

GENERAL PURPOSE STANDING COMMITTEE No. 1

Monday 1 September 2003

Examination of proposed expenditure for the portfolio areas

TREASURY, AND STATE DEVELOPMENT

The Committee met at 8.00 p.m.

MEMBERS

Reverend the Hon. F. J. Nile (Chair)

The Hon. Tony Burke
The Hon. Jan Burnswoods
The Hon. Patricia Forsythe

The Hon. Jennifer Gardiner
The Hon. Peter Primrose
Ms Lee Rhiannon

PRESENT

The Hon. Michael Egan, *Treasurer, Minister for State Development and Vice-President of the Executive Council*

Treasury

Mr J. Pierce, *Secretary*

Mr P. Achterstraat, *Chief Commissioner of State Revenue*

Department of State and Regional Development

Mr L. Harris, *Director-General*

CORRECTIONS TO TRANSCRIPT OF COMMITTEE PROCEEDINGS

Corrections should be marked on a photocopy of the proof and forwarded by 30 September 2003 to:

**Budget Estimates
General Purpose Standing Committee Secretariat
Parliament House
Macquarie Street
SYDNEY NSW 2000**

CHAIR: I welcome you to this public hearing of General Purpose Standing Committee No. 1. I thank the Treasurer and his departmental officers for attending today. At this meeting the Committee will examine the proposed expenditure for the portfolio areas of the Treasury and the Department of State and Regional Development. Before questions commence, some procedural matters need to be dealt with. The Committee has determined that the allocation of questions be left in the hands of the Chair. I propose to allocate questions of approximately 20-minute segments to the Opposition, crossbench and Government members. As to broadcasting, part 4 of the resolution referring the budget estimates to the Committee requires the Committee to hear evidence on the budget estimates in public. The Committee has resolved to authorise the media to broadcast sound and video excerpts of its public hearings. Copies of the guidelines for broadcasting are available from the attendants. I point out that in accordance with the Legislative Council guidelines for the broadcast of proceedings, only members of the Committee and witnesses may be filmed or recorded. People in the public gallery should not be the primary focus of any filming or photographs. In reporting the proceedings of this Committee, the media take responsibility for what they publish or what interpretation they place on anything that is said before the Committee.

As to messages for members of the Committee, there is no provision for members to refer directly to their own staff while at the table. Witnesses, members and staff are advised that any messages should be delivered through the attendant on duty or the Committee clerks. For the benefit of members and Hansard, I ask that departmental officials identify themselves by name, position and department or agency before answering any question referred to them. For the benefit of Committee members, where a member is seeking information in relation to a particular aspect of a program or subprogram, it would be helpful if the program or subprogram is identified. I declare the proposed expenditure opened for examination. Mr Treasurer, do you wish to make an opening statement or comment?

The Hon. MICHAEL EGAN: No, Mr Chairman.

CHAIR: Are there any questions from the Opposition?

The Hon. PATRICIA FORSYTHE: Treasurer, how much was spent by the Treasury and the Department of State and Regional Development on media monitoring from Reame Australia monitoring services in 2002-03, as outlined in Premier's Department circular 2002/22? What is the estimated expenditure for 2003-04?

The Hon. MICHAEL EGAN: I am not sure that either Treasury or the Department of State and Regional Development subscribe to any media services. Certainly Mr Pierce or Mr Harris can let you know if that is not right. I know that my office subscribes to, I think, Reame, although it might be through the Premier's Department. I am not sure, but I can find out for you.

The Hon. PATRICIA FORSYTHE: Are you taking that question on notice?

The Hon. MICHAEL EGAN: I am happy to take it on notice.

The Hon. PATRICIA FORSYTHE: Do Mr Pierce or Mr Harris want to assist?

Mr PIERCE: The Office of Financial Management [OFM] does not subscribe to any media monitoring. Treasury officers do that themselves.

The Hon. MICHAEL EGAN: Perhaps you should make it more systematic.

Mr PIERCE: Perhaps we should. I believe the Office of State Revenue does.

Mr ACHTERSTRAAT: The Office of State Revenue subscribes to a monitoring service. I am not sure of the details, but we could provide those where necessary.

Mr HARRIS: The Department of State and Regional Development does subscribe to one media monitoring service, but it is mainly for regional development issues to allow us to access information in regional newspapers. I can give you the details.

The Hon. PATRICIA FORSYTHE: Are you taking that on notice?

The Hon. MICHAEL EGAN: Yes, we will take that on notice.

The Hon. JENNIFER GARDINER: You said that Treasury officers do some media monitoring of their own accord or as part of their job description. Are they Treasury officers who act in a media advisory capacity?

The Hon. MICHAEL EGAN: No, they would not be. I would expect particularly senior public servants to be aware of not only what is generally happening in the world but particularly what is happening in the world that impacts upon the activities of Treasury. It would be very, very odd to have senior public servants who were ignorant of things around them. I assume they read the papers and occasionally listen to the radio or television. There are some quality journals in some parts of the world they should keep up with.

Mr PIERCE: We do not have anyone who specialises in that sort of thing. What happens is that a few of us, the senior officers, the executive officers, when they get in of a morning will go through the newspapers, print media—obviously the *Australian Financial Review*, the *Financial Times*, the *Economist* once a week—and articles get photocopied and distributed amongst the executives.

The Hon. MICHAEL EGAN: Mr Harris has just passed me a piece of paper which indicates that the Department of State and Regional Development in 2002-03 spent approximately \$7,871 on monitoring, essentially regional media.

The Hon. JENNIFER GARDINER: Which body does that for you? Is that Reham? I believe you indicated that it was another agency.

Mr HARRIS: I think it is Reham. I would have to check that for you.

The Hon. PATRICIA FORSYTHE: Treasurer, how much does your office spend on media monitoring from Reham Australia monitoring services in 2002-03, as outlined in the Premier's Department circular 2002/ 22? What is the estimated expenditure for 2003?

The Hon. MICHAEL EGAN: I do not know, but I will find out.

The Hon. JENNIFER GARDINER: Would you advise for each of your portfolio agencies how many media or public relations advisers were employed in that period? What is the cost of that? What is the forecast for 2003-04 for such advisers and their cost?

The Hon. MICHAEL EGAN: What did you describe them as?

The Hon. JENNIFER GARDINER: Media or public relations advisers, spin doctors.

The Hon. MICHAEL EGAN: On my own staff I have a media secretary, Mr Jim Maher, whom I think you are all well acquainted with. I also have another officer who performs some media functions and also performs other advisory functions, mainly in relation to the Department of State and Regional Development. I know that the Department of State and Regional Development has some officers who work in corporate communications, promotional activities. The department prides itself on producing some very good promotional publications—I might say publications whose format has been copied by a number of other States. They have sort of taken our logo off and put theirs on, although the contents of their documents is nowhere near as good as ours because the raw material is not as good as ours. Nevertheless, it is encouraging to see that they admire the quality of our work.

These are the same people, by the way, who did a very excellent job during the Olympics in business promotion and will again be doing so, I hope, during the Rugby World Cup when we expect quite a number of international business visitors to come to Sydney. A great deal of publicity for Sydney, New South Wales and, indeed, Australia will flow from the Rugby World Cup, which, I think, is the third largest sporting event in the world.

The Hon. JENNIFER GARDINER: Mr Harris, could you tell us how many people in the Department of State and Regional Development perform those corporate communications services?

Mr HARRIS: Indeed I can. The corporate communications group performs much more of a marketing role for business across the whole of the State than it does a role of media, public relations and press relations. The group is concerned, as the Minister says, mainly with the production of material for promotion. We produce things like the State competitiveness report. We produce now an increasing range of electronic material for the promotion of businesses throughout the State. In fact, the web sites that we now run in the last year registered over 670,000 sessions. That is not hits, that is complete sessions on the web pages. With the current rate of growth, we expect that will go past 800,000 next year. I will give you a number on it. I think it is in the region of six or eight people. It is eight people in corporate communications.

The Hon. MICHAEL EGAN: Does the Office of State Revenue have any in the communications area?

Mr ACHTERSTRAAT: The Office of State Revenue has an area that looks after taxpayer education—a communications area that does on-line subscriptions and creates pamphlets on payroll tax, first homeowner grants, et cetera. That area is called the Communications Unit. It provides content for our web site and things like that as well. I am not sure how many people are involved, I think about seven or eight people. The aim of the group is to provide essentially taxpayer education.

The Hon. JENNIFER GARDINER: Do you have an idea of the cost of those people in those two units?

Mr ACHTERSTRAAT: I can certainly find out and let you know the precise cost of that.

The Hon. JENNIFER GARDINER: Will you do that, and Mr Harris as well?

Mr HARRIS: I can do that.

CHAIR: That is taken on notice.

<2>

Mr HARRIS: The staffing costs in corporate communications are about \$640,000 a year. When you see that as part of the total budget for staffing within the department, those eight people are supporting more than 270 people throughout the department and in 18 regional offices throughout New South Wales. It is a remarkable effort that they put in for that sort of money.

Mr ACHTERSTRAAT: The Office of State Revenue also has a communications area, where we go out and talk to the regional taxpayers—in areas such as Dubbo and Lithgow—to explain the latest developments, and that is part of it.

The Hon. MICHAEL EGAN: Even so, we should be doing a bit more of it. We must communicate with the community; people need to know.

The Hon. PATRICIA FORSYTHE: Treasurer, you mentioned Jim Maher. What is Jim Maher's salary level?

The Hon. MICHAEL EGAN: I could find out, but do you really think that is appropriate?

The Hon. PATRICIA FORSYTHE: It is a significant element of your budget, I suspect.

The Hon. MICHAEL EGAN: If you think it is appropriate, I suppose we could take it on notice. But I am sure you do not think it is appropriate.

The Hon. PATRICIA FORSYTHE: We do think it is appropriate.

The Hon. MICHAEL EGAN: I am quite happy to take the question on notice.

The Hon. JENNIFER GARDINER: Treasurer, can you inform the Committee how much was spent by Treasury in costing the Government's election promises?

The Hon. MICHAEL EGAN: No, I cannot. I am not sure whether the figure for that would be available. It would be one of the core functions of Treasury. I am not sure that we operate like firms of solicitors that keep billable hours. It might be an idea, but I think it would be a little unnecessary.

The Hon. JENNIFER GARDINER: You have no idea? You cannot even provide an outline of what billable hours were involved?

The Hon. MICHAEL EGAN: No, I cannot.

The Hon. JENNIFER GARDINER: What about the cost of the Treasury's costing of the Opposition's election promises?

The Hon. MICHAEL EGAN: Jim, did you maintain billable hours there?

Mr PIERCE: No. During the process we did not keep a record of the hours spent. Basically, we do not assist them in tracking hours in that way. However, I have asked myself the same question, and as part of my own planning process internally I have commissioned a project to make an estimate of the costs of costing election promises, for whomever, but I was not seeking it until we were to do our next round of corporate planning, which would be after the next budget. So I would expect to have that in September next year.

The Hon. MICHAEL EGAN: Needless to say, I imagine a lot of hours would be involved. I remember that Treasury almost went off their rockers at the previous election when, I think three weeks out from the election, the then Opposition decided that it would finally take us up on our offer to have its promises costed. My recollection is that a very large number of Treasury officials, including senior officials, worked around the clock seven days a week for three weeks. So it would involve a lot of effort.

Mr PIERCE: Costing election promises is not much different from putting the budget together. When you do that and do a budget, it means you are putting together two, and possibly three, budgets in that period.

The Hon. PATRICIA FORSYTHE: What is the process for costing Opposition policies?

The Hon. MICHAEL EGAN: There is a public document on this.

Mr PIERCE: There is an election costing profile.

The Hon. MICHAEL EGAN: In fact, I think it is part of the law of the land, is it not?

Mr PIERCE: Aspects of it are now in the Public Finance and Audit Act, yes. If I might go back to the 1999 election, during that election we costed promises on behalf of the Government and the Opposition. The principle of it at the time was that, first, Treasury was not going to be in the business of determining what constituted an election commitment; that was up to the two parties to specify and provide to us.

The other principle was that Treasury was not standing for election, so one of my guiding principles was that the material to be costed would be provided back to the parties and Treasury itself would not release or publish anything; that was up to the people who requested us to do the costings. There was one caveat: if either of the parties in the publication of Treasury's costings seriously misrepresented the work of Treasury, I made it clear to both parties that I would feel some obligation to clarify that.

In 1999 there was no written process. It was not necessary at the time, because the leadership of the Opposition were people who knew us, and we knew them. They knew what we would do, and people just got on and did it. The information from both parties was kept completely separate, and the

understanding of all parties was that information provided to the Opposition would not be shared with the Government, and vice versa. In 1999, when both parties released their costings they went somewhat out of their way to thank the Treasury officers involved and commended them for the work they did.

In the lead-up to the election we have just had—it was virtually 12 months; we started just after the last Federal election—it occurred to us that the leadership of the Opposition at that time did not have the same history with us as the leadership did in 1999, so I thought that, given the prospect of being asked to cost election promises by both parties, and given the absence of legislation in New South Wales to govern this sort of thing, it would be reasonable to draft a protocol which set out the sorts of rules I have just articulated, and to provide proformas and submit them to both parties to see what the basis would be if they wanted to use us.

Of course, the process needs a start date and an end date. Given that the election was in March, we thought that a reasonable start date was around Christmas. In that formal sense of costing promises on the part of the Opposition, and indeed costing proposals that it may be considering on the basis of the information we provided to them, we gave the Opposition the opportunity to decide whether they wanted to make that sort of commitment, so that sort of interaction and feedback was allowed for. In the event, as you know, the Government signed the protocol and the Opposition chose not to, which obviously is its choice.

The Hon. PATRICIA FORSYTHE: Who determined the assumptions and implementation timetable for the policies?

Mr PIERCE: In the main it was determined by the people who were presenting us with a costing proposal, in this case the Government. Where information was not clear enough for us to cost, we would go back to the people who submitted the proposal to us and point out what we needed to have clarified in order to provide a costing.

The Hon. PATRICIA FORSYTHE: Would you have ever discussed Opposition costings with the Treasurer or his staff?

Mr PIERCE: During the period of that protocol the Government did ask us to cost Opposition election commitments, and the specification for that was set out by the Treasurer's office, in effect. From a Treasury viewpoint—and the Treasurer and his staff were very respectful of this—Treasury was not in the business of interpreting what constituted an election commitment; it was up to the people submitting it to us.

The Hon. MICHAEL EGAN: The assumptions upon which Treasury costed Opposition promises were, of course, stated in the costings documents which Treasury prepared and which, of course, were released publicly. So the assumptions were made quite clear; they were explicit.

The Hon. JENNIFER GARDINER: If you thought the detail of a Coalition policy was not clear, what efforts did Treasury staff make to ensure that the basis for the costings was accurate?

Mr PIERCE: The protocol was drafted on the assumption that the Opposition would participate in it and sign the protocol, as it did in 1999. Then, when they had submitted proposals to us, we could clarify them with them directly. However, the protocol was quite clear and, not wanting to put Treasury in the position of being caught between the two political parties, we would take the specification of a commitment that was given to us, whether by the Government or the Opposition. If there were differences, the parties would have to sort out the differences between themselves, rather than Treasury adjudicate on them.

The Hon. JENNIFER GARDINER: One Treasury costing was for the building of a new school in Wollondilly, between Bowral and Picton. Can you advise, for example, who made the assumption that there would be pupil intake in addition to current enrolments, rather than transfers from other public schools? Would that have been a fairer assumption?

Mr PIERCE: I am not familiar with the specifics of that commitment, so I would have to go back to the source documents and, probably, to the officers concerned to clarify that.

The Hon. JENNIFER GARDINER: I can give you a copy of the Treasury review document dated 3 September 2002, which includes that specific assumption as a Treasury comment. Perhaps I could table the document and ask you to obtain further information on whether that was a fair assumption.

Document tabled.

Mr PIERCE: When the KPMG costings were released, we went through the costings of the commitments contained in that document and compared them with the information we had.

<3>

My recollection at the time was that the costings attached to specific proposals, as we could see them within that document, were, in the main, pretty close to the numbers we had come up with when the Government had asked us for similar costings. From memory, the only significant difference in the sense of how it affected the aggregates was in relation to the Department of Community Services, but that is a relevant issue that people need to bear in mind in these costings exercises.

You can cost individual proposals and put a number against them, but adding them up and converting them into a budget result is a much more complicated process that requires a lot more information about how they are going to fund them. For example, in undertaking for the Government the costings for its election commitments, you can not only determine how proposals are funded but convert them into a set of budget aggregates.

When we costed the Government's version of the Opposition promises, we did not have access to the Opposition and we did not convert its promises into a set of budget aggregates. We were only able to provide the cost of a list of promises. So, the exercise we went through for the Government is not really wholly comparable with the work that KPMG did for the Opposition, because of that inability to translate the costing of individual proposals into their effect on the budget bottom line and on the forward estimates.

Ms LEE RHIANNON: Treasurer, what percentage of State tax revenue will come from gambling-related taxes this year and what percentage of State tax revenue will come from gambling-related taxes in 2010, when I understand that your most recent tax increases will take full effect?

The Hon. MICHAEL EGAN: Budget Paper No. 2, at page 3-7, says:

Gambling and betting tax revenue contributed an estimated 9.1 per cent of the total tax revenue in New South Wales in 2002-03, the second lowest proportion among jurisdictions that permit gaming machines outside casinos. By 2006-07, this percentage is estimated to be 9.8 per cent and New South Wales will remain the second lowest State.

That does not fully answer your question?

Ms LEE RHIANNON: It is the 2010 figure I am interested in. Do you think, given the harm that gambling causes, that there should be a limit on the amount of gambling tax revenue collected by New South Wales? What does your Government consider to be the maximum acceptable level of State tax revenue which should come from gambling taxes?

The Hon. MICHAEL EGAN: As I mentioned to you, it is currently below about 10 per cent. It may go slightly over that by 2010—I am not sure until I find you those figures—but it is a lower proportion than in the other States. From the figures I saw today—and unfortunately I cannot remember where I saw them—some States obtain about 15 per cent of their total revenue from gaming. Now, that often comes as a surprise to people because we have a lot more poker machines in New South Wales, but it seems that in the other States they are played more intensively than they are in New South Wales.

Ms LEE RHIANNON: What is your maximum acceptable level? What do you think it should be?

The Hon. MICHAEL EGAN: The figures I have only go to 2006-07. I am quite happy to table them. For example, in 2006-07 the Northern Territory is estimated to get about 16.7 per cent of its total taxation from gaming, South Australia 16.6 per cent, Victoria 17.1 per cent, Tasmania 15.2 per cent, Queensland 13.8 per cent, New South Wales 9.8 per cent—that is up from 9.1 per cent in 2001-02—the Australian Capital Territory 8.1 per cent, and Western Australia, which does not have poker machines, 3.2 per cent. But I am not sure I can answer your question.

Ms LEE RHIANNON: But, like the development in New South Wales, clearly it is going to increase. Do you think there is a level beyond which we should not go?

The Hon. MICHAEL EGAN: What, a level of gaming?

Ms LEE RHIANNON: The maximum acceptable percentage of State tax revenue which should come from the gambling industry.

The Hon. MICHAEL EGAN: I suppose it is what you think is a fair share of gaming profits. I suppose the question you are asking is what should be the level of gaming in the State?

Ms LEE RHIANNON: Yes.

The Hon. MICHAEL EGAN: The only cap we have put on that is the one we introduced a couple of years ago. We capped the total number of poker machines and we put an individual cap of 450 machines on each venue and grandfathered the clubs that already had more than that. There was also a requirement that the large clubs would have to divest, I think from memory, about 10 per cent of their machines over time.

I would want to see those caps removed. I think we have probably got to the point in New South Wales where we have too many poker machines. Certainly I think that is the view of the community. Personally I tend to be a bit more libertarian on these things. I do not have any moral objection to gambling, although I do recognise that it can cause social problems because a number of people unfortunately become addicted to gambling.

Ms LEE RHIANNON: But you have not got a target?

The Hon. MICHAEL EGAN: No.

Ms LEE RHIANNON: You say that revenue from increases in poker machine taxes will be spent on health and hospitals. You are on record as saying that many times. As we know, much of the poker machine tax revenue is raised in western Sydney. How will you ensure that the majority of the recent tax increase is spent on hospitals and services in areas such as western Sydney from where this tax is collected?

The Hon. MICHAEL EGAN: In recent years we have redirected hospital spending to ensure that those areas that are under-resourced get their fair share of health and hospital spending. There is a formula. I am not an expert on it, but I understand that we are now very close to it, or perhaps may have even reached it. That question is probably better directed to the Minister for Health.

Ms LEE RHIANNON: Just casting your mind back to the lead-up to the elections: Can you inform the Committee how you determine which of your activities as Treasurer are paid for out of public money and which activities are paid for by your party? When the writs were issued on 28 February this year did this division change? Was less public money spent on your own political activities?

The Hon. MICHAEL EGAN: My political activities generally do not cost a lot of money. I was certainly a candidate but I did not have my own election posters.

Ms LEE RHIANNON: I mean like going to functions and things like that. Before the writs were issued were you going to political functions?

The Hon. MICHAEL EGAN: I do not get paid for going to functions.

Ms LEE RHIANNON: No, but you have expenses. In campaigning you clearly have travel expenses and media expenses, those sorts of things. I am just wondering if it changes for you when the writs are issued.

The Hon. MICHAEL EGAN: No, I do not think it did for me because when the writs were issued, in effect, my campaigning on the stump almost came to a stop. One of the functions that I perform is being here, either in Parliament House or in my ministerial office, when all of my colleagues are out on the hustings. For me, the hustings tend to be the press gallery downstairs. I like to be around to correct the lies and misrepresentations of the Opposition, and sometimes the crossbenchers. You cannot readily do that if you are in Bullamakanka speaking on a street corner. But I must say I hanker for the days when I used to do that sort of thing. I am getting withdrawal symptoms.

Ms LEE RHIANNON: Yes, it is very enjoyable being on the hustings. As we have often identified, there is not a great deal that we have in common, but I think one thing that we would have in common is that we would thank Food and Beverage Services for a great job—and thankfully it is not privatised, as it is in Federal Parliament. David Draper and the catering people provide a great service. Considering the financial pressures that Parliament is under and the apparent commitments of your Government to good economic management, why is catering for members of Parliament not provided on a proper and commercial basis?

The Hon. MICHAEL EGAN: You are asking that question of the wrong Minister.

Ms LEE RHIANNON: I will be putting it again to The Legislature, but you are in economic management so I thought you would have an opinion.

The Hon. MICHAEL EGAN: We make a budget available to the Parliament, and it routinely complains that it is not sufficient. It seems that almost every year they get supplementation for something or other, but you all still keep complaining and telling me I should bear down on The Legislature's budget.

Ms LEE RHIANNON: Considering you make many suggestions on cutbacks, I thought that would be an area where—

The Hon. MICHAEL EGAN: I generally try not to run government agencies. The Legislature is the responsibility of the Presiding Officers. I do not try to micromanage how they run things. All I know is that we give them a lot of money. But I note your comments about the works canteen and I will pass them on to the Presiding Officers.

Ms LEE RHIANNON: It actually was not about the canteen; so I am not misquoted on this, I emphasised the words "members of Parliament".

The Hon. MICHAEL EGAN: We are all workers.

Ms LEE RHIANNON: Yes, members of Parliament certainly are workers, but it was the members of Parliament that I questioned; they receive subsidised meals.

The Hon. MICHAEL EGAN: Do you eat in Parliament?

Ms LEE RHIANNON: Rarely I do.

The Hon. MICHAEL EGAN: What about room service?

Ms LEE RHIANNON: Very rarely. But obviously at times if I run out of food I am sure you would not begrudge even me eating. Maybe you would.

The Hon. MICHAEL EGAN: You might have been one of the victims of the famine if you had lived in another place at another time—in the Soviet Union in the 1930s.

Ms LEE RHIANNON: You are still in the cold war, Treasurer.

The Hon. MICHAEL EGAN: Absolutely. It was one of the great missions of my life that came to a sudden halt in 1989. I did not know whether to cry or cheer. I did a bit of both, actually.

<4>

CHAIR: I shall follow up on questions regarding the controversial issue of taxation rates on poker machines. The impression we are given is that everybody has been affected by this increase. Can you give an estimate of how many clubs and hotels have been affected?

The Hon. MICHAEL EGAN: There are at least 1,404 clubs at last count. Exactly 450 clubs have gross poker machine revenues of less than \$200,000. Those clubs currently pay no State tax at all and they will continue to pay no State tax. Another 439 have gross poker machine revenues of between \$200,000 and \$1 million. They currently pay 10.9 per cent State tax. Their tax over the next eight years will actually be slightly reduced, down to 10 per cent. I have covered 889 clubs. That leaves 515 clubs, or thereabouts, which have poker machine earnings in excess of \$1 million a year: 370 have earnings between \$1 million and \$5 million a year, 75 have earnings between \$5 million and \$10 million a year, and 63 have earnings above \$10 million a year.

I am told that figures are not available for seven clubs, I am not quite sure why. Essentially, 510 clubs will have an increase in their tax rates over the next eight years. For most categories of clubs, and indeed overall, the New South Wales club industry will still remain, on average, more lightly taxed at the end of eight years than clubs in the other States pursuant to the current rates. For example, clubs in New South Wales with earnings of \$1 million a year in 2010-11 will pay 10 per cent State duty; in Victoria it would be 27.74 per cent; in Queensland, 20.9 per cent; South Australia, 30.9 per cent; Tasmania, 17.8 per cent; the Australian Capital Territory, 27 per cent; and the Northern Territory, 32 per cent.

Clubs earning \$5 million currently pay 17.16 per cent State duty in New South Wales. That will increase over eight years to 25 per cent. That is the marginal rate; it is not their average rate. In other words, they will pay 25 per cent tax for each dollar they earn in excess of \$5 million. They will not pay anything for the first \$200,000, 10 per cent between \$200,000 and \$1 million, 25 per cent between \$1 million and \$10 million, 35 per cent between \$10 million and \$20 million, and 40 per cent for everything they earn in excess of that. I am not sure whether that is right—yes, that is right. So about one-third of the clubs will pay more.

CHAIR: Some of the clubs have complained that they may have to reduce spending on community activities. Can you explain what supplement they receive in regard to those payments?

The Hon. MICHAEL EGAN: Certainly. Clubs with poker machine profits below \$1 million should not have their community contributions affected at all because they will not see any change in the tax they pay. For clubs that earn in excess of \$1 million a year, we know from their returns to the Department of Gaming and Racing that they have claimed cash contributions to community organisations of about \$55 million a year. Of that they get a tax rebate of \$33 million a year. We enable clubs to spend 1.5 per cent of their gross poker machine revenues on community contributions in lieu of paying tax, so of that \$55 million, \$33 million is a gift from the taxpayer.

On the information which the clubs have provided to the Department of Gaming and Racing it would appear that the cash contributions to community organisations out of their own pocket, not out of the taxpayer's pocket, amounts to \$22 million, and those clubs earn gross poker machine revenue of around \$2,700 million each year. That is the basis upon which I have claimed, on a number of occasions now, that I really do not think they are pulling their weight. They have a very valuable privilege given to them by the Parliament of New South Wales: the right to operate poker machines at very concessional tax rates, and they will remain concessional tax rates. They earn \$2.7 billion of gross poker machine revenue a year—and I am just talking about the top 500 clubs—and I think they can do a lot better than contribute \$22 million out of their own money.

I know that some of them say they make in-kind contributions, but that is quite different. Letting a community group use one of your rooms for a meeting is quite different from actually

making a cash contribution to the local junior football team, the netball team, the surf club, the neighbourhood centre, or Meals on Wheels. I think \$22 million out of \$2,700 million is not really pulling their weight.

CHAIR: That is \$22 million throughout the whole State?

The Hon. MICHAEL EGAN: Yes.

CHAIR: So you would not see any justification for cutting out payments such as sponsorship for a junior netball team?

The Hon. MICHAEL EGAN: No. Indeed, if clubs hold local community groups to ransom in the way that many have been threatening—although I would be surprised if they carried out their threat—the Parliament would have to have another look at the matter and ensure that it does not happen.

CHAIR: Budget Paper No. 3, Volume 2, page 22-5 refers to \$663.1 million for interest expenses on existing debt held and says this has been based on a lower interest rate environment. What happens if interest rates go up? Is there any reserve in your planning to cater for that situation or are you confident that interest rates will remain where they are for the next few years?

The Hon. MICHAEL EGAN: That is a big call. Treasury makes assumptions—I do not make them—about the likely rate of interest going forward. They are in Budget Paper No. 2. Certainly, if interest rates go up, over time the cost of servicing our debt goes up. If interest rates come down, as they have in recent years, obviously that contributes to lowering the cost of servicing our debt and some of our liabilities. Mr Pierce, do you know if the \$663 million referred to is a net figure or a gross figure?

Mr PIERCE: That would be a gross figure.

The Hon. MICHAEL EGAN: From memory, that is down from about \$1,800 million in 1995, and that has come down not only because interest rates have come down but also because the level of gross debt and net debt for the general government sector has also been reduced.

CHAIR: So you have some reserve if interest rates go up?

The Hon. MICHAEL EGAN: No. If interest rates go up, it will cost us more; more will come out of the budget. That is why I have been very keen during relatively good economic times to try to get the total level of debt down as much as we could, because I am mindful of the fact that interest rates will not necessarily always remain low. Also, I remember it galled me seven or eight years ago, when interest rates were much higher, that New South Wales was spending about \$1 in every \$10 of revenue servicing our debts. Queensland, which had negative net debt, was actually earning money from the higher interest rates. That put it in a very strong position then and cost us dearly. That is one of the reasons why it is important to get general government debt down to reasonable levels and, over time, as our general government debt elimination works, eliminate it completely.

Mr PIERCE: Just to clarify that, our stock of debt is not like a variable mortgage where, when interest rates increase or decrease, the interest rate applied to your total debt goes up and down. The effect of interest rate movements, either up or down, is partly reflected in these accounting numbers in that year, but it takes a number of years for that effect to work through as different lines of debt mature and have to be financed.

The Hon. MICHAEL EGAN: That is because we sometimes take our debt for three years, sometimes five years, sometimes 10 years, and sometimes 12 years.

CHAIR: You take fixed interest rates for a period?

The Hon. MICHAEL EGAN: Yes. In fact, our debt was artificially inflated a few years ago because we took the opportunity of actually paying out some very high-interest, long-term debt

because it was, overall, better for us to pay a penalty to pay out the high interest rate and then have a lower interest rate further down the track.

CHAIR: You would be aware of the controversy that the *Sydney Morning Herald* has helped to launch, and the discussions over the years, about land that belongs to the Government being rented out at very low rent rates. One case referred to was the Sydney central business district block involving the GIO paying rent of just \$70 a year. I understand you have given an explanation that it was part of the sale and purchase deal, et cetera. However, there seem to be a number of other leases for which only a very small rental is paid. As Treasurer, does that concern you and are you taking any action to review those property rentals?

The Hon. MICHAEL EGAN: I know that the Department of Lands is currently doing a review of rentals and lease payments for Crown land generally. Of course, Crown land falls into a number of different categories. There is Crown land, for example, on which there is built a community golf course or bowling club. I understand there are guidelines for the calculation of rental payments or lease payments on them. There are others, such as the one mentioned, where many, many years ago an arrangement was entered into with a developer to build a building on a piece of land the Government owned which the Government then leased back for a particular period. At the end of that period the Government gets the building back, as well as, of course, the remainder of the freehold of the land itself.

The particular case you mention is, I think, the Goodsell Building, which probably goes back 20 or 30 years. I do not know whether, in retrospect, that was a good deal or not, but I think the article in the *Sydney Morning Herald* has thrown together a lot of different categories of Crown land. Certainly, I have been interested in the articles in the *Sydney Morning Herald* and it will not surprise you to know that it will be a matter that the Treasurer and the Minister for Lands will have some very animated conversations about over the next few months.

<5>

The Hon. PATRICIA FORSYTHE: Can you indicate whether it was you who determined what was an Opposition promise to be costed by Treasury? If so, did you also advise Treasury on what assumptions the costings were to be based?

The Hon. MICHAEL EGAN: Yes. We identified Opposition promises—when I say "we" I mean myself, other Ministers and other members of Parliament—and submitted them to Treasury for costing. We made the assumptions explicit. In turn, when Treasury produced the costing based on those assumptions, it made that explicit in its documentation, which we made public. Anyone seeing a Treasury costing of a particular policy commitment, including the Opposition, would have been able to say, "No, that is not our promise" or "No, that is not the timing of our promise". So there were no tricks involved. It was a very transparent and public process—unlike, I must say, the exercise you went through in 1995. Remember Peter Collins had his \$15 billion worth of Labor promises. I still have that document somewhere. They just came out of his head.

The Hon. JENNIFER GARDINER: In Treasury's estimates of revenue from increased gaming taxation, have you estimated a number of clubs that are expected to close as a result of tax increases over the next eight years?

The Hon. MICHAEL EGAN: Firstly, on behalf of myself and the Government I thank the Opposition for its support of increased poker machine taxes. I was pleased to see that there was no opposition to them in either House of Parliament. In fact, I do not think any member of Parliament spoke against them, so I am very grateful for that. I think one of the reasons you supported them was because you recognised that it is difficult to see which club or pub would close as a result of these increases. Is it the club or pub with poker machine revenue of \$1 million a year, the club or pub with poker machine revenue of \$2 million a year or perhaps the one with \$5 million, \$10 million, \$20 million or \$50 million of poker machine revenue a year? It is hard to know which club you are referring to. I find it very difficult to understand how any well-managed organisation with a stream of poker machine revenue could not survive financially unless, of course, something was amiss. I would like to have a business that had a flow of poker machine revenue of \$200,000 a year, let alone \$20 million or \$30 million a year.

The Hon. JENNIFER GARDINER: So in your estimation no club will close as a result of tax increases over the next eight years?

The Hon. MICHAEL EGAN: There are clubs that close every year. Out of 1,404 clubs approximately, you would expect some to close every year. That is because some are poorly managed and because some are simply no longer popular. Very often the demographics of an area change. You might find an area that was once a working-class area and there was a club that survived and prospered with a working-class clientele and membership, and now it is no longer a working-class area. I do not want to mention any particular clubs, although there is a very good little club near where I live. I will not mention it but the nature of the area that I live in has changed over 30 years, and whilst the club is still surviving it is probably struggling.

The Hon. JENNIFER GARDINER: So no club will close as a result of tax increases over the next eight years, in your estimation?

The Hon. MICHAEL EGAN: In my estimation, it is difficult to see how a well-managed popular club with poker machine profits in excess of \$1 million a year will close as a result of the tax increases. Clubs with under \$1 million in poker machine revenue will be paying no additional tax. Clubs with poker machine revenue in excess of \$1 million will pay 10 per cent. Then there is some GST, which takes it up to about 20 per cent. Then they have some operating costs associated with running the machines: electricity, the purchase or lease cost of the machines, the cost of changing dollar notes into coins for the poker machine players, the cost of emptying the machines, and perhaps an amount for the floor space they occupy. But it is not a terribly labour-intensive or capital-intensive operation so after they have paid those costs and their taxes the rest of it is largely discretionary income. Clubs can then allocate that discretionary income to whatever purpose they like.

The Hon. JENNIFER GARDINER: Can I ask Mr Pierce whether he has made any estimates as to whether any clubs will close as a result of tax increases over the next eight years?

The Hon. MICHAEL EGAN: Surely these are questions that should be directed to the Treasurer.

The Hon. JENNIFER GARDINER: No, they do not have to be.

CHAIR: You can repeat the question, but ask the Treasurer whether Mr Pierce has made those calculations.

The Hon. JENNIFER GARDINER: I am happy to ask it that way. Has Mr Pierce given you any advice as to the possibility of any club closing as a result of increases in gaming taxes?

The Hon. MICHAEL EGAN: No. I can honestly say that Treasury has not predicted that any club will close; nor, by the way, have the clubs themselves. With a great deal of hullabaloo the other day they released a consultant's report predicting that half the clubs in the State would close as a result of these increases, yet not one single club was mentioned by name. They did not explain how half the clubs would close as a result of these tax increases when only a third of the clubs in New South Wales would be affected by the tax changes.

The Hon. JENNIFER GARDINER: Perhaps you would like to accept an invitation from clubs in places like Tamworth.

CHAIR: Let the Treasurer finish the answer.

The Hon. MICHAEL EGAN: Nor do they explain why clubs would be forced to close with lower poker machine tax rates than apply in other States.

The Hon. PATRICIA FORSYTHE: Can I ask Mr Pierce, through you, whether, in doing the methodology for the tax increase, anyone in Treasury spoke to anyone in any of the clubs or the clubs association?

The Hon. MICHAEL EGAN: I can answer that for you now. It is not Treasury's budget; it is the Government's budget.

The Hon. PATRICIA FORSYTHE: When did you consult with the clubs on the issue?

The Hon. MICHAEL EGAN: I had a meeting with the clubs and pubs the day before the budget. They already knew there was a moratorium on poker machine tax rates that would cease at the end of June 2004. I called them together to say that, rather than waiting until 2004, I would be announcing new tax rates in the following day's budget and that those tax rates, in keeping with the commitment we made them, would not take effect until the end of 2003-04. I informed them that I was doing this so that I gave them plenty of notice and they had plenty of time to adjust. I also pointed out to them that not only would we be honouring the commitment not to increase the tax rates until that time but, to further enable them to adjust, we would be phasing them in over the following seven years.

The Hon. PATRICIA FORSYTHE: When did you take the decision to increase the taxes? When did you ask Treasury to do a costing on the taxes?

The Hon. MICHAEL EGAN: Some time before. I do not recall. It might have been a month or two months before.

The Hon. PATRICIA FORSYTHE: A month or two?

The Hon. MICHAEL EGAN: Yes.

The Hon. PATRICIA FORSYTHE: Is Mr Pierce able to be more specific?

The Hon. MICHAEL EGAN: Not really. We do not reveal what happens in Cabinet or when Cabinet makes decisions. In fact, I got into trouble from the secretary or the director-general of the Cabinet Office, I think, in my first or second estimates hearings in 1995 or 1996 when I intimated that there had been a Cabinet meeting about a particular matter. The protocol is that you do not even refer to that.

The Hon. PATRICIA FORSYTHE: Was it after 22 March?

The Hon. MICHAEL EGAN: What?

The Hon. PATRICIA FORSYTHE: Your instruction to Treasury to prepare—

The Hon. MICHAEL EGAN: Absolutely. Generally, the last thing we attend to is the revenue side of the budget.

The Hon. JENNIFER GARDINER: Why will the tax increase for clubs total \$1.3 billion over the next eight years but the increase for hotels will be a much lesser figure of \$257 million?

The Hon. MICHAEL EGAN: Whilst the rates for hotels are much higher—they have been higher in the past and they have a much lower threshold—it is mainly because the proportion of tax that hotels were paying from their revenue was higher to start with. So when you increase the rates by, say, 5 per cent in the dollar for both clubs and pubs the percentage increase for the clubs is greater because they were paying a lower proportion to start with. In other words, if you add 5¢ in the dollar to 30¢, the proportionate increase is less than adding 5¢ in the dollar to a 10 per cent tax rate. Do you follow that?

The Hon. JENNIFER GARDINER: Yes.

The Hon. PATRICIA FORSYTHE: I understand that you are proposing that the Infringement Processing Bureau will come under the direction of the Office of State Revenue.

The Hon. MICHAEL EGAN: Yes.

The Hon. PATRICIA FORSYTHE: In relation to that area, can you explain why, 12 months after the office of the Infringement Processing Bureau was moved to Maitland, people paying fines by cheque are still sending fines to a post office box in Parramatta?

The Hon. MICHAEL EGAN: No, I do not know. But at the moment the Infringement Processing Bureau is not part of my portfolio. It will become part of my portfolio, I think, on 1 or 2 October.

Mr ACHTERSTRAAT: On 1 October.

The Hon. MICHAEL EGAN: And I am looking forward, Mr Achterstraat, to a much more efficient operation.

The Hon. PATRICIA FORSYTHE: Looking forward to make sure that it does not lose any more money.

The Hon. MICHAEL EGAN: Yes, indeed.

The Hon. JENNIFER GARDINER: Can I ask a question about transfer duty?

The Hon. MICHAEL EGAN: Yes.

The Hon. JENNIFER GARDINER: There does not appear to be any publication from the Government as to what the split is between commercial and residential transfer duty. Can you advise the Committee how much the Government raised from transfers of residential properties in 2002-03?

The Hon. MICHAEL EGAN: No. In the budget papers there is no division between commercial property and residential property—or, I should say, residential and non-residential property, because some of it is industrial—although it is not a bad idea. Perhaps there should be. I am not sure what information we have. I have it in the back of my mind that the non-residential transfer duty rate is about \$1 billion a year but I am not quite sure where that figure comes from.

Mr ACHTERSTRAAT: My understanding is that about a third of collections are commercial and two-thirds are residential.

The Hon. PATRICIA FORSYTHE: Can you take that question on notice?

The Hon. MICHAEL EGAN: Are we able to arrive at that figure?

Mr ACHTERSTRAAT: We have started collecting data in the past few months. We will probably be able to extrapolate that data to give you a year's figure.

CHAIR: Take that on notice if it is possible.

The Hon. MICHAEL EGAN: The difficulty there is though—

Mr PIERCE: Knowing exactly what it is. A property can be commercial or residential. It is not straightforward, but we can make estimates.

The Hon. JENNIFER GARDINER: Can you take it on notice that we would like to know what data you have on the transfer of residential properties in 2002-03, transfers of commercial properties in the same period, and how much the Government budget raised from transfers in both of those categories?

<6>

The Hon. MICHAEL EGAN: I do not think we would have a figure for that.

Mr PIERCE: No, you probably do not. The system changes to give us information. It has been put in place only in the past couple of months.

The Hon. MICHAEL EGAN: It gives me the opportunity—and you will be interested in this—to say that at budget time Treasury often gets the blame, or I get the blame, for miscalculation of what the transfer duty will be during the year. You might be interested to know that of the Treasuries in Australia, the closest to the mark this year was New South Wales Treasury. The one that was way out was Tasmania: It got it wrong by 77 per cent.

The Hon. PATRICIA FORSYTHE: In relation to Pacific Power, what is the current estimate of the expected liability to the Government as a result of Pacific Power's contract to design and build two power stations in Queensland?

The Hon. MICHAEL EGAN: There is an ongoing obligation and, from memory, it is somewhere between \$30 million and \$50 million. Also, there would be income of about that amount. I am not sure whether that quite answers your question. If you like, I can take it on notice.

The Hon. PATRICIA FORSYTHE: Last year you gave an indication that there were certain guarantees in relation to power stations in Queensland, an expected liability of \$70 million to where it is at now.

The Hon. MICHAEL EGAN: I can find out for you.

Mr PIERCE: That may have reduced in the past 12 months as things get completed. Liabilities arise out of warranties. But with the actual number, we can get back to you.

The Hon. JENNIFER GARDINER: Can you advise what the total value of redundancies is that have been offered to former Pacific Power employees in 2002-03?

The Hon. MICHAEL EGAN: Not off the top of my head, but quite a considerable amount. I will take it on notice and obtain that information for you.

The Hon. JENNIFER GARDINER: Could you provide us with an estimate for the same figure for 2003-04?

The Hon. MICHAEL EGAN: Yes, certainly.

The Hon. JENNIFER GARDINER: Can you tell us how many employees are employed by the Residual Business Management Corporation and what they actually do?

The Hon. MICHAEL EGAN: I think it is currently around 100, or perhaps it was 100 when the corporation was established.

Mr PIERCE: It was about 106 when it was established.

The Hon. JENNIFER GARDINER: How many are there now?

The Hon. MICHAEL EGAN: I do not know.

The Hon. JENNIFER GARDINER: What do they actually do?

The Hon. MICHAEL EGAN: We are trying to redeploy them.

Mr PIERCE: A small number are involved in completing those works contracts that Pacific Power had, and they will continue to be required for that work for about another year or two. The rest are being managed for redeployment.

The Hon. JENNIFER GARDINER: Do you have a timetable for when they will be redeployed?

The Hon. MICHAEL EGAN: As soon as possible.

The Hon. JENNIFER GARDINER: They would be quite skilled people, would they not?

The Hon. MICHAEL EGAN: Some would be. Although, I think most of the highly skilled people, except those being retained for the Pacific Power contract, would have gone to the new owners or to other engineering firms, consultancy firms.

The Hon. PATRICIA FORSYTHE: Treasurer, what was the cost of the restructure of government agencies that has been implemented since the 22 March election?

The Hon. MICHAEL EGAN: I am not sure I would be able to get you the figure for that, because it would be embedded in the cost of those agencies up to the end of the year 2002-03 financial year and no doubt embedded in the costs we are looking at in the forward estimates. I am not sure it would be easy to get a figure for that.

Hon. PATRICIA FORSYTHE: Prior to making a decision to undertake the restructure, presumably you would have looked at the cost benefit? You would have done a cost benefit analysis of such a restructure?

The Hon. MICHAEL EGAN: Not necessarily a cost benefit analysis. I think there is often a perception that every single decision and every part of a decision government takes is accompanied by tomes and tomes of analysis. That is the way to ensure nothing ever happens and it does not happen at great cost. There are matters of just commonsense judgment one can make about how an organisation or a number of organisations might operate more efficiently and effectively. So, obviously, in the changes we have made we want both to improve service delivery and, hopefully, achieve some savings in the budget. Sometimes there are initial costs in doing that.

Ms LEE RHIANNON: Treasurer, we have spoken before about your strong commitment to solid, responsible economic management. I was wondering whether you are satisfied that it is good use of public money for the superannuation of members of Parliament—that is, our defined benefits scheme—to draw about 75 per cent of the benefits from the public purse while most workers think they are doing pretty well if their boss pitches in about 9 per cent?

The Hon. MICHAEL EGAN: We do have a generous superannuation scheme compared with most people in the workforce; there is no question about that. It is traditionally part of our remuneration. Even if you were to include the taxpayer component—what is normally known as the employer contribution—into our total remuneration, I certainly would not think we were excessively remunerated.

Ms LEE RHIANNON: I did not understand that. Are you saying it was not in the defined benefit scheme but part of—

The Hon. MICHAEL EGAN: What I am saying is, if you took the employer cost of our superannuation scheme, the annual average cost per member, and added it on to the members' salaries, I think you will find, for example, the Premier of New South Wales or the Prime Minister of Australia would still be paid a tiny fraction of what the private sector equivalent—not that they have any—would be receiving. I hold the third-most senior office in the Government of New South Wales, yet my total remuneration would be a fraction of the third-most senior officer in scores, if not hundreds, of public and private companies in New South Wales. So, I have never been embarrassed about the remuneration I receive. I am quite happy with it. It is a lot of money compared with what most citizens receive each year. I am certainly not embarrassed by it and I do not apologise for it.

Ms LEE RHIANNON: So, do you think it would be more appropriate for the money to be in the salary package? Is that what you are saying?

The Hon. MICHAEL EGAN: I think it would take a lot of untangling and then there would be transitional problems.

Ms LEE RHIANNON: Stamp duty revenue rose from \$830 million to \$3.6 billion in the past financial year.

The Hon. MICHAEL EGAN: No, that is not true.

Ms LEE RHIANNON: I must have read the figures wrongly. I thought that was what they were.

CHAIR: Perhaps you can ask it as a question.

The Hon. MICHAEL EGAN: If you go to Budget Paper No. 2, page 3-13, you will see that in 2001-02 transfer duty raised \$3,119 million, and as at budget time we estimated that in 2002-03 it would raise \$3,550 million. So that is an increase of about \$430 million.

Ms LEE RHIANNON: We still have an increase there. Thank you for correcting me on that. I was interested to see what you were doing with the increase. Would you use that windfall to support public housing, community housing, Aboriginal housing or affordable housing initiatives? Can it be earmarked in any of those ways?

The Hon. MICHAEL EGAN: That is in last year's budget. It has already been spent in last year's budget. Some of the big areas were public transport. There is a whole list in the second Appropriation Bill of the year. It is probably in appendix D. Expenses start at page D4. For example, there was a sure \$283 million for the Roads and Traffic Authority. There was an extra \$210 million for the Department of Transport. That was largely related to metropolitan rail maintenance. There was an extra \$418 million for the Department of Education and Training and that was in the form of additional salary costs for teachers and greater than expected enrolment, plus grants to non-government schools, increases in cleaning contract costs, increased grants conveyance of disabled schoolchildren and school expenses. The Department of Community Services had an additional \$81 million over its initial budget of \$614 million for expenses. The Rural Fire Service got an additional \$88 million. That was largely because of bushfires. There was an additional \$318 million to the Department of Health, and that was largely related to the nurses award increase. Then there were minor variations of \$41 million. They add up to a total of additional expenses for the year of \$1,439 million. We went from the budgeted expenses figure of \$32,335 million to a revised budget figure of \$33,774 million.

Mr PIERCE: Because of the way in which the Commonwealth Grants Scheme treats New South Wales, at least as the methodology has applied in the past five years—that methodology is apparently being reviewed—about a third of the growth in our contract and conveyancing revenue has been redistributed to the other States. So, when we are looking at growth rates in that particular revenue base, about one-third of it ends up in the budgets of Queensland, South Australia, Tasmania, Northern Territory and the Australian Capital Territory.

CHAIR: We are subsidising the other States?

The Hon. MICHAEL EGAN: Yes, by more and more every year.

Mr PIERCE: The point is that the discretion this Government has to make extensive decisions based upon those growth rates is reduced by about a third because that ends up in other States.

<7>

Ms LEE RHIANNON: Treasurer, are you aware that the Electrical Trades Union Secretary, Bernie Riordan—

The Hon. MICHAEL EGAN: A great friend of mine, Bernie. He broke my ribs one day. Mind you, we do not agree much. Bernie and I would agree almost as seldom as you and I agree, but we are still very good friends.

Ms LEE RHIANNON: Bernie Riordan said:

In NSW we have an industry—

referring to the power industry—

that is constantly under pressure to cut costs and deliver a greater dividend to government.

I understand that a union analysis of the power industry is available. It found that since the break-up of Pacific Power in 1996, demands from the New South Wales Government for higher dividends are creating a drain on resources within the power entities. This analysis was given coverage after the recent storms. Obviously it does not say that the break-up caused the storms, but there was certainly concern that the drain on resources meant that the power industry was not able to respond quickly to the blackouts. Would you comment?

The Hon. MICHAEL EGAN: Bernie has been predicting all sorts of catastrophes since the reform of the electricity industry, since both the break-up of Pacific Power into competing generating companies and the amalgamation of the State's 26 distributors into essentially three distributors—EnergyAustralia, Country Energy and Integral Energy. My understanding is that all of the reliability statistics over the past seven years have actually been maintained or improved. I remember seven years ago Bernie was predicting we were going to have catastrophes.

Ms LEE RHIANNON: He gave examples that New York's blackout took one day to repair, London's blackout took three days, and Sydney's blackout took one week.

The Hon. MICHAEL EGAN: When was that?

Ms LEE RHIANNON: The blackout following the storm last Sunday. There were areas that took about five days to have their power restored.

The Hon. MICHAEL EGAN: Did you see the storm? Did you see the trees that came down?

Ms LEE RHIANNON: Absolutely. But, equally, the point he was making was that the run-down that has occurred because of the corporatisation that you have driven is reducing the industry's ability to respond quickly. We have always had storms in New South Wales. They are part of our history, part of our life.

The Hon. MICHAEL EGAN: I think that most people in New South Wales, certainly in Sydney, who saw the storms and the damage they caused, were very impressed by how quickly the State Emergency Services responded and how quickly the energy distributors were able to restore power supplies. I certainly was impressed. I know that some people might have been without power for longer than they would have liked, or anyone-else would have liked, but I think overall most people would have thought they had their power restored pretty quickly in the circumstances.

Ms LEE RHIANNON: I understand that as a result of what you have done there has been a 40 per cent cut to field staff at EnergyAustralia and Integral Energy.

The Hon. MICHAEL EGAN: Bernie Riordan says that the staffing levels in the energy industry have declined from 22,000 to 11,000. I am not sure if that figure is right. It could well be. Is Mr Riordan really suggesting that we should have 11,000 staff sitting around waiting for last weekend's storms?

Ms LEE RHIANNON: I am sure he is not suggesting that.

The Hon. MICHAEL EGAN: What is he suggesting?

Ms LEE RHIANNON: I am sure that he just wants the power industry to function.

The Hon. MICHAEL EGAN: It does function. Not only does it return very significant dividends—which help finance public hospitals, schools, public transport, and community services—but over the past seven years it has achieved total real savings of, I think, \$1.8 billion, which it has passed on to business and household consumers.

Ms LEE RHIANNON: Do you use consultants in your office or in Treasury? If so, how much has been spent on consultants?

The Hon. MICHAEL EGAN: I do not think I have any in my office, although I would not have any problems engaging people on a consultancy basis in the right circumstances. I do not think I have any. Certainly Treasury engages consultants. We have had some contractors and consultants working for us on energy industry matters now for quite a number of years, simply because it is cheaper and more effective for us to do it that way.

Ms LEE RHIANNON: Can you give us a figure on how much you have spent?

The Hon. MICHAEL EGAN: It is actually reported in our annual report every year. I will certainly take it on notice.

CHAIR: Mr Treasurer, I refer to Budget Paper No. 2, page 3-13, 3.3 Estimates of State Revenue. We have talked about the increased revenue from hotels and clubs in certain categories that have high income. In regard to reports of very high profits at the Crown Casino in Melbourne, how do you explain that the casino revenue is unchanged from 2002-03 at \$81 million? It is still the same budget estimate for 2003-04? If casinos are as profitable as they say, one would assume that turnover would increase each year and that figure should increase.

The Hon. MICHAEL EGAN: Do not forget that the poker machine rate for casinos has not increased. That is because there is a fixed level of taxation as part of the license, which was entered into, I think, in about 1993 or 1994.

CHAIR: It is a separate moratorium?

The Hon. MICHAEL EGAN: They paid, I think, a \$325 million up-front license fee for the period of the licence, which, from memory, is 12 years. The tax rate was locked in. Obviously the tax rates are up for review at the expiry of the licence, which would not be far away. If it is 12 years, as I think it is, it will be about 2007. The casino would probably be affected by the downturn in tourism. That might explain why the taxation from the casino is remaining fairly steady rather than increasing. Normally you expect those things to increase roughly in line with increases in disposable income, which is about 5 per cent per year.

CHAIR: As to the profits from the casino, is there any way in which the casino can underestimate its taxable amount?

The Hon. MICHAEL EGAN: I would not think so. They are subjected to fairly intensive scrutiny. I would be very surprised if they were even trying to do that. In fact, I am sure they would not.

CHAIR: The Summit on alcohol abuse has just concluded. I note in Budget Paper No. 3, Volume 2, page 22-5, 2003-04 Budget, Total Expenses, there is a reference halfway down the page about subsidising petroleum products, which includes \$5 million to subsidise the sale of low alcohol beer in New South Wales. Are there any plans by the Government to increase that subsidy or any other action to encourage the consumption of light beer or even lighter beer? How is that \$5 million spent?

The Hon. MICHAEL EGAN: I think that is a carry-over from the days when we actually taxed alcohol. That is before the High Court finding that the States could not impose an excise on tobacco, alcohol or petrol. We have had an ongoing fight with the Federal Treasurer over that matter. My view was that as they were getting the revenue from alcohol, they should now be providing the subsidies. But for some reason I lost the argument. I remember a lot of nasty letters.

Mr PIERCE: I remember the late nights and early mornings with Commonwealth officials negotiating over it. The Commonwealth insisted as part of the safety net arrangements when the section 90 court case was lost that the States would either continue or instigate subsidies for low alcohol beer. So when the Commonwealth applied its excise on alcohol, which because of the Constitution needed to be the same rate across the jurisdictions, we either put in subsidies or changed the existing subsidy arrangements so that the price of low alcohol beer did not change in that jurisdiction.

If you had a tax rate on low alcohol beer that was different than the national average, which they were putting in through the excise, you had to put in a subsidy, increase your subsidy, or in some cases reduce your subsidy compared with what you were doing before. Every State had a different position. They had us over a barrel in the sense that they said, "If we are going to put in the safety net"—which in New South Wales was in the billions of dollars—"we want you to keep paying the subsidy."

The Hon. MICHAEL EGAN: My view is that the Commonwealth should lift the subsidy for low alcohol beer to the highest level of all of the States and carry the cost itself, because it is the one that keeps the revenue from the alcohol.

CHAIR: The fact that you apply this subsidy is not an indication of some sort of social policy?

The Hon. MICHAEL EGAN: No.

CHAIR: It is simply an equalisation with the Federal Government.

The Hon. MICHAEL EGAN: Yes. I remember the tears that I shed. I had forgotten them, but you have reminded me. If you keep talking about it I will start crying again. It is not a subsidy that should be paid by the New South Wales taxpayer; it should be paid by the Commonwealth.

CHAIR: I note advertisements in the press asking people if they have any claims on HIH motor vehicle policies. I refer to Budget Paper No. 3, Volume 2, page 22-6. Has that issue been resolved? You have a figure of \$113.7 million for HIH motor vehicle third party warranty to be paid out in 2003-04. If the advertisements in the newspapers are asking if anyone else is affected, does that mean there is an unknown quantity and an unknown amount of money?

The Hon. MICHAEL EGAN: I think the advertisements you are referring to are Commonwealth ads. The areas where we have picked up the liability are in relation to people injured in motor vehicle accidents and people injured at work. Our estimates were that that would cost us about \$600 million. From what I have read in the paper, the Commonwealth is requiring all claims that it will pick up to be lodged by a certain date in the near future. I do not think we have done that.

CHAIR: That will have no effect on State funds?

The Hon. MICHAEL EGAN: It will have no effect, no. The last figure I recall seeing was that the allowance we made of about \$600 million for HIH-related expenses increased. I think the last estimate I saw was about \$650 million. That figure in the budget papers of \$113 million is the actual cash amount that will be paid out in this coming year. That should tail off.

Mr PIERCE: When we took over the liability we treated it as an expense expensed it . I believe this would refer to the amounts attributable in that year of that original \$600 million.

<8>

The Hon. MICHAEL EGAN: Although it says that insurance claims will be paid out. So that is really a cash cost.

CHAIR: We have already looked at the figures for stamp duty and so on. The Premier has made a commitment that stamp duty rates will be reviewed before the next election. I assume that commitment refers to first home buyers.

The Hon. MICHAEL EGAN: I am not sure that he has made a commitment in that regard.

CHAIR: That is the question: What does a review mean? People think it will mean a reduction.

The Hon. MICHAEL EGAN: We review tax rates, obviously, every year. The only tax rates we will not review for eight years are the poker machine tax rates, because I think it is important that the club and hotel industry have certainty over that time of what those rates will be. But otherwise we review tax rates every year. I certainly would not be anticipating putting them up. The Premier has

indicated, as I did, that if there were any scope for stamp duty cuts in relation to residential property, we would much prefer to see them in the form of assistance for first home buyers. We already have the most generous assistance scheme for first home buyers of any State, First Home Plus.

I cannot now tell you, or even have any confidence myself, about what will be in the next year's budget. It will depend on how our revenues are averaging and what the expenditure demands are, and also what the state of the housing industry is. It would not be a good time to reduce stamp duty rates when the housing industry was booming. The time to do that is probably when the housing and property industries are a little bit in the doldrums. Otherwise, a reduction in stamp duty, rather than being a benefit to home buyers, simply ends up being a benefit to the vendors. So you would have to get to the varying rate if you really wanted to help first home buyers or home buyers generally.

CHAIR: Do you agree, though, that because of all the criticism about stamp duty rates, when the Premier said that, there was then a public perception that he was suggesting there would be a review with regard to a reduction in stamp duty rates, not simply a review?

The Hon. MICHAEL EGAN: Certainly. He did mean a review in the nature of a reduction, yes. I might say that Western Australia has recently increased its stamp duty rates. We are not planning to do that. Western Australia is in the unfortunate position that they inherited a terrible financial mess from the outgoing Court Government. They really did inherit a horrible, horrible mess. I give Premier Gallop and Treasurer Ripper great credit for getting that State back on the financial straight and narrow. It will stand them, the Government and their State in good stead in the medium and longer term. For the time being, however, it is a very difficult thing that they have had to do.

The Hon. PATRICIA FORSYTHE: Treasurer, have all agencies achieved their 6 per cent productivity savings as requested under the memorandum of understanding between the Government and the public sector union?

The Hon. MICHAEL EGAN: No, they have not.

The Hon. PATRICIA FORSYTHE: What dollar figure was not realised as at 30 June?

The Hon. MICHAEL EGAN: I think the savings achievements have been about \$300 million, but that falls short of what was expected. That has meant that over the last three years the amount of that increase that is borne by the budget has been higher than was expected in December 1999 when we entered into that agreement.

The Hon. PATRICIA FORSYTHE: With regard to the agencies that did not achieve the 6 per cent productivity savings, was the supplementation provided to them?

The Hon. MICHAEL EGAN: Yes.

The Hon. PATRICIA FORSYTHE: Are we able to get a list of the agencies that did not achieve productivity savings?

The Hon. MICHAEL EGAN: The larger agencies, for example, Education and Health, would argue that they have made savings but that they have utilised them in service delivery improvements, and I am sure there is a great deal of truth in that. There is always some tension between agencies and Treasury about what happens to savings, whether they manifest themselves in further service improvements and expansions or whether they come back to the budget bottom line. It is the difference between hard savings and soft savings. I am a great advocate for hard savings; agencies believe in soft savings. I suppose there is merit in both.

The Hon. PATRICIA FORSYTHE: What is the budget of your ministerial office for 2003-04?

The Hon. MICHAEL EGAN: I do not know, but I will be delighted to find out. I will take the question on notice.

The Hon. PATRICIA FORSYTHE: Could you also advise what you have spent in your ministerial office over the past year?

The Hon. MICHAEL EGAN: Yes, I would be happy to do that. Generally, we are under budget. We are proud of that because when I became the Treasurer—

The Hon. PATRICIA FORSYTHE: How do you know, if you do not know what the budget is?

The Hon. MICHAEL EGAN: I always check with the chief of staff, who is in charge of these things, and he tells me we are on track or we are doing well. On one occasion some years ago we had to pull our horns in a bit, but we made it at the end of the day. It is a matter I regard as very important, because I think the Treasurer of the day should set an example. But it was a humiliation for me when in 1995—I became the Treasurer about three-quarters of the way through the financial year—I inherited a personal budget of the previous Treasurer. I had only been in office for only a day and I was about \$400,000 over budget. I did not know what to do. I realised that there was nothing I could do. Former Treasurer Peter Collins had overspent his own budget.

The Hon. JENNIFER GARDINER: Was Frontier Economics employed by Treasury in any capacity in 2002-03?

The Hon. MICHAEL EGAN: I think so, yes.

Mr PIERCE: Yes.

The Hon. JENNIFER GARDINER: Can you advise what Frontier Economics did for Treasury at that time and how much was paid for that work?

Mr PIERCE: I will take the question on notice. The work they undertook was quite extensive at that time; it has since reduced. To give you an example, the work included the sale of PowerCoal, the restructuring and subsequent sale of Pacific Power International, the Tallawarra power station site, and advice on New South Wales' position with regard to the national electricity market Ministers forum. They are the main ones I can think of, off the top of my head. But I would be happy to provide you with information on how much we spent and the detail of the work they did.

The Hon. JENNIFER GARDINER: Could you also provide the total amount provided by the New South Wales Government to Frontier Economics over the past four years?

The Hon. MICHAEL EGAN: I think it is about \$15 million.

Mr PIERCE: Yes, that is how much we spent over the four years.

The Hon. MICHAEL EGAN: We will take that question on notice.

The Hon. JENNIFER GARDINER: With respect to the market implementation group, can you describe what work the group did in 2001-02 and 2002-03?

Mr PIERCE: The market implementation group is a combination of these people from Frontier and Treasury officers. As well as the matters I referred to, it included ownership monitoring, and the preparation of submissions or advice on IPART pricing regulations. A lot of work was done on the modelling of the capital structure of the businesses. Through a separate group within Frontier, we also did a lot of work on analysing the market risks of the businesses. We have understood the risks faced by each individual business quite well, and they report to us on that, but I wanted a better understanding of the portfolio effect of owning all of these businesses. There is argument that because we own both generators, the risk that the Government faced within the electricity industry is smaller than just some of the individual business risks, and that modelling work is in fact continuing.

The Hon. JENNIFER GARDINER: The market implementation group had employee-related expenditure of zero dollars in 2001-02. Can you explain why that is so?

The Hon. MICHAEL EGAN: Whilst it is not related to this year's estimates, I am always happy to oblige. We will take the question on notice.

Mr PIERCE: It does not sound right to me, I must admit.

The Hon. JENNIFER GARDINER: Could you also provide the group's employee-related expenditure in 2002-03 and the budget for the same item in 2003-04?

Mr PIERCE: Yes.

The Hon. MICHAEL EGAN: It is a peculiar fascination of the Opposition: Frontier Economics and the market implementation group. I know the rest of you are all sitting on the edge of your chairs.

The Hon. JENNIFER GARDINER: Mr Pierce said that less work was being done by Frontier Economics. Is that a result of a review of its effectiveness and value for money?

The Hon. MICHAEL EGAN: No. Many of their projects have simply been completed. In terms of value for money, my view is that we could not have done any better than Frontier Economics—not only because of the expertise they have and, therefore, the quality of their advice, but it would simply be financially almost impossible for us to employ as permanent public servants people with that sort of skill level and level of financial reward that they have in the marketplace.

The Hon. JENNIFER GARDINER: Would you give the committee an update on any agency officers who are working overseas in relation to State Development?

The Hon. MICHAEL EGAN: We only have two, in London and Tokyo. I think we have one officer, or perhaps two officers, in Tokyo, and we have one in London.

Mr HARRIS: We have two locally engaged and one Australian-based officer.

The Hon. MICHAEL EGAN: That compares to the days when there used to be hundreds in London.

The Hon. JENNIFER GARDINER: What is the cost of those officers?

Mr HARRIS: It is \$1 million a piece. That includes everything: rental and overseas living allowances. Those overseas living allowances are generally based on the Commonwealth Volume 9, which are their established rates. We simply apply those to our officers, and the rest of it varies according to the rental costs in those cities, the standard costs of living and, of course, the state of the Australian dollar at any given moment.

<9>

The Hon. JENNIFER GARDINER: Would you give the committee an overview of any major initiatives that the Tokyo or London offices have accomplished say in the past 12 months?

Mr HARRIS: I know the Tokyo office has handled over 100 companies that have been involved in export activities. In the past six or eight months there have been two trade missions, and we have had a buyers group of Japanese wine importers who have done a regional tour of Australian wineries. It is quite a significant load and they have done it very well. We have monitored that; they report monthly to us. The London office is very similar: a large export load, particularly with the agreement between New South Wales and the Commonwealth to support the Federal Government's plan to seek to double the number of Australian exporters over the next four years.

So the export load in particular has been quite high. The London office also maintains a steady contact with investment groups and we find that that covers not just companies that are United Kingdom based but companies such as Deutsche Bank, who, for example, now do all of their foreign exchange clearing globally in only two cities: London and now Sydney. So there is a fairly steady contact. They deal with companies like Travelex, who of course bought Thomas Cook. There is a steady dealing in investment groups.

The Hon. MICHAEL EGAN: Mr Harris indicated to me that he would like to have another look at the earlier answer he gave in relation to media monitoring.

Mr HARRIS: Could I have a look at that? Intuitively I think the numbers are much lower than you would expect and I am convinced that that number is not complete. Could I take it on notice and give you the correct number?

CHAIR: The question related to media monitoring?

Mr HARRIS: Correct.

CHAIR: You may take it on notice.

Ms LEE RHIANNON: Treasurer, have any of your overseas trips in the past year been paid in part or in full out of public money and, if so, did any of your relatives or friends accompany you on those trips?

The Hon. MICHAEL EGAN: I have had a trip to New Zealand for a private holiday. I do not think I have had any publicly-funded overseas visits in the past 12 months. No, I have not.

Ms LEE RHIANNON: How many staff do you have?

The Hon. MICHAEL EGAN: I have a chief of staff, I have a press secretary. I have an energy adviser, a State development adviser, I have another media and policy adviser, I have a Treasury adviser, I have my own private secretary—

The Hon. PATRICIA FORSYTHE: It is much easier when they are listed in the budget papers.

The Hon. MICHAEL EGAN: I have two receptionists, I have a driver, I have got an officer who mainly deals with parliamentary matters and also Office of State Revenue matters. I do not think I have left anybody out. I will take it on notice.

CHAIR: Thank you, Treasurer, and the heads of the various agencies who have appeared with you. We thank you for your co-operation in answering all the questions that have been asked.

The Committee continued to deliberate.
