



The Hon. Dominic Perrottet MP
Minister for Finance and Services

Mr Stewart Smith
Director
Budget Estimates
Room 812, Legislative Council
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Mr Smith

I refer to your letter of 29 August 2014 regarding the Budget Estimates hearing on Friday 22 August for the Finance and Services portfolio.

Please find attached the following documents:

- Answers to questions taken on notice at the hearing
- Answers to supplementary questions on notice

Yours sincerely

Dominic Perrottet MP
Minister for Finance and Services

18/9/14

Office of Finance and Services

Estimates Committee hearing, Friday 22 August 2014

Responses to Questions taken on Notice

Project Loftus (page 3)

The Hon. PETER PRIMROSE: Finance and Services spent \$180,946.29 on Project Loftus media campaign advertising between 1 July 2013 and 31 March 2014. Can you tell us what Project Loftus was?

Mr DOMINIC PERROTTET: We are happy to take that on notice and come back to you.

The Hon. PETER PRIMROSE: In relation to Project Loftus, could you also advise on notice the total advertising expenditure in 2013-14 and the expected expenditure for 2014-15?

Mr DOMINIC PERROTTET: Yes.

ANSWER:

Project Loftus was the media advertising campaign for the sale of 570 George Street, Sydney (Ausgrid Building) in 2013 and the Registration of Interest for the Bridge Street sandstone buildings (Lands and Education buildings) also in 2013.

The total media campaign advertising for Project Loftus was approximately \$278,000 (inclusive of the \$180,946 noted above) and was completed in the 2013/14 year.

Campaign advertising – electricity selloff (page 4)

The Hon. PETER PRIMROSE: Following the recent Law and Justice Committee inquiries the board and the work it does is clearly held in very high regard. Thank you very much for that. Advertisements have been placed by the Government under the heading "Important Announcement: Have your say on rebuilding NSW" promoting the Liberal-Nationals proposal to privatise the electricity network. Can you tell us how much has been expended to date on this campaign advertising?

Mr HUBBY: I would have to take that on notice.

The Hon. CATHERINE CUSACK: Do you mean the Government's proposal? Is that what you are referring to?

The Hon. ADAM SEARLE: The advertising.

Mr DOMINIC PERROTTET: I would think that would be a question for the Premier. I am happy to take that on notice and provide it in due course. I do not have those figures in front of me.

ANSWER:

The total cost (excluding GST) to date for the placement of advertisements titled "Important Announcement: Have your say on rebuilding NSW" is \$12,464.10.

KPMG review of Local Jobs First (page5/6)

The Hon. PETER PRIMROSE: I get the picture because I have read the website as well. Was that 2012 KPMG review made public?

Mr MURPHY: No, I believe that has not been made public. That was a report to Cabinet.

The Hon. PETER PRIMROSE: Minister, will you consider making that report public?

Mr DOMINIC PERROTTET: I will consider it and take it on notice.

ANSWER:

I can confirm that the KPMG report is a Cabinet document and as such is subject to cabinet confidentiality requirements.

Service NSW savings (pages 6-10. Note: this matter is also referred to on pages 26-27 of the transcript)

The Hon. PETER PRIMROSE: In a media release dated 23 July 2012 then Premier Barry O'Farrell announced:

210 government services will be available at 18 new one-stop shops across the State.

Combined with a new 24-hour phone service and a new internet portal, the one-stop shops are touted as saving businesses \$4.8 billion a year in lost productivity.

The figure of \$4.8 billion savings a year in previously lost productivity because of the introduction of the one-stop shop was subsequently widely reported. Given the former Premier's estimate of \$4.8 billion of savings from the one-stop shops, how much do you estimate that the one-stop shops saved business in lost productivity in 2013-14?

Mr DOMINIC PERROTTET: In relation to the 2012 press release which you refer to, that predates my time as Minister. What I can say is that I am happy—more than happy—to provide information in relation to specific savings. But what I can say is that there is no doubt there would be significant savings, given the mess that we have had to clean up after 16 years—

ANSWER:

Service NSW has improved the delivery of Government services through its expanded digital access, one-stop shops and 24/7 phone service, consolidating duplicated services which aims to keep costs down.

This approach is about reducing government red tape leading to more productivity gains for NSW businesses.

While the roll-out of the Service NSW reforms commenced in 2013, customers are already telling us that Service NSW saves them time and money and makes it easier to do business with the NSW Government. As the reform process continues, there will be additional positive and measurable outcomes, including in terms of customer satisfaction levels, costs of delivering services and proceeds from asset recycling.

Office of State Revenue – revenue and expenses (pages12/13)

Dr JOHN KAYE: He did not answer them, either. Can I ask you a question about this year's budget for State Revenue? Expenses in the State Revenue program have gone up by 40 per cent. This is ongoing expenses that have gone up by 40 per cent. What was the increase in revenue collected?

Mr DOMINIC PERROTTET: Thank you for the question. In relation to State Revenue, Mr Hubby will take the question.

Dr JOHN KAYE: I am happy with either of you to answer it. I just want to know what the increase in revenue was.

Mr HUBBY: There was a budget allocation increase to the Office of State Revenue for 2014-15 over the forward estimates period relating to enhancements to debt management programs and fines collections activity. Both of those were reviewed and approved by the Expenditure Review Committee and resulted in an increase in the budget allocation.

Dr JOHN KAYE: My question is that annual expenditure is expected to go up by, roughly speaking, \$130 million. Can you tell us what the gain in revenue is for that investment? We are going to spend another \$130 million, roughly speaking.

Mr HUBBY: Yes.

Dr JOHN KAYE: What are we going to get in return for that?

Mr HUBBY: In each of those cases I do not have the exact expected revenue increase, except to say that the expenditure increases each came with an estimate of revenue or a debt collection that far exceeded the expenditure. On average or in general, the expenditure results, in most cases, in 150 or 150 per cent—

Dr JOHN KAYE: Of expense?

Mr HUBBY: Of debt reduction or revenue collection.

Mr DOMINIC PERROTTET: For example, one program will achieve more than \$54 in combined revenue and tax collections for every \$10 that has been invested.

Dr JOHN KAYE: Which program is that, Minister?

Mr DOMINIC PERROTTET: That was one of the initiatives, which is an overall tax revenue compliance program to further increase tax revenue over four years through analysis, investigation and audit of complex business structures.

Dr JOHN KAYE: Does it have a name so that we can talk about it?

Mr DOMINIC PERROTTET: There are four specific initiatives I am happy to take you through.

Dr JOHN KAYE: Could you table them, rather than going through them now because time is limited?

Mr DOMINIC PERROTTET: I am happy to provide them to you.

Dr JOHN KAYE: Or table them or provide them on notice?

Mr DOMINIC PERROTTET: I will take it on notice and I will provide you with the detail of those.

Dr JOHN KAYE: I would appreciate that. Will that give me the overall for the additional \$130 million, the additional amount that the State will collect?

Mr HUBBY: We can provide the specific numbers on notice.

ANSWER:

The Office of State Revenue's budget Allocation increased in 2014-15 to a total of \$330.4 million in recurrent expenditure and \$48.4 million in capital expenditure. The increase to OSR's capital program is primarily due to \$31.4 million allocated for accommodation consolidation, and \$5.3 million to support OSR's integration with the national e-conveyancing platform.

The increase in recurrent expenses in 2014-15 is mainly due to increased grants expense of \$58.2 million for payments made to eligible businesses under the Jobs Action Plan, and an allocation of \$18.7 million associated with four tax compliance and fines debt collection programs.

The **first** is an extension of the Fines Debt Partnerships program by two years. External debt collection agencies are used at the end of OSR's internal collection processes after debtors have been provided with a number of opportunities to resolve the debt.

In the first two years of the Debt Partnerships program, OSR recovered \$79.38 million in overdue Crown fines, exceeding the target by \$24.06 million. OSR also negotiated payment arrangements worth a further \$35.24 million through the program.

The **second** is a new four-year fines debt program. This will involve an expansion of OSR's fines contact centre operations to sustainably increase the value of fines debt collection, which will in turn reduce the amount of uncollectable fines written off.

The **third** is an extension of the existing tax revenue compliance enhancement program by one year. The program was introduced from 1 July 2013 to allow OSR to conduct more investigations and field audits in high risk revenue streams; and identify and evaluate more complex taxation and business structures to ensure State tax liabilities are not being evaded. The additional tax compliance revenue target for the first year of the program to 30 June 2014 was \$37 million, increasing the total annual target to \$320 million. OSR exceeded this target by \$38 million, with a total of \$358 million in tax compliance revenue identified in 2013/14.

The **fourth** is a new enhancement to OSR's overall tax revenue compliance program to further increase tax revenue over four years through analysis, investigation and audit of complex business and trust structures, along with other related compliance activities.

The tax compliance enhancement programs will identify \$247.3 million in additional tax revenue to the State budget over the four years, at a cost of \$36.0 million. This represents a return of more than \$68 for every \$10 spent over the forward estimates.

The fines debt collection programs will contribute an additional \$227.4 million in cash collections at a cost of \$49.6 million giving a return of more than \$45 for every \$10 invested over the forward estimates. In addition this is expected to reduce fine debt write-offs by \$60 million across the forward estimates.

Value for money policy – (13/14)

Dr JOHN KAYE: That would be good, thank you. Can I go to the issue of procurement policies that Mr Primrose spoke about before? You talked about value for money. When you do value for money calculations, what do you do with externalities? Is that just purely value returned for dollar value spent or do you look at externalities at all?

Mr MURPHY: The best way to answer that question would be to provide you with a copy of the value

for money policy, which sets out the way in which value for money is assessed.

Dr JOHN KAYE: I would appreciate that, it would be useful. But briefly—for my own instant gratification—do you, for example, take into account both social positive and negative externalities?

Mr MURPHY: There is a discussion in the value for money policy that explains the sort of ways you might assess value for money in different kinds of procurements. Those sorts of elements do come in in some kinds of procurements. I think the best way to look at it is to see how it is set out in the value for money policy, which I do not have to hand.

Dr JOHN KAYE: So those positive externalities might include, for example, in-State employment?

Mr MURPHY: I do not have the document to hand. I cannot remember how we treat that specifically in the value for money policy. It is best I get you a copy of the policy afterwards

Dr JOHN KAYE: You will take that on notice and provide us with the document. In doing so, you might point out to me how you deal with the positive and negative externalities of employment. That is, the loss of employment when a contract goes out of State or overseas, and the gain of employment when a contract is in New South Wales.

Mr DOMINIC PERROTTET: Absolutely and obviously, as I said earlier Dr Kaye in relation to Mr Primrose's question, when it comes to procurement—and obviously jobs is a significant factor that is taken into consideration—I am more than happy to provide that information to you as part of that policy, on notice.

ANSWER:

The NSW Procurement Board issued a Statement on Value for Money, which took effect from 1 July 2013.

The Statement notes that positive externalities, described as 'benefits to the broader community' should not generally be included in the assessment of value for money unless there is a clear (measurable) benefit to a community which is aligned with Government policy or programs.

The Statement also recommends that agencies refer to the NSW Treasury publication, NSW Government Guidelines for Economic Appraisal, for detailed advice about the identification and assessment of benefits and costs, including positive and negative externalities.

The Statement on Value for Money may be viewed by going to <https://www.procurepoint.nsw.gov.au/policy-and-reform/goods-and-services/statement-value-money>.

Service NSW – Budget allocation (page 14/15)

Dr JOHN KAYE: Is there a representative here of that agency? Mr McMaster has raised his hand.

Minister, can you tell me what the forward estimated expenditure in the budget, the 2014-15 expenses, are estimated to be for Service NSW?

Mr McMASTER: The total expenditure for 2014-15 is \$268,822,000.

Dr JOHN KAYE: Do you have an estimate for 2015-16?

Mr McMASTER: There is in the forward estimates, but those figures are not in front of me at the moment.

Dr JOHN KAYE: And 2016-17, likewise?

Mr McMASTER: Yes.

Dr JOHN KAYE: Can you take that on notice and provide the Committee with those?

Mr McMASTER: Certainly. They are in Budget Paper No. 3, in the Department of Premier and Cabinet section.

Dr JOHN KAYE: Does that also include the number of employees?

Mr McMASTER: It does.

Dr JOHN KAYE: And employee-related expenses?

Mr McMASTER: Yes, sir.

ANSWER:

I refer Dr John Kaye MLC to Budget Paper 3, 2014-15 Budget Estimates, pages 30-32 of chapter 7 (Premier and Cabinet Cluster). That Paper may be viewed by going to http://www.budget.nsw.gov.au/2014-15/budget_papers/budget_paper_3

Waverley Bus Depot master plan (page 17)

Mr NEWMAN: I might just add to that by saying my understanding is that the Government Architect has undertaken preliminary master planning in relation to Oxford Street, which includes the Waverley Bus Depot. As far as I am aware, the Government Architect has made no statement and no recommendation in relation to any construction on that site. In fact, it would not normally be the role of the Government Architect to make those types of recommendations.

CHAIR: Perhaps it was an area plan he was working on?

Mr NEWMAN: Exactly, a master plan for the whole area.

Mr DAVID SHOEBRIDGE: Can you table the document for the Committee?

CHAIR: Is there anything in writing from the architect?

Mr NEWMAN: We can take that question on notice. We will need to clarify who the Government Architect is undertaking the work for and whether the Government can gain access to that document.

CHAIR: If you could take that on notice, it would be appreciated.

ANSWER:

The Government Architect's Office (GAO) participated in a West Oxford Street design workshop sponsored by Waverley Council. GAO synthesised the outcomes of the workshop in the *West Oxford Street Design Charette – Summary Reports and Recommendations*. A copy of the document is available on the Waverley Council website at:

http://www.waverley.nsw.gov.au/building/current_projects/west_oxford_street_precinct_plan

Doubtful Debt (page 18/19)

The Hon. ADAM SEARLE: What provision for doubtful debts for debtors over 90 days has been made across government for the last financial year?

Mr HUBBY: First, not all debt is managed by the Office of State Revenue. I would have to take it on notice in regard to the specific number.

The Hon. ADAM SEARLE: I am happy for you to do so. To the extent that it is your responsibility, could you also advise the Committee of the quantum of debts that have been written off in the last financial year and the process by which you determined to do that?

Mr DOMINIC PERROTTET: Yes.

Mr HUBBY: I can certainly provide those on notice for the portion of the debt portfolio that we manage.

ANSWER:

The Office of State Revenue (OSR) provision for doubtful debts totalled \$184.7 million at 30 June 2014. This was made up of \$25.2 million tax debt and \$159.5 million fines debt.

In the 2013-14 financial year OSR wrote off \$96.8 million of debt (\$27.0 million taxes and \$69.8 million fines). Fine write offs included \$19.1 million associated with matters referred by commercial clients such as local councils.

Overdue debts are written off in accordance with approved write-off guidelines, which require OSR to consider a number of criteria including:

- The debtor cannot be located
- The debtor does not have the capacity to pay due to financial, medical or domestic circumstances
- Further recovery action is considered uneconomical i.e. the costs of recovery action exceed the potential return due to the low value of the debt
- Following the appointment of an Official Receiver, Trustee in Bankruptcy or Liquidator

Fines may also be written off where an offence occurred more than five years ago and the integrity of the data surrounding the fine does not justify further enforcement or makes satisfaction of the outstanding amount unlikely.

Raymond Terrace GP Super Clinic (pages 19/20)

The Hon. ADAM SEARLE: In relation to the construction of the new Raymond Terrace GP Super Clinic, that was constructed using Federal money and the then Department of Finance and Services had carriage of the project. Can you advise the Committee whether that involved the provision of any State money or was it simply receiving Commonwealth money?

Mr HUBBY: I am not familiar with that project.

Mr DOMINIC PERROTTET: I am not familiar with that project. I am happy to take that question on notice. The question is whether there were State funds involved?

The Hon. ADAM SEARLE: Yes and, if so, how much of State funds.

Mr DOMINIC PERROTTET: I am happy to take that on notice.

The Hon. ADAM SEARLE: In relation to that project, as I understand it the Department of Finance contracted to National Buildplan which in turn contracted to a series of

subcontractors. National Buildplan was placed in administration and subcontractors were owed around \$600,000. They were not paid because, of course, National Buildplan could not pay. The question is: Any Commonwealth moneys that were provided for the construction of that service, did Finance and Services pay all that to National Buildplan or did Finance and Services in fact retain a portion of those funds? If you did, will you make some of those funds available to the people who did the construction work but who have not been paid?

Mr DOMINIC PERROTTET: That is a fair question. Obviously I have to take that on notice because I am not aware of the arrangements that were in place. I am more than happy to look into the matter, take that question on notice and come back to you with a response.

The Hon. ADAM SEARLE: I am not seeking to be difficult, but you do not have any knowledge of that, Minister?

Mr HUBBY: Presumably it was a construction project. Again, I do not have knowledge of the specific project and that is why I am hesitant to engage in conjecture.

The Hon. ADAM SEARLE: You did not receive representations from the local member of Parliament?

Mr HUBBY: It is possibly a project managed by public works and they manage a range of projects.

They have a portfolio of projects that they manage. Again, we will have to determine whether that was in the portfolio of projects that they do manage and come back to you.

The Hon. ADAM SEARLE: Do you recall receiving any representations on this issue from the local member of Parliament, the member for Port Stephens?

The Hon. CATHERINE CUSACK: How many letters would the Minister get in correspondence?

Mr DAVID SHOEBRIDGE: He can answer for himself.

The Hon. ADAM SEARLE: I am not asking necessarily about correspondence. I am happy for him to take correspondence on notice.

The Hon. CATHERINE CUSACK: You are trying to be nasty, let us be honest.

The Hon. ADAM SEARLE: Did the member for Port Stephens speak with you about this matter, Minister?

Mr DOMINIC PERROTTET: I cannot recall—

The Hon. CATHERINE CUSACK: Unbelievable.

Mr DOMINIC PERROTTET: —this specific issue. As I said to you, I am very happy to take it on notice.

ANSWER:

The Member for Port Stephens contacted the Office of Finance and Services with a media enquiry about this matter. The below statement was provided to his office:

Statement attributable for a spokesperson for the Department of Finance and Services:

All contractually due payments for work the project were made to the principal contractor, National Buildplan Group.

As is the case with all projects of this type, the NSW Government and its agencies do not underwrite commercial risks in the private sector. Importantly, they cannot use taxpayer funds to pay twice for the same work.

NSW Public Works understands this is a difficult situation and wherever practicable, existing contractors have been engaged to complete Raymond Terrace Health One Clinic.

NSW Public Works has taken all reasonable steps to meet its responsibility to complete affected projects, as quickly as possible, with as little delay, disruption or additional cost. We acknowledge our responsibilities, and where we are legally liable subcontractors and/or suppliers have been paid as required.

Changes to the Building and Construction Industry Security of Payment Act 1999 commence on 21 April 2014. These changes include a requirement that subcontractors and suppliers are paid no later than 30 business days after submitting a payment claim and that head contractors must provide a supporting statement when submitting a payment claim to a principal, declaring that subcontractors it has engaged have been paid all amounts due and payable.

Maximum penalties of \$22,000 and/or three months imprisonment apply to false or misleading information provided in these statements.

A trial of project bank accounts (trust accounts) on selected government construction projects will commence this year as part of the NSW Government's commitment to better safeguard the construction industry, particularly sub-contractors, from incidents

of insolvency. Rolling financial assessments of contractors engaged by Government agencies commenced on 1 January 2014.

Impact of 2012 reforms on life time workers compensation claims (pages 28/29)

The Hon. ADAM SEARLE: I am happy to hear that you are extremely self-confident, Minister. But I ask this question: In the wake of those 2012 reforms, I and other members of Parliament received representations from people who had not only lodged claims before 1 October but, in fact, had had claims finally determined as far back as 2000. They had settled cases with their employer or their insurer for their lifetime or for the rest of their working life for, for example, replacement of prostheses, including hearing aids.

These were settlements made in deeds of settlement and lodged in courts.

But after the passage of the 2012 legislation these people had been informed, by either their employers or their insurers, that they were no longer required to honour those commitments because the Government's legislation had retrospectively cancelled those arrangements.

The workers did not have access any longer to legal representation, because your scheme took that away from them, so they were not able to test that in court.

Those rights to prostheses and hearing aids have been cancelled. Will the rights of that cohort of claimants be revived by your organisation or is this just a small detail you have not checked?

Mr DOMINIC PERROTTET: No, it is the intention that there is a retrospective nature to it. I think Mr Primrose put a question on notice in the upper House in relation to this matter—regarding the retrospective nature of the changes.

Mr JEFFERY: There are probably two things that you are referring to here. One is entitlements ongoing for amputees and so forth, with prosthetics or home and vehicle modifications and so on. So those entitlements will be reinstated under the regulation for injured workers prior to 1 October 2012 until retirement age, unless they are classified as serious, in which case they would have it for life. There is also the issue of the court awards on deeds of settlement that were agreed to. I would prefer to take that on notice to be able to address that question appropriately because there are probably a few scenarios that need to be looked at.

Mr DOMINIC PERROTTET: We will take that on notice but, by way of clarification, outside of those court—

The Hon. PETER PRIMROSE: It is the need for consultation.

Mr DOMINIC PERROTTET: Well, by way of clarification, pre-2012 any claims made, for example, if there had been a medical expense incurred in relation to a prosthetic or the like, then this change will ensure that those costs will be covered.

ANSWER:

Recently, the Government announced several enhancements to the 2012 Scheme reforms to better support the State's injured workers to return to work. These included measures to ensure continued access to hearing aids, prostheses, home and vehicle modifications and related treatment until retiring age. WorkCover is working with insurers to ensure they are well placed to manage and implement these beneficial enhancements.

These enhancements are intended to apply to all workers who made claims for compensation before 1 October 2012.