new positions; that is just with the payroll tax exemption. I know, anecdotally, that with the increase in the threshold, there are 130 businesses now who are not paying payroll tax at all, but from those who have, I have had some anecdotal feedback to say, 'We will now take on an extra position within our company as a result of the increase in the threshold.'

Ms FORREST - How will you track that? Will you be able to track those changes or is it just going to be anecdotal?

Ms GIDDINGS - It's harder to track those because we don't have the evidence coming back through our own payment systems to validate it. However, my hope is that you will see a decrease in the unemployment rate as predicted in our forecast.

Ms FORREST - It could be as a result of anything - there will be the mines in the north-west and we'll have -

Ms GIDDINGS - A combination of factors; absolutely. We have a number of different factors that we have built into the budget to try to help stimulate jobs, including the infrastructure spend. One of the reasons we've kept our infrastructure spend up above the levels of pre-GFC is to try to have the pipeline of projects there for the construction industry, not just in roads but in health facilities and capital infrastructure, schools, neighbourhood houses, a whole lot of things.

Ms FORREST - Smithton High School is very pleased.

Mrs ARMITAGE - Just on the same line because we are talking about the payroll tax and the fact that the payroll tax money has come about by the reduction in the first home buyers, what prompted the decision to take the money from the first home buyers considering the fact that this is the only opportunity for a lot of young people to purchase their first home? It also keeps them off the books of Housing Tasmania.

Ms GIDDINGS - Firstly, the home buyers grant will be in place for another 12 months.

Mrs ARMITAGE - I appreciate that, but it is going.

Ms GIDDINGS - Yes, it will go and all that will be left then is the first home builders boost

which will encourage people who are wanting to buy their first home to build it rather than buy an existing home to help stimulate jobs in the construction industry and also to renew housing stock as well. There is some argument that the first home owners grant artificially inflates the price of the real estate market anyway.

Mrs ARMITAGE - Do we have any figures to show that?

Ms GIDDINGS - I am advised there is a Productivity Commission review that would show that.

Mr WALLACE - The Productivity Commission investigated the impact of first home owner grants and found that they had a negative effect effectively because they increase the price of houses for first home buyers. Most states are now moving to abolish the first home owner grant and are instead promoting the first home owner builder grant.

Mrs ARMITAGE - It is a little difficult, though. A lot of people in the community are not able to afford to build a home but certainly could buy a cheaper home. Having been in real estate I know that when it comes to someone purchasing a home, particularly a cheaper home, it comes down to negotiation a lot of the time. I believe that this creates a disadvantage, particularly in the north of the state. There are a lot of people in that situation and that first home buyers grant gave them the ability to get into a home whereas they would never have been able to build a home.

Ms GIDDINGS - It depends on the cost of the land and where they want to build, and the home they are trying to build as well. In my experience of looking around trying to purchase houses, sometimes it is cheaper to build than it is to buy existing homes. It does depend on where you are at and what you are looking for. You could probably point to a house in Rosebery or somewhere and say, 'You could buy cheaper than you could ever build, Lara', but if you are talking Launceston or Hobart it does depend on where the land is and what you are trying to build.

Mrs ARMITAGE - I believe that Western Australia still has the first home buyers grant.

Ms GIDDINGS - Most other states have now abolished it and we are one of the last states to still have it. Saul Eslake declared it a great decision to get rid of it because it does have this other artificial increase.

Mrs ARMITAGE - It depends who you are speaking to really.

Mr HALL - A matter of an overview question, Premier. The sale of the Aurora customer base is a big-ticket item coming towards the end of the year. The media suggests sometimes that perhaps you are going to use that as an election war chest. Is that an accurate claim? Do you rule out using the sale proceeds to fund any election promises or to fund recurrent expenditure? Lastly, when do you expect the money in the bank?

Ms GIDDINGS - I have answered that question already to Mr Harriss originally where I spoke and said how -

Mr HARRISS - Not specifically Aurora.

Ms GIDDINGS - No, it was around Aurora; that is what I spoke to you about.

Mr HALL - I missed that.

Ms GIDDINGS - I raised Aurora myself.

Mr HALL - It must be my hearing.

Ms GIDDINGS - It is my cold. We are expecting the sale of the Aurora customer base to occur towards the end of this year. We are not in a position to go into any detail around how, what, when, all those sorts of things. That is fairly sensitive information at this time so I cannot go into any further detail but when we are aware of what the sale outcome is, that information will be available to all political parties in the lead-up to the next state election.

If it is a midyear financial report or a pre-election report, that is provided to all political parties and it will be down to the shadow treasurers, the opposition leaders and myself, and our respective parties, to determine how we will deal with those funds. I believe I have been very responsible with revenues that have been received by the state, the sale of tote being the prime example of that where out of the approximately \$118 million that we received, I spent \$10 million, and the rest was put into the overall budget to help us to deal with the pressures in the budget, to mitigate worse levels of deficits on our net operating balance or worse levels of net debt.

I can only run on my reputation and how I have shown in the past that I deal with these increases responsibly and I do not anticipate any change to that. Elections are about setting an agenda for the next four years, so there will be election promises made as there was four years ago and Michael Aird delivered about 90 per cent or more of those election promises within the first year of this government. Some, very few, promises we had to back away from and I did that in the 2010-11 midyear financial report where I stated that there were ones like Cosgrove High being turned into a sports school, and I backed away from that one for instance. Both the community roads package was delivered, health infrastructure was delivered so I cannot say that we will not be making election promises but that will be part of our four year agenda.

Mr HALL - And finally GST, Premier - \$200 million has been mooted as perhaps a sale figure?

Ms GIDDINGS - All speculation, and I am not going to participate in any speculation.

Mr MULDER - We have been through this with the TAB.

Ms GIDDINGS - You cannot, you have a new card. It is one of the reasons why there is nothing built into the budget. People have asked that question. If you know you are going to sell it in this financial year, why have you not built it into the budget? As soon as you build numbers into the budget, that becomes what the figure is, or lower, because you have lost your negotiating power with potential buyers.

Mr HALL - I thought I would ask.

Ms GIDDINGS - Yes, no worries.

Mr HALL - Thank you.

CHAIR - Premier, we might take a 10 minute break; Rob has some questions and so does Ruth. We are ranging across the finance general stuff, as well as Treasury and finance. If members look at the Treasury and finance on page 12.13 and Ruth, you had some specific questions around those areas, the budget development and management, we are doing that so we will keep developing those areas without coming specifically to those line items. I do not think there is going to be any need to go specifically to 1.1 and 2.0 and 3.0 if you are comfortable with that, Premier?

Ms GIDDINGS - We only have two more hours, do we not? I am happy to go with the flow.

Ms FORREST - A question on that, is tax reform and tax issues to you, Treasurer, or the -

Ms GIDDINGS - No, to the finance minister.

CHAIR - For our purposes members, on finance general 4.14 being the page, the first output, group 1, we are ranging across that with this line of questioning to the Treasurer. We will not need to go specifically into those line items but we will come to economic and physical policy later, as well as some of the community assistance stuff and the government business enterprises and I do not know whether there is going to be much in the Treasurer's reserve group. We will play that by ear and see what you think.

The committee suspended from 10.30 a.m. to 10.43 a.m.

CHAIR - Rob, first of all please.

Mr VALENTINE - I was interested in consultancies in FTE within Treasury. Can you give us a bit of a rundown?

Ms GIDDINGS - All those sort of corporate you can raise with the finance minister; sorry. Rob. He will look after all of those corporate department issues.

Mr VALENTINE - It is all right - I will not consider that you are trying to duck it.

Ms FORREST - Give the question to me Rob - I will take it.

CHAIR - Ruth?

Ms FORREST - I will skip over to Treasury and finance in the budget. Is it possible to put the estimated outcomes in budget paper number 2 alongside last year's budget figures? I think we talked about this last year or the year before. When there are changes, they can be relatively significant because one problem in looking at the profit and loss is two expense items - supplies and consumables, and grant expenses. We do not get a good break-up of those in the budget papers.. You get them in the Treasurer's annual financial report and, as I have said a hundred times, what a fantastic report that is. This is a question on the presentation and how you present the information.

[10.45 a.m.]

Mr FERRALL - We try to line up the budget presentation with the Treasurer's annual financial report pretty well in terms of categories and breakdown and over the years we have sort of refined it to try to marry those up. In a practical sense, if you want a set of comparative tables with multiple columns there is a practical width issue involved and then you have to start turning pages to landscape and not portrait. In the past people have said that they do not like landscape pages because you cannot follow them properly. It's really only a practical issue and we look post the budget every year and do a review. We look at issues such as presentation, what is in the budget, what ought to be improved or could be improved. We are quite happy to take that on as a suggestion and then consider it with the Treasurer of the day.

Ms FORREST - In recent years and the last couple of years particularly there has been quite a difference between the budget and the estimated outcomes when you get to this part of the year. That is a personal request really. Maybe it could be in a new financial management act?

CHAIR - Maybe not.

Ms FORREST - It could be. Is the Tasmanian risk management fund for Mr Bacon as well?

Ms GIDDINGS - Yes.

Ms FORREST - As far as the Australian federal government management fund account is concerned, is the special trust money for now or is that for Mr Bacon?

Ms GIDDINGS - It is for now.

Ms FORREST - Do you have an expected balance of that account to 30 June this year?

Mr FERRALL - Could we come back to that?

Ms FORREST - Yes. I am interested in how much of the Royal Hobart Hospital money has been spent and how much the railyard upgrade has been spent or when it will be spent.

Ms GIDDINGS - The minister responsible for those areas will certainly be able to address both those questions for you. We will see what we can get you.

Ms FORREST - Will any changes in the reporting of the national partnership payments have any effect on the operations of the AGFMA?

Mr FERRALL - I do not believe so.

Ms FORREST - Most of the money that we seem to have in the special deposits and trust fund now is the federal government money sitting there to be used for purposes other than running and providing services.

Mr FERRALL - It still provides services.

Ms FORREST - It does, yes, but it is for infrastructure.

Mr FERRALL - There is a lot that is infrastructure, such as the Royal Hobart.

Ms FORREST - Yes, those two I am particularly talking about. The money that sits in the commonwealth funds is mostly for infrastructure. The health money does not go through there, does it?

Mr FERRALL - I wouldn't say it is mostly infrastructure but there has been in recent years a large component of infrastructure, and part of that was because of things like the Royal Hobart and Nation Building.

Ms FORREST - Yes, but what else goes through there as far as recurrent funding?

Ms GIDDINGS - All our national partnership agreements and things go through there, which is recurrent funding.

Ms FORREST - Does the money for the THOs go through there as well?

Ms GIDDINGS - THOs might be different.

Mr WALLACE - No. They go straight to the THOs under the funding arrangements under the national health reform.

Ms FORREST - Okay. I didn't think it was big enough to go through that channel.

Are you happy for me to keep going? They're a bit disjointed perhaps and all over the place. Going back to the debt servicing, the footnote says the decrease in debt servicing output is due to the repayment of the maturing debt. What was the debt that was repaid?

Mr JEFFERY - During 2012-13, we had a couple of lines of long-term Tascorp debt that matured. On 1 February 2013, debt with a capital cost of \$4.9 million matured and then on 15 February 2013, the remaining balance of long-term debt of \$8 million matured so total maturities in 2012-13 were \$13 million so there is no debt servicing cost in 2013-14, obviously, for that debt.

Ms FORREST - With the Tasmanian Forests Agreement funds, the federal budget paper No. 3 shows that the following amounts were paid by the federal Government: in 2012-13 it was \$37.7 million; in 2013-14 there is \$11.3 million; in 2014-15 there is \$13 million; in 2015-16 there is \$12.7 million and in 2016-17 it is \$10 million. Yet, the grant income in budget paper No. 1 page 4.99 shows lesser amounts being received. Can you explain why that is?

Mr WALLACE - Sorry, I didn't quite catch the amounts that you referred to originally -

Ms FORREST - That is in the federal budget paper No. 3.

Mr WALLACE - Okay, sorry. The question relates to the difference between federal paper No. 3 and the figure in our budget?

Ms FORREST - Yes.

Mr WALLACE - The federal budget came out - unlike previous years, we didn't get any commonwealth estimates of their payments to the state until the commonwealth budget came out, which was only a few days before ours, so we updated the GST numbers but we didn't update the specific-purpose payment numbers. They do tend to vary enormously anyway and they come in one side of the budget and go out the other side. The difference is there because we didn't have time to update all the numbers in our state budget for the latest commonwealth estimates, which we hadn't seen until the actual budget night. That is the reason why they are different.

Ms FORREST - They are quite different though.

Mr WALLACE - In the next report or in the midyear report or pre-election report the latest numbers will be put in.

Ms FORREST - For 2013-14, it is \$11.3 million and it is \$7.4 million in the state budget.

Ms GIDDINGS - We couldn't update them, that is all.

Mr WALLACE - We couldn't - there wasn't time to sit down with the commonwealth departments and reconcile all the numbers about how they got theirs in the few days we had to re-cut the budget to publish it a week later.

Tony has reminded me that we put in our budget the original intergovernmental agreement funding but we didn't have in our budget the extra commonwealth funding associated with the TFA, the Tasmanian Forests Agreement.

Ms GIDDINGS - The final outcome of the discussions with the commonwealth -

Mr FERRALL - We have included the state numbers for the TFA but not the commonwealth numbers.

Mr WALLACE - Not the commonwealth numbers. That would be the difference.

Ms FORREST - So, the money in the table on page 4.9 is just the state funding; is that what you're saying?

Mr WALLACE - All of the previous IGA money.

Ms FORREST - Oh, okay, because you were talking about commonwealth -

Mr WALLACE - It is the commonwealth money under the original IGA but not the commonwealth money under the TFA.

Ms FORREST - That will be added on?

Mr WALLACE - Yes.

Ms FORREST - The money that comes from the TFA, will that sit in the AGFS&A or will it have a separate account in a special deposit trust fund?

Ms GIDDINGS - The commonwealth money?

Ms FORREST - Yes.

Mr FERRALL - I am not sure whether we will create a separate account but we may. Are you suggesting that -

Ms FORREST - I am interested in the contentious area of everything and having a pretty open and transparent process, that flow-in of the commonwealth funds, and out again?

Mr FERRALL - In terms of past agreements we have often created separate accounts but we have not exercised our mind as to whether we would or would not in this case but I understand your point in terms of making it easier to follow the fund flows. It is not a big deal from our perspective, to hold them in a separate account if necessary.

Ms FORREST - Particularly if it is all delivered to the forestry industry but for quite different purposes and if it gets all mixed up with the other commonwealth funds for a range of other projects it would be easier. That is my view - to keep a check on how it is going and how it is being used.

CHAIR - Premier, what is the biggest risk to any potential credit rating downgrade?

Ms GIDDINGS - My first comment around the credit rating would be that both Moody's and Standard and Poor's issued media releases straight after the budget was delivered and neither of them did an immediate change to their credit ratings. As is normal process, we will be meeting with both Moody's and Standard and Poor's within the coming weeks to talk through the budget, to talk through the strategies that sit behind the budget. We will then await the outcome of their determination.

A quote from Moody's as part of their media release was that:

As part of Moody's normal monitoring process we intend to conduct an in-depth analysis of the budget and its medium-term impact on the state's financial debt profile. In particular, Moody's will focus on the government's commitment to exert strong controls over both current and capital expenditures and such a result will be critical to achieving fiscal improvements.

We will meet with them and we will see how they determine our rating following those meetings. I have no reason to be overly concerned but on the other hand you never take any ratings agencies for granted and we would also have to be prepared that they may decide to shift their ratings. They have with some other states - Queensland, for instance, they shifted their credit rating -

so these things happen but we will wait and see.

Moody's is concerned about the future downgrades that may occur if growth in GST grants slow further and that might be an issue of concern for them, an issue that is outside of our control.

CHAIR - In terms of the overall economic wellbeing of the state, at this stage the pulp mill is a stalled project but the economic analysis for the contribution to our economy of the pulp mill was a bounce in our GST of about 4 per cent year-on-year and then probably a \$10 million contribution to our economy over the years out to 2030 in the event that it had been built. Is there still an opportunity there for us and is the government in a position to do any active promotion of the possibility becoming a reality?

Ms GIDDINGS - The government remains a strong supporter of the pulp mill and we stand ready, willing and able to work on that project if there was anything we could do. We have done everything possible to help support that project. The project is now in the hands of administrators and receivers so out of our control in that respect, and of course, of the complication of the managed investment scheme plantations that are currently before the Supreme Court, I believe in Victoria. It is not really my issue to be commenting much more on from a Treasurer's perspective, it is more economic development and other issues around that really but certainly I will keep a strong eye on the possibility of the pulp mill being built, but you have to get on with life without a pulp mill and that is exactly what we are doing.

CHAIR - There has often been comment around the place about legislated debt ceilings; do any other jurisdictions in Australia have such as -

Mr WALLACE - No, not that I am aware of.

Ms GIDDINGS - I have only heard of those sorts of things in relation to crisis economies like Greece, Spain or the US. That is why they hit their fiscal cliff; they had to redo it, didn't they?

Mr DOWLING - Yes.

CHAIR - Okay, we can go to Rob and then we will go to the specific areas and see whether there are any questions in those areas.

Mr VALENTINE - With respect to federal grants, obviously with any grant there is an administrative workload that indeed is needed to deliver whatever the project is. Is that loaded into the grant and how do you account for that administrative component?

Ms GIDDINGS - There are administration costs and, generally speaking, I think they are absorbed within the grant that is provided and how that is judged would be down to individual departments and their overhead costs.

Mr VALENTINE - It is not a set amount that the commonwealth puts in there, like 10 per cent or whatever?

Mr WALLACE - It varies depending on the agreement and it is probably something that individual departments could answer.

Mr VALENTINE - Okay, so it is not a standard thing. I just thought that there might be a standard amount for administration of the grant and then you take that administration component and account for it in some way, that is all, it is not the car.

Mr WALLACE - No, in fact I think - my knowledge of it is pretty old - that there is quite a lot that do not have any recognition of the administrative cost.

Mr VALENTINE - Possibly because of previous grants that they made that take care of that. Too much of setting up the structure.

Mr WALLACE - I just cannot remember, I know that they all vary.

Mr VALENTINE - Okay, thank you.

CHAIR - Thanks, Rob. Let us go specifically into and we will stay with finance general. Greg, do you have anything on specially the Forestry Tasmania stuff and the extra financing to the government business?

Output group 2 Economic and Fiscal Policy Advice

2.1 Economic Policy Advice -

Mr HALL - Yes, I did. We have done three, Chair - we have done output group 2; we covered it on 4.13 but that is Economic Policy Advice, which has been covered.

CHAIR - I would have thought so but if you have a question before we go to specific line items.

Mr HALL - That was on Economic Policy Advice, which talks about national and Tasmanian economic conditions and economic outlook et cetera, and in budget paper number 1, I noticed the quote was about private sector activity as being weak in 2012-13 for the first time in many years, Tasmania's GSP is expected to decline so in the context of that, do you think we are in some sort of recession in the state?

Ms GIDDINGS - I do not talk about us being in recession until we get the final gross state product figures which will come out in November this year. Last year we had 12 months of the opposition in the lower House saying that we were in recession, talking the state economy down and being quite destructive in that respect. I called them out on it then and it ended up being that we were not in recession at all.

There certainly has been some softening further from last year and the unemployment rate has gone up; Treasury are forecasting that they believe we may have had a period of negative growth in this current financial year but they are also forecasting a turnaround in that respect and that we will go into a period of GSP growth of around 2 per cent. Part of that they built into the fact that household consumption is expected to grow and we saw that yesterday with the retail figures going up again for the sixth consecutive month, so that is one of those positive signs you look at.

Business investment is also likely to improve and we have seen in the area of exports, for instance, some growth coming back which has been positive to see. Also, projects like the Parliament Square project will start to roll out properly in that respect and we expect the Myer development to occur as well, so there are some bigger projects out there both in the public and the private sphere that are expected to impact. A modest growth in dwelling investment is expected in response to the growth in underlying demand and also supported by low interest rates and the state government's first home builder boost. All those things have given Treasury some confidence that there will be growth.

Mr HALL - I accept what you are saying with those positives. Would you also accept anecdotally, just from where I sit, and we are all observers of what happens in Tasmania, that sometimes it is almost a two-speed economy in Tasmania. In the north of the state I detect a lot more pessimism in the private sector as compared, say, to Hobart or the southern part of the state

where you have quite a lot of insulation with the public sector? You might make a quick comment on that and that is what I perceive.

Ms GIDDINGS - I saw some figures yesterday, which I did not write down, that showed that the north is not doing quite as badly as I was concerned about because I have also shared that concern. My feeling is that the north has slowed a lot more than the north-west and the south in that respect but the figures I saw were not as bad as that; they were fairly strong. I think that we will start to see that confidence rebuild, particularly as the north of the state and Launceston tends to be the home of the agricultural sector and that is where a lot of the central business happens in agriculture.

Mr HALL - We might have to move DPIPWE there.

Ms GIDDINGS - I do not think that would necessarily help. They already have their fair share of public servants up there, which is interesting when people argue that, but when you look at the per capita of public servants across the state the north and the north-west have their fair share.

The other issue that we have had is that household savings have been at all-time high levels; this has continued and we are expecting now that people will get the confidence to start spending. Many households are well cashed up and household spending has the capacity to grow the economy; that consumer confidence is really quite critical and why those retail trade figures are important. The fall in interest rates has helped in regard to giving people some confidence; the key is for consumer confidence to increase and the budget contains a range of initiatives to assist in helping to grow that consumer confidence.

Mr HALL - Another quick question and then I will go to forestry, Chair, if that is okay.

CHAIR - We might park that and stay with Treasury and Finance, so just go with that other question at the moment.

Mr HALL - There are some businesses - and I know some of them - that are under quite a bit of pressure, so it may be a question for Economic Development. Is the government in discussions with any larger businesses or employers at this stage to try to facilitate their survival and their ongoing viability?

Ms GIDDINGS - With my Treasury hat on, we really do not get that involved other than if Economic Development, for instance, comes to us and says that they want to put a package to a Vodafone style of business, for instance, which will be a payroll tax exemption then we become involved in saying yes or no to that sort of assistance. We have, however, through Treasury but also in conjunction with the shareholder ministers with the energy businesses, been working with our major industrial companies to help to secure their future in the state. With my Premier's hat on, I am interested always in working with business and ensuring that we can assist them through various levels of government and across agencies to get investment happening in the state. Treasury itself is not an investment-driving agency.

Mr HALL - I realise that. Under the output it talks about conditions and outlooks and all that sort of thing and that is why I included the question.

CHAIR - We will stay with Treasury and Finance, which in your papers is page 12.13, and economic policy advice was where Greg was going. Are there any more questions on that line?

Ms FORREST - A general question on that area. On page 12.11 on budget paper No. 2 in the statement of comprehensive income. I am interested in supplies and consumables, the line item under expenses from transactions. What does that refer to in Treasury and Finance - \$6.5 million?

Mr WALLACE - I can give you a list. I was working on the assumption we would be handling

this in the minister for finance

Ms FORREST - I can put SB beside that one as well.

Ms GIDDINGS - It is the first estimates we have had in a few years of having a finance minister so we are all getting our head around that.

Ms FORREST - I think most of them were for the minister for finance. The minister for finance also does the Tasmanian Risk Management Fund.

CHAIR - We will systematically work through the line items, then. 2.1 economic policy and advice, it seems to me, that we have done.

2.3 Intergovernmental Financial Matters -

Mr MULDER - We seem to have \$1.2 million going forward. What exactly is that being spent on? I mean on specifics. I know it is being spent on intergovernmental policy advice but that does not tell me much.

Mr WALLACE - I will hand over to Wendy for more detail but that is the cost of the people who work on providing advice, working to put submissions to the commonwealth grants commission review, to the review of GST, to the commonwealth financial impact of commonwealth/state negotiations.

Mr MULDER - Basically it is salaries and travelling?

Ms GIDDINGS - Yes.

CHAIR - We move onto the community assistance areas - Bass Strait Islands community service obligations and then the Public Trustee.

Output group 4 Community Assistance

4.1 Bass Strait Islands Community Service Obligation -

Ms FORREST - With the Bass Strait islands, I notice there is a drop in 2013-14 in that community service obligation, in support, and then it jumps up again. The footnote talks about that. This is related to the recoupment of the capital costs associated with the Huxley Hill wind farm. I am not sure where that relates to the requirement, the line item there. This supports the people who travel to the mainland of Tasmania. There is a declining population over there at the moment. Unemployment is a bit of an issue with the loss of the abattoir. What is the explanation for the decline in the budget for next year?

[11.15 a.m.]

Mr WALLACE - Are you talking about the Bass Strait community service obligation?

Ms FORREST - Yes.

Mr WALLACE - The Bass Strait Islands Community Service Obligation is the payment that the budget makes to Hydro Tasmania to ensure - effectively it is a subsidy on the power costs of people who live on the two Bass Strait islands.

Ms FORREST - Is that everyone, not just those on healthcare cards or -

Mr WALLACE - No, it is everybody. Because there isn't a hydro-electric or any other power generation system on the island, apart from historically diesel generation, which is very expensive, even though the islanders pay a higher tariff than mainland Tasmanians, that tariff is heavily subsidised. It is subsidised through the budget paying an amount so that those power prices are lower.

Ms FORREST - I understand that but why the drop this year? Is it to do with the Huxley Hill wind farm there?

Mr WALLACE - No, for the Huxley Hill wind farm there is a note explaining the increase. I would have to go back and check why it has dropped - is it from 2011-12 to 2012-13?

Ms FORREST - The 2012-13 to 2013-14 figures show it was \$8 676 000 down to \$8 600 000. It is not a huge drop but -

Mr WALLACE - It is a function of -

Mr JEFFERY - There is a fall in the cost of supply.

Mr WALLACE - Yes, it is a function of what the projected price of diesel is next year compared to this year - there is probably a minor change in the estimate of the diesel price.

After that, there is the agreement between the government and Hydro Tasmania to develop the Huxley Hill wind farm, because wind will be a cheaper source of energy than diesel.

Ms FORREST - That makes sense now.

Mr JEFFERY - It's \$36 000 you are looking at in the fall.

Ms FORREST - Yes.

Mr WALLACE - The cost of supply has gone down slightly and I am almost certain that will be the assumption about the diesel price next year compared to this year.

Ms FORREST - I know there is some speculation at the moment that things will change if Hydro Tasmania gets their project up for the 250 wind turbines off King Island; I think that is a bit in the balance at the moment. What impact will that have on this in the long term? Assuming it goes ahead, of course; if it doesn't go ahead then nothing will change.

Ms GIDDINGS - It is all about generation for export.

Mr WALLACE - Yes, the King Island thing that is being discussed with the community at the moment is a project that generates effectively renewable energy credits for the whole national electricity market but the Huxley Hill wind farm development on the island is what is going to achieve a reduction in the long term in the cost of power of the CSO in relation to the island. The TasWind development is a project to deliver renewable energy into the national electricity market.

Ms FORREST - It will just go straight up the cable to Victoria?

Mr WALLACE - I can't comment on that. It's something you need to ask Hydro Tasmania. I think it is 2 000 megawatts, which is a massive development.

Ms FORREST - More than the island would ever need.

Mr WALLACE - Yes.

Laughter.

Ms GIDDINGS - It is about export.

Mr WALLACE - Yes well, it is not much - the Tasmanian installed capacity is not much different from that so it is a national-scale wind farm development.

Ms GIDDINGS - It might also help to have a second cable that joins mainland Tasmania with Victoria. That wouldn't just be a King Island to Victoria -

Ms FORREST - That is the next phase if it gets going. That would be some time down the track.

Ms GIDDINGS - Yes - it would be an additional benefit to the state.

CHAIR - Any further questions on that area? The Public Trustee CSO - Rob, is there anything there -

4.2 Public Trustee community service obligation

Mr VALENTINE - I am interested to know - is this just for printing of pamphlets and providing seminars to educate the Tasmanian people, I presume? Is that what the community service obligation is about?

Mr FERRALL - No, it goes further than that. There is a range of activities that the public trust office provides which are non-commercial in nature including support for individuals if they did not and the CSO funds that and I think they would be upset if you said it was pretty paltry.

Mr VALENTINE - That is why I am asking the question.

Mr FERRALL - We have a CSO agreement with the Public Trust Office which specifies a set of activities that they perform in exchange for that funding. I can get you the full details of those services if that would help.

Mr VALENTINE - I do not think that is particularly necessary. Maybe you might be able to answer why it has gone up \$110 000 and then \$86 000 in the two following years. So they are obviously doing something extra?

Mr FERRALL - It has gone up following a review. We conducted a review of the funding and identified that the funding was not adequate to continue to provide that level of services.

Mr VALENTINE - Because of the level of people over age 65 coming through?

Mr FERRALL - A range of factors.

Mr WALLACE - Yes, it is an increase in demand for those.

Mr FERRALL - We identified that it needed to increase across the forward estimates to keep those services going and the other option was that you would cut back the services, which we did not think was appropriate.

Mr VALENTINE - No, that is all right. Thanks, that is all I need to know.

CHAIR - We go to a whole \$37 000 for electricity reform. Rosemary, is there anything?

Mrs ARMITAGE - I want to talk about the Royal Society of Tasmania.

CHAIR - Discontinued.

Ms GIDDINGS - No, it is not. It is absorbed elsewhere. It is just a discontinued line item.

Ms FORREST - For this year but it will be gone next year?

Mr FERRALL - We have just got rid of that particular output. This is rolled into overhead, which is \$3 000.

CHAIR - Just to keep them afloat.

Mr MULDER - We just thought it was the first hint of the republic we were going to have.

Laughter.

Mr VALENTINE - We have to declare an interest.

Mr FERRALL - You will still get your cheque.

CHAIR - It is \$3 000.

Ms GIDDINGS - Yes, \$3 000.

Mrs ARMITAGE - Well, \$37 000 is a lot of money if you do not have it. I would be interested in knowing - well, it may be a breakdown on the \$37 000 - but also an explanation as to how the structure has been formulated in the electricity reform and what your estimated financial gains will be, bearing in mind that we do have \$731 000 in electricity reform in the output group expense summary.

Ms GIDDINGS - For this particular output, as I understand it, in the notes they are saying that it reflects a role of Treasury managing the government's commitment to reforming the state electricity industry.

Mrs ARMITAGE - We have \$731 000, of course, and that is in the output group expense summary, but footnote 5 - I have read that.

Ms GIDDINGS - Yes.

Mr WALLACE - I just got an explanation of it and it is actually the cost of the cadet on the electricity reform, so in the electricity reform team we have a cadet.

Ms FORREST - Did you claim the cadet?

Mr WALLACE - Yes, and, for the life of me, I would have to find out more why it is sitting there. I am not quite sure but there must be some technical reason for that.

Ms FORREST - But there is \$731 000 spent there, though.

Mr WALLACE - The cost of the project team in Treasury is estimated to be \$731 000 and \$37 000 is the cost of the cadet.

CHAIR - We need to move to Finance-General as we are done on Treasury and Finance, so

there are areas -

Mrs ARMITAGE - We are going back to the Treasurer, though. What about government business?

CHAIR - That is Finance-General.

Mrs ARMITAGE - Sorry, I was looking at Treasury.

CHAIR - We have finished on Treasury and Finance so then we come to areas under your jurisdiction, Premier, in Finance-General. I suggest that we have done output group 1 in the earlier issues. Output group 2.2: there is no target for voluntary redundancies; the Premier has addressed her mind to that from a policy point of view earlier. We then come to the government businesses and the FT money.

DIVISION 3

(Finance-General)

Output group 3

Employee related costs

3.1 Forestry Tasmania -

Mr HALL - Premier, footnote 3 on page 4.3 says 'the decrease in the Forestry Tasmania Output reflects the one-off equity contribution of \$10.0 million to Forestry Tasmania in 2012-13'. Can you provide more detail around that, please?

Mr FERRALL - That note is actually incorrect. Effectively, seeing last year's budget, the profile was \$35 million and then dropped down to \$25 million. The change from \$35 million to \$25 million reflects exactly the same profile that was in there last year that was based on the URS report in the estimates of support that FT would need going forward. That note is not correct in terms on an equity injection. An equity would effectively be a balance sheet transaction; we wouldn't see it in that table.

Mr HALL - The provisions for FT over forward estimates are described as ensuring that FT can continue its operations to meet its contractual obligations and perform its non-commercial functions in the event that market conditions do not improve. It is anticipated that any moneys from this provision will be paid in 2013-14. Have there been any discussions about whether these provisions will be required in 2013-14, and for what purpose? Has FT made any requests to access the funds?

Ms GIDDINGS - Yes, this is funding that will definitely go to Forestry Tasmania and without those funds, Forestry Tasmania risks going insolvent. There would be a whole lot of directors' duties and things that would come into play. They will go insolvent so this is to ensure that they don't, that they comply with GBE act in regards to that. Essentially we have had to put those funds in there to insure that they can pay wages and continue to operate.

Ms FORREST - It is not a contingency?

Ms GIDDINGS - No, it is not contingency it is provision.

Ms FORREST - What was the cash-flow deficit total for the budgeted period for them last year? Was it \$47 million? You say it is a provision. Does that cover their total deficit or do they have some capacity to pay some of it?

Mr WALLACE - The \$47 million included the provision for deficit funding plus other moneys

- most of the costs associated with the intergovernmental agreement and some firefighting costs.

At budget time we estimated \$47 million, we are now estimating that it will be about \$52.9 million through FT. It includes the \$35 million, which is broken up into \$20 million for non-commercial activities and \$15 million for extra deficit funding. The \$35 million has two components; one is the services they provide which have been regarded as non-commercial, which we have allocated \$20 million to, and an extra \$15 million to keep the deficit funding so that they do not run out of cash and become insolvent. That is the \$35 million. On top of that there is transitional funding under the TFA of \$6.5 million we provided this financial year. There is an equity contribution of \$10 million.

Ms FORREST - What was that for?

Mr FERRALL - That was in last year or was paid in the budget, which was effectively following the sale of their softwood assets. It related to -

Mr WALLACE - The stamp duty.

Mr FERRALL - No. It was going to be a return of tax that they would have had to have paid. In the event they did not pay the tax because they had tax losses, but they still received the equity injection.

Mr WALLACE - There is \$1.4 million of excess wildfire fighting costs so this reflects the extra cost of wildfire fighting this year compared to what we have in the budget. That is under a different item.

Ms FORREST - Just to clarify - your budget of 2012-13 was \$47 million. What you have actually provided for FT is \$52.9 million. Your budget for 2013-14 is \$27 million. How realistic is that? Are they likely to need more than that?

Mr WALLACE - The equity won't be there.

Mr FERRALL - The equity contribution last year would not have shown in the \$37 million.

Mr WALLACE - Yes, that is right.

Ms FORREST - Is \$27 million going to be all that they require this year?

Mr WALLACE - The provision is based on the estimate of what they are going to need.

Ms FORREST - Their loss, basically.

Mr WALLACE - Yes. Plus some commonwealth TFO funding. I think the number is \$27 million, is it not, so \$2 million.

Mr FERRALL - \$2 million is fire fighting.

Mr WALLACE - Sorry, no, the \$2 million is for fire fighting. The TFA is not in this item.

Ms FORREST - \$25 million is what was -

Mr FERRALL - Yes.

Ms FORREST - And that is the next three years.

Mr FERRALL - There is a base \$2 million in there which is for fire fighting support that goes across all the years.

Ms FORREST - So it is \$25 million for the next three years and then \$22 million the following year.

Mr FERRALL - \$20 million. You take out the fire fighting.

Mr WALLACE - \$20 million.

Ms FORREST - Yes, so 25, 25. So we are not expecting FT to become profitable in the foreseeable future ever.

Mr WALLACE - No, there is an assumption of a slight improvement in their position over the forward estimates.

Ms FORREST - In 2016-17.

Mr WALLACE - The ERS report shows that it will be a few years before things happen that improve their position substantially.

Ms GIDDINGS - 2020-26 or something, I think I saw yesterday when I was looking through it.

Mr WALLACE - It starts to improve about 2017, 2018.

Ms GIDDINGS - It is a long way away - 10 years away.

CHAIR - Thank you. We will move to the State Fire Commission output.

3.2 State Fire Commission -

Mrs HISCUTT - Volunteers are always wonderful to have with the fire fighting. I have noticed you have set some money aside for buildings in the Forth/Turner's Beach area amongst others which is really great - it is my area. Have you plans in the future to put career fire fighters into that Ulverstone -

Ms GIDDINGS - You will have to ask the minister those questions. David O'Byrne is the minister who looks after the fire section in those estimates. He should be able to answer those sorts of questions.

Mrs HISCUTT - Okay.

Ms GIDDINGS - We just provide the money, they determine how they will spend it.

Mrs HISCUTT - Thank you.

Mr MULDER - I note in 2011-12 it was \$2.8 million, in 2012-13 it fell to \$2.3 million which was put as part of the national partnership program money washing out. I notice this year it is \$2 million and \$2 million onwards.

Ms GIDDINGS - What are we talking about there?

Mr MULDER - 3.2 State Fire Commission, output group 3.

Mr WALLACE - There is a one-off claim -

Mr FERRALL - A community protection plan.

Ms GIDDINGS - That is it, the community protection plan.

Mr MULDER - Yes, that was the fall in 2011-12 to 2012-13. I am interested in the -

Mr FERRALL - No, that was the 2012-13 to 2013-14. It finished in 2012-13.

Ms GIDDINGS - And they are done now.

Mr MULDER - Okay, the community protection plans. We are now down to base funding of \$2 million.

Ms GIDDINGS - Yes. They do have other revenue sources.

Mr MULDER - I would be aware of that. I doubt whether we could run an entire fire service on \$2 million. The other question I have got is that you make, it seems to be quite consistently for the last few years at least, a \$240 000 contingency provision for funding of excess fire costs. I am wondering why we are putting that as contingency year-in, year-out. If it is being used then should that not be considered to be a part of its budget or if it is a true contingency should that not be something that you come back to Treasury for, if and when you have excess fire fighting costs?

Mr FERRALL - It is not always used. It has been in recent times but it has not always been used every year. Sometimes it is claimed against and sometimes it is not. In a year like this it has been exceeded.

Mr MULDER - It seems strange because you do not have, for example, in the police service an excess law enforcement contingency every year thrown into the budget for them to draw on if they get massive protests or a disaster that requires extra. I am wondering why we do this policy?

Ms GIDDINGS - Yes, but this is different. Natural disasters are fairly unpredictable in that respect. It is a little different to police in managing a protest.

Mr MULDER - But there are major costs associated with police, for example, in the bushfires. They do not get a contingency fund.

Mr FERRALL - This goes back quite a few years and it does not only relate to the Fire Commission, it relates to forestry and to primary industries and sometimes it has been exceeded and sometimes it has not been taken up. It has been taken up by differing agencies at different times depending on the impact of the fires, either on forestry, the Fire Commission, or primary industries, so it is difficult to allocate to a particular agency and that is why it sits there.

Mr MULDER - I know in the previous line item there is a contingency there but they get \$2 million for excess fire fighting costs and the State Fire Commission gets 10 per cent of it. I am wondering what the rationale is?

Mr FERRALL - Forestry gets \$2 million to support their fire-fighting cost. The Fire Commission has a budget allocation of about \$2 million but it has significant other revenue sources which support its fire-fighting activities.

Mr MULDER - I do not understand the rationale for having contingencies.

CHAIR - We will move on to government businesses line.

3.4 Government Businesses -

Mrs ARMITAGE - The question I have is regarding the \$17.5 million for ports infrastructure - which ports and how were they classified and ranked for work - is that you, Premier, or the minister?

Ms GIDDINGS - In terms of the work program you had better talk to David O'Byrne who is the minister overseeing the ports. I can only tell you that we have put money aside for those particular projects - Sullivans Cove, Inspection Head, Stanley and Strahan. They are all quite critical, particularly the Sullivans Cove area where we have the potential of eight premises around Princes Wharf being closed and Macquarie No. 1 or No. 2 being closed. It is important work.

Mrs ARMITAGE - And the \$1.7 million for the enterprise suitability mapping, can you provide a little more detail on that?

Ms GIDDINGS - I do not know if we have any further information that is not already printed in the budget papers but the Minister for Agriculture, Bryan Green, would be able to flesh that out for you around what they are doing, other than we are doing a lot of research to ensure that we are planting the right crops in the right areas and that we are getting water to those crops. There is additional money going into Irrigation Tasmania for investment attraction as well.

CHAIR - Any further on that line item?

Ms FORREST - The footnote to the expense summary page in relation to this also says Tas Irrigation was \$750 000 in 2013-14 for accelerated investment attraction, which you just mentioned, and new enterprise development and \$300 000 on an ongoing basis; what is the \$300 000 on an ongoing basis for? Is that for Tas Irrigation or is that for some other purpose?

Ms GIDDINGS - That is for Tas Irrigation so if they are employing an economic investment attraction officer, for instance, that is an ongoing recurrent cost for those salaries.

Ms FORREST - It was interesting on the radio the other day the department was suggesting that the price of land has gone up by more than the costs and they have had to pay for the irrigation so you wonder how much more support they need if that is the case, if their land is appreciating. Maybe that was one farmer's experience, but I do not know.

Ms GIDDINGS - Certainly, if they have access to water that will help the land appreciate.

Ms FORREST - At what point do you keep subsidising it?

Ms GIDDINGS - There is a fairly rigorous process that goes in behind business plans for each scheme in that sense and I think if we did not have the level of government subsidy, which is about 50 per cent - but the minister would be able to tell you more - I do not think those schemes would go ahead and particularly the south-east irrigation scheme, for instance, which has been that bit more expensive than the others. He can tell you more about all of that. It has been quite a cultural change encouraging farmers to understand the importance of water and the cost of delivering that water. It is pretty exciting, what is going on.

Ms FORREST - It will naturally elevate the price of the land or you would hope it would, otherwise you wouldn't be doing it.

Ms GIDDINGS - Yes.

Output group 4 Miscellaneous

4.2 Treasurer's Reserve -

Ms FORREST - Premier, you mentioned in your opening comments the impact of the bushfires and the fact that the Treasurer's reserve only has \$20 million in it and it has appropriated an additional \$10 million that is there. I do not know whether with the proposed Financial Management Act that will change. Can you provide some detail about what you think is an appropriate level for the Treasurer's reserve and why?

Ms GIDDINGS - I obviously think that \$20 million is appropriate at this point in time. It is what we can afford to put in it and where we have had to spend over that amount of money we have come back to parliament to ask for the authority to pay for those additional expenses through a supplementary appropriation bill. In better times, with stronger revenues, you may well increase that amount but to what level I do not know. I have not explored that with Treasury because we are not in those better times. At the moment, I think it is appropriate. I certainly do not think you can go below \$20 million.

Ms FORREST - The draft financial management bill has been around for a while, has been consulted on broadly and the proposal is clearly to make that different and a bigger amount based on percentage. I would suggest that this year and next year times are not going to be better, not in the short term; if it is going to be significantly more, how is that going to affect the budget bottom line?

Mr FERRALL - The draft financial management bill is for consultation. What it really reflects from a Treasury perspective is that the Treasurer's reserve has been \$20 million for a long time, at least 1991 in my recollection. In that time the overall budget has grown significantly and the Treasurer's reserve is effectively to meet unanticipated and unavoidable impacts on the budget and, from our perspective as reflected in the draft bill, we think a higher provision is effectively necessary to meet those unavoidable and unanticipated expenses. Ultimately, it is a matter for the government to decide what level of Treasurer's reserve it thinks is appropriate but, as we have said, with a budget now which is effectively \$5 billion it is not a lot of variance in having a Treasurer's reserve of \$20 million. In 1991, the total expenditure was probably \$1.5 billion or \$2 billion and you had the same level of Treasurer's reserve.

All the draft bill does is reflect a view from Treasury; we have put a number in it or a percentage for consultation. Post the consultation, we will take that back to the government and make a decision as to what level they want to put in as we take the bill forward.

Ms FORREST - It would be good to see it before the end of the year? The bill?

Mr FERRALL - It is a matter of legislative priorities whether it will.

Ms GIDDINGS - It is on our list but I am not aware of any reason for it to be delayed other than where it sits amongst all the other legislation.

Mr VALENTINE - Do we have a list of payments made out of the Treasurer's reserve last year or 2012-13?

Mr FERRALL - Without making this complicated, the Treasurer's reserve is not static so, if you read the act, you will see that it is supplemented for unanticipated revenues. You start with a \$20 million reserve but as you get anticipated revenues, it gets supplemented by that. When you ask if we have a list, what happens is that all of that ends up with the Auditor-General and we can say this is how things are being paid out but the list is the requests for additional funds that agencies have. They are in the agency budgets and they do not get expended against the Treasurer's reserve.

Ms FORREST - Section 19 of the report. They were much later than the event.

Mr FERRALL - That is the list of the impacts against the Treasurer's reserve.

Mr VALENTINE - So we do get it eventually?

Ms FORREST - We will note it again as we do every year.

CHAIR - We move to grants and subsidies.

Output group

Grants and subsidies -

CHAIR - There is a list on 4.17. Are there any questions to the Treasurer on those areas?

Mr MULDER - In relation to local government grants, I take it this is transferring through the thing. I am wondering what impact the proposed referendum on recognising local government has, which would mean they flow directly to local government.

Ms GIDDINGS - No. The commonwealth pays direct to local government already for their payments. They do not all come through us, do they?

Mr FERRALL - No.

Mr VALENTINE - There was a court case over it.

Ms GIDDINGS - Yes, there was, and that is why there is this debate. I do not anticipate that it will but one of the risks of putting local government firmly into the constitution, is that the commonwealth could pay directly to local government a lot more than it currently does. There are pros and cons to that from a state government perspective.

Mr MULDER - We often hear you take some administrative fee as it passes through the books - is that a furphy or is it all passed on directly? I am referring to the comment on 4.18 in relation to this item: 'local governments are comprised of two components; general purpose funding, under the Australian logo the Australian government each year provides funds to the states for on-passing as general purpose grants to local government'. My question is, is there any administrative siphoning?

Mr WALLACE - Basically, no. These are the monies that get allocated between councils like state grants commission and the state provides and pays for the state grants commission.

Mr MULDER - They simply come through the books and come past with no administrative fee.

Mr VALENTINE - With respect to the forestry arrangements and the move of forestry land into reserves, we have heard the arguments about local government missing out. Who do I ask these questions?

Ms GIDDINGS - About ratings?

Mr VALENTINE - No, about the fact that, with the financial reform that went through in 2003-04 it was very clear that forestry land was going to be rated and reserve land was not, but now we see a significant shift which has cost some councils \$400 000 a year - I think the Huon is one of them and some other councils that are significantly affected by that move. One might say that it is a bit rich to expect the councils to wear that when they went through this reform process to make it an even playing field.

Ms GIDDINGS - Other than the commercial land that is no longer commercial land, which would be the thinking behind the original agreement - that if you are making money off the land then the local government has the ability to rate it, whereas the reserve land was non-commercial which they do not have that right to rate.

Mr VALENTINE - That is right, but in a sense it is like a cost shift, almost, on local government. They are actually missing out on, because of a government decision they are now impacted.

Ms GIDDINGS - It is not an issue for Treasury in that respect.

Mr VALENTINE - No, so who does -

Ms GIDDINGS - It would be much more of a -

Mr VALENTINE - Bryan Green?

Ms GIDDINGS - policy discussion around Bryan as Minister for Local Government in that respect. We also have my Premier's Local Government Council which is where those issues would be appropriately discussed as well.

Mr VALENTINE - I was wondering who it was that I should be directing the questions to.

Ms GIDDINGS - Bryan, as the Minister for Local Government, would be the primary person.

Mr VALENTINE - Thank you. Thank you, Mr Chair.

Mrs ARMITAGE - Just continuing the grants and subsidies regarding the local government. The support for local government infrastructure investment: I notice it is going down in 2013-14 to \$375 000 and then totally non-existent. I noted the notes from 4.19 but I wonder if you could expand further as to what is happening there. We have \$921 000 for 2012-13, \$375 000 for 2013-14. Are all their loans paid off by then if we are no longer providing subsidies? Or who do we provide them to, which councils, perhaps, did we provide the subsidies to?

Mr FERRALL - I think this was an initiative of Michael Aird, which was basically a subsidy to local government to support infrastructure investment. The actual output provides for the government's initiative to promote local government infrastructure investment through targeted subsidies to councils to offset loan interest. I think originally there was something like a 50/50 percentage split to support on the interest and this wind-down just reflects the wind-down of that program and the completion of the interest subsidies.

Mrs ARMITAGE - Just to certain councils?

Mr FERRALL - It was by application. It was open to everyone. I think the program was introduced about three or four years ago, so this is just the tail end of it.

CHAIR - Thank you. Any matters related to the capital investment program, which is adequately described as the IT Initiative in the budget papers? I do not see that there are. It is just about done, Premier. Can I round out by asking what is the position this year with the Premier's sundry grants or whatever the new name is? Any expenditure from that area?

Ms GIDDINGS - Yes, but that comes under DPAC.

CHAIR - Thank you.

Ms GIDDINGS - It is where the other question is.

CHAIR - We are done on that area.

Mr FERRALL - Treasurer, there was a question earlier on the Australian government funding management account balance. The estimated balance at 30 June 2013 was \$388.1 million and going forward to 30 June 2014 the estimate is \$293.9 million. Obviously the 2014 is much more an estimate than what we know now.

Ms FORREST - So we do not know how much relates to the Royal Hobart and the railyard upgrade?

Mr FERRALL - It will only relate to the railyard. I think that has been transferred - the railyard has been transferred. We can get a breakdown of what relates to the Royal for you.

Ms FORREST - That would be good.

Mr WALLACE - Through you, Premier, there was information sought on the grants commission ratios - the level-of-service-provision ratio, which is the extent to which Tasmania underspends or overspends compared with the Grants Commission's assessment and the cost-of-service-provision ratio, which is the extent to which we had cost their stability as an island state [11.55.13]. I could table those.

CHAIR - That is us done, Premier, in terms of Treasury and Finance-General, the only one left for us is the Auditor-General.

DIVISION 19

(Tasmanian Audit Office) -

CHAIR - We will go straight to questions.

Mr BLAKE - I have no opening comments to make, Chair.

CHAIR - Greg?

Mr HALL - No, I do not have anything at this stage, Chair.

Output group 1

Public sector management and accountability

1.1 Public Sector Management and Accountability -

Ms FORREST - Mike, we are all impressed by the amount of output from the Audit Office and the quality of the output. I know many of us have input into your work's program. There is a reduction in the budget again; I think there was a reduction last year as well, so how do you manage the challenges to continue to meet the demand that we, as probably your key stakeholders, place on your office to provide the facts in a timely and consistent manner, particularly when we had a report tabled by you last week - I think it was - where it describes challenges with timing and your workload that meant that one is pushed back a bit in the actual presentation of that report. Do you want to give us a bit of an explanation of that?

Mr BLAKE - This all started in 2011 when we first were told we are going to have a reduction in the budget. The total reduction over the forward estimates period including that year was

\$265 000, so what have we done about that? We have done a number of things; we did not fill a position that was vacant in our performance audit area and we have gone through a zero-base budgeting exercise which Patti has contributed very strongly to being a new person on the team. That has identified some savings we can make, which we have done. We have looked at the cost of our current reporting arrangements and that is why now we see more electronic versions of the reports coming from us rather than hard copies - that is the savings in the cost area. We have done a restructure of the office, which has resulted in Ric being appointed as my chief operating officer, which has resulted in some savings. We have gone through the whole of our back office area and looked at where we can save money in the back office, and that has resulted in that from 1 July this year we will be having our back office functions provided through shared-service arrangements with customers. That is not public yet but that is going to be happening from 1 July.

Ms FORREST - It is now.

Mr BLAKE - Those are some of the things we have done; we have also restructured our performance audit area to have a smaller number of senior people on the team rather than more people around. All of those things have been done to make sure we can continue to give you the same volume of work as we are providing now. The project you are referring to was not affected by fewer people, it was just a lengthy project that involved a whole bunch of state policy we had to get around. I am confident that we will still give you the output. The other thing we have done as part of the review is to look at our rental cost, which is a major cost for me. We are hoping that a review that we have initiated will result in the Integrity Commission, the Ombudsman and my office being located in one place. We cannot do that overnight; that is the plan for 2015 because that is when our current rentals will end. Once that time comes around I think we will be well placed.

[12.00.p.m.]

Ms FORREST - The decline in the budget allocation from 2012-13 to 2013-14 you think is not going to adversely affect the earmarking steps?

Mr BLAKE - No. The steps we would have taken will address the costs of relocating.

Ms FORREST - You are not taking a pay cut yourself then?

Mr BLAKE - No, not yet. The decline that you have seen there probably flows to payroll tax.

Ms FORREST - It could be, too.

Mr BLAKE - The big drop in the end cost in the next 12 months will primarily be payroll tax.

Ms FORREST - It is not actually a reduction in the budget in real terms?

Mr BLAKE - No.

Mr HALL - Just for the record, Mike, what investigations or reviews have been self-initiated recently and what is on the drawing board?

Mr BLAKE - We still have a range of projects that we have on the drawing board. The last report on VET management flags current projects. We are working on fraud control in local government and that report I am hoping to get tabled before the end of this month. The Royal Hobart Hospital redevelopment, which was announced a few months ago, is currently underway. We are planning to do an audit of the alcohol, tobacco and other drug services plan which was initiated by the Health department about four years ago. We are looking to see what progress there has been with that plan. I have just recently signed off on a project looking at the radio communication networks in Tasmania. Those are already underway and there are four or five we are still thinking about.

Mr HALL - You have looked at government departments in particular as part of your role, as we know, and employee expenses is the biggest state budget expense. Do you have any views about the merits of setting a global cap on employee numbers as a measure to help constrain the growth in employee numbers in the public sector? Is that something you have considered?

Mr BLAKE - It is not something that I have thought about. I am not sure how employee caps help that process. I would have thought each department is to look at its own requirements. I am not in favour of employee caps and that is just a personal view, but I have not looked at it. I report every year in my reports to parliament from my financial records what the current numbers are and what the current costs are but I have not taken that any further.

Mr HALL - Finally, are there any issues or measures that you have raised in recent times that still have to be covered off by government?

Mr BLAKE - No. The last follow-up audit that I did was about 12 months ago, and we had about an 80 per cent success rate with that in terms of recommendations being adopted. My follow-up program has taken a bit of a back seat in recent times because the Public Accounts Committee has been doing its own follow-up of some of my reports and I have not seen any progress on that issue in recent times. I discussed with them recently the need to restart my own follow-up program and they have agreed to that. The first cab off the rank will be the Premier's sundry grants program and I will follow up that particular project.

Mr HALL - Sorry, I missed that.

Mr GIDDINGS - My discretionary fund.

Mr BLAKE - I also want to follow up the work we did on the employment by members of parliament of their family members and also have a follow-up of the work that we did on the children in out-of-home care report. We haven't started those yet.

Mr HALL - Thanks, Mike. As long as you've got the Premier in the spotlight there somewhere, which is good.

Ms GIDDINGS - We are all treated equally.

CHAIR - No other questions? We are done on those areas, thank you, Mike. We will come back at 1.30 p.m. and maybe we could kick off with Legislature-General and then keep moving into the rest of DPAC after that.

The committee suspended from 12.05 p.m. to 1.32 p.m.