

# UNCORRECTED PROOF ISSUE

**Tuesday 6 June 2017 - Estimates Committee B (Gutwein)**

## LEGISLATIVE COUNCIL

## ESTIMATES COMMITTEE A

**Tuesday 6 June 2017**

### MEMBERS

Mr Armstrong  
Mr Farrell  
Ms Forrest (Deputy Chair)  
Mr Gaffney  
Mr Hall (Chair)  
Mr Valentine

### IN ATTENDANCE

**Hon. Peter Gutwein MP**, Treasurer, Minister for Planning and Local Government

### Department of Treasury and Finance

**Tony Ferrall**, Secretary

**Kathrine Morgan-Wicks** - Deputy Secretary, Budget and Finance

**Anton Voss** - Deputy Secretary, Economic and Financial Policy

**Jonathon Root** - Director, Revenue, Gaming and Licensing

**Jane Beaumont** - Deputy Secretary, Corporate & Governance

**Craig Jeffery** - Director, Government Finance and Accounting Branch

**Katinka Smith** - Senior Executive Officer, Office of the Secretary

### Tasmanian Audit Office

**Rod Whitehead**, Auditor-General

**Ric De Santi**, Deputy Auditor General

**Patricia Johnson**, Director, Corporate Support

**Department of Justice**

**Simon Overland**, Secretary

**Stephen Morrison**, Director Finance, Department of Justice

**Julia Hickey**, Manager, Office of the Secretary, Department of Justice

**Jennifer Lee**, Director Communications and Executive Support, Department of Justice

**Brian Risby**, Manager, Planning Policy Unit, Department of Justice

**Greg Alomes**, Executive Commissioner, Tasmanian Planning Commission

**Jarrold Bryan**, Project Officer, Single Tribunal, Department of Justice

**Worksafe Tasmania**

**Martin Shirley**, General Manager

**Local Government**

**Greg Brown**, Deputy Director, Local Government Division, Premier and Cabinet

**Ruth McArdle**, Deputy Secretary, Department of Premier and Cabinet

**Justin Helmich**, Assistant Director, Local Government Division

**Ministerial Office**

**James Craigie** - Chief of Staff

**Tony McCall** - Principal Adviser (in the Local Government & Planning sessions only)

**The committee met at 9 a.m.**

**CHAIR** (Mr Hall) - I will call the Committee to order. Thank you very much, Treasurer. If you would introduce the people at the table first, please.

**Mr GUTWEIN** - To my right, Tony Ferrall, Secretary of the Department; Kathrine Morgan-Wicks, Deputy Secretary; and to my left, Anton Voss, Deputy Secretary, Department of Treasury and Finance.

**CHAIR** - Thank you.

**Mr GUTWEIN** - Chair, I might give a short opening statement.

**CHAIR** - Yes, indeed. Thank you very much, Treasurer.

**Mr GUTWEIN** - Thank you very much. Thank you, Chair. The 2017-18 budget is all about building Tasmania's future and builds in our three years of hard work in Government. The Government is investing record funding to provide better health and education services, more jobs, better roads and transport, action on cost of living and continued investment in essential services such as public safety and supporting Tasmanians in need.

While the Liberal Government has delivered on its promise to repair the budget, having down that, we're now in a position of investing the benefits into the services and infrastructure that

Tasmanians need, and indeed deserve. This budget continues our strong plan for Tasmania and delivers not only a balanced budget bottom line, but also key initiatives and sensible investments that will build Tasmania's future. The 2017-18 budget forecasts surplus of over \$54 million in 2017-18 and we will remain each and every year of the forward estimates. Rather than forecasting rising debt as the state did three years ago, this budget forecasts it will have held positive net cash and investments right across the board estimates.

As a Government, improving our health system is one of our highest priorities and that's why we're making the single largest increase to health expenditure in the state's history. Compared to last year's budget, health funding over budget forward estimates will include total recurrent spending on health in excess of seven billion dollars across the four years which is an increase of more than \$650 million. This funding includes permanent funding for 106 additional beds across the state and more doctors, nurses and health professionals employed in our hospitals.

We remain on track to complete the Royal Hobart Hospital redevelopments by mid-2019 and we have also secured the future of the John L Grove at the Launceston General Hospital, as well as for the future of the Mersey Community Hospital as a result of the \$730 million deal negotiated with the federal government. Our plan has delivered 6400 new jobs since the election and at 5.8 per cent our unemployment rate is now equal to the national average and the second lowest of all the states. There is still more to be done and that is why this budget invests almost \$25 million in the programs. It will support 7600 Tasmanians into work. Payroll tax relief and normal business grants will encourage to take up new apprentices, trainees and other young people.

We are also partnering with TasCOSS in the TCCI to remove barriers that limit employment opportunities for young people. The Government understands the cost of living increases affect everyone and we have recently passed legislation to limit the impact of rising wholesale electricity price increases on household and small businesses. The budget also includes \$20 million of additional funding to assist in putting further downward pressure on prices for unregulated business customers. These measures, together with the foregone revenue from our Government businesses represents a total investment of more than \$100 million.

The budget also contains a new housing incentive package to assist people to enter the housing market. This includes an extension of the \$20 000 first home owners grant, stamp duty relief on house and land packages, and the initiation of a review of Government owned land that could be repurposed to improve the supply side of housing availability, especially in the affordable housing context, to be jointly led by Treasury and Housing Tasmania.

As a Government, we understand that improving the education outcomes of Tasmanians is creating a job ready generation that's more productive and enhances our competitiveness. That is why we are investing \$6.4 billion over the next four years to education, an increase of more than \$250 million compared to last year's budget. We are also investing our communities. The budget provides an additional \$27.5 million to support the system-wide redesign of out-of-home care services in Tasmania which is in addition to the \$20.6 million announced in last year's budget. The Government understands the importance of investing in infrastructure and this budget contains \$2 billion of job creating infrastructure across the budget and forward estimates to build Tasmania's future.

In late 2016 I announced an economic stimulus package which included the Accelerated Local Government Capital Program, the \$60 million partnership with councils in the north and the north-west, and given its success, the Government will now support an additional \$60 million in interest-

free loans to local government to extend the program state-wide. As a Government, we know the importance of industry and tourism in our regional areas, and the budget commits \$12.5 million to support the Government's food plan, additional funding of \$9.5 million over two years to provide grant assistance to Copper Mines of Tasmania to help them get on their feet again, and \$6 million to support the Government's cycling tourism strategy to build on the success of trials like those at Blue Derby.

The 2017-18 budget demonstrates what Government can do when it manages to stay its finances sensibly and responsibly to deliver balanced budgets. With the state's finances back under control, the Government is now in a position to build Tasmania's future by investing in the services and infrastructure that Tasmanians need, and indeed deserve.

I am happy to take questions.

**CHAIR** - So we might start with an overview question or two before we hand anything up. I have one. The budget shows an expected surplus of \$75 million this financial year, then the ongoing surpluses after that in the forward Estimates are about \$50 million which equates to about 1 per cent of general revenue. So I suppose you could argue there's not a lot of wriggle room for error. When I looked back in Budget Paper No.1 - and some of those are quite a few pages devoted to the risks associated with the assumptions that have been made for the forward Estimates. What do you think are the greatest risks to the budget going forward? Obviously GST revenues have always been a bit of a bogey in the wind, if you like.

**Mr GUTWEIN** - GST is a particular challenge, there's no two ways about that. We receive a significant portion of our revenue through that source, and the Productivity Commission Review that's been instigated is something that we will have to be very firm in our intent to make sure that we don't lose as a result of that.

Apart from two of the states which seem to be agitating - Western Australia is one and New South Wales - there's a coalition in form amongst the other states and territories in respect of the response to this, but that will always be a threat. It is something that we need to be conscious of, but we'll ensure that we take forward our best arguments into that and seek support from other jurisdictions where we can as well.

**CHAIR** - You have no gut feelings of the immediate future, the next 12 months or so, as to where things might track?

**Mr GUTWEIN** - In respect of GST, the Productivity Commission Review won't be finalised until early next year, until January, and so the outcome of that's going to be in the first few months of the coming calendar year. In regards to threats with the broader national economy, obviously the size of the course, we will work our way through the course of this year. Now, that's always something that we need to keep an eye on.

In regards to the forecast surplus which is what you raised for 2016-17, the actual surplus will be significantly higher, albeit it will be as a result of the Mersey Community Hospital Fund running through to the budget. It is estimated at this stage that that will be around \$812 million for the current year, but the \$730 million, it's flowing through in that one-off payment for the Mersey. The setting of the level surplus across the forward Estimates in an operating sense, it's set modest, but it's also sensible to ensure that we do have some level of buffer should we need to deal with other risks, and we have faced them in this state in recent times with regards to fire and flood.

**CHAIR** - The other big one - and there was quite a bit devoted in the budget papers that I read - and a key risk to the budget, and it is going is the old unfunded super liability which is expected to peak around 2022 and 2023. That is massive for a small state.

**Mr GUTWEIN** - We would be in a much stronger position if we had the SPA still in place. I've spoken about that on a number of occasions. The policy intent of previous governments was to put the state in a position - I well remember coming to this place back in 2002 and David Crean was the Treasurer, and at that time there was an expectation that the SPA would have enabled the liability to have been fully funded by about now, but we're not in that position.

As it stands at the moment, we're meeting it out of our cash receipts which set a limit that we want to operate within, and that's 6 per cent of our total cash receipts. The superannuation cost is apparently 4.7 per cent -

**CHAIR** - Yes, getting up about 5 per cent.

**Mr GUTWEIN** - And around 4.9 per cent once you take into account the cost of our debt, and it takes about 5.4 per cent. But it's a liability that we have to deal with and -

**CHAIR** - Are there any ways of mitigating it that you could see?

**Mr GUTWEIN** - The only way with superannuation and a liability like that is to use funds to offset it.

**CHAIR** - The Commonwealth, it would seem, is quarantining through legislation any further raids on their funds. Is that something you would consider? Governments have done that in the past, haven't they?

**Ms Forrest** - As governments do with TT money and the Mersey money.

**Mr GUTWEIN** - We're acting in reverse and quarantining it. I'm presuming you meant that we were quarantining it, operating it?

**Ms Forrest** - Yes, quarantining it, not raiding it.

**CHAIR** - I don't know whether they have done that yet but that's what they're talking about doing.

**Mr GUTWEIN** - One of the things that has happened around the country, Queensland has recently taken excess funds out of their superannuation scheme. The level of assets we have in the scheme at the moment is only around \$1.7 billion for the liability that appears on our balance sheet, and we have a total superannuation liability in excess of \$8 billion.

**CHAIR** - I understand that.

**Mr GUTWEIN** - And then the assets that are in the fund are about \$1.7 billion. Ideally you'd like to be in a position where your budget had sufficient flexibility to enable you to put significant amounts of cash aside to start investing to meet that liability. We're in a stronger position, but we're not in that position as yet.

**CHAIR** - The problem is that impinges upon the future health, education, whatever spending. Therein lies the problem, doesn't it.

**Mr GUTWEIN** - It's a matter of priorities.

**CHAIR** - In terms of other jurisdictions, how do we stand per capita in terms of our liability? Is there any sort of initial comparison at all in terms of per capita compared to, say, New South Wales and the other states?

**Mr FERRALL** - We don't have a per capita figure but we're one of the jurisdictions that has a higher superannuation liability

**CHAIR** - A higher one?

**Mr FERRALL** - So other jurisdictions have effectively funded their liability. Queensland is funded.

**CHAIR** - Could we get a snapshot of that please, Treasurer? Could the Department of Treasury provide to the committee a snapshot of where we stand per capita in regards to super liability?

**Mr GUTWEIN** - So that will come through to us as a question on notice?

**CHAIR** - Yes, please. Thank you. I did give you a solution a couple of years ago about that one.

**Ms FORREST** - Did you read the committee report?

**CHAIR** - I probably did but I've forgotten. How long ago was that?

**Ms FORREST** - All his answers were there.

**CHAIR** - Thank you. If you could provide that, that would be good.

**Mr GUTWEIN** - On one other risk that does need to be raised we've held firm on the 2 per cent wages agreement. That has been challenging, but the headline increases for our wage agreements that was negotiated as being 2 per cent. Any increase over and above the 2 per cent has a material impact on the budget. A 1 per cent increase would allow for around a \$25 million hit in the coming year if that were to occur. We all need to be mindful that we need to ensure our wages policy remains in place, otherwise that will have a -

**CHAIR** - Mr Lynch said a week or two ago that that the public sector here should be on parity - why shouldn't they be on parity with their mainland colleagues. When we did the wages and salaries bill you got PTSD when I talked to you about that. There was quite a bit of research done to show that, yes, there was quite a bit of equality in parity already existing. I don't know whether you've done any modelling on that at all, to look at that business?

**Mr GUTWEIN** - Not recently, but what did concern me last week was when Mr Lynch wanted the 3.75 per cent. That is a fair envelope, and an increase of 1.75 per cent would add around a \$40 million hit to the budget bottom line.

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**CHAIR** - I understand that. Yes, any other risks? The big three, GST, super liability and potential wage increases.

**Mr GUTWEIN** - With super, I want to make clear that it is manageable within the envelope that we've set. It would be far better if we did have assets available that could be used to offset that cash assets to reduce that liability, but it's manageable as it stands at the moment.

**CHAIR** - Other members, further questions. Over to you, Ruth.

Treasurer, I'm a little bit confused about your surplus discussion. Can you tell me what the temporary borrowings are at the end of each year over the next four years?

**Mr GUTWEIN** - I am sure we can. Each year it's 499, is it?

**Mr FERRALL** - 499.1, 700.1, 724.8, 628.

**Ms FORREST** - Okay, so the peak about is 724.8 in 20 -

**Mr FERRALL** - 2019.

**Ms FORREST** - So the cash figure on page 49 of the budget papers, take away the temporary borrowings, around \$700 million, that makes around \$75 million of your case, and if you take away the 229 funds that are locked away, the real cash figure is only about \$200 million. Is that right?

**Mr GUTWEIN** - No, I don't want to do the maths on the table. If you want to put that on notice -

**Ms FORREST** - Do you accept then, the overnight borrowings flow over the next three years to what they are now?

**Mr GUTWEIN** - As we've explained, they do.

**Ms FORREST** - Yes, so doesn't that mean you're spending more than you're receiving? The same as you accused the former government of doing, raiding the barn?

**Mr GUTWEIN** - Well, no, we have a significant infrastructure program that's rolling out over the next two years as you would have seen.

**Ms FORREST** - Yes, the question is: are you spending more than you're receiving? The overnight borrowings are growing over the next three years. You're spending more than you're receiving.

**Mr GUTWEIN** - No, I wouldn't accept that, and in respect of the operating statement, which is a very good guide in regards to the health of the budget at the start because you have to start with that being in surplus, the operating statement demonstrates that we'll meet our commitments on an ongoing basis.

**Ms FORREST** - I'm not saying you're not meeting your commitments, but you're still spending more than you're receiving if your ongoing borrowings are increasing.

**Mr GUTWEIN** - But the operating statement doesn't indicate that.

**Ms FORREST** - I am talking about cash, all right? Let's talk about cash, because we are a service deliverer - cash in, cash out. You can't provide a health service and they should have cash put in and put cash out. Agreed?

**Mr GUTWEIN** - Well, I make the point that the operating statement demonstrates that we have a surplus, we're in a surplus position, and you have to start with that. You have to understand that, but second -

**Ms FORREST** - But you accept the state is not making a cash surplus in the next three years?

**Mr GUTWEIN** - One of the key things to take into account is that we have a significant infrastructure program, and across the forward Estimates you will see that our cash balance does decrease as the infrastructure spend occurs, and -

**Ms FORREST** - And we also said we can't form governments from pushing out of capital expenditure.

**Mr GUTWEIN** - Yes, but I make the point that we currently hold cash that's set aside for a range of projects, the Royal Hobart Hospital is one of them, and our cash balance is going to decrease as we draw down that cash to meet those commitments for those programs.

**Ms FORREST** - And we spend some of that Royal Hobart Hospital money on other things over the - since it's been sitting in the account, you know that.

**Mr GUTWEIN** - It's not a matter of spending it on other things. Treasury manages the cash throughout the course of the year to provide the best outcome for the state in not paying more interest than what it should.

**Ms FORREST** - Is it a fact that we're not providing a cash surplus? When the federal government reports its financial figures it reports a cash position. We provide an income position, the proper position.

**Mr FERRALL** - On a general government cash flow, in 2019-20 we have a cash surplus and in 2020-21 we have a cash surplus, and as the Treasurer said in 2018-19 and 2017-18 years, we're still spending money on infrastructure like the Royal.

**Ms FORREST** - Yes, I understand that, but if you remove the distorting effect of the temporary borrowings we're still spending more than we are -

**Mr GUTWEIN** - I've seen the article and the commentary from that particular person relying on those questions. The one thing that has to be drawn to the attention of this House is that in respect of the federal budget, unlike the states, and in our case, we hold significant cash for projects already that has been received from the federal government, cash that's to be utilised and spent on projects.

Now, in those years when we are spending that cash, there will be a significant increase in the amount of cash that we spend - of course there will be. The federal government doesn't operate



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under that arrangement. We are actually in receipt of money from them and that money is held for certain projects. It's a convenient argument to make that in those years that, when we're spending money that we have received from projects, when that flows out the door, we're actually spending more than we receive, that's not right.

**Ms FORREST** - We do this every year, and the general public out there, when they think about what a surplus means to them, it means a cash surplus. It means money in the bank that they can spend on a pair of shoes or something else.

**Mr GUTWEIN** - I was thinking about this last night, actually, trying to explain it -

**Ms FORREST** - Preparing yourself for me?

**Mr GUTWEIN** - No, just to try to explain in simple terms, because as I'd seen it that particular person was floating around information that it might be something you might raise.

If you are a household, and you are receiving a wage, and you are meeting all of your normal daily expenses and you are setting some money aside into an account to go on a holiday, or to pay for an extension, for example, and you are meeting your normal expenditure, you get to a point where you want to spend the money that you set aside in that account for that special purposes. So

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**Ms FORREST** - But then your water service blew up and you had to replace it.

**Mr GUTWEIN** - Yes, hold on one moment. So then you spend that cash in that particular year, and of course in that particular year you have spent more money than what's coming through in your wage, but it's been money that's been set aside for a particular purpose.

It's a spurious argument to claim that because we're spending money that's been received for a particular project, that that is somehow spending more money than we're receiving. It's exactly the same as what would occur in a household. If you think about households and talk about people understanding whether they have enough money to buy a pair of shoes, they understand that if they save money up for a particular purpose, it is unreasonable to suggest in that particular year they have blown their budget.

**Ms FORREST** - Yes, but at a state level, when we talk about the risks, things change. The GST is impacted negatively, and we saw that when the barn was raided. It was used by the former government, their own words - they didn't say raiding the barn; they said they were taking the hay out of the barn, that was their terminology - and subsequently followed up by yourself, but there was a need to have that buffer, as I heard you call it, as well. But there isn't that buffer at this stage because we are having to do the overnight borrowings to prop up the things you're saving for, or you have in the pipeline to spend on, if you want to use your analogy.

**Mr GUTWEIN** - I'll come back to the point I was making. We've set, through the operating statements, modest but reasonable surpluses. They provide us with a buffer, and as I say in regards to the cash, the drawing down of the cash, any - most households would understand if you have money set aside for a particular purpose, in the year that you spend it, that it's unreasonable to say, 'Well, in that year, hey, you've blown your budget', because you spent more than the wage that's coming into the house. It was there for a particular purpose, and in regards to say, the TT-Line

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funds that were put aside, that is sensible budget management, to set aside money, and importantly to make certain that it will be there when you need it.

**Ms FORREST** - I'll go to the Mersey money, and I note you didn't come out publically saying you were having a massive surplus because a massive surplus that appears is the Mersey money, and you explained that.

**Mr GUTWEIN** - I am presuming that's a compliment you're paying me for being sensible in regards to that.

**Ms FORREST** - Yes, it is. It is, yes, but not actually, because you would have had to eat humble pie later on when it suddenly disappeared, I guess, but anyway -

**Mr GUTWEIN** - When I couldn't deliver \$800 million surpluses two years in row?

**Ms FORREST** - That's correct, yes.

**Mr GUTWEIN** - No, I haven't set the bar that high, Ruth.

**Ms FORREST** - No, I didn't think so. A couple of questions on this because I haven't had a chance to look - I've looked at the tabled legislation. It was only tabled last week in your place?

**Mr GUTWEIN** - Tuesday it was introduced, yes.

**Ms FORREST** - Yes, so I had a quick look at it. Why is it deemed necessary to amend an act covering TasCorp to accept the \$730 million? Why not lock it away somewhere in a general government sector? Is it because if you left it in the general government sector, every time you spent it, at about \$80 million a year, round about, you'd be making a deficit? That would mean you would have a deficit for the coming 10 years.

**Mr GUTWEIN** - I'll get the Secretary of Treasury to explain the accounting standards around this, but we received a significant one-off payment to the Government, and it's important that we ensure we provide for a business-as-usual response through the budget in the funding for Mersey, but we also don't distort the budget unnecessarily as a result of the receipt of the money. In simple terms, what we've done is to ensure that we maintain the status quo, that there is money that's being received for the Mersey, and there is expenditure that's being utilised for the Mersey, and at the end of the day it provides for the status quo to continue. The Secretary of Treasury might want to make a point.

**Mr FERRALL** - There's a number of objectives with the funding for the Mersey. Clearly when you get a large in-flow such as that it does create a distortion in the accounts. It would have also, if the funding was left in the general government sector, provided a continued distortion for the next 10 years.

**Ms FORREST** - That's what I'm saying. It would have been a deficit for the next 10 years.

**Mr FERRALL** - You would have seen it for that distortion, so one of the reasons for using TasCorp as a vehicle is that we can match dividends and expenditure seat, so there's no distortion across the next 10 years of the general government statements. The second reason is, TasCorp is the appropriate vehicle. It is the central borrowing authority and under its legislation it is also to

manage state investments. So it's the right vehicle. The third reason is that there has been, I guess from yourself and from the Government, a position of ensuring that the funding is appropriately ring-fenced for the purposes it was received from the Commonwealth. That's why we've used an equity contribution to TasCorp.

**Ms FORREST** - And the interest made will stay in the Mersey account to be used to fund other things at the Mersey? It won't be able to be used for other health purposes?

**Mr GUTWEIN** - No, with the Mersey, in fact, the bill has a number of different components. One is that we set up the fund, the account. Second, it also prescribes the amount of payment that must be received, which is the current payment index of 3.5 per cent over the period until the fund is exhausted. The other thing that we're doing as well is to ensure that the money is appropriately ring-fenced to ensure that through changes to the Government Business Enterprises Act to ensure that any transfer of equity between government businesses must now come to the parliament and is disallowable so that a future government couldn't transfer equity out of TasCorp into another business, or conversely take a special dividend from equity into the -

**Ms FORREST** - Just related to TasCorp we're talking, or are we talking -

**Mr GUTWEIN** - No, in fact we considered this and I thought that in the interests of transparency that we'd include this in the bill so that it extends across all government businesses.

**Ms FORREST** - There's been a number of equity transfers. Are you talking about the TasNetworks equity transfers to a variety of other government businesses and things like that, like, inter-government business transfers?

**Mr GUTWEIN** - Yes, and the reallocation of the debt across the electricity. But they are all made available for public scrutiny because they need to be disclosed in the -

**Ms FORREST** - So it will be tabled and disallowable? Is that what you're saying?

**Mr GUTWEIN** - Yes.

**Ms FORREST** - I haven't read that far into the bill. I've had other things to read.

**Mr GUTWEIN** - I thought you might be pleased with that.

**Ms FORREST** - I am pleased hearing that, yes, it does increase the transparency around it.

**Mr GUTWEIN** - Well, it does, but the transfers were always transparent in that they would be reported in the annual reports.

**Ms FORREST** - Yes, but there was no chance to say, 'We don't like this'.

**Mr GUTWEIN** - But in this case you'll have that opportunity.

**Ms FORREST** - Good to give us another little say on these things, Treasurer, yes. It was a tick for you. I have to check.

**Mr GUTWEIN** - Just trying to help, Ruth.

**Mr FERRALL** - If I could comment on the cash. One of the difficulties in focusing on any single measure in general government statements is you do get distortions and whether you look at cash in a single year or even effectively the operating balance in a single year, it's not a very meaningful measure in terms of the long-term fiscal sustainability of the state.

**Ms FORREST** - I agree with you.

**Mr FERRALL** - Really you have to look at a range of measures and not pick on any particular measure. When you look at the fiscal strategy that effectively encompasses the measures, and so looking at things like ensuring that capex is matched to depreciation is an important part of the fiscal strategy. You wouldn't pick that up though in a simplistic analysis on a single year of the cash position. So when commentators pick up on a single measure like that, it is quite distorting and it's really inappropriate to draw conclusions like that.

**Ms FORREST** - So you would agree then that the net operating balance measure that includes transfers to or from government businesses like TT-Line and TasCorp is an easy measure to manipulate?

**Mr FERRALL** - It's not an easy measure to manipulate. The statements and the budget follows the accounting standard. It's not a matter of -

**Ms FORREST** - Yes, I understand that, but shifting things around like that, they do not appear

**Mr FERRALL** - Well, they appear and they're transparent. The reality is that the statements are complex, and I suppose people who don't inform themselves enough can draw inappropriate conclusions from looking at a single measure.

**Ms FORREST** - Chair, I would like to go to the overall employee expenses, and on page 147 of the General Government Income Statement. The expenses will increase by \$29 million in 2017-18, and then \$30 million in 2018-19, and then \$31 million in the following year. That is about 1 per cent per annum increase. I can't quite make sense of how this fits into the wages policy which you've said previously continues to be 2 per cent, and all your information in the glossy brochures that come with a budget and budget papers, all the extra staff you're going to be employing in some areas including health. So how does that work? To me it doesn't bear an accurate representation. Forward Estimates are only that, I accept that, and they're very rubbery at times, but it seems that this doesn't even consider a 2 per cent wages policy.

**Mr GUTWEIN** - We went through this ad nauseum last year in the lower House -

**Ms FORREST** - I don't read what happens in the lower House.

**Mr GUTWEIN** - But sometimes there are some useful things said. I do pay some attention to what goes on in the upper House, I have to say.

**Ms FORREST** - I am sure you do when you have bills you want to get through.

**Mr GUTWEIN** - Some of it's more so than other parts, but I'll get Treasury to provide a detailed explanation. In regards to the ebb and flow across the forward Estimates, what has to be

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taken into account is that there is always a range of national partnership payments that are either under negotiation or flagged to finish, and they will have a distorting effect on the basis that in the main most of the funds that flow from those are generally for employee expenses. There are a number of them that expire in 2018-19, and we're going through the negotiation phase to see if we can extend them, or whether there'll be other partnership payments, new partnership arrangements, that can be included, and that needs to be understood.

You made the point that the forward estimates are rubbery. They are not. They reflect accurately those payments that we're going to receive from the Commonwealth at the time when we're going to receive them. It would not be reasonable, I don't think, to include our expectations in the budget until we have a better understanding as to whether or not those NPPs are going to continue, but Treasury might like to make a point, because the other thing too, from a cash basis, is sufficient cash flow across the board estimates to fund their 2 per cent as well.

**Mr FERRALL** - This is a case in point of where you need to look at other statements to get a clear understanding, so if you look at the general Government income statement, the employee expenses includes a range of things as the Treasurer has indicated, including NPPs that potentially drop out in future years. It also includes accrual, so if you wanted to try to find a more appropriate way of looking to see whether there is capacity in terms of 2 per cent to meet the growth in wages across the forward Estimates, you would probably look at the cash flow statement, and if you took the employee entitlements and you also included the superannuation, but you discounted the superannuation for the emerging DB costs, then you will find that it does increment at approximately 2 per cent per year.

**Ms FORREST** - So it's not easy for someone to pick up and follow easily, are you saying in that? But I appreciate that -

**Mr FERRALL** - Well, it's easy for me to but not easy for everyone to.

**Ms FORREST** - Yes. So on that point then, can you provide the staff numbers for the FTEs as expected in the general government across the board estimates?

**Mr GUTWEIN** - Can we take that on - we have that for the current year, for the year that we're in, but across the forward Estimates -

**Ms FORREST** - No, I'd like to see because I hear what Mr Ferrall said in relation to the cash flow. I'm not saying you don't have the cash to pay for it. I am interested in how this doesn't reflect - in my reading of it, it doesn't really reflect a 2 per cent wages policy.

**Mr GUTWEIN** - Yes, we can have a look at that. I am not sure -

**Ms FORREST** - How do you base your broad estimates for the employee expenses then, on your national partnership payments and that sort of thing, money that's coming in?

**Mr FERRALL** - Well, we base it on all the salary and wages cost, not on a head count basis.

**Ms FORREST** - But that's the point. You are putting on a lot more people, so surely it's going to go up more than that. As you explained, Mr Ferrall, in this cash flow statement, you have a base figure of 2 per cent increase. That is the wages policy. You are putting on all these extra staff and isn't that going to blow out?

**Mr FERRALL** - What the agencies do is apply the funding they receive to the extra staff to their wages component in the budget which would be in the employee expenditure.

**Mr GUTWEIN** - So with the budget initiatives that are included, which are locked into the agencies, that's automatically coded to wages or other expenditure and then that flows across the forward estimate, so that's already taken - that's already in the budget.

**Ms FORREST** - All right, interesting to see how that pans out. Going back to the cash question though, it is cash that provides a buffer to pay for these sort of things, not a profit position. Is that not a fair comment? You would want the cash surplus argument back again, but is the cash that provides the buffer having cash in reserve, not a surplus based on that?

**Mr GUTWEIN** - If you're suggesting that we should have a particular account that's established from a savings point of view for other risks, that's something that I haven't factored into the budget. Ultimately the budget is set on a basis of ensuring that we have sufficient headroom across the operating statement, which I'd have to say is in a lot better situation than it was a few years ago. I'm trying to understand your argument, and I think it is that we should have a separate account with cash available for the government if there are emergencies. Is it?

**Ms FORREST** - No, you say all this extra staff. I mean, 345 extra staff in Health alone. That's more than a 1 per cent increase in staff numbers in Health.

**Mr GUTWEIN** - That's already factored into the budget, it's already coded up.

**Ms FORREST** - It remains to be seen whether we see blow-outs in this at a later time, I suggest, Chair.

**CHAIR** - How are you going, Ruth?

**Ms FORREST** - Yes, someone else can have a go. I have others in this area.

**CHAIR** - We are still on overview questions. Anybody else at this stage? Mr Valentine?

**Mr VALENTINE** - No, I'm all right, thank you.

**CHAIR** - You are all right? All right, keep going, Ruth.

**Ms FORREST** - In the risks section of your budget papers, one of the risks that you have in here is the water and sewerage industry reform. I commend Treasury on their more detail in this section too, so another tick. There is much more detail in the risks and maybe there's just more risks, I don't know, but there's more detail as well. I note that you're setting up a new GBE, that's what you're suggesting, and I was never sure if you were taking over the existing one or setting up a new one, and we haven't seen the legislation as yet. I believe that's still a work in progress?

**Mr GUTWEIN** - That is right.

**Ms FORREST** - Are you suggesting it would be a GB under the GBE Act or a state-owned company, or is it something different?

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**Mr GUTWEIN** - Well, the legislation is being drafted at the moment. It will be GBE, but as I have indicated to you as well, it will be a GBE that is established for this specific purpose. I don't want to go into too much detail but in effect it will be bespoke legislation design.

**Ms FORREST** - So TasWater legislation basically as opposed to -

**Mr GUTWEIN** - But it will be a GBE. It will be a GBE under the Government Business Enterprises Act.

**Ms FORREST** - Given that you have limited powers to seize assets owned by others, the act will enable that? It will have to enable that, won't it?

**Mr GUTWEIN** - I'll say what I said yesterday - I've received a range of advice on this, including from the Solicitor-General, and the Government has taken advice from Treasury and from the Solicitor-General. As a result of that advice my view and the Government's view is that there's no lawful impediment to us doing what we want to do.

**Ms FORREST** - All right, it will play out, I suppose. It will be unfortunate if it starts a legal fight.

**Mr GUTWEIN** - I want to put clearly on the record, TasWater and local government yesterday, spending ratepayers' funds to hire in a -

**Ms Forrest** - Lawyer.

**Mr GUTWEIN** - A lawyer. I was looking for a more colourful term, but to hire in a lawyer.

**Ms Forrest** - Lawyers are lawyers.

**Mr GUTWEIN** - What we said to local government is that for their customers, and it's been an issue that's been raised by many in local government - they have had concerns about the rising interest as a cost for TasWater customers. So under our model we will provide a lower cost. We will get the job done quicker. As I explained yesterday the TasWater plan of \$1.5 billion over the 10 years, at the end of that period there is still nearly \$0.5 billion of work that needs to be done on the existing assets that have passed their use-by date. Nearly \$0.5 billion left at the end of 10 years, and so we will get the job done quicker, and at the same time provide to local government exactly what they were promised from TasWater, the 2024-25, then they get 50 per cent of any returns into the future, a risk-free return without the responsibility of ownership.

To me, it's a pretty fair deal. I was appalled yesterday to see that they're spending their ratepayers', all TasWater's customers' money on going through this. Of course we have taken advice. Of course we believe that this can be done and we will be bringing forward the legislation at the earliest opportunity.

**Mr GAFFNEY** - On that point there, I hear what you're saying, minister, but alternately people could say that the state government has spent taxpayers' money on a marketing campaign for the TasWater takeover way in advance and way more expensive than what TasWater have spent getting a lawyer to say you can't do it because it's not legal. I hear what you're saying, but on the other hand the money that you spend with your marketing through radio, media and print is community

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money as well. So you can't just say, 'Look what they've spent on a lawyer', when you have spent quite a lot of money on marketing your takeover.

**Mr GUTWEIN** - Mr Gaffney, that's a point that you have made, but what we're talking about here is fixing a task that local government has not been able to do.

**Mr GAFFNEY** - And that's fine because -

**Mr GUTWEIN** - And if I could make the point, the messages that we're talking to the Tasmanian community about are about ensuring that they understand that the proposal that we have on the table is in their best interests. What we are looking to do is to fix a significant problem that the state has, and importantly, and as I say, when you consider what TasWater are proposing in their 10-year plan, they have nearly \$0.5 billion-worth of work that still needs to be done on assets that have passed their use-by date at a time when the Chair and the owners are saying that the assets are deteriorating faster than they can fix them. So of course we want to talk to Tasmanians. This is a large reform, but it's perfectly reasonable to explain to them that they will get lower prices, a quicker fix, and that there are problems here that we, as a state, need to face up to.

**Mr GAFFNEY** - That's fine, but the point you made to start with was, you thought it was strange that TasWater had brought in a lawyer to defend their case when you had spent money putting forward your case. I am not talking about the next point which is the reason behind it, but you can't cherry pick situations and say, 'How dare they spend some money on a takeover bid', to protect what they believe is rightfully theirs.

**Mr GUTWEIN** - Can I say, how dare they spend money on supporting a model that's going to cost customers more and is going to provide a slower fix.

**Mr GAFFNEY** - Well, a (indistinct) 94730 business model will find that.

**Mr GUTWEIN** - I don't think that is in Tasmania's best interests.

**Mr GAFFNEY** - Well, they do, so that's interesting.

**Mr GUTWEIN** - Well, it's a bizarre situation, isn't it.

**CHAIR** - That is an argument we are going to have down the track.

**Ms FORREST** - It looks like a hostile takeover in many respects, so how has the Government been able to do its due diligence on this? I would have thought that TasWater hold most of the corporate knowledge around, and the expertise that's in TasWater. Are they assisting in providing information? Often in a hostile takeover that's not easy. Who's providing advice? It is not TasWater. You talked about your legal advice, but the advice on the actual condition and the need for the action that you're proposing -

**Mr Valentine** - The actual tasks involved.

**Ms FORREST** - Yes.

**Mr GUTWEIN** - TasWater has provided to Treasury their draft 10-year plan. I must say, I'm pleased that they do have a 10-year plan because during the last price and services process that was



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undertaken with the Economic Regulator, they didn't provide or couldn't provide a 10-year plan. So we have detail provided in respect of what they are proposing over the next 10 years. Obviously they provide annually their financial statements, and then we're also informed by the engineering and civil construction community as well who have a view.

**CHAIR** - Treasurer and other members at the table, this argument regarding the takeover of TasWater probably lies more in the local government area later on.

**Ms FORREST** - I have some questions relating to the proposed borrowings put on which is all about this, in the section of the risks here, the risk to the government bottom line in terms of their borrowings, so if I could ask those and I can ask the other ones later.

With your indulgence, Chair, so you're saying, Treasurer, that you're in a takeover which will reflect in the future budgets, assuming that you're successful in achieving that. You intend to cap prices to shave off some revenue. So the TasWater plan has borrowings increasing at roughly \$50 million per annum just to do the infrastructure spend as they have proposed, which you say isn't enough. With revenue reductions the borrowings will get even greater, won't they, in terms of what the government will have to do to borrow?

**Mr GUTWEIN** - The advice that - and I have released to local government, high level Treasury advice in regards to where the company would sit at the end of 10 years, and that advice indicates that at 10 years, without any further government assistance other than providing the \$20 million which this budget countenances for local government to provide them with their returns, that TasWater can be kept whole and at the end of 10 years, their interest cover ratio is 1.7 and rising. We have set, and as I explained to local government, our two times target of interest cover which is the same was what TasWater target, that their debt to equity ratio will be 66 per cent and falling at the end of 10 years, and that will be below their peers' businesses on the mainland, and so that is in a good position and falling. Net debt -

**Ms FORREST** - But you can have a higher debt ratio in a highly regulated business, that is not such a concern.

**Mr GUTWEIN** - No, no. The key thing though is that, the modelling that we have undertaken does not countenance that the state government would provide any further assistance into the business over the 10-year period than what we are suggesting we will pay to councils which is \$20 million. But we have named up that risk. If we get to a point and there is a need to either bring other work forward or that there is - there are three major projects that are being talked about around the state as well. If there is a need to do those, that we would utilise some of the state government balance sheet strength to provide assistance to the business. Now, on the basis of what we have explained to local government regarding the accelerated program that is not envisaged at this stage. But we would be in a position where we could, if we needed to.

**Ms FORREST** - You said and repeated again today, that TasWater will have an interest cover of 1.7, but I understand that TasWater has done some modelling. With your approach if you reduce at 3.5 per cent in the tariffs, I am not sure what percentage you intend to shave off the top, but that will show your interest cover if the government owns it at one, and if you took at 2.75 per cent tariff rise, it would be at 0.8 per cent.

**Mr GUTWEIN** - I have seen some of the numbers that TasWater have put aside. Treasury has provided me with advice, which I have made public, in regards to what would occur if we

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accelerated the infrastructure as we are suggesting we would, where the business would be at the end of 10 years. Now, on that, I draw great confidence that TasWater has the capacity to do what we want to do.

**Ms FORREST** - So including the extra borrowings that the government and TasWater would have to undertake, the price capping that you would undertake, at what percentage -

**Mr GUTWEIN** - With our modelling, we have taken that into account.

**Ms FORREST** - So what are does your interest cover and your equity ratios?

**Mr GUTWEIN** - Our interest cover is 1.7 and rising at the end of 10 years. Our debt to equity ratio is 66 per cent and falling. The business demonstrates a net profit of around \$35 million, I think it is, at the end of 10 years, and so we have been able to accelerate the infrastructure program. We have been able to provide lower prices. We have been able to get the job done quicker, and the company is whole. From the point of view of local government, their concern that the state government wants to take on this to receive the rivers of gold that they were expecting, we have made it perfectly clear that our 50 per cent of the returns post-10, would be put back into either infrastructure investment or keeping prices lower or reducing debt. We are not doing this for the revenue. We are doing this to get the job done.

**Ms FORREST** - But you are accepting and acknowledging that you will have to do borrow to do it -

**Mr GUTWEIN** - Well, TasWater would. Not the state.

**Ms FORREST** - It is conveniently off the general government balance sheet, yes.

**Mr GUTWEIN** - My consistent position with local government and with TasWater has been that the debt to equity ratio that they have - their gearing has been very low for a period of time. They have had the capacity to do more for a long period of time, and they -

**Ms FORREST** - So why don't you get them to do that? Why don't you get them to do that and not - this is a debate for - this is about the policy position. I was interested in the effect of the borrowings, there Chair.

**Mr GUTWEIN** - You ask, why don't you get them to do that? I asked local government earlier this year if they were prepared to do more to do this quicker. In fact, everybody agreed when I met that more needed to be done. I put to local government that they should do more and they said no. They said no. And so we have embarked on this particular path.

**CHAIR** - At this stage we will continue, Treasurer, in the local government part where we can continue that debate.

**Mr GUTWEIN** - I am in your hands, Chair.

**CHAIR** - We have a fair bit of other stuff to get through.

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**Ms FORREST** - There are a couple of questions in the fiscal strategy I would like to pursue, Chair. Fiscal strategy 4, page 79, talks about the separation of Forest Tasmania into non-wood divisions from 1 July 2017. Is that on track?

**Mr GUTWEIN** - My understanding is that it is, yes.

**Ms FORREST** - So the sale of the plantations, that has been agreed as yet?

**Mr GUTWEIN** - No, it has not but it is drawing to a close.

**Ms FORREST** - So you expect it to be finalised before the end of this financial year?

**Mr GUTWEIN** - I expect to have an understanding of what the value is for the sale, yes. So it is getting to that point, at the end of that cycle.

**Ms FORREST** - So if the sale was not finalised by 30 June, what will be Forest Tasmania's borrowings in TasCorp?

**Mr GUTWEIN** - Currently they have a letter of comfort at the moment of \$41 million and I have no advice before me at the moment in regards to needing to consider an increase.

**Ms FORREST** - That is assuming that the sale goes ahead then pretty much is it?

**Mr GUTWEIN** - Again, I do not have the current level of borrowings as it stands at the moment. My understanding is that they operated within the letter of comfort envelope. Obviously if they need further assistance, Treasury will provide me with advice if and when that is so required.

**Ms FORREST** - Chair, I did send to the Treasurer last week a range of questions asking for information around estimated outcomes, and detail regarding the policy and parameter statement. Do you have those answers?

**Mr GUTWEIN** - I do actually. I got them this morning. I am happy to either read them in or to provide them.

**Ms FORREST** - I will read them because hopefully these will be helpful in determining some of the other questioning further on in the output groups.

**Mr GUTWEIN** - So do you want me to -

**Ms FORREST** - If you read the question and - maybe we can table them as I have copies of them.

**CHAIR** - I am having a look at how long the answers are. We can resolve that they can be tabled in the -

**Mr GUTWEIN** - There are pages of them.

**Ms FORREST** - That is why I wanted them last week, Chair. I tried to get them early.

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**Mr GUTWEIN** - What if I get a version and sign them off and then table them later this morning? Would that suit?

**Ms FORREST** - As long as we can come back to some of these areas if they relate to areas that we are going past now.

**CHAIR** - We will table them later this morning.

**Mr GUTWEIN** - Yes, all right. I will get a version that I can table. I thought that - yes, there is a fair bit to read in. I am happy to table them today.

**Ms FORREST** - Yes. Many of these issues - for example, the one referring to policy and parameter statement regarding nominal superannuation interest expenses - that is this section. It is here unless you can direct me where else in Treasury and Finance I can raise it.

**CHAIR** - We could resolve to have it incorporated into *Hansard* if we want to do that.

**Ms FORREST** - Yes, it needs to be.

**CHAIR** - It would need to be tabled to do that. Treasurer, do you need more time to check them through?

**Mr GUTWEIN** - I am just having a look at what I can -

**CHAIR** - Then we could put them into *Hansard*. We can resolve to do that later on.

**Mr GUTWEIN** - Which question would you like, Ruth, and I will get a version that I can table?

**Ms FORREST** - I would like all of them.

**Mr GUTWEIN** - I am asking if there is one that you wanted to ask specifically because it is in this particular -

**Ms FORREST** - The one going to nominal superannuation interest in the policy and parameter statement says 'Referring to the parameter and policy statement in Table 4.5 Budget Paper 1 specifically nominal superannuation interest expense adjustments on page 67', and also major expense variation explanations in Table A3.3 on page 199. I am asking what date did they actually provide estimates for nominal superannuation interests which were included in the 2016-17 budget.

**Mr GUTWEIN** - I am just having a look. That might be the only one I have not got. Oh, no. So you don't want me to read your questions in? I am presuming if I read through the answers. So that first one, on what date. That is in regard to what date we actually provide? The 2016-17 actuarial assessment received on 24 March 2016. The answer to 2, 'On what date did the actuary provide estimates for nominal superannuation interests which are included in the 2017-18 budget?' The 2017-18 actuarial assessment was received on 22 March 2017.

Question 3, 'Can you provide a copy of the actuary's advice in questions 1 and 2?' The answer to that is, the actuarial assumptions for both the 2016-17 budget and the 2017-18 budget are published in chapter 7. Assets and liabilities of budget paper 1, the assumptions for both budgets a

discount rate 4.75 per cent. Salary increase rate, 3 per cent. Pension increase rate, 2.5 per cent and investment earnings, 4.75 per cent.

Question 4, the key assumptions used by the state actuary are as recommended by the state actuary. The question was: Did Treasury instruct the actuary to make any particular assumption or was this left to the actuary's professional determination? As I have said, key assumptions used by the state actuary are as recommended by the state actuary.

Question 5, 'Did the actuary provide more than one calculation on each occasion or was only one calculation provided to Treasury?' The actuary provided actuarial estimates and superannuation liability based on the key assumptions published in the budget papers together with sensitivity analysis modelling a plus or minus one per cent discount rate as published in charts 7.3 and 7.5 of budget paper 1.

Question 6, 'What is the concept of spot price that was used to calculate nominal interest for 2016-17 and how does this differ from prices used on earlier occasions?' The spot rate is the known actual investment earnings rate on plan assets to 31 January of each year from 1 February to 30 June is based on the assumed long term investment earnings rate of 4.75 per cent as noted in Question 3. The same methodology for calculating nominal interest has been consistently applied by the state actuary.

Question 6, 'How is the figure over the forward Estimates calculated?' The calculations over the forward Estimates period are based on the long term investment earnings rate of 4.75 per cent.

**Ms FORREST** - Thank you. I was particularly interested in the concept of the spot price because it made a significant difference to the budget this year. It was a \$51 million difference, a positive benefit which seems a huge change. It is very handy to have it, and I know it is only paper money. It is not cash in this case. But it did make a significant positive impact on your budget figures, and effectively is included in your surplus. Is it not?

**Ms MORGAN-WICKS** - In terms of the spot rates, so I have the 2.7 per cent spot rate that was just read out by the Treasurer through the answer. We also have, for the period, a nominal interest earning rate of 9.15 per cent. So remembering that in terms of the nominal superannuation interest expense, it is the interest cost with respect to the liability less the interest income or earning on plan assets, and we had quite a significant increase in terms of the earning rate on assets so at 9.15 per cent. So both of those taken together, are causing the different in terms of the \$50 million.

**Ms FORREST** - But it does have a positive impact on your bottom line though, doesn't it? On the surplus position.

**Ms MORGAN-WICKS** - Yes, on the actuary applying -

**Ms FORREST** - Yes.

**Ms MORGAN-WICKS** - Yes, the spot interest rate as they occur.

**Ms FORREST** - I have not seen such a large variation in recent times. Maybe I haven't looked as hard at some of that.

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**Ms MORGAN-WICKS** - The 9.15 per cent is probably higher than what we have had in recent years in terms of the earning rate.

**Ms FORREST** - So just the interest rates?

**Ms MORGAN-WICKS** - That is correct. So applied by the actuary, yes.

**Ms FORREST** - All right. The other one is the unfunded superannuation liability, Chair, and this question is referring to the takeover of Forest Tasmanian's unfunded superannuation liability deferred during 2016-17.

With regard to the 2017-18 Budget:

1. Referring to the takeover of Forestry Tasmania's unfunded superannuation liability that occurred during 2016-17:
  - a. did this include current employees;
  - b. if not what happens each time an employee member of the defined benefit scheme retires;
  - c. how has or will any liability be shifted;
  - d. how is the assumed liability recorded in the government's books;
    - i. is it as an equity contribution to FT; or
    - ii. by some other method;
  - e. how is the transaction recorded in FT's books?
2. Referring to the Public Non-Financial Corporations Balance Sheet on page 155 of Budget Paper 2017-18 Vol 1, specifically the biological asset of \$200 million estimated outcome for 2016-17: given that the 2016-17 budgeted figure for biological assets was \$73 million how has the increased value been recorded? In other words what is the corresponding credit entry?

**CHAIR** - Treasurer, you have the answer. You could read that in if you like.

**Mr GUTWEIN** - That was one of the ones that you asked her?

**Ms FORREST** - Yes.

**Mr GUTWEIN** -

1. The Government agreed to assume financial responsibility for legacy defined benefit superannuation costs currently met by Forestry Tasmania.

On 31 December 2016 the Government assumed all superannuation assets and liabilities associated with members of the contributory scheme and surviving partners receiving a pension as at 31 October 2016. These assets and liabilities transferred under section 32 of the Forest Management Act 2013 and the notice was gazetted on 28 December 2016.

The transfer notice prescribed that the transfer must be recorded in the financial accounts as follows:

- (i) in the case of the Forestry corporation, as an equity contribution by the state; and
- (ii) in the case of the state, as an equity contribution to the Forestry corporation.

This transfer was recognised in the Revised Estimates Report 2016-17.

A further transfer is proposed as at 30 June 2017 for members of the contributory scheme who have or will leave as part of the restructure to Sustainable Timber Tasmania and to transfer the compulsory preserved members, who worked for Forestry Tasmania previously. It is proposed that this transfer will be made under section 32 of the Forest Management Act 2013 and prescribe the same accounting treatment as the previous transfer.

Sustainable Timber Tasmania will remain responsible for the liabilities of any remaining members of the contributory scheme.

2. All biological assets included in the Public Non Financial Corporations Balance Sheet are assets controlled by Forestry Tasmania. It includes both native forest and plantation forest available for production as well as informal reserves.

The 2016-17 Budget estimate for biological assets as at 30 June 2017 was \$72.8 million. This balance included the assumption of a sale of a proportion of Forestry Tasmania's plantation assets in 2016-17.

The actual balance for biological assets as at 30 June 2016 was \$199.2 million as reflected in the Treasurer's Annual Financial Report 2015-16. This was \$46.2 million higher than the prior year primarily due to the reclassification of road infrastructure assets to biological assets. The value of the biological assets increased \$54.4 million due to the reclassification of roads and \$1.9 million due to planting. These increases were offset by a decrease of \$10.1 million due to the decrease in value of the standing timber.

Given the uncertainty regarding the timing and quantum of the sale proceeds, the 2017-18 Budget estimates for the PNFC Sector do not include the impact of the sale of plantation assets. This change was included in the Revised Estimates Report 2016-17 released in February 2017 and has also been outlined in the Budget Risks section on page 18 of Budget Paper No 1. The impact of this change is reflected by a reduction in sale proceeds for 2016-17 resulting in increased borrowings for Forestry Tasmania.

The 2017-18 Budget Papers forecast a balance for Biological assets of \$200.6 million as at 30 June 2017 an increase from the actual balance as at 30 June 2016 due to assumed annual expenditure on plantations.

**Ms FORREST** - Thank you. I have one, probably a table, Chair, you might be able to table. The answer, I'd imagine.

**Mr GUTWEIN** - Once I can get these assigned as of today, I am happy to table all of these. Is it the grants and subsidies table?

**Ms FORREST** - Yes. Table 5.2 the grants and budget paper 1, page 82, to provide a break-up of other grants and subsidies for 2017-18 the same level as the detailed contained in the Table 5.4 Commonwealth payments.

**Mr GUTWEIN** - Yes, I am happy to table that today.

**Ms FORREST** - The estimated outcome should have all that as well because I asked for the break-up from State Growth as well as Finance-General.

**Mr GUTWEIN** - Yes, it does. It will have the estimated outcomes.

**Ms FORREST** - If we could go to that sooner rather than later, that would be good.

**Mr GUTWEIN** - I will get these printed so I can sign them today. I will do them as soon as we get a break.

**CHAIR** - Thank you.

**Ms FORREST** - Thank you, Chair.

**Output group 1**  
**Financial and Resources Management Services**

**1.1 Budget development and management -**

**CHAIR** - If we now move on perhaps onto 1.1 Budget Development and Management, the first line item there, Ruth.

**Ms FORREST** - This predominantly relates to the budget information management system. Is this on budget and on time, the roll out of this new schmico system?

**Mr GUTWEIN** - I will refer to Kat to explain the new schmico system. It hasn't been called that before but I am sure that will stick.

**Ms FORREST** - As long as it works like that. \$8 million is the estimated spend.

**Ms MORGAN-WICKS** - No, \$7.517 million I think is the budget for the BIMS system. So yes, it is currently within budget. Regarding timing, we have just finalised design and validation piece, so using the new system that occurred in the last quarter of 2016 which is basically a development of a prototype and testing which involved both Treasury and agencies testing the prototype. That successfully passed our test and we are now into an implementation phase. We are hoping to go into formal user acceptance testing in between the third and fourth quarter of this year. What we are going to do is roll the 2017-18 budget data into the new BIMS system and do a parallel run between both our old BMS system and our new BIMS system, so as we go through and get variations now into the 2017-18 budget year.

**Ms FORREST** - So what differences should we, the consumer, see in terms of presentation of budget papers and things like that as a result of this? Or we won't see anything or?

**Ms MORGAN-WICKS** - So in terms of the actual system itself, so this system is managing all the data and numbers that appear in the budget papers. At the moment it has been programmed to produce all the usual tables that appear in the budget papers, but we also have to factor in the impact of the Financial Management Act with the implementation which is due for 1 July 2018 as well. Now that we have finished the 2017-18 budget papers, at the moment we are having a look



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now at potential improvements or enhancements that we can make to the presentation of the 2018-19 budget, but also we need to get through the main test phase of the BIM system first. We need to make sure it can absolutely do everything that the BMS does now and then we look at the enhancements that can be made for future budgets.

**Ms FORREST** - We would like to see those enhancements reflected in the next year's budget papers.

**Ms MORGAN-WICKS** - In terms of enhancements or in terms of modelling, yes. But those are currently being settled at the moment so we are working through that process.

**Ms FORREST** - So things like estimated outcomes and things like that -

**Mr FERRALL** - We are likely to change the presentation next year to address some of the issues that have been raised for the last couple of years around comparability between tables and having information in one section and not another in some cases. So things like your question about estimated outcome, we are likely to look at putting that in tables where we have the budget and the forward estimates.

**Ms FORREST** - The output groups as well. Yes.

**Mr FERRALL** - So you can do that sort of comparison.

**Ms FORREST** - We know money is appropriated but not necessarily spent and sometimes more is spent. We end up with our supplementary appropriations or our little section 19 report shuffle around which will be a section 22 and section 23 or something like that, from memory. So I am interested that we will see some change next year potentially. But the roll out is another year away? The Financial Management Act, the new one does not start until next year.

**Ms MORGAN-WICKS** - 1 July 2018.

**Mr FERRALL** - So the 2018-19 budget will be under the new Financial Management Act. The new budget will be in the new format.

**Ms FORREST** - It will be in the new format, yes.

**Mr FERRALL** - The 2018-19 budget next year in respect to the financial year 1 July.

**Ms FORREST** - Yes, of course, it will even though it was tabled before the end of the financial year.

**Ms MORGAN-WICKS** - Yes, and pending all positive, successful test of the new system, it will be prepared using the new system.

**Ms FORREST** - But so far the testing has been -.

**Ms MORGAN-WICKS** - Yes.

**Ms FORREST** - So the total cost you are expecting, is that within budget, yes. All right. I do not have anything further on that, Mr Chairman.

## 1.2 Financial management and accounting services -

**CHAIR** - Anything further on 1.1? Then we'll move to 1.2. Financial management and accounting services.

**Ms FORREST** - A lot of these areas I touched on with the risk mitigation in terms of the risk that the budget placed. I assume this is where a lot of this sits, or is this the more direct risks associated with your internal management? The Chairman talked about GST and that sort of thing and the risk that posed to the budget. I was not really clear whether that was actually in this section or whether it is -

**Mr FERRALL** - It is not really, but -

**Mr GUTWEIN** - I will get Treasury to explain that because we have a lot of very clever people who work across the range of different areas.

**Mr FERRALL** - The comments we are talking about are at a risk level, really the whole-of-government risk position, whereas what we are looking at right now is Treasury narrowly. When you look at the outputs and outputs groups within Treasury, they largely align to functional areas within Treasury, not like step but largely. So Financial Management Accounting Services as it describes provides advice on financial management reform, government strategies and priorities. It supports the financial relations liabilities so it is a functional area within Treasury. It is supported by the funding in that output.

**Ms FORREST** - Yes, so in looking at risks associated with the extra borrowings for TasWater for example, is that something that would be dealt with in here? You have said you have done - well, I am not sure what you actually said. TasWater has a 10-year plan -

**Mr FERRALL** - And to be clear, I don't think there is any risk in respect of [inaudible] 'do a lot more. What Treasury provided me with is advice in respect of what the outcome of working that business harder would be over the 10 years and what the financial metrics would be at the end of the 10-year period. That is what has been provided and that is what I put on the public record. That has been released to local government.

**Ms FORREST** - We are going back to the TasWater thing a bit here. So you are saying all your modelling and work done, I assume within this area on that, is that supported within this area?

**Mr FERRALL** - The modelling would be done in our economics area so it would have been effectively developed in the output group Economic Fiscal Policy Advice. We have put that together but there would have been input from people in our government finance and accounting area as well, together with Anton, myself, and others. Formulating a piece of advice doesn't always come from a single area within Treasury. Quite often it ranges with influence from other areas within Treasury.

**Ms FORREST** - So the risk associated with almost running a dual system at the moment with trialling the new budget reporting system, or whatever it is called, the schmico new system, as opposed to the current one, then is that something that you have -

**Mr FERRALL** - They are running parallel with the same area.

**Ms FORREST** - It seems to me that all of these things do work together and it is a bit hard to separate into who does what, where.

**Mr FERRALL** - Yes.

## 1.3 Shareholder advice on government businesses -

**CHAIR** - Thank you. We will move to 1.3, Shareholder Advice on Government Businesses.

**Mr FARRELL** - Last year you informed us what it was intended to be allocated for. If you could just explain how this funding has been used in the past 12 months and what your future plans are for this allocation - it seems a fairly stable amount of money.

**Mr FERRALL** - This is principally the government financing accounting. Sorry, it is principally the shareholder policy, the branch of Treasury which provides advice to the Treasurer on government businesses. It also does work in areas such as support for the rating agency meetings that we have on an annual basis. It principally does the monitoring of the government businesses in providing advice to the government on those businesses, including the quarterly reports, monitoring of their corporate planning process, et cetera.

**Mr FARRALL** - So if the government was successful taking over TasWater would there need to be a bigger allocation to that? Would that mean then that there's more demand on -

**Mr FERRALL** - It would be unlikely. There would be more demand but we would deal with the managing and monitoring of TasWater through the same group of people.

**Mr FARRALL** - So it is a pretty set amount. There is no reason to think that that would need increasing over the forward estimates?

**Mr FERRALL** - It really depends on the amount of intervention or monitoring that the government wants us to do with the businesses. By way of example, if you are looking at something like HydroTas, a very complex business, we provide advice within the resources we have on HydroTas, but if the government wanted, in the future, more detailed advice or analysis than we currently provide, then there would obviously be some sort of an impact.

**Mr FARRALL** - And that would be something you would just cover as you moved along? It is something you cannot forecast?

**Mr FERRALL** - Yes.

**Ms FORREST** - On Government Business Area and Advice, going to the policy and parameter statement, there is some information in the policy and parameter statement at page 98 that shows MAIB to be providing \$240 million over four years. Can you explain how that has happened? There is only a small footnote that describes what is happening.

**Mr GUTWEIN** - I am right in saying that their dividend policy is based on their rolling five years. Is that right?

**Mr VOSS** - Yes, 50 per cent. It is going back to 50 per cent. It was 60 per cent, a little bit higher, and it is just coming back towards 50 per cent. A lot of variability around dividends and what have you. Obviously MAIB has a large investment portfolio, forecast around returns, for example. But it talks in the footnote about expected lower claims expenses, so those two things combined it's what pops out at the bottom basically. When you do the calculation around the five year averaging, and they have a five year rolling average because of variability in returns. You can have a very good year and a not so good year and stop the movement around each year. It just gives us some consistence.

**Ms FORREST** - There is obviously a bit more room to move there if government wanted to get a bit more out of MAIB and they are a well-run business, it appears and successful in doing what their job is to do. But if has been returned to 50 per cent, what was the basis. I was just trying to find the right page.

**Mr VOSS** - That was just the previous dividend policy they had and I think earlier on, as to your point, they had a few good years and we just put the dividend policy up to -

**Ms FORREST** - There would have to be more good years in terms of vehicle safety and road upgrades and all that sort of thing. There would have to be fewer claims and fewer high costs claims hopefully -

**Mr FERRALL** - The dividend will grow as that occurs because it is a percentage.

**Ms FORREST** - It will, yes. That is right. But I am wondering it was put back, given this is an opportunity - we seem to take opportunities where we can to -

**Mr VOSS** - MAIB means to maintain capital itself and so it does. I suppose the other factor with MAIB is it is an entity that has a history of voluntarily providing special dividends in the past where -

**Ms FORREST** - That is a board decision.

**Mr VOSS** - It has considered that it has adequate capacity. It's declared special dividends.

**Ms FORREST** - So this was a section of the government or of the board that they seek to return to the 50 per cent dividend policy?

**Mr VOSS** - Dividend policy is a matter for the government.

**Ms FORREST** - All right.

### 1.4 Government property and accommodation -

**CHAIR** - Anymore on 1.3? If not we will move to 1.4 Government Property and Accommodation Services.

**Mr GAFFNEY** - Treasurer, a couple of good things. I believe the rebuild on the Salamanca building is scheduled for completion late 2017 and completes in 2018. Is the project currently tracking on schedule? Without wishing to breach commercial-in-confidence agreements, have retail tenants been secured for the building?

**Mr GUTWEIN** - I will ask Kat to provide an update on that. She has had very close involvement with this particular project.

**Ms MORGAN-WICKS** - Thank you, Treasurer. The Salamanca building, the current practical completion date is set for 24 August 2017, and we are looking at a staged entry into the building over the weekends of September, so probably the first two to three weekends because we have various entities to move including both parliament and ministers, and in addition we have the Department of State Growth taking four floors. We have the Department of Education and also Treasury and Finance and Revenue, Liquor and Gaming Department moving in.

With retail tenancy in the towers, there's areas set aside for retail on both the plaza facing side and also the Salamanca facing side. The plaza side cannot be occupied until the next stage. Once the carpark podium has been constructed that will then open. With the Salamanca facing side, the developer and owners are currently in negotiation with the retail tenants so that has not finalised so I cannot disclose the name of that tenant. The developer and the owners are also in negotiation for the second site but there will be a café style coffee/food option that will be available very close to the tower opening later in the year. On the Salamanca side, that will be more of a pop-up that will then move into the plaza once that has been constructed.

**Mr GAFFNEY** - So I am hearing that it is on schedule and within budget?

**Ms MORGAN-WICKS** - In terms of the budget that Treasury and Finance are managing, in terms of a fitout, that is currently within the 2017-18 budget.

**Mr GAFFNEY** - That is good news. In 2016 I asked the question, there was a \$78 000 increase and was informed that the 2017-18 allocation would see the figures drop back as the Parliament Square project evolved, and I note that has been the case. In 2018-19 there is a \$15 000 increase. In 2020 there is a \$35 000 increase projected, and in 2020-21 there is a \$69 000 increase projected. Could you provide some information of that allocation for 2020-21; why it would be a \$69 000 increase on top of the \$35 000 from the year before? I am wondering is there something that still needs to be completed.

**Ms MORGAN-WICKS** - So in terms of output 1.4 and the increases, we actually have additional staff that are in the Parliament Square team, and they are included at the moment in the 2017-18 budget and 2018-19 budget for that line item. Then we have Parliament Square due to complete at the end of 2018 so you will see those staff members fall out. They are temporary fixed term staff members for the Parliament Square project.

**Mr GAFFNEY** - Is there a question about Parliament Square that you would like me to ask that I haven't?

**Ms MORGAN-WICKS** - Will you like your office? I hope so.

**Mr GAFFNEY** - The last question on this point: in 2016-17 we saw the centralisation of property services in Hobart resulting in a substantial - I think it was a \$4.5 million projected saving. As I recall the next area to be reviewed was Launceston. You might like to inform us what changes have been made to office spaces in that city, and what costs savings have been identified. Is the process of centralising government office space expected to continue over a number of years? If

so, is there a projection for how long this process might take? So it is about the Launceston and what advantages have you found.

**Mr GUTWEIN** - I am happy to continue. I might start as an intro. Just one question: have you all had just a look at the Parliament Square building?

**Mr GAFFNEY** - We had a tour earlier on.

**Mr GUTWEIN** - So you have been through?

**Mr GAFFNEY** - Yes. But not in recent times.

**Mr GUTWEIN** - We will see if we can get one organised.

We have taken steps in regard to the centralisation of the property management in Hobart and that has been successful. The next phase is Launceston. In this budget, it includes a little over \$7 million, I think is in this budget over two years, to support that process. A key part of this will be the CH Smith development. I was asked about this yesterday. We haven't finalised those negotiations yet. We are in the process of negotiating with the owners of that building which is, in effect, Mr Curran and Mr Stewart in regards to the leasehold space there. A component of that \$7 million will be utilised for fitout. We are finalising that process on commercial terms. Then across the city, my understanding is that we hold around 18 000 square metres of leased space. Then we have how much property that we own ourselves?

**Ms MORGAN-WICKS** - I don't have that, Treasurer, but I can find out.

**Mr GUTWEIN** - That was a significant number again. So there is a large footprint in Launceston. Following similar lines to what we have done in Hobart, we will be looking to centralise the management of it, but to ensure that we arrive at an outcome that is good for both the taxpayer and for public servants and for those that they serve. Kat has been working through with the process, and as I say the CH Smith site - we are finalising negotiations on what we are keeping part of that.

**CHAIR** - To follow on that, if you do that move, what is the commercial market like in Launceston at the moment?

**Mr GUTWEIN** - It is quite strong, but no decision has been made as to whether tenancies or whether we will move space out of the current government-owned property portfolio or out of space that we lease. There is a range of leases - I forget the exact number but some of them are in the hundreds of metres. Some of them are in -

**Ms Forrest** - In the CH Smith building?

**Mr GUTWEIN** - No - 23 leases themselves. Twenty-three parcels of lease space, and we will have a look at those that are coming up in the next two years, but we will also have a look at what we have available in government office space as well, in government-owned space.

**CHAIR** - Yes, that is it. Wait and see.

**Ms MORGAN-WICKS** - The Launceston government lease portfolio currently comprises 23 separate leases in 21 buildings. They vary from around 140 square metres to 4583 square metres with our biggest at the moment in Henty House. We have recently renegotiated a 10-year lease in Henty House. That is one of our priority buildings in Launceston in our centralised property strategy. The CH Smith opportunity is a stone's throw from Henty House so we are looking at that pulling together the government lease portfolio and management and pulling into the CBD of Launceston.

As the Treasurer mentioned, we are currently looking at the tenancy stacking, not just for CH Smith but also for Henty House. So there's some significant changes there. We are also working closely with the Launceston City Council regarding Civic Square and what is being done with the redevelopment there. The Launceston strategy in terms of some 18 000 square metres that we currently have, at the moment I cannot give you an exact saving or reduction there, so we are currently working through that, but in terms of the Hobart leases and what we have done in the Hobart CBD, there are currently 33 separate leases over 21 buildings. We have an NLA in Hobart of approximately 71 000 square metres, and we are -

**Ms FORREST** - What is an NLA?

**Ms MORGAN-WICKS** - Sorry, a net lettable area for leases and following occupation of the Salamanca Tower at Parliament Square, we are looking at a reduction in NLA under this strategy of approximately 12 000 square metres which is quite significant. That is due to the more efficient use of space and also downsizing from buildings. We have moved from 99 Bathurst Street, 80 Elizabeth Street, and to Murray House into that Salamanca tower.

**Mr FARRALL** - Following on from that with the proposed move into CH Smith, what are the plans for St John Street? That is owned by the government, is it?

**Ms MORGAN-WICKS** - Yes.

**Mr GUTWEIN** - That remains as part of our portfolio. In my view there are two significant buildings in the government property. One is the Treasury Building in Hobart and I believe that should stay owned by the government. The other is 53 St John Street in Launceston. That was the original home of government in Launceston and that is an important building to retain.

**Mr VALENTINE** - So the Treasury Building here is not here is not up for grabs for a hotel?

**Mr GUTWEIN** - Completely off the table.

**Mr VALENTINE** - I note further down we have property management services numbered 4.7. I will ask part of the question that I was going to ask there now because it is quite relevant. Do you have any idea of the saving you make as a result of leasing properties for public service needs? Is there a periodic analysis of what we are actually spending on leasing as opposed to owning outright and maintaining it? Do you have a comment on that? Is it just a case of 'it is not our core business so we allow private enterprise to do that side of it', or what is the thinking behind this?

**Mr GUTWEIN** - Treasury can provide some comment on that but whether you own it or lease it, there is still a cost at the end of the day.

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**Mr VALENTINE** - I understand that. How much analysis do you do to know whether you are throwing good money away?

**Mr GUTWEIN** - Treasury can look at that. I am certain we have looked at business cases and we will be doing that in respect of the Launceston portfolio. In regards to those properties that we currently own, that we have staff in, the business case will be considered in respect of whether it is best to own that or have it repurposed and potentially to move to CH Smith. At a broader level, perhaps Kat can provide some further details.

**Mr FERRALL** - The strategy in moving into leased accommodation is probably some 20 years old now and there has not been a whole-of-government analysis that I am aware of in that period of time. The key reason for the strategy was effectively that governments tend to be poor owners.

**Mr Valentine** - They can be but then in an high value environment like some of them -

**Mr FERRALL** - Agencies tend to not do the necessary reinvestment - a building doesn't keep itself and agencies tend to have other priorities than doing the sort of irregular maintenance and irregular costs that needed to be dealt with on the building. So effectively you turn that peak cost into a recurrent stream by going down the leasing approach. It is not dissimilar to what has occurred across the nation. If you look at banks, they have moved away from property ownership and part of it, it is not core business. Part of it is in a government sense you get a smooth expenditure stream rather than a peak and trough stream. But from a management point of view, it is pretty clear from the leased properties we have that the private owners are, or tend to be, inherently better managers of property than we are within government.

**Mr VALENTINE** - It is interesting, isn't it, especially with rising property values and the size of government businesses not changing.

**Mr FERRALL** - We have some strategic properties we do. So if you look where the RBF is now, that is now a government-owned property. We are holding that for strategic reasons in terms of having some capacity, I guess, exert pressure on some of the other property owners in terms of rents.

**Mr VALENTINE** - There are some fairly high priced properties out there, and the leasing, from memory, going back years now, 99 Bathurst Street was one of the most expensive pieces of office space that the government had, and one wonders the reasoning behind paying such high prices, but anyway.

**Ms MORGAN-WICKS** - We are exiting that under the centralised property strategy.

**Mr VALENTINE** - So you are?

**Ms MORGAN-WICKS** - Yes.

**Mr VALENTINE** - Anyway, I will talk about the centralised stuff a bit later. I thought I would ask that question. Thank you.

**Ms FORREST** - Chair, on that, with regard to the new building - Salamanca Tower, is it? That is what it is being called? If the size of the parliament, the number of members, was to be increased,



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is there capacity in the space that is being leased by the government to fit them in or would there need to be other arrangements made?

**Mr FERRALL** - In terms of ministerial officers, do you mean or?

**Ms FORREST** - No members' offices. I do not think you are going to have more ministers necessarily, but you would have more members. If the size was increased.

**Mr GUTWEIN** - There is flexibility.

**Ms MORGAN-WICKS** - Yes, there is flexibility in the current design of the building to accommodate.

**Ms FORREST** - So that would not add to the cost of a decision to increase the number of members in the other place potentially but even in the Legislative Council as well.

**Mr GUTWEIN** - There would be some cost and certainly -

**Ms FORREST** - In the reconfiguring of it but you would never go out and get new lease space?

**Mr GUTWEIN** - No, we would have a roof over their heads but I want to say clearly that it is not something that we are considering.

**Mr FERRALL** - You would have to have a modified fitout and there would be potentially some people who are in it now who would need to move out. So to create the space.

**Ms MORGAN-WICKS** - Yes, because it will be full.

**Ms FORREST** - That was the question. Is it full in the current arrangement?

**Mr FERRALL** - Yes.

**Ms FORREST** - All right.

**Mr VALENTINE** - So how is the fitout going in Parliament Square?

**Mr GUTWEIN** - Like you, I went through a number of months ago. I have not been through, but I am sure Kat can -

**Ms MORGAN-WICKS** - It is progressing very well. In terms of ceilings in, carpets in, desks going in. There is a difference amongst the floors but certainly the State Growth floors are progressing very well, and also the parliamentary floors have, you know, in terms of security, in terms of the plastering work, it is high (indistinct) office spaces that are required.

**Mr VALENTINE** - Plenty of power points for electric cars?

**Ms MORGAN-WICKS** - We haven't started the car park yet. That is going to be under 10 Murray Street.

**Mr VALENTINE** - Just a thought.

**Ms FORREST** - Just on that, what is the expected hand-over date?

**Ms MORGAN-WICKS** - In terms of 10 Murray Street?

**Ms FORREST** - Yes. If we hand over that to get rid of it, but that would be vacated before it is handed over, one would assume.

**Ms MORGAN-WICKS** - We won't be demolishing it with people in it. Once we do the stage deck search in the first few weekends of September, there is a time period to do a clearance of the building. The developer will also need to apply for things like permits for cranes, et cetera, so that is all currently being undertaken. We are currently finalising a construction and demolition plan for 10 Murray Street demolition.

**Ms FORREST** - So you haven't got a date on that yet?

**Ms MORGAN-WICKS** - I don't have an exact date, no.

**Mr GUTWEIN** - It will meet every necessary occupational health standard.

**Ms MORGAN-WICKS** - Yes.

**CHAIR** - Before we start output group 2 we will take this opportunity to have a break. If you would like to think about 11-ish or something like that. You are all happy with that.

**The committee suspended at 10.45 a.m. to 11.09 a.m.**

**Output group 2**  
**Economic and fiscal policy advice**

**2.1 Economic policy advice -**

**DEPUTY CHAIR** (Ms Forrest) - Treasurer, this is the area where the advice is provided on a whole range of matters including state, national and even global. I assume you are looking at all those matters. Can you tell us the areas that you are getting advice on at the moment in relation to that? In your overview, you covered some of the economic indicators, but specifically, and particularly in regard to the Productivity Commission's work. I assume that you get advice around that with the GST and other key risks to the state.

**Mr GUTWEIN** - With the GST, I'll get Anton to cut in.

**Mr VOSS** - Section 2.3, GST.

**Mr GUTWEIN** - But happy to touch on that.

**DEPUTY CHAIR** - We can go to GST then, but -

**Mr GUTWEIN** - Yes, if you are happy.

**DEPUTY CHAIR** - It is up to you. Yes, if you are happy, yes.

**Mr GUTWEIN** - I receive advice regularly in regards to both forms of the state economy, the national economy. There is advice provided in regards to any major shifts or risks that are occurring as and when they come or, in fact, in many cases if there is a view that Treasury have that there is something coming that we need to be cognisant of. The Treasury website, and I have to admit - have to say, I would recommend the members go to that, in fact, with the updating of data and economic updates is a wealth of information. I am surprised that it is not used by more members in my house more often. There is a wealth of information.

**DEPUTY CHAIR** - Sitting opposite you, I imagine you are talking about, those ones.

**Mr GUTWEIN** - As I say, there is a wealth of advice and I find myself on a weekly basis that I will go back to that website because there will be updates in respect of labour market, the economy, where we are with retail trade, et cetera, and so on. It is a wealth of information that Treasury provides, as I say. In regards to the risks that we are facing, we did touch on GST and that is - earlier on - that is a significant risk and whilst it falls within a different output, our Treasury at the moment is preparing a paper that will be a report that will be published and provided to all members of parliament, both state and federal, at this stage.

**DEPUTY CHAIR** - Regarding the GST?

**Mr GUTWEIN** - It is important that everybody is on the same page in their understanding of GST and the mechanisms around it and that will provide a basis for those that want to put forward their submission to the Productivity Commission as well.

**Mr VALENTINE** - GST is not a simple thing, really. The state is doing well in terms of revenue or income, therefore, the GST rises. In terms of the amount you get back from the Commonwealth, it is not a simple thing.

**Mr GUTWEIN** - No, and, in fact, actually it works to the inverse, to some degree. The other states are doing particularly well, and therefore raising above average tax receipts. Our own source revenues are strong. In fact, if you look at, say, what is occurring with New South Wales at the moment, how they are in the midst of a major property boom, their own source revenues will be high. What that will mean is that over time they will take less out of the GST. Likewise, a similar thing occurred with WA a few years ago in respect of the mining royalties. Treasury moves away from the forecasting in the federal Budget and they run their own, if I can call it this, a little northern black box analysis, which takes into account more information.

**DEPUTY CHAIR** - Than the federal budget papers.

**Mr VOSS** - That is an interesting term.

**Mr GUTWEIN** - It has amused them as opposed to annoyed them. What is important is that they take into account the forward estimates of the other states and territories that are the most published information and so we can factor in where we see New South Wales' own source revenue is going, where we see WA's own. In my view, it is actually a more realistic projection in regards to where GST is headed.

**DEPUTY CHAIR** - This guide - you have made a more conservative estimate in your budget papers.

**Mr GUTWEIN** - We have, in fact, for this.

**DEPUTY CHAIR** - Yes, than what the federal government had in their budget papers and that is based on looking at the other states' broad estimates for their own source revenue, is it?

**Mr GUTWEIN** - Pretty much. The guys can talk you through it, but basically we take into account the most up-to-date information that we have in respect of the other jurisdictions and that is factored into our thinking as well.

**DEPUTY CHAIR** - So if things suddenly went badly in one of the states, like a property bust in -

**Mr VALENTINE** - Western Australia.

**DEPUTY CHAIR** - No, probably more like New South Wales, somewhere like that, then you would have to potentially revise it the other way.

**Mr GUTWEIN** - Obviously. Again, the three-year lag is always taken into account -

**DEPUTY CHAIR** - Yes, I understand.

**Mr GUTWEIN** - So that provides you with some timing issues. It is not immediate.

**DEPUTY CHAIR** - Yes, which is what Western Australia forgot to remember.

**Mr GUTWEIN** - Which they forgot completely and, in fact, as that three-year lag which was working to their favour as their receipts were rising and they were receiving the rivers of gold from the GST. They are now a whinging state.

**DEPUTY CHAIR** - They forgot to put money and hay in the barn, didn't they?

**Mr GUTWEIN** - They did, in fact, and they spent significantly. Their expenditure increased dramatically and now they are paying for it. But Mr Farrell or Mr Voss will explain in more detail about the status.

**Mr FERRALL** - I guess the key issue is that the Australian Government - and the difference between the state and the Australian Government is that the Australian Government doesn't try to forecast state relativities. We would say they don't; from an Australian Government point of view, it doesn't matter. It doesn't matter to them which state gets what share, so that is not part of their modelling exercise. We use the modelling capability we have to model relativities and we use the projections of the pool from the Australian Government, but we use the other jurisdictions' forward estimates in their budgets to effectively model relativities which then gives us our estimate of GST going forward.

**DEPUTY CHAIR** - This is all done in-house in Treasury?

**Mr FERRALL** - Yes.

**DEPUTY CHAIR** - On this issue with economic modelling and advice, the payroll tax receipts indicate a real flattening. There are some forgone they might have got, I guess, in terms of the apprentice scheme and that sort of thing that you are providing payroll tax relief with regard to. But this basically indicates no wages growth, doesn't it, overall? Are you expecting that low wages growth to persist? Is that what the modelling is showing you?

**Mr GUTWEIN** - Anton, do you want to -

**Mr VOSS** - Yes, Treasurer, thank you. So, yes, in short. You are exactly right, Ms Forrest. The payroll tax does use wages growth and CPI as an input into the modelling. We are expecting inflation to stay pretty low going forward, so it is an impact. You mentioned before the payroll tax rebates having an impact. They actually don't in a modelling sense because they are a rebate.

**DEPUTY CHAIR** - That is what I was saying, yes.

**Mr VOSS** - They come in and then go out again, so you don't see a reduction in the revenue payroll tax line. We still get that money in and then it gets rebated back.

**DEPUTY CHAIR** - The rebate goes out, yes.

**Mr VOSS** - But the reason it is just flat going forward is just we are not expecting a lot of growth in, as you said, wages as a key input and that is not something we are expecting to accelerate.

**DEPUTY CHAIR** - Which can then flow through to less economic activity in the state. Like, if people's wages aren't growing then their discretionary spend - because the cost of living doesn't reduce, generally.

**Mr VOSS** - That is pretty low as well and we see in the budget we have CPI at around 2.25 per cent, I think, we have as the forecast going forward. We are in a low inflationary world pretty much everywhere at the moment. You see it in wages outcomes across the country pretty much.

**DEPUTY CHAIR** - But the discretionary spend doesn't increase, does it? It helps to drive economic growth, in many respects, if people are spending more.

**Mr VOSS** - Yes. Interestingly, in Tasmania, the discretionary spend has been up quite a lot. Part of that, for sure, would be from tourism. In fact, the Treasury was saying before on our website you can look at the retail trade data release. We have a graph of discretionary versus essential spending.

**DEPUTY CHAIR** - But can you tell who are tourists and who are locals in that?

**Mr VOSS** - No, you can't, unfortunately. But there is the tourism boom in Tasmania which is obviously a large driver of that.

**DEPUTY CHAIR** - We see growth in a certain sector.

**Mr VOSS** - Yes, restaurants and what have you.

**DEPUTY CHAIR** - Yes, hospitality generally and maybe art and things like that, galleries and stuff.

**Mr VOSS** - Yes, which then just feeds more broadly into economic growth.

**DEPUTY CHAIR** - The conveyancing tax has grown. It is one of the most efficient and unfair taxes. Do you have a view, Treasurer, or do you have any advice about how we could make that more equitable for people? It does require a whole review of all state tax. You can't take one away - leaving other revenue neutral at least - and not make some other changes. Is that on your radar at all?

**Mr GUTWEIN** - I think you have answered your own question. You and I went through that process a number of years ago.

**DEPUTY CHAIR** - I would like to do it again, actually.

**Mr GUTWEIN** - The federal government has to be engaged. You need them engaged and they were under Hockey for a period when Joe was treasurer and the conversation was being discussed. Obviously, we have some challenges if GST is not in the mix because of the socio-economic demographic that we have in Tasmania and the impact it will have on a lot of low income households. There doesn't appear to be a great appetite at a national level for a major discussion on tax reform. The other thing to point out as well, the stamp duty, it is good for a treasurer, I make no bones about that at all.

**DEPUTY CHAIR** - Yes.

**Mr GUTWEIN** - But what it also demonstrates, because the volume of sales has been increasing, there is no market failure at the moment. We are actually seeing the markets actually - the number of sales are increasing, obviously the size of the receipts that we are receiving has increased because of the underlying value of the properties that are settling is rising. There is no market failure that you can see at the moment and so as a tax, it is doing what it should. I don't disagree with you. It is something that needs to be look at eventually, but it needs to be part of a discussion about the whole.

**DEPUTY CHAIR** - The point you have made there is that the conveyancing - the stamp duties - there is significant growth related to more higher priced properties changing hands. That is all well and good for people with money or those that can afford a more expensive property whether it be a residential property or a commercial property or whatever.

**Mr GUTWEIN** - No, I did not make that point. I did say the values were rising. The volume of sales has increased as well.

**DEPUTY CHAIR** - Yes. Do you believe that there is still a challenge for people out there on lower incomes who would like to get into home ownership?

**Mr GUTWEIN** - That is one of the reasons why we introduced that package in the budget.

**DEPUTY CHAIR** - Continued it, yes.

**Mr GUTWEIN** - We continued the \$20 000 stamp duty relief for the true off-the-plan house and land package and then, importantly, the land release, which I know some members have an interest in around this table. It is important that as a government you work on the supply side levers that you can realistically work on. I did note, and I just make the point, I saw Gladys Berejiklian, the Premier of New South Wales. She has introduced a package whereby -

**DEPUTY CHAIR** - That was an interesting package.

**Mr GUTWEIN** - She has actually argued against herself in providing it in respect of the stamp duty relief which she had a long-held position, as do most economists, that if you reduce stamp duty or provide stamp duty relief on properties, all it does is end up inflating the price anyway.

**DEPUTY CHAIR** - It elevates the price.

**Mr GUTWEIN** - In fact, most economists that I have read indicate that that is one of the key challenges in regards to that measure. In fact, that was the Premier of New South Wales' position when she was the former treasurer. Notwithstanding that, in the package that we have released, what we have looked to do is to focus on those things that we actually can effectively deal with on the supply side. One is to try to get planning reform in as quickly as we possibly can because that in itself will provide for options. We have a range of zones available under the statewide planning provisions, the inner residential which provides for a lot size of 200 square metres, general residential of 450. There seems to be some disquiet in the community, but largely it is in line with the current interim planning scheme and PD4.1 that has been in place for a while. That in itself can increase supply because it provides for those other options. But then the review of land across the state government. You would recall that, I think it was back in 2006, DPIWE ran the - there was the Crown land -

**DEPUTY CHAIR** - Assessment - CLAC.

**Mr FARRELL** - CLAC.

**Mr GUTWEIN** - Assessment process CLAC.

**Mr FERRALL** - I am not sure what the 'C' stands for.

**Mr GUTWEIN** - No, I am trying to work it out. I was going to say assessment process.

**DEPUTY CHAIR** - Crown Land Assessment Committee, was it, or something?

**Mr GUTWEIN** - Anyway, CLAC.

**DEPUTY CHAIR** - History will record what it actually was.

**Mr GUTWEIN** - What we are going to undertake in this is we will look not just across government agencies, but right across government businesses as well - as you can imagine, there are some businesses that do hold reasonable amounts of land - to see what is available to be repurposed to release for housing.

**DEPUTY CHAIR** - We go back to the old chestnut of: the appropriate use of land is really good land, it is the most stable tax base there is. Are we looking at review of land tax?

**Mr GUTWEIN** - It is not on my radar, no. As we know, when we went through that process that Michael Aird asked us into a few years ago, it is difficult to get the community engaged on a broader discussion on tax. I will share with the committee, I might have done it once before, but I remain amazed by the fact that when we turned up at the UTAS in Launceston and we had the then Premier and Treasurer of the day, yourself, Tim Morris, myself and three people turned up, from memory, wasn't it?

**DEPUTY CHAIR** - There were five all together, but a couple of minders, weren't they?

**Mr GUTWEIN** - Yes.

**Mr VALENTINE** - Is that with or without the speakers?

**DEPUTY CHAIR** - That was extra to us. We had a massive big room and -

**Mr GUTWEIN** - Yes, for a discussion on tax.

**DEPUTY CHAIR** - It is a really hard conversation to have in the public, I agree, but in terms of being a leader in this and actually looking at whether you can engage the broader public is one aspect of it, yes, but do we need to do it? Particularly in view of the potential change with the GST and all that sort of thing. I take on board some of your comments about if you do better as a state in raising your own revenues and things like that, you can be punished. We did go down this path a couple of years ago in Estimates and I will have to go back and check the *Hansard* on that because I think you disputed what you have said today. Anyway, because I thought I was pretty sure -

**Mr GUTWEIN** - I find that unusual.

**Mr VALENTINE** - You learn over time.

**DEPUTY CHAIR** - Yes, I will have to go back and review it because I was putting that case that if we actually do better, then we could actually be penalised with the GST. You know, we do better in delivering our services more efficiently, if we do better in raising our revenues, then ultimately our share of the GST could diminish; isn't that right?

**Mr FERRALL** - No, it is not a cause and effect.

**DEPUTY CHAIR** - No, I am not saying that.

**Mr FERRALL** - There is also the question of relative to the average.

**DEPUTY CHAIR** - Yes, the relative, yes, okay.

**Mr FERRALL** - There is no absolute that you will lose money.

**DEPUTY CHAIR** - I will go back and look at *Hansard* for today.

**Mr VOSS** - If you are more efficient, as Tony said, it is all about averages of what all the other states do and then they take into account what your disadvantages are with regard to raising revenue. So, land tax, for example, we are pretty poor at because our land values are pretty low. Another



example, mineral royalties are not so good either because compared to WA, we nowhere near the same ballpark. Then they look at the cost side, as the expenditure side as well. But all those things get assessed against averages so if you are as a state as a government more efficient than the average, you just benefit from that. You don't lose GST as a consequence.

**Mr VALENTINE** - It is about equity rather than equality.

**Mr VOSS** - Similarly, if you are less efficient, you don't get more GST, you get the GST you are entitled to, I suppose, once it goes through the CGC machinery.

**DEPUTY CHAIR** - Yes.

**Mr VOSS** - Efficiency is often an argument that is put around GST that it penalises the efficient states and it rewards inefficient states and that is not correct.

**DEPUTY CHAIR** - The Commonwealth Grants Commission is a hard thing to understand.

**Mr VOSS** - It is not correct. This is one of the things we will be tackling in the submissions to the various GST reviews.

**DEPUTY CHAIR** - All that work is done within this policy unit, Treasurer? You don't outsource any of that work?

**Mr GUTWEIN** - No, we don't outsource.

**Mr FERRALL** - Just for clarification on outsourcing, in terms of submissions, say, to the CGC for the 2020 review and potentially even the productivity review, we would probably have that checked by an independent party. So, we would do it all, prepare it all, but we would have someone else basically run their eye over it and check it.

**DEPUTY CHAIR** - That was the question I was coming to. Like with the TasWater economic assessment that you have undertaken, is that all done in-house or do you have consultants that would use?

**Mr FERRALL** - On that, that's all done in-house.

**DEPUTY CHAIR** - How much would this area spend on consultants on an annual basis?

**Mr FERRALL** - Very little.

**Mr VOSS** - We have, as the Budget points out for both TasWater and for the method review which also now encompasses the Productivity Commission review. There is some additional funding, but that's largely people based internally. But it will allow for some capacity if we need to do something we think we should we do. You know, in a consultant sense, we can tackle that.

**DEPUTY CHAIR** - Yes.

**Mr FERRALL** - On things like the GST and in terms of the CGC review, we would be pretty comfortable we have the comparative advantage over any consulting firm in knowing the methodology, doing the work, putting together the submission.

**Mr VOSS** - Absolutely.

**DEPUTY CHAIR** - Yes.

**Mr FERRALL** - You can't go to your average accounting firm and get them to do work on that. They just don't have the capacity.

**Mr VOSS** - They don't, because the people also need a governmental branch to look after this side. That is all they do all the time engaging with the Commonwealth Grants Commission. In fact, it's part of the additional people who are looking after this submission. They were up visiting the Commonwealth Grants Commission a few weeks ago.

**DEPUTY CHAIR** - They must lead an exciting life, those people.

**Mr VOSS** - Some are pretty passionate about this stuff.

**DEPUTY CHAIR** - I am sure it is.

**Mr VOSS** - It is very important to the state.

**DEPUTY CHAIR** - Yes, it is.

**Mr VOSS** - To Tony's point, we have done this in the past. You do outsource to various firms and you actually say: 'Well, we could have done a better job ourselves because we're in all the time'.

**Mr VALENTINE** - You spend more time guiding them that you may as well do it.

**Mr VOSS** - Yes, well, there is. There can be. There are some areas where you may need something specifically or someone who - Tony has mentioned before, you could have someone look their eye over it, but that will be someone who has specific expertise in that area or history or background. But, generally, you can look. The CGC publish everything on the website, all the submissions from all the states and if you go back and have a look at our submissions over the years, they are very comprehensive and very thorough and comparable with anyone, from my perspective.

**DEPUTY CHAIR** - Yes. On another matter. You touched on it in your overview, Treasurer, the participation rate. Currently it is probably almost historically low. In fact, 59 per cent, isn't it, at the moment?

**Mr VALENTINE** - It is 60 now.

**DEPUTY CHAIR** - Yes, it went up just the other day a bit. Is it a concern and what advice are you getting around that in trying to increase our participation rate, particularly women in the workforce?

**Mr GUTWEIN** - In regards to the participation rate, it is low and it has been historically much lower than the Australian average. That is simply as a result of the breakdown of our socio-

economic demographic. It really is that simple. We would like to see it higher, but at the end of the day, as I say, it is a function of the way that that community is made up.

**Mr VALENTINE** - It is what it is, yes.

**Mr GUTWEIN** - It is. There is no silver bullet for it. Obviously, we can grow the size of our workforce and over time we will and that will have some effect, but it is challenging. I haven't got the breakdown in front of me in respect of females to male employment. Anton has got something there.

**Mr VOSS** - This has changed.

**Mr GUTWEIN** - In fact, I am just looking at the trend. I am just looking. Is there a number there? There has been, I think, a positive change in that area over time. Total female employment increased by 2.7 per cent through the year to April 17. An increase -

**DEPUTY CHAIR** - This is last financial year?

**Mr GUTWEIN** - It is recently. An increase in female part time employment as well underlying that. There is no doubt we are seeing it in a range of different - with growth in different industry sectors. But we are also seeing, I guess, the hospitality and aged care and the health sectors, there has always been a high level of female participation there. But we are seeing it in the more traditional trades as well, I was going to say, as well. Certainly, it doesn't surprise me any more to walk on a building site and to have conversations with female electricians or plumbers and even builders. But around the country there is a general acceptance that both the traditional areas that we would see high female involvement, we are now seeing it right across the traditional sectors as well.

**DEPUTY CHAIR** - In terms of the participation rate, it can also reflect under-employment, though. There are people perhaps wanting - they might have a part time job, but actually wanting -

**Mr FERRALL** - No.

**DEPUTY CHAIR** - It doesn't pick it up?

**Mr FERRALL** - No, it won't.

**Mr VOSS** - They are captured in the participation, in the labour force.

**DEPUTY CHAIR** - Are you aware of the level of under-employment, like people who are actually on part time jobs, even part time positions that actually would want more, either more hours or want a full time position.

**Mr VOSS** - There are some statistics around, but I will have to check on those. But on the participation rate more broadly we have the long-term average of around 60 and the Australian rate is about 65. At least half of that is due, as the Treasurer said, just our older demographics. If you make an adjustment for things like the national average, where our participation rate would be about 2.5 per cent higher, you also have a whole range of other factors going on. Things like whether people need to work in the Tasmanian environment - we were talking about housing prices before, for example.

**DEPUTY CHAIR** - But it only picks up the people who are looking for work as opposed to those who choose not to?

**Mr VOSS** - Correct.

**DEPUTY CHAIR** - Yes, so those who come to retire here, for example, or retire here, they are already here and they retire, they are not captured in the low participation rates.

**Mr VOSS** - No, that's right.

**DEPUTY CHAIR** - Yes.

**Mr GUTWEIN** - Because they are not registered.

**DEPUTY CHAIR** - That is right, yes.

**Mr GUTWEIN** - That is the point that Anton is making is that many cases in other states, you might have the circumstance where it is the traditional husband and wife, both of them are working because they have got a significant mortgage. In Tasmania, you might have a situation where only the wife is working and the husband is at home, or vice versa, simply because they don't have the cost pressures that exists in other states. As a result of them not being registered or part of the workforce, then the participation rate -

**Mr VALENTINE** - But it helps the participation rate, doesn't it, because they don't take a job but they are asking for services at the end of the day.

**Mr GUTWEIN** - The participation rate, though, is a function of who is registered and who is working, is that right, as a percentage of the -

**Mr VOSS** - Yes, it is the people in the labour force versus the working age population which is 15 years and over. That is the ratio. Those in the labour force who are unemployed or employed over the working age population.

**Mr GUTWEIN** - If they are registered for work or they are working then our participation rate would increase. But, again, it is -

**Mr VALENTINE** - Sorry, no, my point was that every retired couple or person that comes to the state actually helps generate employment which then lifts the rate.

**Mr GUTWEIN** - Yes, I am with you on that. If they are here in the state and they are spending money, it is a great thing.

**Mr VALENTINE** - It is. It is.

**Mr GUTWEIN** - I would like to encourage more of them from Queensland, especially, to come here.

**Mr VALENTINE** - They will have to because it will get too hot up there for them, Treasurer, and they have to come down here and enjoy this comfortable weather that we are having.

**DEPUTY CHAIR** - They can't afford a house in New South Wales.

**Mr GUTWEIN** - And their electricity will get too expensive.

**Mr VALENTINE** - And our roads will wear out quicker, but that is another situation.

**Mr GUTWEIN** - That is good for the economy.

**DEPUTY CHAIR** - Does anyone else have any other questions in this area?

**Mr VALENTINE** - I have one. It could sit with the next item which I have to deal with. It is to do with taxation, the area of land tax. Is there an appetite to rethink the policy of exponential increases in land tax for those with increasing property portfolios? I ask that because it tends to stifle investment, I'm sure, in the property owner's own state. So people within this state that are wanting to get more and more of the property market, which for various reasons can help address the rental problem - and that's another question I will raise in a minute. But also people that are interstate are being discouraged from buying more than one property because the next property they buy, they are paying more land tax. Are you looking at that? Is there a reason why you want to see those land taxes rise on multiple properties?

**DEPUTY CHAIR** - Makes most treasurers smile.

**Mr VALENTINE** - It can, but it can also stifle investment.

**Mr GUTWEIN** - In regards to the first part of your question, am I looking at it, no, I'm not. This is the second time that it has been raised with me in the last two months, this particular issue.

**Mr VALENTINE** - It was the first one in this House.

**Mr GUTWEIN** - As I say, it was raised with me, as I say, only a few weeks ago by a property investor raising a similar issue. It has surprised me that there hasn't been more contact with the office over time. I know from when I was in opposition that this matter was raised with me on a number of occasions. I don't believe I have had any recent correspondence around it.

**Mr VALENTINE** - Perhaps they gave up, Treasurer.

**Mr GUTWEIN** - I can't recall writing back to a lot of constituents and telling them that we had no desire to change it.

**Mr VALENTINE** - It just seems to be defeating its own long-term purpose.

**Mr GUTWEIN** - I will get the tax guys to have a chat about it, but I would think, though, the mainland investors, to be clear, our property is very well priced at the moment in respect of anything that they can buy in any other jurisdiction. So I would not think that land tax would be a major inhibitor to mainland investors. On that basis, I am not aware of any contact with my office where somebody has said: 'We're not going to purchase that next property simply because the land tax is too high'. I am not getting those messages.

**Mr VALENTINE** - I received a few queries in relation to this when I was Lord Mayor, developers saying: 'Hey, something has to be done about this. It's just wrong. Why should person A coming from the mainland who doesn't own a property in the state pay less land tax than me? We're not allowing two, three or four properties'.

**DEPUTY CHAIR** - It depends on the value of the property.

**Mr GUTWEIN** - It is interesting when I think back around the timeframe that you are talking about, before the Liberals came to government. When I was in opposition, this was raised regularly. As I say, I can't recall it being raised many times, apart from the last little while and this is now the second time.

**Mr VALENTINE** - Maybe now you might get some interest.

**Mr GUTWEIN** - I am sure now that you have raised it, I probably will.

**DEPUTY CHAIR** - Have you done any modelling on the impact of that?

**Mr GUTWEIN** - In regards to whether it is inhibiting -

**DEPUTY CHAIR** - No, no, modelling on what it would cost in revenue forgone?

**Mr VOSS** - No.

**Mr GUTWEIN** - Change?

**DEPUTY CHAIR** - Yes, if you did change it so that they weren't - it is the aggregation you are talking about.

**Mr VALENTINE** - It is aggregation.

**DEPUTY CHAIR** - Yes.

**Mr GUTWEIN** - Yes, I have never asked for it and I am not sure whether -

**Mr VOSS** - No, I wouldn't know the numbers. With all these things, the issue is always - I think land tax is the third biggest state taxation revenue.

**Mr VALENTINE** - Third biggest?

**Mr VOSS** - I think so. So, it's an important source of revenue for all the services that government provides as well. So, all these things are always a give and take. We would have to have a look at around the aggregation, but as the Treasurer said, ultimately property values are relatively cheap by comparison. I don't think our land tax rates are too significantly different from the national averages.

**Mr VALENTINE** - You have given your answer. We will see what happens next.

**Mr GUTWEIN** - I am sure I will get some letters now, Rob, thank you.

**DEPUTY CHAIR** - He will tell them to write to the Treasurer.

**Mr VALENTINE** - That is what we are here for. Here to help, Treasurer.

**Mr GUTWEIN** - Good on you.

## **2.2 Regulatory policy -**

**DEPUTY CHAIR** - We will move to output group 2.2, regulatory policy. This is not about tax as much as taxing gaming.

**Mr VALENTINE** - No, I understand. But it's about state revenue policy as well. That is why I was looking at asking it there. I have flagged a couple of these questions as to where I should ask these and the Treasurer and staff are happy to have this considered.

We all know the share economy is an absolute boon for some people in the state, but for many it has meant a significant hardship as they try to find affordable rental accommodation. Have you considered reviewing the legislation that was passed not that long ago to regulate the punters across the state that are participating in the likes of Airbnb and Stayz operations by only allowing rooms in their principal residence to be hired, rather than whole homes or units, which if that were to happen it might take the pressure off the rental accommodation crisis which exists in some parts, maybe not right across the state. I know that in Hobart it is pretty tight and that drives up rental prices because it is very sought after. Have you considered perhaps taking a measure like that, changing the legislation to make it so that people who are participating in Airbnb and Stayz can only rent out rooms in their principal dwelling as opposed to whole houses?

**Mr GUTWEIN** - On 1 July, the new set of rules will come into play that are under the statewide planning provisions. They will come into play via an interim planning directive which will support this. From 1 July, if it is your principal place of residence, your own home, there will be no permit required regardless of - and, in fact, I can say regardless of the zone there are some zones where you are captured - but a principal place of residence up to four bedrooms as long as it is your residence, there is no permit required. If there is over four bedrooms and it is still your principal place of residence, you will need to go through a permit process. If it is an investment property, there will be a process as well which you will need to go through. This will only come into effect from 1 July. This will be the first time that we have actually implemented policy in regards to Airbnb and it will come into effect in a couple of weeks.

**Mr VALENTINE** - Isn't that just passing the problem back to local government to work through the permit? How are they going to say to person A who has a house out at, say, Derwent Valley, 'Yes, you can have one', but to a person in Hobart, 'No, you can't'?

**Mr GUTWEIN** - No, I am not asking local government to determine.

**Mr VALENTINE** - It is a permit. You are talking about permits. Are you talking about permits that you are going to provide?

**Mr GUTWEIN** - No, it will be a permitted process whereby if you tick certain boxes in regards to meeting a minimum standard from a health and safety point of view, so you have hardwired fire alarms, the number of people that will be staying in it don't exceed the -

**Mr VALENTINE** - I understand all that.

**Mr GUTWEIN** - All of those. That will then enable you to operate as an Airbnb or on any of the other platforms. What is happening at the moment, and you were in local government for a long period of time -

**Mr VALENTINE** - Twenty years.

**Mr GUTWEIN** - You would recognise there are a lot of properties, I would imagine, that are currently on the market that are being utilised for either short stays or longer stays across this state that have had no consideration or little consideration has been given to whether they meet basic health and safety standards.

This will, in the first instance, ensure that at least there is a minimum level of safety for the guests. But if you are suggesting that what we should do is carve out a section that can't operate as Airbnb, then I think that -

**Mr VALENTINE** - Fiddling too much. It is fiddling too much.

**Mr GUTWEIN** - I was trying to find - no, I'm trying to find - like, you are trying to reach into a disruptive market that ultimately demonstrated that it will move around any barriers that you put in place. What we are trying to do is make certain we are coming at this from the principle that the most important thing that we have to do is ensure that if somebody is going to stay in a property in Tasmania that it meets a basic level of health and safety. So that responsibility of the government is to some degree taken care of through what we are introducing.

In respect of how many people want to stay in properties providing a permitted process in regards to these properties it will then enable local government to say that's appropriate or that's not.

**Mr VALENTINE** - Yes, but Treasurer, if you stand to gain at least double if not triple the value out of your property by participating in the share economy, you're going to make sure that you're going to meet those strictures that you're talking about. It's not going to help the rental market, so surely -

**Mr GUTWEIN** - So what are you suggesting?

**Mr VALENTINE** - I am suggesting, because we're going to sit in judgment on you fellows when you do these sorts of things, that there might be a way forward to help ease the rental crisis by putting on a specific stricture that says, 'You cannot rent a whole apartment or a whole house for the share economy'.

**Mr GUTWEIN** - I would suggest that you test that policy yourself.

**Mr VALENTINE** - No doubt it will get tested -

**Mr GUTWEIN** - And get some feedback.

**Mr VALENTINE** - No doubt we'll get some feedback.



## UNCORRECTED PROOF ISSUE

**Mr GUTWEIN** - Because, first, you couldn't enforce it, and I couldn't imagine how you would frame that up to enforce that and how you would police it, and secondly, -

**Mr VALENTINE** - They do it in other countries.

**Mr GUTWEIN** - Well, again, I'd be interested to see where that's actually working. I know that there have been a range of measures that have been introduced, and the challenge would be technology, like it actually it works around, and so we're trying to ensure that when people stay in a property that they at least have that basic level of safety that's necessary. But, too, I make the point, the market will respond. At the moment if properties are being taken up by Airbnb and there is a shortage of rental or investment properties, then the market will respond, and it will fill that void.

**Mr VALENTINE** - Yes. I hear what you say, and I hear that you're reticent to fiddle with it, and I appreciate that and that's fine. It is not for me to be telling you what to do. But it is something that has been implemented in other countries. In fact there was a documentary on it just recently on ABC, I can't quite recall the country, but they had people going round and knocking on doors and saying, 'Are you a resident?', and, 'No, I'm a visitor, blah, blah, blah', and they were fining people for doing this. I'm not suggesting that's what you want to do, but it's just something -

**Mr GUTWEIN** - I'm saying to get that policing and auditing police process can become very onerous.

**Mr VALENTINE** - That's interesting. Anyway, it's just an idea.

**DEPUTY CHAIR** - Just on that point, before you go on to something else, Rob, there have been a few questions asked by other tourism operators regarding land tax and that if you go to Airbnb, so has Treasury determined, established 'hosted' B&B accommodation operators who are essentially being deregulated by these changes will continue to pay land tax?

**Mr GUTWEIN** - In fact, as part of the paper that will be released in the next two weeks, there will be advice provided in respect of land tax. I'm not going to provide land tax advice here because the circumstances surrounding many of the arrangements of people who getting into it, whether it be their own property, or how they're running a B&B currently, that can potentially change. My advice would be that if - once the guide has been provided - if people have some concerns about their own particular circumstances they engage directly with Treasury, and there will be a number available for people to contact.

**DEPUTY CHAIR** - So, you'll have that out in a couple of weeks, so only about a week before the end of the financial year when it actually kicks in?

**Mr GUTWEIN** - There's been no policy change that we've introduced in regards to this. That will come into effect on 1 July, and so the information we're providing will be for people to ensure that they can navigate the new change, if they have any concerns about their current arrangements, and I suggest they seek their own tax advice.

**DEPUTY CHAIR** - The point's been raised that there potentially could be land tax implications for a secondary residence, separate to the main dwelling? It's a bedsit or something, or a granny flat type of thing? So in terms of the land tax aspects of that.

**Mr GUTWEIN** - Under the new rules?

**DEPUTY CHAIR** - Yes.

**Mr GUTWEIN** - There will be advice provided and a number for people to contact, but they will need to assess that. They'll need to make an assessment based on their own personal circumstances.

**DEPUTY CHAIR** - So, they'll have to go to a tax accountant, as opposed to the State Revenue Office to get advice, or -

**Mr GUTWEIN** - There will be some information that's provided. Want to add anything to this? We have the Commissioner for State Revenue here, Jonathon Root.

**Mr ROOT** - Thank you, Treasurer. As the Treasurer has said, nothing has changed in the law as regards land tax application specific to the sharing of economy type properties. As you would be aware, there are zero ratings for primary production land and principal places of residence. Where people are using the property as a principal place of residence and letting out, say, one or two rooms, provided they're using that part of the property as their principal place of residence as well, then the zero rating would still apply.

**DEPUTY CHAIR** - The granny flat out the back is considered part of the place of residence?

**Mr ROOT** - Provided they're using it generally. As the Treasurer said, it's very difficult to give specific tax advice, but in general terms, if there is a part of the principal residence when that's being used exclusively for a non-principal residence purpose, so if perhaps you had a granny flat that was exclusively used to be let, and wasn't used at other times as part of your principal place of residence, then there may be an apportionment. It is an apportionment - you don't pay land tax on the entire property. In those circumstances, we would recommend that you got your own tax advice or rang the State Revenue Office. There are some circumstances, but it depends on the nature of the use.

**DEPUTY CHAIR** - So to go back to that question, the State Revenue Office will still be available to provide advice in those things or is it -

**Mr GUTWEIN** - It wouldn't be appropriate for the State Revenue Office to provide individual advice to an individual taxpayer to the specific, but to get an understanding of the guidelines is perfectly appropriate.

**DEPUTY CHAIR** - This may be a question for another time, but I understand there's some confusion about whether existing hosted accommodation should be charged commercial rates. Again, the Government provide advice to council to ensure this would be consistent across the state. Do you have a view on that or a comment on that?

**Mr GUTWEIN** - I do, and likewise, with the process and the enquiries that you're asking are all ones that have been considered by the working group. My understanding is that there will guidelines that will be provided across a range of issues from rating, tax, energy, but it will provide an opportunity that's a framework that they can understand what their responsibilities are and point them to where they need to seek information. I understand that is being shared with stakeholder

groups, if not this week, early next week, to find out where they have all got to and then the information will be provided. So I don't want to -

**DEPUTY CHAIR** - They're feeling under pressure, a lot of these people, or the accommodation providers in that it's being left to the last minute, it seems, because all this advice is coming out.

**Mr GUTWEIN** - No, in fact, I would dispute that. I would say that in regards to the process that's been under way, it's what was agreed in the industry early on in the piece that the working group, there'd be guidelines provided for measures take place next month.

**Mr VALENTINE** - To continue along this line, I suppose, if what I was proposing isn't a palatable thing to do, what other policy are you thinking about that could relieve the crisis that we have in the rental market.

**Mr GUTWEIN** - Well, you're calling it a crisis.

**Mr VALENTINE** - A lot of people out there are saying it's a crisis.

**Mr GUTWEIN** - Look, we have announced our response, and that is to deal with the supply side, and that is to assist more people to get into their own home and an extension of the grant, the reduction of the payroll, the stamp duty, and the process we're working through with planning and building. Now, they are key leaders that we can deal with. Then in respect to the supply side in respect of land, we're going to go through the most comprehensive view of land that's owned by the state government across agencies and government businesses with a view to see what can be repurposed. That really is the major lever that a government can pull by ensuring there's more available land on the supply side.

**Mr VALENTINE** - So that leads very nicely into my next question, and it's a question that Shelter Tasmania to me and asked whether I could ask this, and in the absence of another place to ask it, this is as good as any, I suppose. They support obviously, and think the fact that you're going to review government-owned land for repurposing for housing to increase supply to support the affordable housing strategy or the broader housing market is a good thing. Can you indicate, if when you release that land, there's going to be a caveat on it that that land must be used to increase the supply of social and community housing.

**Mr GUTWEIN** - Well, could I say that, and in fact they would be aware, as I'm sure the other NGOs are, when I announced this, what I said was that we would set up a working group which NGOs and the housing and construction industry representatives would sit on. Treasury and Housing Tas would lead the process and it would be up to that working group to make recommendations to Government as to what the most appropriate way forward was once we understood what was available. I'm not sure whether shelter will be a part of that working group. That will be a matter for the Minister for Human Services to make that determination. Certainly the Government would be looking to receive advice from those in the sector, both those who build and construct homes, but also those that are responsible for putting roofs over people's heads.

**Mr VALENTINE** - Thank you. Perhaps you could outline for us under this item the legislative review program for the period going forward, forward Estimates, because this deals with state revenue policy and the legislative review program, so do you have a particular review program that you're pursuing?

**Mr GUTWEIN** - Every year we generally bring forward a miscellaneous taxation bill that does a range of things, usually cleaning up –

**DEPUTY CHAIR** - We dealt with one not long ago, didn't we?

**Mr GUTWEIN** - But we just, through the parliament last week in fact, dealt with three. In fact, there were five if I count the two Labor supporters who were part of the discussion on the second reading. I'm not certain what else is on the agenda for the coming year. At this stage, it will be those matters that have been announced as a part of this process and generally most of mine are dealt with in the budget process.

**Mr VALENTINE** - I noticed that the revenue, going into appropriation, going into this line, I was actually down by about 60 000, so maybe you're not thinking of reviewing as much. I don't know. What's the reason for the drop in their –

**Mr GUTWEIN** - I will seek advice from Treasury on that.

**Mr VALENTINE** - It is just a small amount, I suppose, relatively.

**Mr FERRALL** - 2.2, is it?

**Mr VALENTINE** - Yes, 2.2, the projection. It is 10 000 less than last year; it is 48 000 in 2018-19; it's 31 000 extra in 2019-20; and 54 000 extra in 2020-21; but compared to last year's forecast it's down about 60 grand.

**Mr FERRALL** - Yes, there's not really anything specifically apart from the attribution of overheads, so it's not a -

**Mr VALENTINE** - It is not consequential?

**Mr FERRALL** - No.

**Mr VALENTINE** - Another aspect is, are there any moves to provide local government a greater say in where liquor is sold in their communities when you're looking at reviewing?

**Mr FERRALL** - That hasn't been something I have seriously - but Jonathan Root can talk through the current mechanism now if you'd like.

**Mr VALENTINE** - Because local government, generally, from my experience in there, get very concerned when they see a proliferation of outlets which increases a problem, I suppose, that exists in the community.

**Mr ROOT** - In terms of current process, any liquor licence application is advertised, and anyone can make a representation about that and they're all put on our website. We may even email out to some of the councils when new applications come along, and it's open to council to make a representation about any particular licence application. I don't very often get any but when I'm considering licence applications I very much welcome any input from any members of the community, including councillors.

**Mr VALENTINE** - So if council was to come up and say, 'We've got four liquor outlets in four square kilometres. That's way above what would generally be expected for a community', you would listen to some of those arguments?

**Mr ROOT** - I'd certainly take that on board. In fact, the last decision that I did where I did get some representations from local government was the Claremont Bottle shop, I think, which certainly took on the views of the local community and the council.

**Mr VALENTINE** - All right, thanks for that. I appreciate that, Treasurer. Presumably you're still going to wait on the outcome of the select committee on gaming machines before setting a policy direction for the future. But is there any aspect of that issue that is being pursued from a policy perspective relating to post-2023 that is not related to the committee work that's being done on this? Have you had any further discussions with industry players, for instance, on what the future may hold outside of that committee process?

**Mr GUTWEIN** - I have been waiting for that committee process to finish its work and I think, by all accounts, there's a fair volume of work in front of it. So no, in regards to industry players, I've had discussions with the THA, for example, but on a range of matters, and in regards to any individual industry part, I don't think I've had any discussions at all. I think everybody is waiting for the outcome of the committee process to see what recommendations are made.

**Mr GAFFNEY** - There are a couple of other committees looking at similar aspects of gaming at the moment, and alcohol.

**Mr VALENTINE** - Thank you for that, Treasurer. What of the major regulatory policy initiatives that are being perused at the moment? Obviously gaming machines, but outside of that? We won't tell.

**Mr GUTWEIN** - In the regulatory space there will be a significant body of work that's attached to TasWater, and the formation of the legislation that will enable the Government to be able to take over TasWater, but then in the regulatory is based price-setting arrangements there, and in the energy space, we've just recently been through some significant legislative change in regards to regulated energy space. There will be further consideration given by the Minister for Energy in regards to how best we deal with the unregulated space. We have funds that we've included in the budget, but I think - and that's right, in fact, as part of the unity, Treasury will be conducting that major review over the next 12 months in regards to then broadly the wholesale price, you know. We made a decision this year where in the regulated space that we will provide an outcome for regulated energy customers at around 2 per cent, and it will be for the vast majority of customers at around two.

In the wholesale energy space, Hydro has made their move in regards to lowering the wholesale energy price bringing forward the 2018-19 price to 2017-18 and they have put a cost to that. We have \$20 million in the budget, but then that covers us for the coming 12 months. So there will be a major review of regulatory space in regards to how we interact with the -

**DEPUTY CHAIR** - Victorian wholesale market.

**Mr GUTWEIN** - Victorian wholesale market and the price set, and that is a significant and important process.

**Mr VALENTINE** - We dealt with that through this House only last week, wasn't it?

**DEPUTY CHAIR** - Yes, I think. Two weeks ago. We sent an amendment back to you.

**Mr VALENTINE** - Yes, we amended it.

**DEPUTY CHAIR** - So that will be undertaken all in-house, all that work?

**Mr GAFFNEY** - No, that probably won't. They might take –

**DEPUTY CHAIR** - Yes.

**Mr GUTWEIN** - Because that is significant.

**DEPUTY CHAIR** - Yes, I noticed, Treasurer, in the footnote that goes with this, it basically just talks about the TasWater economic policy advice, - sorry, I don't know whether this fits into that output group or this one in terms of the energy review that Treasury is undertaking, and looking at the model with the current linkages to the Victorian wholesale market.

**Mr FERRALL** - It would be under 1.3 and also 2.1 in terms of the people involved.

**DEPUTY CHAIR** - Yes, so is it likely to require additional expenditure though?

**Mr FERRALL** - And Finance General as well, yes, 1.5 of the Government.

**DEPUTY CHAIR** - Where is it?

**Mr FERRALL** - There's a funding in Finance General, so it's under Treasury Outputs under Finance, General Outputs. So if there's a need for specific consultancy for other support it would come from the Finance General Fund, yes.

**DEPUTY CHAIR** - Yes, because it's likely to need - it is a very complex area obviously.

**Mr GUTWEIN** - It is a very complex area, and that is of real significant importance to the state that we get this right. The mechanism that was originally proposed, the linkage to the Victorian wholesale price, made sense then, but when you see the national pressures that have been brought to bear largely outside the control of this state, and our input costs for energy isn't increasing at the same rate, if prices are going up there are some questions that we need to have answered.

**DEPUTY CHAIR** - We have our downwards pressure, though, on the networking charges. The regulator did a nice downward revision there. Nice in terms of the consumer, not so nice in terms of the Government's revenues.

**Mr GUTWEIN** - True, and that was always expected in that regard, but I think the review over the next 12 months provides us with the opportunity to look at exactly where we want to position ourselves in a market that has got an enormous range of pressures on it at the moment.

**DEPUTY CHAIR** - Anything else, Rob?

**Mr VALENTINE** - No, that's probably it and we'll deal with others under Other Items.

**DEPUTY CHAIR** - Does anyone else have anything else in 2.2?

**Mr ARMSTRONG** - No, you've already asked mine about land tax with Airbnb.

**2.3 Intergovernmental financial matters -**

**DEPUTY CHAIR** - So 2.3, any governmental or financial matters?

**Mr ARMSTRONG** - Yes, thank you. I noticed with the 2018-19, you're going to have a dedicated team for Commonwealth Grants Commission. The following year, that group of people will be disbanded. Do they finish after 2019-20 or do they continue?

**Mr GUTWEIN** - Yes, they do the work up with the major Commonwealth Grants Commission Review and we'll do that in 2020, so they'll be doing the work in regards to that, and that's the major GST review. The Productivity Commission that's reporting now is quite separate to what's the normal process of five-yearly reviews. Is that right? Yes, five-year reviews on GST, and you might recall the last one was 2015 and there was a lot of pressure brought to bear then by Western Australia for the Treasurer then to make a shift. That didn't occur, but we'll have to go through the same process again in 2020.

**Mr ARMSTRONG** - Rob's already asked about Shelter Tasmania. The other one was, the Government's been successful in securing the Mersey Hospital funding. How would that funding be managed sufficient to run it for the next decade? How are you going to look after that funding?

**Mr GUTWEIN** - Upon receipt of that money, which we will receive before 30 June, I think that's the expectation, so in this financial year, on receipt that money will be transferred as equity into TasCorp. It will be a separate fund established within TasCorp and they will manage that money. The legislation, which will come to your House in the next couple of weeks - or should be -

**DEPUTY CHAIR** - It hasn't been debated in your House yet, has it?

**Mr GUTWEIN** - It has, it's passed.

**DEPUTY CHAIR** - It is on our notice paper, then? I imagine you want it done the week after next, and if it's amended it has to go back to the House.

**Mr VALENTINE** - We won't get it until August.

**DEPUTY CHAIR** - You should have consulted first and got it right. Anyway, carry on, Treasurer. I have offered in the past, you know that.

**Mr GUTWEIN** - The money will be receipted by the state, and I'm hopeful we can go through this - we would be very happy to provide a briefing - establishes a separate account for Mersey Hospital Fund Account in TasCorp. TasCorp will be able to manage that money. The model or the forecasts that have been looked at, I think, take into account a low return of 4.4 per cent, a medium return of 5 per cent and a high return -

**Mr GAFFNEY** - Yes, I think it's four to six and a half.

**Mr GUTWEIN** - What have we got?

**DEPUTY CHAIR** - That's pretty ambitious, isn't it?

**Mr FERRALL** - That's high return case. We're not saying it's –

**DEPUTY CHAIR** - It's unlikely.

**Mr GUTWEIN** - Yes, so at 4 per cent, investing the \$730 million provides for a payment for 10 years which is the current base level of Mersey funding index by 3.5 per cent. The legislation specifically names that up and that's to be the level of the dividend. Four per cent for 10 at around 5.5, funds would be exhausted at year 11, and at 6.6, longer than 12 and a half years. So the legislation also prescribes that in the budget each year there has to be a line item for the funds coming into the Mersey. Importantly, as I mentioned earlier today, there will be changes made to the GBE Act as well that will protect the money to ensure that in future the government can't move equity from TasCorp into another government business without seeking the approval of the parliament, and conversely a government can't take a special dividend from equity held within TasCorp into the general government sector again without the approval of parliament.

So it provides a legislatively locked fund for that period, and then what we want is TasCorp would do better than 6.6, and then we've got –

**DEPUTY CHAIR** - I'm not sure where they're going to find that, but good luck.

**Mr GUTWEIN** - We have funding but –

**Mr GAFFNEY** - Without the volatility.

**Mr GUTWEIN** - With no volatility, But as I say, at a low medium or high range, four, 5.5 and then six, the model indicates that we have got at least 10 years in front of us.

**DEPUTY CHAIR** - So after the 10 year period, who knows who's going to be in government in any place at that point. Is the intention at this stage to try to renegotiate another deal with the feds or have they said, 'That's it. Get your house in order. Fund it yourself'?

**Mr GUTWEIN** - Then it reverts to the normal funding arrangements for a hospital, the activity base, and I think, is a 45/55, the activity base?

**Mr GAFFNEY** - About \$40 million, I think, under the current numbers.

**DEPUTY CHAIR** - So that's constantly under review, isn't it, the activity-based funding and the growth funding of that?

**Mr GAFFNEY** - It's for all hospitals.

**Mr GUTWEIN** - And over 10 years. The one thing that you can guarantee is the way that the Commonwealth funds hospitals in 10 years' time will be different to what it is today. But the 10 year period enables the state to plan, to ensure that it's in a position that the future of that facility will be guaranteed.



**DEPUTY CHAIR** - Anyone else have any other questions on the Government – no.

**Output group 3**

**Revenue, superannuation and regulatory management services**

**3.1 Tax administration and revenue collection -**

**DEPUTY CHAIR** - Tax administration and revenue collection, 3.1. Who's taking that over? Mr Hall can have this one.

Treasurer, this area will be responsible for the concessions under the energy, calculate the price-setting that you'll be doing. Am I right in that, or is that a separate process? Or is this the other concessions? There's going to be –

**Mr GUTWEIN** - Tax administration of revenue.

**DEPUTY CHAIR** - Yes.

**Mr GUTWEIN** - This is tax, not concessions.

**DEPUTY CHAIR** - It does talk about concessions to the Tasmanian community: it also includes administration of various grants, subsidies and concessions to the Tasmanian community.

**Mr ROOT** - No, the only electricity concessions we look after are the heating and cooling ones.

**DEPUTY CHAIR** - Sorry?

**Mr ROOT** - The heating and cooling, those sorts of concessions. We wouldn't be looking after any of the other.

**DEPUTY CHAIR** - Yes. I'm just going to observe there's not much in that then. Yes, sorry, we do the line items and when a person disappears it makes it a bit harder.

**Mr VALENTINE** - Sorry, what was that?

**DEPUTY CHAIR** - 3.1.

**Mr VALENTINE** - I have a question.

**DEPUTY CHAIR** - You go then.

**Mr VALENTINE** - The outstanding amount compared with last year, last year I think it was \$11.6 million that was outstanding. That is about 1.5 per cent. What is it this year? Other states are about 1 per cent.

**Mr ROOT** - The overdue debt for this year is 13.6 which is up a little bit, mainly due to timing issue related to the land tax. I am anticipating that it will be pretty similar by 30 June.

## UNCORRECTED PROOF ISSUE

**Mr VALENTINE** - Percentage is, roughly?

**Mr ROOT** - That is pretty much similar to last time.

**Mr VALENTINE** - 1.5?

**Mr ROOT** - Yes.

**Mr VALENTINE** - Thank you.

**DEPUTY CHAIR** - Can you give us a list then of the grant substance and concessions that you do manage in this area?

**Mr ROOT** - We look after the first home builders boost, the pensioner rate remissions and the electricity concession card holders and people with medical devices, the heating and cooling subsidies and so on.

**DEPUTY CHAIR** - The Bass Strait islands doesn't come into that either?

**Mr ROOT** - No.

**DEPUTY CHAIR** - What is the amount then in concessions or the substance of concessions, what is the total amount, because this is basically revenue forgone, obviously? Back in the good old days, Treasurer, this would be a whole chapter on concessions and stuff

**Mr GUTWEIN** - Yes, there is.

**Mr ROOT** - There is a table in -

**DEPUTY CHAIR** - It is there, is it? It will be Finance General.

**Mr ROOT** - It is a bit of a mix and match.

**DEPUTY CHAIR** - It is. Yes, a lot of them are, and then we have portfolios that cross over a range of areas. On page 54, Finance General, which ones relate to this are?

**Mr ROOT** - The energy retailer concession, first home builder assistance. Yes, payments under Local Government (Rates and Charges Remissions) Act which is about halfway down.

**DEPUTY CHAIR** - Yes. It has about \$60 million to \$70 million-worth of concessions in that area.

**Mr ROOT** - Yes, we also administer the payroll tax assistance under this.

**DEPUTY CHAIR** - As I said, there used to be more detail in regard to concessions. It is important for the public to understand that concessions are revenue forgone for a worthy purpose. I am not saying that we shouldn't.

**Mr GUTWEIN** - I thought we actually had a table at EP1 that actually outlines -

**Mr ROOT** - We have tax expenditures.

**Ms BEAUMONT**- Yes, fiscal strategy.

**Mr GUTWEIN** - That is not concessions.

**DEPUTY CHAIR** - It is in the fiscal strategy, is it?

**Mr GUTWEIN** - That is a different thing.

**Mr ROOT** - Isn't it the revenue forgone?

**Mr GUTWEIN** - Yes, the tax expenditure, that deals with land tax exemptions.

**Mr ROOT** - Yes, what page is that?

**Mr GUTWEIN** - That is in revenue chapter.

**Mr ROOT** - That is on page 94 or 95.

**Mr GUTWEIN** - But that is not concessions. Yes, concessions are -

**DEPUTY CHAIR** - Yes, yes.

**Mr GUTWEIN** - Page 93, so the tax-free thresholds and the land tax exemptions are covered off.

**Mr VOSS** - As you said, that is revenue forgone. The concessions aren't the same. They are ultimately a payment which is made, so these are quite different. With regard to, say, land tax for the principal place of residence exemption, the land tax rate is zero. So it actually exists, but it's a zero rate. That is revenue forgone. The concessions are just payments like a grant or what have you.

**DEPUTY CHAIR** - They are paid to either Aurora or somebody else.

**Mr VOSS** - They are paid to someone, so it is slightly different. It still hits the bottom line.

**DEPUTY CHAIR** - Well, it does and it would be helpful to have a bit more detail around it. In terms of people understanding where some of the money goes because it is money in and money out, and it is revenue forgone. Where if you decided to apportion, for argument's sake, land tax across all principal places of residence and prime production line, it would be a significant amount extra collected.

**Mr VOSS** - About \$200 million.

**DEPUTY CHAIR** - But people appreciate, I'm sure, the fact they don't have to pay it. They don't appreciate how much the state gives us as a result. So it is really helping people to understand that that is what it is.

**Mr VOSS** - Yes, it is a relatively new table. We only brought that in a couple of years ago for exactly that purpose. That was exactly the reason.

**DEPUTY CHAIR** - Yes, I raised this a few times, a few years ago. Also the concessions as well, having some understanding of what they actually amount to. Yes, it is good news - well, it's not. It is news that shows how much the government of the day care about these people who find it difficult to pay.

**Mr FERRALL** – Premier and Cabinet do put out their concessions guide.

**DEPUTY CHAIR** - Does that contain that level of detail? I have not read it.

**Mr VOSS** - It highlights the available concessions. I am not sure if it has all the financial details.

**Mr GUTWEIN** - They do add it all up and there is a broad number at the front, from memory. I think, for example, that most people aren't aware that we provide nearly \$10 million a year to TasWater.

**DEPUTY CHAIR** - That is right. If you put it in a user friendly format it makes it easier for everyone. Anyway, that can be the new budget smicko system reporting.

**Mr GUTWEIN** - Smicko. It is the word of the day.

### 3.2 Regulation and administration of liquor and gaming -

**DEPUTY CHAIR** - A bit like the word 'Jacka'. So we will move on now to 3.2, Regulation and Administration of Liquor and Gaming. Mr Farrell.

**Mr FARRELL** - Thank you, that rolled on quite nicely. Treasurer, in relation to this, can you inform us on the progress of the community interest test that has been done?

**Mr GUTWEIN** - I can and, in fact, I know Mr Root is well across that.

**Mr ROOT** - Following the passage of the bill, the Treasurer asked the Liquor and Gaming Commission to undertake a process to determine what matters should be regulated as part of the community interest test. The Liquor and Gaming Commission has undertaken a public consultation process on that. They have also undertaken a review of what happens in other jurisdictions and I am not sure precisely when the Treasurer will receive that report, but it is very close to being completed at which time no doubt the Treasurer will turn his mind to what the regulation should look like. But the Liquor and Gaming Commission will provide a thorough piece of advice on what should go into that test.

**Mr FARRELL** - When is it likely to be implemented? Do you have a date as yet or -

**Mr GUTWEIN** - The timing of the advice will be important. What is the implementation process from there once it has been considered?

**Mr ROOT** - It would simply be matter of drafting the regulation and tabling it.

**Mr FARRELL** - It was intended to be retrospective, is that still the case?

**Mr GUTWEIN** - I am just trying to think because that legislation went through a couple of iterations.

**Mr ROOT** - How it works essentially is that from the point at which the Treasurer made his announcement up until the legislation was passed, any applications that came into the Commission in that period have simply been frozen. My recollection is there were two that were sitting there and they will reactive once the community interest test regulation has been made.

**Mr FARRELL** - And go through that process, yes.

**Mr ROOT** - Yes, and since the legislation was passed, any new applications essentially can't be made. But once the regulation is through then everything will start off again and the people could apply.

**Mr FARRELL** - Thank you.

### **3.4 Office of the superannuation commission -**

**DEPUTY CHAIR** - Any other questions on that line item from anyone? No. We will move on to 3.4 Office of the superannuation commission.

Treasurer, there is a significant amount of money that is obviously required to run this office in terms of the work that the commission will do. I am interested in the savings that have been made through - and this was, as I understand, the whole purpose of changing the arrangements here with the funds being held by, one, the non-defined benefit scheme members being transferred Tasplan now. But can you tell us about the Office of the Superannuation Commissioner, how that is progressing and the savings that are there as a result?

**Mr GUTWEIN** - I certainly can. We estimate there will be a saving of around \$2.5 million per year as a result of what we are doing and that increases over time as we become more efficient. That is certainly good for the state. Having the commission established will and has ensured that from the point of view of the DB member that really nothing has changed except that what we have been able to do is to arrive at a lower cost model which is a great outcome. I am not sure if you want to have - Geoff or Tay, do you want to speak?

**Mr FERRALL** - The estimated savings are based off effectively what the RBF Board claimed on average over the past six years and that was \$19.4 million around.

**DEPUTY CHAIR** - You mean administration of it?

**Mr FERRALL** - Yes, for administration, and we built a budget effectively for the Office of the Superannuation Commission going forward taking into account all of the costs that we believe will be needed to be met and that is \$16.9 million on average. So that is where we have identified the \$2.5 million. The budget is largely built on the basis of the office having the capacity to effectively stand alone and as we go forward and we integrate it more into Treasury, we believe we will get further savings going forward. So things like IT, as an example, as we integrate into the broader Treasury, we will get economies through, say, the provision of IT services. We believe we will be able to generate lower costs.

**DEPUTY CHAIR** - It will stand alone at the moment then in the initial -

**Mr FERRALL** - It has the capacity in the budget to effectively stand alone and we have kept it in the budget as a stand alone.

**DEPUTY CHAIR** - So maybe in a few years' time we may not even see it as a line item. Is that what you are saying or -

**Mr FERRALL** - No, you will still see it, but what we believe is the cost to the superannuation or the Office of the Superannuation Commission will be lower going forward.

**DEPUTY CHAIR** - How many staff and at what pay scale?

**Mr FERRALL** - It is budgeted for 36 staff and currently there are 28.

**Ms BEAUMONT** - Twenty-seven.

**Mr FERRALL** - Twenty-seven positions filled. Many of the staff were grandfathered from previous arrangements in the RBF and so they are above what you would see as our normal admin clerical scale and some of those arrangements have needed to continue forward. But we established an office with a range of positions with a branch head similar to our other branches, assistant directors cascading through the office, and many of those positions were filled by existing staff in the RBF but they are previous financial arrangements or remuneration arrangements which in some cases exceeded the relevant band classification for the positions.

**DEPUTY CHAIR** - Can you give us an outline of the bands that these employees are on in the office?

**Mr FERRALL** - Now?

**DEPUTY CHAIR** - Yes.

**Ms BEAUMONT** - We will talk through it.

**DEPUTY CHAIR** - Can you introduce your new -

**Mr GUTWEIN** - Jane Beaumont.

**DEPUTY CHAIR** - And James Rowan?

**Ms BEAUMONT** - Deputy Secretary Corporate and Governance. There isn't a direct translation from RBF to the award. Of the 27 staff that are now the Office of the Superannuation Commission, nine of them had substantive RBF salaries which exceeded the role that they were successful for at Treasury. So these are the ones that have personal guaranteed salary. Eight came in at band, so they were assessed at the right level of the award and 10 had salaries at RBF that were lower than what they were successful for at Treasury. So, they essentially received a promotion. So that's the 27.

**DEPUTY CHAIR** - I have forgotten who you appointed as Commissioner.

**Mr GUTWEIN** - Kerry Adby.

**DEPUTY CHAIR** - Yes. Has she taken up that position yet?

**Mr GUTWEIN** - 1 April, was it?

**Ms BEAUMONT** - 1 April and then inducted before that, so the OSC and the Commission became an office and a legal entity effective 1 April this year.

**Mr VALENTINE** - The ones that were being paid more than the role that they have eventually undertaken, have they been kept on salary rate?

**Ms BEAUMONT** - Yes. The model is essentially a section 55 industrial agreement, so it is registered with the commission. They are named in the agreement, so they are entitled to that personal guaranteed salary which is a dollar amount. They will receive any award increments, but they won't move up a band. They are essentially capped.

**Mr VALENTINE** - I understand what you are saying. They are not disadvantaged.

**Ms BEAUMONT** - They are not disadvantaged, no.

**Mr VALENTINE** - That is the main thing. Thanks.

**DEPUTY CHAIR** - But they won't get incremental -

**Ms BEAUMONT** - They will get the incremental across the award. They are negotiated every 12 months, but won't get a personal increment because they are capped out.

**DEPUTY CHAIR** - Yes. You said there was 30 positions in the office.

**Ms BEAUMONT** - We rely on the RBF model. That is funded for 36 positions. It is currently staffed at 27.

**DEPUTY CHAIR** - Are you going to have put more staff on or -

**Mr GUTWEIN** - There are more.

**Ms BEAUMONT** - There is more. It is a fairly fluid staffing at the moment. There are three roles that will soon be filled, but recruitment is ongoing at the moment.

**DEPUTY CHAIR** - That is all within that \$17 million appropriation.

**Ms BEAUMONT** - Yes, so that includes the 36 positions.

**DEPUTY CHAIR** - It will be interesting to see what other savings can be made over the -

**Mr GUTWEIN** - It certainly will.

**DEPUTY CHAIR** - Because it has been a cost. But, as you say, the members of defined benefit schemes won't notice anything.

**Mr GUTWEIN** - No, the members won't notice anything. It is, I must admit, pleasing to see the level of savings that we have in this budget. It has certainly been something that Mr Ferrall of Treasury from day one formed the view that there were substantial savings that can be made as a result of this. Setting this side around, it has also enabled us to create, in terms of its balance sheet, what is the largest business in Tasmania in respect of the Tasplan business and we will provide that with an opportunity going forward.

**Output group 4 -  
Community assistance**

**4.1 Bass Strait Island community service obligation -**

**DEPUTY CHAIR** - Any other questions on that line? No. We will move to 4.1, Bass Strait Islands Community Service Obligations. This is just the obligation regarding energy prices.

**Mr ROOT** - Yes.

**DEPUTY CHAIR** - I don't have any particular questions on it. It is a line item and it is there because they pay much more.

**Mr ROOT** - That is a CSO with Hydro Tasmania to provide electricity on the islands, as you said. Sorry, what was your point about it?

**DEPUTY CHAIR** - It is going to continue into the foreseeable future because they are still challenged by higher energy prices on the island.

**Mr ROOT** - Yes, it is very expensive. Wind and diesel.

**DEPUTY CHAIR** - And some solar.

**Mr ROOT** - And some solar, yes.

**DEPUTY CHAIR** - And some solar and batteries now.

**Mr ROOT** - Yes, true. All that is very expensive so -

**DEPUTY CHAIR** - They are very expensive.

**Mr ROOT** - Hence, \$10 million here.

**Mr VOSS** - Mind you, they will pay themselves off over time.

**Mr ROOT** - It will. It is there and will continue to be.

**4.2 Public trustee community service obligations -**



## UNCORRECTED PROOF ISSUE

**DEPUTY CHAIR** - Yes, good. So, we will move on. 4.2, Public Trustee Community Service Obligation. Bob.

**Mr ARMSTRONG** - Thank you. Could you explain what the \$2 million in the public trustee CSO, what is covered by it? Where does it go?

**Mr FERRALL** - It is the provision of trustee services to clients with low income, low asset value, effectively.

**Mr ARMSTRONG** - That is all I wanted to know. That is about the only thing I could come up with it. Yes, thank you.

**DEPUTY CHAIR** - There are all these concessions. It would be nice to have a chapter that explained and then we wouldn't have to. Anyway, it used to be there once upon a time. Capital investment program. There is a lot in this area. I assume this relates basically to the budget management system. ?

**Ms BEAUMONT** - Yes.

**DEPUTY CHAIR** - Yes, and the state revenue system in place for payroll tax and duties, yes. Is there anything that we need to know about that? We have already done the budget management one. Is there anything about the payroll tax?

**Mr GUTWEIN** - I would like to let Jonathon take a little bit of it because it has been very successful in the implementation of this. Treasury and certainly the SRO demonstrated an extremely high level of competence in the implementation of this and the interaction with clients. So, Jonathon, if you would like to.

**DEPUTY CHAIR** - Was it necessary really to do it because people weren't paying that should have been or was that the issue? Why was it done?

**Mr FERRALL** - It was a legacy systems that we haven't upgraded in part or large part.

**DEPUTY CHAIR** - Yes.

**Mr ROOT** - Yes, so legacy systems and also systems that didn't really have the capacity to open themselves up to the taxpayers so that they could easily manage their tax affairs with us electronically. Hopefully we haven't jinxed the go-live which is currently in early July for the final module. You may recall from previous Estimates that it has been done over a number of years in three components. We have rolled out land tax and payroll tax and those are working well, and we are about to roll out duties. There is a small amount there for 2017-18 which would be from Commonwealth funding which relates to us building capability to provide for the Commonwealth's third party reporting requirements. The Commonwealth has asked states and businesses to provide a good deal of additional information to particularly the ATO around things like foreign purchases and so on. We have built that into the system.

**DEPUTY CHAIR** - Foreign purchases that attract land tax or other taxes?

## UNCORRECTED PROOF ISSUE

**Mr ROOT** - They will be transactions where there is stamp duty, but the Commonwealth is interested in it for other purposes, foreign investment rules and their capital gains tax and so on protection.

**DEPUTY CHAIR** - You obviously collect that sort of data when you impose a stamp duty, whatever, whether it is a foreign investor or -

**Mr ROOT** - We don't currently and this is one of the reasons why the Commonwealth has provided funding for us to build the components that they need because largely when a transaction occurs, we are interested mostly in the purchaser. They will be paying the stamp duty. They will be the person who would go into the land titles system for land tax and so on if it is an investment property. But the ATO is interested also in the vendor details so that they can look at protecting their capital gains tax base and, as I said, foreign investors and so on. They are after details, passbook details and so on, which by and large we are not interested in that sort of thing specifically.

**DEPUTY CHAIR** - It is interesting the Treasurer raised the point of the New South Wales Premier suggesting increased - I think it was a tax or some sort of fee for foreign investment. Is that done anywhere around the country at this stage, are you aware?

**Mr GUTWEIN** - Victoria introduced a tax on foreign investment. I think South Australia. If they haven't, they will. In fact, I know their Treasurer was talking about it. I am sure there are more jurisdictions than just Victoria. Has Western Australia got one?

**Mr ROOT** - I can't recall.

**Mr GUTWEIN** - I can't recall.

**DEPUTY CHAIR** - Is there any consideration for that here then?

**Mr GUTWEIN** - I haven't considered that, no.

**DEPUTY CHAIR** - Do you think it is a positive or a negative thing?

**Mr GUTWEIN** - Again, at the moment my sense would be that the world has discovered Tasmania and I certainly don't want to put any impediments in to play in regards to reasonable investment in the state. But, we will keep an eye on what has occurred in Victoria, now going onto New South Wales and see. There may be a place for it. I wouldn't imagine that the amount of revenue that we would raise would be significant. The Secretary of Treasury might have a view on that. At the moment our key message is that, you know, the state is open for business and we want investment at the moment. I don't want to put in place -

**DEPUTY CHAIR** - There are concerns, though, you have to admit with foreign investment in our land.

**Mr GUTWEIN** - The Foreign Investment Review Board has a particular role there.

**DEPUTY CHAIR** - Maybe this information is seeking to assist them in understanding the extent of foreign investment in property generally, whether land or -

## UNCORRECTED PROOF ISSUE

**Mr GUTWEIN** - Certainly. The problems, as I understand it, that occurred in Victoria especially, were a lot of foreign investment into apartments, but then weren't being released into the market. They had some particular challenges there and, I recall the Premier of New South Wales making a similar comment in regards to her announcement as well. We are not seeing that here. We don't have a proliferation of apartments being built and housing stock being taken out of the market. But, we will keep under consideration.

**DEPUTY CHAIR** - In terms of land, they could just sit on land and not use it to its capacity potentially. We couldn't stop that, could we?

**Mr FERRALL** - It depends on the problem you are trying to resolve. The fundamental issue is to identify what is considered to be the problem in terms of potential foreign ownership and then look at what the right mechanism is to resolve that. It may not be simplistically the change in tax because that may not actually deal with it in the manner that you are attempting to. It is not as easy. Some of those policies are more related, to be blunt, to politics than to necessarily resolving a particular problem. Not that we have provided any advice to the Treasurer on this, but if we were, we would say, okay, start at your problem definition point and then work through to the appropriate policy, rather than just looking at potentially a tax change which might give a political benefit but may not actually resolve the issue.

**Mr GUTWEIN** - It may to some extent create an issue. But at the moment there is no consideration to any of that.

**DEPUTY CHAIR** - Any other questions?

**Mr VALENTINE** - Only in relation to the systems implementation. Quite often when we get new systems in the State Service, not enough attention is paid to staff training. Information is all important. Have you got that covered well? Every department would be involved with that budget information management system project in some way or another. Are we assured that staff training is going to be taken care of?

**Ms MORGAN-WICKS** - Yes. We have actually already commenced training on the new Budget Information Management System. So, by doing a prototype and design and validation phase, we have had significant testing teams in there operating the system, so they have had a first taste. And as part of implementation, there will also be what we call a sandpit environment where they are able to get in there and have a look at it.

One of the big internal facing benefits, both for Treasury and for agencies, is that we are making it a much easier user experience with the new system. So, the old BMS is a 17-year-old or 18-year-old system. This will be much more modern and contemporary - Windows based interface, et cetera.

**Mr VALENTINE** - Excellent. Thank you.

**DEPUTY CHAIR** - Do you want to start Finance General now, or do you want to have lunch and come back 10 minutes early after lunch maybe?

**Mr VALENTINE** - Is it 1 o'clock already?

**Mr GUTWEIN** - I am happy to have lunch and come back and then start.

**DEPUTY CHAIR** - Yes, let's break for lunch rather than start Finance General.

**Mr GUTWEIN** - For clarity, I know when we move into local government output in regards to TasWater, do you want to ask questions about the model that we are talking about or in regards to more broadly local government because Treasury being responsible for supporting mainly the advice in regards to the model, the local government division won't be able to provide any -

**DEPUTY CHAIR** - Advice around that.

**Mr GUTWEIN** - If that makes sense.

**DEPUTY CHAIR** - Yes.

**Mr GUTWEIN** - I am just not sure where you want to go.

**DEPUTY CHAIR** - That is why I pursued it earlier and when the Chair decided that we had done enough of that, I thought we will wait until local government. Maybe we do need to finish that off before the Treasury advice leaves the table. I think there are other questions related to that. So we might -

**Mr GUTWEIN** - I would certainly like to share with you the profile of the capital program that we have shared with local government, what that looks like and what is the total spend and those sorts of matters, but that is more to do with -

**DEPUTY CHAIR** - Do you want to do that when we come back, Treasurer? Is that the easiest?

**Mr VALENTINE** - We could do it now and get it out of the way. No?

**Mr GUTWEIN** - It is going to take longer than 10 minutes.

**DEPUTY CHAIR** - Yes, we will come back. We will adjourn until 1.50 p.m. and come back and we will start with that and then go to Finance General.

**Mr GUTWEIN** - Then we finish Treasury 3, is that right, or is it - we are in your hands?

**DEPUTY CHAIR** - Yes, because the Auditor-General, we have got after we finish Treasury, before we start local government. That won't take too long.

**Mr GUTWEIN** - That is a matter for you.

**DEPUTY CHAIR** - Thanks.

**The committee suspended from 12.52 p.m. to 1.51 p.m.**

## **Output group 2 (Re-visited)** **Economic and fiscal policy advice**

### **2.1 Economic policy advice -**

**DEPUTY CHAIR** - All right. We are ready to make a start. We are going to revisit 2.1, Economic Policy and Advice while the Treasurer has his Treasury advisors here regarding the TasWater policy decision around the takeover. Did you want to make some opening comments on the Treasury or did you want us to go into questions?

**Mr GUTWEIN** - I thought if I could just to provide some background information. I am not sure if you have been provided with the presentation that I gave to LGAT where I set out the infrastructure profile and talked about the Treasury advice in regards to the -

**DEPUTY CHAIR** - I have, I am not sure about other members, but if you want to table it, that would be fine.

**Mr GUTWEIN** - There are a couple of pages I wanted to just talk through specifically just to provide -

**DEPUTY CHAIR** - Are you happy to table the whole report and then speak to those pages?

**Mr GUTWEIN** - Yes, I am. In fact, I will need to get one - because this one has a couple of scribbled notes of mine on it, but I am happy to table a report.

One of the things that I shared with local government, and I will hold this up so that - these couple of slides I want to run through so you know the ones that I am particularly talking about. At the moment, TasWater has a \$1.5 billion infrastructure spend over the next 10 years and they have provided a draft 10-year plan to Treasury late last year of which Treasury were asked to not share with any other party including me. TasWater, and I will give them their due, upon request from Treasury were comfortable in providing me with a briefing earlier this year, but obviously events overtook it and so I was not privy to the 10-year TasWater plan late last year when it came in.

**Mr GAFFNEY** - Sorry, when did you say they provided you with that briefing?

**Mr GUTWEIN** - It was late last year.

**Mr GAFFNEY** - You said earlier this year.

**Mr GUTWEIN** - No, they offered a briefing, should I want it, earlier this year, but then obviously events have overtaken where we were.

**DEPUTY CHAIR** - 'They' being TasWater offered a briefing?

**Mr GUTWEIN** - As I understand it, that is about right. But to be clear, the \$1.5 billion plan from TasWater provides both their financials, but also what their infrastructure profile will be over that 10 years. It is lumpy in some years, it gets up to just over \$200 million, up to around \$180 million and then in other years, it is lower. When we did the modelling for the government's proposal, and that is that upon taking them over we could accelerate the infrastructure spend from

1 July 2018-19, effectively, what that does is collapse the remainder of the TasWater plan at that time into a five-year period. It effectively provides for a seven-year accelerated program, if that makes sense. We are in year 1 now. We will be in year 2 in the coming financial year and then what we have said is that we would complete the remainder of their 10-year plan over the five years once we take them over. So, around a seven-year plan, but five years under government ownership.

When we modelled the bringing forward of the infrastructure, we simply assumed, and if I could just share this, that TasWater was spending \$150 million a year each year for 10 years. Actually, it is a little lumpier than that, but effectively that covers off the \$1.5 billion. Then when I was discussing it with local governments, I said what we are going to do is we bring forward the outstanding years into that period and have an accelerated infrastructure plan. In doing that, that effectively increases the spend off a base of 150 by up to about \$90 million a year for that five-year period. I want to pause here and say that there have been suggestions that bringing forward \$90 million worth of additional spending would be detrimental to our economy and that we couldn't do it. In fact, that has been something that has been said by TasWater and local government.

**Mr VALENTINE** - It is a resourcing issue, isn't it?

**Mr GUTWEIN** - They have suggested it is a resourcing issue. I want to put this in context. \$90 million and, in fact, it will be somewhere between, as I say, in that timeframe, the TasWater capital spend goes up to about \$180 million just south of \$200 million. It is an investment brought forward somewhere between \$60 million to \$90 million any given year. That is around 3 per cent of the total construction and engineering spend in the state in any given year. So, it is nothing. In fact, our construction and engineering spend actually flexes by more than that in most given years. Can the economy stand it? Absolutely, yes, they can. It is interesting, I was just chatting with Mr Ferrall yesterday about this on another matter in regards to our infrastructure program more broadly. He explained to me that post the GFC, if you consider what happened then with the BER and the work that went on, that our economy was able to soak up in the two years post the RAB announcement in regards to the increased infrastructure -

**DEPUTY CHAIR** - Stimulus funding.

**Mr GUTWEIN** - Stimulus package. Close to \$400 million in a year and, in fact, for a couple of years.

**DEPUTY CHAIR** - It wasn't all good spending, though.

**Mr GUTWEIN** - But work was able to be done.

**Mr VALENTINE** - Technically, you are talking about.

**Mr GUTWEIN** - Yes, work was able to be done. We are talking about somewhere between \$60 million and \$90 million in regards to bringing it forward. Can the economy stand it? Absolutely, and like the chairman of TasWater when he wrote - and you have a copy of the letter that he sent to me in May 2016, where he was, in fact, arguing for a \$1.8 billion spend, and his arguments were that this would be good for the economy and it would be very good for regional Tasmania, especially. The reason that it would be good for regional Tasmania is that when you look at the TasWater plan, there are around 600 different projects that are listed. That means the plan is scalable. It is not as if we are trying to build a \$1.5 billion building that is in one particular location. This is a range of projects right around the state where you can have a workforce operating

on the west coast and one in Dorset and another one down south. You have the capacity and they are not linear either, if I can make that point. Whilst there will be some projects that are linear in that you need to take care of a pump at this end and before you can deal with the next pump and so on, in many cases, they are quite discrete. In fact, the majority of cases, quite discrete projects and so they are not reliant on waiting for a particular project to be finished. You can actually scale the project up. Is it possible to bring forward the work? Yes, it is. Is it possible to do that amount of additional work in a year? Absolutely.

One of the things, and I raised it this morning and I spoke about it yesterday, by bringing forward the infrastructure spend and completing, as that graph shows, the \$1.5 billion in seven years, we then have to back-fill the next year's. The proposal I put to local government had a profile that looked like that. It is actually a total of \$1.8 billion across the 10 years. The profile is slightly different to what was proposed in the original TasWater 10-year \$1.8 billion plan, but it is the same value across 10 years. The benefit of this plan is that at the end of 10 years under TasWater's current plan, there is still nearly \$0.5 billion-worth of asset replacement work that hasn't been undertaken, where assets have passed their useful life and a renewal program needs to be undertaken. Under TasWater's plan, they complete \$1.5 billion. There is still \$0.5 billion-worth of renewals that needs to be - well, they have renewal backlog. That is how far they are behind. Over 20 years, there is still around a \$0.25 billion that they are behind.

**Mr ARMSTRONG** - That is not building the depreciation over that time, Treasurer?

**Mr GUTWEIN** - In their plan, they actually name it up as - I think it is \$425 million at the end of 10 years is the backlog of renewals for assets that have passed their use by date. This is work that largely based on my understanding - my belief is that this is one of the reasons why TasWater and local government owners say that: 'Our assets are deteriorating faster than we can actually fix them'. They have said that, I think, before this House in December of last year. They simply haven't. They are not investing enough to renew the asset base that they have, let alone do the work that is necessary in front of them. Our plan continues with that asset renewal program and \$1.8 billion over the 10 years. Then as part of the profile it also included additional spending to say that there is a range of other projects that we know are going to come up over the period. We have Macquarie Point. There is the combined system in Launceston, Camerons Bay, and no doubt there will be others because based on the current state of the network that we have, there is no doubt that there will be other urgent work that will be needed to be included.

**DEPUTY CHAIR** - Are you suggesting in that then, that extra additional spending, to deal with those three areas of concern that don't actually improve revenues to TasWater wouldn't be until the last three years in the 10-year plan?

**Mr GUTWEIN** - No, I have included them there and I have set them outside of it and said this - when I talk about the high level metrics that we have arrived at in the Treasury model in regards to where the business would be in 10 years, those plans are outside of this. We have modelled the \$1.8 billion across the 10 years, but we note that there will need to be investment into those other projects at some stage.

**DEPUTY CHAIR** - In your modelling, you are not including those three projects?

**Mr GUTWEIN** - I am not. I am not including those and there is a couple of reasons for that. One is the value of the works needed at Macquarie Point has not been settled. Second, the combined system in Launceston is a long way from being settled. I would like to have a clear picture of what

the separation of the combined system looks like by the end of this year and that is one of the reasons in the budget we have established the management taskforce. There is a report, the Becker report, you might have seen which has looked at the combined system in Launceston and has a range of different options from around \$100 million up to nearly \$600 million depending on tolerances to solve that. Once you start talking around \$600 million, that option is digging up every street in Launceston doing the separation. I don't believe that that is a sensible solution. That may be part of the solution, but there will be multiple options that will need to be considered. Some of them will be increasing retention. Some of them will come as part of the improvements that are made to bringing the existing sewerage plants that pump into the estuary or into the Tamar directly up to a reasonable standard. There will be a range of things, but we put in place the taskforce so by the end of the year we had that understanding.

The point that I was making to local government was that what we wanted to do was to explain a profile of investment. It is a profile that we have started from the worst possible position because the TasWater profile is higher in certain years. They actually do more work over the period than what we have modelled here, but we have used the worst point as a starting point to model from. Then what we presented to local government was that the advice from Treasury was that after 10 years - and that was the period that was the concerning point for local government, as I understood it, because we had made the commitment that we would ensure that local government were kept whole, \$20 million per year as they had been promised by TasWater that would be funded, and I would expect that there would be some sort of deed put in place. I believe that local government will want more surety than is in the budget and in a similar way that we have a deed in place with the racing industry we would need to land some form of legislated deed to provide that surety.

**Mr VALENTINE** - What, per council?

**Mr GUTWEIN** - No, the councils would need to be - and, again, the legal structure for that, whether each individual council would sign or whether or not it would be a deed that captures the requirements of what needs to be done and paid to them in respect of their own entitlements, but we would make certain that that deed was in place.

**Mr VALENTINE** - They all have varying levels of skin in the game, haven't they?

**Mr GUTWEIN** - But, again, it is levels of skin that are understood. They receive their current returns based on those percentages and that would only apply after the 10-year period and it is important to capture that to make certain that that is taken care of. Treasury modelled what the outcome for the business would look like after 10 years and the advice that I received, and I am very happy to talk about the advice - I won't be releasing the modelling, but I am very happy to talk about the advice - at 10 years, the interest cover ratio would be at 1.7 times and increasing, so strengthening. That the debt to equity ratio would be at 66 per cent and falling which again for a regulated business, and as you made the point this morning, is not high. In fact, for a number of peer companies on the mainland, the average, would be about 70 per cent. That net debt would be at around \$1.2 billion and coming down and the company would be in a profitable situation. That has all been provided to local government.

The mechanics of the transfer will be captured in the legislation which will be made available to a committee of this House at the earliest opportunity. I would think late July maybe, August, some time around then, but certainly the legislation is a body of work. It is our intention that we will introduce the legislation in the spring session of the lower House and the commitment that I have provided publicly is that once the draft legislation is available, that it can go to the committee



to be considered prior to be considered in this House, so that you have every opportunity to look at it.

**DEPUTY CHAIR** - But you want to deal with it sooner rather than later, don't you? The committee is not going to be over in five minutes.

**Mr GUTWEIN** - That was one of the reasons why rather than take it through the lower House and then to the upper House some time in the spring session and then go off to a committee, the idea was to provide it to a committee in the first instance for debate.

**Mr VALENTINE** - Wouldn't you want ground-truth it first to make sure that actually what you are putting forward as a model actually would work?

**DEPUTY CHAIR** - The committee has to do it. The committee is going to do the work.

**Mr GUTWEIN** - When you say ground-truth it - I am confident on the basis of the advice that I have received from Treasury that in regards to the financial model that that stands up.

**Mr VALENTINE** - I don't have any doubt, but it is a bit like a mathematician telling a plumber how to do his job. The problem is, do you understand the full complexity of the task? That is the real issue here and that is what TasWater is probably saying - that you don't understand the total complexity of the task. You can prove me wrong, but there are a lot of things out there that aren't just simply a matter of getting the financial model right.

**Mr GUTWEIN** - No, that is right, again, and that is one of the reasons why throughout this, I have taken advice from the private sector. I have spoken to engineering firms. I have conversations with many of the firms that currently contract with TasWater and do work to get an understanding so that I am clear in my mind that in regards to the capital works program which has, as I have said, hundreds of different types of projects that it is scalable, that is it possible for that work to be completed within the timeframe. I am certain in my mind that that is very achievable and I am certain that during the inquiry that goes on that those that operate in the space - TasWater will have their view - if provided the opportunity to inform the committee will be clear in respect of the messaging they have provided me. The infrastructure spend that we are talking about is not a massive one and we would need to get our minds around that. Between \$180 million and \$240 million, an additional \$60 million as I have said at the low end up and up to \$90 million-worth of additional work at the high end, in the context of the Tasmanian economy in one year. It is not a lot of work to get done.

**Mr VALENTINE** - Deputy Chair, I am sure you are convinced that the modelling would be right, but what concerns me, and I would want to see the plan before saying, yes, support or don't support. But, there are things out there that aren't simply a matter of getting the modelling right. It is simply a matter of finding where the problem lies, especially with the sewerage system. It is not all simple. All the spills that go on, how are you going to fix all those? You don't know the complexity of that task, with due respect, so I would want to see the break-up of that plan.

**Mr GUTWEIN** - One of the things that the TasWater 10-year plan does is outline the work program over the 10-year period and when you look at the site, some of the projects are in the hundreds of thousands, and some are in the millions. There are six or seven that are above \$20 million-worth of work. But anybody considering that and looking at a small job on a water and

sewerage plant in eight years' time, there is no reason at all why that could not be brought forward three years as long as it is not reliant on a sequencing issue further up the path.

**Mr VALENTINE** - There are bigger problems out there than just that money can fix. I am sorry, but you have to convince me and I will wait to get the information.

**Mr GUTWEIN** - I am happy to have that conversation as we work our way through it. In regards to the work that we have done to date and in regards to the conversation that we have had with local government, we have provided this information and the Treasury advice in regards to the financial metrics of the company. We have made it perfectly clear that post-10 years, the state government is not interested at all in taking this on from the point of view of a revenue generator for the state. What we would do with our 50 per cent is to invest that back into the business to either ensure that there is additional infrastructure work done or debts repaid or to keep prices lower for customers.

This is about fixing an issue that has both public health ramifications, brand ramifications and social ramifications, and we have the capacity to step in and to bring this work forward. As I say, on one hand, TasWater were arguing that they could complete a \$1.8 billion fix over 10 years. It is interesting that now that we are talking about a \$1.8 billion fix over 10 years, they are suggesting it can't be done. When you look at the risk of not doing it and the renewal work that really does need to be undertaken and the risks that provides, you know, I believe that there is a risk that the Tasmanian community should not take and that is the risk of not getting this done quicker.

**DEPUTY CHAIR** - Treasurer, have you finished speaking to that document?

**Mr GUTWEIN** - Yes.

**DEPUTY CHAIR** - If you can get a clean copy to table, that would be good.

**Mr GUTWEIN** - Yes, we will get a copy.

**DEPUTY CHAIR** - Are you will also to table the 10-year plan of TasWater?

**Mr GUTWEIN** - That is a matter for TasWater, quite seriously.

**DEPUTY CHAIR** - You said you are not going to release your modelling that you have done.

**Mr GUTWEIN** - I have released the outcome of that modelling and from the point of view of where local government is at, with a guarantee of receiving the returns that they were expecting so there is no risk to them through that period in regards to what their financial circumstances would be. By providing the advice of what the circumstances are at 10 years, they have, in my view, a clear picture of what the key metrics are for that time business at 10 years and, therefore, what the future might hold.

**DEPUTY CHAIR** - Who are you taking advice from regarding the rescheduling of TasWater's infrastructure plan?

**Mr GUTWEIN** - As I said, over the course I have spoken to a number of private sector companies, most of them are in the space where they do contract with TasWater and I hope they would be prepared to put forward their views to the committee. The next step - and I am in the

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process of writing back to LGAT, and I have already requested this of local government - we would like Treasury to engage with TasWater through this process to look at both the transition, and also the scheduling arrangements to have that engagement.

**DEPUTY CHAIR** - You don't have a plan as such yet, except for what you are outlining?

**Mr GUTWEIN** - We haven't taken projects in the south and in the north-west and put them into a particular year. What we have looked at is whether we can deliver the infrastructure spend in a certain timeframe and whether the company could be kept whole. The next step to that would be to look at each of the individual projects to ensure a sequence. We have asked local government to allow us to work with TasWater on that.

**DEPUTY CHAIR** - Basically you are doing a due diligence, as we are describing.

**Mr GUTWEIN** - I am in the process of writing back formally to LGAT. I expect to have that letter away later this week to request the opportunity for Treasury to work with TasWater.

**DEPUTY CHAIR** - To date, there hasn't been a collaborate approach between Treasury and TasWater on this?

**Mr GUTWEIN** - I suggest based on the position that local government has taken, it has been difficult to get to that collaborative point.

**Mr VALENTINE** - They feel a bit attacked, I would suggest.

**DEPUTY CHAIR** - That is right. My point with this is that you are saying you can do it. 'Can we do it? Yes, we can', sort of stuff. But, as Rob was alluding to, the expertise and the knowledge of the challenges in that resides in TasWater and you say you are developing a plan, but you don't have a plan. You are developing a plan to do the job better than they are without the advice from TasWater.

**Mr GUTWEIN** - In my view, what we have been able to demonstrate is that the constraint that was argued by TasWater and local government for a number of years is that they didn't have the financial capacity to do this quicker. We have been able to demonstrate that, yes, the financial capacity is there to do this quicker. We have removed that constraint.

**Mr VALENTINE** - But that is not true. It is not true because you don't understand the complexity of the problem. It is not just a matter of money; that is what I am trying to say.

**Mr GUTWEIN** - If this was one single project, you would have a point. But on the basis that this is hundreds of different projects in many cases it is not work that is - you know, if you like, people have been fixing water and sewerage plants for a long period of time.

**Mr VALENTINE** - Exactly.

**Mr GUTWEIN** - What we have is a range of small projects up to about 600 that are listed. This work can be done. It is not a matter of sequencing. It is a matter of when the capacity is there to do it and by providing the money to be able to do that, we have taken a big step.

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**Mr VALENTINE** - With respect, Treasurer, there are 4500 homes that empty into the Salamanca Main that are illegal stormwater entries. How are you going to find those? You can't just find those like that. You can throw all the money you like at it, but it is not going to do it like that. That is the scale of the problem you have. They are causing the sewerage spills because of the stormwater that is coming out of the sky, hitting their rooves and going into the sewerage system. They are not supposed to do that, but they are. They are illegal. How do you find those illegal stormwater entries?

**Mr GUTWEIN** - I make the point that the reforms have been in place now for eight years. I well remember Michael Aird -

**DEPUTY CHAIR** - Standing -

**Mr VALENTINE** - Exactly.

**Mr GUTWEIN** - Standing and making the same point and -

**Mr VALENTINE** - No, he didn't. He said the sewage system was broken. It wasn't. It was the illegal stormwater entry.

**Mr GUTWEIN** - Whatever caused the problem, he was highlighting the outcome of that. That is, what, seven years, eight years ago. Surely, you can't sit there knowing what that problem is and suggest that you want to wait another 10 years to have it sorted. I'm not -

**Mr VALENTINE** - No, I am saying that you have to understand the magnitude of the problem before you can say you can just shorten the thing by four years.

**DEPUTY CHAIR** - Just dig up all the Salamanca, I say.

**Mr VALENTINE** - You give me the work program and we can go through it. No doubt we will get that opportunity through the inquiry and no doubt we will get some more information when the bill hits the House. You have to be careful in thinking that it is just a financial problem and putting finances to it is going to fix it.

**Mr GUTWEIN** - Rob, as a starting point, the financial issue has been a key impediment. That has certainly been the message that local government has delivered. We solved that, but the very argument that you are making - and I am not sure whether you are arguing for the status quo or not, or whether you would like -

**Mr VALENTINE** - I want to see the evidence before I come down and highlight some -

**Mr GUTWEIN** - Whether you would like to see it fixed sooner rather than later. But take two years ago or thereabouts since Airdy stood down there and made that comment.

**Mr VALENTINE** - Yes, I know.

**Mr GUTWEIN** - He was sitting here today -

**DEPUTY CHAIR** - He tried to get a state-owned company for water and sewerage.

**Mr GUTWEIN** - He did. In fact, it was the Labor Party's position. Here you are raising the same issue today and on this side of the table, I am saying we will bring forward the financial resources to bring forward this work and to get the job done quicker. I get a sense that you want to argue against that.

**Mr VALENTINE** - No, no.

**Mr GUTWEIN** - I find that a bit extraordinary.

**Mr VALENTINE** - No, I am not arguing against it. I am simply saying you need to understand the scale of the problem before you can say -

**DEPUTY CHAIR** - You have made that point.

**Mr VALENTINE** - I have made that point, yes.

**DEPUTY CHAIR** - Mike, you had a question relating to this.

**Mr GAFFNEY** - I suppose it is of concern that, Treasurer, you won't provide the extent of the financial modelling to TasWater or local government or the community to see that, so they can have a close look at it to understand how you have arrived at this conclusion. They would ask questions like the current independent regulatory oversight model, the one that operates on it, targets full costs recovery which means water and sewerage infrastructure can be appropriately maintained and replaced into the future. Under the government's model where it takes over the price-setting responsibility of the independent regulator, can you guarantee that prices will be set at no less than long-term full cost recovery? TasWater is operating in this space under these regulations and rules because they see that is - can you guarantee with your model and that is why it is difficult not having a look at the model, I suppose. Can you guarantee in your model that it will be the same?

**Mr GUTWEIN** - I make this point: what we have said in regards to prices our model has been on the 2.75 and 3.5 upper limit that we have announced as part of it. I did say this when I provided my ministerial statement that we would move to the MAIB-type pricing model and that is that, each year, the Economic Regulator would conduct the inquiry and would make the recommendations. It is the Government's view and the Government's position that we will set prices between 2.75 and 3.5 moving forward. But there will be transparency in regards to the Economic Regulator's view as to whether that price is too high or too low as per the current pricing model with MAIB. There will be, if you like, an opportunity for the community to know whether into the future we are underpricing or overpricing. The point I want to make - and this is where I would hope that the upper House would concern itself with this - we have a problem. We have a problem in that our water and sewerage assets are deteriorating faster than they can be fixed. That is not me saying that.

**Mr GAFFNEY** - Who is saying that?

**Mr GUTWEIN** - Miles Hampton said that.

**Mr VALENTINE** - That was before.

**DEPUTY CHAIR** - That was in government business enterprises last year.

**Mr GUTWEIN** - In December last year.

**Mr VALENTINE** - But that was before the dividends to councils was actually pulled.

**Mr GUTWEIN** - He announced that in August last year.

**Mr VALENTINE** - I believe he has refuted that in the press since. Sorry, I am not saying that he didn't say that. Yes, I think he did say that, but there are other circumstances around it that caused that.

**Mr GUTWEIN** - It is for Mr Hampton to explain his own statements, but last year they announced their 10-year plan in August, and in December he presented to an upper House committee and he made the point that the assets were deteriorating faster than they could be replaced. The 10-year plan I have had a look at from TasWater indicates that at the end of 10 years, even with \$1.5 billion-worth of investment, the asset renewal replacement program there is still over \$400 million outstanding in regards to replacement of existing assets that have passed their use by date, so the backlog is significant.

**Mr GAFFNEY** - Just a couple of comments you made. You referred to the company being kept whole. What do you mean by that? What was intended by that statement?

**Mr GUTWEIN** - That we would drive the company hard to get the work done, that we have exercised and leveraged their balance sheet appropriately and, at the end of 10 years, the key financial metrics for the company were in the space that would indicate that it was in a robust financial position. We are targeting a two times interest cover which is relatively conservative. You would really want to be above 1.5 times. We land at 1.7 at the end of 10 years. The debt to equity ratio is at 66 per cent which is less than 70 per cent - I think that is the industry benchmark or thereabouts. In a debt to equity sense, we are below the industry benchmark so that is in a stronger position. By saying that the company would be kept whole, local government initially was suggesting that this would put TasWater on the road to financial ruin. Nothing could be further from the truth. TasWater can leverage its balance sheet. We can get the job done and at the end of 10 years, we can have a robust financial position.

**Mr GAFFNEY** - You mentioned three. You mentioned Launceston Water and Sewerage, Macquarie Point and I think it was Cameron Bay, was it? I don't think those three currently feature in the long-term program for TasWater.

**Mr GUTWEIN** - No.

**DEPUTY CHAIR** - Or the Government, he suggested here.

**Mr GUTWEIN** - No, not the Government.

**Mr GAFFNEY** - You just mentioned that it could be between \$100 million to \$600 million. I have read papers where the Macquarie Point transfer of water and sewerage and getting that out of there would be somewhere around \$170 million and I think TasWater will have to come to the party with that for \$30 million - Cameron Bay. There in itself you are looking at an exceptionally high value. There are people out there thinking: 'Government wants to do this because they want to get on and do Macquarie Point. They want to get on and have some way of fixing water and sewerage in the Tamar', and it is populist to try to get a vote there and the same with Cameron Bay and other areas down in Sorell. The cynic would say: 'That is what this is about', because why hasn't the

government then thought about getting in bed with local government and say, 'Look, you have this. We want to do this. How can we together?' What happens if it comes out that the assertion regarding the legality of this takeover favours local government and TasWater? What would be the response from Government? We still need to get here; how can we do that?

**Mr GUTWEIN** - First, let me just deal with the points that you made. The first one is the three projects and then the legality. In regards to the three projects, if we were doing this because we wanted to gain favour with the electorate because of those three projects and especially the Launceston one, I wouldn't have released a plan that doesn't include it. Let's be clear. We are looking at the immediate challenge in front of us.

**DEPUTY CHAIR** - You haven't released a plan.

**Mr GUTWEIN** - I released the presentation that I provided to local government demonstrating the infrastructure profile that we would -

**DEPUTY CHAIR** - I would like to see a plan, but anyway, yes, carry on.

**Mr GUTWEIN** - In regards to that, we haven't included Launceston and I have been quite frank with the Launceston community. At the moment, nobody understands clearly what the most appropriate solution for that is. We have taken a linear approach. The first thing to do is to understand it and that is what the Tamar Estuary Management Taskforce will do and then they will make recommendations to Government hopefully later this year or early next year in regards to the most appropriate option for the combined system. Once we understand what the cost of it is, we can then look to appropriately plan for when that might fit within the coming 10-year period. I am not trying to curry favour.

**Mr GAFFNEY** - No, no, that's fine.

**Mr GUTWEIN** - You can imagine the first question that I had from the northern press and from those interested in this was: 'How are you going to fix this?' I have said: 'We will do it. We will work our way through this sensibly'.

**Mr GAFFNEY** - You have known about the Launceston water and sewerage issue for ages. Have you put in for any funding federally for that situation?

**Mr GUTWEIN** - Yes, I am happy at the moment to answer that. In fact, last year we took the TasWater 10-year plan, the \$1.8 billion, to the federal government through the JC Tech process. There was a \$300 million ask at a federal level and \$100 million a state level. Yes, I have advocated for that. I will explain to you, though, what was the then federal government's view of the ministers. As part of that plan, local government was still going to receive \$30 million a year in total returns. \$1.8 billion spend, \$400 million received from -

**Mr Gaffney** - Which is less than 2 per cent of the return the asset.

**Mr GUTWEIN** - Yes, but hang on a moment. But \$30 million in returns each year and I recall the comment was made to me: 'So, what you're asking for, Treasurer, is for the federal government to put \$300 million in today and for local government to receive \$300 million back over the next 10 years'. They said: 'That doesn't make sense'. And it doesn't when you look at it that way. TasWater is not an ATM for local government under those circumstances.

In answer to your question, yes, I have tried to seek and have made representation.

**Mr GAFFNEY** - With the financial modelling - and that is a good question because stormwater's responsibility is -

**Mr GUTWEIN** - Do you want me to deal with the second part of this before we move on?

**Mr GAFFNEY** - Yes, but you have just mentioned there about the return -

**DEPUTY CHAIR** - You need to try to keep this fairly succinct. We are going to run out of time, otherwise. We still have Finance General to do.

**Mr GAFFNEY** - Yes. The stormwater responsibility currently lies with - and it is to do with financial modelling - local council. Therefore, whatever funds a lot of the councils get back through their equity process through water and sewerage goes into covering the stormwater. If the Government takes over TasWater water and sewerage, will the Government also commit to taking over responsibility for stormwater? That is how local government was offsetting their costs for stormwater. If so, how do you put that into financial modelling? That is going to be a huge impost. By 2019-20, there are new guidelines that all councils have to adhere to regarding stormwater. In your financial modelling, have you taken on board stormwater imposts currently residing with council? Once the water and sewerage goes to you, that responsibility will go to the state government.

**Mr GUTWEIN** - That is the first time that has been raised with me in that context today. I would need to seek some advice on that regarding those particular changes. But setting that side, in regards to local government themselves and the approach to be taken here, our aim was to ensure that we kept not only the company whole and that we put it into a position at the end of 10 years, that it has had some reasonable financial metrics, but that, importantly, local government was kept whole along the way as well and that is the guarantee. I have expected a deed would need to be put in place with local government. Coming back to the legalities of this, the Government has received advice, certainly from Treasury and from the Solicitor-General in regards to whether what we are attempting to do is lawful and -

**Mr GAFFNEY** - Sorry, does Treasury give you advice on legal matters?

**Mr GUTWEIN** - Sorry, no, I said -

**Mr GAFFNEY** - The Solicitor-General.

**Mr GUTWEIN** - Treasury and the Solicitor-General.

**Mr GAFFNEY** - Yes, thank you.

**Mr GUTWEIN** - The Government, based on that advice, is of the view that there is nothing which would act as an impediment for us going down this path.

**DEPUTY CHAIR** - What you are saying is that you are relying on taking over the assets then to give you capacity?



**Mr GUTWEIN** - That legislation and the framework for that legislation, you will need to wait until we bring that forward. Legislatively this can be done.

**Mr GAFFNEY** - Thank you.

**DEPUTY CHAIR** - You said earlier that \$400 million of assets are at the end of their use by date in 10 years. Who actually provided that advice to you?

**Mr GUTWEIN** - That is part of the TasWater 10-year plan. It actually names up that the renewal backlog is over \$400 million.

**DEPUTY CHAIR** - So if you knew all the questions asked we could get all the 10-year plan out of here one question at a time.

**Mr GUTWEIN** - We have attempted to be quite fair with this and I do want to provide some background here in regards to the conversations that I have had with local government, especially. Back in 2015, after I had met with TasWater to discuss with them whether they were able to increase their borrowings and to do more based off their balance sheet, I was informed by TasWater at that meeting that the reason that they weren't doing more is that local government had set a fairly tight and conservative set of constraints around them in regards to their debt to equity ratio interest cover. I left that meeting with the view that the local government owners were the ones who I needed to talk to. I spoke to the local government owners. They informed me that that wasn't up to them; that it was TasWater setting those conservative guidelines.

**DEPUTY CHAIR** - You have to admit, though, they have equal weighting for all their responsibilities including paying dividends to owners.

**Mr GUTWEIN** - In regards to the financial framework that the business was operating under, on one hand I had TasWater saying, 'We can't do more because our owners won't let us', and I spoke to the local government owners and they said, 'Well, that's not up to us, that's a TasWater view from the board'. What I offered to local government at that time and I am happy to provide the letters, I wrote to the local government owners offering up Treasury to provide independent advice in respect of TasWater to local government so that as owners they can be fully informed and they could engage with the company and have informed discussions.

**DEPUTY CHAIR** - They weren't doing that off their own bat?

**Mr GUTWEIN** - No, and they still haven't, to the best of my knowledge. We put a price on that and that was the cost of about one FTE per year which I thought at the time was about reasonable. They had \$30 million-worth of returns, multi-billion dollars-worth an asset and it seemed to me to be sensible that local government would have the opportunity to be fully informed so that they could engage with business. They wrote back and said, 'No, thank you, don't look back'. My understanding is that they still receive independent advice.

**Mr VALENTINE** - Have you tried to go to them and offer them financial assistance to actually speed things up without taking them over? If you don't do that, you might find that there are some hidden cracks in the vessel - a bit like the police boat and it all falls apart and you might be left with a problem. Have you tried that angle?

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**Mr GUTWEIN** - We have firmly been of the view of that local government has received a healthy return from this business. My understanding is about \$180 million since the reforms first were put in place and over the coming years they were forecast to be significantly higher than that over the next 10. Local government has been in a position where they have had levers that they could pull that they could actually increase their investment. They could exercise the strength of their balance sheet and they continually refuse to do it.

**DEPUTY CHAIR** - Take the hands-off approach. Is that what you are saying?

**Mr GUTWEIN** - They have done that.

**Mr VALENTINE** - They have done it. On 4 May, they said they had done that. They said: 'As a result, TasWater developed an alternate strategy based on internal funding, modest tariff increases and reduced distributions to our own councils'. They have actually taken action and that was in the *Mercury* on 4 May, Miles Hampton.

**Mr GUTWEIN** - I can tell you exactly when that happened. That was August last year and after two years of being told by - in fact - and there are public statements. It will all be available for the inquiry. Public statements where TasWater have said that I was being incorrectly advised, that they couldn't do more with their balance sheet, that it was wrong to suggest that local government should do more and give up some of their dividends. This went on for two years publicly. You would be aware of it.

**Mr VALENTINE** - I am aware of it.

**Mr GUTWEIN** - Then what happened in August last year, this was one of the things certainly in my mind that started to frame up my view that we needed to take action here and get something done was, with a drop of ink and a stroke of the pen, the board unilaterally made a decision that: 'Yes, we just get on with this. We just get on with this'. For all of us in this place surely that must raise some question marks as to if they could do it in August of last year, why hadn't they done it sooner.

**DEPUTY CHAIR** - Maybe they were waiting on direction from their owners.

**Mr GUTWEIN** - Collectively, I talk about TasWater and their owners in one breadth. Why didn't do they do it sooner if at that point they could just unilaterally make the decision to get on with it. You would be well aware that when TasWater made that decision there were calls and conversations, I know, going on about whether they should sack the board. In fact, there was a meeting held where the chairman was asked to explain himself to the owners for making that decision. This is -

**Mr VALENTINE** - That would be after my time, Treasurer.

**Mr GUTWEIN** - This was only August last year. Then we have a challenge whereby for such a long period of time the outcomes in respect of water haven't been good enough, where from the point of view of water and sewerage and public health, they haven't been enough where we have a significant renewals backlog that even after the current 10-year plan that has been announced late last year that there is still a significant backlog. The case has been made that something more needs to be done and -

## UNCORRECTED PROOF ISSUE

**Mr VALENTINE** - You can understand local government, as I said before, feels attacked and with all the planning stuff that is going on, this sewerage and water, the possibility of acquiring land for projects and all that sort of thing. Do you think on Mt Wellington they might be thinking to themselves, 'What is the government -what is the endgame here? Is the government going to subsume us into a department of government?'.

**Mr GUTWEIN** - You talk about some of the things that are impacting on Hobart. Sue Hickey has been very supportive of our approach in respect to TasWater.

**Mr GAFFNEY** - But the council haven't.

**Mr VALENTINE** - But I don't think the council has.

**Mr GUTWEIN** - But, I don't think that local government can suggest that we crept up on them over this. For two years, I have been speaking to both the owners' reps. I have had multiple discussions with TasWater and I have been in the press regularly on this particular issue. It should have been no surprise to local government. Then before announcing our position, local government was once again provided with the opportunity to do more. I met with them and we said to them: 'We don't believe that the outcomes are acceptable'. Interestingly enough, everybody in the room agreed with that, that we needed to do more. Then the local government preferred option was, 'Provide a cheque either from the federal government or the state government'. I said: 'Well, that's not going to happen'. We have been to the federal government. You can kick that can down the road or we can determine that something needs to be done. They were asked whether they would do more. Are they prepared to pull the levers that they have as owners and accelerate the program?

**DEPUTY CHAIR** - We are getting into areas rightly covered by the other committee, perhaps, Treasurer. We have done this to death with all due respect.

**Mr GUTWEIN** - I will say I am happy to have the discussion.

**Mr VALENTINE** - I will look forward to the work program. It will be very interesting to see.

**Mr GAFFNEY** - I did ask the question and it was my fault because I went on too much. Can I put that on the record and you might be able to get back to me, I will repeat it, under the government's model where it takes overpricing responsibilities of the independent regulator. Can you guarantee that prices will be set at no less than long-term full cost recovery? I asked that question and then went onto something else. So that was my fault.

**DEPUTY CHAIR** - Are you able to answer that now, Treasurer?

**Mr GUTWEIN** - It is the government's aim that we will set prices between 2.75 and 3.5.

**DEPUTY CHAIR** - Does that cover long-term costs of recovery?

**Mr GAFFNEY** - No, it doesn't.

**Mr GUTWEIN** - It depends on what those long-term costs are.

**Mr GAFFNEY** - But isn't that like meddling when the government came out and capped it at 5 per cent when we first took over water and sewerage and the Bartlett government came out and

capped it at 5 per cent which created a whole lot of issues for the water and sewerage company back then. That is the same thing. You are having a government interfering with something that is an independent regulator's role. The ramifications of that could be - well, they could be anything, I suppose. I am putting that on notice that already you are saying, 'This is what we are going to do,' and really that is why we want an independent regulator so that it is not government interference.

**Mr GUTWEIN** - As I have said, it will be transparent. You will see there will be a report provided by the Economic Regulator. The government has said what it intends to set prices at. But, the regulator's view will be transparent each year. That will be able to be -

**Mr GAFFNEY** - The regulator's view will be?

**Mr GUTWEIN** - Will be able to be understood.

**DEPUTY CHAIR** - Yes, that is right, yes. Are you able to compare the Treasurer's view with the regulator's view? Has that answered your question, Mike?

**Mr GAFFNEY** - Yes, it has, thank you.

**Mr VALENTINE** - Can I just make one small statement? I want to correct the record. I talked about the number of houses on the Davey Street spine. That may have been for the whole of the city, not just that spine. I just don't want to -

**DEPUTY CHAIR** - We could get the whole city.

**Mr VALENTINE** - I don't want to give you an impression that there are 4000 homes up there illegally connected. We don't know how many are legally connected. Thanks.

**DEPUTY CHAIR** - I am looking to the whole of Hobart being dug up.

**Mr GUTWEIN** - I am glad you have because I did make a mental note of that because I thought, 'Wow, that's an issue, yes.'

**Mr VALENTINE** - I just don't have that figure in my head, but that is what I thought it was.

**DEPUTY CHAIR** - I will look forward to seeing all of Hobart dug up and it will create all sorts of chaos.

Treasurer, just one other question, given that TasWater will have to borrow to fund its capital program, you have already said that there are additional borrowings, but you are also reducing the revenue through your price cap. How much extra borrowing does that actually relate to? How much extra will need to be borrowed to cover the capping of the price? Have you modelled that and worked that out?

**Mr GUTWEIN** - As I have explained, the net debt situation which would capture the borrowings is of \$1.2 billion and falling in 10 years, so it is improving based on the model. The other point I would make in regards to debt is that because the government has said that it would not collect government guarantee fees that the constant debt would be - is it 15 per cent? It might have even been higher than that.

**DEPUTY CHAIR** - If TasWater borrowed this money themselves in their current arrangement, or the government loaned them this money through taking a loan themselves from TasCorp, you can still provide the guarantee fee holiday, couldn't you?

**Mr GUTWEIN** - Yes, it is about 15.6 or 15 per cent.

**DEPUTY CHAIR** - There is more one way to skin a cat here.

**Mr GUTWEIN** - Can I say that what confidence can we have around this table that local government, after having been the stewards of these assets for the last eight years since the reform and, in fact, stewards for a lot longer than that and, in fact, a lot of the renewal backlog is as a result of under-investment for a long period of time, that they have resisted for two years from doing anything suggesting that it wasn't possible to actually move to leverage their balance sheet, to do more to give up some of their dividends, to last year where they were overrode by their board. The board actually made that decision, not the owners. They have not demonstrated that they have been responsible owners in this, in my view, and as a Government, that's why we believe that we need to step in, take it over and get the job done.

**DEPUTY CHAIR** - We might call it quits on that. Treasurer, you have tabled the document which we'll circulate to all members and to the secretary. Do you have any other answers to the questions from this morning that I had on notice previously to table? I hope it's not right at the end of the day that we're getting those. Otherwise it will be at the end of the day -

**Mr GUTWEIN** - No, I signed them an hour and a half ago. I'm a little bit surprised that I don't have them back.

#### **1.1 Debt servicing -**

**DEPUTY CHAIR** - I'm moving to Finance General, No.1.1, Debt Servicing. A lot of the questions I have asked in the overview around the debt, but I do want to just ask in terms of the interest charged, is it only at the end of the year, not on 31 December? It is only once a year when the overnight borrowings occur?

**Mr GUTWEIN** - Yes.

**DEPUTY CHAIR** - So they don't occur in the middle of the year either. So if the takeover of TasWater is successful, I imagine that the Government will then, or the new TasWater, it will need to borrow money from TasCorp?

**Mr GUTWEIN** - Yes, as it currently does.

**DEPUTY CHAIR** - Yes, so nothing changes there?

**Mr GUTWEIN** - Nothing changes there, except there will be no government guarantee fee charged under the state government ownership and that will provide for around a 15 per cent reduction in the cost of borrowings.

**DEPUTY CHAIR** - So in terms of a dividend policy with that?

**Mr GUTWEIN** - The Government's made it perfectly clear. We won't be taking any dividend from the business, nor return from the business. Our view is that any returns that are provided by the business will be reinvested. Certainly from the Government's perspective after 10 years, 50 per cent of the returns will be available at whatever level they might be to local government.

**DEPUTY CHAIR** - Effectively it's going to go back to level government?

**Mr GUTWEIN** - Fifty per cent.

**DEPUTY CHAIR** - Fifty per cent, yes.

**Mr GUTWEIN** - It surprises me that they have effectively received a risk-free return in perpetuity with no responsibility.

**DEPUTY CHAIR** - I don't have any further questions on debt servicing. Does anyone else have any other questions on that?

### 1.2 Interest on sundry deposits -

**Mr VALENTINE** - Oh, yes, interest on sundry deposits. Perhaps the exciting area.

**DEPUTY CHAIR** - I'm sure someone over there on that bench is happy to hear that.

**Mr VALENTINE** - There's been a substantial decline in the forward estimates for this item when we compared the estimates presented in the 2016-17 budget. The 2017-18, the decline is an estimated \$3.5 million; in 2018-19 its forecast to be \$4.1 million; and in 2019-20 the decline is \$1.4 million. By 2020-21 the revenue from appropriation of this item is expected to be back to trend levels outlined in last year's budget. This decline might indicate the amounts being held in certain accounts in the special deposits of trust fund are below trend levels.

Given the significant change in the forward estimates for this item, since last year's budget, can you outline the reasons for what appears to be falling balances over the period 2017-18 to 2019-20 as evidenced by the lower interest payments? And then the restoration of balances in 2020-21?

**Mr FERRALL** - There is no drop in the estimated balance and special deposit trust fund of any significance, so the 2017-18 budget, \$1.2 billion; 2018-19, \$1.148 billion; 2019-20, \$1.170 million; 2020-21, \$1.191 million are the estimated balances. It is driven principally by lower interest rates, lower interest estimates.

**Mr VALENTINE** - Fair enough. Can you tell me, because I'm not aware of what you do in there, what processes are in place to make sure that you're going forward in terms of bequests are adhered to, those sorts of things? Can you explain a bit of what the general process is there? Do you have an internal audit function that sort of keeps a check on these things?

**Mr FERRALL** - Yes, we do have an internal audit function and also the Auditor-General audits, but we record anything that's a true trust in the special deposit in trust fund, so -

**DEPUTY CHAIR** - And there will be fewer of them soon with the new Financial Management Act.

## UNCORRECTED PROOF ISSUE

**Mr FERRALL** - There will be, yes, but they are recorded as true trust and managed accordingly.

**Mr VALENTINE** - Why is that? Why are they doing that?

**DEPUTY CHAIR** - We are only having real trusts in there then.

**Mr FERRALL** - Yes.

**Mr VALENTINE** - Can you explain a bit about that? I'm not up with that.

**Mr FERRALL** - We have about \$100 million of what we identify as trust, special deposit and trust fund. They're managed and they're kept separate and managed separately in that fund.

**Mr VALENTINE** - All right.

**DEPUTY CHAIR** - There is a lot of money in there that's not really a trust fund, yes. It needs to be in the public account where it should be.

**Mr VALENTINE** - Yes, all right.

**DEPUTY CHAIR** - Here to help, Treasurer?

**Mr VALENTINE** - Thank you. I know you are. We are here to enquire but we're also here to learn.

**DEPUTY CHAIR** - That's right, exactly. A lot of this is about learning, I believe. Any other questions on that output group? So superannuation - is that it? Yes, superannuation and pensions. There are a couple of areas like the Tas Risk Management Fund which doesn't appear in the appropriation but I do ask a question about that at some stage.

In regards debt management, I note this is the interests of the federal loan for housing. What is the current interest rate on this loan?

**Mr FERRALL** - It varies - 4 per cent to 6 per cent. They average about 4.5 per cent. Because there's a whole range of different loans that were given over a number of years.

**DEPUTY CHAIR** - That's not the one -

**Mr FERRALL** - No. We treat it as one effectively and call it one but it is, yes, a whole range, yes, of different ones.

**DEPUTY CHAIR** - It came in at different times?

**Mr FERRALL** - Yes.

**DEPUTY CHAIR** - So when I look at the borrowings in the Treasurer's Annual Financial Report, for instance, excluding the temporary borrowings and the housing loan, there's always about \$50 million or thereabouts. What is that and what does it relate to?

## UNCORRECTED PROOF ISSUE

**Ms MORGAN-WICKS** - It's the Department of State Growth in terms of other gross debt at \$47.2 million, and State Fire Commission.

**DEPUTY CHAIR** - So they are loans with -

**MS MORGAN-WICKS** - Sorry, I should say the Department of State Growth and the State Fire Commission debt is \$47.2 million altogether.

**DEPUTY CHAIR** - All right. So with the Commonwealth housing loan - there's no move to try to deal with that? Ask the government to forgive us for all our sins and all that sort of stuff? The federal government, that is.

**Mr GUTWEIN** - It was reported this morning that there is.

**DEPUTY CHAIR** - There is? Who by? I must have missed that. I was busy doing other things.

**Mr GUTWEIN** - I'll make certain that I explain what I said yesterday a little clearer.

**DEPUTY CHAIR** - Did you say it?

**Mr GUTWEIN** - Well, I said something similar to what was reported, but not quite what was reported. As a result of the federal government in regards to the NAHA - National Affordability Housing Agreement - the federal government is going to engage in bilateral with each state and territory. That was announced in the federal budget, and so we'll be engaging with the federal government over the course of this coming year in regard to that and it's an opportunity to raise the housing debt issue, but they have indicated in the past to both this Government and to previous governments that they have -

**DEPUTY CHAIR** - Some of them paid - I think Victoria paid - was it Victoria paid all theirs out? So there would be some - you need to have some sort of equalisation.

**Mr FERRALL** - That's one of the reasons of resistance, I guess, from the Commonwealth. It is inequitable in some ways for Tasmania to have its debt wiped out when other jurisdictions have had their debt repaid themselves. So at a certain Commonwealth bureaucratic level there's been no advertising.

**Mr GUTWEIN** - No, but at a political level we continue to prosecute the case.

**DEPUTY CHAIR** - Is there any other states that still have an outstanding debt besides Tasmania?

**Mr FERRALL** - I don't know. South Australia was one of the last ones. We are probably the last - we might be the last. We can find out, yes.

**DEPUTY CHAIR** - We are a special case. I'm sure everyone agrees.

**Mr FERRALL** - We can get some information on that for you if you want -



**DEPUTY CHAIR** - Yes, that would be helpful just to know whether there are any others. This may be a stretch too far but are you able to provide, those who have paid back their debt, when they did? How long ago did they pay it back?

**Mr FERRALL** - Some would be years ago. We can try. I can't guarantee we can -

**DEPUTY CHAIR** - See what you can get on that. It would be interesting to know in prosecuting the argument.

**Output group 2**

**Superannuation**

**2.1 Superannuation and Pensions**

**DEPUTY CHAIR** - We will go to Output Group 2, Superannuation and Pensions, 2.1. This is one that Mr Hall was really keen to prosecute, but, the absent Chair. So just -

**Mr VALENTINE** - The question I asked before, I want to get a clarification on that. You said that there hadn't been too much of a change. What we're actually comparing is last year's estimates of what each of those years would be compared to this year's estimate. So something has caused them to drop by \$4 million -

**Mr FERRALL** - It was a variation in interest but there's no significant variation in those balances across the forward Estimates.

**Mr VALENTINE** - From last year's estimates?

**Mr FERRALL** - Well, I - sorry.

**Mr VALENTINE** - No, that's what I'm saying. Last year's estimates, if you look at, say, 2017-18 -

**Mr FERRALL** - I'd have to check the estimated -

**Mr VALENTINE** - The last year the forward estimate was 9108.

**Mr FERRALL** - Yes, I'll have to check what the balance was last year.

**Mr VALENTINE** - And this time it's five six, so there's a significant amount of difference there.

**DEPUTY CHAIR** - Someone raided one of the accounts.

**Mr FERRALL** - On 3 January it was still 1.38.

**Ms MORGAN-WICKS** - 1.382?

**Mr FERRALL** - I would have to get last year's equivalent figures and what the estimated balances were.

## UNCORRECTED PROOF ISSUE

**Mr VALENTINE** - I went back to the book and looked.

**DEPUTY CHAIR** - Last year's papers?

**Mr VALENTINE** - I have it here.

**DEPUTY CHAIR** - All the variation relates to interest rates. Is that what you're saying?

**Mr VALENTINE** - All right. Fair old difference -

**DEPUTY CHAIR** - So in the superannuation area, just to clarify a few things, these are the superannuation payments. It relates only to the defined benefit super, not the cash costs of the unfunded super for retired employees. But the employer cost of current employees calculated by the actuary, that's what we're talking about here. Yes?

**Mr FERRALL** - Yes. Keep going. There is going to be a question at the end of this.

**DEPUTY CHAIR** - Yes, there is. So these payments don't include payments to the accumulation funds, do they?

**Mr FERRALL** - Can I get the expert up on this?

**DEPUTY CHAIR** - You can.

**Mr JEFFERY** - Craig Jeffery, Director Government Finance Branch and Accounting Branch - Government Finance and Accounting Branch.

**DEPUTY CHAIR** - Thank you, Craig. Welcome. I'm just saying, these payment don't include payments to the accumulation funds. They are direct payments by departments and agencies. Is that right?

**Mr JEFFERY** - Yes, so most of the costs in the reserve, if you're on the appropriation table, most of the cost is in the reserve by law part, yes.

**DEPUTY CHAIR** - Yes, all right. So how about members' contributions to current employees to the defined benefits contributory scheme. Are they also paid directly by agencies and departments?

**Mr JEFFERY** - Yes, members' contributions are handled through the payroll system so they're taken as a salary deduction and paid into the plant assets. So they're not part of these numbers. They go straight to the plant assets.

**DEPUTY CHAIR** - Yes, all right, that clearly does. So does this amount that we're looking at here includes payments to cover the share of the unfunded superannuation for retired employees, even there are reserved by law amounts?

**Mr JEFFERY** - Yes, so the reserved by law amounts is the appropriation for the cash costs of benefits, so superannuation, pensions and lump sums, yes.

**DEPUTY CHAIR** - So because of the reorganisation of the defined benefits scheme that's now run by the Superannuation Commissioner, the cost to run the defined benefits scheme is directly funded through Treasury and Finance, or Finance General, I assume, instead of by RBF, aren't they? We talked about this a bit earlier, yes.

**Mr JEFFERY** - The cost of running the scheme is now the output cost that's funded within the Department of Treasury and Finance. So output - I can't remember what number it is, but for the Office of Superannuation Commission. 3.4 - so that's the \$16 million cost and the changes being that where in the past the administrative costs incurred by the RBF that related to the defined benefits scheme were directed charged against plant assets which was the \$19.4 million that the Treasury read into *Hansard* earlier. So that was a cost directly against plant assets. That no longer happens. The office has been appropriated out of the Consolidated Fund at \$16.6 million a year.

**DEPUTY CHAIR** - Treasurer, will there be any changes to the amount the Government is required to contribute to share of new pensions and benefits from 75 per cent up to - well, it's predicted to be almost 90 per cent in a few years' time. That was when RBF was managing it. It was a huge jump up. That was one of the things that we showed the inquiry we held last year.

**Mr JEFFERY** - Yes, so the recommended employer contribution rates are assessed by the actuary and they are trying to review every three years. The most recent review was last year as at 30 June 2016 and there was a committee of the upper House reviewing this last year and the Treasurer provided the 2013 Actuarial Treasury Review.

**DEPUTY CHAIR** - But it has been reduced since, hasn't it?

**Mr JEFFERY** - Yes, and a copy of that has been provided to the committee, but in that review the actuary has maintained the employer contributions at the same rate as they were in the 2013 review. There were a couple of offsetting factors in the review, so the actuaries forecasting earnings on plant assets has been lower in the 2016 review than they were in the 2013 review, but that decrease in expected earnings on plant assets has been offset by the change in policy whereby the administrative costs to the RBF are now being funded directly through a Consolidated Fund output rather than being a hit against plant assets. So the two have offset each other, and the employer contributions are maintained at the same rate. So for 2016-17, 82.5 per cent; 2017-18, 84.5 per cent; 2018-19, 86.5 per cent; and from then on 88.5 per cent.

**DEPUTY CHAIR** - They are still getting up there in that, Treasurer.

**Mr JEFFERY** - They are consistent with what they have been for the past two actuarial reports.

## 2.3 Provisions -

**DEPUTY CHAIR** - So the 2.3, Provision for the 27th pay.

**Mr GAFFNEY** - I have one question because I'm interested in it. The flat line of, say, \$6 707 000 over forward estimates is an increase of \$207 000 to the previous indicated sum of \$6 500 000. Are you able to explain how that estimate is calculated, and at what time, what catalyst gets you to change it from \$6 500 000 to \$6 707 000. I am interested to know the process.

**Mr GUTWEIN** - Mr Jeffery again, if that's all right?

**Mr JEFFERY** - So the most recent 27th pay was for the General - so there's two payrolls in the State Service, one for Health, one for the rest of the service. The most recent was for the general service in which came across the 2015-16, and 2016-17 years, so it was on basically in the first week or the first two days of July. The next is for Health in two years' time in about 2018-19, and so it happens every 11 years, was updated two years ago based on what the cost was and then indexed upwards. It will be reviewed once again when the Health payment is done in two years' time, having regard to the fact that the 11th pay for the General State Service will be in, nine years' time from now.

**Mr GAFFNEY** - That makes sense because in 2012 it had forward estimates to \$6 500 000 to 2017, 2016-17, and then it came in in 2015-16. That's fine.

### 3.1 Forestry Tasmania -

**DEPUTY CHAIR** - All right. No other questions on that? We will go to 3.1, Forestry Tasmania.

**Mr ARMSTRONG** - Thank you. I was just curious, the \$2 million that's in the forward Estimates, can you tell me what that's for?

**Mr GUTWEIN** - That is for firefighting.

**DEPUTY CHAIR** - So that's all, Rob, from you?

**Mr ARMSTRONG** - Yes, that's all.

**DEPUTY CHAIR** - On page 54 of Grants and Subsidies, there's a \$5.768 million which is the last of the TFA money. Is that right? In relation to this?

**Mr FERRALL** - I will have to check. There might be another component issued still.

**DEPUTY CHAIR** - From the TFA money?

**Mr FERRALL** - Yes, maybe.

**Mr JEFFERY** - So there's some been paid out in 2016-17 and then the balance in 2017-18.

**Mr FERRALL** - Yes, there is a small amount still to be paid out.

**DEPUTY CHAIR** - Do we know what that's being used for, Treasurer, and Rob, Minister for the portfolio.

**Mr GUTWEIN** - It would be a question for the minister.

**DEPUTY CHAIR** - In State Growth, the key deliverer on page 254, again it may be the wrong place to ask. This is in a key deliverable statement. There is \$12 million in CSO funding. The footnote says, '\$4m is from Finance General and residual TFA money of \$4.8m', which is different from the \$5.768 million that we just looked at, an additional \$8 million for the CSO is there. So which nine items are these amounts included in, and what's actually appropriated? Where are they appropriated, these amounts?

**Mr FERRALL** - They are appropriated in State Growth, the \$12 million?

**DEPUTY CHAIR** - Yes, so why is there a difference between the residual TFA \$4.8 million?

**Mr FERRALL** - It is \$4.8 million of residual TFA funding in 2017-18.

**DEPUTY CHAIR** - All right. So why is there -

**Mr GUTWEIN** - Yes, doesn't the administrative expenses indicate that's the flow of funds from the TFA to State Growth?

**Mr GAFFNEY** - There is another component. It's not State Growth, the TFA.

**DEPUTY CHAIR** - It seems to be through State Growth.

**Mr FERRALL** - It would be directly through Forestry, I think it is.

**DEPUTY CHAIR** - Is it?

**Mr FERRALL** - I think there is a component through Forestry.

**DEPUTY CHAIR** - All right. You said that you're trying to chase the money here, but all right. Any other questions on Forest Tasmania from anybody? No? We will move to -

**Mr VALENTINE** - Just a question. I suppose on firefighting personnel that might have come from Forestry, where did they go to? Did they end up with the State Fire Commission or what, when it became a new department and personnel were distributed through? There's a lot of expertise there.

**Mr GUTWEIN** - There was, but weren't the firefighting skills part of the skill set the workforce had across the board, that in respect of Forestry Tasmania they didn't actually have a separate fire fighters.

**Mr VALENTINE** - They were multi-skilled.

**Mr GUTWEIN** - They were skills that were based across the agency.

**Mr VALENTINE** - All right, thank you.

**Mr FERRALL** - And they utilise private contractors as well.

**Mr ARMSTRONG** - Some of that staff went to Parks, didn't it?

**Mr GUTWEIN** - There was a transfer back in -

**Mr FERRALL** - About 35 staff.

**Mr GUTWEIN** - Yes, I was going to say up to 40, so about that, yes.

## 2.2 State Fire Commission -

**DEPUTY CHAIR** - 2.2 State Fire Commission. Mike, that's you.

**Mr GAFFNEY** - It's interesting that it's a set figure for the forward estimate. Going back through the Treasury and Finance annual report, it said that the cost during 2015-16, an additional \$34 million was provided for wildfire fighting costs. I suppose, you just start off as a baseline figure and then depending on what happens, touch wood nothing, it is reflected in how much you have to access out of it, yes. The House of Assembly Inquiry and Report into the State Fire Commission tabled in April 2016, of which Mr Barnett was the Chair, and included two other Liberal members, a Labor and a Green on the committee, suggested 10 recommendations. Could you inform us, what is the process once a report as such is tabled, and of the recommendations, which ones would directly impact on your responsibilities as Treasurer? From that media report, I couldn't see, but - and I asked the Secretary to have a look into it, but it's my understanding the formal response has not been tabled by the Government but I could be wrong on that, I'm not sure.

**Mr GUTWEIN** - My understanding would be that that report, the response would be the responsibility of the Minister for Police and Emergency Services. Then if there were matters that were raised in that report that concerned funding, they would have been brought forward through the budget process.

**Mr GAFFNEY** - So there's nothing in those recommendations that would directly impact, or would you wait to have that report back from - I'm just wondering how that process works, I suppose.

**Mr GUTWEIN** - There were matters: there was the aerial firefighting platform issue that came through the budget process. I'm just trying to think of any other matter that was raised. I'd need to see that report to be able to look at what was actually brought forward.

**Mr GAFFNEY** - Yes, when I was going through it, I was hoping to see in the response from the Government, because it was tabled in April of last year, just to see what - I was always under the impression that within three months there was to be a response. I'll ask Mr Hidding tomorrow. Some of the recommendations look as though they could impact on this. Recommendation 10 was about, 'Could you find some evidence presented at the state government to establish an independent Chair to govern the State Fire Commission and this Government's arrangement should be included in the reforming of Government legislation'.

**Mr GUTWEIN** - And the minister's dealing with that, so.

**Mr GAFFNEY** - So that goes to there.

**Mr GUTWEIN** - I'm sure he would be able to provide you with an update in regards to action taken.

**Mr GAFFNEY** - And if there are some questions from that that pertain to finance -

**Mr GUTWEIN** - If you were to put them on notice before tomorrow, then they'll come back to me.

**Mr GUTWEIN** - Thank you. Thanks, Chair.

**DEPUTY CHAIR** - I'm with you. Does anyone else have any questions on the State Fire Commission? No?

**Mr GUTWEIN** - No, it's very thorough.

### **3.4 Government businesses -**

**DEPUTY CHAIR** - 3.4 Government Businesses, Craig Farrell.

**Mr FARRELL** - Thank you, Chair. Treasurer, my question is in regard to the dividend from Hydro Tasmania. I notice that it goes from 12 to 30 to 73 which, you know, they're fairly big number jumps. I would just like some information around how that outcome was reached.

**Mr GUTWEIN** - You recall that in last year's budget we provided Hydro with a three-year dividend holiday that they were written down to zero across 2016-17, 2017-18 and 2018-19. In this budget, they received a dividend holiday for this current year, but then they being, if you like, gradually scaling back towards full dividend policy at 90 per cent at the end of the four years, and is it round 20 - is it 25? I am just trying - there's a percentage scale. So zero in, yes, 2017-18; 45 per cent 2018-19; 2019-20, 70 per cent; and then 2020-21 they will return back to the normal 90 per cent dividend payout ratio.

**Mr FARRELL** - So that's based on the 90 per cent of - based on the figures they have put -

**Mr GUTWEIN** - Underlying profits, yes, so they are in a much stronger financial position as a result of the very strong in-flows that we had, and obviously there's been movement, upward movement in regards to the wholesale price, but that's still in line with their corporate plan, but they're in a much stronger financial position than was previously experienced.

**Mr FARRELL** - Are unforeseen things taken into consideration with that, like droughts, and I know the Basslink's not going to break for another 3000 years or something.

**DEPUTY CHAIR** - Not during a dry spell, but -

**Mr GUTWEIN** - Well, as you have said it here now it won't.

**Mr ARMSTRONG** - Here's hoping.

**Mr GUTWEIN** - I put a lot of faith in the Upper House.

**Mr VALENTINE** - It's been a pretty mild winter to start.

**Mr GUTWEIN** - And with the return to the dividend policy at 90 per cent, any business can make a case to pay a different dividend payout ratio, but what the forward estimates demonstrate is a transition path back that will enable Hydro to continue to strengthen its balance sheet position, and at the same time provides a reasonable and sensible return to the State.

**Mr FARRELL** - And just on to another one, on to TasPorts, I notice that you're drawing a dividend there rather than re-investing into infrastructure. They are responsible now for the Bass

Strait ship. Will that have any impact on their returns or are there any other large bits of infrastructure that will be required to service during that period of time of the forward estimates?

**Mr GUTWEIN** - Not that I'm aware of, and the beautiful thing with TasPorts is that they have returned to profit, and obviously they have seen a much higher throughput through the ports as a result. There's certainly nothing that I'm aware of at this stage that provides for any concern.

**Mr FARRELL** - This may be a question of the Infrastructure Minister, but I'll just take your advice on it. I am just curious as to why TasPorts is the shipping operator rather than TT-Line, the reason behind that. It may not have been a Treasury decision.

**Mr GUTWEIN** - That's probably a matter for the Infrastructure Minister to express a view on.

**Mr FARRELL** - Yes, I'll hold that one over.

### Miscellaneous

**DEPUTY CHAIR** - Any other questions on Government businesses? We'll move to Miscellaneous. A couple of questions on this. I am interested as to why the Health fundings in here are not with Health. Perhaps an afterthought; it wasn't looking quite so rosy in the health line?

**Mr GUTWEIN** - No, and I explained this to the lower House committee yesterday. It was always the Government's intention to spend as much as it responsibly could on Health. In regards to getting the understanding and clarity regarding GST, we are at the federal government's pleasure in regards to when they notify us. Ideally it's early in the piece, but generally it's very close to the federal budget. In this case it was on the Friday night before the federal budget, and so we needed to ensure that we could responsibly fund the additional investment that we wanted to. The minister had put forward his budget requests early in the piece. He knew what he wanted, we understood what he wanted, but we needed to ensure that we had the capacity, and that's why it appears in Finance General.

**DEPUTY CHAIR** - So there's no question of it being used in Health?

**Mr GUTWEIN** - It is being used in Health, absolutely. Whilst it isn't Finance General, it's clearly referenced through the Health chapter, through the Policy and Parameter Statements as well. That money will be spent in Health, so it was a matter of the Government being sensible and responsible in ensuring that the capacity we thought that we would have was going to be there and that we could afford to do what we wanted to do.

**DEPUTY CHAIR** - I guess we will flesh that out more with Mr Ferguson. The TasWest Management Fund also comes in under 'Miscellaneous' here. No, it doesn't. It's in 4.4, but can I ask - yes, it's clearly wrong. It was on that same page. I couldn't see the other ones. The mobile radio network, I know it's probably a matter for Mr Hidding as well, but will that sit with Police, Fire and Emergency Management once it's completed, and are they close to completion on this?

**Mr GUTWEIN** - Kat has been very closely involved in the funding profile for this.

**Ms MORGAN-WICKS** - Yes, I'm a member for the steering committee for the mobile radio network. At the moment, they are still going through the process of preparing detailed requirements. A lot of their work over the last 12 months has been focused on end of life reports



for the current equipment and the current network. So in terms of the changes to cash flows, et cetera, there has been considerable expenditure in terms of current equipment and ensuring that the solution will remain valid and on-line, and to support until the new solution is actually prepared. At the same time they are trying to run two parallel processes of keeping the current solution alive versus the new solution that's being prepared, which is, in the next financial year, so 2017-18, they are testing the market and trying to come to the 2018-19 budget with a proposal as to the estimated expenditure on the new solution.

**DEPUTY CHAIR** - It makes an elephant's gestation look short, doesn't it? All right, so is it staying within its budget?

**Ms MORGAN-WICKS** - We don't have an estimate for the new solutions yet.

**DEPUTY CHAIR** - How long's a piece of string on this one.

**Mr FERRALL** - Yes, it is how long is a piece of string. The forward Estimates are really only an estimate to support potential new solutions, and until that's fully designed and costed, we won't know.

**Mr VALENTINE** - What is the end point? What is the radio system in play or in place? Is it intended to have a single radio room for all of the services?

**Mr GUTWEIN** - That is probably a matter for the minister responsible, Mr Hidding.

**Mr VALENTINE** - Maybe ask him tomorrow.

**DEPUTY CHAIR** – Yes, within this Energy Security Taskforce, minister, -

**Mr VALENTINE** - Escaped that one.

**Mr GUTWEIN** - Well, no, not escaped it. It's more his responsibility, yes.

**Mr VALENTINE** - No, it's all right. It's okay.

**DEPUTY CHAIR** - The Energy Security Taskforce, this is the area that, you're looking at the cost of changing the - well, I'll say interfering in the wholesale energy market price, because what it is -

**Mr GUTWEIN** - Responsibly reaching in, but in regards to that, we will wait until we receive the advice from Treasury next year in regards to what the -

**DEPUTY CHAIR** - Yes, so this funds that review of the current arrangements and looks at possible solutions?

**Mr GUTWEIN** - That is also funding the Energy Security Taskforce that Mr Groom is responsible for, and -

**DEPUTY CHAIR** - So is this an ongoing taskforce or just got a life?

**Mr GUTWEIN** - I expect the final report will be delivered shortly and then that will be -

**DEPUTY CHAIR** - And then it will end?

**Mr GUTWEIN** - Yes.

**4.4 Payment -**

**DEPUTY CHAIR** - I just wanted to clarify that. Any other questions on Miscellaneous from anyone? So 4.4 is Payment to the ATO, GST, Administration, Robert?

**Mr ARMSTRONG** - Yes, in the forward Estimates, there's a big variance. Can you tell us why that is?

**Mr FERRALL** - It is just our GST collections and there has been a drop in the cost of collections, so we're -

**Mr VOSS** - Yes, it's just our shares. It is on a capita basis. The ATO has been on a bit of an efficiency drive and so costs are falling across all jurisdictions. Towards the end of the forward Estimates it comes off even more because there's a compliance program that they're ending. So that's resulting in quite a large reduction in costs for compliance that is reflected across all jurisdictions, including ours.

**Mr ARMSTRONG** - Can you tell me what the Government is doing to ensure that Tasmania continues to secure our fair share of the GST?

**Mr GUTWEIN** - I'm happy to go over that. There are a couple of steps to that. One is that Treasury will be providing a report shortly that will be available to all members of parliament to ensure that members of parliament are on the same page, and that will be to both the Opposition party, also to federal senators and members in Tasmania so that we're all, if you like, singing from the same hymn sheet in regards to our understanding of the structural nature of the GST, and then obviously Treasury will be providing a submission to the Productivity Commission on the state's behalf and we will argue very strongly to ensure that the arrangements do not change to our detriment.

**Mr ARMSTRONG** - Western Australia is our main opposition to it?

**Mr GUTWEIN** - Western Australia and New South Wales predominantly would be the two loudest voices in the room. The coalition is a too strong a term to use but we have a shared interest across the smaller jurisdictions, obviously South Australia, Tasmania, the ACT and the Northern Territory. Queensland will be in our corner as well, and I think that Victoria is hedging its bets at the moment -

**Ms FORREST** - It is all called self-interest.

**Mr GUTWEIN** - Victoria's position is strengthening in regards to their own budget circumstances but at the moment, and I expect it to remain the case that a majority of the states and territories are against any proposed changed.

**Mr ARMSTRONG** - They have a memory Western Australia, well before they had the mining boom.

**DEPUTY CHAIR** - They have been a recipient in the past.

**Mr GUTWEIN** - They did particularly well during the mining boom as they uncommonly ratchet it up, and got stronger. They benefitted to the tune, I think I am correct, of around \$7 billion better off as a result of the three-year lag their own economy improved, but now that they have come out the other side of it, they have a different view.

**DEPUTY CHAIR** - That three-year lag would be past now pretty much when their circumstances changed significantly, wouldn't it?

**Mr GUTWEIN** - They have also seen in the last 12 months higher iron ore prices as well which has pushed their own source revenue back up again.

**DEPUTY CHAIR** - Swings and roundabouts. Before we go to 4.7, can I just ask about Tas Risk Management Fund which is 4.5 but there is no appropriation to it obviously. I am wondering if the amount in the budget papers revenue output is to cover claims and administration costs. Is that what it is for?

**Mr FERRALL** - It is the \$61.4 million?

**Ms MORGAN-WICKS** - Table 3.1? It is the administration and claims costs based on the actuary's advice.

**DEPUTY CHAIR** - Yes. I know that it goes up and down based on that advice.

**Mr FERRALL** - It is claims histories that drives that.

**DEPUTY CHAIR** - Yes, so the cash outflows for the current year? Do you have a breakdown of that or it is included in that, but the administration costs are also in that, you are saying?

**Mr FERRALL** - The administration costs are -

**Ms MORGAN-WICKS** - The costs are in the 2017-18 budget so the estimated expenditure is \$69.4329 million. It is an increase of \$13 million of 2016-17 which is partially reflecting increases in workers' compensation claim costs which are anticipated. Also increases in property damage costs. So we had significant events obviously with the June 2016 floods and we also had the Peacock Centre fire here in North Hobart which was a significant property claim cost on the department. Another proportion of the higher cost in 17 also reflects increases in medical liability expenses of some \$2 million.

**DEPUTY CHAIR** - I read that in a footnote. A lot of it would have been the flood damage in that year, and of course, that could change in the eight years too. You cannot predict these things. In terms of the medical liability, why is that growing? Is there any investigation of why that grows? It is pretty high as it is as I understand it. Have you got a breakdown of that?

**Mr FERRALL** - Medical liability. The difficulty with medical liability is the actuary has to use effectively estimated claim costs which are sort of on a guesstimated national basis and they have been going up quite significantly across the board.

## UNCORRECTED PROOF ISSUE

**DEPUTY CHAIR** - Across the board, not just here.

**Mr FERRALL** - Yes, so it is not necessarily driven here by increased medical claims per se, but certainly the individual costs have been growing significantly.

**DEPUTY CHAIR** - The individual claims have been bigger that have been awarded.

**Ms MORGAN-WICKS** - In addition so and expected increase in cutting costs in the eight years, so the anticipated experience.

**DEPUTY CHAIR** - You mentioned the workers comp as well, so what sort of injuries do they relate to or is that - again, it is an actuarial advice that determines this or is this a claim, an actual claim cost that has increased.

**Ms MORGAN-WICKS** - Claims experience will inform the actuarial estimates of both the current liability and the expended claims experience that will occur. So you kind of have your past claims experience determining the current outstanding liabilities but there are obviously claims that are yet to be made. So the actuary needs to make a determination and include those.

**DEPUTY CHAIR** - Why have they gone up? What sort of workers comp claims are pushing those up?

**Ms MORGAN-WICKS** - In terms of workers' compensation, we have an increase in the average claim cost from \$23 800 at 31 December 2015 actuarial review to \$26 238.

**DEPUTY CHAIR** - It was 13 to 26 basically? Is that what you said?

**Ms MORGAN-WICKS** - Sorry, to \$26 238. No, that is an increase of some \$3000 on a claim cost. So it is a 6.5 per cent increase after inflationary impacts. The actuary has not mentioned that there is a particular type of workers' compensation case that is causing that particular increase. It is just across the board on average.

**DEPUTY CHAIR** - So you do not do any work to look at whether it is mental health related issues or physical injuries?

**Mr FERRALL** - There is whole-of-government work that has been done - there is a number of programs that have been put in place in relation to stress-related illness because that has been one component that has been going up quite significantly so there is whole-of-government -

**DEPUTY CHAIR** - So there is some work being done on that?

**Mr FERRALL** - Yes, that whole-of-government basis, yes.

**DEPUTY CHAIR** - Who is undertaking that work?

**Mr FERRALL** - That is the State Service Management Office.

**DEPUTY CHAIR** - Who is it, sorry?

**Mr FERRALL** - State Service Management Office.

**DEPUTY CHAIR** - That is in DPAC.

**Mr FERRALL** - With Frank Ogle, yes.

**DEPUTY CHAIR** - He is going put a report out on that or something or is it all internal?

**Mr FERRALL** - There has been a number of reports put to all heads of agency in terms of – to try and work through these issues because at a government level we seem to be increasing at a greater rate than in the private sector so there is some work being done to sort of analyse the reasons for that. But I would say there are whole of government programs being put in place to help manage those issues within the state service.

**DEPUTY CHAIR** - So your health and wellbeing approach in workers is part of that, I assume, treasurer, but it is not your area I guess.

**Mr GUTWEIN** - The police minister would be in a very good position to unpack, I think it is \$1.5m per year program that has been included, and that speaks directly to this issue.

**Ms MORGAN-WICKS** - And in addition, if I may Treasurer, the fund – so in addition in trying to control the costs or prevent claims actually occurring in the fund, if a claim does occur, the fund, with assistance from our administration agent, has been looking up setting up provider panels and try and better control the costs once claims are incurred. So for example, psychologists, physiotherapists, workplace rehabilitation providers et cetera. So at the moment we are in the process and we have issued tenders in relation to those panels and trying to set up what is an agreed schedule of rates right across agencies.

**DEPUTY CHAIR** - I heard anecdotally that there is a lot more stress-related injury and we do need to take it really seriously.

#### **4.7 Property management services -**

**DEPUTY CHAIR** - 4.7, property management services, and we have covered a lot of this in the work in relation to Parliament Square. So we will not revisit that, Rob.

**Mr VALENTINE** - No, I do not need to revisit that. I am just looking at the centralisation of office space. It is quite interesting how the wheel turns because I remember the days of the Public Offices Committee and they used to do this and now here we are going back to that model basically. My question is, there is quite a dramatic drop in, a case like 2016-17 is \$33 million there and then it goes down to \$11.394 million and then down to \$10.338 million, \$8.529 million. What is happening here? Is it savings in FTEs, is it savings in lease costs? What is happening?

**Mr GUTWEIN** - Kath has a breakdown of that she can provide.

**Ms MORGAN-WICKS** - Yes, Treasurer. The fall or decrease from \$33 million in the 2016-17 budget year through to 2017-18 is really reflecting the completion of the fitout for the Salamanca building in Parliament Square.

**Mr VALENTINE** - That's the \$20 million odd, basically?

**Ms MORGAN-WICKS** - Yes, so roughly around.

**Mr VALENTINE** - Is that the cost of the fitout?

**Ms MORGAN-WICKS** - No, it is not. The cost of the fitout has been spread out over several years but in terms of the 33 moving down, you see most of the fitout being completed in 2016-17. Some will move into 2017-18 and we also have the contribution of the Launceston office accommodation fitout expense, which the Treasurer mentioned early. That will flow from 2017-18, 2018-19 and then you will see it drop down to the \$8.5 million.

**Mr VALENTINE** - It comes up to \$8.6 million.

**Ms MORGAN-WICKS** - It is those fitout expenses that are falling away.

**Mr VALENTINE** - I suppose the overriding question is, what are expected to be the net savings in the air from centralising the management? How much are we likely to save in that whole process, according to your business case probably.

**Ms MORGAN-WICKS** - In terms of the Hobart, the first stage of centralised property management, we are estimating a rental saving from three buildings which are being vacated of approximately \$4.5 million per annum, so those three -

**DEPUTY CHAIR** - We did cover all this earlier.

**Mr VALENTINE** - It is the actual management of it.

**DEPUTY CHAIR** - This information you're asking for was provided earlier.

**Mr VALENTINE** - Sorry, I apologise then.

**DEPUTY CHAIR** - Anything else?

**Mr VALENTINE** - Can you highlight areas where lease rationalisation has resulted in substantial savings in government? So where you have pulled two, three, four leases together to come up with a saving.

**Ms MORGAN-WICKS** - Yes, we are seeing much more efficient use of space in the Salamanca Building. By designing a contemporary modern, open plan fitout for that building we are seeing a much lower space per officer on each of those floors, and we are seeing a real saving by vacating three buildings in the Hobart CBD. So that is 99 Bathurst Street, 80 Elizabeth Street and Murray House.

**Mr VALENTINE** - 80 Elizabeth, that's the Trustee. Is it? No.

**Ms MORGAN-WICKS** - Sorry, 80 Elizabeth Street being revenue that -

**Mr FERRALL** - Opposite the Commonwealth Bank almost.

**Mr VALENTINE** - Any other opportunities to centralise systems identified?

**Mr GUTWEIN** - We are going through the process in Launceston now which we spoke about this morning. That will be the next project.

**Ms MORGAN-WICKS** - We have a schedule of leases that are running out, for example, in Hobart until about 2026 so the centralised property strategy is looking at each and every lease as they come up to expiry. Looking at our priority buildings within the CBD and trying to determine whether we extend or whether we actually move or change buildings. We are examining each and every lease as it comes up. Some we are unable to move on due to timing.

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

#### **4.8 Infrastructure investment project planning -**

**DEPUTY CHAIR** - No more questions on that. Move on to 4.8, infrastructure investment project planning. This is the \$2 million. It continues on. I am wondering whether that is actual spend, like it is spent each year, as there is with Infrastructure Tas. This is the old cert. Has the current service changed?

**Mr GUTWEIN** - Existing cert.

**DEPUTY CHAIR** - That is double II RP. So how has that actually been spent over the last year and what has been achieved with it, with the funding of \$2 million?

**Mr GUTWEIN** - There has been a range of projects. One of the most notable ones is Cradle Mountain but started through that process and as the budget explains, the project which was initially thought to be around \$15 million is now \$22 million that's come through, but Kath will have a break down.

**DEPUTY CHAIR** - Any other major projects?

**Mr GUTWEIN** - All of the major projects.

**Mr FERRALL** - Put in bins effectively for the preliminary works on projects. So at any point in time there's a range of projects that are being supported or funded to do that preliminary work.

**Ms MORGAN-WICKS** - Sorry, another example would be to do or to commission a further architect's report or OH&S report on the use of this Chamber for example. So that came in via the cert process so we looked to, is there the potential to do seed funding so that Estimates is better informed before we then take a capital proposal through the budget process.

#### **Grants and subsidies -**

**DEPUTY CHAIR** - Any more questions on 4.8? Grants and subsidies. Most of these we have covered along the way unless someone has any other – Rob, yes.

**Mr ARMSTRONG** - The payroll tax system that you have got in place for employing apprentices and trainees, et cetera. Can you tell us how that differs from the earlier payroll tax program?

**Mr GUTWEIN** - The main difference is that whilst at one level it is open for new trainees and apprentices, we have also made this one available for employees who are aged between 15 and 24, and so for those employees that are 15 to 24 that aren't looking for a skilled pathway. So the opportunity to give a kid a job is effectively what this covers. If somebody enters and a rebate is provided for an employee under that circumstance and they then transition to an apprentice or a traineeship, they then get the full two year benefit as a business after they have been on board.

The other point to make with this is, whilst this will support in itself, the payroll tax rebate program supports around 6500 jobs out of the 7600 we have been talking about. It is the first time it has been introduced at a time when the economy is on the up, and we might see an even better result as a result of the timing of this.

**Mr ARMSTRONG** - You are just targeting those 15 year olds. The minister yesterday, Mr Groom, touched on that area, that they were still at school or could be at school or somewhere, I can't remember exactly. Anyhow -

**Mr GUTWEIN** - For them, they need to be employed either full-time or part-time. So they can be part-time. And it potentially provides the opportunity for an employee who has some younger people employed as casuals, provides them with the opportunity to change their employment status to even full or part-time which is a better outcome for a young person. It provides a more secure of employment.

**DEPUTY CHAIR** - They do not want to leave school to do that.

**Mr GUTWEIN** - No, but what I am suggesting is that somebody that is already employed within the business as a casual so it will provide a more secure form of employment for young people. Importantly, what we are hoping is that it will provide the incentive for an employer to give somebody a chance.

**Mr ARMSTRONG** - And the local government capital program that has been in the north and north-west. Can you tell us how that actually works?

**Mr GUTWEIN** - Where local government had a project that they were planning to fund sometime within the next five years, that it was part of their forward infrastructure plan within the next five years, we allowed for them to bring that forward into the next 18 months and in doing so we will provide an interest free loan to do that, and then when the project was due to be paid for under their current five year plan, local government repays the loan.

**Mr ARMSTRONG** - So it has to be within their five year planned operational or strategic plan?

**Mr GUTWEIN** - Within that five year window. Ideally what we were looking for were projects that local government had made a decision on, that they were going to invest in and then bring it forward. I have to say in the north it has been particularly successfully. Overall more than \$50 million-worth of funds have been applied for and \$48 million has been approved, and more than 50 per cent of councils, or thereabouts, have actually partaken in it.

**Mr ARMSTRONG** - Can you give us an example of one of those?



**Mr GUTWEIN** - West Tamar Council has brought forward the funding for their soccer field clubrooms for their soccer field on the West Tamar. Launceston City Council made a decision they wanted to invest in additional car parking and, as a result of the purchase of CH Smith by the developer, they negotiated for the car parking there and they have been provided with a \$9 million interest free loan.

**Mr ARMSTRONG** - So is there a limit?

**Mr GUTWEIN** - We did not set limits on it but again, TasCorp needs to be satisfied that at the end of the period that they are in a position to support that, if it rolls over. But in the main, the borrowings within local government, very low borrowings across the sector generally, and I was saying, in the case of these types of loans, in many cases local government has already put in place a funding strategy. They may have money set asides or it may be because they have a federal grant coming in in two or three years' time, and so what we have been able to do is to bring it forward and give them the confidence -

**Mr ARMSTRONG** - That budget over a period of time, yes. Thank you.

### **Capital Investment Program -**

**DEPUTY CHAIR** - My list goes to Capital Investment Program. Any questions on Capital Investment Program?

**Mr VALENTINE** - Digital transformation project. Can you explain a bit about that?

**Mr GUTWEIN** - I can and then I will hand over to Kath in a moment. There are a couple of key projects here. Obviously Project Unify which is the police. Their core data system. So that is funded but the digital transformation program also includes \$50 million across the forward Estimates. The indicative funding that we have applied against that at the moment, is around \$18 million to Health; \$13 million to Justice Connect; Child and Youth Services, \$6 million; \$5 million towards further work within Treasury and then a provision for costs variations, et cetera. So the projects in many cases are still being scoped but we have provided indicative allocations against that fund at this stage.

**Mr VALENTINE** - Thank you, Treasurer.

**DEPUTY CHAIR** - Any other questions on capital investment? Just taking some guidance from the committee here. We have the Tasmanian Industrial Commission and then the Auditor-General. Do you want to have a cup of tea before we do those or we go on to those? Treasurer, do you have those answers to table, as yet? Can we table them and incorporate them into *Hansard* so they are actually on the public record.

**Mr GUTWEIN** - They are signed off as responses to your questions so however you want to deal with them. What time are we finishing this evening?

**DEPUTY CHAIR** - We can go until 7 p.m. I think we are going beyond five. We have still local government after we have done a couple of other ones. Do you want to have a cup of tea before we do PIC or the Auditor-General?

**Mr GUTWEIN** - I am not required for the Auditor-General, am I?

**DEPUTY CHAIR** - Why don't we do the Auditor-General and then come back, have a break and come back.

**The committee suspended from 3.55 to 4.11 p.m.**

**Tabled Papers - Budget 2017-18**

**Question number: 1**

**Asked by** Hon Ruth Forrest MLC

With regard to the 2017-18 Budget:

1. Referring to the Policy and Parameter Statement in Table 4.5 of Budget Paper No1:
  - (a) Could the Treasurer or Minister kindly provide a breakup of the parameter adjustments for State Growth on page 67?
2. Referring to the Policy and Parameter Statement in Table 4.5 of Budget Paper No1:
  - (a) Could the Treasurer kindly provide a breakup of the parameter adjustments for Finance General on page 67?

**Answered by** Hon Leonie Hiscutt MLC

Parameter variations reflect changes due to the economic environment, the agency operating environment or the timing of a transaction. This includes demand and cost variations in agency service delivery, including the provision of indexation, as well as expense changes resulting from movement in Australian Government revenue.

Variations resulting from the rollover of a new Forward Estimate year and changes in accounting policies, such as a change in an agency depreciation policy or the impact on estimates of a change in an Australian Accounting standard are also classified as parameter variations.

Explanations of the parameter variations for agencies detailed in the Policy and Parameters Statement are included in Chapter 4 of Budget Paper No 1 (see pages 76 to 77).

As noted in the Budget Paper, for the Department of State Growth, the parameter variation for 2016-17 and over the Forward Estimates reflects a range of issues including an updated funding profile for the Northern Cities Major Development Initiative; a reclassification of \$16.9 million in Australian Government funding for roads infrastructure from Non-Financial Asset Purchases to Supplies and Consumables Expense; the transfer of Forestry CSO expenditure from Finance-General and includes expenditure associated with the continuation of the Road Safety Levy from 2017-18. In the 2017-18 Budget year, the parameter variation also includes other items such as changes in the expenditure of Australian Government roads funding and changes to cashflows

for a number of existing projects or programs (noting that there is no change to the total allocations to these items).

As noted in the Budget Paper, for Finance General, the increase in 2016-17 includes changes in expenditure for the Tasmanian Risk Management Fund related to the June 2016 flood event and Peacock Centre fire claim and duty related ex gratia payments where there are corporate reconstruction transactions that do not result in a change of ownership. The decrease in expenditure for 2017-18 and over the Forward Estimates reflects a transfer of the Forestry CSO expenditure to the Department of State Growth and a reduction in service administration costs, following the transfer of administration of defined benefit schemes to the Office of the Superannuation Commission within the Department of Treasury and Finance.

## **Question number: 2**

**Asked by:** Hon Ruth Forrest MLC

With regard to the 2017-18 Budget:

Referring to the Policy and Parameter Statement in Table 4.5 of Budget Paper No1 specifically the Nominal Superannuation Interest Expense adjustments on page 67, and also Major Expense Variation explanations in Table A3.3 on page 199:

1. On what date did the actuary provide estimates for Nominal Superannuation Interest which were included in the 2016/17 Budget?
2. On what date did the actuary provide estimates for Nominal Superannuation Interest which are included in the 2017/18 Budget?
3. Can you provide a copy of the actuary's advice in questions 1 and 2.
  - (a) If not, what assumptions were used to underpin the calculations on each occasions?
4. Did Treasury instruct the actuary to make any particular assumption or was this left to the actuary's professional determination?
5. Did the actuary provide more than one calculation on each occasion or was only one calculation provided to Treasury?
6. What is the concept of spot price that was used to calculate the Nominal Interest for 2016/17; and
  - (a) How does this differ from prices used on earlier occasions?
7. How was the figure over the Forward Estimates calculated?

**Answered by** Hon Leonie Hiscutt MLC:

1. The 2016-17 actuarial assessment was received on 24 March 2016.
2. The 2017-18 actuarial assessment was received on 22 March 2017.
3. The actuarial assumptions for both the 2016-17 Budget and 2017-18 Budget are published in Chapter 7: Assets and Liabilities of Budget Paper No 1. The assumptions for both Budgets are:  
  
Discount Rate - 4.75 per cent  
Salary Increase Rate - 3.0 per cent  
Pension Increase Rate - 2.5 per cent  
Investment Earnings - 4.75 per cent
4. The key assumptions used by the State Actuary are as recommended by the State Actuary.
5. The Actuary provided actuarial estimates of the superannuation liability based on the key assumptions published in the Budget Papers together, with sensitivity analysis modelling a plus or minus one percent discount rate, as published in charts 7.3 and 7.5 of Budget Paper No 1.
6. The spot rate is the known actual Investment Earnings Rate on Plan Assets to 31 January of each year and from 1 February to 30 June is based on the assumed long-term Investment Earnings rate of 4.75 per cent as noted in question three.  
  
The same methodology for calculating Nominal Interest has been consistently applied by the State Actuary.
7. The calculations over the Forward Estimates period are based on the long-term Investment Earnings Rate of 4.75 per cent.

**Question number: 3**

**Asked by:** Hon Ruth Forrest MLC

With regard to the 2017-18 Budget:

Referring to the Table 5.2 Grants in Budget Paper No 1 on page 82:

1. Could the Treasurer kindly provide a breakup of other grants and subsidies for 2017/18 with the same level of detail as contained in Table 5.4 Commonwealth Payments for Specific Purposes on page 86; and
2. Please provide the Estimated Outcomes for 2016/17 for the same items.

# UNCORRECTED PROOF ISSUE

Answered by Hon Leonie Hiscutt MLC

The following data are provided in response to this request.

**Table 1: Grants and Subsidies - 2016-17 Estimated Outcome and 2017-18 Budget\***

	2016-17 Estimated Outcome	2017-18 Budget
	\$'000	\$'000
<b>Mersey Community Hospital Funding</b>	75.5	....
<b>Tasmanian Health Service (THS) Commonwealth Own Source Expenditure (COPE) Payments</b>		
Commonwealth Home Support Programs	15.3	15.5
Transition Care Program	6.8	5.9
Medicare - Aged Care Places	3.1	2.9
Multi-purpose Services at Beaconsfield and Campbell Town	3.4	3.4
Radiation Oncology	1.6	1.6
Aged Care Assessment Program	2.9	2.9
Other	0.3	1.6
	<b>33.4</b>	<b>33.8</b>
<b>Department of Health and Human Services COPE Payments</b>		
Rural Health Outreach Fund	1.4	1.4
Medical Outreach Indigenous Chronic Disease Program	1.2	1.2
NDIS Sector Development Funds	1.9	1.3
Other	1.1	0.8
	<b>5.6</b>	<b>4.7</b>
<b>Department of Primary Industries, Parks, Water and Environment</b>		
World Heritage Area - Natural and Cultural Heritage	1.1	1.1
World Heritage Area - Parks and Wildlife	2.3	2.3
Australian Government funding for Quarantine	1.2	1.3
Aboriginal Ranger Trainee Program	0.4	0.4
Other	0.6	....
	<b>5.5</b>	<b>5.1</b>
<b>Other</b>	4.6	0.4
<b>Total</b>	<b>124.6</b>	<b>43.9</b>

\* Please note that this table may not add due to rounding.

**Question number: 4**

**Asked by:** Hon Ruth Forrest MLC

With regard to the 2017-18 Budget:

1. Could the Treasurer please provide an update on the arrangements whereby departments and agencies remit amounts to Finance General to help meet the costs of the Government's unfunded superannuation liability?
2. Has the arrangement changed or will it change given creation of a new structure to administer the defined benefits scheme following the transfer of the defined contribution funds to TasPlan?
  - (a) If so, how will it change?

**Answered by Hon Leonie Hiscutt MLC:**

1. The emerging cash cost of defined benefit superannuation payments is met from the Consolidated Fund, partly funded by agency contributions and by a Reserved by Law contribution, which comprises the balance of the Government's share of pension and lump sum benefit costs.

From 2017-18, agencies will contribute 12.95 per cent of total salary for employees that are RBF Defined Benefit Scheme members and a gap payment of 3.45 per cent for employees that are members of accumulation schemes.

2. This arrangement did not change as a result of the revised arrangements for administration of the defined benefit schemes.

**Question number: 5**

**Asked by:** Hon Ruth Forrest MLC

With regard to the 2017-18 Budget:

1. Referring to the takeover of Forestry Tasmania's unfunded superannuation liability that occurred during 2016/17:
  - (a) Did this include current employees;
  - (b) If not what happens each time an employee member of the defined benefit scheme retires;
  - (c) How has or will any liability be shifted;
  - (d) How is the assumed liability recorded in the government's books;
    - (i) is it as an equity contribution to FT; or
    - (ii) by some other method;

(e) How is the transaction recorded in FT's books?

- 2 Referring to the Public Non Financial Corporations Balance Sheet on page 155 of Budget Paper 2017/18 Vol 1, specifically the biological asset of \$200 million estimated outcome for 2016/17;

Given that the 2016/17 budgeted figure for biological assets was \$73 million how has the increased value been recorded? In other words what is the corresponding credit entry?

**Answered by Hon Leonie Hiscutt MLC**

1. The Government agreed to assume financial responsibility for legacy defined benefit superannuation costs currently met by Forestry Tasmania.

On 31 December 2016 the Government assumed all superannuation assets and liabilities associated with members of the contributory scheme and surviving partners receiving a pension as at 31 October 2016. These assets and liabilities transferred under section 32 of the *Forest Management Act 2013* and the notice was Gazetted on 28 December 2016.

The transfer notice prescribed that the transfer must be recorded in the financial accounts as follows:

- (i) in the case of the Forestry corporation, as an equity contribution by the State; and
- (ii) in the case of the State, as an equity contribution to the Forestry corporation.

This transfer was recognised in the Revised Estimates Report 2016-17.

A further transfer is proposed as at 30 June 2017 for members of the contributory scheme who have or will leave as part of the restructure to Sustainable Timber Tasmania and to transfer the compulsory preserved members, who worked for Forestry Tasmania previously. It is proposed that this transfer will be made under section 32 of the *Forest Management Act 2013* and prescribe the same accounting treatment as the previous transfer.

Sustainable Timber Tasmania will remain responsible for the liabilities of any remaining members of the contributory scheme.

2. All biological assets included in the Public Non Financial Corporations Balance Sheet are assets controlled by Forestry Tasmania. It includes both native forest and plantation forest available for production as well as informal reserves.

The 2016-17 Budget estimate for biological assets as at 30 June 2017 was \$72.8 million. This balance included the assumption of a sale of a proportion of Forestry Tasmania's plantation assets in 2016-17.

The actual balance for biological assets as at 30 June 2016 was \$199.2 million as reflected in the *Treasurer's Annual Financial Report 2015-16*. This was \$46.2 million higher than the prior year primarily due to the reclassification of road infrastructure assets to biological assets. The value of the biological assets increased \$54.4 million due to the reclassification of roads and \$1.9 million due to planting. These increases were offset by a decrease of \$10.1 million due to the decrease in value of the standing timber.

Given the uncertainty regarding the timing and quantum of the sale proceeds, the 2017-18 Budget estimates for the PNFC Sector do not include the impact of the sale of plantation assets. This change was included in the *Revised Estimates Report 2016-17* released in February 2017 and has also been outlined in the Budget Risks section on page 18 of Budget Paper No 1. The impact of this change is reflected by a reduction in sale proceeds for 2016-17 resulting in increased borrowings for Forestry Tasmania.

The 2017-18 Budget Papers forecast a balance for Biological assets of \$200.6 million as at 30 June 2017 an increase from the actual balance as at 30 June 2016 due to assumed annual expenditure on plantations.

**Question number: 6**

**Asked by:** Hon Ruth Forrest MLC

Regarding the 2017-18 Budget:

1. With regard to the Policy and Parameter Statement in Table 4.5 of Budget Paper No 1, could the Minister provide a breakup of the parameter adjustments for DHHS on page 67?

**Answered by** Hon Leonie Hiscutt MLC

Explanations of the parameter variations for agencies detailed in the Policy and Parameters Statement are included in Chapter 4 of Budget Paper No 1 (see pages 76 to 77).

As noted on page 76 of Budget Paper No 1 the increase in expenditure for the Department of Health and Human Services in 2016-17 reflects revised expenditure for a range of Commonwealth Own Purpose Expenditure Agreements and National Partnership payments. The decrease over the Forward Estimates reflects revised estimates for Housing activities and the transfer of the Child Health and Parenting Service to the Tasmanian Health Service. Other impacts in 2017-18 relate to changes in cash flows for Australian Government funding.

In 2017-18, the parameter expense adjustment of negative \$5.9 million represents approximately 0.4 per cent of the Department's total 2017-18 Budgeted expenses.

**DIVISION 8**

(Tasmanian Audit Office)

**Output group 1 -**

**Public sector management and accountability**

**1.1 Public sector management and accountability -**

**Tasmanian Audit Office -**

**Total recurrent services -**



**DEPUTY CHAIR** - We will move on to public sector management accountability, 1.1, with the Tasmania Audit Office. Welcome, Rod, and you might like to introduce the staff member at the table and I will invite you to make some opening comments.

**Mr WHITEHEAD** - Thank you, Chair. I have with me Patty Johnson. Patty is the director of our corporate support unit in the Tasmania Audit Office.

**DEPUTY CHAIR** - Thank you.

**Mr WHITEHEAD** - Thank you. Thank you for the opportunity to make some opening comments. Firstly, the audit office continues to show budgetary constraint for 2017 to 2018 across the forward Estimates. The increase in appropriation revenue for 2017 to 2018 represents a permanent reallocation from the Department of Premier and Cabinet to the Tasmania Audit Office of \$140 000 for the conduct of the employer audits. For the 2016-17 and earlier years, the Audit Office had to apply to DPAC for reimbursement of the costs for conducting that particular audit. There are no other substantive increases in appropriate revenue for 2018-19 and across the future forward Estimate years. The Audit Office uses the appropriation revenue to fund our performance audit program and in the future our employer audits and also for the preparation of publication of our reports to parliament. In addition, a small amount of the appropriation is set aside to fund my salary on-costs that aren't covered by the reserve by raw allocation.

By the end of 2017 financial year, we will have tabled six performance audits, one probity audit and one employer audit. This is consistent with our objective of completing and tabling six to seven performance audits per annum. The 2017-18 year, we plan to complete the same number of audits. We also intend to trial a short audit program will report to parliament on topical matters in a much more condensed timeframe. For the 2016 financial audit cycle which covers the 30 June 2016 and 31 December 2016 audits, we completed 116 financial statement audits with all of them completed within the legislated timeframe except for one. The fees we charge for these audits and other audits by arrangement, such as regulatory and grant audits total approximately \$5.6 million. In recent years, our fee increases have been well below CPI. Our financial audit fees for the forthcoming audit cycle will increase by 2 per cent and this reflects an increase in our operating costs and, in particular, employee related expenses and our contracted audit costs. These two items together represent approximately 82 per cent of our total expenditure. As in past years, the Corporate Support Division Business Unit and professional audit staff continue to endeavour to identify and assess ways to improve the operational efficiency of the audit office.

**DEPUTY CHAIR** - Rod, thanks for that overview. Being on the Public Accounts Committee, we do have an association with the Audit Office that gives us some insight into how you plan your work. But you seem to continue to set a pretty high benchmark for yourself in terms of getting reports done in terms of the number and the complexity of some of those reports. Is that proving a challenge within your current budgetary framework or is it something that you can manage? It is okay to say if you need more. I don't know whether you might get it or not, but I am interested in whether you think it is a reasonable budget for the work that you actually do provide?

**Mr WHITEHEAD** - Yes, the first point I will make there is that the allocation that we receive covers predominantly the salary cost of the people in the performance audit team to conduct the performance audits that we set for the forthcoming year which are outlined in our annual plan. To date, we have predominantly done most of those performance audits in-house using our own people. You talked about the complexity of some of the audit topics that we are looking at doing into the future and we have been discussing the need to bring experts in on some of those audits. So that is

where we might use an expert for part of that particular performance audit. We are also looking at the possibility of outsourcing some of those performance audits in their entirety, still under our supervision, but having the majority of the work performed by a contracted auditor as well. That is something that we are contemplating and have been looking at, but we need to look at that within the constraints of the budget that we do have

**DEPUTY CHAIR** - You have budgeted for that sort of approach at this stage?

**Mr WHITEHEAD** - At this stage, we are looking at that. We will need to look at whether we can do that within the budget that we have and the extent to which we can bring those external resources into the performance audits that we have on our annual plan of work. We would like to trial an outsource audit, but again we need to identify whether we have the budget to do that. To some extent, it comes down to whether we can actually do the audits ourselves within the timeframes that would allow it which might provide us that capability to bring in some of that external expertise. If the audits that we are planning to do take longer than planned then that might limit that possibility.

**DEPUTY CHAIR** - Do you think in any particular audits that you have planned for this year could create those challenges?

**Mr WHITEHEAD** - There is one on our plan of work which was on our 2016-17 annual plan of work which is around emergency medicine which we are about to commence. That is going to be a fairly topical area and one where there is someone with some medical expertise would be of assistance. That is one where we have had some discussions around whether we bring someone on that audit, not in a full time capacity but that will provide some guidance to the audit team around the criteria that we might be looking at as part of the audit and the evidence that we might need to look at to form our conclusions.

**DEPUTY CHAIR** - It is more for you to define the terms of it.

**Mr WHITEHEAD** - Part of it is around defining the terms. Part of it is probably in terms of understanding the evidence and two elements for that, one is identifying what evidence we need to obtain and, secondly, around whether we need to test that evidence in some way or other. And probably, thirdly, around the conclusions that we might draw from that evidence as well. It is to help, I suppose, formulate the audit conclusions that the team might make in respect to the particularly criteria that we establish.

**DEPUTY CHAIR** - It is a sensible approach, particularly where you lack that expertise within the office.

**Mr WHITEHEAD** - That is right, and another one that is on our -

**DEPUTY CHAIR** - I don't want an auditor doing my surgery by the way. With all due respect to the auditors.

**Mr WHITEHEAD** - That is understandable.

**Mr VALENTINE** - Is that the same as a bean counter doing the sewerage? I don't know.

**DEPUTY CHAIR** - Yes, correct.

**Mr WHITEHEAD** - In our plan of work for the forthcoming year, for the 2017-18 period, there are some potential audits on that in that particular plan of work too where we are looking at maybe using an external audit provider to a greater extent than what we have done in the past.

**DEPUTY CHAIR** - Your current accommodation, there has been a few changes over recent years moving to try and effect cost savings. Are you happy with where you are now in that regard or is there more savings that could be made? We heard earlier today, I know you weren't here at the time, about the government trying to bring in as many organisations under one or as few leases as possible, is there other savings that you could make in your office if that was further progressed?

**Mr WHITEHEAD** - I will make some comments then I might hand to Patty to also make some comments on that particular point as well. I know that prior to my joining the office, there were some discussions around bringing other integrity bodies into the building that we are actually in which is 144 Macquarie Street and that was with the intent of centralising all those integrity agencies all in a closer environment. But perhaps there might have been some potential cost savings that might have been achieved out of that relocation as well. To answer the point about the accommodation environment that we are in at the moment, from my perspective it is suitable for our needs. I think it has the right size in terms of space that we need to conduct our activities that we need to conduct within the current number of people that we have at the moment. In terms of the cost savings, I will hand over to Patty because she is more across the actual financial impact of that particular lease arrangement.

**Ms JOHNSON** - With that, we have approximately five and a half years going onto this current lease. We did have a relationship with Treasury and DPAC with our move, so what it did mean was that DPAC could move some of their staff into the executive building, so then we moved onto our floor and we could fit on that floor quite well. So that did work into Treasury's plan of consolidation. Obviously, we make sure that we work with Treasury in making sure that our decisions are correct and work with their plan and that has worked well with us as well. As Rod said, we fit nicely on the floor with the amount of staff that we have at the moment. We have also been utilising other departments and other agencies' board rooms or conference rooms where we need to have a bigger space. It seems to be working really, really well for us from a size and a cost perspective at this point in time.

**DEPUTY CHAIR** - Rod, I assume that if you find that the demands of your audits are such that you need more expert advice or opinion or external audit capability that that will be something you factor into your next year's budget request.

**Mr WHITEHEAD** - Our next year's budget request we would look at that and to the extent, as I mentioned at the start in my opening remarks, we are looking at trialling a short order program this year. We haven't yet selected the topics for that.

**Mr VALENTINE** - Short audit?

**Mr WHITEHEAD** - Yes, and the nature of that will be that it will identify particular topics where we want to actually report to parliament but in a much more condensed timeframe than we have done in the past.

**DEPUTY CHAIR** - That would be more narrow topics.

**Mr WHITEHEAD** - It is either going to be a narrower topic or the level of assurance that we provide will be less than what we would in a normal performance audit. In other words, we might do what we call a review engagement as opposed to an audit engagement. We are still looking to address or answer a particular question, but the level of evidence that we get to form our conclusion will not be as detailed or as thorough as what we would have in a performance audit.

**Mr VALENTINE** - They are still systems audit based, though, are they?

**Mr WHITEHEAD** - It would depend on the nature of the topic that we would select for audit.

**DEPUTY CHAIR** - Any other questions, Rob?

**Mr VALENTINE** - No, I'm happy. It is important we have the resources.

**DEPUTY CHAIR** - Yes.

**Mr VALENTINE** - It is important they have the resources to do the job they are expected to.

**DEPUTY CHAIR** - That is right, yes.

**Mr VALENTINE** - It is important we have the resources.

**DEPUTY CHAIR** - The Auditor-General does also communicate with PAC on the budget and PAC provide feedback on that as well, but that will continue, yes.

**Mr WHITEHEAD** - In regard to our annual plan of work as well, we do get some good feedback from the public accounts committee on our forthcoming annual plan of work.

**DEPUTY CHAIR** - There will be even more suggestions. All right, well, being no further questions, thank you for your time and apologise for the delay in waiting while we finished with the Treasurer.

**Mr WHITEHEAD** - That is fine. Thank you very much.

**DEPUTY CHAIR** - Thanks.

### **1.9 Tasmanian Industrial Commission**

**DEPUTY CHAIR** - We will invite the Treasurer back with the Tasmanian Industrial Commission under Division 4. Welcome back, Treasurer, and I will get you before you start to introduce the members at the table.

**Mr GUTWEIN** - At the table, Simon Overland, secretary of the Department of Justice and Brian Risby who is the manager of the Policy Planning - Planning Policy Unit. I will get that around the right way, yes.

**DEPUTY CHAIR** - Thank you. We are doing 1.9, the Tasmanian Industrial Commission. Did you want to make any opening comment on this, Treasurer?

**Mr GUTWEIN** - In the interests of time, I am happy to take questions.

**DEPUTY CHAIR** - We will move straight to Craig then.

**Mr FARRELL** - In the interests of time, this is fairly short. I know we have gone over the ins and outs of the Industrial Commission in past years. Mine relates to the impact or lack of impact that the legislation that we are currently looking at will have with the changes to the board, whether that will have any - I am getting some -

**DEPUTY CHAIR** - Impact on timeliness.

Your performance indicators in this area talk about the clearance rate as a percentage and the portion of matters finalised within the three months. Do you have the matters of numbers of matters that are referred? The percentage means one thing, but it would be handy to know what actual numbers there are.

**Mr GUTWEIN** - I have a brief here. A total of 156 applications were lodged with the TIC during the period 1 May 2016 to 30 April 2017, 103 industrial matter applications lodged pursuant to the Industrial Relations Act, 83 industrial matter files were finalised and closed during this period. There were 27 applications lodged pursuant - this is the breakdown of the 156. Twenty-seven applications lodged pursuant to the State Service Act 2000 for review of selection and 22 applications were finalised. Twenty-six application lodged pursuant to the State Service Act 2000 for a review of action, and 18 applications finalised. Just a bit more background information. The members of the TIC set a combined total of 172 days in 2016-17 and this represents little change to the 186 that they had for the corresponding period in 2015-16. Currently, there is no backlog of work as all positions are permanently staffed in the past year. I announced back in December that Mr David Barclay was appointed as the president back on 19 December 2016.

**DEPUTY CHAIR** - The appropriation covers the costs of the Industrial Commission entirely? There is no other unmet need there?

**Mr GUTWEIN** - We have maintained the existing funding level for the Commission in 2017-18 across the forward Estimates.

**DEPUTY CHAIR** - Craig, did you want to ask anything else?

**Mr FARRELL** - No, I can't find my piece, Chair. I am looking for it. I had it here before.

**DEPUTY CHAIR** - Do any other members have any questions on the Industrial Commission?

**Mr VALENTINE** - No.

**DEPUTY CHAIR** - It is an organisation that gets along with its business basically.

**Mr FARRELL** - I don't think there is any change in the forward Estimates apart from general increases. I couldn't find anything too challenging about it.

**Mr GUTWEIN** - That has been the case, whilst the president changed with the retirement of Mr Abbie the end of last year, the Commission has never been backward in putting forward a view if there were matters that concerned it. Everything is running as it should.

**1.11 Resource Management and Planning Appeal Tribunal under Planning Local Government**

**DEPUTY CHAIR** - There being no other questions, we will move to 1.11, Resource Management and Planning Appeal Tribunal under Planning Local Government. Do you need to change the team?

**Mr GUTWEIN** - Jarrod Bryan, the Registrar of the RMPAT, is with us at the table.

**DEPUTY CHAIR** - Did you want to make any opening comments regarding RMPAT?

**Mr GUTWEIN** - No, I am happy to take questions.

**Mr ARMSTRONG** - Minister, there has been some speculation that the RMPAT Act might be amended to reduce third party planning appeal rights. While I notice that there has been no significant funding changes to this line item, that would suggest a reduction in the Planning Tribunal's activities. Can the minister advise as to any proposed changes to the planning appeal process that might form part of the current planning reform program?

**Mr GUTWEIN** - At a policy level, third party appeals are a matter that Government is intending to look at, but at this stage it will be something that will be dealt with later on this year and at this stage there is no proposal to discussion in regards to what action we might take.

**Mr ARMSTRONG** - Mediation, they have a process for RMPAT, how successful is it? Can you tell me what percentage is mediated compared to what goes through the whole process?

**Mr GUTWEIN** - I can, and Jarrod can answer this if he wishes, but the rate is 71 per cent of substantive decisions were resolved by mediation by consent of the parties for the financial year up until 30 April this year. The rate was significantly higher in the March quarter, itself was 81 per cent, so quite a high percentage that is dealt with by mediation and consent arrived at between the parties.

**Mr ARMSTRONG** - I notice the bill that we have before us that is up for second reading is trees for boundary fences, boundary trees, boundary shrubs, that is going to come under RMPAT.

**Mr GUTWEIN** - It will.

**Mr BRYAN** - It is an Attorney-General's bill.

**Mr GUTWEIN** - It is a matter for the Attorney-General.

**DEPUTY CHAIR** - You are going to have more work than you can poke a stick at.

**Mr ARMSTRONG** - Yes, I wondered. There is no increase in funding. You don't foresee a lot of work in that because I do.

**Mr GUTWEIN** - I am hoping there is not a lot of work in it. But, if necessary, then we will look at the resourcing levels. I am hoping that that bill and it certainly was one of the Attorney-General's - he was very keen on seeing it progressed and hopefully that will provide a pathway for people who have those challenges.

**Mr ARMSTRONG** - It is a good bill. There is a lot of interest in it actually, but I was wondering because I reckon there will be a lot of submissions come through and I was wondering whether you think you can absorb what is going to come through in the current budget.

**Mr GUTWEIN** - If there is an increase in workload, then we can address that through the course of the year and through the course of the next budget process.

**Mr ARMSTRONG** - Thank you.

**Mr VALENTINE** - You have to get an act on which to base it first, don't you, before you can budget for it.

**DEPUTY CHAIR** - No, not always. I thought often you give money up when you are expecting to get something through, like a wage freeze, for example. Things like that.

**Mr GUTWEIN** - I don't think I have put any money up on that one.

**Mr GAFFNEY** - Maybe a dispute bill. Maybe it's a dispute.

**Mr GUTWEIN** - I was actually banking on some savings.

**DEPUTY CHAIR** - You were banking on savings. Yes, they were factored in, yes.

**Mr GUTWEIN** - I was banking on some savings on that one. In fact, it is difficult to forecast a model without the legislation being agreed to.

**DEPUTY CHAIR** - But as Rob said, there doesn't appear to be any great opposition to the legislation, in fact, a lot of people are waiting with bated breath for it which indicates that there probably will be a significant demand to use it and so we could well see cases being referred to RMPAT. I understand there is a process before that.

**Mr GUTWEIN** - There is that.

**DEPUTY CHAIR** - But hopefully that will reduce the demand on RMPAT, but when you have warring neighbours, mediation is often very difficult to achieve. It will be tree branches at 20 paces.

**Mr VALENTINE** - I am not sure it is going to bring the harmony that everyone might think.

**Mr BRYAN** - I don't think they would endorse that mode of dispute resolution.

**Mr VALENTINE** - It might create a few fences, but there you go. Get rid of the trees, create fences.

**DEPUTY CHAIR** - I am sure the Registrar will be on your door step if he finds he is being overwhelmed with work. So in terms of the appeals that you do deal with, Treasurer, I assume most of them are related to planning as opposed to there might be trees, but are there other matters that you deal with in significant numbers besides planning issues?

**Mr BRYAN** - Without getting the stats to hand, we have seen a bit of an increase in some strata title applications and appeals, some building appeals as well because we also deal with the Building Appeal Tribunal jurisdiction. But always the bulk of it is largely planning.

**DEPUTY CHAIR** - Do you believe that a simple planning scheme will have a benefit in that regard if it is simpler, faster, cheaper, and whatever else it is supposed to be?

**Mr GUTWEIN** - Faster, fairer, simpler and cheaper.

**DEPUTY CHAIR** - And delivered to the parliament in a timely manner so that we can actually see what it looks like. Do you think that will resolve some of those things or is it going to be an ongoing issue anyway for the sort of things that you are trying to resolve?

**Mr BRYAN** - Any answer I gave would be speculative because I am not sure of the significant differences that could arise from the main reform. There is always going to be discretion exercised which gives rise to potential different points of view regardless of whatever regime you are doing with.

**Mr VALENTINE** - With regard to performance information, I don't see much in here with regard to that. I don't see it.

**Mr GUTWEIN** - Table 5.3. It provides those percentages that we spoke about, the percentage of the appeals that are resolved within 90 days and you will see the appeals which did require extensions as a result of the parties requiring it.

**DEPUTY CHAIR** - Less resolved within the 90 days without an extension, though, percentage wise.

**Mr GUTWEIN** - The key thing is that there is a high percentage. The mediation process of the parties is quite significant.

**Mr VALENTINE** - The main question is are the resources sufficient to be able to carry out the job, really.

**Mr BRYAN** - I believe so at present.

**Mr VALENTINE** - Don't be afraid to say, in front of the minister.

**Mr BRYAN** - I am feeling that we are okay at the moment.

### **4.2 Tasmanian Planning Commission -**

**DEPUTY CHAIR** - No other questions on 1.11, we will move to 4.2, Tasmanian Planning Commission. I assume you need to change your guard again.

**Mr GUTWEIN** - Mr Greg Alomes, the Executive Commissioner of the Tasmanian Planning Commission.

**DEPUTY CHAIR** - Do you want to make any overarching comment?



**Mr GUTWEIN** - No. I am happy in the interests of time if we move straight to any questions that the members might have.

**DEPUTY CHAIR** - Go straight to Rob Valentine.

**Mr VALENTINE** - To start with, the note on page 139 says the increase in planning policy and reform in 2017-19 reflects additional one-off funding provided in 2017-18 for community education associated with the introduction of the state-wide planning scheme and the new arrangements for visitor accommodation in Tasmania. It says the increase in 2017-18 and has gone down 330 000.

**DEPUTY CHAIR** - I think you are reading the wrong footnote.

**Mr VALENTINE** - Am I reading the wrong table?

**Mr GUTWEIN** - Yes.

**Mr VALENTINE** - Eight?

**DEPUTY CHAIR** - Seven, Tasmanian Planning Commission.

**Mr GUTWEIN** - That increase will be in the Planning Policy Unit.

**Mr VALENTINE** - Sorry, Planning Commission, eight.

**DEPUTY CHAIR** - It was eight, sorry. There is a note in there.

**Mr VALENTINE** - Yes, note 8. Unless the note is wrong.

**Mr GUTWEIN** - We made a policy decision in last year's - I think it was last year's budget or was it the year before - last year's budget whereby the policy role for the TPC would transfer to the Planning Policy Unit. That has occurred and that is where you see the reduction in the TPC budget. But the additional funding which I think was \$100 000 that was included in this budget is with the Planning Policy Unit and that is for the information program regarding the broader state-wide scheme, but also as well in regards to the Airbnb changes.

**Mr VALENTINE** - Is this the place where I deal with the money that you are providing to local government for the local planning provisions?

**Mr GUTWEIN** - For the LPS's?

**Mr VALENTINE** - Sorry, not provisions, schedules.

**Mr GUTWEIN** - That is 300 000. I think that you have -

**Mr VALENTINE** - Is that enough, 300 000? I am hearing all around the place that there is not enough resources in local government to actually do this in the amount of time that it is expected to occur. So, maybe you might want to comment on that.

## UNCORRECTED PROOF ISSUE

**Mr GUTWEIN** - Certainly, my understanding is that it will be sufficient. But, again, with all of these things, if there is a need for further resources and this is a key policy of the government and we want to see it implemented within a reasonable timeframe. If there is a need for further resources we will look at it then. But my understanding is that 100 000 per region which I think is slightly more than what was initially requested. In fact, 30 per region was initially requested; is that right?

**Mr RISBY** - The Cradle Coast region asked for 30 000 to assist it with its program and that started the discussions.

**Mr GUTWEIN** - Then we looked at around 100 000 across the state and then it was considered after discussion with Bryan and his team with Simon that we increase the allocation to 100 to each region. At this stage, we are well above the amount that was initially requested, but we will work our way through from there.

**Mr VALENTINE** - I guess it will and we will have to wait and see. It might place councils under a fair bit of pressure if they don't have enough resources to do that job. Of course, we have heard a lot of the misgivings that people have with the new scheme, but we won't be going into that here now, I would think. The Commission, with the workload that the Commission has to do through this whole process, are they likely to have the resources needed to be able to do that because it could be come, what do you call it, a choke point in terms of how quickly -

**DEPUTY CHAIR** - A bottleneck.

**Mr VALENTINE** - how quickly a bottleneck - how quickly you can make this all happen.

**Mr GUTWEIN** - We have framed the budget on the basis that we believe we have provided the appropriate allocation. But if we find that there are increases in costs or resources that we weren't previously aware of then we can respond at a later date. But my view would be that we have provided initially a sufficient allocation, but Mr Alomes is here at the table if he wants to make a comment.

**Mr ALOMES** - Yes, thanks, minister. The process we are following clearly is a resourcing issue with councils and it is for the Commission. The way we have approached this is to talk with the councils and the planning policy and ourselves have been meeting with the councils on a regional basis to prepare work plans so that we have some idea when we can expect to have draft local provision schedules submitted to us.

**Mr VALENTINE** - Then you have to do something with it.

**Mr ALOMES** - That is right.

**Mr VALENTINE** - I am thinking there is so many of them out of the schedule of 29 councils, it is a lot of work.

**Mr ALOMES** - That is right. The scheduling will be important and that is why the minister supported the councils submitting work plans so that we can work with those work plans and coordinate the resources so that we have a reasonably even flow of work in the assessment tasks that we have. From that point of view, I am reasonably comfortable that we can manage that. We have been through quite a bit of reform in the last few years and particularly dealing with this sort

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of matter. So our level of skill has gone up considerably. Productivity has improved and local government is also starting from a fairly well-informed base to do this. Our job is to work with them to make sure that we schedule the work in an effective way.

**Mr GUTWEIN** - The bulk of the work for local government is the application of the zones and the mapping. It is not a matter of creating a new planning scheme.

**Mr VALENTINE** - I understand that entirely.

**Mr GUTWEIN** - It is actually looking at the zoning and ensuring that that is applied. In many cases, my expectation would be that the zones in these statewide planning provisions would simply overlay and replace those zones in the existing interim scheme. It is a translation issue rather than the creation of a new plan.

**Mr VALENTINE** - No, and I understand the difference between the workload on that. But there is quite a bit of translation that has to happen over a lot of different areas. Going to the State Planning Provisions, you advertised, I think it was on 1 March in the *Gazette* that basically you have made the State Planning Provisions.

**Mr GUTWEIN** - Yes.

**DEPUTY CHAIR** - Is this more under planning policy and reform?

**Mr VALENTINE** - Well, maybe.

**DEPUTY CHAIR** - We might wait until then, the next one.

**Mr VALENTINE** - I will do that. Just let me see.

**DEPUTY CHAIR** - I am starting to take a bit of control. While you contemplate -

**Mr VALENTINE** - Yes. Are you looking at any regulatory policy on moving development application assessments from local government on giving it to a planning panel?

**Mr GUTWEIN** - The Government hasn't considered that policy yet. In fact, what is interesting is that that has been raised with me by LGAT and also a number of small councils have raised it with me and actually I have given it some consideration as to what that might look like, but the government hasn't considered it yet. What has been interesting is that in a couple of a councils where we have small communities and councillors that have, for want of a better word, significant conflicts with planning projects.

**Mr VALENTINE** - Conflicts of interest.

**Mr GUTWEIN** - Conflicts of interest. There has been a suggestion from some of those small councils that that might be an opportunity to look at developing assessment powers and, certainly, LGAT in a number of conversations have raised with me the possibility. I won't say - it is not a policy position of LGAT, but they have raised it with me and it is something that I have given consideration to, but as yet, the government hasn't considered it.

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**Mr VALENTINE** - Some would say that if elected members get a chance to, under the old term, set the desired future character of an area, that that is their input. They are helping to shape what they want an area to look like and feel like, if you like, and then an expert panel does the assessments. I was interested in your thoughts.

**Mr GUTWEIN** - There are a couple of northern councils and I won't name mayors that have, but a couple.

**Mr VALENTINE** - You might get yourself into strife there.

**Mr GUTWEIN** - No, no, I value my relationship with local government.

**Mr VALENTINE** - Really?

**Mr GUTWEIN** - Absolutely.

**DEPUTY CHAIR** - I am not sure if it is reciprocated at the moment.

**Mr VALENTINE** - They feel a bit attacked at the moment.

**Mr GUTWEIN** - Absolutely. But a number of mayors have said to me that they have concerns and a number of their aldermen/councillors have concerns where they would like to advocate very strongly for particular projects in their municipality but then find that as a result of needing to become a part of the planning process, that they feel fettered in that regard.

**Mr VALENTINE** - That is right because you have to wear a different hat.

**Mr GUTWEIN** - We do and, as I say, a couple of the conversations that have been had with me have been that a development assessment panel that actually does exactly what you have suggested.

**Mr VALENTINE** - I am not suggesting it happens. I am saying that that is a scenario.

**Mr GUTWEIN** - Yes, and as you have raised at this table. They were of the view that it is something that should be considered and tested and certainly I have given some thinking to it, there is no two ways about that. I think that there is a strong argument in cases where councils are fettered somewhat because of conflicts of interest that this as an option would be something that could be considered.

**DEPUTY CHAIR** - That is in the Tasmanian Planning Commission. We have entered 4.3 again.

**Mr GUTWEIN** - Actually I have moved to 4.3 again.

**DEPUTY CHAIR** - That is what I thought, yes.

**Mr VALENTINE** - I will shut up.

**DEPUTY CHAIR** - I will back to 4.2 for a moment, Treasurer. This is the area that Tas Planning Commission assessed projects of regional and state significant. I don't believe there is

any of those projects on the go at the moment. Are you aware of any that are coming down the line, so to speak, because that could increase the resourcing needs of the Tasmanian Planning Commission?

**Mr GUTWEIN** - In regard to projects of regional significance, I don't believe that there has been any. Certainly, there are no current proposals that I would expect to come through to projects of regional significance and my understanding is that since the legislation was introduced that it has never been utilised. We are looking at major projects legislation which would replace projects of regional significance.

**DEPUTY CHAIR** - What would constitute a major project in that regard? Would that be undertaken by the TPC?

**Mr GUTWEIN** - In fact, they would be responsible for selecting the panel, but would -

**DEPUTY CHAIR** - The TPC would select the panel.

**Mr GUTWEIN** - I think the TPC chair it.

**Mr ALOMES** - They chair it, yes.

**Mr GUTWEIN** - They chair it. But we are in the process of developing that. I would hope to have something that we could release later this year in draft form to have a conversation about it. But there is no doubt that the current projects of regional significance for a variety of reasons has not been entertained by developers and so we are looking at a new piece of legislation.

**DEPUTY CHAIR** - It is still a work in a progress, but what do you see is a major project that would warrant that sort of approach?

**Mr GUTWEIN** - Something that had significant economic, social or environmental issues. I haven't looked at setting a - there is no number in my mind as to in respect of what would constitute a major project, but I think -

**DEPUTY CHAIR** - But it is not just about money, though, is it?

**Mr GUTWEIN** - No, but having some guidance in regards to that. For example, I would have thought that perhaps the Seashell might have been considered as a major project and might have provided a different pathway at that time.

**DEPUTY CHAIR** - A major tourism development.

**Mr GUTWEIN** - It could be major tourism to go through in Parks. There is a pathway within Parks dealing with those matters. But we would need to have somewhere between the current LUPA process and projects of state significance. There is a range of projects that fall in the middle and we need to ensure that we can provide an opportunity for those.

**Mr VALENTINE** - I note you are not saying cable car, minister.

**Mr GUTWEIN** - No, I am not saying cable car. That is a matter that has been put to rest by the Minister for State Growth. Whether a cable car might fit within this major projects planning

would be a matter to consider at the time. But one of the key things and I am very keen on seeing included in major projects legislation is the opportunity for there to be in principle approval so that early in the piece the developers and the community can understand whether or not there are significant red flags and whether or not then it should progress through the process. That has been something that the development community has been requesting on the basis that they get an early understanding as to whether the project is likely to proceed and whether they should take the risk.

**Mr VALENTINE** - Aren't you then in danger of the developers spending a significant amount of money to the point where the community is then up in arms with it and they have wasted their money?

**DEPUTY CHAIR** - You are trying to avoid that, aren't you? He is trying to avoid that.

**Mr GUTWEIN** - Yes, we are trying to avoid that.

**Mr VALENTINE** - People might feel they are disengaged from it as a community as opposed to - that is what I am saying.

**Mr GUTWEIN** - The major projects assessment process would deal with this on planning grounds. But, from a developer's point of view, they need to understand early in the piece whether the project would fly, whether it would meet community expectations. Largely speaking, with any major project, they get tested pretty early in the public arena before they get to the planning table anyway.

**Mr VALENTINE** - That doesn't stop some people, though. They still keep going.

**Mr GUTWEIN** - No, it doesn't and there can be legitimate community concerns, or there can be very noisy minority interest groups and there is always a judgment that needs to be made.

**Mr VALENTINE** - Thank you.

**DEPUTY CHAIR** - Treasurer, under the function of the Tasmanian Planning Commission in the conduct of inquiries and reviews under other legislation, what sort of inquiries and reviews have been done in the last 12 months.

**Mr ALOMES** - Can I?

**DEPUTY CHAIR** - Yes.

**Mr ALOMES** - Mainly management plans for national parks, so the Freycinet National Park and the Narawntapu National Park and we have just finished one literally today on the Tasman National Park. We also do water management plans. We have one that is coming to be done for the Clyde.

### 4.3 Policy planning -

**DEPUTY CHAIR** - Any other questions, members? Thank you. We will move onto the area we have already covered to some degree, 4.3, policy planning and reform, and I am handing over to Craig Farrell.

**Mr FARRELL** - Yes. On this one, and getting back to the budget line on it, it states that there is an increase for community education. I wondered what that involved, what forms of community education was being considered, and whether that would be sufficient funding to do an overall education program?

**Mr GUTWEIN** - What the Government is intending to do there, on 1 July, the new, for want of a better word, sharing economy rules come in in regards to Airbnb. There is definitely a need. We heard and understood this morning that there is a growing sector of the market that is looking for accommodation in those areas and in many cases individuals that are engaging in that process it really would be very comfortable with receiving some information about the sector and the rules that they need to abide by. I imagine that the program would be multi-faceted, perhaps a little bit of television, some newspaper ads and maybe some radio, that, in effect, explains the rules that, as I have said this morning - if you are going to let your own home and it is up to four bedrooms then there is no need for a permit. If you are letting above four bedrooms then you need to go through the process. And pointing people to where they need to go to get the right information to make sure that they engage in the system fully prepared.

**Mr FARRELL** - That will just be over a defined time of the program.

**Mr GUTWEIN** - As you say, there is only \$100 000 set aside. I am hoping that we can get something out in July at or around the time that the new policy comes into place and that it will provide certainly sufficient information to let people know, one, that it has occurred and, two, where to go to get further information, but some key messages initially so that not only do those that are engaging in the sharing economy understand it, but also it is important that those that are already in the accommodation industry understand it as well and they know where to go to get information.

**Mr FARRELL** - Thank you.

**Mr ARMSTRONG** - Mr Hall has left a couple of questions for me to ask.

**Mr FARRELL** - He is hiring out of his barn.

**Mr ARMSTRONG** - He said he had to - 'I ask the following two questions in the knowledge that the minister has provided 300 000 to assist with the finalisation of local provisions schedule forming part of the state-wide planning scheme. But more specifically, I am advised that some councils have concerns in relation to the minister's requirements to have prepared statements on heritage significance on some heritage properties. I understand that this requirement has come about through the approval of the minister's state planning provisions. I further understand that the work required to be done is particularly specialised and consequently quite expensive. Has the minister made any specific financial allowances not including the 300 000 for councils to be assisted in carrying out this work and does the minister see this work which is time consuming and delaying the introduction of the state-wide planning scheme?'

**Mr GUTWEIN** - Let me provide some context and then explain what is occurring and I will get Brian to do some of that. First, the translation across from the current interim schemes and the listings that local government has into the statewide scheme it would seem reasonable to me that if a local government area had listed a heritage property that they should at least have one or two sentences to explain why that property was on the register. What we have found is that in many cases there is no explanation at all for hundreds if not - well, I think we have 1400 properties in Hobart, over 300 in Glenorchy. Launceston is of a similar level, 380, again. There is very little

information about it. We have engaged with local government with a view to looking at what would be required to actually provide some explanation and reasoning behind them being on the register. That would be an extensive amount of work for local government. I understand you will shortly have an amendment that will be introduced to a bill, justice miscellaneous bill, will ring through the House here, which will enable the translation across those properties without the need for that additional requirement. Does that explain it?

**Mr RISBY** - Yes, there's probably not a great deal I can add to what the minister has said. The changes to the Heritage Code that emerged from the Commission's process did require a statement of significance for each place, and not only was that to indicate what the values for those places were, but it served in the assessment process. It was effectively the criteria that you were assessed then any development proposal against. So that's the way the Code was structured, and then that emerged that there were a lot of properties that simply didn't have those required statements, hence the problem with bringing them across.

So as the minister indicates, what we are intending to do is introduce an amendment to the transitional provisions, which would also allow those properties to come across, despite the fact they don't have a statement at this time, so that they can automatically be continued to have protection under the Heritage Code, and that will require a further adjustment to the actual provision to enable an assessment to take place without a statement, so we'll have to make a modification to allow that assessment to take place in the future.

**Mr GUTWEIN** - But effectively it will be in your hands, the amendments -

**DEPUTY CHAIR** - It is on our table.

**Mr GUTWEIN** - It is, to solve this particular issue.

**Mr ARMSTRONG** - He has another one on another Heritage matter, 'I am advised that the minister's State Planning Provision specifically excludes Heritage properties currently listed on the Tasmanian Heritage Register from being assessed by local councils and also excludes these listed properties from having to comply with the Heritage Code of Council Planning Schemes. This appears to be a curious arrangement when one assumes that Heritage Code has been specifically prepared and put into planning schemes to deal with the assessment of such properties'.

**Mr RISBY** - Currently there are both state-listed Heritage places and those listed locally through the planning scheme. The approach taken in the SPPs was to remove the duplication of assessment of those, so currently you would have a situation where the Heritage Council at a state level is making a determination on a state-listed place, and then you would have the local council which also had it listed making another determination on the same matter under its planning scheme with different criteria, and you would quite occasionally get conflicting decisions come out of them. There have been a couple of quite notable cases where there's been some disagreement between the Heritage Council and a particular local council on what the outcome should be. The policy setting in the State Planning Provisions is to remove that duplication and to say that if it's state-listed then the correct decision should be made by the Heritage Council, and removing the council, local council from making an assessment of the same matter. So state Heritage Listed places are exempt from the Heritage Code at a local level, and the local listed places are dealt with by the Council, and the Heritage Council deals with the state-listed places.

**Mr GUTWEIN** - But here are Heritage-listed properties, they only need to be listed once.



**Mr ARMSTRONG** - Once, yes. He has one more, 'There are a few other Heritage-related matters that I'm advised are of concern to councils and the public. The application of the Historic Cultural Heritage Code, Section C622, in the Planning Provisions is a case in point where listed cases in the Heritage-precinct are only required to comply with the provisions of the Heritage place and not the provisions of the Heritage precedent'. It is not my intention to delay the Committee with the details, but he wants to know if the minister is open to further discussions about these particular issues.

**Mr GUTWEIN** - Is this the matter we were talking about the other day?

**Mr RISBY** - Yes, the priorities in the Heritage Code, continuing on to what I was just saying about the state listing one is that, within the local Heritage Code there are places that can be listed, and there are precincts that can be listed. In fact, the Heritage Code allows landscaped precincts and archaeological sites and significant trees as well, so there's a whole string of different things. The policy setting is determined on the basis that if you assess the works on the place, then you are addressing the broader precinct matters at the same time and you shouldn't have to go and apply other criteria which relate to the precinct also to the place and the criteria of the place. So there's a policy-decision about the hierarchy there which is that you focus on the place above the precinct, so the precinct is a lesser issue of protection than the place itself.

**Mr ARMSTRONG** - Thank you.

**Mr VALENTINE** - Just with respect to those Heritage aspects, my last conversation with Hobart City Council was, they had a couple of concerns and issues. Have they been resolved with regard to the issues of heritage zones or properties? I can't quite recall. Might be –

**Mr GUTWEIN** - They had certainly raised the issue in respect of a translation of costs of the properties that they had which went across to the SPPs, and that's resolved by the amendment that was –

**Mr VALENTINE** - But this is only, say a week ago.

**Mr RISBY** - It goes to the matter I just talked about which is whether a precinct control should also apply to places. Precincts contain arguably individually listed places, but also places are not individually listed. Precincts can be a broad area with a mixture –

**Mr VALENTINE** - Curtilages and all sorts of things.

**Mr RISBY** - It can be a mixture of listed places, non-listed places, state-listed places.

**Mr VALENTINE** - Of which there are about 50 in Hobart, I think.

**Mr RISBY** - There are a lot of precincts in the Hobart Interim Scheme, that's correct. So as I indicated to Mr Armstrong, the policy preference is to provide the appropriate response to the place, not have the, what you can do in the place driven by a broader precinct which might contain non-listed places as well listed places.

**Mr VALENTINE** - So at the end of the day, there might be a concern that the state-wide scheme is a sort of a one size fits all approach, and at the end of the day you end up with the

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speciality of a particular precinct not being properly regarded in the state-wide context - is it basically reducing the opportunity for councils to make places special and to treat them with respect in terms of major development that might be going within bull's roar of them?

**Mr RISBY** - The precinct, the capacity to putting Heritage precincts in place is a very important part of the Heritage Code and many interim schemes have that capacity already. Some don't, I might add. This Heritage Code in the SPPs has scoped all the best parts of the Heritage Codes in other interim schemes. There is nothing in the Code that specifies what those precincts individually need to be about, but they do need to be described similar to the statement of significance.

**Mr VALENTINE** - So Battery Point, for instance.

**Mr RISBY** - So there's a whole variety of characteristics there which would be specific to that precinct which might be different to another precinct, and those values would then be taken into account in determining –

**Mr VALENTINE** - So it's not going to be dealt with the same as some sort of small Heritage precinct in Devonport or whatever.

**Mr RISBY** - No, the provisions in the Code relate to assessment against the characteristics of the precincts themselves.

**Mr VALENTINE** - All right. Can I ask another question on schedules?

**DEPUTY CHAIR** - As long as it's related to this area.

**Mr VALENTINE** – Yes, I've got to be careful.

There's been a lot of concern about the planning directives, and I started to ask this question before with the advertisement that went into the *Gazette* on 1 March, and where you made the State Planning Provisions, and the Commission had expressed, now the Commission's not here, but they expressed, you know, concern that there should be an urgent review of PD4.1. You chose not to - or are you choosing to do that two years hence? There is a heck of a lot of development that can get through in two years when it indeed might end up impacting significantly on, you know, towns, precincts, all sorts of things. I know this is about general residential, 4.1. So I guess my concern would be that whether you have put any changes into PD4.1, that weren't, you know, as you saw fit, as opposed to what the Commission might have suggested needed change?

**Mr GUTWEIN** - Look, apart from the recommendation of a review, I don't believe there were any changes to the SPPs.

**Mr RISBY** - There was a minor change around access to private open space. That was the only modification.

**Mr VALENTINE** - Nothing terribly consequential?

**Mr GUTWEIN** - No, so basically the standard that was in PD4.1 has been brought across, but again, and I think certainly what I have committed to is a review within two years of the LPSs

coming into effect, bearing in mind that PD4.1 has only been in operation now for a couple of years itself since 2014.

**Mr VALENTINE** - I understand that.

**Mr GUTWEIN** - I would have to say, what's been interesting in my time as minister, there have been very few concerns raised about PD4.1, apart from where there has been a misunderstanding in respect of the SPPs as to introducing something new that is already in place, and I'll use the example during the public consultation on the SPPs, and a lot of people raise the issue of these smaller lot sizes of 450 square metres that are in the SPPs. Now, that's been in place in the state since 2014.

**Mr VALENTINE** - It is down to 220 now, though, isn't it?

**Mr GUTWEIN** - No, in fact, in the general residential zone it's 450. In the inner residential zone it's 200, I think? Yes, 200.

**Mr VALENTINE** - It's what, 200?

**Mr GUTWEIN** - It is 200 on the inner residential zone.

**Mr VALENTINE** - That's where some of the concern lies.

**Mr GUTWEIN** - Yes, if you look at Battery Point, for example, my understanding is that the average lot size in Battery Point, as it stands at the moment, is 300 or less, so, now it's not, we're not talking about, you know, a significant shift, and in fact –

**Mr VALENTINE** - In my time it was 350, I think, and it's gone down 150 since then, so.

**Mr GUTWEIN** - One of the key things, and again, that's the minimum lot size, but across the zones we have - yes, in fact, that's right, 200. One of the things, and this has to be considered in context, that is the minimum lot size and it provides for infill and opportunity for - to address some of the challenges that we were talking about earlier on today in regards to housing affordability.

Now, if we're prepared to utilise the land effectively from a planning sense near where services are, where transport is, it makes a great deal of sense. As you say, one of the misconceptions that was raised throughout the process in regards to the SPPs was that we were changing them, and the 450 was the lot size and it raised concern with a lot of people. That has already been in place. In fact, it's in place in all of the southern interim schemes as they stand at the moment. So effectively we have made no change to that. I think what happened was that some people became aware of it for the first time because we did run the process that we ran, and if there are issues, as I've said, we'll consider it –

**Mr VALENTINE** - The point is, if the Commission says it needs urgent review two years is not necessarily urgent.

**Mr GUTWEIN** - It has only been in place now since 2014 and I felt that, you know, reviewing it within two years once the LSSs come into place was appropriate.

**Mr VALENTINE** - Well, that's your call. That's the point, minister, having that sort of power, and so that's the reason I ask you the question as to what changes you might have requested that weren't actually dealt with by the Commission. I am hearing what you're saying, no, there weren't any that you actually specifically wanted to put in that weren't dealt with by the Commission. Is that right, minister? Is that what you say?

**Mr GUTWEIN** - The SPPs that we put forward were agreed to by the Commission apart from that access issue that was –

**Mr RISBY** - No, that was agreed to as well. We proposed –

**Mr GUTWEIN** - Yes, so that came through, and then it was only the review that was the issue that was raised.

**Mr VALENTINE** - Was the issue that you didn't agree with.

**Mr GUTWEIN** - In my time as Planning minister, I get written to on a lot of issues.

**Mr VALENTINE** - I'm sure you do.

**Mr GUTWEIN** - Yes, but in respect of PD4.1, there has not been a lot of concern raised from the community, and bearing in mind, you know, whilst the interim schemes in the south came in later, the northern schemes were in place right through the period, and with PD4.1 effective from, I think it was February of 2014 before we became the Government. Generally it seems to have landed reasonably well.

**Mr VALENTINE** - But doesn't it point up to the fact that now the noises are rising, that the community does find out about these things almost too late to be able to have an effective voice in it?

**Mr GUTWEIN** - I make this point: the minimum lot size is 450. Now, that's not a target, it's not mandated, and developers will develop to meet the needs of their customers as well as the environment that they are developing in. In regards the smaller lot sizes, in respect of the conversation that we have and is ongoing in the state regarding affordable housing, it will provide some very sensible outcomes in that space.

**Mr VALENTINE** - The concerns that seem to be raised with me are the sheer bulk of the development that can actually go on that space - and correct me if I'm wrong - but the height of walls a metre from the boundary is, I believe, much higher than what it used to be. It is almost three times the density. Now, you correct me if I'm wrong.

**Mr GUTWEIN** - Brian can speak to it, but my understanding is we didn't change the height that you can build on a boundary, and in fact, looking at set-back in bulk, generally speaking, what we have introduced has been in place in Hobart for some time. I'll let Brian just explain it. There were matters raised that on a boundary fence you can build to nine metres. I have seen letters written on that, and that's just not –

**Mr VALENTINE** - That's not true.

**Mr GUTWEIN** - That's not correct.

**Mr VALENTINE** - No, I appreciate that's not true as well, but it's a metre from the boundary it can go up, but –

**Mr RISBY** - I'm happy to expand on this.

**Mr VALENTINE** - Just for the record.

**Mr RISBY** - The height on the boundary wall is three metres, on the boundary, and then there's a 45 degree slope from there into the site rising to eight and a half metres under the State Planning Provisions.

**Mr VALENTINE** - And what was it before?

**Mr RISBY** - It depends on what you mean. The reference point there is, PD4.1 has always had that. PD4, the predecessor had the same envelope. The predecessors to that were the TASCORD residential –

**Mr VALENTINE** - No, the Res Code.

**Mr RISBY** - And the Hobart Res Code Schedule K which actually was three metres - it stepped in a metre and a half and then it rose at 55 degrees, so it was a steeper pitch, but stepped in a little bit, but rose to nine metres, so it was a higher, steeper pitch, but stepped in a little bit.

The TASCORD Residential Design Code back in the 1990s, which the state government then produced had a more generous envelope. It actually started at three and a half metres on the boundary and went to 10 metres. So there's actually - the envelope has actually reduced from the TASCORD days and in a sense the Schedule K Hobart, one was more generous as well, but the point about the Schedule K one, as you would recall, was that it was introduced from the Hobart Planning Scheme in the late 1990s, I think.

**Mr VALENTINE** - Late 1990s, yes.

**DEPUTY CHAIR** - Your fault then.

**Mr VALENTINE** - I am glad you have placed that on the record. No, I just needed to have that clarified because people are concerned out there. They are concerned that they're going to wake up and find all of a sudden they have this bulky structure next to them taking away their amenity basically. Thank you.

**Mr GUTWEIN** - Just to close it out, you can see that we've been sensible and reasonable in regards to the building envelope. One of the things that has happened, I'm certain, is that because we ran almost an eight-month process, from advertising for 60 days, and then there was 90 days of consultation, followed by a further 90-day period that I extended the TPS, so there was a significant period - sorry, the TPC, there was a significant period of consultation, and people became aware largely of the many issues that have been around for a long period of time, and for the first time.

**Mr VALENTINE** - The final question: what was the Commission's reason was for asking for an urgent review? They must have seen something in there. It said, 'Hey, this needs to be reviewed'.

**Mr RISBY** - I guess that's a matter to ask the Commission.

**Mr GUTWEIN** - There were 300-odd representations on the state planning provisions and a number of them raised concerns around this matter. The Commission clearly thought that there was some evidence there that these things need to be reviewed, but given that the Commission itself had produced 34.1 only a couple of years before, there were different delegates looking at the matter, they probably thought there was some room to review it, but as the minister indicated, it's about the timing.

**Mr GUTWEIN** - So I have accepted that there needs to be a review.

**Mr VALENTINE** - No, its two years. Thank you.

### **Capital investment program -**

**DEPUTY CHAIR** - No other questions on 4.3? We will move to Capital Investment Program, and the only thing here is the plan, Stage 2, when you go to the Planning and Building portal. If you could just give us an update on that, and I'll just ask a question related to how it is intended to work. Councils require the specifications on perhaps an approved water collection system or a sewerage system if you're not hooking into the TasWater system, or some other facility that needs approval to the planning process. Currently they provide a hard copy of the brochure related to the product which you haven't got yet. All this stuff is available on line. When going through this approval process, can it be a given that if the information is on-line readily that you don't have to provide all this stuff in hard copy to them?

**Mr GUTWEIN** - That is the first time I have been asked that –

**DEPUTY CHAIR** - How far have we got?

**Mr GUTWEIN** - Yes, I think that might be –

**Mr OVERLAND** - It is intended to get to a point where people can apply on-line, so whether there's a capacity to attach documents on-line, I don't know, but in theory there's probably no reason if you can have an on-line application why you couldn't attach documents electronically.

**DEPUTY CHAIR** - You would hope it would include that.

**Mr OVERLAND** - I must admit, we have not been specifically asked that question so I'd have to check.

**DEPUTY CHAIR** - It is a bit pointless if you can't.

**Mr OVERLAND** - I agree. I suspect when it's fully operational, so this is sort of at the end of the process, so initially it's about provision of information both in the planning and building space, and then as it matures, moving to a position where you can actually apply on-line. I would assume in today's age that you would be able to attach all the supporting documentation to your application, so it's all electronic.

**DEPUTY CHAIR** - Or point to a website where all the detailing is.

**Mr OVERLAND** - Yes, PDF files which most people can do nowadays. You save them and just attach them so that you have all the material electronically and you can lodge your application on-line.

**Mr GUTWEIN** - That's the future of so much.

**DEPUTY CHAIR** - That is a mobile phone you're holding up for the purpose of *Hansard*!

**Mr GUTWEIN** - That is a mobile phone, a smart phone I'm holding up, but to be able to go to your smart phone and actually look at the State 1 Planning Provisions that - and the zones that apply in the area that you're looking to build to understand what's possible in those zones.

**DEPUTY CHAIR** - Because that will all be part of this process.

**Mr GUTWEIN** - In fact as it stands at the moment, I'm not sure how many of the current plan schemes are loaded on.

**Mr OVERLAND** - That's about two-thirds, I think -

**Mr GUTWEIN** - Somewhere in PDF still, but you can, you know, look up a planning scheme now, type in an address and it will provide you with what the zone is and you can go from there. So from the point of view of understanding the planning scheme and making it more readily available for people, I-Plan is going to be fantastic boon.

The other thing too, by building in the building regs and codes you'll be able to understand not only what you can build in a certain location, but you will be able to understand how to build it.

## **DIVISION 7**

(Department of Premier and Cabinet)

### **Minister for Planning and Local Government**

#### **Output group 7**

#### **Local government**

##### **7.1 Local Government -**

**DEPUTY CHAIR** - Any other questions on the Capital Investment Program? We will move to Ministerial Planning and Local Government under DPAC. I think Simon and Brian have to go elsewhere.

**Mr OVERLAND** - Thank you.

**Mr RISBY** - Thank you, Ruth.

**Mr GUTWEIN** - For those who haven't met Greg, Greg Brown is Acting Director of Local Government.

**DEPUTY CHAIR** - Thank you. Did you want to make any opening comments, Treasurer?

**Mr GUTWEIN** - I'm happy again to go straight to questions if that suits.

**DEPUTY CHAIR** - So Rob Armstrong.

**Mr ARMSTRONG** - Treasurer, local government, as you know, is an interesting area of governance, with water and sewerage and amalgamation and everything. It is certainly not boring. I was just wondering, can you give us, the committee, any information. So many people out there are saying about rates, how they're rising and, you know, it's getting harder for people to afford homes and things like that. Have you got anything that you could share with us as far as about whether you are thinking about rate capping or anything to reduce the impact on the residents in local governments?

**Mr GUTWEIN** - I have given no thought to rate capping. With local government, I hope that when setting rates that councils are cognisant of the impact on their community, and in the main I think they generally are.

**Mr ARMSTRONG** - I will just make it clear, I don't support rate capping, but I was just wondering -

**Mr GUTWEIN** - Yes, we are mindful of it, that's one of the reasons why the impact that rising rates can have, and that's one of the reasons why in regards to the TasWater takeover that we have indicated that we will provide funds to council equivalent and equal to what they would have been provided with by TasWater. But in the main, you know, there are councils across the state that do seem to have higher rate increases than what their community would normally expect. Again I make the point, when we came to government we had to make some decisions about some things that we weren't going to do, that we had to let go and they were some difficult decisions, and in that first budget, it was only raised here a moment ago, I brought to the lower House and into this House the prospect of a wage freeze because we needed to make sure that we could reign in expenditure.

In local government, as you well know from your role there, you have to make decisions and there will be some priorities that will be more important than others, and there will be some things that you would like to do that you can't do, and that's the mindset that local government need to have in regards to ensuring that they can keep new rates at an acceptable level.

**Mr ARMSTRONG** - Interesting reading today in the *Mercury* about Kingborough Council. But on another point –

**Mr GUTWEIN** - Without naming the council!

**Mr ARMSTRONG** - In the *Mercury* today.

**Mr GUTWEIN** - I can see that.

**Mr ARMSTRONG** - Yes, I'm just referring to the article that was in there. The Huon Valley and Kingborough Councils, and their Commissioner in place, can you tell us what's actually happening there and where it's going and where it's at?



**Mr GUTWEIN** - I should have advice by the end of this month in regards to what the options are in regards to Huon Valley. Now, I don't want to pre-empt that, but obviously one option will be that the end of the 12-month suspension there is an election. Another option would be that they continue with a Commissioner and have an election next year. I haven't landed a position on that yet. As I said, later on this month I expect to have some advice, and I'll consider that and make a decision.

**Mr ARMSTRONG** - So what timeframe would you have to be able to give a council, either Huon Valley or Kingborough - no, Glenorchy, I mean, it's not Glenorchy, though, it's King -Huon Valley. What timeframe would you have to give them to be able to hold an election this year? Would you have any idea?

**Mr GUTWEIN** - My intention would be, regardless of what the decision may be, whether it be to roll the Commissioner over, or to go to an election, to announce it at the earlier opportunity to ensure that if there were to go to an election that there would be plenty of time for people to be ready for that, and obviously we would need to ensure that the timing fitted with the Electoral Commission as well. So my intention would be at the earliest opportunity after I have considered the advice to make that announcement.

**Mr ARMSTRONG** - All right.

**Mr GAFFNEY** - Yes, following on from the local government issue, I congratulate the Liberal Party when, in 2014, you were actually against some of the legislation that came in regarding councils going to four-year terms instead of half in-half out. If you think in 2014 since that time, we have had two councils, Glenorchy and Huon. We have had a Flinders Island, sacking of a GM, or virtually. We have had other unrest and I can remember back to 2014, there were every day, or it seemed like every other day, the Hobart City Council was featured regularly in the paper about the different opinions in that council. It doesn't surprise me because the one thing about half in-half out every two years was it means that council went to the people every two years, and so the community had a chance to say, 'We like what you're doing', or, 'No, we don't', and we put new people in and new people out.

My point is, I read in the paper today a figure regarding the Glenorchy City Council - what it has cost so far. One of the strong points when it was raised five years ago was, 'This will save local government money if we go to four-year terms'. Well, the proof's in the pudding. It is not saving the money, it's disconnecting the community. My issue is, we will one day have fewer councils. That's inevitable and that's the way it's going. If we do have fewer councils, it's important that the new council area comes back to the council or the community every two years so that the mix of people on the council is what the community is reflected.

The advantages of having it every two years means if somebody is retired, somebody relocates, somebody gets ill or there is a council that is not functional, then it goes back to the community. So last year when you had to step in and do the right thing and put councils under a guardianship of a Commissioner, that wouldn't have had to happen, sometimes. It might still, but the opportunity would have been in there, and okay, clean sweep, see what the community says.

So has the Government had consideration or thought about revisiting that as an issue? You have some evidence now that shows that's what's happened in the four-year terms is not working, or hasn't worked.

**Mr GUTWEIN** - I haven't considered going back to two plus two, and I do want to say this in respect of local government. There are some obvious examples of where governance is not working - Glenorchy, and we've discussed the Commissioner at Huon, and there are one or two other examples around the state that, in the main, most councils are working pretty well together. I don't think you can dispute that.

The challenge, in regards to popularly elected mayors and councillors sitting around a table for four years is to ensure that when people do stand for election they have a very clear understanding of what their role will be, and importantly, if you're standing for higher office in the council that again you understand exactly what that role and responsibilities are. I know some of the things that we've been considering through the review of the Local Government Act. The other thing, and with a couple of mayors - in fact, how many do we have, three?

**Mr ARMSTRONG** - I was only ever a deputy.

**DEPUTY CHAIR** - Some of us haven't been tainted by that.

**Mr GUTWEIN** - You were a deputy, and Ruth, are you the only - the odd - I shouldn't say –

**DEPUTY CHAIR** - I'm the odd one out.

**Mr GUTWEIN** - You're not even the man out. You're the odd person out.

**DEPUTY CHAIR** - That's right!

**Mr GAFFNEY** - And I haven't been a midwife either, so it doesn't matter.

**DEPUTY CHAIR** - No. He wishes he was though.

**Mr GAFFNEY** - How many times have we heard that?

**Mr GUTWEIN** - My hands are warmer!

One of the things I have witnessed with those councils that have got on and are doing a good job, and as I say, in the main that's the majority of them, what appears to happen, and has happened after the most recent round of elections is that, even though the mayor that was running for the position had a particular view about certain things and then councillors also had their particular view and they ran it all. All of a sudden you've got an elected council. There is no doubt in my mind that the mayors whose councils are running well were able to sit down with their councillors and have a pragmatic discussion about what is possible. You know, 'I ran on this particular ticket, and I accepted that not all of you in the room support that. We are in the common ground and how do we work on that common ground for the benefit of our community?'

**DEPUTY CHAIR** - It's about good leadership, isn't it?

**Mr GUTWEIN** - It is, and it is about leadership. Generally speaking –

**Mr VALENTINE** - It's about how to rise above it as well.

**Mr GUTWEIN** - Yes, and at the end of the day to be able to set aside at times petty differences and work together for the best for the community.

Now, it's difficult. Yesterday I was asked whether or not we would change the popularly elected mayor. My answer was "No". The community wouldn't stand for that and they expect it, and we have to make certain though that when mayors are elected that they understand what the role is completely.

Coming back to your original point, the two plus two, it works if, when you come to work an election in two years, if you have problem aldermen that the - and if the electors get it right, if they get it wrong and they're re-elected again, you've got the same council and the same problem, and for us around the table, we all understand that it probably only takes two people in the room that have diametrically opposing views that are not prepared to find or give any ground that you can have the sorts of conflicts that arise.

**Mr GAFFNEY** - You are right, and what I like about the other system we originally had, or that one is that there was succession planning. There was actually a development progress, so your person who's more experienced may retire, step down, and the next - so it's a graduated, and you can see the deputy mayors come through the ranks, you can see it with planning at the moment. You get to the next two at 2018 and people, "Do I want to hang on for another four years? Am I going to go again?", that sort of thing. I remember back before the last two years where we've had two councils out, I think we had - I could be wrong - Kentish in 2002 and George Town in 2010. So it wasn't a common occurrence. Now in the space of two years we've had two sizeable councils in that situation, and another two or three really being stretched to the limit as well. So, and I - you can't say it's just because of the 2014 elections. I know that, but it wouldn't surprise me if it's a product of that just because people go there with. In one case, I'm not going to mention the council, no wonder the elected members didn't respond well when that person was elected the mayor because the lead-up to the election was all about putting the current councillors into a, 'You've done a bad job. Got to get rid of them, got to clean sweep'.

**DEPUTY CHAIR** - And the question?

**Mr GAFFNEY** - And the question would be, in light of what has occurred, will you be having a discussion with the local government association, do they believe the decision that was made in 2014 will keep them in good stead if and when the number of councils in Tasmania are fewer? And it has been - it had a precedent in 1993 when the smaller shires developed into one council. They had a representation on those councils to ensure they had a voice, so say if you had three councils combined, for the first three or four years transitionally, they had three from there, three from there and three from there. It wasn't a population base, because if it's population-based and you join one large council with two smaller ones, you have a better chance that all the people on the council will be from the large area because it's known.

So if we're going to go down to fewer councils, and you're saying you're not making it compulsory, I understand that, but it's going to happen, and there needs to be a process in place beforehand. So the question is, is that on your agenda?

**Mr GUTWEIN** - No, and I understand the points that you're making and the premise of the question. In regards to the review of the Local Government Act, and we canvassed it a lot, I don't think that that was a major issue which was raised by local government moving back to the two and two. I'm in the process of finalising the bill, it's been out for public consultation and - I'm just trying

to think - so 5 May the consultation period closed and I'll be receiving some advice back before we finalise that and take it through to process.

In fact, you have probably given more thought to amalgamation than what I have by the sounds of it. The process that we have engaged in, is to ensure that there is evidence and data and I am of the view that there are efficiencies that can be created in local government and that in some cases voluntary amalgamation might be in the best interests of the community, if it meets certain tests.

The purpose of going down the pathway that we have gone down is that when I came to Government and was provided with the opportunity to be minister, there had been a lot of discussion about amalgamation. There had been studies that had been run. There was some very large numbers in percentage terms that were being floated around about what you get from savings from councils.

I thought that it was important that councils were part of a process whereby data and evidence could be collected. It could be considered and then we would be able to ground truth some of the claims that were being made and that is largely what has happened to date. The south-eastern work has been fantastic in that we now have a body of work in the south-east that points to some really strong outcomes from ratepayers and councils are now out there consulting. The only one that has to make a decision about out to consult is Clarence, I think. Tasman, Sorell, Spring Bay have started to get feedback from their councils. Now, they have the benefit of being able to look at data and evidence. In the north-west and in the north, unfortunately they have only gone as far as looking at what the benefits might be of resource sharing, but that body of work in itself will highlight to a number of councils that there are significant opportunities that they could consider.

**DEPUTY CHAIR** - There is also limitations with the resource sharing.

**Mr GUTWEIN** - I have raised this. When we started to go down this path and there was the survey that was undertaken, and from memory it was a 150 different examples of resource sharing were providing. We had one situation where there were five councils that said that they were resource sharing with another council and that council said it was resource sharing with no one. I looked at that and thought, 'Maybe there are some arrangements in place but it is very loose and we need to understand it'.

**DEPUTY CHAIR** - But if you are resource sharing an area of council activity that is not effective, then you are just doubling up the ineffectiveness of it. You know, you do not have the skills you need in a particular area.

**Mr VALENTINE** - Two poor performing councils do not make a good performing council.

**Mr GUTWEIN** - That has been something that the local government boards have looked at in the past and has decided that councils should not amalgamate for certain reasons. But what we need to do is to understand importantly very clearly what councils are currently doing, what do their cost centres look like across the board. Where is their duplication and overlap? Where is the resource sharing working that it is providing a benefit? When the survey was initially conducted in regards to resource sharing, what we found was that the vast majority of resource sharing examples, had never been measured. And in fact many of them were driven as a result of crisis where a key person had been lost from a council and they then shared with another council to fill the gap.

**Mr ARMSTRONG** - There are so many ways of resource sharing though, isn't there?

**Mr GUTWEIN** - There are.

**Mr ARMSTRONG** - You can do it – like Huon Valley did with tourism. Because they had marketed the whole region – that was a resource sharing program that they ran.

**Mr GUTWEIN** - There is no two ways about it and it is not necessarily about reducing the number of people that are employed or sharing machinery. There are some very proactive examples. A prime example would be the East Coast whereby the councils there share the Great Eastern Drive and market together for that. But the point that I was making, coming back to Mr Gaffney's point, was that what we are attempting to do is to ensure that local government has available to it evidence and data that can inform its decisions in respect of the next steps that they might take.

In the northern region, I am pleased that George Town and West Tamar, of their own volition, as a result of being a part of the resource sharing program and then the mayors considering what might be best for the Tamar Valley, coming together having a conversation. Their councils agreed to it.

The next level of modelling is being undertaken building on the resource sharing to look at whether amalgamation might make sense. So whilst at times the relationship that I have with local government can be seen to be a testing one, there are many things within local government that we agree on and that the work that has been undertaken will stand the sector in good shape moving forward.

**Mr ARMSTRONG** - In the review of the Local Government Act are you looking at, as it is now you cannot dismiss or suspend a single councillor, you have to suspend or dismiss the whole council. Will you be looking at a way that you can either suspend or dismiss an individual councillor, mayor or deputy mayor?

**Mr GUTWEIN** - That was supported very strongly by the sector and it is one of the options that is under consideration for final bill.

**Mr ARMSTRONG** - The process you would have to go through would be interesting to read.

**Mr GUTWEIN** - With all of these things, the principles of natural justice and fairness needs to be first and foremost in our mind, because we all know around this table, there are always two sides to every story and you have got to be in a position where you can be fair in any decision like that. But widely supported by the sector was the opportunity to do that.

**Mr ARMSTRONG** - Thank you.

**Mr GAFFNEY** - Just the one comment from Ruth and Rob. When they said, “I’ve heard it before, two struggling councils put together doesn't make – makes one struggling council. I'd rather just have to try and fix one struggling council, than two little struggle ones. So just chuck them together and then fix it”. Over you to, Chair.

**DEPUTY CHAIR** – I do know what sort of level of discussions you have with local government about options for them in terms of how they run their business, but you were talking about your Smart phone being a useful tool for a range of things. Have you had any discussions with councils in regard to using Smart phones for engaging with parking meetings and things like

that? In many parts of the world, it has been in place for a long time, you can update your parking meter from where you are. If you get held up in a meeting or shopping or whatever, or just talking in the street, you can update it very promptly. So is that something that you are aware that you are looking at and is there a capacity for it.

**Mr GUTWEIN** - I can say categorically there are councils that are looking at that sort of Smart technology. Launceston has been part of an engagement with both the university and also with Telstra in looking at how they can better utilise the data that they have available to them, for a whole range of things. If you consider if you are planning the traffic flow through your city, there are a range of data points that councils have. Parking meters is a prime one in regards to getting an understanding of flows, and I know that Launceston have been engaged. I have not had discussions with other councils but I would be almost certain that Hobart would have given some consideration.

**DEPUTY CHAIR** - Burnie has just put in new parking meters that are, you don't money – it is a different system and so the technology is there, it is just actually putting it in place and if they are doing an upgrade like that, to actually think about those sorts of things. It would reduce their revenue in terms of parking fines no doubt, maybe that's a disincentive.

**Mr VALENTINE** - Hobart City Council is thinking of putting in sensors in the parking space itself so they know when a car moves in and how long it has been there and they can -

**Mr GUTWEIN** - That is very sensible because that it can help you plan the entire flow of your city.

**Mr VALENTINE** - Parking meters are not to raise revenue, they are there to move people on.

**DEPUTY CHAIR** - Is that correct? I see. Minister for Local Government, when you look in the mirror and see the Treasurer which must happen on occasions as the Minister for Local Government, is there a conflict here between this takeover of TasWater that is owned by Local Government and when you look in the mirror and see the Treasurer, what does the Treasurer say to you about that?

**Mr GUTWEIN** - I do not think that there is any conflict at all. At the end of the day, the assets are owned by the people of Tasmania and I think that -

**DEPUTY CHAIR** - The same with all our assets.

**Mr VALENTINE** - It is fragmented when it comes to Local Government.

**Mr GUTWEIN** - In regards to the assets, they are owned by the ratepayers and the taxpayers of Tasmania, and moving that ownership from one level of government to another level of government, in my mind, does not change the ownership of the assets in respect of who is actually paying for them.

**Mr VALENTINE** - With respect, if I can make the observation and this was exactly the same with the previous treasurer, Mr Aird, when five mayors went to see him about wanting to form the TasWater, in fact. Each of the councils had different levels of development in sewerage and water and simply pulling it all together and him saying, 'Look, we are all in this together, we are going to make it happen'. Well, it is like the rest of Australia and other states saying that about Tasmania.

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You could argue that they do that with GST but it is not within the control of each of the states to a degree for that, but they have got all the ownership. Some little areas have done nothing and others have put a heck of a lot of work into it. It is obvious that it is going to cause angst when you try and lump them all in together and say “Let’s treat this equally” when it is not equal.

**Mr GUTWEIN** - That is the point. Local government have not had responsibility for water and sewerage now since 2008.

**Mr VALENTINE** - They have through representatives.

**Mr GUTWEIN** - They have had owner's representatives but ultimately it has been run by either the three regional corporations or Onstream or by TasWater.

**Mr VALENTINE** - But the dividends have been paid to take care of those differences and that is why they are really protective of those dividends.

**Mr GUTWEIN** - The point you make is a valid one which is exactly why we have agreed to local government exactly the same returns that TasWater had promised them over the periods of 2024-25.

**Mr VALENTINE** - For how long?

**Mr GUTWEIN** - It runs to 2024-25 so their current 10 year plan.

**Mr VALENTINE** - If you have \$430 million initially of input like Hobart City Council did, which is downgraded to \$239 million, which was then downgraded to something less than that because of its revenue earning capacity, the infrastructure, they are going to be concerned that they are not going to be getting a reasonable share and it is only going to be over a certain period of time, and it actually underpins their whole project management structure.

**Mr GUTWEIN** - The modelling that I have looked at and I think you ran the numbers in 10 years' time in 2024-25, the \$20 million worth of revenue, which has been promised to them by TasWater is actually slightly less than 2 per cent of overall Local Government revenue. So it is but a fraction of the total revenue of local government. So when you say -

**Mr VALENTINE** - Across the board.

**Mr GUTWEIN** - Yes, across the board, but then in regards to the percentages that council has received, there is no view on the government that we are going to change those percentages other than they all get the same share of 50 per cent of the returns moving forward without having to worry about the management of this business.

But I put something to you. If I was sitting here as the minister responsible for water and sewerage and -

**DEPUTY CHAIR** - Well, aren't you?

**Mr GUTWEIN** - Let's just say that by that, we had control of the organisation and this was a government business estimates hearing and in the same way that I might appear before you if I was a minister for Energy or another, and we were looking at the performance of the corporation that

## UNCORRECTED PROOF ISSUE

when it was formed in 2008 there were then around 25 towns that were on bore water or do not consume rates and today there are 25 towns on bore water and do not consume rates –

**Mr VALENTINE** - Which will be gone by next year.

**Mr GAFFNEY** - There were 43 in 2008.

**Mr GUTWEIN** - They said that about Derby. They should have been gone last year but they are not, and we have just been through the – we just dodged a major bullet in regards to the Enduro. The fact with visiting international journalists, thousands of people visiting that town, and three 15 000 litre water tanks had to be brought in plus thousands of bottles of water so people could have a clean drink of water in the town.

**Mr VALENTINE** - I don't deny any of that.

**Mr GUTWEIN** - If I was sitting here in front of you and we owned the business and only one of 79 level 2 water and sewerage plants weren't anywhere near being compliant, in fact, the only one that is compliant is based on the previous regulations, not contemporary standards, if I was sitting here in front of you -

**Mr VALENTINE** - So are you saying one of the 78 were compliant prior to the new goal posts?

**Mr GUTWEIN** - If you track it back, the level of compliance has actually decreased. Has decreased over time.

**Mr VALENTINE** - You see this is the information we need.

**Mr GUTWEIN** - Can I make the point, we chatted about this earlier. There has certainly been an increase in compliance levels and standards over time, but so there should be, because we are talking about public health. So there should be. And the necessary investments should occur to ensure that you can bring the assets up to the standard that are required.

So if I was sitting here in front of you and I was profiting to the tune of \$30 million to the state government's bottom line but I was not investing in the assets that that business had, and we had the environmental outcomes, wouldn't you be calling for me to do more?

**Mr VALENTINE** - They are not banking it, are they?

**Mr GUTWEIN** - It is a matter of priority, is it not? You look at say Dorset Council for example, and they have made the point on a number of occasions. They have managed their operating expenses of that council to a point where they have prioritised their spending, found savings and they have declared that they do not require the dividend because they have put themselves into a position where they have been able to manage themselves out of it.

I am not saying we take the dividend off them, but I make the point that if I was sitting here in the state government and profiting from a business that was under performing, I am certain that all of you on that side of the table would be demanding that we did more.



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**Mr VALENTINE** - We may well do, but we have to see both sides of the argument. You are presenting one side. We have to hear from local government and we will get to do that during the inquiry. Let's get a whole lot of the information on the table. Let's have a ground truth, as you say, and test it, and then we can help make a decision.

**Mr GUTWEIN** - I am not asking for you to give it the rubber stamp today.

**Mr VALENTINE** - I know you are not, but we do have to at the end of the day.

**Mr GUTWEIN** - But what I am suggesting is that if this had been run by the state government up to this time as the minister responsible, I am certain that there would be a much higher degree of accountability brought to bear on the government.

**DEPUTY CHAIR** - That was one of the problems when this whole framework was set up, the level of accountability, because it is not a GBE so technically the parliament cannot scrutinise it, but there was an agreement that was just an in-principle, in good faith arrangement, because it appears to me that there seems to be not a lot of scrutiny from the owners. They have taken quite a hands off approach it seems. They do not appear to do a process like we would do our GBE and that is what the Minister for Local Government is talking about.

**Mr GUTWEIN** - The other difficulty thing is as well with 29 individual owners, if you are a customer with a problem, who do you take aim at? One of the things that I have found as Treasurer, is the level of correspondence I receive because people either do not now who to write to in respect of TasWater because they have a problem or they think that the state government owns it anyway.

**DEPUTY CHAIR** - I don't think people really care out there. They just want clean drinking water, compliance sewerage systems at a price that is affordable.

**Mr GUTWEIN** - That is exactly what is in people's minds. The problem has been that with 29 separate owners who do they go to complain to?

**Mr VALENTINE** - 99.9 per cent they say receive good water. It is the tourism impact that is really more your concern?

**Mr GUTWEIN** - No, my concern is public health. The bigger challenge that we have is sewerage. I will share this with you. When I was in the lower House and we were discussing this issue, I went to Ringarooma and filled up some water out of a tap to take into the parliament downstairs. You might have seen it on television. On that day I stopped next to the Tamar - one of the outlets from the sewerage plants and I thought, what I will do, I will fill up a bottle of water here as well, and I will put a lid on that and rather than say, 'Have a drink of it, soak your fingers in it if you are game'. To be frank I climbed out of the side of the Tamar and I did not have the courage to fill that up because it was rank. It was rank at that particular point. Whether there had been an overflow, but I did not feel comfortable filling that up.

**DEPUTY CHAIR** - From a public health point of view.

**Mr GUTWEIN** - From a public health point of view, we have kids that row on that river. There are kids rowing teams that are told, 'If you fall in, shut your mouth and hold your nose. Don't swallow the water'.

## UNCORRECTED PROOF ISSUE

**Mr VALENTINE** - Have you got any alerts for water quality?

**Mr GUTWEIN** - I am certain that local government do some things. In regards to the EPA, in the last 12 months, and it is a point that is made by TasWater that we haven't had any EPN notices issues. The reason is, from my understanding, is that they have an arrangement with the EPA that if there is an overflow that they notify the EPA immediately and then take action and therefore then there is no EPN notice initiated.

**Mr VALENTINE** - That is if there is an overflow. But what about general water quality in between those –

**DEPUTY CHAIR** - Are you talking about random testing?

**Mr GUTWEIN** - I would have to check. I do know that the significance of the overflows as a result of a combined system. There have been in one particular year, I think more than 900 from one particular waste water treatment plant there. The challenges when you look at where we are heading with this, \$1.5 billion over 10 years is what they are going to invest. And they have ramped up because of how we put pressure on them and said that they should do more. At the end of the day, the corporation decided against – and without, as I understand it, the agreement of the owners at that time to ramp up. There is still such a significant backlog of renewals that at the end 10 years it is not completed. You come back to this point that has been made both in this House and externally by the corporation that the assets are deteriorating faster than they can fix them.

**DEPUTY CHAIR** - We are going back over common ground now.

**Mr VALENTINE** - Can we go over that again?

**DEPUTY CHAIR** - Is it the ultimate decision of the Minister for Local Government as the local government owns the business at the moment, or is it a decision of the Treasurer to sell it or give it up, whatever it is?

**Mr GUTWEIN** - It is a decision of the Government and under the -

**DEPUTY CHAIR** - You don't see a conflict for yourself in that?

**Mr GUTWEIN** - No, I do not.

**DEPUTY CHAIR** - Your job is to represent and work with local government and to be the Treasurer.

**Mr GUTWEIN** - I think I am best placed as Local Government Minister to have this conversation, and over time, I have. Local government can take the view that they might not like the way that this was presented but I argue that if anybody in local government misunderstood the fact that the Government was concerned, then they have not been reading what we have been saying publically for the last couple of years, or even what I discussed -

**Mr GAFFNEY** - The last couple of years?

**Mr GUTWEIN** - For the last couple of years.

**Mr GAFFNEY** - Two years ago, you guys agreed with water tanks in positions.

**Mr GUTWEIN** - Let me explain what has occurred here. TasWater came to see me two years ago and said, 'We are working with Pioneer at the moment. We need to get all the customers to a point where they agree. We have this contemporary solution. It will enable fresh water to come out of taps. Will you provide us with the space as a government to actually go through that process?' I said, 'At the end of the day, you are the ones that deliver the solution, work way. I won't be stepping into the space and say that's not the right solution'. That was how that conversation went. I was then asked about other small communities, and there was a proposal that was put forward by TasWater, I think, it might be Gretna and one other, and my position, very clearly to the corporation was your local government owners are taking \$30 million a year out of the corporation. My view is they should use some of that or the strength of their balance sheet to fix that problem. Interestingly enough –

**Mr GAFFNEY** - Treasurer, you know that that is not a fair reflection on what has been happening in the dividends they have been taking out. We will have to wait for the inquiry to get a different perspective on how you are handling that. That is what they do not like. It is not telling the complete story, but we will have to wait for the inquiry.

**Mr GUTWEIN** - Can I ask what you mean by that? Have \$30 million-worth of returns been paid to local government in a year?

**Mr GAFFNEY** - The dividend that they require is less than 2 per cent of their assets combined - so yes, it is possible.

**Mr GUTWEIN** - It is on the public record that –

**Mr GAFFNEY** - How much has then put into their infrastructure from TasWater? How much has been going into there? How much has been improved? How many more bores? You said 25 in 2008. There were 43. You come into this place and tell us the wrong story. We are going to wait until the inquiry.

**Mr GUTWEIN** - Tell you the wrong story?

**Mr GAFFNEY** - You said in 2008 there were 25 bore waters and in 2015 there's still 25. That is not correct.

**Mr GUTWEIN** - If there were more in 2008 –

**Mr GAFFNEY** - Our councils have improved them.

**Mr GUTWEIN** - I can't understand why you are pushing back on this.

**Mr GAFFNEY** - I just want you to be honest with us.

**Mr VALENTINE** - We just want the facts.

**Mr GUTWEIN** - Regardless of what the return is on the assets that have been invested, the fact is that local government has been receiving significant returns - around \$30 million they have been receiving. That is a statement of fact.

**Mr GAFFNEY** - And they have been putting that return into their storm water costs. That is part of the deal made in 2008 that local government would take over storm water responsibility. You didn't even know about that when I asked you a while ago.

**Mr GUTWEIN** - You asked me about changes that were coming up and I said I would have a look at that. When you have other councils like Dorset that are in a position where they are saying that they do not need the dividend, they have actually managed themselves appropriately. Now, I am trying to be fair here. The point I made just a moment ago is if we were sitting and we owned the corporation, and the progress had been, as it has been, I would be expecting you to hold the Government to account.

**Mr GAFFNEY** - Do you know what Dorset receives on an annual basis from TasWater?

**Mr GUTWEIN** - We can find out. It would be in the hundreds of thousands. It's a small council.

**Mr GAFFNEY** - Some councils that voted against it were the ones that weren't receiving any return because they had nothing to put into the business in the first place.

**Mr GUTWEIN** - Dorset certainly received a return. What I want, Mr Gaffney, is a better result for Tasmanians.

**Mr GAFFNEY** - We all want that.

**Mr GUTWEIN** - I would hope so.

**Mr VALENTINE** - It is obvious that you want that. I can understand that. The complexities and the fact that you have 29 owners - there might be room for amalgamation in there. What we need here, on our side of the equation, is factual information from both sides of the argument. We are only going to get that through the inquiry one expects, to be able to make a judgment call as to whether we vote for that legislation or not. At the end of the day, if you think about it, you have a conflict of interest in the sense that you are the one that is putting it forward and you want to paint the picture as you see it. I am not blaming you for that because that is what you want to do. But there is a whole heap of other stuff that is on the other side of the argument. We need to see all that before we can make a judgment call. I have not made my mind up on this yet. I am testing.

**DEPUTY CHAIR** - We need to see the legislation. We want to look at other options.

**Mr GUTWEIN** - I can understand that. But it has certainly been provided with the opportunity in front of a committee like this. I am going to talk about the issues that are motivating us to make this change and importantly, how we see this playing out.

**Mr VALENTINE** - It is just important that you come at it from a perspective of understanding what the complexities are on the other side of the equation.

**DEPUTY CHAIR** - There will be more to be said and asked and scrutinised at a later time. I am not sure that you have many friends on the committee, minister.

**Mr VALENTINE** - It is not a matter of friendship, it is a matter of knowing the facts, that is all. Simply that.

There has been a bit of comment out there about the councils that are under a commissioner at the moment as to why should the ratepayers pay when clearly there is a ministerial decision to put a commissioner in place. Yes, they were having problems with the issues. They are another sphere of government. Should it have been simply left to play itself out until the election or perhaps should they be paying for the commissioner and you pay for the legals to do what you have done?

**Mr GUTWEIN** - First, the act allows for formal inquiry costs to be met by the council that the inquiry has been held into. As a general principle, if there is a dysfunctional council that is not serving the best interests of its ratepayers and there are costs associated with having an inquiry into that council, those costs should not be borne by ratepayers in other municipalities. I do not think that is fair. Therefore what I provided is –

**Mr VALENTINE** - It is not the ratepayers. It's the taxpayers with due respect.

**DEPUTY CHAIR** - But they are ratepayers in their –

**Mr GUTWEIN** - The ratepayers –

**Mr VALENTINE** - What I am saying is it is a much broader centre of community that is paying for this as opposed to just the ratepayers.

**Mr GUTWEIN** - Well, no, when with the account that has been sent to local government, they will pay that off over three years. That will come from the ratepayers, not from the taxpayer.

**Mr VALENTINE** - No, the costs of the commissioner I can see – they don't have councillors to pay for. They do not have a general manager to pay for. They probably do now. Wouldn't it be more reasonable for them to pay the administration costs and for anything that you have instigated as the Minister for Local Government, because it is your call to pay any legal costs associated with that? I do not mean the legal costs associated with individual councillors who might take issue, because that is their call within their administrative structure. What is your answer to that?

**Mr GUTWEIN** - My response to that would be, in respect of both Huon and Glenorchy, in fact there were many of the aldermen calling for the board of inquiry. Ratepayers in those municipalities called for those boards of inquiry. As minister, I do not unilaterally make a decision to have a board of inquiry. There needs to be a body of evidence and it needs to be considered.

**Mr VALENTINE** - We appreciate that. It just the principle.

**Mr GUTWEIN** - The simple principle on this and the principle that I have applied is that if there is a dysfunctional council then they should pay for that dysfunction. The costs of that should not share across municipalities where their councils are operating sensibly and responsibly.

**Mr VALENTINE** - So it is the inquiry cost, not the legal cost. I did mention legals, I meant inquiry.

## UNCORRECTED PROOF ISSUE

**Mr GUTWEIN** - No, no. I am speaking about the cost of the inquiry. My advice to local government, if they don't want to pay for the costs of the inquiry, is to do their job.

**Mr VALENTINE** - So one presumes that the initiatives that are being covered by the additional funding for local government governance is to do with what, the employment of the commissioner, or what?

**Mr GUTWEIN** - Can you say that again?

**Mr VALENTINE** - The additional funding for local government governance, what's that for?

**Mr GUTWEIN** - That additional funding in respect of meeting down the local government review, in regards to the cost of inquiries, obviously that will be met by the council.

**Mr VALENTINE** - As you were saying. Thank you.

**DEPUTY CHAIR** - Any other questions on Local Government? Thank you, minister and your staff. It has been a very long day. I appreciate your contribution. We only have a couple of matters that we need to follow up. Thank you.

**Mr GUTWEIN** - Thank you very much.

**The Committee adjourned at 6.13 p.m.**