

REPORT OF PROCEEDINGS BEFORE

GENERAL PURPOSE STANDING COMMITTEE NO. 1

INQUIRY INTO THE 2004 MINI-BUGET

At Sydney on Monday 17 May 2004

The Committee met at 2.00 p.m.

PRESENT

Reverend the Hon. Fred Nile (Chair)

The Hon. J. C. Burnswoods
The Hon. D. T. Harwin
The Hon. G. S. Pearce
Ms L. Rhiannon
The Hon. H. S. Tsang

The HON. MICHAEL EGAN appeared before the Committee.

JOHN ERIC PIERCE, Secretary, New South Wales Treasury, and

PETER CHARLES ACHTERSTRAAT, Executive Director, Office of State Revenue, and

ROBERT GEORGE CARLING, Executive Director, Economic and Fiscal, New South Wales Treasury, sworn and examined, and

IAN HENRY PHILLIPS, Principal Advisor, Office of State Revenue,

STANLEY PETER JOHNSON, Principal Advisor, Office of State Revenue,

ROBERT GRENVILLE SMITH, Principal Advisor, Office of State Revenue, and

ZIGGI LEJINS, Director, Transport and Ports Branch, New South Wales Treasury, affirmed and examined:

CHAIR: I declare open this public hearing of General Purpose Standing Committee No. 1. This is the first hearing of the Committee as part of its inquiry into the 2004 mini-budget. I thank the witnesses—the Treasurer, the Hon. Michael Egan, and the officers of the Treasury and of the Office of State Revenue—for their attendance today at short notice. I understand that this obviously puts a great deal of pressure on you in carrying out your normal duties. You perhaps see this hearing as an interruption but we have tried to make it as brief as possible so that it has a minimum impact on the operations of the Treasury and other departments.

Evidence given to this Committee is protected by parliamentary privilege. This means that witnesses are given broad protection from action arising from what they say and the Parliament has to protect them from any action that disadvantages them on account of the evidence given before the Committee. I also remind you that the giving of false or misleading evidence to the Committee may constitute a contempt of Parliament. An officer of a department shall not be asked to give opinions on matters of policy and shall be given a reasonable opportunity to refer questions asked of the officer to superior officers or to a Minister. Under the terms of reference of this inquiry, the Committee is required to conduct all hearings in public. I ask all those in the room to please turn off all mobile telephones.

Mr Pierce, do you wish to make a brief opening statement prior to questioning?

Mr PIERCE: No.

CHAIR: Mr Achterstraat, do you wish to make a brief opening statement prior to questioning?

Mr ACHTERSTRAAT: No.

CHAIR: I welcome the Treasurer, the Hon. Michael Egan. Do you wish to make an opening statement?

The Hon. MICHAEL EGAN: I suppose that my opening statement is the mini-budget speech that I delivered to the Legislative Assembly in early April.

CHAIR: Committee members sent you a number of questions on notice.

The Hon. MICHAEL EGAN: I do not have a copy of those questions with me. I think some were directed at me and some were for the officers.

CHAIR: Mr Pearce will commence with questions.

The Hon. GREG PEARCE: I want to establish the baseline for the mini-budget. Treasurer, I refer you to the mid-year review issued by your office and I ask you to go to the highlighted section entitled "Commonwealth Grants". Could you tell us the amount of the Commonwealth grants listed for 2003 and the amount projected for 2004-05?

The Hon. MICHAEL EGAN: The figures are there, Mr Pearce. They are a matter of public record.

The Hon. GREG PEARCE: I will pass this piece of paper to you as well. I will help you. In the mid-year review the total Commonwealth grants was \$15,548 million. For 2004 it was \$15,789 million. The document that I have just given you is the same document that was hand delivered to your luxury penthouse suite at the Hyatt just before the Ministerial Council for Corporations [MINCO] meeting on 25 March. It gives the actual figures for Commonwealth grants for the two years in question. Could you read those out or would you like me to write them on the whiteboard?

The Hon. MICHAEL EGAN: No, it is in a public document.

The Hon. GREG PEARCE: To help you, the actual amount of Commonwealth grants for 2003-04 was \$15,728 million. That was an extra \$180 million for 2003-04, and an extra \$127 million for 2004-05. Would you agree, then, that when you gave the mini-budget the State was receiving \$180 million more than you expected in your mid-year review, and in 2004-05 it was \$127 million more than you projected in the mid-year review?

The Hon. MICHAEL EGAN: Mr Chairman, might I also have the liberty of writing on the whiteboard?

CHAIR: You certainly can.

The Hon. MICHAEL EGAN: I will refer to two documents. The figures you referred to included I think both general purpose assistance and specific assistance—

The Hon. GREG PEARCE: That is quite right—total grants. It is the line that you used in your budget review.

The Hon. MICHAEL EGAN: Even according to your figures, you would see that they did not keep pace with either the growth in inflation or population growth. Specific purpose payments roughly keep pace with population growth and inflation. They are payments that in a sense do not assist our general budget because the expenditures are determined by the Commonwealth Government. That is not general assistance money that we can then use to fund our share of hospital, education, road or community services funding. The proportion of Commonwealth grants, or the section of Commonwealth grants, that enable us to do that are called the general purpose grants. I will take you through the changes in 2001-02, 2002-03, 2003-04 and 2004-05. In 2001-02 we got \$9,709 million. In 2002-03 we got \$9,679 million. The next year we got \$9,737 million and in 2004-05 we are expecting to get \$9,744 million. That is a drop of 0.31 per cent, this is an increase of 0.6 per cent and this is an increase of 0.07 per cent. In nominal terms that is an aggregate growth of 0.36 per cent over three years, and in real terms it is a decline of 8.94 per cent.

If we apply 9 per cent to 2004-05 we can see how far behind we are in real per capita terms. If we compare that situation in New South Wales—we have had a real decline of 8.94 per cent—with the other States, we find that Victoria also had a real decline of 1.33 per cent. Queensland, on the other hand, has had a real change of 13 per cent; in nominal terms it is about 30 per cent. Western Australia has had a nominal increase of 24 per cent, which is an increase of 10.46 per cent in real per capita terms. I could go on to the other States.

The Hon. GREG PEARCE: That will do thanks, Treasurer. I want to move on to another topic.

CHAIR: Let the Treasurer finish his answer.

The Hon. MICHAEL EGAN: I know that Mr Pearce does not like what I am saying. Consider that that is somewhere between 25 per cent and 30 per cent of the Government's total revenue. I would like to see how any other government or organisation could cope with the increase in funding demands and in wage costs without any growth at all in their general purpose revenue. That sums up the very serious predicament we are in. I might refer also to another table, which I will distribute to Committee members. I think it explains—

CHAIR: Does the Committee have copies of those charts?

The Hon. MICHAEL EGAN: I am not sure that I have copies of that but I can get them. We certainly have copies of this one.

<2>

The Hon. GREG PEARCE: The ministerial council statement shows that New South Wales received an extra \$180 million this year and will get an extra \$127 million next year. It says that the State shares have been revised due to updated population estimates and the recommended new relativities. But you accept that you receive an extra \$180 million from the Commonwealth this year and an extra \$127 million next year? Of course, we know that the figure is higher now that we have the real budget figures.

The Hon. MICHAEL EGAN: The \$188 million applies to the specific purpose payments. If you had a calculator you could do a little calculation and you would see that the increase in specific purpose funding barely—in fact, I am not quite sure that it does keep up with inflation and population growth. But, again, it is allocated for specific purposes at the direction of the Commonwealth Government. So it is not money that is freely available to us to use; it is for specific purposes directed by the Commonwealth. But I point out that that is one portion of the total Commonwealth funding we get, and \$188 million out of \$5 billion is barely enough to keep up with inflation and population growth. The bigger proportion of Commonwealth financial assistance to the States is general purpose assistance, which amounts to two thirds of our total Commonwealth assistance.

In nominal terms over a four-year period we are the only State in Australia that has not had any nominal growth, and we have had a very substantial cut in real per capita growth. That provides the context to the budget. But the table that I have just circulated to you is important. I am sure your next question would have been the assertion—although I would put it as a lie—by the Commonwealth Treasurer that we will be better off as a result of the GST revenue. What he means is that we will be better off compared with the guaranteed minimum amount. But the guaranteed minimum amount is in fact a misnomer because it is not guaranteed at all. As the table I have circulated to you shows, the guaranteed minimum amount for this coming year, 2004-05, has been declining every year since May 2000. It has declined by \$657 million. So the guaranteed minimum amount is really just the name that Mr Costello wants to give it; it is not guaranteed at all. It is not the minimum amount because it keeps declining.

The Hon. GREG PEARCE: Treasurer, sticking with your maths, if I turn the whiteboard over you will see the figures from the mini-budget. According to the midyear review for 2004-05—

The Hon. HENRY TSANG: Mr Chairman, where do these figures come from?

The Hon. GREG PEARCE: They are the figures from the Treasurer's budget. The midyear review showed the 2004-05 \$275 million deficit. I just want to go through the figures that you have given us in your speech. Extra revenues included the coal royalties of \$44 million, the vendors stamp duty of \$690 million and savings of \$365 million.

CHAIR: Mr Pearce, could you clarify whether you are taking responsibility for the figures on that board?

The Hon. GREG PEARCE: They are from the Treasurer's mini-budget speech.

CHAIR: But you put them on the board, though.

The Hon. GREG PEARCE: Yes.

The Hon. HENRY TSANG: But Mr Chairman—

The Hon. MICHAEL EGAN: It is okay, Henry. Do not worry. I did not realise Mr Pearce was that silly.

The Hon. GREG PEARCE: The extra costs that have been identified were the first home buyers stamp duty, the Commonwealth cuts that you claim of \$376 million, the \$400 million nurses and teachers, the health measures, rail, education, community services and ageing. Based on those figures we would be looking at a deficit of \$1.584 billion. So I would ask you to fill in the gaps about how we get to a deficit of \$300 million.

The Hon. MICHAEL EGAN: I thank Mr Pearce for the opportunity. I will not rub these figures off just yet; I will come to that later. The figures appear to be right but I draw your attention to the figure of \$1.548 billion, because this is the figure that Mr Pearce and Mr Brogden before him on the day of the mini budget said would be the deficit for 2004-05. If I rub off the other figures we are left with two figures. I would like

everybody to bear in mind that that is the deficit which the opposition is saying I will deliver on 22 June. As I indicated in the mini-budget the likely deficit for 2004-05 is in the vicinity of \$300 million. The budget will be brought down on 22 June. I want all of you, particularly the press, to remember the figures off \$1.584 billion and \$300 million and see what the result is.

The Hon. GREG PEARCE: If you take out the Commonwealth cuts of \$376 million, which do not exist, and if you take out the nurses and teachers \$400 million which is already accounted for and you add back in the \$127 million extra you get much closer: you get down to \$680 million. So I am sure that with a few tweaks and squeezes you will be able to deliver that \$300 million after all.

The Hon. MICHAEL EGAN: Can I just take you up on one point: you say that the \$376 million does not exist. Why then did Mr Costello not dispute the figure and why did he tell me to go and try to get it back from the other States?

The Hon. GREG PEARCE: If it exists why was it not in your midyear review and why was it not in the 2003-04 budget?

The Hon. MICHAEL EGAN: Some of it actually was.

The Hon. GREG PEARCE: Where? Show us.

The Hon. MICHAEL EGAN: The midyear review I think was predicting a starting point deficit in 2004-05 of \$275 million. For reasons of caution and prudence we factored in a cut of about \$100 million in Commonwealth general purpose assistance to us because we already have the preliminary reports of the drafts from the Commonwealth Grants commission. On the basis of strong arguments and a good case we were hoping that we would not only be able to reverse but indeed would be able to draw back some of the \$2.9 billion that taxpayers in this State are required to subsidise taxpayers in the other States.

The Hon. GREG PEARCE: So you did not have the \$376 million in the projections?

The Hon. MICHAEL EGAN: That is right.

The Hon. GREG PEARCE: Because you knew it was never going to come your way.

The Hon. MICHAEL EGAN: The Treasurer's conference was held on 26 March and the Commonwealth Grants Commission's final report was not delivered until early in March.

Ms LEE RHIANNON: Treasurer, once you had decided that you had to cut the current New South Wales budget, could you explain how you decided where the cuts would be made? Did you advise Treasury to spread the cuts across all departments or did you leave it to Treasury to determine where the cuts would be made?

The Hon. MICHAEL EGAN: No, the policy decisions are made by the Government, not Treasury. I would not want anyone to think that any of my nine excellent budgets are something that Treasury should take credit or blame for; the Government takes the credit or blame for decisions of the Government. The decision about not only the revenue items but also the expenditure items was a decision taken by the Government.

Ms LEE RHIANNON: Considering that you determined that savings needed to be made, did you consider making cuts to allowances and entitlements that MPs receive?

The Hon. MICHAEL EGAN: No. As you know, the Government does not set parliamentary allowances or salaries.

Ms LEE RHIANNON: But a few years ago the Legislative Assembly agreed to the additional allowance for printing and postage.

The Hon. MICHAEL EGAN: I think that was a matter determined by the Remuneration Tribunal.

Ms LEE RHIANNON: But, considering that it is money that you have responsibility for, you could make a recommendation. Why did you not consider that?

The Hon. MICHAEL EGAN: Because if the government of the day were involved in setting those things we would be subjected to criticism from not only the public generally but I am sure from the Greens. The Government a long time ago took the decision that things such as parliamentary salaries should be determined at arm's length from parliamentarians. That is why we have a Parliamentary Remuneration Tribunal.

Ms LEE RHIANNON: But that one was on a recommendation from the major parties. It was additional, on top of.

The Hon. MICHAEL EGAN: I generally do not get involved at all: I do not make a submission. But the parties do make submissions. In relation to the specific matter that you are talking about, I forget what the name of it is but it does provide members of Parliament with the ability to communicate to their constituents. I for one would think that that is quite admirable.

CHAIR: Is it correct that prior to the mini-budget there was a recommendation or a view stated by Treasury officials that there would be a downturn in revenue from stamp duty and so on because the housing market was cooling off?

The Hon. MICHAEL EGAN: We had been predicting a downturn in the property market for the last for five years. Those predictions have not come to fruition. The property market has been booming for a number of years. But sooner or later it will return to normal levels. The signs are that that will occur in this coming 12 months. In the present financial year, 2003-04, we expect it to get about \$4 billion in stamp duty revenue. Next year, 2004-05, with all the changes that we have made with the vendor duty and the concession for first home buyers—the abolition of stamp duty for nine out of 10 first home buyers—we still believe that the stamp duty revenue next year in 2004-05 will be approximately equal to or perhaps a bit lower than the stamp duty revenue we are getting this year. So even with the vendor duty which in net terms we believe will raise about \$690 million—in gross terms it will be a bit more, but whenever you increase a transaction tax it does have some impact on the volume of transactions across the market. So we are estimating a net \$690 million there.

The concession for first home buyers I think is \$270 million. That is based on the same number of first home buyers as in 2002-03, but I expect they will be a lot higher. So the actual cost of that exemption for first-time homebuyers will also be higher. But when you take everything together and also the changes to the premium property duty we anticipate that stamp duty receipts in 2004-05 will be perhaps just a little lower than in 2003-04. That is an interesting point to make. In two big areas of our revenue, Commonwealth general purpose assistance grants and stamp duty, there has been no growth. That makes things very difficult for a government that wants to increase funding for our front-line services. That was the context of the mini-budget.

CHAIR: If the housing market is collapsing, 34 per cent sales the other day, that means you will not get stamp duty from a whole lot of houses because they are not being sold. Do you think you are being a bit optimistic as to what the impact will be on your budget?

The Hon. MICHAEL EGAN: We could be.

CHAIR: It is more serious than you seem to be taking into account.

The Hon. MICHAEL EGAN: The estimates for stamp duty notoriously are unpredictable because you do not know what is going to happen to the property market during the next 12 months or 24 months. All sorts of things could happen. Interest rates could be increased by the Reserve Bank. We do not know what impact world events will have. We cannot even be sure at this stage what impact the recent Federal budget will have. There was a very interesting article in, I think it was, Saturday's *Sydney Morning Herald* by Ross Gittins, which argues that the fiscal stimulus of this year's Federal budget is the sort of stimulus that you would have in a deep recession, not the sort of stimulus you would have when the economy is growing at roughly 3.5 per cent. There are all sorts of factors and it is very difficult, as we have found in New South Wales, but also all the other States and the Commonwealth have found, in predicting what stamp duty revenue will be. It is not precise science, it is as much art as it is science. You cannot predict what the factors will be what the psychology of people in the property market will be.

CHAIR: Do you anticipate that your mini-budget and its new taxation system in land tax and the 2.5 per cent premium tax will have a bigger impact on the housing market than you anticipated? You are actually helping to drive down sales.

The Hon. MICHAEL EGAN: I noticed one of the questions on notice referred to modelling: did we do any modelling? The answer to that is no, and I would be surprised if the Opposition did any modelling before putting its stamp duty reduction bill to the House. In any event, if there were a reduction model that could accurately predict these things then I would suggest we would all take advantage of it and if the model were accurate we would all end up wealthier than Warren Buffet. There is no such model that enables you to predict precisely what will happen in the property market. But if the property market cools down then that is something we should not be worried about. Overall I think that would be very good for the economy, the community and, particularly, people trying to buy their first homes. That has been a problem over recent years. Homebuyers have been priced out of the market. We talked about auction results on the weekend. If you look at the *Sydney Morning Herald* publication Domain—admittedly this is for the week before—you will see that the median price of houses of the 109 that was sold at auction was \$761,000 compared with \$666,000 months ago. If you look at the median price for a unit, the price was \$432,000 compared with \$395,000 a year before. Increases like that I find very worrying.

The Hon. DON HARWIN: You said that the \$690 million from vendor duty was the net figure?

The Hon. MICHAEL EGAN: That is right.

The Hon. DON HARWIN: What is the gross amount, and explore that a bit if you will? How much do you expect you will lose as a result of the reduced number of transactions?

The Hon. MICHAEL EGAN: I am going on memory here, but I think the gross amount is about \$780 million and I think Treasury factored in a reduction of transactions to the extent of about 3 per cent, a reduction in volume and prices and that is across the market not just the investment property market.

The Hon. GREG PEARCE: You mentioned in relation to one of the questions on notice that Treasury did not do any modelling of the property market.

The Hon. MICHAEL EGAN: I did not commission any, let us put it that way. Did you commission any—?

The Hon. GREG PEARCE: You did not do any modelling or research on the impact of new taxes on rents?

The Hon. MICHAEL EGAN: No, because again the same thing applies. If there were such a model and if it worked we would all make use of it and we would all be very wealthy. But on these things you apply your commonsense, and I was very pleased to see that my assessment, which was that the abolition of stamp duty for first-time buyers would stimulate the market and the vendor duty and the land tax would cool the market, was also the view which the Governor of the Reserve Bank has expressed now on two occasions.

The Hon. GREG PEARCE: These taxes were just off the top of your head?

The Hon. MICHAEL EGAN: I am sorry you have asked me that question because I am somewhat embarrassed to have to admit that vendor duty was first off Mr Brogden's head. He was reported in the *Manly Daily* advocating stamp duty on the sale of property rather than the purchase of property and that was first time I began to consider it as a possibility. But I did not give it any deeper consideration until we came away from the Treasurers Conference many hundreds of millions of dollars worse off.

The Hon. GREG PEARCE: You just plucked it out of the air?

The Hon. HENRY TSANG: No, he got it from Brogden.

The Hon. MICHAEL EGAN: There are only limited options.

The Hon. GREG PEARCE: But you did not have any studies or modelling or any other reports or assistance in making that decision? You just understood that the Treasurer is going to put his hand up and that is what will happen.

The Hon. MICHAEL EGAN: Did you have any modelling done with the Opposition's stamp duty reduction bill?

The Hon. GREG PEARCE: The answer to my question is that you did not do any of that?

The Hon. MICHAEL EGAN: No, because commonsense tells you what the outcome will be.

The Hon. GREG PEARCE: It is just a good Egan commonsense tax?

The Hon. MICHAEL EGAN: I apply commonsense to all of my decisions, yes.

The Hon. GREG PEARCE: The mini-budget Egan commonsense?

The Hon. MICHAEL EGAN: That is right.

CHAIR: Thank you very much, Treasurer, for your attendance. This is the first segment of the hearing this afternoon.

The Hon. MICHAEL EGAN: I am happy to stay.

The Hon. GREG PEARCE: We have quite a number of witnesses to crowd onto the table.

The Hon. HENRY TSANG: Can he stay? Everyone is working under his charge. He might be able to answer questions more directly on policy.

CHAIR: Yes, the Treasurer can stay. But we need to add the other members of his Treasury staff.

The Hon. MICHAEL EGAN: Yes, certainly. There are a lot of them. Mr Pierce is here from Treasury and Mr Achterstraat is here from the Office of State Revenue. I would suggest that any questions I cannot answer, they might be able to answer. If there are questions they cannot answer, they can then call for assistance from the other officers.

The Hon. GREG PEARCE: I will start with Mr Pierce. Do you have the questions on notice the Committee forwarded? If so, do you have answers to those questions with you in a form that can be tabled, or do you want me to take you through each of the questions?

Mr PIERCE: I have a copy of the questions that were forwarded to us. I do not have answers that I can table at this point. We got a message—

The Hon. GREG PEARCE: Let us go through them one at a time.

Mr PIERCE: It was unclear to us whether that was expected today or whether this was an indication of the sorts of questions the Committee would want us to answer. If you want to go through them, I am happy to answer what I can.

The Hon. GREG PEARCE: Let us take you through them and if you need to take some on notice, you can take them on notice. The first one is the expected revenue from vendor duty in each of the next five financial years, including this financial year.

Mr PIERCE: As the Treasurer said in his speech, the net effect of the vendor duty in 2004-05 was, I think the Treasurers said, around \$690 million, in his speech. I think I have got \$687 million as the estimate that we would put forward, so it is much the same. Despite the fact that it begins on 1 June we are not expecting any revenue in 2003-04 because of the lags between when the legislation takes effect and when the revenue comes in, which was the reason for putting the legislation through when it was rather than later in the year. The estimates for the following years, the years that would be the forward estimates when we do bring down the

budget, at the time of the mini-budget we did not have our finalised forward estimates over those periods of time. That is what people have been working on since the mini-budget, and are still working on it. They will go back to Cabinet prior to finalising the budget estimates that will appear on 22 June. That comment applies to essentially all the periods where you are looking for forward estimates, I am afraid.

The Hon. GREG PEARCE: At the time of introducing changes you had not calculated the impact of any of them, is that correct?

Mr PIERCE: No, we had not finalised estimates for the forward estimates at the time of the mini-budget. That, as I said, is something we are working on now and will take back to the budget committee of Cabinet prior to finalising the budget estimates for 22 June.

The Hon. GREG PEARCE: At the time of the mini-budget you had no idea of the impact of all of these tax changes going forward over the next three or four years?

Mr PIERCE: We did not have finalised estimates in dollar terms that we were in a position to present to the Government?

The Hon. GREG PEARCE: Did you have a draft set of figures that was the basis of some sort of analysis you had done of the land tax and other tax changes?

Mr PIERCE: I certainly did not, and people's knowledge at that point would have been, depending upon the type of tax, just based on their knowledge of existing trends in that tax base in terms of direction rather than actual dollar estimates, whether it is going to go up or down.

The Hon. GREG PEARCE: You did not even have a rough estimate?

The Hon. MICHAEL EGAN: A rough estimate is the first year's revenue. There are marginal differences from year to year. The rough starting point is the first year's estimates.

The Hon. GREG PEARCE: I am asking Mr Pierce. When did you begin working on these new taxes and their impact?

Mr PIERCE: Over the forward estimates period?

The Hon. GREG PEARCE: No, generally.

CHAIR: In relation to the mini-budget.

Mr PIERCE: In relation to 2004-05, the detailed work would have started after the Treasurers Conference. Leading into the Treasurers Conference, given that there was the prospect of considerable reductions of general purpose payments, people within Treasury would have been working on a range of tax options with the intention of putting those to the Government once the Treasurers Conference was finalised.

The Hon. GREG PEARCE: Was there a paper prepared of this range of taxation options?

The Hon. MICHAEL EGAN: That really is a matter that goes to the deliberations of Cabinet.

The Hon. GREG PEARCE: Let the Treasury officials answer that, please, Treasurer. Was there a paper prepared, which is not a Cabinet submission, that dealt with the options?

Mr PIERCE: No, any paper that dealt with tax policy options would have been prepared for the purposes of Cabinet.

The Hon. GREG PEARCE: Was there one?

Mr PIERCE: I think it would be reasonable to expect that if we are doing our job we are preparing advice for Cabinet under a number of scenarios.

The Hon. GREG PEARCE: So the only paper that would have been done was a Cabinet submission outlining taxation options?

Mr PIERCE: That is correct. Because, essentially, there is no other purpose.

The Hon. GREG PEARCE: And that would have been done before the Treasurer's Speech?

Mr PIERCE: Before the mini-budget, yes.

The Hon. GREG PEARCE: Was it done before the MINCO meeting?

Mr PIERCE: Some options were prepared before the MINCO meeting, yes. On the basis of "Let's see what comes out of MINCO", that may cause the Government to be interested in some tax options.

CHAIR: Did those tax options finally include the matters that the Treasurer announced in his mini-budget?

Mr PIERCE: Yes.

CHAIR: There were no surprises to you?

Mr PIERCE: When he delivered the mini-budget, no.

CHAIR: You anticipated the different options?

Mr PIERCE: By that point, they had been the subject of explicit decisions of Cabinet. So we certainly knew about them, yes.

The Hon. MICHAEL EGAN: I emphasise again, Mr Chairman, it is always the Government's budget; it is always the Government's policy decisions. It is not the Treasury's mini-budget.

The Hon. GREG PEARCE: I must say, I am astonished that matters of tax options would be considered to be so secretive that they had to go to Cabinet but that you had not done any calculations as to their impact. So Cabinet was going to make a decision on tax options without knowing about their impact on the future budgetary position of the State?

The Hon. MICHAEL EGAN: That is nonsense.

The Hon. GREG PEARCE: That is what he said.

The Hon. MICHAEL EGAN: He did not say that at all.

The Hon. GREG PEARCE: So you cannot give answers to any of the other questions: the revenue from land tax in future years; the fiscal costs of the First Homebuyers Scheme in future years; or the revenue expected to be raised from the land tax changes?

Mr PIERCE: We can certainly tell you where there is a 2003-04 impact and the 2004-05 figures, because they were discussed in the Treasurer's mini-budget. We are still finalising the figures from 2005-06 onwards, and they will be published in the 22 June budget.

The Hon. GREG PEARCE: At the time of the mini-budget, you had no idea what the budget result for net lending would be in 2005-06, 2006-07 and 2007-08?

The Hon. MICHAEL EGAN: That is not true.

The Hon. GREG PEARCE: Did you, or did you not? If you knew the figures, what were they?

The Hon. MICHAEL EGAN: The budget result figures are prepared twice a year: they are prepared at the time of the half yearly and they are prepared at the time of the budget. They are a snapshot in time. For

example, the Federal budget that was handed down the other day was a snapshot in time, and by the time that budget had been delivered already some of the assumptions had turned out to be incorrect. For example, the Federal budget was assuming that petrol prices would be 25 per cent lower than they currently are, and that the exchange rate would be 5 per cent higher than it currently is. If the Federal Treasurer had prepared a budget based on the assumptions taken the day after Treasury actually used as the close-off point for its budget, it would have been a different budget.

One could come up with a new budget every single day, but obviously that is an impossibility. So those things are done twice yearly, with a cut-off date, and the assumptions are a snapshot taken at that time. That is why you have a half-yearly update, and that is why you have a budget. The budget that I bring down on 22 June will be based on assumptions taken—at what a point, Mr Pierce? Do we know yet?

Mr PIERCE: It will vary, depending upon the sources of data. For the latest set of assumptions, it will probably be about four weeks before the budget is brought down. But some of them, simply because of the publication dates with ABS statistics and so on, could be much earlier in the year, like the ones we have now.

The Hon. MICHAEL EGAN: But in the half yearly report, which was released in December, you will see that the projected budget result for 2004-05 was a deficit of \$275 million on a net lending basis, with projected surpluses of \$94 million in 2005-06 and \$106 million in 2006-07. Obviously, a lot of things have changed since then. Commonwealth funding has changed, we have taken policy decisions in relation to the funding of particularly teacher salaries, and we have taken funding decisions in respect of additional general funding for areas such as health and education.

The Hon. GREG PEARCE: I am still concerned that the Treasurer introduced all these new taxes. There is great concern that they will cause great damage to the property market in Sydney and potentially great damage to the economy, and yet you have not conducted a study as to the impact of these taxes beyond coming up with a figure for the Treasurer's Speech.

Mr PIERCE: We estimated the impacts on revenue—

The Hon. GREG PEARCE: For one year?

The Hon. MICHAEL EGAN: But that flows forward to after years as well.

The Hon. GREG PEARCE: But you did not do any work to establish that flows through?

Mr PIERCE: Not in finalised revenue terms, no. You can obviously glean from the modelling on revenue what is happening within particular markets to some extent. As the Treasurer referred to, one might expect the introduction of the vendor duty to have an impact on our existing transfer tax base. Estimates were made of the reductions in turnover that the introduction of the new tax would create.

The Hon. GREG PEARCE: Who actually did that work?

Mr PIERCE: It is work done within the revenue branch of Treasury.

The Hon. GREG PEARCE: Is that Mr Agnew?

Mr PIERCE: No. The directorate is led by Mr Carling.

The Hon. GREG PEARCE: Mr Carling when did you first commence work on the new tax changes?

Mr CARLING: If you are referring to the vendor duty, immediately after the Treasurers conference.

The Hon. GREG PEARCE: In late March?

Mr CARLING: Yes.

The Hon. GREG PEARCE: Somewhere between 26 March and 6 April?

Mr CARLING: Closer to 26 March than 6 April.

The Hon. GREG PEARCE: Did you work on the land tax changes as well?

Mr CARLING: I did.

The Hon. GREG PEARCE: When did you start on that work?

Mr CARLING: We were examining land tax options before the Treasurers conference, and continued to do so after the Treasurers conference.

The Hon. GREG PEARCE: When was the first occasion?

Mr BABB: From memory, I think that work was done after the Treasurers conference.

The Hon. GREG PEARCE: Where did your instructions to do that work come from?

Mr CARLING: From the Treasurer and the Secretary.

The Hon. GREG PEARCE: Mr Pierce, you spoke about the taxes. Were you asked to advise upon any areas of expenditure reduction or savings for the purpose of the mini-budget?

Mr PIERCE: Yes, we were certainly asked to look at those. Perhaps I should explain the budget process. You will virtually start one budget after you finish the last budget. The work on the expenditure side from a Treasury viewpoint really starts in earnest after the mid-year review. People are looking at that side of things, essentially, as soon as they get back from their Christmas break, starting in January. In a normal year, the sorts of decisions that were reflected in the mini-budget are the sorts of decisions that we would make in late March or early April and the normal course of events.

The Hon. MICHAEL EGAN: When Mr Pierce says "we", he means us.

CHAIR: The Treasurer and you, Mr Pierce?

Mr PIERCE: No; the budget committee of Cabinet.

The Hon. MICHAEL EGAN: Treasuries make all sorts of suggestions from time to time, but they are not always adopted. And very often they do not make suggestions about things that are adopted. We live in a democracy. No-one has selected Mr Pierce and no-one has selected Mr Achterstraat. They have elected me and, unfortunately, they have elected the Hon. Greg Pearce.

Mr PIERCE: Work would have been going on in relation to expenditure reduction and savings from, say, January through to early April, as it would have in the normal course of our budgeting process.

The Hon. GREG PEARCE: So there is nothing special for the mini-budget?

Mr PIERCE: As far as the expenditure side of things is concerned, the mini-budget, in a sense, made public decisions that would have been necessary to make in the normal function of a budget. From a process and project management viewpoint, it was simply making public decisions which at that time the budget committee would have made and communicated to agencies through their allocation letters. Agencies then take that information, put their financial statements together, and return it to us, and that is what comes out in the budget on 22 June.

The Hon. GREG PEARCE: Mr Achterstraat, when did you begin working on the new taxes?

Mr ACHTERSTRAAT: I was basically involved in the administration, and we were liaising with Treasury for the Treasurer's mini-budget statement and certainly during the drafting of the legislation.

The Hon. GREG PEARCE: Before the Treasurer's statement?

Mr ACHTERSTRAAT: Yes. And after that, during the process of drafting the legislation as well.

The Hon. GREG PEARCE: What sort of liaison went on before the Treasurer's statement? Did you prepare any papers or models?

Mr ACHTERSTRAAT: Our office is in Parramatta. Generally the issues for us relate to administration. We were asked questions about how it would be administered and any issues we had, et cetera. Generally we would do that by phone hook-up, but we did have a meeting as well.

The Hon. GREG PEARCE: You were not asked to check any figures, or to provide any estimates of the impact of the tax changes?

Mr ACHTERSTRAAT: Generally we do not do that. We were probably asked how many land taxpayers we have and how many properties we have. Generally it is Treasury that does the estimates of how many taxpayers we have, future predictions, and matters of that sort. I cannot recall being asked those things, but we may have been.

The Hon. GREG PEARCE: Have you subsequently done any estimates of the revenue impact?

Mr ACHTERSTRAAT: Again, it is mainly a Treasury thing.

The Hon. GREG PEARCE: So other than taxing options and the usual review of expenditure, and perhaps land tax, before the Ministerial Council for Corporations [MINCO] meeting there had been no work done on this mini-budget, it was all done in a week before the Treasurer gave his speech?

Mr PIERCE: There was work done on aspects of it, i.e. a large amount of the expenditure side. I think it is true to say though that the work on the vendor duty commenced after the Treasurer's conference, but the rest of the package, I think as people have indicated, was stuff people had been working on for quite some time, in the case of the expenditure stuff, or certainly before the Treasurer's conference in relation to some of the other revenue measures.

CHAIR: Mr Pierce, just to clarify something, would you have been happy with having a mini-budget or would you have preferred, as the Secretary of Treasury, to have had the normal budget procedure where mini-budget issues would have been simply part of the budget?

The Hon. MICHAEL EGAN: I think that is actually a policy question. I am not sure that Mr Pierce can answer that.

Mr PIERCE: It was a decision by the Government to have one. I was simply asked, "Can you put this stuff together?"

CHAIR: I was thinking more of the practicalities of whether this created pressure within the Treasury in having a mini-budget and then the budget, or would it have been simpler if it were all part of the budget?

The Hon. MICHAEL EGAN: It would have been much simpler if we could have just had the budget, yes.

CHAIR: So what is the big advantage in having the mini-budget? So you can get extra income?

The Hon. MICHAEL EGAN: To put the measures in place to apply from 1 July. Obviously, even if the budget had been brought down when it was due to be brought down, which was the beginning of June, the expenditure measures could not have reached their target in 2004-05 because there would have been insufficient lead time for agencies to get them in place, and also the revenue measures would have been very difficult to get in place.

CHAIR: So it gave you what, an extra two or three months?

The Hon. MICHAEL EGAN: Three months, yes.

Ms LEE RHIANNON: Mr Pierce, earlier the Treasurer explained how he and his colleagues take responsibility for the policy decisions. I was just wondering if you could explain how detailed the information you and your officers receive is? For example, were you told to cut so many millions from the Department of Education and Training or were you told to cut the Mature Workers Program and the Skilled Migrants Strategy? I am interested in the detail of the question but also in the process itself.

The Hon. MICHAEL EGAN: They are actually decisions for the Government.

Ms LEE RHIANNON: So you decided to cut those specific programs?

The Hon. MICHAEL EGAN: Yes.

Ms LEE RHIANNON: Treasurer, in terms of the process, was it Dr Refshauge who made those nominations from his department as to what should be cut and did you have a meeting and call on your colleagues to make cuts across-the-board or do you nominate which departments the cuts will be in?

The Hon. MICHAEL EGAN: I cannot divulge the workings of the Cabinet but, in general terms, I do not think there is any harm in me saying that decisions like these are made, as I expect they would be in any government, at formal meetings of the budget committee, or whatever it is called in other jurisdictions, and in discussions with individual Ministers. So a lot of discussion would always go into these decisions, and the outcomes are there for all to see.

CHAIR: The cut itself would come from the Minister to a particular item in his budget? You would normally direct the Minister to chop something?

The Hon. MICHAEL EGAN: Again, I cannot canvass the deliberations of Cabinet but, in general terms, I assume in all jurisdictions that Ministers are given their budget. Now we do not live in paradise and therefore I am sure that the experience of most Treasurers around the world is that we very seldom get Ministers voluntarily offering up reductions in their budget.

CHAIR: I understand that, I meant that you would have a cut of 5 per cent or something and the Minister would select from his budget which items he wanted to reduce?

The Hon. MICHAEL EGAN: The Government generally knew the parameters that we were looking at. We needed to raise additional revenue and we needed to find expenditure savings if we were going to direct additional funds to some of the major front-line service areas. So obviously we knew the parameters, and then it is a matter of detailed discussions.

Ms LEE RHIANNON: Did the Department of Environment and Conservation carry the heaviest burden when it came to the cuts?

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

Ms LEE RHIANNON: If not, which department did?

The Hon. MICHAEL EGAN: I think in terms of individual areas the major savings we will be achieving will be in the primary industries area. As you will be aware, there are major rationalisations and forums taking place in the natural resources area and in the primary industries area and we believe that we can achieve savings in the Department of Environment and Conservation by about \$30 million per annum and in the primary industries area by \$37 million.

Ms LEE RHIANNON: Mr Chairman, we put in a number of questions. Do we have to put them on notice or do we need to ask them now to get answers to them? I just wanted to ask the question about process.

CHAIR: They have all been forwarded to the Minister.

Ms LEE RHIANNON: Do we need to get clarification on that? Would we get answers to them at a later date?

The Hon. MICHAEL EGAN: I would prefer you to deal with them now and if there is additional information you need—

CHAIR: Treasurer, you may have answers to these questions.

The Hon. MICHAEL EGAN: I do not have answers in a format to be tabled. I have some notes.

Ms LEE RHIANNON: Why has the New South Wales Government not earmarked funds from its property tax reforms to public and community housing the New South Wales?

The Hon. MICHAEL EGAN: Basically because the measures in the mini-budget were to fund the measures in the mini-budget and the areas that were of top priority to us were health, education, public transport and also community services. In relation to social housing you will be aware, I think it was last year, that we made a significant additional allocation for social housing. For example, this year we are spending \$173 million on public community and Aboriginal housing, keeping in mind that social housing is jointly funded by the Commonwealth and State governments under the Commonwealth State Housing Agreement. But the truth is that every year more and more of the burden falls on the State Government and I am pleased to be able to report to you that we have stepped into the breach. For example, in the three years to 2005-06—2002-03, 2003-04 and 2004-05—we have provided enhanced funding of \$187 million, and that is in addition to our commitment under the Commonwealth State Housing Agreement.

A figure I think you will be interested in is that between 1998-99 and 2003-04, the State Government's contribution to the overall housing budget has increased from 27 per cent to 37 per cent. So it is an area which in years gone by was funded entirely by the Commonwealth but since the advent of conservative governments not as much funding emphasis or priority has been given by the Federal Government to social housing, and we have stepped in to fill the breach.

Ms LEE RHIANNON: Can the Government indicate how a revamped Department of Women can offer whole-of-government policy advice and operate grants programs when the department will have over three-quarters of its budget slashed by 2005-06?

The Hon. MICHAEL EGAN: The Department for Women will be merged with the Premier's Council for Women. I think it will be in a better position to provide whole-of-government policy advice from that position rather than as a stand-alone department.

Ms LEE RHIANNON: But if it does not have a budget, when it comes to something like a grants program that would clearly have to suffer, would you not agree?

The Hon. MICHAEL EGAN: Yes, some grants will suffer. As I made clear in the mini-budget, the expenditure cuts that are contained in the mini-budget, which add up to about \$400 million, are not cuts to things that have no worth. I made it quite clear in the mini-budget that all of the expenditure cuts would involve pain, and all of the expenditure cuts would be to programs which have, in many cases, a great deal of social benefit. But, in attempting to make ends meet, even with a deficit projected of \$300 million, you do have to set priorities, and the priority in the mini-budget was to the front-line areas of health, education, public transport and community services.

Ms LEE RHIANNON: If I could leave question number 4 on notice because I want to ask a question now of Ziggi Lejins. Mr Lejins, did you make the recommendation to close the Casino to Murwillumbah line, or were you told that was the line to be closed?

The Hon. MICHAEL EGAN: That is not a question that should be put to a public servant. The Government takes responsibility for policy decisions.

Ms LEE RHIANNON: But surely as Treasurer you get advice from your public servants?

The Hon. MICHAEL EGAN: Yes.

Ms LEE RHIANNON: That is what I am just trying to determine. Did the advice for that closure come from Mr Lejins, from within Treasury?

The Hon. MICHAEL EGAN: The responsibility for all decisions in the mini-budget rests with the Government.

CHAIR: You might be moving outside the terms of reference of this inquiry. This is specifically the mini-budget.

Ms LEE RHIANNON: But that decision was announced in the mini-budget so it would be relevant.

The Hon. GREG PEARCE: Mr Lejins, one of the savings items identified in the mini-budget was \$20 million per annum from the State Transit Authority. Could you tell us what savings are to be made there and how that figure was arrived at?

The Hon. MICHAEL EGAN: They will be savings to be made at the direction of the Minister for Transport.

The Hon. GREG PEARCE: Mr Lejins does not have anything to add to that?

Mr LEJINS: No.

The Hon. GREG PEARCE: Are you aware of any other lines, other than the Casino to Murwillumbah line, which are to be affected by cuts or limited services?

Mr LEJINS: No.

The Hon. GREG PEARCE: Treasurer, you did not dispute the fact that when one analyses what you announced in the mini-budget you do come up with an underlying deficit of \$1.584 billion?

The Hon. MICHAEL EGAN: No, that is nonsense.

The Hon. GREG PEARCE: And you are going to deliver \$300 million.

The Hon. MICHAEL EGAN: That is nonsense.

The Hon. GREG PEARCE: Well, how do you get to the \$300 million? What other taxes have you got or what other expenditure cuts are you going to make?

The Hon. MICHAEL EGAN: The budget will be delivered on 22 June but the—

The Hon. GREG PEARCE: Well, how did you get to \$300 million in the mini-budget on 6 April?

The Hon. MICHAEL EGAN: How did you get to \$1,600 million?

The Hon. GREG PEARCE: I used the figures that you gave us.

The Hon. MICHAEL EGAN: But your methodology is all wrong.

The Hon. GREG PEARCE: Well, you give us the correct one.

The Hon. MICHAEL EGAN: You will see it in the budget and you will have egg all over your face.

The Hon. GREG PEARCE: Why can you not answer that now?

The Hon. MICHAEL EGAN: Because—

The Hon. GREG PEARCE: What other taxes have you got in mind?

The Hon. MICHAEL EGAN: Because, as Paul Keating would have said, I want to do you slowly. Mr Chairman—

The Hon. GREG PEARCE: You have other taxes or other spending cuts that you are not prepared to disclose in relation to the mini-budget?

The Hon. MICHAEL EGAN: No, I can—

The Hon. GREG PEARCE: The mini-budget was dreamed up in the weekend after you came back from Canberra, from your stay in the lovely penthouse in the Hyatt Hotel, and you did not do any analysis of the impact that it was going to have on the property market or the economy and your officers cannot tell us what impact it is going to have on next year's budget, or the following year's budget or the year after that. You just dreamed it up and you cannot explain how you got to \$300 million in the mini-budget.

The Hon. MICHAEL EGAN: You will see in the budget.

The Hon. GREG PEARCE: You cannot explain it now, can you?

The Hon. MICHAEL EGAN: You will see.

The Hon. GREG PEARCE: Can you explain it now? You made a speech in which you said it was \$300 million.

The Hon. MICHAEL EGAN: It is.

The Hon. GREG PEARCE: Explain it now.

The Hon. MICHAEL EGAN: You will see that in the budget.

The Hon. GREG PEARCE: Explain it now.

The Hon. MICHAEL EGAN: I am not going to release the budget to you now, Mr Pearce.

The Hon. GREG PEARCE: Oh, it is the budget, is it? It is not actually the mini-budget?

The Hon. MICHAEL EGAN: The budget will be delivered on 22 June—

The Hon. GREG PEARCE: So the whole mini-budget exercise was a waste of time because you cannot tell us the figures, can you?

The Hon. MICHAEL EGAN: I think, Mr Pearce, you have lost it.

The Hon. GREG PEARCE: You cannot tell us the figures, can you?

The Hon. MICHAEL EGAN: I have just told you.

The Hon. GREG PEARCE: You cannot explain them. You cannot give us the details because they are all in the budget.

The Hon. MICHAEL EGAN: That is right.

The Hon. GREG PEARCE: And this whole mini-budget was a sham and a joke, except for what it is doing to the property industry in New South Wales, which you did not do any homework on.

The Hon. MICHAEL EGAN: Mr Chairman, I do not think Mr Pearce is actually asking questions.

CHAIR: Please concentrate on asking questions rather than making a speech.

The Hon. MICHAEL EGAN: I think he has lost it. But I would draw your attention—

The Hon. GREG PEARCE: You never had it because you just made up all these figures. You did not have any advice to go on.

The Hon. MICHAEL EGAN: Mr Chairman—

The Hon. GREG PEARCE: You did not have any calculations to work on.

CHAIR: You asked a question, Mr Pearce. Let the Treasurer answer it.

The Hon. MICHAEL EGAN: We will see who is making things up on 22 June. I ask everyone to keep that figure in mind (indicated whiteboard). That is the figure that Mr Pearce and Mr Brogden say will be the budget result. That is the figure that I foreshadowed in the mini-budget (indicated). We will see who is closest to which figure. I ask all of you to remember it and I ask, in particular, the media to remember it because credibility is an important thing.

CHAIR: It is now 3.15 p.m. and there are other officers from the Office of State Revenue.

The Hon. MICHAEL EGAN: Mr Chairman, could I just add to the answer? Mr Pearce asked me about whether there would be any major changes announced in the budget, even on the tax fund or the expenditure fund. As I said at the time of the mini-budget, the major decisions were all announced in the mini-budget. The budget itself will largely be the details so do not expect any surprises in the budget, although Mr Pearce, no doubt—

The Hon. DON HARWIN: Chair, I think you were foreshadowing moving on to State Revenue witnesses. I have some questions of Mr Pearce.

CHAIR: It is up to the Committee whether they want to bring the other people in now. Do you still wish to question the officers from State Revenue?

The Hon. DON HARWIN: It is really of no concern to me when you bring the other State Revenue people in. I have some more questions of Mr Pearce.

CHAIR: Only you may not have time to question them. That is the point I am making. Do you want another five or 10 minutes?

The Hon. DON HARWIN: I am happy to keep asking questions of Mr Pearce.

The Hon. HENRY TSANG: That is provided that the Committee concludes at 4.00 p.m.; that the Committee will not continue after 4.00 p.m.

CHAIR: Yes. Mr Harwin?

The Hon. DON HARWIN: Mr Pearce, I wanted to be clear that I understood your earlier answers when you were talking about some options you were working on for the Treasurer's conference. I wanted to be clear whether vendor duty was one of the options that you were working on before the Treasurer's conference?

Mr PIERCE: No, it was not.

The Hon. DON HARWIN: Was the abolition of the tax-free threshold for land tax one of those matters that you were working on before the Treasurer's conference?

Mr PIERCE: Look, I cannot recall precisely but it could well have been.

The Hon. DON HARWIN: And also stamp duty changes for first home owners. Was that one of the options you were working on before the Treasurer's conference?

Mr PIERCE: I do not believe so.

The Hon. MICHAEL EGAN: I do not know that Treasuries ever want to give money away.

The Hon. GREG PEARCE: Mr Pierce, in relation to vendor stamp duty, have you done any calculations of the cost in terms of the revenue forgone of concessions for properties that have not risen in value by 15 per cent? I take it from what you said before that you would not have done those sorts of figures.

Mr PIERCE: Perhaps Mr Carling can correct me, but I do not think we did prior to the mini-budget, nor, might I add, did we have at that time all the details associated with the way concessions were to operate, which we will finalise in terms of the post-mini-budget consultation and the preparation of the legislation. Part of what we have to do in preparation for 22 June is to go back and have a look at those estimates based on the viewpoint of the 12 per cent rule and the other sorts of concessions that apply and the finer definition of principal place of residence and all that sort of detail, just going back to revise the revenue estimates.

The Hon. GREG PEARCE: Did you have calculations of the impact of the various exemptions?

Mr PIERCE: No. We had an allowance. The \$690 million included an allowance for concessions but that was virtually a top down sort of estimate rather than estimating the injuries or concessions because they were not all specified.

The Hon. MICHAEL EGAN: The details of the concessions were only arrived at after consultation with many of the stakeholders in the industry.

The Hon. GREG PEARCE: So you imposed the tax and plucked the figure out of the air before you consulted with the industry and before you analysed what the exemptions would result in. You did not look at alternatives, such as in relation to the vendors tax, the impact of someone buying a property and doing additions. One of the bigger defects in the tax is that it just works on the base purchase price.

The Hon. MICHAEL EGAN: Mr Pierce is not here to have a policy debate with the other Mr Pearce.

The Hon. GREG PEARCE: I am asking whether or not there were any calculations of those alternatives done before the tax decision was made.

Mr PIERCE: There were various ways of designing the tax at that level of detail and various options looked at, but they were not evaluated and costed at that point. They were looked at from the viewpoint—

The Hon. GREG PEARCE: So, you took the figure that you wanted to achieve and you did not actually work out what impact that would have on the property industry or on investors?

Mr PIERCE: In terms of the revenue impact, a lot of those sorts of finer details of how concessions operate for the purposes of the mini-budget were not going to have a significant impact on the revenue estimate. The numbers in the mini-budget on the revenue side—I think the Treasurer's speech refers to them as "around \$300 million" and "in the order of"—the precise number is what we will have in the budget on 22 June—a precise estimate.

The Hon. MICHAEL EGAN: Keep in mind that even on 22 June they are estimates. All of the figures in the budget, even though they might be presented to the closest thousand dollars, are still estimates.

The Hon. GREG PEARCE: Did you have a piece of paper on which you had gone through the mini-budget and come to the conclusion that there would be a \$300 million deficit?

Mr PIERCE: Yes, I think—yes, we would have that.

The Hon. GREG PEARCE: I assume that is not Cabinet in confidence?

Mr PIERCE: I would have to take advice on that. It was certainly presented to Cabinet but whether it is covered by privilege, I would have to take advice on that.

The Hon. GREG PEARCE: We have an order for papers next week—

The Hon. MICHAEL EGAN: Mr Chairman, I just assure Mr Pearce that I do not make those figures up.

The Hon. GREG PEARCE: I know you do not, but I want to know why you will not disclose what they were.

The Hon. MICHAEL EGAN: I have.

The Hon. DON HARWIN: I have a final question in terms of the options. You mentioned that vendor tax was not an option. What were the other options?

The Hon. MICHAEL EGAN: What do you mean it was not an option?

The Hon. DON HARWIN: It was not an option that was being considered prior to the Treasurer's conference. What were the other taxes and options that were being considered.

The Hon. MICHAEL EGAN: I mentioned those in my mini-budget. If you look at the range of revenue options that a State Government has, they are very limited. We cannot impose an income tax, we cannot impose an excise on goods, we, therefore, cannot tax alcohol, petrol or tobacco, so the limited range of options are the existing State taxes and the tax which I announced in the budget, so the options that I would look at and the options that any State government would look at when needing additional revenue are limited to those. As I said in the mini-budget, I was determined not to claw back the very substantial tax reductions we have given in the area of payroll tax, stamp duty on insurance, motor vehicle registration and the like.

The Hon. DON HARWIN: Mr Pierce, in terms of all the options being considered, what was the recommendation in terms of which ones should be taken up?

The Hon. MICHAEL EGAN: But I make the recommendations to the Government. They are decisions that I take responsibility for.

Ms LEE RHIANNON: How much did the premium property tax bring in each year and why did you decide to get rid of it?

The Hon. MICHAEL EGAN: It was bringing in about \$14 million. The premium property duty, which we introduced, is estimated to raise about \$14 million a year.

Ms LEE RHIANNON: Why did you not keep both of them in place and then you would have \$54 million?

The Hon. MICHAEL EGAN: I did not think it was fair to have both in place at the one time.

The Hon. GREG PEARCE: Mr Carling, can I ask you the same question I just asked Mr Pierce. Did you have a piece of paper that set out the line items or the various elements of the mini-budget, which produced a deficit of \$300 million?

Mr PIERCE: I might point out that that sort of bringing together of both the expenditure side and the revenue side to produce an operating statement occurs in a different part of the organisation than Mr Carling is responsible for. That is something that would be reported to me through a different part of Treasury.

The Hon. GREG PEARCE: Who is that? Do we need to call that person as well to ask the same question?

Mr PIERCE: If I had the piece of paper, then the people reporting to me would also have the same piece of paper.

The Hon. GREG PEARCE: That is what I thought. Did Mr Carling have it as well, though?

Mr CARLING: I think we are probably talking about the same piece of paper that I also saw but did not, myself, produce.

The Hon. GREG PEARCE: So this piece of paper, which is a summary of the mini-budget, which was so urgent and there was so much fanfare about it, is a secret, though?

The Hon. MICHAEL EGAN: No, it is not a secret. I announced it.

The Hon. GREG PEARCE: Because it is really the budget.

The Hon. MICHAEL EGAN: I announced it. I announced what the likely budget result will be. I announced that in the mini-budget, so you cannot say that it is secret.

The Hon. GREG PEARCE: The elements of it are secret.

The Hon. MICHAEL EGAN: The whole budget will be produced on 22 June.

The Hon. GREG PEARCE: The elements of it are secret because it was a stunt and it was just a waste of time. The taxes were imposed without any proper analysis, consultation and without any view of their impact.

The Hon. HENRY TSANG: Mr Chairman, these are not questions.

CHAIR: Mr Pearce, can you stick to questions, please.

The Hon. GREG PEARCE: Thank you, Chair. I am glad you reminded me. Mr Pierce, the \$400 million that is mentioned in the mini-budget in relation to nurse and teacher salaries, can you identify for me how that figure was calculated. It must be different from the amounts that were included in the half yearly budget review, which was \$308 million for a full year for teachers and \$86 million in a full year for nurses, bearing in mind that the previous year the nurses' decision had an impact of \$130 million. I am just trying to work out where the new \$400 million comes from?

The Hon. MICHAEL EGAN: It is the full-year impact of those decisions.

Mr PIERCE: Plus, if my memory serves me correctly, at the time of the mid-year review, whilst there was a case put on for teachers before the Industrial Relations Commission, they had not brought down in any sort of decision but after the mid-year review they brought down an interim decision on teachers.

The Hon. GREG PEARCE: I refer you to page 10. I think there is a copy of that with the Treasurer; I gave it to him earlier.

Mr PIERCE: Sorry, of the?

The Hon. GREG PEARCE: The mid year review. In relation to teachers, page 10 states, "Department of Education and Training expenses are projected to increase significantly above budget. This includes the recent teachers award in 2003-04 (\$308 million in a full year)".

The Hon. MICHAEL EGAN: That is right.

The Hon. GREG PEARCE: If it is already in there, how can this be new?

The Hon. MICHAEL EGAN: It is in the half yearly, which had a deficit of \$275 million.

The Hon. GREG PEARCE: So, Mr Pierce, is it the case that the half yearly re-projections do not include that \$308 million?

Mr PIERCE: sorry, can you repeat the question?

The Hon. GREG PEARCE: The half yearly review alters the projections for the budget and for future years.

The Hon. MICHAEL EGAN: That is right.

The Hon. GREG PEARCE: According to this dot point, one of the alterations was to take into account the teachers award.

The Hon. MICHAEL EGAN: That is right, \$308 million in a full year.

The Hon. GREG PEARCE: Was that taken into account in the figures that appear in the mid year review?

The Hon. MICHAEL EGAN: Yes.

The Hon. GREG PEARCE: Then why is it new this year?

The Hon. MICHAEL EGAN: Because the budget—

The Hon. GREG PEARCE: It produced a \$275 million deficit.

The Hon. MICHAEL EGAN: That is right. That is part of the context of this year's budget, the starting point deficit of \$275 million for 2004-05 that was projected in December 2003.

The Hon. GREG PEARCE: But that \$275 million already included the teachers salary and the nurses salary.

The Hon. MICHAEL EGAN: The teachers salary is not something that only got paid in 2002-03 or 2003-04. It will also get paid in 2004-05.

The Hon. GREG PEARCE: And it was already in the figures in December 2003.

The Hon. MICHAEL EGAN: Yes, that is right.

The Hon. GREG PEARCE: So your big speech about it having to be accommodated was a load of baloney because it was already accommodated—by your own words it was already in there producing a \$235 million deficit.

The Hon. MICHAEL EGAN: That is right but it has to be paid for.

The Hon. GREG PEARCE: It is another piece of baloney in your mini-budget speech.

The Hon. MICHAEL EGAN: No. You really are ignorant, Mr Pearce. You are rude and ignorant.

The Hon. GREG PEARCE: We do not need you to be rude on this occasion because you are caught out again. You have come up with a big piece of baloney.

The Hon. MICHAEL EGAN: No. Mr Pearce, you are just completely ignorant.

The Hon. GREG PEARCE: I go back to the other Mr Pierce.

CHAIR: Can we concentrate on questions and try to leave out the emotive "baloney" word?

The Hon. MICHAEL EGAN: I do not mind him carrying on. He is just not good at it. I like a bit of theatre but I like it to be good.

The Hon. GREG PEARCE: In the six business days between Menco, which was Friday 26 March, and the mini-budget speech of 6 April, who did Treasury consult with in relation to the impact of the new taxes? What sort of notice was given to those people, other than the OSR?

The Hon. MICHAEL EGAN: Revenue measures and tax increases are announced when they are announced by the Government. You do not consult with people. You do not give people an indication of what is happening before the decision is announced. That is why we had consultations after the mini-budget on some of

the concessions. You could not have them before, otherwise there would be sections of the community that would know about these decisions before they were announced to the general public. In some cases that would be market sensitive information. You would be calling for my resignation.

The Hon. GREG PEARCE: How do you intend to administer the vendor stamp duty? What advice did you give to Treasury before the mini-budget in relation to it?

Mr ACHTERSTRAAT: We had negotiations and liaisons with various interest groups on the best way and the best procedures to implement so that we can make sure there is a smooth transition in relation to all the changes in the mini-budget and in particular the vendor transfer duty. We had discussions with Treasury and the Treasurer's office in relation to the options of the best way of going about that. I am not sure about the specifics of the question.

The Hon. GREG PEARCE: Did you have discussions with Treasury before the mini-budget as to how you would administer the vendor stamp duty?

Mr ACHTERSTRAAT: We had discussions on a general basis with Treasury as to how we would implement the various aspects of the mini-budget, including issues around the vendor transfer duty. We are hoping to have most of the vendor transfer duty administered electronically through our electronic document lodgement process. We are in the process of finalising those arrangements at the moment.

The Hon. GREG PEARCE: And that is what you suggested to Treasury before the mini-budget speech?

Mr ACHTERSTRAAT: What we have done in the past couple of weeks is liaising with the various interest groups, et cetera. We are coming up with the best approach to administer the various parts of the package. So when we had initial discussions with Treasury and the Treasurer's office the final product of what we are implementing may well be different to what we were discussing at that time.

The Hon. GREG PEARCE: To be clear, what did you suggest to Treasury before the mini-budget speech?

Mr ACHTERSTRAAT: Before the mini-budget speech the discussions centred on the cash flow situation of vendors, what is the easiest way for them to pay the vendor transfer duty, given that many of the vendors will be relying on the proceeds of sale to in fact pay for the vendor duty. That was an assumption we made. So I guess we had general discussions with Treasury as to various mechanisms of which that could be done. I think at one stage we discussed—I am not sure if this is policy and I am not sure of the protocol of what I can discuss.

The Hon. GREG PEARCE: Administration, how you collect it, is what I want to know.

Mr PIERCE: At that point the sort of questions we were asking of OSR were generally along the lines of what can you tell us from your data about this tax base, what sort of information do we have, the compliance aspects, are there essentially compliance issues that the OSR thinks are particularly significant in relation to the definition of "principal place of residence", that sort of thing, rather than the nitty-gritty detail which at that point I had the chance, in terms of time, but the consultation process after the announcement had not been made so some of the definitional stuff had not been tied down at that point.

The Hon. GREG PEARCE: Did you give any advice to Treasury about the exemptions that you might think were appropriate or were you asked to give any advice on that?

The Hon. MICHAEL EGAN: No, they are policy issues.

The Hon. GREG PEARCE: You take the view that they are policy decisions.

The Hon. MICHAEL EGAN: Yes, they are decisions that the Government has made.

The Hon. GREG PEARCE: Have you given any advice to Treasury on the base price issue and whether there should be any calculation which includes any extra money spent on renovations and additions and that sort of thing?

The Hon. MICHAEL EGAN: Again, that is a policy issue.

The Hon. GREG PEARCE: You made that decision all by yourself?

The Hon. MICHAEL EGAN: The Government made the decision and, as you would imagine, being the Treasurer I had significant input into it.

The Hon. GREG PEARCE: Can we move on to land tax for a moment? Did you give Treasury any advice in relation to the number of additional land taxpayers there would be if the Government implemented its new land tax regime?

Mr ACHTERSTRAAT: We certainly would have given advice as to the number of existing land taxpayers and I would imagine the number of properties we have had. Again, as I mentioned earlier, we do expect. The future stuff is generally done by Treasury. They may well have asked us to verify or sounding board on their figures.

The Hon. MICHAEL EGAN: In relation to the number of additional land taxpayers there would be, I think it is fair to say that we do not actually know. We cannot be precise about that. It will depend on the average number of properties that new land taxpayers own. I see the Opposition has come up with a figure of 300,000. That may well be true; it may even be a bit higher than that. We will not know until the end of the first year of operation has passed us. We have a better idea, for reasons I do not quite understand, of what the revenue will be than we have about the actual number of additional land taxpayers.

The Hon. GREG PEARCE: So the figure of 250,000 additional land taxpayers that the Treasurer used in his speech, is that a Treasury figure?

The Hon. MICHAEL EGAN: No, I did not. I did not use that in the speech. Do you have the speech before you? I may have been asked at a press conference or in an interview but I certainly did not use it in the speech. But I am not going to die in a ditch about that figure. The Opposition has used a figure of 300,000. That could well turn out to be the case, but we will not know until the first year has gone by.

The Hon. GREG PEARCE: But your figure was a Treasury estimate.

The Hon. MICHAEL EGAN: It was a figure that I recall hearing at some stage. The relevant information for me in putting together the mini-budget was what rate we would have to set to make the land tax revenue neutral in 2004-05. The number of land taxpayers was not relevant to that revenue estimate.

The Hon. GREG PEARCE: Has the Office of State Revenue done any calculations, or do you have any updated estimate of the number of new taxpayers you expect to see?

Mr ACHTERSTRAAT: I imagine that we are doing work on it as we have to determine the best way to administer it and we need to know the numbers of letters or assessments that we have to send out. Unfortunately, in our situation, while we might know the number of properties that are valued at less than \$370,000 but that are not on our database, we do not necessarily know whether or not they are principal places of residence. So if someone has a property we do not want to be sending him or her a letter or an assessment if it is his or her principal place of residence. So we would be doing work on the logistics of how we would best advise clients of their potential liabilities. On that basis I imagine that we would be trying to work out postage costs and things like that. So it may well be that we are working on those things.

CHAIR: Do you normally place an obligation on the person who has to pay land tax to advise you?

Mr ACHTERSTRAAT: Generally, that is the case. However, a couple of years ago we introduced a new procedure whereby in November of the year before we would write to persons that we thought might potentially have a land tax obligation. We would write all those letters and, in effect, say to people, "We think your investment property or your second property will go over the threshold. Please contact us if you think that

is not the case. All things being equal, we will be sending you out an assessment." I am hoping that we can do that this year in relation to people's second properties. So in that respect we will have to estimate the number of persons. In fact, we may already be doing that. However, I am not sure of the precise figure.

The Hon. DON HARWIN: I would like Mr Pierce to clarify a couple of the issues to which we referred earlier. We referred earlier to the \$81 million to be saved from "most government agencies with priority given to advertising, travel and accommodation, printing, publications and other administration", and there was some talk about that. What was not clear from the discussion was the reference to "most government agencies". I am interested in pursuing the issue relating to those agencies that are exempt.

The Hon. MICHAEL EGAN: I think that was actually contained in a document we released at the time of the mini-budget. So that is public information. But in general terms—

The Hon. DON HARWIN: Would you just identify the document so that it is clear?

The Hon. MICHAEL EGAN: I stand corrected. We released a press release dated 6 April headed "Savings for fund increases." I think that dealt with most of the specific savings.

The Hon. DON HARWIN: I am looking at the same document, which is headed, "Savings for fund increases for hospitals and rail." Is that right?

The Hon. MICHAEL EGAN: Yes.

The Hon. DON HARWIN: There is a two-page release. Pages 3 and 4 reflect some savings measures.

The Hon. MICHAEL EGAN: In general, the agencies—

The Hon. DON HARWIN: I do not want you to refer to things in general. I want to know which agencies are exempt?

The Hon. MICHAEL EGAN: The agencies to which the global savings do not apply generally are those that have specific savings. I think health is exempt altogether. I am not sure whether there were any others.

Mr PIERCE: The general rule of thumb was that if an agency was asked to absorb savings in specific programs or functions, they were exempted from the global savings, which is the \$81 million. Health was exempt from both. Certainly education was exempt from the global savings because there is reference to them in these savings. So virtually everybody who is not listed in this document as having a specific saving was sharing in that \$81 million, including Treasury obviously.

The Hon. MICHAEL EGAN: And, no doubt, the budget of the Leader of the Opposition and Ministers.

The Hon. DON HARWIN: We will believe that when we see it. I think you used the word "virtually". Let us be quite clear about this. Health is exempt from both, as is education.

Mr PIERCE: Yes.

The Hon. DON HARWIN: Otherwise all the others are in, unless there was a specific identified saving in relation to the \$81 million.

The Hon. MICHAEL EGAN: There would be no problem in getting that information for you.

The Hon. DON HARWIN: Could you supply that information for Committee members so that we are absolutely clear on that issue?

CHAIR: Would you take that question on notice?

The Hon. MICHAEL EGAN: I have no problem in providing that.

The Hon. DON HARWIN: What are we to be provided with?

The Hon. MICHAEL EGAN: The information that you sought. Mr Pierce was just querying whether it was information that should be provided at the time of the budget.

Mr PIERCE: It actually relates to the question that was put on notice. The question that was asked was whether it was part of the total of the \$51 million in savings. I take it that that should be \$81 million?

The Hon. DON HARWIN: It should be \$81 million. I think you are referring to the \$81 million as global savings. I refer to advertising savings. How do you expect to save? How much had you budgeted to spend on advertising before the savings were going to be put in place as a result of the mini-budget?

The Hon. MICHAEL EGAN: We do not actually have a budget or an appropriation for specific things such as advertising, travel, or whatever.

The Hon. DON HARWIN: I appreciate that it would be specific to each agency. But you have no particular expectation of each agency and how much they will save on advertising? You are leaving that to the agencies, is that correct?

The Hon. MICHAEL EGAN: We have an expectation that the agencies would, as a first priority, focus on those areas.

The Hon. DON HARWIN: So expected savings in travel and accommodation, printing and publications would be the same? You have no actual figures?

The Hon. MICHAEL EGAN: We do not have an appropriation in the budget for those areas.

The Hon. DON HARWIN: I appreciate that. I am asking about actual savings that the agencies will make in those specific areas. You do not know what they are?

The Hon. MICHAEL EGAN: No.

The Hon. DON HARWIN: Given that the Treasurer is the Minister for State and Regional Development, which is one of the highlighted savings measures, I wonder whether he could explain to me the process of evaluation that his department went through in deciding whether Tokyo should be the office that should close and not London? Why was that choice made?

The Hon. MICHAEL EGAN: In relation to Tokyo and London, we have been looking for some time at whether we needed specific representation at those two locations. My view generally is that we can buy the services that a State and Regional Development officer would provide from Commonwealth agencies such as Austrade and AusInvest. In relation to London I think we are leaving two people who will work out of the Australian High Commission. In Tokyo we will simply be contracting, if you like, the services of Federal agencies when we need them.

The Hon. DON HARWIN: I am referring to the London office; I am not talking about the tourism office. I am referring to the Office of State and Regional Development.

The Hon. MICHAEL EGAN: Yes.

The Hon. DON HARWIN: Are those two staff members moving into the Australian High Commission?

The Hon. MICHAEL EGAN: I think they are already there, but I can check that. If they are not already there, they are certainly in the same building.

The Hon. DON HARWIN: Was a specific evaluation report produced, or was a specific evaluation tool put in place?

The Hon. MICHAEL EGAN: No. I have generally been keen on reducing our representation at those two remaining overseas offices. When we came to office there was a substantial contingent in London. You might remember that we turfed out one of your former colleagues.

The Hon. DON HARWIN: So apart from the occupant of the London position, what is different between London and Tokyo? Why is there a remaining presence in London in the form of Mr Fitzmaurice rather than a presence in Tokyo?

The Hon. MICHAEL EGAN: Because from London we service the whole of Europe. The Tokyo office simply serviced Japan.

The Hon. DON HARWIN: Why is it you that believe a presence is necessary in Europe but not in north Asia?

The Hon. MICHAEL EGAN: It is a wider job.

The Hon. GREG PEARCE: Are you doing any work on extending the vendor duty tax base to include transactions involving land rich companies?

The Hon. MICHAEL EGAN: Yes, we are. We were planning to include those provisions in the legislation that has just gone before the Parliament. They are complex matters. At the request of the Property Council we decided that we would revisit that issue, I think, in September. We were quite happy to agree with its request.

The Hon. GREG PEARCE: Do you have an estimate or a ballpark figure of the revenue involved?

The Hon. MICHAEL EGAN: I think it would have been included in the global estimate for the vendor duty. Mr Carling might be able to help me there.

Mr CARLING: It would be a very small amount. It would be covered by the deduction we have already made to allow for concessions and exemptions.

The Hon. GREG PEARCE: So you would have already included in the figures, such as they are, extending the duty base to include land rich companies?

The Hon. MICHAEL EGAN: I think so.

The Hon. GREG PEARCE: Does Mr Carling think that is the case? You said earlier that you had already included in the estimate for revenue the effect of extending it to land rich companies?

Mr CARLING: Yes, we have.

The Hon. GREG PEARCE: Do you have any idea at this stage how much additional work will be involved for the Office of State Revenue in collecting new taxes particularly with the larger land tax revenue base?

Mr ACHTERSTRAAT: There will be more people paying land tax. We are putting together a project team to determine all the necessary actions, systems, people, recruitment, et cetera. We envisage that in the first year—2004-05—we might need more staff than in ongoing years because in the first year we will be getting people into the system. But we are still liaising with Treasury as to the precise size of the budget that we will need.

The Hon. GREG PEARCE: So you will need a budget increase?

Mr ACHTERSTRAAT: Yes.

The Hon. GREG PEARCE: What are you asking for?

Mr ACHTERSTRAAT: I guess it depends on the way that it will be administered. We are still negotiating with Treasury and we are hoping to get the answer in the budget. There are various ways that revenue can be administered; whether we assess every return, or whether we do self-assessment with education, et cetera. So it will probably depend on the final product that Treasury agrees to.

The Hon. GREG PEARCE: Mr Pierce said earlier that he did not have an expectation of any vendor duty being collected in this current financial year.

The Hon. MICHAEL EGAN: Yes we do. I think in the present year—2003-04—the concessions on first homebuyer stamp duty would significantly exceed any revenue we get from the vendor duty.

The Hon. GREG PEARCE: So there would be no net increase?

The Hon. MICHAEL EGAN: I think there would be a net loss.

Mr PIERCE: Negative, yes.

The Hon. GREG PEARCE: You said earlier that you expected to collect the vendor stamp duty electronically.

Mr ACHTERSTRAAT: Most of that, or a lot of it. We are certainly hoping that our existing electronic systems for purchaser transfer duty will be taken up by the professions in relation to the vendor transfer duty.

The Hon. GREG PEARCE: Will that be available from 1 June when the tax commences?

Mr ACHTERSTRAAT: We are confident it will be but we have contingencies in place in case it is not. Just to add further to what was said earlier, under the legislation persons do not need to pay the vendor transfer duty until settlement. If a person enters into an exchange of contracts on 1 June and is liable they may well have their settlement six weeks down the track, which is not uncommon.

The Hon. GREG PEARCE: There are a lot of contracts entered into and settlements on 30 June as well.

Mr ACHTERSTRAAT: That may well be. We are confident and we have got a good team of people working on it. If, perchance, our partners et cetera are not in a position on 1 June we have contingencies which I am more than confident will work. But it is only in the rare cases, as you say, where people transfer and settle on the same day and—

The Hon. MICHAEL EGAN: Does that happen a lot?

Mr ACHTERSTRAAT: It sometimes happens, I guess, with family situations where a family member does not really need a contract for the six months. They know the caveats et cetera on the property. That is why we have indicated that there would be a negligible amount in the first four weeks. But, as you say, at the end of the financial year there could be issues. But certainly by 30 June things would be well and truly in place.

CHAIR: Our sitting time has expired. Just to clarify in relation to questions on notice and so on, Treasurer, could answers to questions on notice be provided to the Committee by 24 May?

The Hon. MICHAEL EGAN: Okay.

Ms LEE RHIANNON: Just to clarify, Mr Chairman, that includes the questions we had submitted earlier.

CHAIR: Including questions submitted earlier.

The Hon. MICHAEL EGAN: No problems.

CHAIR: If any Committee members have any new questions they should be submitted to the secretariat by 5 p.m. tomorrow, Tuesday 18 May.

(The witnesses withdrew)

(The Committee adjourned at 4.03 p.m.)