

UNCORRECTED PROOF ISSUE

Tuesday 29 May 2012 - Estimates Committee A (Giddings) - Part 1

LEGISLATIVE COUNCIL

ESTIMATES COMMITTEE A

Tuesday 29 May 2012

MEMBERS

Mrs Armitage
Ms Forrest
Mr Hall
Mr Harriss (Chair)
Mr Mulder
Mr Valentine
Mr Wilkinson

IN ATTENDANCE

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

Department of Premier and Cabinet

Rhys Edwards, Secretary
Kathy Baker, Acting Deputy Secretary
Greg Johannes, Deputy Secretary
Philip Foulston, Director, Executive Division
Jeff Reeve, Director, Corporate Services
Louise Mills, Deputy Director, Corporate Services
David Strong, Manager, Finance
Katrina Sage, Manager, Human Services
Tim Bullard, Director, Policy
John McCormick, Director, Policy
Mellissa Gray, Director, Social Inclusion
Frank Ogle, Director, Public Sector Management Office
Hayden Jones, Acting Director, Tasmanian Together Progress Board
Piero Peroni, General Manager, TMD
Michael Mulley, Commercial Manager, TMD

Department of Treasury and Finance

Martin Wallace, Secretary

Tony Ferrall, Deputy Secretary, Budget and Finance

Craig Jeffery, Director, Government Finance and Accounting

Wendy Sawford, Deputy Secretary, Economic and Financial Policy

Jonathon Root, Director, Revenue, Gaming and Licensing

Richard Easther, Director, Corporate Support

Paul Kingston, Director, Procurement and Property Branch, Budget and Finance Division

Chris Lock, Director, Economic Policy Branch, Economic and Financial Policy

Richard Sulikowski, Director, Shareholder Policy and Markets Branch, Budget and Financial
Division

Tasmanian Audit Office

Mike Blake, Auditor-General

David Strong, General Manager, Strategy and Governance

Department of Economic Development, Tourism and the Arts

Mark Kelleher, Secretary, Department of Economic Development, Tourism and the Arts

Elizabeth Jack, Deputy Secretary, Culture, Recreation and Sport

Craig Watson, Deputy Secretary, Corporate Support

Bill Bleathman, Director, Tasmanian Museum and Art Gallery

Katherine Hough, Director, Arts Tasmania

Karena Slaninka, Director, Screen Tasmania

House of Assembly

Peter Bennison, Deputy Clerk

Legislative Council

Nigel Pratt, Deputy Clerk

Miss Jan Chipman, Finance Officer

Legislature-General

Jason Hendy, Manager, Finance

Government House

Anne Parker, Official Secretary

Andrea Bull, Budget and Research Officer

Ministerial Office

Mel Maddock, Acting Chief of Staff
Jessica Radford, Deputy Chief of Staff
Richard Dowling, Adviser
Ross Smith, Adviser
Cam Crawford, Adviser
Margot Dawson, Adviser

DIVISION 3
(Finance General)

CHAIR (Mr Harriss) - Treasurer, we will make a start. Thank you for being here well before time. It is the usual process; we are happy for you to provide some introductory comments, Treasurer, and then we are into the questions.

Ms GIDDINGS - Thank you very much. I will take the opportunity to provide you with an overview and particularly considering that it is important to know that this budget does follow the same strategy that we implemented last year, with strong decisions required to deal with \$1.8 billion of GST and other state revenues that have been lost.

Since the last budget, economic conditions have softened and revenues have further declined. Returning the budget to a sustainable position is not something we believe can be done overnight, but it can be done. We certainly have the plan to deliver that but it will not be done in one budget.

The outlook in terms of our fiscal strategy shows this to be the case with a return to strong surpluses, positive cash savings, and appropriate levels of capital expenditure. While there continues to be much focus on budget cuts, it is important to remember that this budget still invests some \$4.9 billion across government activities. More than two thirds of this goes on our frontline services in health, education and police.

We have also put further emphasis this year on helping Tasmanians most in need with limited electricity price increases for all Tasmanians, improved concessions and funded cost-of-living measures, through the sale proceeds of TOTE Tasmania.

The budget also invests heavily in infrastructure with a \$1.5 billion general government and \$2.9 billion government business infrastructure program over the forward estimates. Tasmania's financial challenges have largely emerged due to unprecedented and continued downturn in GST collections nationally, which are the product of what has been called the 'cautious consumer'. GST receipts flowing to Tasmania have essentially been flat since the onset of the global financial crisis right through to the present day. There were widespread expectations for consumer spending and tax collections to begin recovering to normal levels over the past year. However, the ongoing sovereign debt crisis in Europe and the high Australian dollar have meant that this did not occur and Tasmania sustained another year of negligible growth in GST revenue.

What has changed, however, is that from the 2013-14 year, we expect to see significant recovery in GST receipts flowing to Tasmania. That is based on Tasmania's relative share of the GST increasing primarily due to revenue growth nationally increasing through the mining boom as well as the wind-down of federal stimulus funding and Royal Hobart Hospital upgrade payments to Tasmania, which should see our relativities improve.

The GST improvement will lead to an improvement in our bottom line. In the 2012-13 year, we expect a deficit of \$283 million but the following year, budget projections show a modest surplus of \$53 million before a return to strong surpluses of over \$200 million for the remainder of the forward estimates. Importantly, these surpluses will be used to rebuild our savings and build resilience into our state finances to absorb any potential future shocks. Budget projections show that net debt will peak at \$134 million in 2012-13 and, importantly, will be eliminated in 2014-15.

Had we listened to those who urged us not to reduce our spending, and had we not made the strong decisions that we had, Tasmania would be heading for net debt of around \$4 billion and interest in the order of \$300 million per annum by 2016. The government, therefore, decided to increase some taxes in four areas where Tasmania's rates are well below the rest of the nation. These are conveyance and insurance duty, motor tax, and duty on MAIB premiums. These measures will raise around \$40 million in a full year. Despite these changes, our overall tax competitiveness will still remain below most other jurisdictions.

While the budget has not imposed additional cuts on health, education or police, we have pursued additional savings targets on top of those set last year across the rest of the public service. This will save a further \$68.2 million over the next four years.

To those who have suggested that this budget somehow softens the government's strong fiscal strategy, I would highlight that this budget only provides for expenditure to grow at an average annual rate of 0.7 per cent, well below inflation.

Tasmania's economy continues to be structurally affected by the immense forces of the mining boom, record terms of trade, and the high exchange rate. The structure of our economy with our historical reliance on forestry, manufacture and traditional agriculture means that we hurt more than others when the dollar is high. The recent rate of growth of the non-mining economy is estimated to be a bit less than 1 per cent. In Tasmania, mining represents little more than 1 per cent of our gross state product compared to manufacturing at more than 10 per cent. It is in this context that the budget projects estimated growth in gross state product to be around 1.25 per cent for both 2011-12 and 2012-13.

The two-track national economy is also evident in the employment data with job losses occurring through the decline in the forestry and forest product sector while almost all trade-exposed businesses in Tasmania are looking to implement efficiency measures to remain competitive in response to the high exchange rate.

There are still reasons to be confident. Public expenditure was always going to decline as stimulus measures were wound back and the state reined in the size of its public sector. Yet the private sector across both households and business has more than offset this decline. Household consumption has grown for six consecutive quarters at an annual growth rate of 1.7 per cent. Seven consecutive quarters of growth in private sector investment has also been recorded worth some \$4.5 billion over the past year and growing at a faster rate than any other non-mining state. Exports continue to grow, up 12 per cent over the past quarter.

Tasmania can have a positive long-term future as we align ourselves towards the Asian century.

UNCORRECTED PROOF ISSUE

Mr WILKINSON - Thank you, Treasurer. Flavour of the month at the moment, I suppose, is the salaries.

Ms GIDDINGS - Can I just make a point on the salaries? It is probably better to raise that issue in terms of DPAC because DPAC were the ones who provide me with the policy support and advice around salaries. Treasury does not actually do that. They have the money, of course, that pays out everything across the public purse but they do not provide me with advice or with policy support. So that is a matter that should really come up at 1 o'clock or 2 o'clock, whenever it is we come back with DPAC.

CHAIR - My judgment, Premier, would be that there is an impact on the budget from a point of view of whether there is a 2 per cent pay rise available to MPs or whether there is nothing. I might just allow the question. You do not know exactly where Mr Wilkinson intends to go for the moment. Let us just see how that goes and I will make a judgment about that because there is an impact on the budget.

Ms GIDDINGS - The fact is that if you want comprehensive answers you need to have the right people at the table. As I say, I have not received any advice from Treasury on politicians' salaries. It has been a matter for DPAC and me as Premier, and not as Treasurer.

Mr WILKINSON - What I was going to do is just fill you in with the history relating to it.

Ms GIDDINGS - Yes, it would be better to do that, though, with the policy people who actually work with me on the matters because they are the ones who deal with the history and they are the ones who deal with that matter.

Mr WILKINSON - Right, and the history relating not only to what was stated previously but also to what has gone on last year and this year, and quoting certain parts from letters, et cetera, and then having a bit of a slap at you in relation to this so-called caucusing. In fairness to you, that is where I am going.

Ms GIDDINGS - That would definitely be a DPAC matter, not Treasury. I am very happy for you to raise any concerns like that with DPAC.

Mr WILKINSON - I have no real issue as to when it is to be debated. It is important that it is debated in order to get the true facts on the table. If we are going to get the true facts on the table and the Premier believes that those true facts are better on the table at 1 o'clock as opposed to saying, 'I wasn't able to properly answer your questions because DPAC weren't here', then I have no objection. That is only my personal view; it depends on what the rest of the committee say.

CHAIR - You are in the best position to make that judgment from the point of view that you know what is in front of you, and whether they go to DPAC officers because all of the questions which budget estimates provide in this process go directly to the relevant minister. I have no idea whether you are going down the track of questions to DPAC. I presume your questions would be to the Treasurer.

Mr WILKINSON - Yes, to the Treasurer.

UNCORRECTED PROOF ISSUE

Ms GIDDINGS - No, what he has just outlined to me then is actually to the Premier, it is not to the Treasurer. I have no problem with answering any question you want. It is just that it is at the appropriate time and the appropriate time is with DPAC, not with Treasury, otherwise we will have exactly the same debate all over again and you will waste valuable time.

Mr WILKINSON - I have no issue. I am flagging it to you.

Ms GIDDINGS - I appreciate that.

Mr WILKINSON - That being the case, if you feel happier doing it at 2 o'clock there is no objection from me, however, I can flag that they are the questions that I will be asking and quoting certain parts of letters that were sent backwards and forwards.

Ms GIDDINGS - I look forward to the robust discussion at that point in time. It will be great.

CHAIR - Done, thank you. I might then make some commencement on the budgetary matters, Treasurer. I am reflecting on your speech to the parliament that we are, as a state, enduring the biggest economic and financial upheaval since the 1930s.

[9.15 a.m.]

Ms GIDDINGS - That is right.

CHAIR - That being the case, and that you also said if it was not for your savings measures then we would be heading for net debt of around \$4 billion.

Ms GIDDINGS - That is right.

CHAIR - So, Treasurer, given that you have claimed those matters to be fact and that we are enduring the biggest economic and financial upheaval since the 1930s, isn't there an argument to be mounted that an even greater level of savings needed to be implemented in this budget? If that is the case, why aren't you taking more drastic action to match the rhetoric?

Ms GIDDINGS - First, it is a fact in terms of the global environment that this is the worst global environment we have faced since the Great Depression of the 1930s and that started to hit in the 1920s and really came to the fore through the early 1930s when the population suffered the most. So that is an absolute fact.

We are very lucky that we are focused more on Asia than we are on Europe. We do not want to focus too much on what is happening in Europe when our real markets are in the Asian markets, which is why we are very determined to do that work which, again, I will come back to in more detail during the DPAC time because that work has been carried out through DPAC of looking at Tasmania's role within the Asian century and within our Asian region. We will be taking a trade mission to Asia with a number of Tasmanian businesses to help promote us in that region down the track as well.

You are quite right also - in fact I even had it in my opening comments today - that if we had made the tough decisions that we made in last year's budget, we would be heading towards \$4 billion-worth of net debt rather than \$134 million; with \$4 billion-worth of debt you would be

paying out about \$300 million-worth of interest that should be going on your frontline services in health, education and police.

You ask the question, 'Have I gone too soft' and should I, in fact, be going harder in this budget? My view here is that we have the balance right. Some argue that we have gone too hard and if we had not taken the tough decisions that we have taken, and I note there has been concern in your House about some of the decisions that we have had to make, then we would be deeper into net debt and would not have the pathway out of it that we have.

The other argument that you put forward in your question is that we are being too soft. Now 'being too soft' would actually mean that we would have to make even deeper cuts and you would have to make deeper cuts in frontline services like health, like education and like police. Even with the middle road between those two positions that we have taken, we still have had to make some cuts.

It is true to say that with the further decline in GST and other revenues that we are facing in this coming year's budget, we have had to go back to government departments and ask for a further 2 per cent efficiency dividend on top of what they were asked to find last year. We have been able to protect health, education and police from that further 2 per cent cut, but they will still have to find the savings that we set for them last year.

We have softened the savings on the health department in the out-years because we felt, in that respect, that this was much more achievable and we do not want to cause unnecessary pain on frontline services and areas like elective surgery and the like. But we cannot pull the budget back into line without departments like health being part of the solution, which is why they must find their \$100 million worth of savings.

CHAIR - We would all be aware that people like Saul Eslake regularly offer commentary on the state of our economy here in Tasmania - he has an interest in it. He has indicated that your first budget was characterised by austerity but he also says, and I quote -

'This budget marks a retreat from the austerity.'

Do you agree with Mr Eslake, and have you retreated from those austerity measures and is it the right time to do that?

Ms GIDDINGS - No, I do not believe we have and, in fact, our fiscal strategy is the same fiscal strategy that was set last year. We are still following that fiscal strategy and we aim to achieve the targets in that fiscal strategy by the 2014-15 year. So by no means do I believe that we have softened at all here. There has been some commentary to say that we have been too soft and there has been other commentary to say we are being too hard. I believe we have struck the right balance, right in the middle.

CHAIR - Fiscal strategies come and go as they have done through the term of this government.

Ms GIDDINGS - Well no, they don't.

UNCORRECTED PROOF ISSUE

CHAIR – Well, they have changed. This is the only two consecutive years where you have had a fiscal strategy on the same basis that I can recall for a while. The fiscal strategies have changed consistently over the time.

Ms GIDDINGS - No, that is not true. How many fiscal strategies have we had? Is this the second or third in this time of government?

CHAIR - Time of government over 14 years.

Mr FERRALL - Five.

Ms GIDDINGS - Five since 1998.

Mr FERRALL - I think two of those strategies, potentially three, were changed because they were achieved.

Ms GIDDINGS - Right. Well there you go.

CHAIR - It is clear, though, that fiscal strategies have changed. Anyway, that is Mr Eslake's commentary, and you have responded to that. He further suggested that the overall effect of your policy decisions in this year's budget is to worsen the bottom line by \$106 million in the financial year that is about to end. That is 2011-12.

The overall effect of the policy decisions is to worsen the bottom line and then in the out years, in the coming year by \$80 million and by a total of \$237 million over the forward estimates. Do you accept his assessment that the budget bottom line has been worsened in your budget?

Ms GIDDINGS - Yes, of course I do. We have lost significant amounts of GST since the last budget came in so there is not much I can do about lost GST. I was at the TCCI breakfast recently with Professor Ian Harper who spoke very much about the cautious consumer and how that cautious consumer is causing concern across the nation around not spending and therefore GST is not being collected, therefore state revenues are dropping in relation to that. Unless you are Western Australian with the mining boom, that is causing a great deal of concern. In fact, the Victorian budget is in a similar situation in terms of having to make cuts. New South Wales is making cuts; South Australia is making cuts. Tasmania is not unique here.

While things have deteriorated over the last 12 months, and we certainly hit rock bottom in this 2012-13 year where we ended up in net debt of \$134.2 million, the important aspect here is to look at what is happening in the 2013-14 year where we end up in a surplus on our net operating balance of \$52.8, \$53 million. The following year, in the 2014-15 year, we are in negative net debt, which is actually a good thing, of \$306.6 million and a surplus on our net operating balance of \$240.7 million. Now you may ask why the turnaround. What makes you think that it is going to be so positive in the out years?

Mr WILKINSON - We could have asked the same question when we looked at the budgets last year and the year before when we had these same forward estimates which seemed, when you look at the history, to be not correct.

Ms GIDDINGS - No. There are two issues with last year's forward estimates.

Mr WILKINSON - And the year before and the year before that.

Ms GIDDINGS - Forward estimates are always an estimate. Criticism in the past has actually been that the Treasurer has been too conservative and that we have ended up with more revenues than we anticipated and more in the surpluses than we anticipated. Gone are those days where we end up with more money than we thought we would.

Mr WILKINSON - The global financial crisis stepped in though, didn't it?

Ms GIDDINGS - We have in fact been losing revenues through GST falls which - and their own state taxes but primarily GST has been falling more and more. Every time we have had an update from the commonwealth it has been more loss on GST, so that has impacted on our forward estimates. There are two changes with this year's forward estimates that give us a bit more confidence.

First, we do have our own GST methodology that we have put in place as other states also use - a different methodology than that used by the commonwealth where the commonwealth in their forward estimates just pick the one year and they then translate that same methodology across all the forward estimates, not taking into account that that is not how the grants commission process works. The grants commission process adjusts year on year on year, taking into account the changes in revenues and commonwealth expenditure in states that then change the relativities. We have for the first time used a much more complex formula to ensure that we have more robust out year figures and we are confident in the figures that we are putting forward. That helps us because of the relativities.

The other element is the matter of the relativities. We know that right now Tasmania has been hit hard on not only the shrinking pool of GST, but we are also being hit hard by the fact our relativities are down at the moment because of significant stimulus funding from the commonwealth and also because of the significant amount of money that we are getting at this present time for the Royal Hobart Hospital. Once the Royal Hobart Hospital and that stimulus money washes out of the estimates we will see the relativities grow, and that will happen.

Ms FORREST - If the commonwealth look at a year by year in their assessments, just say if they look at what happened last year and they make a determination for this year, the Royal Hobart Hospital money and the stimulus funding was all there last year and the year before - or not the Royal Hobart Hospital money.

Ms GIDDINGS - No, it is coming in now.

Ms FORREST - Haven't they considered that in their models at all?

Mr WALLACE - No, as the Treasurer explained, not only has there been the reduction in the pool, but there has been a reduction in our relativity compared to what the commonwealth estimated in last year's budget. In looking at that we realised, and we have talked to commonwealth Treasury about it, that their methodology does not pick up these changes. If we had done what we have done this year last year we would have had a much better grasp on what the GST in total was going to be. Apart from the reduction in the pool, we would have known that our relativity would have fallen again. We have modelled the relativity according to how the grants commission calculates it.

Commonwealth Treasury did point out that in budget paper 3 they don't actually attempt to forecast the relativity factors, they have a linear projection. In their projection of relativities in the last few years they haven't taken into account the fact that the states have varying shares of commonwealth stimulus dollars. All they take into account is effectively a move to the per capita basis for the specific purpose payment. So things like the Royal Hobart Hospital in fact are not in their calculations, and that is one of the changes we have made this year. We have put in a model that replicates the way the grants commission does the calculation.

Ms FORREST - Just on that point I would just like to ask you a question about the model and how it has been applied in Tasmania. I understand the differences with the commonwealth, which seem a little bit surprising in some respects, but that is the way it works. With regard to the Tasmanian financial model used to forecast the per capita relativities, is it fair to say that the predictive ability of models is often gauged by testing the model with historical data and therefore with regard to the Tasmanian Treasury model has this testing against historical data been done?

Ms GIDDINGS - It has been back-tested to ensure that it is robust, yes, and it is more accurate than the commonwealth projections.

Ms FORREST - You have gone back and looked at historical data and that has demonstrated there is some support for that then?

Ms GIDDINGS - Yes.

Ms FORREST - What were the margins of error of the predictions compared to the actuals when they finally eventuated?

Mr WALLACE - I am sure you know that the Commonwealth Grants Commission methodology is quite complex. The model picks up the really big factors that influence the change. Most of the detail in the grants commission's methodology doesn't have much impact on the grant shares. What it does is pick up the ones that do make a big difference and those factors are mainly the revenue assessments, so the changing capacities of the states. For example, Western Australia has gained growth in their tax base versus the other states, and the commonwealth payments and the commonwealth stimulus dollars.

When we back-tested the model by putting in perfect data it has generated relativities to Tasmania, which are pretty close to what happened. For some states you are projecting eight relativity factors - six states and two territories. In a couple of cases, the relativity for one state or two states is not particularly close, but Tasmania's relativity factor is very close. The back testing has shown it to be a reliable method. Issues will arise in the future if, for some reason, the commonwealth directed the grants commission to change its methodology, or the grants commission decided itself to change its methodology. The grants commission does not change its methodology between major reviews but in each year it provides an update report, which looks at, for example, new commonwealth payments coming in and how they might treat them.

The model obviously does not predict, with absolute accuracy, the future because no model can do that. However, in relation to the testing of it, it will provide a much better indication than you could possibly get through using the commonwealth budget relativity numbers. The commonwealth, as I said before, does not make any attempt to forecast state relativity factors

from their point of view. They are interested in the size of the pool and they have some indicative shares for the states based on this linear projection of relativity.

Ms FORREST - With regard to the Tasmanian Treasury model, what were the risks and sensitivities of the model, and what major variables were considered?

Mr WALLACE - The grants commission process uses three years of past data and there is the lag between the last year of that three years and the year of application. So 2012-13 relativity is based on three years data but obviously not 2011-12 because the data would not have been available on time. As a result of that, when you use a model to project forward the relativities, you can have a relatively high degree of confidence, unless there is some major change in the methodology, for at least the first two years of the forward estimates because it is picking up data you already know. So this is like the Royal Hobart Hospital effect. You know the result is roughly \$88 million loss on GST for a period of three years. We have the money, apart from a small amount still to come in a few years time. We know what that effect will be.

Ms FORREST - Not if it is tied up for that purpose alone, as we know.

Mr WALLACE - But, for the first two or three years of the forecasts, as I say, unless there is some major unanticipated change, the model will generate the right result for these big factors that impact on relativity.

The other main impact on relativities is revenue. The grants commission has three years of data on the revenue of each of the states and territories. There are two years of data in the budget calculation and then the budget year, as the three years. As you get out to the last year of the forward estimates you are relying on the revenue forward estimates that are currently in all the states' budgets. To the extent that the states, themselves, in the forward estimates of their own tax revenue, have been wrong in the last year relativities, and to a small extent, in the second last year of the forward estimates, you cannot be as confident of the numbers as you can in the early years. However, from all our testing there is no question that this is a much better informed basis of projection than any other basis. We have compared it with other states that try to replicate the grants commission's model in their detailed modelling. We have compared it with the results they have -

Ms FORREST - With the other states?

Mr WALLACE - They provide this to us on a confidential basis. The other states have models which project all the relativity factors of the eight states and territories. Our estimates are consistent with those and probably a little bit conservative. A couple of those have the Tasmanian relativity factor increasing higher than we have but, from our point of view, we believe we understand the effects on Tasmania better than them and that is why we adopted ours.

Ms FORREST - So, with regard to any assumptions you made in respect of the variables, did you consider that the mining boom could shrink to a degree, or collapse a bit?

Mr WALLACE - Yes, because of the three-year basis that will not happen until beyond the forward estimates period. The first effect of that will be 2015-16.

Ms FORREST - When is the Greiner/Brumby review going to impact?

UNCORRECTED PROOF ISSUE

Mr WALLACE - The application year is unclear but from our assessment, which is supported by most other states' views, the first year of application will be 2015-16 and I think we mentioned that in the budget papers. We have been conservative on the relativity projection for 2015-16. We have not taken the result in the model - we have deliberately been conservative.

Ms FORREST - You said you believe it is a bit conservative compared with some of the other states. What will be the best-case scenario and then what will be the worst-case scenario?

Mr WALLACE - I cannot remember what the other states numbers were. We looked at these confidential numbers and I think there were three states that had a very similar model to ours in the way they replicated the grants commission's assessments. In two of those, our relativity is around about the same, but in one they had us much higher. We have looked at this and we believe that in the end the numbers will come up. We think they are the most reasonable estimates that can be provided.

Ms FORREST - But you say 'erring on the side of conservative', though, so they could -

Mr WALLACE - I was referring to the 2015-16 number because that is when we think the review impact will be. I said the comparison of our model with those other states was consistent and, in one case, conservative compared to the other states. Obviously, you have to project the relativity for every state and territory to calculate the grant shares for every state and territory.

Ms FORREST - When we will know the actual percentage split for each year in the forward estimates?

Mr WALLACE - Percentage split?

Ms FORREST - Yes, when we will know that?

Mr WALLACE - Sorry?

Ms GIDDINGS - The relativities - the actual numbers.

Ms FORREST - Yes. You say it is all predictions at the moment.

Ms GIDDINGS - When do we get our next notice as to what our revenues are?

Mr WALLACE - I see. First of all, obviously the GST estimate is a function of the pool estimates the commonwealth provides, the state population numbers, and the relativity numbers, and we get advice at various stages in the year from the commonwealth about how their GST collections are going. Then we get a formal update about once or twice a year about what the number is. The grants commission's update report usually comes out around the end of February and that impacts on 2013-14. We already know what the 2012-13 relativity is.

Ms FORREST - So you only get one year ahead, is that what you are saying?

Mr WALLACE - Yes.

Ms FORREST - And that is in February?

UNCORRECTED PROOF ISSUE

Mr WALLACE - Yes, usually around the end of February - sometimes early March.

CHAIR - Is it the same thread, Greg?

Mr HALL - Yes. Premier, the GST estimates are confusing, and I note that last year in budget estimates Mr Wallace said that 'states use commonwealth estimates and projections of GST rather than trying to do their own because they are the ones best placed to do it'. I just make that point again.

Mr WALLACE - I did say that and that is true. I was talking about the total GST estimates. All the states use the commonwealth pool estimates of GST. Last year, one state decided to do its own relativity projection and that was Western Australia. They got theirs a lot closer than the commonwealth. This issue has been discussed amongst the states, because the size of the revenue movements between the resource-rich states and the non-resource rich states, and the impact of the commonwealth stimulus dollars, for the first time in history, is having a much greater effect on the relativities than anyone originally thought. That is why every state this year is not using the commonwealth projection.

Mr HALL - Our own budget papers admitted in the past we have always used the commonwealth estimates and projections of GST. Do you accept then, following on from what Ms Forrest was talking about, that there is a risk the commonwealth's estimates and projections might be right, and our in-house projections could be wrong? It is a fairly significant gamble of something like \$757 million.

Mr WALLACE - No, sorry. If you compare our GST estimates for the last year of our forward estimates, say, to now, by far the biggest impact on them is the pool. For example, there is a \$450 million increase in our GST from 2012-13 to 2015-16; \$300 million of that is the pool. The commonwealth estimates the pool, we use their estimate and that is by far the biggest risk, as it has been in the last few years to Tasmania's revenue forecasts. It is the commonwealth estimate of the pool. The pool is by far the biggest part of the increase. The problem with the commonwealth relativity estimate for Tasmania is because it has been declining they have projected it to continue to decline, but it won't do that because it is declining because of temporary factors, such as the Royal Hobart Hospital. It is the risk associated with the pool estimates which we use from the commonwealth.

Mr HALL - Just one more point on that: our Treasury has not been ranked in the top three in terms of forecasts. I think we have been ranked sixth and fourth in recent years out of eight. The question is: where does the commonwealth usually rate in these rankings? Is it a case that our forecasts might be bad, but the commonwealth's is worse?

Laughter.

Mr WALLACE - I could not comment. From our point of view, GST is by far a much greater proportion of our budget than any other state's budget, so it has been the main problem we have had.

Ms GIDDINGS - The problem for the commonwealth is that no-one has been able to understand what has been happening with the consumer. There are a couple of forces going on here at once: (1) the consumer is saving, and we have the highest level of savings per capita than we have had for many, many years; (2) the consumer is also shifting. In these tight economic

UNCORRECTED PROOF ISSUE

times when they are concerned about their finances they are either buying non-GST-able goods, in that they are buying their vegetables and paying for their school fees, books and things that have no GST on them, so we do not get any benefit from that expenditure, or they are starting to move more to internet shopping, which does not have GST attached to it either.

When you have a combination of high savings, spending money on priority areas that do not attract GST, plus internet spending, our GST pool is shrinking more than anyone ever anticipated. The question there is: do we need to reform GST? Who knows? That is where the states have struggled to get the commonwealth to really start having a proper discussion about that. In the tax reform meeting that we had last October, the commonwealth did everything it could to keep GST off the table. In the end, GST had to be spoken about because the participants at that tax forum knew that it is a key issue for the nation.

Ms FORREST - We are still not having a discussion about it, are we?

Ms GIDDINGS - No.

Ms FORREST - Therein lies the problem.

CHAIR - Treasurer, a moment ago Martin referred to the impact of the 'Wilkie money' in your modelling of GST and so on. What is the net effect of all of that, because what he really negotiated for us was our money, not extra money, was it not?

Ms GIDDINGS - No. That is the interesting part whenever you are told, 'Haven't I done a fantastic job - I have managed to get x number of millions of dollars to Tasmania,' and the same happened with Brian Harradine and the Intelligent Island funding, from my memory. It was exactly the same. Everyone thought Brian Harradine had managed to attract these millions and millions of dollars to Tasmania, but in the end it gets evened out across the nation, and that is what is fair about the GST redistribution system that is in place - that no one state can actually be favoured over another. That is again why, even though it has meant that our relativities have shrunk in recent times, I am an absolute advocate for the current system. It is the fairest and most equitable system you can have.

Yes, the funds that we have attracted for the Royal Hobart Hospital have affected our relativities. They will be evened out. But they were funds we needed, so there is an issue about so-called Wilkie money but the reality is the state government was talking to the commonwealth about the fact that we needed a new Royal Hobart Hospital, and no new hospital has been built in this state without significant federal government funding. The first stage is worth over \$500 million. A state the size of Tasmania cannot afford that on our own so regardless of whether Wilkie got it or whether we got it as a state government, it would be coming our way and we just have to work with it.

[9.45 a.m.]

We have to accept that that means our relativities are adjusted. It is important for people to realise this as every time they get federal government funding coming to the state it is 'Wow, haven't I been clever, I have all this money', in the end it affects us in another area. It becomes tied funding and it affects the rest of our pool that is actually our funding to be able to determine priorities under.

UNCORRECTED PROOF ISSUE

Ms FORREST - Which makes it very difficult at a time when the budget is under pressure and we are making cuts to essential services in health and people see a building being built when they cannot get their hip replaced.

Ms GIDDINGS - Yes, but they need the building to be built in order to be able to have the most modern care that can be provided in the most efficient circumstances, and to be able to deal with the new modern equipment that helps with those operations and the like as well. The fact is, the Royal Hobart Hospital is old, it is a rabbit warren, and it needs rejuvenating. It needs to be rebuilt and that is what is happening. It does mean that you then have to make other choices but that is a priority choice and it has been for some time now.

Ms FORREST - Once the Wilkie money washes through and what is left of the Nation Building funding, how much impact will that have on the GST we will get that is free to use as we see fit as opposed to being tied to a particular purpose?

Mr WALLACE - It is difficult to give a precise number but roughly, on average, over the forward estimate period there is about \$80 million per annum that is going to be returned to the state on top of -

Ms FORREST - From when?

Mr WALLACE - It starts in 2013-14 because the revenue for 2012-13 is already known so it starts from 2013-14. The Royal Hobart Hospital effect is still there because of the average of three years but the coming off of the other, our greater per capita share of the other stimulus dollars will start to impact. What I have got is a sort of an average number over the four years of the forward estimates, which is about \$80 million extra in annual revenue we will get once that stimulus effect passes through.

Ms FORREST - So from 2013-14 there should be an extra \$80 million?

Mr WALLACE - No. Sorry, all I have is an average over four years.

Ms FORREST - That is \$80 million over four years from 2013-14?

Mr WALLACE - No. It is an average number.

Ms FORREST - What can we expect in 2013-14 in additional GST as a result of this starting to wash through?

Mr WALLACE - I do not have the number in front of me.

Ms FORREST - You must have some idea.

Mr WALLACE - I do not know. What you are talking about is a very complicated factor which we have. Stimulus dollars started to occur several years ago and some of them have already washed through and some have not yet. The Royal Hobart Hospital effect is this year, it is the first year. I have a chart which shows the average effect over the four years -

Ms FORREST - Just explain the average effect again because it is not very clear.

UNCORRECTED PROOF ISSUE

Mr WALLACE - It is \$80 million over the four years, per annum.

Ms GIDDINGS - Per annum.

Ms FORREST - So you are saying \$20 million a year?

Mr WALLACE - No, no, it is not that per annum, which I said before.

Ms GIDDINGS - \$80 million per annum.

Ms FORREST - That was the question and she said no.

Mr WALLACE - No, no. I said by definition it is an average per year, sorry.

Ms FORREST - We will probably see less in the first year because the Wilkie money is still there.

Mr WALLACE - That is right, yes.

Ms FORREST - We will see more in the next year.

Mr WALLACE - That is exactly right. As we get out of the forward estimates that number - so it starts at much lower than that.

Ms FORREST - We should see \$1.6 billion in total in four years' time, is that what you are saying?

Mr WALLACE - No. Comparing, in 2015-16 the GST number is \$2.15 billion and the 2012-13 number is \$1.7 billion so that is an increase over that period of time in total of \$400 million. Most of that effect is the pooled effect and then increasingly you start to pick up this effect of the stimulus coming through. The problem with the question is that some of these things end earlier. The Royal Hobart Hospital effect, which we know is \$88 million a year - that ends in 2014-15, I think.

I am sorry, because of the complexity of this, it is not an easy question to answer.

Ms FORREST - I am just trying to get a ballpark figure here, what we can expect in the out years.

Mr WALLACE - I cannot go with that.

Ms FORREST - So \$80 million per annum on average over four years.

Mr WALLACE - Obviously the Royal Hobart Hospital at the moment is \$88 million but that occurs in a particular period of three years of the four years. Using a number around \$80 million is probably a reasonable estimate.

CHAIR - I wanted to go down that path, Treasurer, about the Wilkie money because of Martin's earlier comments but it leads me to the observation that with falling revenues, which you have consistently identified - and they are fact - that expenditure must be correspondingly the cut.

Ms GIDDINGS - Yes.

CHAIR - I can then only go to the net operating deficits and indeed the blowout in the net operating balances, year on year on year, an average of - I do not know - maybe an average of 6 per cent blowout for a long period of time in terms of budget versus outcome.

So in regard to a reduction in expenditure in some way commensurate with the declining revenues, how can this state be confident that the net operating process can be achieved? I think the expectation is a 0.3 per cent - I do not have the figure in front of me, I could find it if I wanted to search through the papers - but that historical data of consistent over-expenditure. How do we get confidence?

Ms GIDDINGS - There are a couple of elements to this. I told you how last year we set the plan of pulling our expenditure in and we have established significant cuts across the public service to do that. This year we have had to put an additional 2 per cent cut on most agencies other than health, education and police. So there are additional cuts to our expenditure that will be made.

If you look at our savings report, in the latest version we have released with the budget - the March quarter - you will see that all bar basically health, which we knew and you have already supported the legislation for us to put an additional \$25 million into health, health have not achieved their \$100 million savings in the one financial year. Justice also needed an additional \$2 million provided to them; they did not make their savings in the financial year without additional support. The other one is ministerial and parliamentary support, which largely relates to the increases in rents; we have not made ours either, even though we have made significant cuts in staffing and the like. No doubt we will come to those numbers too.

Every other government department has or is on target to meeting their savings target - every other government department. So the issue here is why expenditure is increasing or why, if you have also cut 1 370 people I think it is now from the public service, we are seeing increases in people being employed. It does not sit comfortably with people.

The reality is is that in a budget year we still get other sources of revenue coming into government, primarily from the commonwealth government, but not always. It can come from other sources as well.

The commonwealth can ask us to deliver their program for them so they give us the \$20 million to deliver their program and they expect us to employ the five FTEs to be able to deliver that program. So it is not state funding, it is not state consolidated revenue in that sense; it is federal funding we are administering on their behalf. But that upsets the look of the books for us: 'What do you mean you are employing more people? You said you were cutting people'. But the reality is from our state responsibility, we are. We are making those savings and, in fact, we have seen 1 370 employees leave the system. However, it is masked when you bring in other sources of income like the federal government funds that come our way, which as the Treasurer put very well yesterday, you have to employ people to administer those moneys, but it is their money not ours.

CHAIR - Just reflecting again on the net operating balance. In last year's papers the net operating balance forecast for the current year was \$114 million. It is now estimated to blow out

by more than \$175 million to \$289 million thereabouts. There is the net operating balance, the net operating deficit forecast, smashed this year, smashed the year before, smashed the year before, smashed the year before. I still struggle to understand how the people of Tasmania can have confidence that you are going to be able to come in on these budget targets at the net operating deficit forecast for the looming financial year and the out years, because built into the out years are the GST relativity assumptions - which we have already investigated with Mr Wallace and yourself - that you have made. If there is any hiccup there we have problems.

Ms GIDDINGS - Yes, and that is the unknown. We did not know that GST would continue to fall the way it has over the past 12 months. We have not known that. The commonwealth predicts the GST pool to start increasing, but those are their assumptions, their predictions and you would need to talk to them as to how and why they have come to that form of modelling that will see the revenues improve. We can only take their data as being the most accurate data available to us for us to be able to make our projections on the size of the pool.

Our hope is that the pool stabilises and grows and that is why confidence is so critical. It really concerns me - it is not members from your House, I might say - that members from the other House deliberately talk down this state and deliberately focus on negative news all the time and never, ever stand up and talk about the positive elements of what is happening in Tasmania because that is what will build confidence.

We know what will also help to build confidence in the business sector, though it is starting to grow, is for the state to get its books in order and for the state to be moving back to a surplus. There is an interesting graph that the TCCI shows where business confidence grows as the surpluses are achieved. We are determined to do our best to get back into surplus. In fact, this year's forward estimates bring us back to surplus faster than we anticipated last year and we will hit our fiscal targets - I think - a year earlier than we anticipated, but certainly earlier than we first thought. This is all based on the best information that we have available to us at this point in time. It is why we are happy to have the quarterly reporting legislation going through the House now that will help to update as best we can information to be going through. I believe that legislation is now before your House.

Mr WILKINSON - It was the bill that I brought in last year.

Ms GIDDINGS - It was, Jim.

Mr WILKINSON - It sat down there and nothing happened, but I know there is new legislation now.

Ms GIDDINGS - There were issues with your original bill, which is why we have been going through our own financial management reform process. We are very cognisant of your keen interest in this issue and very cognisant of the fact that this legislation would help to address the issues that you have raised consistently in estimates over the years.

Ms FORREST - We call it the Wilkinson bill when we deal with it in our House.

Ms GIDDINGS - That's fine, you can do that. I do not mind that, I am very happy to share.

The midyear financial report will give us the next update. I don't know that I went through the presentation with you last year, but we had a very interesting presentation which showed the

various shifts that changed from budget to midyear financial report, to budget to midyear financial report, and it went up and down, where we thought we were heading down in terms of revenues and then we found we came back up again on the net operating balance. It is an unpredictable science but it is the best we can possibly do. The important thing for us now, particularly as political leaders, is to get out there and start help rebuilding confidence.

[10.00 a.m.]

Mr WILKINSON - It is a concern, isn't it, that everyone accepts that Treasury does the best it can with the information it has, and it would be ridiculous not to accept that. But when you look at the history of what has gone on over the last few years we seem to be in a situation where we are saying the same thing each year, 'we are going to be better, we are going to have this money, it is going to come to us', and yet we don't. Therefore, some might argue that history has also shown us that we should be well aware of the information that we have had and as a result of that been more conservative, especially since the GFC, which has not been the case.

I accept that you are doing all you can now but the GFC was a situation where the Treasurer at the time came in and said that we were in the worst situation that we will be in for a long time; that we are going to take giant steps to do all we can to cut back on spending, cut back on employment, et cetera, and it was not done.

Ms GIDDINGS - There was a reasonable amount achieved but what I have just said to you, it went up and down was true and in fact we had improvements from what we thought would be the case.

Mr WALLACE - The implication that this happened over several years is not quite right. The outcome in 2010-11 was better than the budget forecast for both the net operating surplus and the fiscal surplus. In the last 18 months we have seen this major reduction in revenue. Numbers were mentioned about \$114 million increasing to \$289 million estimated deficit, well \$120 million of that is revenue reductions most of which is GST, and then there is \$25 million for health, and there is depreciation of about another \$20 million to \$25 million. So that accounts for \$170 million and that accounts for the difference, most of which is driven by revenue reductions. Our revenue estimates in the budget have been too high but the vast majority of that is as a result of the GST pool not growing as fast as what the commonwealth estimated it was.

Mr WILKINSON - Can I get an understanding as to what stamp duties in relation to properties have been over the last year?

Ms GIDDINGS - It has dropped as well.

Mr WILKINSON - That is right, and that was foreseeable, was it not? It should have been foreseeable.

Mr WALLACE - Conveyance duty, as you are probably aware, is a notoriously difficult thing to measure and when the economy seems to be improving we always seem to, and all states do this, it is difficult to get these estimates right and you tend to be on the sort of low side and -

Mr WILKINSON - Which is a good thing.

Mr WALLACE - Yes, and when it is declining it seems to be the opposite. We thought we were being very conservative on those estimates. From all the information we had, and I think

UNCORRECTED PROOF ISSUE

almost every state, probably with the exception of Western Australia, had exactly the same experience as us in that conveyance duty revenue has fallen much greater than any of us estimated even though we were projecting the decline, but the decline has been quite rapid.

Mr WILKINSON - It has been marked. Can you give us an indication as to the difference between what you believe it to be and what it actually is?

Mr WALLACE - I think about \$35 million.

Ms GIDDINGS - Our state taxes are down \$37.5 million and GST is down \$144.2 million for the 2012-13 year alone. That is \$181.7 million since the last budget, as I understand it, we are down. The point that we get back to here is that there are the two elements again that have been against us, with the GST pool shrinking and our relativity shrinking. What is more positive about this data in that respect is we do not know whether the pool will continue to shrink. We just have the best estimates of the commonwealth to base ours on. That is all you can do - no other choice - but we do know our relativities will increase which is what we did not have last year when we were still decreasing in that respect, but we will now be increasing unless, of course, if the commonwealth suddenly threw another huge chunk of funds at us as a special case. But I will not be supporting that happening if that is going to affect our bottom line because, as we have mentioned before, that becomes tied funding. I am not interested in the commonwealth coming in with their big buckets of money and funding purposes that are in their interests and not in the interests of Tasmania.

Ms FORREST - It is a real risk with the federal election coming up before the state election.

Ms GIDDINGS - Yes, absolutely, but we have to sign off. If they want to send money through to Tasmania in that sense and it is through our books, we have to agree to it. I can assure you that if it is going to damage the budget bottom line in that way, we will not be supporting that funding coming.

Mr WILKINSON - Getting back to that point where I was in relation to your stamp duties, it seems to me to be relevant that when one looks at the way the housing industry is tracking at the moment there are going to be even less stamp duties this year than last by quite a significant amount, especially when you talk to real estate agents - I have only spoken to them here in the south of the state. How is that tracking? Are you aware at this stage?

Mr WALLACE - Yes. We obviously monitor closely all lines of tax, particularly conveyance duty based on the collections. That is why in the budget we have written down the estimate by about \$32 million in 2012-13. With conveyance duty we are estimating we will get about \$140 million compared to when we had last year's budget, I think, about \$170 million a year.

Mr WILKINSON - Is it tracking for the \$140 million now or alternatively have you found that the activity is even worse than you thought?

Mr WALLACE - I do not think so. I think the estimate is pretty good based on the numbers there at the moment.

UNCORRECTED PROOF ISSUE

Ms SAWFORD - I think, compared to the mid-year financial estimate, which would be the most recent published estimate that we did of conveyance, that we had not made any further significant revisions since that time.

Ms FORREST - Coming back to a couple of points to pick up what Jim was asking about and comments from Paul, we seem to be focusing particularly on the net operating balance as the headline measure of sustainability. This is a bit of a rubbery, easily manipulated measure in some respects because of the way money flows in and out through this process, but also writing down of assets like roads, for instance. When you write-down roads, your depreciation is reduced and subsequently your net operating balance can increase, but it does not actually impact the sustainability of the budget. Is that a fair comment?

Mr WALLACE -Yes. Depreciation changes.

Ms FORREST - So, effectively, it positively impacts on your net operating balance.

Mr WALLACE - Yes, depreciation is reflecting the valuation of the asset.

Ms FORREST - Effectively, it almost falsely inflates the net operating balance to make it look more sustainable when actually there has not been a change?

Mr WALLACE – Well, I would take strong exception to any suggestion that numbers in the budget are manipulated.

Ms FORREST - I am not saying that, and I am not suggesting that.

Mr WALLACE - Okay, sorry, I didn't understand what you meant.

Ms FORREST - I am saying the very fact that we write-down assets and that sort of thing can positively impact on the net operating balance purely -

Mr WALLACE - But we also revalue assets the other way, so depreciation is just a consequence of those asset valuations.

Ms GIDDINGS - Can I say, though, in terms of this, we do not actually focus on any one as being the line item that we say is the only one. In fact we very much see the net operating balance as one component that you absolutely need to take into account. The fiscal surplus is critical as well and, of course, net debt is a key indicator that we look at. Also, when it comes to the net operating balance, we report on the underlying issues in the NOB as well in that respect, that we do not just focus on one line item. I believe, in that sense, we are the most open and transparent government you could possibly have in terms of also saying to people, take the commonwealth funding out and you can actually see what the real situation is of state consolidated funds without commonwealth funding present. So, in terms of being open and transparent, all the figures are out there.

Ms FORREST - I am not saying they are not. I am saying that when you look at your fiscal strategy here, on page 3.3 you have your sustainable budget position and the only thing you are reporting on there, as part of the fiscal strategies, is the net operating surplus.

UNCORRECTED PROOF ISSUE

Ms GIDDINGS - We also report on general government net debt, that is there as well, and liabilities to revenue for the non-financial public sector. The ratio-of-net financial liabilities, I should say, which as I understand is also an important measure. The reason for it being there is that it also includes our superannuation liabilities.

Mr WALLACE - You have to focus on the package of our measures to capture the things that are indicative of your financial position.

Ms FORREST - Just going along the lines of the impacts on the net operating balance, there is \$110 million proposed, or a contingency amount or whatever it is called, for Forestry Tasmania, so that was made as an equity injection instead of a grant. Will the net operating balance increase in that case? Is that the case if it was an equity injection as opposed to a grant? It is being treated as a grant, I understand, isn't it?

Mr WALLACE - Yes. It is a recurrent item.

Ms FORREST - If it were actually an equity injection instead of a grant, would it have a positive impact on the net operating balance?

Ms GIDDINGS - Yes, it would.

Ms FORREST - Why is it being treated that way?

Mr WALLACE - It is a funny provision that is established in the Finance General for the future losses or costs incurred by Forestry Tasmania based on the modelling that was done as part of the URS report and which showed losses under a do-nothing scenario. We do not have the final URS report and the government does not have it and has not considered what it is going to do, but this is a recurrent provision - \$35 million in the first year and then \$25 million in the out years - for losses of FT.

Ms GIDDINGS - That is exactly it. It may be that in theory we do not have to spend \$1 of it, in which case it stays in the Consolidated Fund and we can reprioritise that if that is not required in the next budget. At this point from the URS advice that we have it has been prudent and, in fact, Bob Gordon has been on the public record as saying that governments would be prudent to have contingency funds like this, so that is where that comes from. It is not about putting equity into FT in that respect. It is not really an option.

Mr WALLACE - Just to clarify what I was saying, it supports our operating position, so it is not equity, so that is why the treatment is the way it is.

Ms FORREST - On a slightly different point.

CHAIR - I want to stay on the general government expenditure and net operating balances and underlying.

Ms FORREST - On that point, I notice that the Victorian Auditor-General reviews the forward estimates in their budget. Is there a reason that this does not occur here, that the Auditor-General doesn't look at the forward estimates? The forward estimates in some respects seem to be a fair bit of guesswork in that there are so many things that can change, but I am interested in Victoria as they are audited by the Auditor-General.

Mr WALLACE - Treasury is aware of what happens in Victoria. There are different views about the usefulness or validity of that, given that putting together any budget and getting estimates for the hundreds of line items and lines of state taxes and expenses, is a large task each year where the detailed analysis and knowledge of Treasury officers in working through each of those and the government's policy choices is what lead to the estimates that we have. That is something the Victorian Government chooses to do, but what value it adds I just need to think about.

Ms FORREST - I am not suggesting for a second here that they are not well considered, the forward estimates, and they are the best prediction at the time. However, when we have such challenging times and so many things are changing, with GST and state revenues and a whole range of matters, they often become completely redundant, year after year after year. Whether having the Auditor-General cast his or her eye over it would make an impact on it I do not know, but it would be interesting to see how they tracked in the past. We look at them each year and check the trends, but I admit I do not go back and compare the forward estimates three years ago with what is happening now.

Ms GIDDINGS - The Auditor-General could not really add much considering that what you are doing is a projection. It is not ever going to be an 'actual', that can be double checked in that respect. It is -

Mr WALLACE - Best case.

Ms GIDDINGS - A best case, absolutely. It is the best you can predict will occur. I am not sure that he would add anything.

Ms FORREST - Do you think the Victorian Auditor-General adds anything?

Ms GIDDINGS - Probably not, other than the political value of saying the Auditor-General has looked at the books. This is sad, to me - that we do not have trust and faith that the people we employ in Treasury are doing the best job they can with the information they have.

It is not as if it is not a public process. These things are questioned every year. These people are brought before these sorts of committees, or public accounts committees, if required, to justify and explain what happened in the previous year, if something was better or worse than they predicted. There are always going to be things occurring in the future that you could not predict - that you could not foresee. No-one foresaw the crash in October 2008 with the GFC.

Mr HALL - I think Jim wants to follow on with a GST question. I have another one, which is almost related, but if you want to go first.

Mr WILKINSON - In relation to the GST, last year you said the commonwealth had the best ability to predict GST revenues -

Mr WALLACE - Yes, and I still believe that. That is still the case.

Mr WILKINSON - You still believe that. What is the commonwealth predicting will be our GST revenues for this year?

UNCORRECTED PROOF ISSUE

Mr WALLACE - For 2011-12 or 2012-13?

Mr WILKINSON - First 2011-12 and then 2012-13 if we can.

Mr WALLACE - For 2012-13, we have a lower estimate. We based ours on the commonwealth preliminary estimates of GST. Our budget papers were completed before the commonwealth budget came out. The commonwealth gave us some preliminary estimates of GST.

Mr WILKINSON - Being?

Ms FORREST - They are very similar.

Mr WALLACE - We will find the numbers. They are very similar but ours is less than theirs by a very small amount because they revise up their GST numbers. I have the numbers here. For 2012-13 they estimated \$1 704.4 billion and we have in our budget \$1 700.8 billion so we are about \$4 million under them. I do not have the numbers for 2011-12 but I can provide them to you.

CHAIR - Do you want those, Jim?

Mr WILKINSON - If you would not mind, yes please.

Mr WALLACE - They are probably somewhere in the budget.

Mr WILKINSON - They probably are. I probably flitted over them. At what point in time will we know if there are any problems with the in-house modelling, or the modelling the feds have done?

Mr WALLACE - The modelling we have done is only on the relativities, and the first year in which that takes effect is 2013-14. The first indication of the extent to which that may be different from the reality is when the grants commission report comes out in February/March 2013. The biggest contributor to our estimates is the commonwealth's assumptions of the GST pool. Only they can predict that. While we get information during the year about how well their collections are going, there are only a couple of times in the year when they give us a formal estimate. Do you remember what those dates are?

Ms SAWFORD - You get formal estimates at budget time and at the mid-year financial report.

Mr WALLACE - Yes, at mid-year and in their budget time. So, twice a year.

Mr WILKINSON - But you would have an understanding, would you not, more often than twice a year, as to how they are tracking?

Mr WALLACE - The problem is the monthly collections go all over the place compared to their budget, so you cannot really work out, necessarily, what this means until the commonwealth does the analysis. Then they can see why the estimate for, say, January is higher or lower than what they originally budgeted.

UNCORRECTED PROOF ISSUE

Ms SAWFORD - No, I cannot really add anything to that. We get details of actual monthly collections which you can compare against the commonwealth's forward estimates by month but, as Martin said, there is a fair bit of variation from month to month so you might be down in one month and up in subsequent months. So, it is a bit hard to tell.

Mr WILKINSON - So are you saying there really aren't any good criteria to see exactly how the pool is going, and how the state will be going, other than twice a year?

Mr WALLACE - Yes, so for 2012-13 - when the commonwealth MYEFO estimates come out in November or December this year, that is the first real indication we will have about it, and we will reflect that in our mid-year financial report in February 2013. That is the first indication we will have about how GST estimates are looking compared to what we have in our budget forward estimates.

Mr WILKINSON - To me - and tell me if I am right - that can be disturbing because -

Mr WALLACE - It is 40 per cent of our revenue.

Mr WILKINSON - That is right, and that is why it could be disturbing, because there seems to be no other way that any state is able to raise the alarm bells and look at other options that may be available, other than on those two occasions each year. Is that what you are saying?

Mr WALLACE - Effectively, yes.

Mr WILKINSON - Right, thank you.

Mr HALL - Treasurer, I accept what you say about the GFC and falling revenues in regard to stamp duties, et cetera, and the fact that you have reduced FTEs in the public sector by 1 098, or thereabouts, but hasn't there always been a smoking gun in the room? Many commentators have talked about this and many legislative councillors have talked about it at budget time - that is the exponential growth of the public sector over the last few years, where we have seen numbers almost double, and salaries certainly double. Could I put it to you that this is another dimension of our budgetary problems at the moment? Isn't the government culpable for not having addressed that matter?

Ms GIDDINGS - There are two elements to that. There is wages growth, and there is the growth in FTE numbers. In the good times, there was the ability to share that benefit with the public sector workforce. Nurses and teachers, with their nexus-style salary arrangements, cost us a lot of money. Wages were going up in other states, and with nexus arrangements, they were tied to those wage increases.

Doctors - we had a huge problem, if you recall, where we were struggling to attract doctors, so we had to increase wages in order to attract doctors to our hospital system around the state. We live in a competitive world, and if you do not pay, you will not get the skills. That is what we found, particularly in the health workforce. In other parts of the public sector, wage increases were not as generous as for those key frontline services.

Since then, with the decline in revenues, we have had to bring in a very strict state wages policy - the 2 per cent wages policy - and so far we have had successful negotiations with the largest public sector unions. We have a two-year agreement of 2 per cent and 2 per cent.

I am reasonably confident - I do not want to jinx us - that we are on the way with teachers as well, which is another big group in the public sector. We are doing everything we can to constrain wages in that role.

The element of increased numbers, as I said earlier, since this has become a major problem for us we have seen a decline now of about 1 370, but Frank Ogle will be able to confirm that for us when he comes in DPAC, in terms of the actual head count. We have shrunk the public service in that respect. We do have that other problem of additional funds coming in from other sources that have FTEs attached to them, which have to be there to deliver that funding.

The other element I was going to say is that I was the health minister during the good times, 2006 to 2010, and I can assure you that in the growth in nurses of 600 new nurses and 200 new doctors, there would not be one of those roles that would not have had a strong case for being there. I remember a prime example was at the LGH with the need for more nurses in the rehabilitation section of the hospital. They had been told no, no, no, for a long time and yet we know that if you give nursing care early after a patient has had a stroke and you get them back into rehabilitation quickly, they will recover from their stroke much more effectively and will be able to look after themselves at a cheaper cost to the state than if we don't give them that rehabilitation. When you are faced with those sorts of decisions against expanding your workforce and also assisting in patient care, of course you find that you end up employing more.

Mr HALL - But with respect, and I understand what you are saying there, but outside those frontline services there was in the general stream of the public sector still an exponential increase. I remember talking to the former Treasurer about that and he was virtually saying while the rivers of gold are coming in we will keep going. That was, basically, the indication he kept giving to the House, and that is still providing this underlying problem you have as well, could I say.

Ms GIDDINGS - As I say, at a time when you can afford to do these things and you have demands on you to be able to fund programs, and unless you point to the programs that should not have ever been funded, it is very easy to make those sorts of broad statements without any backup of what you are saying. We know we have 200 more doctors in the system because of that period of time. We know we have 600 more nurses in the system. It is very difficult to even cut one nursing position as we would see, and we see that every single day.

Talk to us about other programs that we have in other government departments: the social inclusion work we are doing in DPAC, or the work we have been doing in education around trying to get different programs in place to assist children with the early years and get them reading and involved in school from birth onwards, or the importance of the Child and Family Centres that we have been building around the place. Until people stop and say 'you should not have done x, y or z, it is very easy to have these broad statements, and it is very difficult to combat them and argue in a way that you get a robust debate.

Mr HALL - I will ask another question. As you have said, since June 2011 you have reduced the FTEs from 25 400-odd down to 24 300-odd. Given this, the question I have then is: would you consider a legislative ceiling on the number of FTEs, say 24 500 or 25 000, which would send a signal that you would not allow the state to return to the unsustainable levels we had before?

UNCORRECTED PROOF ISSUE

Ms GIDDINGS - But it was not unsustainable, Greg. The premise of your question is wrong in the first place in that if it had not have been for the GFC, all of those programs that we put in place were sustainable. The GFC hit and we have had to respond to that and that happens in life. If you track the economy over the decades you will see it ebbs and flows. Even in my own lifetime we have seen recessions and booms and recessions and booms. Here we are combating one of the biggest global problems that we have had since the Great Depression. What was sustainable pre-GFC is no longer sustainable post-GFC, and just like a household budget, when you have to pull your belt in, you pull your belt in. It does not mean the expenditure prior to that point was wrong or should not have happened. Unless you can point to me and say, 'You should never, ever have funded this aspect of government,' then it is irrelevant. To talk about superficial caps I think is wrong. It may well mean that we hit the cap and we find that agriculture, for instance, needs us to invest more in water irrigation or helping farmers to do x, y or z and we say, 'Sorry, we have hit the cap, we cannot employ anyone to help you do that'.

[10.30 a.m.]

Mr HALL - But the GFC, with respect, also came about, but did we pull our belts in at the time, after it occurred? It didn't seem to me when the previous Treasurer had his hands on the wheel. That is the problem I have.

Ms GIDDINGS - I don't have my presentation with me this year. I did it last year umpteen times. It went from the point of where the GFC hit through to when I took over Treasury in December of late 2010, so effectively at the beginning of 2011 when I became Treasurer. I am happy to get it over the lunchbreak and table the pathway for you of the overheads I had, which showed you what the budget estimated would be and what the reality ended up being. It is an imprecise science, particularly when you are going through those initial aftershocks of the GFC where people didn't know what was going to happen, and we had two years of stimulus funding from the commonwealth as well to pump up the economy, which it did. We knew that stimulus funding would come to an end at some point, which it has, and so when you talk about the construction industries, for instance, which all geared up and employed people for the two years of the stimulus - surprise, surprise, they have hit the precipice now where that funding is no longer there.

Mr WILKINSON - But that advice was given, was it not?

Ms GIDDINGS - It was.

Mr WILKINSON - And it was given to you prior to the last election. If I suggested to you that it was strong advice to you that you could not fund your election promises and yet those promises were still made -

Ms GIDDINGS - We could fund them.

Mr WILKINSON - But you were advised, were you not, that it was unsafe to do so taking into account the GFC.

Ms GIDDINGS - We are getting the presentation for you because visually it gives you a much clearer picture to be able to see what the projections were, the actuals were, projection actuals, and you will see how difficult it was to make those projections at that time.

UNCORRECTED PROOF ISSUE

Mr WILKINSON - I understand that, but being prudent what I want to suggest to you is you were advised prior to the election, especially around Christmas time, that you were incapable of properly carrying out and you shouldn't be carrying out the promises that you were because you could find yourself in deep water.

Ms GIDDINGS – That is absolutely wrong in that sense and you will see, when I provide you with a copy of that presentation, the story that was told through that period of time.

Mr WILKINSON - I hear what you say, but you are saying that was not the advice given to you by Treasury prior to the election.

Ms GIDDINGS - I was not Treasurer at that time, so I do not know exactly what the Treasurer's advice was at that time. I became Treasurer in late 2010.

Mr WILKINSON - You were on the Treasury subcommittee as I understand it, weren't you?

Ms GIDDINGS - I am trying to think when I was on budget subcommittee again, whether it was at that period, but I think it was after the election I went on budget subcommittee. I wasn't, no. Again, hindsight is always a fantastic thing.

Mr WILKINSON - This wasn't hindsight, though.

Ms GIDDINGS - No, no, I will take you through the presentation.

Mr WILKINSON - This was foresight.

Ms GIDDINGS - It wasn't at all, and I will take you through the presentation.

Mr MULDER - A prophesy coming true.

Ms GIDDINGS - Not at all. Essentially, even in my time as Treasurer we have seen how you can make the best predictions that you possibly can and you still lose. What was it, \$180 million or something that we have lost?

Mr SMITH - \$1.8 billion.

Ms GIDDINGS - \$1.8 billion overall, but just in this next financial year.

Mr WALLACE - \$144 million.

Ms GIDDINGS - \$144 million and that was with the GST, though, and then we had the \$37 million or something on top of that of. It was about \$180 million. I am sorry, but I don't have the crystal ball that you are implying that you need to have.

Mr WILKINSON - I'm not implying you had it, but I am implying the advice was as if people looked into the crystal ball then and gave the government that advice but it was not taken.

Ms GIDDINGS - I will pick this up when we get the presentation, because I think you need to have the presentation to be better informed as to the debate around that issue.

UNCORRECTED PROOF ISSUE

Mr HALL - I just mention, Treasurer, following on from what you were saying, that Mr Challen made some comments recently, so you would not agree with those? He gave advice which in effect was not followed, that in the good times governments should put aside and be more prudent in that respect.

Mr WALLACE - In his speech he does not say that. I have a copy of the speech that he delivered, and that is not the inference he was making. He was talking about the principles that he, as part of the consultants the Victorian government, had developed around fiscal sustainability, which are effectively exactly the same as our principles anyway. The only point of departure was the view about needing to have some date by which you eliminate the unfunded superannuation liability, which I think is a debatable thing.

CHAIR - So are you saying that the *Examiner* reporting of Mr Challen's comments is inaccurate?

Mr WALLACE - All I know is I have a copy of his speech and I read it.

Mr HALL - I was at that particular function and I heard what he said, but anyway that is beside the point at this stage.

CHAIR - We will finish this point and then have a break. Treasurer, I hear what you are saying in regard to the most recent questions, and we won't go back into history but the fact is that there were efficiency dividends expected on the back of the GFC and they were not delivered. That is a fact. Last year you indicated to this committee that there were some senior public servants who did not believe that the -

Ms GIDDINGS - There was an element of that.

CHAIR - Have those senior public servants been suitably rebuked because they did not take the GFC seriously?

Ms GIDDINGS - I think you will find that all senior public servants have taken on board very much the need to find the savings that have been required of them. I commend them for the work they have been doing with us in helping to get our budget back on track. We have regular reporting on the savings strategies, and they are all working as hard as they possibly can to achieve those savings. I absolutely commend them.

CHAIR - So you still hold to your comment from last year that there was a disbelief?

Ms GIDDINGS - There was a disbelief, and not just necessarily amongst senior public servants either. There was a disbelief as in 'Well, what is this GFC?' and, to be frank, I still get it today. Now I think it is because people use it for political purposes and they say 'what GFC?' I was very pleased at the TCCI breakfast to meet this Professor Ian Harper, whom I have never met before in my life, but I hope I get to meet him again. He was an inspirational economist, I must say, who made it very clear that the GFC is at the heart of the problems facing Australia at this point in time. I still meet people in the community who, when I say this all began because of the GFC, it is almost like they are saying to me, 'Oh, come on, Lara. The GFC happened back in 2008. Don't blame the GFC for your problems today.' And of course they hear that from my political opponents, don't they. 'Oh, it's not the GFC that is the problem; it is mismanagement that's the problem'. 'Oh yes', everyone says, 'that's right, must be'.

That is the frustration of politics, the importance of communication, the importance of the debate, I suppose, in order to be able to correct the record and ensure that people do get a far better understanding of the reality of the situations facing Tasmania.

Mr VALENTINE - It is the frustration in the adversarial system, unfortunately.

Ms GIDDINGS - It is, absolutely. You are spot-on about that, Rob.

Ms FORREST - You were making some points a moment ago, Premier, when you were talking about the rivers of gold, basically, and the funding that was available during the good times when you were Minister for Health, and times were obviously much better for everyone in that regard. Probably in those times we should have been looking at how we could make things better, not waiting for things to go badly before we decided to make significant change, but here we are. So isn't this a time now to have a really serious look at the whole structure of government activity? I was pleased to hear from the Minister for Health yesterday that they are going to dust off the Tasmanian Health Plan and go down that path of looking at what we provide, to who, where, when, and all of those really important things that we should have been having discussions on since that document was first tabled or made available.

Yes, there is some work there about to start, but what about the broader public service? We have a Minister for Energy, a Minister for Renewable Energy, a Minister for Infrastructure, a Minister for Sustainable Transport and we have departments that sit in silos, planning separate infrastructure. Energy now sits under DIER and they do not necessarily seem to work together or talk to each other when you want to get a development happening. People have to go to so many different departments. Is this an opportunity we should be taking to look at a real structural reform agenda here that will see streamlining of government processes and a much more efficient, effective and streamlined whole state sector?

Ms GIDDINGS - You have raised a number of things there. It is not true to say that the health plan needs to be dusted off. In looking at services there was a lot of discussion and debate, in fact a fair bit of push back that I received as health minister around those very issues; bone marrow transplant being a prime example at the LGH. That work and conversation has been happening and continued. This national health reform has overtaken in some respects the reform that we were driving.

In terms of the savings, yes, we did and we have shown that we are very good financial managers and very prudent to the point that we did save up to \$1.6 billion. We turned this state around from a \$1.6 billion deficit to a \$1.6 billion surplus. We did that from 1998 until about 2005-06 when we hit the surplus, and built that up to \$1.6 billion. The biggest struggle that we had, and I anticipate that I will have that same struggle, is that once you start hitting surpluses and people are still in pain in regards to the cuts that you have had to put in place, the pressure comes on the Treasurer of the day to start spending the surplus. We will have to withstand that pressure in the same way that we withstood it all through the early part of the 2000s.

It is critical we start to rebuild our savings up and we do not give in to the political pressure of 'why aren't you putting more money into health now, why aren't you putting more money into police'. I know there are debates in your House about what we are doing in police, for instance. We will have to withstand that pressure in order to rebuild the finances.

In terms of streamlining of government and structural reform, a structural reform of that nature costs a lot of money to get it right and make it happen. I don't think that is our highest priority at the moment. What we can do is look at other forms of streamlining government and making government processes better. If you raise that question again with me in DPAC I will talk to you with Rebecca Burton at the table, our deputy secretary, about what we are doing with IT services, for instance, to streamline government. It would be worthwhile talking in economic development about what they are doing with Business Tasmania to streamline government, the people, so that on the outside they only have the one person to go to.

We have to look at where our priority areas are. If we have millions that we are going to have to spend in that form of structural reform, we need to look at how we can get the best outcome. It is not necessarily the bricks and mortar that are the problem; it is nowadays our IT investment. I would prefer to spend that money on IT investment, which is where modern government business is heading, than spending it on restructuring bricks and mortar, which is essentially what you are doing.

Ms FORREST - I am not talking about bricks and mortar, necessarily.

Ms GIDDINGS - In a sense you are in that you are then moving human beings. You might break up the Department of Infrastructure and do a new super department of state development, or whatever it is that the Liberals have put forward in their alternative budget. Those sorts of things-

Ms FORREST - I actually talked about it before they talked about it, a department of infrastructure and development that all went together.

[10.45 a.m.]

Ms GIDDINGS - I have effectively done that by having the one minister, which has been very useful. I certainly was the Minister for Infrastructure and Economic Development which I found useful, which is why I have kept that portfolio there.

Ms FORREST - Planning should be in there too.

Ms GIDDINGS - Planning possibly, it is an important part of that overall load. But you have to be careful that you do not end up saying, 'All of these things are so important, we have to put them all in together', and you end up with an unworkable situation of the superannuation department without things getting done, or a minister who has fair too big a workload. So you try to manage it as best you can and ensure that you have the communication channels open.

Mr MULDER - Your broad financial strategy, you have made clear, is based on the GST predictions or projections. The ones provided by the Commonwealth are the ones you are relying on and I think you have also mentioned that they are based on increases in basically private sector spending primarily in other states. With the spectre of the global financial crisis two - the Eurozone contest, if you like - is there a plan B if these projections are not as rosy as some commentators suggest they are?

Ms GIDDINGS - We will continue to make the best decisions we possibly can on the information available to us. When I became Treasurer in December of 2010 that latest information we had available to us then showed a dramatic downturn that we had not anticipated or predicted and we, as a consequence of that, actually brought in a mini-budget almost with that midyear financial report that I released in 2011. So if we had to do something like that again, to

readjust because there had been a dramatic change in the circumstances, we would do that on that basis.

However, we are not going to spend time and waste resources on planning for umpteen different scenarios. There is a hell of a lot of work that goes into this form of budget estimations projections. To say, 'Well, we'll just have plan B here and we'll have plan C because plan B is that it gets far worse, but plan C is it gets far better' - you just do not do it that way.

Mr MULDER - I think the answer was 'no', there is not a plan B. Can I ask whether there was any alternative scenario modelling done prior to selecting this particular strategy?

Ms GIDDINGS - Yes, there is a scenario modelling that has been done in terms of best case scenarios, worst case scenarios and that sort of thing with revenues and such.

Mr MULDER - Based on alternative projections.

Mr WALLACE - Behind the fiscal strategy, yes, that is right. The fiscal strategy takes a longer-term view. Previously that had not been the case. It sets targets out for the immediate forward estimates and then on up to 2022-23. That work was based on analysis of things that are likely to happen. In this very volatile world we are going to have numbers on a year-to-year basis that are very volatile. That is what the fiscal strategy tries to do, take the longer-term view. You are not necessarily overreacting to things that are purely cyclical.

Mr MULDER - I was not asking about the strategy. I was asking about whether there was a plan B. The Premier says that there isn't a plan B, but you are happy to say that there are alternative scenarios models. So in a sense there is a framework for alternative scenarios coming through.

Mr WALLACE - The framework is the fiscal strategy, so it takes a longer-term view, and in looking at those where we need to get to and those sorts of things, in each year the government needs to, for example, ask to what extent is the effect we are seeing this year purely cyclical, or how long is it likely to last, what do we have to do to meet those targets we are setting ourselves which are indicators of financial sustainability. By definition, the budget process, working with the government, does address this issue of alternative scenarios and plan Bs or whatever. You can only react to the circumstances once you know what they are, as long as you have a plan in relation to the key financial indicators.

Mr MULDER - So, in 18 months' time should the projections about the GST radically change, is it the intention of Treasury to advise the government to do one of two things: either you borrow more money to keep the current thing going; or go through another round of slashing and spending?

Mr WALLACE - From Treasury's perspective it would be based on an assessment of the extent to which the problem is believed to be short term or cyclical versus structural. What we identified, and what the government responded to, was that the echo effects of the GFC led to a structural problem in the budget, which needed a range of actions that have been put in place over the last couple of years.

Mr MULDER - I take on board all you have said about the GFC hitting everyone by surprise, no one predicted it, but there are a fair few people in the business of predicting GFC 2. I think you need some scenario modelling.

Ms GIDDINGS - Let us just be careful about not talking ourselves into that as well in that sense. This is exactly what Ian Harper and people have been saying, not me, but independent people in that respect, Tony. In fact, Australia is not focused on Europe. What happens in Greece is really not that important to Australia. In fact what is happening in Greece is a fairly small component of what is happening to Europe generally. Our focus is on Asia. Our focus is on China, which is continuing to grow at about 8 per cent. India is absolutely a growing area as well. We do not necessarily in Tasmania have as strong connection with India as we do with China, but it is the Asian region where the growth is happening. There is rapid growth in other countries like Vietnam.

Mr MULDER - Are you taking the position that should the global financial crisis number two hit the Euro Zone or the banking crisis and those sorts of things, that the impact on Australia would be minimal? Is that how you are planning for the future?

Ms GIDDINGS - All I am saying is that where we are focused in the global economy is more around Asia than it is Europe in that respect.

Mr MULDER - I heard what you are saying. I am just asking you -

Ms GIDDINGS - What happens to stock markets on the basis of confidence is something that none of us can predict in that respect. In terms of where we are focused and where you as a political leader, as well as the rest of us, need to be talking to our communities about is helping them understand the strengths of Australia, the strengths of the Asian community, not helping to build fear in people's minds of, 'Goodness me, are we heading towards a second GFC in Europe'.

Mr MULDER - Neither should we, like we did the last time, have our head in the sand as the GFC 1 broke over the shore.

Ms GIDDINGS - I don't know that you can have your head in the sand when it is unpredictable like that.

CHAIR - We will take a break and be back at as close to 10.05 a.m. as we can.

The committee suspended from 10.53 a.m. to 10.11 a.m.

CHAIR - Treasurer, we will make a start and get straight back into it. Can I take you back to pre-break when you were commenting on the fact that what happens in Greece really doesn't affect us, the Asian markets are where we are at. But surely it is a fact, isn't it, that what happens in Greece, someone alluded to it earlier, does affect our share markets. I think you may have even gone down that path yourself.

Ms GIDDINGS - It affects confidence.

UNCORRECTED PROOF ISSUE

CHAIR - Yes, but it affects the share markets, which in turn affects what happens to our economy, and it certainly impacts on superannuation issues across the board in this state.

Ms GIDDINGS - Yes, and I agreed with that prior to the break in the sense that the share market is affected by those sorts of things. The share market is down to confidence, which is why confidence is absolutely critical. It concerns me when we see people continuing to talk down this place that that does nothing to build confidence. We know the consumer is cautious because people are worried about their future. We have had Dr Martin Parkinson, the Head of Treasury in the Australian government on the record in the Senate estimates and things saying, 'We are not Greece'. He used those exact words: 'We are not Greece'. That is a firm message we need to get across.

Ms FORREST - I have said it a few times in the community.

Ms GIDDINGS - Yes, it is really, really important. I have spoken about how I am concerned that people are so worried about events that should not have the impact that they are having on our community. People are concerned. I talked about the pensioner I met in George Town who was going home to watch the news to see whether the Reserve Bank was going to lower interest rates that afternoon because she knew that that was an indicator of whether things might look up or not. She was very worried that the Reserve Bank wouldn't. I was there thinking, 'My goodness, you wouldn't even be affected by the decision of the Reserve Bank on interest rates'. We are so surrounded nowadays by 24/7 media giving us updates left, right and centre on what is happening around the world, we think it is happening in our own backyard when it is not.

CHAIR - Thank you. Net debt is a significant matter as relating to the out-years. You have consistently indicated, as well as ex-treasurers, that we would not be going back into a net debt situation. Is that the moment you blinked, as Matthew Denholm puts it in the *Australian* newspaper?

Ms GIDDINGS - No. I disagreed with Matthew Denholm there. I don't think I would have blinked at all.

Mr WILKINSON - You don't blink?

Laughter.

[11.15 a.m.]

Ms GIDDINGS - Some would say they wish I did. His opinion, I disagree with it. I am not sure how you can say someone has blinked when they are still driving the savings that are required, plus putting more savings on top of government departments.

CHAIR - Yes. His contention was, of course, that you were faced with disastrous opinion polls and leadership pressure, and 'Australia's once bravest Treasurer has pulled a few fiscal punches to protect a fatally wounded ALP'. Interesting comments though.

Ms GIDDINGS - I disagree with them all.

CHAIR - That is the Green reporter from the *Australian*, which leads me to the question as to the Greens having been consistent in their suggestion that net debt is not necessarily bad. What

influence did they have in their input to the budget strategy, the budget process, to in fact deliver that expectation of net debt or the forecast?

Ms GIDDINGS - I can assure everyone that the budget has been formulated on the best advice and information that we can possibly have about what we can achieve in terms of cuts to departments on a decision that was made last year, which was a tough budget, and most commentators last year said what a tough budget it was. And we have not deviated from that budget.

CHAIR - Australia's bravest treasurer.

Ms GIDDINGS - Yes, I think there was that.

Ms FORREST - You do agree with him on that point then?

Ms GIDDINGS - He didn't actually say that. It was one of his colleagues in the *Australian* who said that. But certainly commentators accepted that it was a tough budget. Now we have not deviated from that budget, so I am not quite sure how people can say that it has changed. We always said that there would be a risk of going into net debt and we did high-risk scenarios and low-risk scenarios last year, and unfortunately with the further drop in GST revenues we have not been able to avoid net debt.

The point here is that if we had listened to those people who have said over the past 12 months that we have been too hard - and I know there has been debate in your own House about some of the decisions that we have made that have affected elective surgery, for instance - if we had listened to all of those voices out there over the past 12 months and not made the decisions that we have made, we would be in deeper strife today with net debt. And we could not predict that we were going to lose a further \$180 million in this next financial year that has taken us into net debt. We could not predict that.

Where I have confidence, which relates to our discussion earlier this morning, is the fact that our GST relativities will improve. We know that for a fact. They will. What we do not know for a fact is whether the GST pool will improve; that is the unknown in that respect, but we have a strong pathway to get us out of net debt as quickly as possible. My main concern in this next financial year is the fact that we are operating a deficit on both our net operating balance and the fiscal deficit as well, but it is the net operating balance that I am concerned about because in a sense that means now we are going to have to borrow money to pay the interest rate on our debt.

Mr WILKINSON - I was going to ask a question about that, because if we look at budget paper number one, table 6.1, we are talking about the total borrowing this year to be \$1.1 billion. Is that right? That is as I read it.

Ms GIDDINGS - Yes, \$1.08 billion.

Mr WILKINSON - Which is, on average, over \$3 million a day? My question is, just to give you a broad scenario: the borrowing is \$1.1 billion, which is over \$3 million a day we have to borrow. What is our interest payment on that, and what can it do to our credit rating, and what will be the effect of that?

UNCORRECTED PROOF ISSUE

Mr WALLACE - When it comes to debt, the accepted measure of the state's financial position is net debt, so it is gross debt less cash and deposits and those sorts of things, and that position has not changed significantly. You will notice that cash and deposits go up by \$700 million and borrowings by \$850 million, which leads to the net debt number going from minus \$53 million to \$134 million.

It is net debt that is important because you get interest on your cash and deposits, and you pay interest on your gross debt, so it is your net interest costs. Your net interest cost, instead of having a net interest benefit from the fact that previously when we had negative net debt we had more investments than we had gross debt, now in 2013 we will have more gross debt than we have investments, so we will have a net \$134 million. The impact roughly is what our estimate of interest rate is applied to that number. As the Treasurer said, in a net operating deficit situation you are effectively borrowing money to pay that interest. That was this issue about the unsustainability if the government had not put in place all the measures that they had, you would have a structural deficit of \$400 million to \$500 million a year and you would be borrowing that every year, and you would be borrowing the interest every year, and you would have a compounding interest effect.

The actual interest cost in 2013 is the result of net debt changing. You can calculate by taking an average of those numbers and applying about 6 per cent.

Mr WILKINSON - Would it be easier if we asked for those figures and you supply them?

CHAIR - We will calculate it and get back to you next week.

Mr FERRALL - The overnight borrowing is about \$16 000, the net cost of the overnight borrowing.

Mr WALLACE - Sorry, that was the other thing, those numbers are 30 June and that happens because of the overnight borrowings on 30 June, so all the difference is what it costs us to borrow that overnight.

Mr WILKINSON - The situation that you just have described, what does that do or can it do to our credit rating?

Mr WALLACE - Following the budget each year we go through a process with credit rating agencies where they review the financial position and the strategies that have been put in place to address the financial position. They look at a range of indicators not just net debt, total net financial liabilities, et cetera. I would not like to speculate on what the rating assessments will be.

Mr WILKINSON - When will we know what those assessments are?

Mr WALLACE - Probably later in the calendar year they will issue advice about what they are doing with our rating, if anything.

Mr WILKINSON - I know we are hypothesising here, but I have a bit of a concern and no doubt it affects the budgetary outcome as well, if we drop down a level how much extra do we have to find as a result of that?

Mr WALLACE - At the moment our net debt is very small in the scheme of things, so it is not much money. But if we, for example, had not addressed the financial problem and if we had a significant net debt in the current environment there is quite a significant spread in the interest rates that you would pay depending on your credit rating. That has not been the case for many years, but after the global financial crisis obviously the credit ratings are having a much bigger impact on what your interests costs are, but we are talking about a very small amount here of quasi-net debt.

Mr FERRALL - The issue with credit ratings, certainly with the low levels of debt that we are likely to have, the change in rating wouldn't have a significant dollar impact, but it is the impact on business confidence and the community's confidence, which is more relevant than the potential budgetary cost.

Mr WILKINSON - Do I understand from your knowledge of it that we will be remaining the same as where we are now, or is it your belief that there will be a decrease in our rating? Or do you not want to hypothesise?

Mr WALLACE - No, but what credit ratings agencies do is a number of calculations, and both Standard & Poor's and Moody's have different ways of doing the calculations, and you get a set of numbers, and then they have bands depending on what those numbers are.

But once they do that calculation, while your indicators might sit within the triple A band, they might exercise some judgment about the risk associated with individual jurisdictions because of other factors. So it is impossible for us to say what their judgment is likely to be. Our indicators as a result of the fiscal strategy put in place are not too bad. With one of these rating agencies we are AA-plus, so that is obviously less likely to be affected, and the other one is AAA and that is more likely to be affected. But I could not possibly comment, because I do know that the rating agencies will do a very detailed analysis and they will come up with a view, and it is their view.

Mr FERRALL - Both rating agencies in their reports put out a range of factors which they would indicate would be either positive or negative in terms of the state's rating. The strengths of the Tasmanian rating in respect of Moody's has effectively been the strong commitment of the government to meet its forward fiscal targets, and also its ability to deliver on those targets. The sort of assessment they will be making would be a judgmental assessment, apart from the metrics that Martin indicated, on whether in their view all targets are achievable and the strength of the government's commitment to meeting those targets.

Mr WILKINSON - Is it too bald a statement to say our debt is \$1.1 billion or our borrowings are going to be \$1.1 billion, and therefore the government has to find around about \$3 million a day?

Mr WALLACE - No, they would not look at it that way. In the uniform government accounting principles gross debt is not a measure of financial position. It is net debt, and on these numbers net debt is positive, but it is a relatively small number. So that would not be the issue. The issues would be the things that Tony has mentioned that they would look at.

Mr WILKINSON - And in relation to the interest payment on our net debt, you are saying that that is a significant figure but not overly significant?

UNCORRECTED PROOF ISSUE

Mr WALLACE - No, it is roughly 6 per cent on \$130 million, and then the net debt falls for a year.

Mr WILKINSON - Okay. If you could get us those figures that would be great. Thank you.

Ms GIDDINGS - Chair, can I provide you with this presentation that gives an idea as to what has happened, which we talked about prior in terms of the -

CHAIR - Is it a document you can table in terms of the PowerPoint?

Ms GIDDINGS - I am getting the document for you, but at the moment it is all on one page and the situation is different to that. Still, it will give you an understanding as to what happens around predictions and outcomes in that respect.

We go back here and the first one is a 2008-09 budget. Lines heading downwards are the best budgets you can have in that you are accumulating your savings, and this is your net debt line up here. So in 2008-09 that is what we predicted. Then the GFC hit, and our situation worsened, but it was still reasonably good in relation to that. That second line is the midyear financial report in that 2009 year after the GFC had hit. The next budget we get is the 2009-10 budget where we saw a rapid deterioration from what we had in the mid-year financial report to what we were predicting in the future, so we went into the 2009-10 budget believing things would be far worse. When we got to the actual 2009-10 midyear financial report, which helped feed into the election promises that were made, we had in fact an improvement in our out years, which is on the basis then of what the election promises were. That improvement showed, yes, we were going to head up towards net debt a bit higher in the out years, but we were far better off than we thought we were at that time.

CHAIR - So you took your foot off the accelerator.

Ms GIDDINGS - We were able to go in saying what we would do in terms of our priorities at that time, and with a far better financial situation. Then we came to the 2010-11 budget, which was after the election, and we found that it had deteriorated a bit more but improved in the out years, so we thought we were on a fairly even wicket - we had to be responsible, but we could still keep doing what we were doing. We were able to implement a number of our election promises.

I became Treasurer in late December and we got the 2010-11 midyear financial report -

Mr HARRISS - Oh, so you stuffed it?

Ms GIDDINGS - Yes.

Laughter.

Ms GIDDINGS - It was me. I am the common element here. From what had been a very comfortable budget situation, we suddenly found ourselves skyrocketing into net debt.

Ms FORREST - Did you know that when you took over as Treasurer?

Ms GIDDINGS - No. Neither Martin nor I knew. It was a lovely little surprise.

UNCORRECTED PROOF ISSUE

Essentially, projections are based on the best information you have available to you at the time. I am not at all reflecting on the previous Treasurer, or head of Treasury for that matter. It is the best information you have.

After the GFC, our predictions did not always play out. It ended up worse than we thought. It ended up better than we thought. It is difficult to make those judgments, but we did not have any prediction of going into net debt at any time during that period. That only occurred with the 2010-11 midyear financial report in December 2010, which I released in February last year, and we have had to make tough decisions ever since.

You will see on page 4.18 of last year's budget the scenarios of net debt. Unfortunately, we have dipped into net debt, but we are getting out of it. We have debated the projections this morning. On the best advice we have at this point in time, we are going to get out of it faster than we would have otherwise anticipated, and that is the key.

I know it is very easy to blame the past, but I hope this shows you that these things are not easy. They are not easy to predict. We had different information available to us when we went into the election, as we did in the budget after the election, which enabled us to complete a vast majority of our election promises.

That looks like the old TOTE system you have there. We used to have to 'Do it with TOTE Tasmania'.

Mr Hall - You are being inattentive, Premier.

Mr WILKINSON - You never know what you will walk out with when you are sitting beside Greg Hall.

Ms GIDDINGS - No, that is right.

Ms FORREST - That is all part of it, is it not - to look back at what has happened -

Ms GIDDINGS - Yes, but it is also one of the reasons why we have tried to make our modelling much more robust by not relying just on the out years of the commonwealth that do not take into account the relativities. We should have a far better idea now, in terms of the relativities, than we have had previously.

Ms FORREST - Just that question I was going to ask before you wind up -

Ms GIDDINGS - I can table that for you. I am sure I tabled it for you last year, but anyway, I am happy to table that again this year for anyone to look at.

Ms FORREST - With regard to the overnight borrowings, assuming the Financial Management Amendment Bill gets through our House - the Wilkinson bill - does the quarterly reporting require that the 24-hour overnight borrowing to restore missing funds from the special deposit trust fund will need to happen every quarter?

Mr FERRALL - For the purpose of our budget estimates we have allowed for undertaking that borrowing on a quarterly basis. What happens will be very dependent on the actual cash receipts and expenditure for the period, and it may or may not be necessary. We have allowed for

it in the budget on the basis that there would be overnight borrowing occurring on a quarterly basis.

Ms FORREST - We will see that in the quarterly reports then?

Mr FERRALL - Yes.

CHAIR - I am rapidly coming to the conclusion that we are done on overview, which, for me, covers off on 1.1 and 1.2. Any there questions on those areas? If there is not we will go to superannuation and pensions.

Output group 3
Employee related costs

2.1 Superannuation and pensions -

Ms FORREST - In regard to closing the superannuation provision account, SPA, the budget papers referred to consultation with the Auditor-General, so the question is: does the Public Account Act allow for this? These funds were set aside for retiring a liability at a future time and the Public Account Act, particularly clause 13, says funds appropriated by parliament for a purpose other than stipulated are outside the provisions of that clause of the act.

When the Special Deposits and Trust Fund was established that was the criteria - that the funds would be used for the stated purpose. You could undertake internal borrowing, as long as it eventually went back. Closing the SPA and writing it off against the Temporary Debt Repayment Account changes the ballpark a bit. Will we need to have an amendment to the Public Account to allow that to happen?

Ms GIDDINGS - No, we won't. The Auditor-General was consulted through this process and he was comfortable with the change. Tony can add more.

Mr FERRALL - There have been a number of reports on the management of the Special Deposits and Trust Fund from previous Auditors-General, and they have also taken advice from the Solicitor-General of the time. The Solicitor-General in 1992 or 1993 said:

Because of section 13(3), the moneys held on deposit or in trust are not held to the credit of a particular account, but are to the credit of the fund.

When you are talking about the requirements you have to look at the total Special Deposits and Trust Fund. That is the fund the act is referring to. The Solicitor-General went on:

Rather there is simply use of moneys in the fund for the purpose of the fund, the Secretary ensuring at the end of the day that when moneys are deposited for special purposes they are available and used for that purpose, et cetera.

In order to offset the SPA against the Temporary Debt Repayment Account we will need to look at the purpose of the two accounts, and the Treasurer may need to exercise her authority to change the purpose of those accounts so they can just be offset.

Ms FORREST - How would you change the purpose of the accounts?

UNCORRECTED PROOF ISSUE

Mr FERRALL - Under the act the Treasurer has authority to approve accounts in the Special Deposits and Trust Fund and the purpose of those accounts.

Ms FORREST - Some of them are established by the legislation that establishes the fund.

Mr FERRALL - If there is a specific legislative provision that relates to establishing an account, then the Treasurer does not have authority on those.

Ms FORREST - You say that does not apply to the SPA or the Temporary Debt Repayment Account?

Mr FERRALL - It does not apply to those accounts.

Ms FORREST - The general government income statement shows the estimated outcome for 2011-12 recording a positive actuarial movement of \$341.8 million. Can you provide the reasons for this, and provide details of which parameters have changed? Before and after figures, if possible, and the earning rates on the plan assets, and even wage percentage increases and discount factors? That sort of information.

Mr FERRALL - Can I clarify? Are you asking for the actuarial assumptions underpinning that change in valuation?

Ms FORREST - Yes. What parameters have changed that led to amendment of the actuarials?

Mr FERRALL - Is this for 2011-12?

Ms FORREST - Yes.

Mr FERRALL - Going through the key assumptions for 2011-12, the discount rate used was 6 per cent. Similarly, for the judges scheme that was 6 per cent. The earning rate, which was for the fund assets, is 3.1 per cent. Salary increases, the actuary has used 4.5 per cent. AWOTI (?), which is in respect of preserved benefits, is 4 per cent and CPI of 2.5 per cent. The then deemed interest-earning rate on SPA was 4.55 per cent and then it was the contributions towards RA69 which are in the budget papers.

Ms FORREST - That has answered that, we do not need that one on notice.

In budget paper 1, the comment on page 5.11 regarding super expenses seems to suggest that actuarial projections are forecasting increased expense in the future yet we have seen a downward movement in the liability for 2011-12. Also, the nominal super interest has increased from last year's budget so you would expect an employee costed to find their super to increase as well. Is that the case? What I am saying is that it seems to suggest that the actuarial projections are forecasting increased expense in the future but we have a positive downward movement in the liability in 2011-12.

Mr WALLACE - It is possible to have a change in the valuation liability between years and the actual projected outflows on pensions and lump sums in a cash sense over the next 50 years. The movements in those are not necessarily consistent in the sense that the way in which the

UNCORRECTED PROOF ISSUE

liability is calculated takes things into account which are not actually necessarily the cash that is outlaid. What we have done, though, in the budget is reflected what the actuary's estimates are of the outlays in the cash over the period of the forward estimates and beyond. What the actuary has calculated in respect of the liability and the actual expense is not inconsistent; it will be based on a consistent set of numbers.

Ms FORREST - Further to that then and also on that same page, it refers to an increase in the super expense over the last year budget figure of \$36.1 million. What is the split between employer costs of defined benefit super and the defined contribution amounts for the 2011-12 estimated outcome and for this year's budget 2012-13 and each year of the forward estimates? Can you provide that information?

Mr WALLACE - We can provide it.

Ms FORREST - Do you have a copy of the updated whale graph?

Mr WALLACE - There are two whale graphs. There is a whale graph of the unfunded liability and there is a whale graph of the emerging cost. Obviously, the whale graph of the emerging cost is the most relevant because the unfunded liability is a notional concept particularly for a closed scheme. We can give you those.

Ms FORREST - I would appreciate the current unfunded liability whale graph as well.

Mr WALLACE - We will put some notes around it to help with the interpretation of the two different charts.

Ms GIDDINGS - Which is what we will be doing for the other House as well.

[11.45 a.m.]

Ms FORREST - I am just trying to understand a bit more about the defined benefits and defined contributions that are accounted for in the general government. The departments and agencies pay defined contributions direct to funds, not via Treasury and finance? They go straight to their funds?

Mr WALLACE - No. Are you talking about the defined benefits scheme?

Ms FORREST - Yes. Defined benefit contributions.

Mr WALLACE - Okay, yes. When I said no it is because if it was not the defined benefits scheme, yes, that contribution is paid directly to the fund, but the defined benefits scheme goes through the Public Account.

Ms FORREST - Yes, I was talking about defined contributions. Previously the departments and agencies are supposed to pay 12.3 per cent of defined benefit members and the gap payment of 3.3 per cent for defined contribution members into the SPA. Is that correct, and did that occur?

Mr WALLACE - Yes.

Ms FORREST - And what was the process that that occurred through?

UNCORRECTED PROOF ISSUE

Mr FERRALL - They basically paid it to finance general.

Ms FORREST - So it is paid into appropriation as an appropriation through finance general, or paid direct to finance general?

Mr FERRALL - The agency paid it to finance general, because the funding for it was appropriated to the agency.

Ms FORREST - So what is going to happen as soon as the SPA disappears?

Mr WALLACE - We both have the same diagram. Tony will work through it.

Mr FERRALL - We have two tables that show the previous funding arrangements using 2012-13 as an estimate and also the revised arrangements using the 2012-13 numbers that actually show effectively the two different funds flows. The Treasurer has not seen these yet but once she has reviewed these I would be quite happy to table them. It is probably easier to -

Mr WALLACE - It is a flow diagram of the funds.

Mr FERRALL - use that than try to describe the components of the flows. I think it will explain what you are after, which is what was happening previously and how will the funds flow in the revised arrangement. That is what these two diagrams show -

Ms FORREST - That is what I am asking, yes.

Mr FERRALL - and they use the numbers from the 2012-13 budget.

Mr WALLACE - It definitely helps. It is going to the RBF and it is just a simplified internal accounting structure.

Ms GIDDINGS - I am comfortable with you sharing that.

Mr WALLACE - Okay.

Ms FORREST - So you are happy to table those?

Mr WALLACE - Yes.

Ms GIDDINGS - Even though I have not studied them.

Ms FORREST - You are trusting your Treasury team there.

Ms GIDDINGS - Yes, I do trust them.

Ms FORREST - So what liability responsibilities, speaking from an accounting viewpoint, do the departments and agencies have for the cost of defined benefits super? Do they have any, or does finance general simply pay them?

Mr FERRALL - This is going into the future?

Ms FORREST - Yes.

Mr FERRALL - What will happen in respect of defined benefit fund members, at the moment agencies are appropriated funding, which previously was paid into the SPA. In the future that funding will be paid into effectively finance general and then the payment for the actual employees will come directly from finance general. So there will be a flow from the agency to finance general, and finance general will meet the payment to the RBF.

Ms FORREST - Is there any liaison then between finance general and the departments and agencies regarding the defined benefit super cost? Or is the cost of the defined benefits super off the radar? The reason I ask is what would happen if a department accepted voluntary redundancies without considering the defined benefit consequences to finance general?

Mr FERRALL - The answer to that is there is always liaison between the agencies and us about things that may have a significant cash impact. When you look at the total funds flows, which are of the order of \$200 million, you would have to have a significant number of redundancies to make any major difference to that, so you are really having to talk about a major program of redundancies to make any significant impact to that number, and certainly if there was going to be a major program of redundancies then not only would there be liaison with us, there would be liaison with the government.

Mr HALL - Treasurer, just a broad question first: have there been any other measures undertaken in other Australian jurisdictions to control or contain their unfunded superannuation liabilities and is there anything else that could be done?

Mr WALLACE - From our analysis, all jurisdictions have significant unfunded superannuation liabilities. In no jurisdiction - and Tony could correct me I am wrong - is there a situation where the schemes are fully funded. The sizes of these liabilities vary greatly, in the many tens of billions of dollars in some cases.

Essentially, how each jurisdiction will manage its liability, given that they all have unfunded liabilities, is to look at how to manage this best in a budgetary impact and also to take into account the intergenerational aspects. In Tasmania, what we have done is looked at the emerging cost of the scheme over the next 50 years and concluded that in a budget management sense and in spreading the cost appropriately over future generations, the best way of meeting it is on the emerging cost basis. Not all states will have exactly the same policy because it will depend on what an emerging cost curve looks like for each state. That is the conclusion that we have reached.

Ms GIDDINGS - The important point here is the fact that we are the government that made the decision to close the defined benefit scheme back in 1999, so that is the first corrective action in that respect in that it will come to an end. The second aspect that is key here is that you can in fact pay for any emerging costs that you have with superannuation payouts and we can do that. There is no problem; when people retire, we will pay them out. We will pay them what they are due in that respect and of course we will manage that as we go through. However, not everyone is going to retire overnight and that is what the whale graph shows, that it will be over a period of time but we need to understand how that will impact on the budget, and we do.

Mr VALENTINE - There is a bit of a hump coming up though, isn't there?

Ms GIDDINGS - There is a hump, yes.

Mr WALLACE - Yes. At this stage the peak of the emerging costs will be around 2025 to 2030 but the increase required each year, in fact the biggest increase, is in the last year of this forward estimates but that increase is actually a very small proportion of the budget revenue. I think it is less than half a per cent of budget revenue in that year and under the estimates we have that is by far the biggest increase between now and 2029, say, and then after that it declines. Future generations will get the benefit of the increased budget flexibility after 2029 when we will not have to put the amounts that we currently have factored in into our budgets. From an intergenerational equity aspect as well as from a budget management aspect it looks like the most sensible policy.

Mr HALL - Thanks. I acknowledge the answers, Treasurer. I have three more specific questions on this and it may make a few people feel a bit bilious around this table but I am still going to ask them.

It has been suggested to me by a couple of financial experts in the superannuation and finance industry that the state government only did part of the job when it closed the defined benefit scheme to new members, as you mentioned, in about 1999.

Ms GIDDINGS - 15 May 1999.

Mr WALLACE - I remember the date.

Laughter and interjecting.

Mr HALL - A couple of more short statements. Given the magnitude of the unfunded liability and the increasing ask on the budget for superannuation payments into the future, some financial experts have suggested that the defined benefit scheme should also be closed to existing members - not just new members - shifting everyone over to the accumulation scheme. People would keep their defined benefits up to the point the scheme is closed, but would be on the accumulation scheme after that point in time.

The questions are: has this ever been considered by the government in the first instance; has it occurred in other jurisdictions; is it something that the government would look at further in terms of savings which could be made to the budget; and do we know how many public servants remain in the defined benefit scheme compared with the accumulation scheme? So there are four essential questions.

Ms GIDDINGS - The advice that I am getting is that we have no knowledge of it having happened in any other state, so it is unlikely that that would occur.

Mr HALL - The precedent has already been set back in 1999.

Ms GIDDINGS - What 1999 did though was to say that anyone employed after that date would be employed under new employment conditions. If you applied for a job with the public service after that date, you knew you were applying on the basis of new conditions, whereas those who were employed prior to that date came to the public service on the understanding that this would be their employment conditions. In that sense, arguably, you are saying to them, 'We are going to change the rules on you midway through your anticipated career, and the benefits that

UNCORRECTED PROOF ISSUE

flow from that career move'. It is a bit like the sovereign risk argument in that respect, of changing a contract half way through in the sense that people have been employed on certain entitlements that they believed were there for them, and they may well have made other decisions not to pursue other careers on the basis that they made the decision that these entitlements in this job were what they wanted.

Those who come into the public service now know that those entitlements are not there for them. It is a difficult issue. All of us in some respects are dealt with differently around superannuation with the changes that have occurred. That is the reality of it. No, I am not aware of any other government having taken that approach.

Mr HALL - Getting back to that other question, would you look at it and look at the financial implications, or would you say no, you definitely wouldn't do it, full stop?

Ms GIDDINGS - I am not saying that you would never look at these things or never, ever do them in that sense. You might have those sorts of deliberations, but the fact is no government has done it, it is not part of this budget and I am not aware of any government outside of Tasmania ever having done it either. You would never rule out that people do not have deliberations around these sorts of things, you would never rule that out. I would be misleading the House if I did that sort of thing. In terms of what we have experienced and what we know of other states, it is not an approach that has been taken, for the reasons that I have given you in that way of what people's expectations are, what they have been employed as, and what their employment contract was.

Mr MULDER - In a sense it is breaking faith with your employees, isn't it?

Ms GIDDINGS - It is really, Tony, yes.

Mr MULDER - Declaring a self-interest.

Ms GIDDINGS - There you go, you do and that is also the difficulty in these things, that there are people working side-by-side those who are on the scheme and those who aren't. Naturally it is a sensitive issue that is raised.

Mr MULDER - If that is the condition of employment I guess we will have that debate this afternoon.

Ms GIDDINGS - Yes, we will have further discussions around conditions of employment, but it is talking about superannuation. As I say, there are three or four different super schemes in parliamentarians' world. In fact, there are some members who probably we cannot afford for them to retire, to be honest.

CHAIR - He doesn't want to.

Ms FORREST - Only if he goes out in a box it might help.

Laughter.

Mr HALL - The Chair has given me a glare I won't ask any more questions on that aspect, Treasurer.

[12.00 p.m.]

CHAIR - I just have one question on the Superannuation Provision Account. It has been a central plank of economic management for a long time, since Ray Bailey identified the unfunded liability some time ago. Hence the establishment of the SPA. It has now been abolished. How is that governments of the past got it wrong in terms of establishing the SPA, and isn't that one of the best forms of hay in the barn?

Ms GIDDINGS - The SPA was a temporary provision account. It was not a sinking fund, or a savings account. In reality, getting rid of the SPA does not change the approach you take in terms of the savings you are trying to make. We can rebuild our savings, and on the basis of the forward estimates, in 2014-15 we will have \$240.7 million surplus on the net operating balance, going to \$259.5 million in 2015-16. I could argue that \$259.5 million is savings for superannuation, just as we said the \$1.6 billion we had saved prior to the GFC was for superannuation. It is all savings, which you prioritise against your needs at any given time, and you make decisions on behalf of the community at that time. You may say the highest priority need right now is to have these savings for unfunded superannuation. But, you might also say we need to spend some of that money set aside for unfunded superannuation in order to look after health services or police or education - the key services. These decisions are made by governments all the time.

If you would like to hear it, I can tell you that in the next financial year, 2013-14, I will have \$52.8 million saved for unfunded superannuation, rising to \$240.7 million to \$259.5. This is really an accounting exercise - that is all it is. It makes no difference having a SPA there or not, which is why the advice of the Auditor-General was sought and he agreed with the proposed change.

CHAIR - Any further questions on superannuation and pensions?

Mr MULDER - Just a general question. Is there any oversight by Treasury of the superannuation - of the way the RBF invests and manages money and the return it gets?

Ms GIDDINGS - No, not in that way.

Mr WALLACE - This question came up yesterday as well. Maybe Wendy is the best person to answer this.

Ms SAWFORD - The RBF fund determines its own investment strategy. It has some consultations with the government about the overall investment objective, but it determines the investment strategy - what asset classes it invests in and what particular assets it acquires, and things like that.

Mr MULDER - There is no oversight as to returns on particular investments or anything like that?

Ms SAWFORD - Not by the government. That is the responsibility of the RBF board.

Mr MULDER - It is not a GBE, it is not a department. How does the public get oversight of the use of funds?

UNCORRECTED PROOF ISSUE

Ms SAWFORD - It has a trustee board and it is required to act in the interests of the members of the fund, and it reports. It provides annual reports, and reports to members on its performance.

CHAIR - Okay. Can I just make an observation, members? We are down to about the last 55 minutes. We have not got off Finance-General, and we still have Treasury and Finance to get through before lunch, so Targeted Voluntary Redundancy Program. Jim, any questions?

Mr WILKINSON - Just very quickly, how is that tracking? I understand -

Ms GIDDINGS - Sorry Jim, you keep raising these. These are DPAC questions. Those sorts of workforce renewal, targeted redundancies issues are really DPAC. Treasury only has a role if agencies need to borrow to help pay redundancies. We can answer questions on that element.

Mr WILKINSON - Okay, that might save a bit of time. It is only relating to the borrowings to pay redundancies? Is that right?

Ms GIDDINGS - That is right.

Mr WILKINSON - That is the only role that Treasury plays in relation to it?

Ms GIDDINGS - Yes.

Mr WILKINSON - Has there been any borrowings? There was \$10 million put away, I know that. What is the state of that?

Mr FERRALL - We had one - two now - relating to speed camera operators, and the Skills Institute.

Mr WILKINSON - In total how many people?

Mr FERRALL - I don't know how many people.

Ms GIDDINGS - In DPAC we can give you more detail about people, but here it is just who has knocked on the door.

Mr FERRALL - I have had a discussion with health and they may wish to borrow to support some of the redundancies they have made through the year, but they are still working through their financial position.

Mr WILKINSON - How much of that \$10 million have we used?

Mr FERRALL - Yes, \$1.9 million for the Skills Institute has been advanced so far.

Mr WILKINSON - Okay.

Mr VALENTINE - Premier, some time ago, Health and Human Services made provision for the 27th pay. They averaged the pay out between 27 pays, so the employee had a slight drop in their take home pay per fortnight to cover the occasions when the 27th pay occurred. I cannot

UNCORRECTED PROOF ISSUE

understand why we have \$6.5 million here if we are going to apply the same rule to other departments.

Mr FERRALL - I think you are talking about an arrangement that came into place 13 years or 14 years ago, which related to the number of paydays in a year. The number of working days in a year varies between 260 and 264 days. Annual salary is now calculated on the basis of the actual number of working days in a year. That is what you are talking about. It was not related to the 27th pay.

Mr VALENTINE - That is not the way it was sold to us. We were told we were making provision for the 27th pay.

Mr FERRALL - No, you will see that an adjustment is now made every year, in respect of the actual number of days in the year.

Mr VALENTINE - That is interesting.

CHAIR - You were snipped.

Mr VALENTINE - I don't know, but I just thought if that is the case why do we have to provide \$6.5 million.

Mr FERRALL - It is two unrelated issues, that is all.

Mr VALENTINE - Why can't we do it that way? Why can't public servants be paid just a smidgen less every pay to cope with that 27th pay? After all if they -

Mr FERRALL - You are assuming that all of those same public servants will be there for the 27th pay.

Mr VALENTINE - There is that small issue.

Laughter.

Mr WILKINSON - It is a large issue now.

Mr VALENTINE - It might be a large issue. There must be a way forward, rather than having to provide \$6.5 million, because you are paying people more than they are gazetted for.

Mr WALLACE - It is a cash issue. In the government's expenses it is okay, because it is an accrual accounting system, but the cash associated with the extra pay in a year has to be paid in that same year, so provision is made for the cash.

Mr VALENTINE - They are not being paid more than they are gazetted for?

Mr WALLACE - No.

Mr MULDER - If you paid them twice monthly, wouldn't you solve this problem?

Ms GIDDINGS - Twice monthly?

Mr MULDER - Half way through the month, and at the end of the month. Then you only have 24 pays a year.

Ms GIDDINGS - We are paid half way through the month and at the end of the month.

Mr MULDER - It would roll and there would be no catch-ups or fall behinds.

Ms FORREST - There have only ever been 26 pays.

Mr MULDER - Just spread the annual salary over 24 equal payments. What is the problem?

Mr VALENTINE - I am satisfied with the answer.

Mr FERRALL - People expect to get regular payments on fixed days so they can manage their other finances and if you start dividing the year by 24 you will find that it will not be on the same regular basis so you might find that you get your pay two days after you have had to pay your housing loan. The idea of fortnightly or regular payments is to manage finances.

Mr MULDER - I think you are taking the nanny state to ridiculous lengths if that is the reason.

CHAIR - Let us move on.

Forestry, State Fire Commission, Government Businesses

Mr HALL - Treasurer, just with regard to forestry- and I notice you did have some interchange with Ms Forrest about forestry before so I am not going to go back down that track - Mr McKim publicly said that this money is to wind up Forestry Tasmania. Do you rule that out?

Ms GIDDINGS - What we have is a review by URS of Forestry Tasmania's operations now and we are in the process of waiting for the final report from URS to help inform advice to me from Treasury as to how we deal with the financial pressures that Forestry Tasmania is under as a result of the downturn in the forest industries across the board. I cannot pre-empt what that advice will be. We are expecting the URS report within the next couple of weeks and then there would be a couple of weeks for Treasury to finalise their advice to me on the basis of that report.

It is contingency funds and it is there if it is needed but it may not even be needed. Our advice is that it is likely that some of that certainly will be needed because Forestry Tasmania of course does carry the CSO level of payments that are required for fire management and reserve management of reserves that they have. When you have problems with your income streams not being as strong as they once were, remembering of course that effectively half of their business withdrew with Gunns withdrawing from the native forest sector, that has had an impact on FT.

Mr HALL - It seems to me that FT also said that they did not need the funding, so how did you reconcile making those provisions?

Ms GIDDINGS - In the recent interview that Bob Gordon gave, he talks about the fact that it would be prudent of the government to have these funds set aside. I have that here somewhere and I will just have to find it for you to give you the direct quote. I think they understand, too,

UNCORRECTED PROOF ISSUE

that it is important. He says: 'If you are government and you are being prudent you would make a contingency or insurance policy available if something unexpected happened'.

Mr HALL - Yes, but there seem to be a couple of conflicting public statements. That aside, when cabinet approved the funding did the two Greens cabinet members tick off on that?

Ms GIDDINGS - First, I do not talk about matters that are within cabinet but you might also note that -

Mr HALL - I had to try.

Ms GIDDINGS - Yes - in that same interview on Wednesday 23 May, Bob Gordon says, and I quote: 'All of these roads were paid for by the sale of forest products and we simply don't have the financial resources in the very tough climate that is going on at the moment to keep up all of those community service obligations'.

Mr HALL - There is no doubt about that.

Ms GIDDINGS - He has stated that they do not have the financial resources, which is exactly what URS is telling us. They do not have the financial resources. Therefore we need to have contingency funds.

Mr MULDER - You are saying the funds are there so that Forestry can maintain its infrastructure?

Ms GIDDINGS - At this point in time, the contingency funds are there on the basis that they may be required to help. The review of FT is ongoing and we are waiting for the URS report and I do not have the final copy of that yet.

[12.15 p.m.]

Mr MULDER - I think there is some concern within forestry, in particular, that they will be required to manage the reserves should the IGA transpire. What I am asking is, is this money designed as a contingency to allow Forestry Tasmania to continue managing the reserves or just the working forests?

Ms GIDDINGS - No, in fact under the intergovernmental agreement you will see that the Australian government is prepared to provide up to \$7 million a year to help manage those reserves, so the funding would be coming from the commonwealth to help with that.

Mr MULDER - The advice from both of your departments to a committee of this House is that the \$7 million is not adequate to maintain the roads, the bridges and the infrastructure, which is what sparked my attention with your statement.

Ms GIDDINGS - The \$7 million is to help manage the reserves on that basis and indexed as well, from memory, which is better than what we have got from them in the world heritage area.

Mr MULDER - That \$7 million is insufficient to maintain roads and bridges because it is based on a model that is for managing reserves that do not have roads, bridges and infrastructure.

UNCORRECTED PROOF ISSUE

Ms GIDDINGS - At this point I just do not have advice and I am not in a position to be able to talk further on those sorts of issues because we do not know the outcomes of those negotiations, or what impact that would have, and what decisions may be taken in the future in regards to roads, bridges and things, as well as what access points are required into those areas, and where there are not required if you don't have to do roading for forestry purposes.

Mr MULDER - I am happy to wear the 'I don't know yet' as an answer.

Ms GIDDINGS - That is right, we don't.

CHAIR - Staying on that point, if I can, if I were to suggest to you that some of that appropriation is sitting there to assist with FT's incapacity to meet its unfunded superannuation liability, is that one of the considerations?

Ms GIDDINGS - It is not. We have put aside the contingency funds on the basis of URS saying that we are likely to need to support FT in the current climate, a point the CEO of FT himself acknowledges in his own comments, partly because of the fact that they have had to carry the CSO requirement, which has been a requirement to help manage forests that are in reserve and under their management. There are issues. My hope is that we do not have to spend one dollar, but I think that that is a very optimistic view. We will need to wait for that work to be done, but it is likely that some contingency funds will be required.

Mr WILKINSON - There is a big difference, isn't there, between \$1 and \$110 million, which is \$35 million next year, \$25 million for the following each of the three years?

Ms GIDDINGS - That is right.

Mr WILKINSON - How were those quantum derived?

Mr WALLACE - As the Treasurer says, we do not have the final report from URS yet, but at the time of putting the budget together URS had completed its financial modelling of Forestry Tasmania's future revenues and costs under a 'do nothing' scenario, and on the basis of that modelling there were projected cash losses equal to these amounts. Because there are a range of issues here, which are well documented in the Legislative Council report and Auditor-General report on FT, how exactly this money might be spent or otherwise cannot be determined until the government has seen the URS report and made decisions about the future. Given those estimates, we considered it would be prudent and transparent budgeting to reflect those as a provision in the budget.

3.4 Government businesses -

Mr HALL - Just one quick one on government businesses. The sale of TOTE has taken place since the last budget. Treasurer, can you provide a brief reconciliation for the committee on the final amount received, when it was received, and have all proceeds gone into recurrent expenditure?

Ms FORREST - Perhaps also the costs associated with the sale, consultant's fees and stuff.

Mr HALL - Yes, if you would like to add that, Ms Forrest, that would be fine.

UNCORRECTED PROOF ISSUE

Ms GIDDINGS - The TOTE sale was completed with Tatts on 26 March 2012 and the sale price of the business of TOTE was \$103 million. The general government cashflow statement identifies the sale price as an equity disposal. The general government income statement includes as other gains and losses in other economic flows the sale price of \$103 million less the written-down book value of TOTE of \$8.5 million. There will be a final adjustment to the sale price prior to 30 June 2012. Going forward, TOTE may be entitled to certain future GST benefits which arise from TOTE's carried-forward GST losses and Tatts has agreed to remit the value of these benefits to the government as and when they are utilised.

The potential value to the government from this aspect of the sale has not been included in the budget and forward estimates. The budget papers include estimated sale costs of \$3.5 million in 2011-12 for expert probity, financial and legal advice. We had probity advice from Wise Lord and Ferguson. We had financial advice from Investec and we had legal advice from Clayton Utz and Crown Law.

Mr WILKINSON - Therefore the government put in the bank less than \$100 million. Are you able to say exactly what it was, please?

Ms GIDDINGS - It was \$103 million less \$8.5 million.

Mr WALLACE - The final adjustment has not happened yet.

Ms GIDDINGS - On 30 June we are expecting that final adjustment to the sale.

Mr WALLACE - It is based on the completion accounts.

Mr WILKINSON - Right, so less than \$95 million is what it seems to be, if it is eight point something million from \$103 million.

Mr WALLACE - No.

Mr FERRALL - The last advice I had was the final adjustment will be effectively positive and so we are anticipating that the net will be approximately about \$103 million.

Mr WILKINSON - So, about the same as what it sold for, after all expenses.

Ms GIDDINGS - Then there is the benefit of the GST that we do not know whether or not that would be paid out in a lump sum or over a period of years.

Ms FORREST - What sort of quantum are we talking about with that, have you any idea?

Mr WALLACE - Yes, we had initial estimates. I am not sure where they are at now but it was around \$40 million.

Mr FERRALL - It has accrued about \$40 million of carried-forward GST losses and it is a question as to how much of that can be utilised going forward and the time period in which that may be remitted back to the state.

Ms FORREST - What requirements are there from Tatts's perspective that would trigger that pay back of that?

UNCORRECTED PROOF ISSUE

Mr FERRALL - Effectively, they have to be utilisable so the ATO effectively has to allow it and then Tatts has to be able to utilise them with either the total within its total group and there are arrangements that if Tatts can utilise those GST losses then we will get a remittance back to the state on the basis of how they can be utilised over a period of time. They could be utilised over a very long period of time.

Ms FORREST - There is no certainty attached at all to this.

Mr WALLACE - No, but the state does get all the GST credits back.

Ms FORREST - It will have to?

Mr WALLACE - Yes, the state does, under the agreement.

Ms FORREST - Yes, but we just do not know when and how much.

Mr WALLACE - That is right.

Ms GIDDINGS - It is important to note that those funds have gone on to the con fund essentially and they are part of that. We did not sell it for that purpose, there were other reasons why we sold it but if we did not have that close to \$100 million you would be \$100 million worse off, essentially.

Mr WILKINSON - Of course we were told that it was going to sell for north of \$500 million.

Ms GIDDINGS - Who told you that, though?

Mr WILKINSON - That was told to us in the upper House by the then Treasurer.

CHAIR - The ex-Treasurer.

Ms GIDDINGS - The ex-Treasurer - \$500 million?

Mr WILKINSON - Over \$500 million - north of \$500 million.

CHAIR - He had the nose for it.

Ms GIDDINGS - I certainly have never been aware of that as a figure but what we had was advice from Investec to say that if you do not sell at this point you will have an asset that is worth very little if not nil.

Ms FORREST - He told us that, too.

Ms GIDDINGS - Well, there you go - and I will let Martin speak in a second as well - but part of the problem was that the first attempt to sell TOTE put all of our information effectively into the marketplace, which was then used against us, which was why we had to use a different approach the second time around in that sense because the value of TOTE was undermined by the first sale price process.

Mr WALLACE - I was just going to note that the Auditor-General under the Sale Act will report on the sale.

Mr WILKINSON - I can indicate that the then Under Treasurer said that it was valued at around about \$111 million, when we were told that it was being sold for -

Ms GIDDINGS - We got a good result then.

Mr WALLACE - Considering what has happened since then.

Mr WILKINSON - When we were told it was going to be sold for north of \$500 million.

Ms GIDDINGS - Might have been a bit of dreaming going on there.

Mr WILKINSON - No, purchasers were knocking at the door.

Ms FORREST - We told him he was dreaming.

Mr WILKINSON - Is there any reason why we ask questions?

Mr HALL - Just finally on this output group 3, Treasurer: the sale of Aurora customers, will Treasury have any role in that and, if so, what process and time frames from here? Where will the proceeds go to?

Mr WALLACE - The government's policy paper and the ministerial statement on the electricity reform set out the time frames for achievement of certain parts of this integrated package of reforms, and part of that integrated package is the sale of Aurora's customers to competing national retailers to basically enable them to compete and provide services in Tasmania. That sale has to be completed by the end of December 2013 because, under the government's announced policy, full retail contestability starts on 1 January 2014. To sell that customer base a number of things have to happen before we can do that, and we also need to scope how to bundle the Aurora customers in a way to ensure effective retail competition. I need to emphasise that this set of reforms is all about improving consumer outcomes. The value or otherwise of any asset sales is not the driver of these -

Mr HALL - But always helpful.

Mr WALLACE - Yes. So obviously we have not factored into the budget any proceeds from the sale of this, and the government, at the time that these are sold, will make the decisions about how these proceeds will be used.

Output group 4 Miscellaneous

4.2 Treasurer's Reserve -

Ms FORREST - Just a couple of quick things on Treasurer's Reserve. I assume that without the supplementary appropriation that we passed that the Treasurer's Reserve was spent this year and has been reimbursed with that process? Is that how it works?

Mr FERRALL - I read your comments from an earlier debate -

Ms FORREST - It is good to know that you actually take an interest.

CHAIR - Masochist.

Mr FERRALL - Yes, someone has to do it.

Laughter.

Mr FERRALL - In respect of the way the Treasurer's Reserve works, there is an appropriation for the Treasurer's Reserve, and there are two components as you know, the \$10 million and \$10 million. What actually happens in expending the Treasurer's Reserve is, you see it on the other side of agencies with requests for additional funds so what happens is, in the true sense the Treasurer's Reserve becomes a saving, and you see the expenditure on the other side with the various agencies which may, through requests for additional funds, increase their appropriation, so that is how it works in a mechanical sense.

Ms FORREST - Okay, with the financial management review, what is the current Treasury view in regard to how much would be appropriated to the Treasurer's Reserve?

Ms GIDDINGS - It is \$20 million, and of course the Liberal Party has put in their alternative budget that they would cut it down to \$10 million, which is really very fine. That is fine to the bone really, because it is there for the unexpected that can occur throughout a year, and we believe that \$20 -

Ms FORREST - I am more concerned about what is in the position paper. They suggested, I think, 2.5 per cent of appropriations.

[12.30 p.m.]

Mr FERRALL - Yes. In terms of potential revised financial management legislation, we have been looking at a range of options as to how things like the Treasurer's Reserve might be managed.

One of the issues at the moment is the Treasurer's Reserve calculation is quite complex and complicated when you understand how it works in practice. We are looking at in terms of potential changes to either have the Treasurer's Reserve as a fixed percentage or a cap, but those options are in a position paper; they have not been agreed to or adopted by government yet.

Ms FORREST - That is what I am asking.

Mr FERRALL - As you are aware that position paper is out and there has been consulting on it, and we are seeking a range of views as to how that might be worked.

Ms FORREST - We have not moved from it being a position paper comment to any form of policy change at this stage?

Mr FERRALL - No. That is a matter for government to accept or reject what might be a recommendation that comes through.

Ms FORREST - That is why I addressed it to the Treasurer. We will wait and see.

CHAIR - Anything further on the Treasurer's Reserve?

4.3 Miscellaneous -

Mr MULDER - We are talking about 4.3 here Miscellaneous, and I note the decrease in appropriation reflects the reduced expenditure for this output as detailed in 4.1 of the output group expenses summary. A quick look over there shows that there is a decrease due to the water and sewerage subsidy payments down \$1.2 million, National Disaster Relief Scheme \$1.5 million, and hello, forestry \$1.5 million over three years. However, if you look at that thing, yes, there is a decrease next year, but if we use the current year as a base, \$9.3 million, you are looking at about a \$1 million increase the year after next, then a \$10 million increase the year after that, and then a \$8 million the year after.

The notes also say that the decreases are offset by increases, which are attributed to the mobile radio network. On my very crude calculations is it a fact that you are talking about some \$20 million being set aside in future estimates for a mobile radio network?

Mr FERRALL - For some time we have had a provision in the forward estimates for the potential to replace the mobile radio, and that is on the basis of replacing it with a whole-of-government network.

Mr MULDER – Sorry, I had a déjà vu moment there.

Mr FERRALL - You were wearing your uniform last time this was discussed, I think. There is \$15 million per annum that was put across the forward estimates. That has been adjusted a couple of times in relation to advice as to what the likely timing might be and how this may go forward. I have it here somewhere, but I would have to find exactly what the profile is across the forward estimates and I can do that in a couple of moments.

CHAIR - While Tony is looking for that, Mr Mulder, anything further in Miscellaneous?

Mr MULDER - No, I think that will do me on that one.

4.7 Property management services -

Mr MULDER - I am just going to raise the question I raised last year and that was in relation to the building we are sitting in at the moment, and how much of that is in here and what is the current -

Ms GIDDINGS - The parliament square project?

Mr MULDER - Yes, and what are the projections in respect of the ongoing rental drain on the coffers as a result?

Ms GIDDINGS - I am not sure what you are referring to there. If you are talking about the parliament square project in that respect there will be rental in the future off that project, but of course we will get modern up-to-date offices as a result of that.

Mr MULDER - I am not questioning the quality of the product. I am questioning the ongoing impact on the current expenditure.

Ms GIDDINGS - There obviously will be rental increases but what we get out of it in this private partnership that is being developed with Citta is a historic building that no-one wants or has done much with for many, many years actually restored. That investment is the sandstone hospital that is on this parliament square site. It is quite imperative that something is done around that and that obviously would have a drain on the public purse. Also, of course, we get much better public space as well as office space for the public service as well as for parliamentarians out of that development as well.

Mr MULDER - Is that a \$9 million per annum drain on the public purse?

Mr FERRALL - The final rental and fit-out costs are unknown - and you would be aware of that because it has been discussed previously - and is dependent on the construction time frame. Over the budget and forward estimates - I have not a year-by-year breakdown - there is about \$21 million, which is being allowed for effectively the increased rent going forward.

Mr MULDER - Thank you.

Mr WILKINSON - When you look at property management services you can see at 8.2, 9.9, 13.4 and then suddenly 35.0 and then back to 19 and then you return to 4.7 and you go over to the footnote and it says: 'The decrease in appropriation reflects the reduced expenditure in this output as detailed in table 4.1 output group expense summary'.

Mr FERRALL - What page?

Mr WILKINSON - It is 4.14 - can you see the sudden jump in 2014-15?

Mr FERRALL - It is the site preparation and associated costs for the fit-out.

Mr WILKINSON - That is the sudden jump and comes back again. Parliament square is due to be finished then obviously by 2014-15?

Mr FERRALL - Depending on planning and other issues. That is where we budgeted the fit-out.

Ms GIDDINGS - And that is presuming we get through the Supreme Court action still pending.

Mr MULDER - They may save you yet.

Ms GIDDINGS - It would be a real backward step if we do not get this development up. This is important redevelopment of this site and, as I said, it will ensure that we are able to put funds into those historic buildings that are a drain on the public purse as well as providing a much better environment in this part of Hobart city. It is also another part of the critical public spend to help provide jobs in the construction industry at this time. It ticks all the boxes and I would be sorry to think that we would end up with some form of negative campaign in relation to what is a very positive project.

Mr WILKINSON - Okay, that is where it is. I cannot see that being expended in 2014-15, hopefully it is, but if there are already delays in place, I suppose, watch this space. Do you agree?

Mr VALENTINE - I am just pleased to know that it is not actually the Hobart City Council's responsibility, as some were suggesting during a certain campaign just recently.

Laughter.

CHAIR - Just a little swipe.

Mr VALENTINE - No, just clarifying the issue.

4.8 Infrastructure investment project planning -

Mr MULDER - I note that in the budget papers, 4.8 Infrastructure investment project planning, it talks about providing funds for the early planning stages of major infrastructure projects. Can we have just a quick snapshot of these wonderful visionary projects that are in the pipeline?

Mr FERRALL - These are actually funds on a bids basis from agencies. Agencies put forward bids and we fund those through this item as they come forward. I cannot give you details of the bids that agencies are going to prospectively provide in 2012-13.

Ms FORREST - Haven't got a crystal ball?

Mr FERRALL - No. I can get you details of the bids that came through in 2011-12.

Mr MULDER - In 2011-12 you had \$1.5 million. Maybe we could know what those bids were, so we can get some idea of what agencies are aiming for when they get their \$2 million.

Mr FERRALL - I can provide that. I do not have that with me, but I can provide that.

CHAIR - Any further questions on that line item? We move to grants and subsidies.

Grants and subsidies -

CHAIR - Are there any questions? Thanks, Treasurer. We move now to Treasury and Finance.

DIVISION 11 (Department of Treasury and Finance)

Output group 1 Financial and Resource Management Services

1.1 Budget development and management -

UNCORRECTED PROOF ISSUE

CHAIR - We move straight into the first few items. I have covered all of those with questions in the previous area. Are there any questions to the Treasurer? Greg, can you identify the line item that you want to go to?

Mr HALL - I think it is 1.2, and I will raise the issue, Treasurer, very quickly with you. I wrote to you last year in relation to farm debt mediation laws, such as they have in other states. I am just putting it to you that -

Ms GIDDINGS - I did reply to you, I take it?

Mr HALL - Yes, you did. I am aware of that.

Laughter.

CHAIR - You just didn't like the reply.

Ms GIDDINGS - Whatever I said in that letter, Greg, still stands.

Mr HALL - You said you did not see a need to provide a mediator, but I have recently been advised by the TFGA that banks have been doing a lot of revaluations, and there have been significant pressures put on some people, with the potential of foreclosure, which is not what we want to see in the agricultural industry. It is a driver of the economy. Queensland, New South Wales and Victoria all have provision for a mediator. We are not talking about bucket-loads of money here. I wanted to raise the issue to see whether you might reconsider at some stage.

Ms GIDDINGS - This relates to the valuations of farms? Is that what you are talking about?

Mr HALL - No, we are talking about having mediation to try to prevent potential foreclosures.

Ms GIDDINGS - I will seek further advice at this point. You might write to me again about that, or I will take it on notice and see where we are at in relation to those issues, but I do not have any briefs with me on it and I would need to seek that advice again. I don't think it is really relevant.

Mr HALL - I acknowledge that. I will write you again.

Ms GIDDINGS - Yes, do.

CHAIR - Any questions on output group 1?

Ms GIDDINGS - We have some further figures on the police mobile radio to put on the record.

Mr FERRALL - Figures on the mobile radio for the record. In 2012-13 it was nil, in 2013-14 the provision is \$4 million; 2014-15 and onwards it is \$15 million.

Ms FORREST - On budget development and management - I think it fits under 1.1 - a few years ago we used to have - I think 2007 was the last year - data on concessions. The costs and a detailed description of concessions were provided. Treasurer, will you consider compiling a

UNCORRECTED PROOF ISSUE

chapter in the budget papers again detailing concessions and tax expenditures. I know it is currently done in some other jurisdictions - Victoria does it - because there is -

Ms GIDDINGS - The book on concessions is produced by DPAC.

Ms FORREST - Yes, but I am talking about the impact on the budget. My rough calculation is that it is about \$300 million.

Ms GIDDINGS - But you have used a consolidated -

Ms FORREST - Yes.

Ms GIDDINGS - We used to do that in the one chapter.

Ms FORREST - Before you were Treasurer.

Ms GIDDINGS - Before I was Treasurer, right. All the information is in there, but you would have to collate it, going chapter by chapter.

Ms FORREST - Yes. But it is good to have a look at the big picture. It would be helpful to the general public to understand how much impact concessions have on the budget. It is about \$300 million, which is not insignificant.

Mr FERRALL - There was some difficulty in the past compiling that information, because we needed to get data from agencies, because you could not necessarily get reliable information for things like 'avoided revenue'. We had a lot of interaction with agencies to try to get some sort of an estimate of the total concessions. With DPAC doing the concessions booklets, we moved away from it from a purely financial point of view because the information we were able to publish was not necessarily as accurate as we would have liked for the budget papers. Because of things like avoided revenues, we had to ask agencies how many times they had provided a concession, or not obtained the full value of revenue, on a particular product or service.

Ms FORREST - It would be good to have some idea of how much impact it is having on the budget, because it is bigger than most things. As a single line item, so to speak. I know it is spread across a range of departments, I accept that.

Ms GIDDINGS - We will take that opinion.

CHAIR - No more questions in output group 1, moving to 2. Rosemary, do you have any issues?

Mrs ARMITAGE - Only a couple. They are pretty much the same for both areas.

Output group 2 Economic and fiscal policy

2.1 Economic policy advice -

2.2 Fiscal policy and regulatory advice -

Mrs ARMITAGE - What has, or will be, the impact of savings measures on these areas?

Ms GIDDINGS - There certainly are savings measures that have been put in place for Treasury and I can ask Martin to address that for you.

Mr WALLACE - Sorry, are you asking a question about this output, or can I talk to you in general terms?

Mrs ARMITAGE - 2.1 and 2.2 - the same questions on both to save a bit of time.

Mr WALLACE - In total, since March 2011, we have abolished about 26 previously funded and occupied positions, as a result of the savings strategies, which is about 9 per cent of our permanent workforce. I think the impact in these two areas has been pretty low - 1 or 2 FTEs went.

Mrs ARMITAGE - And consultancies? What would the cost of outside consultancies be?

Mr WALLACE - We have reduced consultancies substantially.

Mrs ARMITAGE - Would you have a breakdown on the figures for consultancies?

Mr WALLACE - Yes, we do have it. I have a list.

Mrs ARMITAGE - I am happy for you to get it. Consultancies on both 2.1 and 2.2 - how much they total.

Mr WALLACE - Yes, I can provide that. They are not divided up in a way that makes it easy to answer the question here, but I can provide that information.

Mrs ARMITAGE - That is fine.

Mr HALL - Treasurer, other jurisdictions have been very proactive in red tape reduction and some of those have made hundreds of millions of dollars in savings. I asked the previous Treasurer about this a few times. Where are we up to with that? Are we being proactive in that regard at the moment?

Ms GIDDINGS - It is a COAG agenda - trying to cut red tape and looking at how we can streamline processes.

Mr HALL - Are we doing it within our jurisdiction?

Ms GIDDINGS - Absolutely.

Mr HALL - Is that within the Department of Economic Development?

Ms GIDDINGS - Yes, primarily driven through the Department of Economic Development, but it is a whole-of-government exercise in planning reforms and other areas of government where so-called red tape exists. The issue with red tape is that people talk about it in general terms, but find it very difficult to point to individual pieces of so-called red tape that can be addressed. It is an issue, and all governments take it on board. If we can find ways of streamlining services, licences, whatever, we are certainly trying to do that.

Mr HALL - The other states have specific targets and some of them have achieved those. Do we have a specific target for red tape reduction?

Ms GIDDINGS - I do not think we have a specific target, but if you want to ask again when DPAC are here, there might be some further information we can provide you about the COAG agenda. As I say, it is certainly something we are trying to do and our reforms in planning have been aimed at that goal.

Mr LOCK - I might just make one additional bit of advice. The Department of Economic Development, Tourism and the Arts is currently running a program to reduce red tape as part of its economic development plan. They have engaged some consultants to liaise with businesses to identify areas where there is onerous red tape that could be examined to see whether it could be reduced or eliminated. That program is currently under way within the Department of Economic Development, Tourism and the Arts and they are better placed to discuss that when they present before you.

Ms FORREST - I am not sure whether this is the right spot or not but 2.2 talks about financial reform issues. Is tax reform on the agenda, and what has happened in that area?

Ms GIDDINGS - We had that national tax forum last October and there are still ongoing discussions with Treasurers around taxation reform but in the real reform issues there is not much happening. There is no discussion around GST, there is no appetite for reform around GST, and that is the biggest tax that affects states.

Ms FORREST - That is true, but then there is an aborted state tax review and I acknowledge the fact that there needs to be commonwealth support to progress any meaningful state tax reform. That was one of the commitments that was made that it would be progressed at a COAG level. It would be really tragic if it just completely falls off the radar. I know times are tough economically at the moment and there is not much money around to support such reform, but surely discussions need to continue.

Ms GIDDINGS - There is some discussion that is occurring around having uniform national payroll tax legislation and trying to harmonise those elements particularly, and we still have that long-term goal of trying to reduce inefficient taxes. But it is true to say that for real reform of that nature we need the Australian government to work closely with states. We are continuing to work where we can together but not on the big issues.

Ms SAWFORD - In New South Wales and South Australia, the governments are doing some work together under the COAG banner that they will bring back to COAG. I am not exactly sure - apart from the payroll tax harmonisation that the Treasurer has talked about - what they are looking at but they are doing some work there that will come back to COAG later.

Mr WALLACE - There is work going on in Treasury departments but at the end of the day we will need the commitment of all governments and particularly the commonwealth to achieve the degree of reform that we would ideally like to achieve.

**Output group 3
Revenue and regulatory management services**

3.1 Tax administration and revenue collection -

Mr VALENTINE - I would like to ask a question on land tax. With regard to the aggregation system that currently exists, has there ever been any consideration of revisiting that to the benefit of Tasmania so that Tasmanians are actually investing in their state and not being disadvantaged compared to, say, someone coming from the mainland and buying the same property?

Ms GIDDINGS - We did look across the board in relation to taxes at the beginning of the process of pulling this budget together knowing that we were losing revenue. The land tax reforms that we had delivered earlier were aimed at trying to help stimulate further investment by business. To undo those land tax reforms would be counterproductive in this environment where we are trying to get the private sector to invest more, not invest less. We discounted doing anything on land tax, similarly on payroll tax. We cannot afford to lose more revenue and we cannot really afford to put extra impost on business either, on payroll. That is why in the end we decided to look at what are considered inefficient taxes with motor tax, insurance tax, MAIB and conveyancing as well, and that is where we have increased our revenue base as a result of decisions on looking at where we can get some return to the taxpayer through taxation.

Mr VALENTINE - It just seems to me that people in this state are hampered in investing in other property because they have to pay commensurately more land tax than someone else from the mainland coming in and buying the same property. It just seems to me to be a little backward.

Ms SAWFORD - We do not charge different land tax rates to people depending on where they live.

Mr VALENTINE - No, it is on the number of properties they own, isn't it.

Ms SAWFORD - Yes, but if you own properties in Tasmania, regardless of whether you live in Tasmania or you live on the mainland, you will pay the same amount of tax.

Mr VALENTINE - A person who does not own any property in Tasmania from the mainland who comes in and looks at house A, and someone in Tasmania who has two houses already and wants house A as well, they pay a different tax.

Ms SAWFORD - People in the same circumstance will pay the same amount of tax regardless of where they live. Yes, you are right, but if you own multiple properties in Tasmania your properties will be aggregated. If you only own one property then you will pay a lesser rate of tax.

Mr VALENTINE - On the same property.

Ms SAWFORD - Yes, it does not matter where you live.

Mr VALENTINE - No, I think a person in Tasmania pays proportionately more land tax for that same property; that is what I am saying. Is that correct or not?

Ms SAWFORD - It is about the value of the properties that you own, not about where the taxpayer lives.

UNCORRECTED PROOF ISSUE

Mr VALENTINE - I understand that. I am just saying that people in Tasmania are disadvantaged because if they own more properties in Tasmania they are going to pay more.

Ms SAWFORD - You cannot aggregate properties across jurisdictions that is true, but perhaps, Treasurer, when this question was last examined, which is a few years ago now, the cost of getting rid of aggregation was quite significant, about \$30 million or something like that, so it would be a very significant cost to the budget to remove it.

Mr VALENTINE - A gamble almost in the hope that people would invest more.

Mr WILKINSON - The real question, is it not, is that people who own property in Victoria and also want to own let us say a holiday place within Tasmania, they don't have both properties aggregated, do they? It is only properties within Tasmania that are aggregated.

Ms SAWFORD - Yes. Tasmanian land tax only applies to properties in Tasmania, so we cannot take into account properties that you might own elsewhere.

Mr WILKINSON - So that is where the unfairness obviously can arise.

Mr VALENTINE - That is the point I am trying to make.

Ms GIDDINGS - The same goes the other way, though. If a Tasmanian investor decides to buy an apartment in Melbourne, in Docklands that I saw advertised recently -

Ms FORREST - It would be cheap at the moment.

Ms GIDDINGS - They are going cheap. We get it back the other way. I don't think it is an apples and apples comparison that you are making in that respect.

Mr VALENTINE - How many states have aggregation like that?

Ms SAWFORD - It is my understanding that all jurisdictions have aggregation.

Mr VALENTINE - All of them?

Mr WALLACE - Effectively the unit that gets taxed is the total value of the properties, not an individual establishment.

Ms SAWFORD - The Northern Territory does not have a land tax, but my understanding is that all jurisdictions that do have a land tax aggregate.

Mr WILKINSON - I hear what you say, Premier, but that really is giving an incentive for people within the state not to purchase property within the state from what you are saying, but to purchase property interstate because it is not aggregated.

Ms GIDDINGS - You have just opened up a whole new market. You might start thinking I will buy one in Victoria, one in New South Wales, one in Queensland, and one in Tasmania, and then we can avoid aggregation.

Mr WILKINSON - It is not a new market; I can tell you some people on the Property Council are -

Ms GIDDINGS - They do it?

Mr WILKINSON - They are doing it.

Mr MULDER - Now that is talking the economy up.

Ms GIDDINGS - We do live in a federation of states and unless you are going to end up having a national land tax system, where you can end up having aggregation across the entire nation, I am not quite sure how you avoid that loophole.

3.2 Regulation and administration of liquor and gaming -

Mr WILKINSON - Has the state government done any further work in relation to the national gaming reform issues and, if so, what are the implications of it?

[1.00 p.m.]

Ms GIDDINGS - We have the Tasmanian Gaming Commission, which has done its own work following legislation that was passed through this parliament, which asked the Gaming Commission to develop a mandatory code. The Gaming Commission has now developed that mandatory code, as asked of it by the parliament, and beyond that we also have the reviews that are done on gambling. We released the latest review only a few months ago which showed that there has been a decrease in problem gambling here in Tasmania, which is positive. The work of the Gaming Commission with their mandatory code is in accordance with the work they are doing under legislation that is required of them to continue to try to put in measures that will drive down problem gambling. There has been further work, yes.

Mr WILKINSON - And in relation to the national gaming reform issues?

Ms GIDDINGS - The national gaming reforms - obviously there have been further discussions at the national level with Mr Wilkie against what they are trying to do nationally. There has not been a ministerial council meeting for some time on this issue that I have been involved in - I think it was last year even, that was the last one - so there has not been a lot of movement there from our perspective.

The Australian government was hopeful that we might have been a test site for the change that they were looking at with mandatory precommitment but after working with our local operators here it was not agreed for Tasmania to be that trial site. I believe the Australian government is undertaking that trial now through the ACT and they are working through what they can get federally through their Australian parliament but that has not involved us.

Output group 4 Community assistance

4.1 Bass Strait Islands community service obligation -

Ms FORREST - It is good to see 4.1 Bass Strait islands community service obligation is still there. I do not have any questions. I am glad to see there has been a CPI increase, I expect, for this line item and that is all.

Mr WALLACE - Sorry?

Ms FORREST - The CPI increase to this line. This is the Bass Strait islands community service obligation.

Ms GIDDINGS - Yes.

Mr WALLACE - Yes, that's it.

CHAIR - I have no further questions on that.

4.2 Public Trustee community service obligation -

Mr VALENTINE - Premier, just clarifying, presumably that CSO is about education in the actual development of wills?

Mr WALLACE - Can I call up Richard Sulikowski? Richard, can you explain what the CSO pays for?

Mr SULIKOWSKI - The CSO is a contract between the Treasurer and the office for the provision of non-commercial services by that office. Mainly, it relates to referrals from the Guardianship and Administration Board for people who cannot look after their own affairs. It is a subsidy for the office for those services - not commercial services that are delivered.

Mr VALENTINE - That is fine. I just thought it might have been general education within the community and those sorts of things but it is not.

4.4 Payment to the Royal Society of Tasmania

Mr MULDER - Just very quickly, thank you, Madam Chair - \$25 000, I think, went last year to the Anzac Day Trust and then \$3 000 going forward for the Royal Society of Tasmania, and that is according to the notes. What did we spend the \$25 000 on for the Anzac Day Trust, what was the money actually spent on, and what is the \$3 000 going forward to the Royal Society for?

Ms GIDDINGS - Essentially, that has been transferred across to DPAC so there has been no cut to that funding.

Mr MULDER - No, I was not suggesting that but just what was it spent on I asked.

Ms GIDDINGS - Those grants will be paid out through DPAC, as I understand it, in the future.

Mr MULDER - Grants for what?

Ms GIDDINGS - The \$3 000 is the grant for the Royal Society through Treasury but the other \$22 000 must be for the Anzac Day Trust, which has been transferred to DPAC.

UNCORRECTED PROOF ISSUE

Mr MULDER - What activities were performed for that \$25 000?

Ms GIDDINGS - The Minister for Veterans Affairs might be able to tell us, or Chris Lock can come to the table and tell us.

Mr LOCK - It is to support the veterans' groups around the state, particularly the RSL and Legacy, but other groups are on proposals for funding.

Mr MULDER - So they put bids in for particular projects and you approve them?

Mr LOCK - That's right. They prepare an annual report every year, and I think when we changed the act we had a tabling of that report, but I can't confirm that.

Mr VALENTINE - So that is not just about Anzac Day activities. That is about things associated with it.

Mr LOCK - No, that is right. It is to support veterans' associations.

Mr VALENTINE - And presumably the \$3 000 is to do with the light and power and the room, or something, is it?

Mr LOCK - I haven't checked, but I think it is a reference to the Royal Society Act from a very long time ago.

Mr VALENTINE - 1802 or something before the place existed.

Mr LOCK - It is publishing costs but I would have to check exactly what the \$3 000 gets.

Ms GIDDINGS - It is printing, apparently. It is to assist with printing of its papers.

CHAIR - Actually, because I was looking at the revenue from appropriations I skipped over 4.3, which is the community support levy. Any questions on that? There were no more questions on 4.4, I assume. Anything on the community support levy?

Ms GIDDINGS - It is the collection from gambling taxes, obviously, so that is our forecast of what we believe it will be.

CHAIR - I did have some concerns about how it would fund the board, which may not be appropriate for here, but the cut-off point being so rigidly adhered to when there are extenuating circumstances that there is a specific cut-off point for putting a submission in for a grant from the community fund.

Ms GIDDINGS - I think the Department of Health and Human Services administers those grant programs.

CHAIR - There being no further questions, we will suspend the sitting from 1.07 p.m. to 2.10 p.m.

The committee suspended from 1.07 to 2.10 p.m.