LEGISLATIVE COUNCIL

STANDING COMMITTEE ON STATE DEVELOPMENT

Debt Retirement Fund

Report 50

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Standing Committee on State Development

Debt Retirement Fund

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Debt Retirement Fund

"August 2023"

Chair: Hon Emily Suvaal, MLC

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Terms of reference

1. That the Legislative Council Standing Committee on State Development inquire into and report on the Debt Retirement Fund (DRF), with particular reference to:

   (a) what the longer term purpose of the DRF is, considering the State's fiscal outlook (e.g. operation position, debt levels), including:
      (i) factors that should be considered when determining the DRF's optimal size
      (ii) the appropriate thresholds for further contributions to the DRF, and
      (iii) the appropriate thresholds for retiring debt using funds from the DRF

   (b) what risks and opportunities, to the Budget or otherwise, the Government should consider with respect to the DRF.

The terms of reference were referred to the committee by the Treasurer, the Hon Daniel Mookhey MLC on 23 June 2023 and adopted by the committee on 27 June 2023.[1]

1 *Minutes*, NSW Legislative Council, 28 June 2023, p 256.

Committee details

Committee members

Hon Emily Suvaal MLC	Australian Labor Party	*Chair*
Ms Abigail Boyd MLC**	The Greens	
Hon Mark Buttigieg MLC	Australian Labor Party	
Hon Wes Fang MLC***	The Nationals	
Hon Emma Hurst MLC	Animal Justice Party	
Hon Stephen Lawrence MLC	Australian Labor Party	
Hon Peter Primrose MLC	Australian Labor Party	
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* The Hon Damien Tudehope MLC substituted for the Hon Taylor Martin MLC from 27 June 2023 for the duration of the inquiry.

** Ms Abigail Boyd MLC substituted for Ms Cate Faehrmann MLC from 27 June 2023 for the duration of the inquiry.

*** The Hon Wes Fang MLC substituted for the Hon Sam Farraway MLC from 29 June 2023 for the duration of the inquiry.

Secretariat

Frances Arguelles, Principal Council Officer
Tina Mrozowska, Administration Officer
Shaza Barbar, Director

Chair's foreword

At the time of this report, the $14.7 billion Debt Retirement Fund (DRF) is a significant aspect of the state's budget. When the fund was established in 2018, the state had a strong economic environment. Inflation and interest rates were low, the budget was in surplus with very little gross debt and the state had a triple-A credit rating. Today, however, the economic environment is the complete reverse. We are facing high inflation, rising interest rates, increasing gross debt and a potential downgrade of the state's triple-A credit rating.

As contributions to the fund are due to recommence following the 2023-2024 Budget, the government must make an important decision regarding the future management of the fund. This inquiry provided a timely opportunity to consider the issue before the government makes this decision.

The committee found that the current policy settings of the DRF are not fit-for-purpose in today's economic environment. The DRF is operating in a volatile economic environment and potentially putting the state's overall fiscal outlook at risk. There are risks to the state's budget and credit rating, and significantly, public confidence in the government if the current policy settings of the fund remain unchanged.

The government must balance the operational needs of the DRF with other fiscal pressures facing the state. It is important to recognise that the government is not like any other investor and must prioritise its key obligations in rebuilding and investing in essential public services such as schools, hospitals and the wider public sector. More importantly, if the government does not balance these needs, the flow on effect in sustaining this large public financial asset will affect the overall budget bottom line.

Therefore, the committee recommended that the NSW Government adopt an approach to managing the DRF that incorporates the needs of the state more broadly. The committee also recommended that the government adopt an approach to contributions to the DRF that reflects the current and expected economic and fiscal climate and is strongly informed by surpluses.

The government must consider the risks and consequences should contributions to the DRF continue. The committee looks forward to the government's response following this inquiry.

On behalf of the committee, I would like to thank all those who participated in the inquiry. I also thank my committee colleagues for their contributions, and the secretariat and Hansard for their assistance. I commend this report to the House.

The Hon Emily Suvaal MLC
Committee Chair

Findings

Recommendations

Conduct of inquiry

The terms of reference for the inquiry were referred to the committee by the Treasurer, the Hon Daniel Mookhey MLC and adopted by the committee on 27 June 2023.

The committee received three submissions.

The committee held one public hearing on 21 July 2023 at Parliament House in Sydney.

Inquiry related documents are available on the committee's website, including submissions, hearing transcripts and answers to questions on notice.

Key definitions

Budget result (also called the Net Operating Balance)	The difference between expenses and revenue from operating transactions in the general government sector. The budget result covers a period of 12 months and measures activity from 'transactions'. It excludes changes to assets/liabilities that occur through other means (for example revaluations, purchases and sales).[2]
Credit rating	A measure of how risky a borrower is, that is the borrower's expected willingness and capacity to repay any debt on time. A credit rating may be assigned by any of the major credit-rating agencies such as Standard & Poor Global Ratings (S&P Global Ratings), Fitch Ratings and Moody's. Governments such as New South Wales are assigned a credit rating. Ratings vary according to the type of debt instrument and its terms and conditions, as well as the borrower's credit profile. Higher credit ratings may lower the cost of borrowing and assist an entity in accessing financial markets as they are viewed to be able to meet financial commitments and have a lower risk of default. The highest possible ratings are referred to as triple-A or AAA or Aaa. The lowest are C (Moody's), D (S&P Global Ratings) and D (Fitch Ratings).[3]
General Government sector	All government units and non-profit institutions controlled by the government.[4]
Gross debt	The total value of money borrowed by the government. It is the sum of deposits held, borrowings at amortised costs, and borrowings and derivatives at fair value. Gross debt is less commonly used than net debt when assessing the government's fiscal position. That is because gross debt does not factor in the government's financial assets which are liquid, such as cash and liquid investments, which could be used to reduce borrowings.[5]
Gross domestic product (GDP)	A measure of how an economy is performing. It measures the value-added of goods and services produced by a country. GDP can be measured in two ways: nominal and real. • Nominal GDP measures GDP in current (original) market prices, which includes the impact of inflation / deflation. • Real GDP measures GDP in constant prices and therefore excludes the impact of inflation / deflation. Movements in real

2 NSW Treasury, How to Read the Budget Papers 2022-2023, p ix.

3 NSW Treasury, The state's credit rating, 2 March 2023, https://www.treasury.nsw.gov.au/nsw-economy/about-nsw-economy/states-credit-rating.

4 NSW Treasury, Budget Result 2022-2023: Appendix A4 'Classification of Agencies', p 1.

5 NSW Treasury, How to Read the Budget Papers 2022-2023, p x.

	GDP is the preferred indicator of how fast economic activity is growing.[6]
Gross state product (GSP)	A measurement of the value-add of goods and services produced within a state and is the equivalent measure of GDP at a state or territory level.[7]
Net cash operating balance	The main cash generating activities of the NSW Government. Any money earned or spent in the normal day-to-day running of the government will appear in the operations section of the cash flow statement.[8]
Net debt	The stock of selected gross financial liabilities less selected financial assets. The stock of net debt is one, but not the only, common measure used to assess the overall strength of a jurisdiction's fiscal position. High levels of net debt can impose a call on future revenue flows to service that debt and if unchecked can limit government flexibility to adjust expenditure.[9]
Net lending/(Borrowing)	The measurement of the net financing requirement of the government over a one-year period. It is measured as the net operating balance excluding non-cash items such as depreciation less the net acquisition of non-financial assets.[10]
Special Deposit Account	Accounts of money authorised by legislation to be deposited in as per the *Government Sector Finance Act 2018*, s 4.15. It is separate from the Consolidated Fund which contains all public monies (including securities and all revenue, loans and other moneys whatsoever) collected, received or held by any person for or on behalf of the State under the *Constitution Act 1902,* s 39.[11]

6 NSW Treasury, How to Read the Budget Papers 2022-2023, p viii.

7 NSW Treasury, How to Read the Budget Papers 2022-2023, p viii.

8 NSW Treasury, How to Read the Budget Papers 2022-2023, pp xviii – xix.

9 NSW Treasury, How to Read the Budget Papers 2022-2023, p x.

10 NSW Treasury, How to Read the Budget Papers 2022-2023, p x.

11 NSW Treasury, *Government Sector Finance Act 2018* Fact Sheet, 1 September 2019.

Chapter 1 Background

The Debt Retirement Fund (DRF) was established in 2018 with a view to reducing state gross debt. The fund was set up at a time when the state's economic and fiscal environment was in a strong position with a budget surplus. However, since the fund's establishment, there have been significant changes to the state's economic and fiscal environment including increased debt, higher interest rates and inflation – challenges that the incoming state budget faces.

This report begins with key background information about the establishment of the DRF including the legislative framework that sets out the fund's purpose and operation, and a general comparison of the state's economic and fiscal environment during the fund's establishment versus today ahead of the 2023-2024 Budget.

Establishment of the Debt Retirement Fund

1.1 The DRF was established in 2018 as part of the NSW Generations Fund (NGF). The then NSW Government established the NGF with the intent to provide funding for two key purposes:

- reducing the debt burden of the state by offsetting and paying down outstanding liabilities with the intent to support intergenerational equity
- developing facilities and services that improve community well-being.[12]

1.2 This section provides background on the DRF's establishment including:

- the legislative framework underpinning the fund
- the fund's status as a sovereign wealth fund.

The legislative framework underpinning the Debt Retirement Fund

1.3 The framework for the NGF is set out in legislation under the *NSW Generations Funds Act 2018* (NGF Act) which established two separate funds within the Special Deposits Account:[13] the NSW Generations (Debt Retirement) Fund and the NSW Generations (Community Services and Facilities) Fund.[14]

1.4 The NGF Act outlines the purpose and operation of the DRF accordingly.

- **Purpose:** The purpose of the DRF is to provide funding for reducing state's debt in accordance with the principles of sound financial management set out in section 7 of the *Fiscal Responsibility Act 2012*.[15]

12 Submission 2, NSW Treasury, Attachment A, EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 11.

13 See key definitions p xii.

14 *NSW Generations Funds Act 2018*, s 4; For the purposes of this inquiry, the Community Services and Facilities Fund or any programs that have been, are currently being or intended to be funded by it were not examined.

15 *NSW Generations Funds Act 2018*, s 8.

- **Funding:** The DRF has been funded by income (dividends and distributions) and proceeds from the sale of the WestConnex project, and earnings from investments in the NGF itself. The NGF Act also provides discretion for the government and the Treasurer as the responsible minister to allocate other moneys for deposit into the fund.[16]
- **Payments:** Payments out of the DRF may only be drawn down to reduce state debt or to pay administrative expenses relating to the management of the fund.[17]
- **Governance arrangements:**
  - The Treasurer is the DRF's responsible minister and decision maker regarding the fund's investment objectives and risk appetite.
  - NSW Treasury is the government department responsible for the DRF's governance and management including the oversight of TCorp.
  - TCorp, the state's central borrowing authority, manages the fund on behalf of the government and provides advice to the government on the investment strategy, risk appetite and portfolio asset allocation. TCorp is wholly owned by the NSW Government and profits are returned to the state through dividends. TCorp's advisory/trustee fee is approximately 0.04 per cent per annum, representing 3 per cent of TCorp's net income.[18]

1.5 As outlined earlier, the purpose of the DRF is to provide funding for reducing gross debt in accordance with the principles of sound financial management under the *Fiscal Responsibility Act 2012* (FRA). These principles are:

- responsible and sustainable of spending, taxation and infrastructure investment
- effective financial and asset management
- achieving intergenerational equity.[19]

1.6 The object of the FRA is to maintain the state's triple-A rating in order to limit the cost of government borrowing and maintain business and consumer confidence.[20]

1.7 According to an EY Port Jackson Partners report, *NSW Generations Fund Contributions Framework*, commissioned by NSW Treasury in March 2023 (EY report), the DRF 'might serve' the FRA's objectives by:

- Helping to maintain the triple-A credit rating by reducing New South Wales net debt[21] faster
- Increasing the sustainability of spending by reducing net debt and net debt servicing costs; and

16 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 11; see also: *NSW Generations Funds Act 2018*, s 9.

17 *NSW Generations Funds Act 2018*, s 10.

18 *NSW Generations Funds Act 2018*, s 5. See also: EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, pp 11-12; Answers to supplementary questions, NSW Treasury, 2 August 2023, pp 1, 4.

19 *Fiscal Responsibility Act 2012*, s 7.

20 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 11.

21 See key definitions, p xii.

- Increasing intergenerational equity by spreading the benefit between generations of exhaustible revenues (such as mining royalties and asset sales), quarantining today's revenues for expenditure later.[22]

Is the Debt Retirement Fund a sovereign wealth fund?

1.8 A sovereign wealth fund is a special purpose investment fund or arrangement, owned by governments which holds, manages, or administers financial assets and usually employs a set of investment strategies in order to achieve financial objectives. Sovereign wealth funds are commonly established with balance of payments surpluses, official foreign currency operations, the proceeds of privatisations, fiscal surpluses, and/or receipts resulting from commodity exports.[23]

1.9 During the hearing, the NSW Treasurer, Hon Daniel Mookhey MLC, stated that the DRF was intended to be used as a sovereign wealth fund, 'allowing New South Wales to buy foreign and domestic stocks and bonds, property locally and overseas, and invest in instruments offered by hedge funds, high yield funds, banks and other financial institutions'.[24]

1.10 Public finance and governance expert, Professor Stephen Bartos explained that sovereign wealth funds are typically established when governments have low debt or surplus cash, including gains from asset sales or budget surpluses, as was the case when the DRF was created.[25] He described sovereign wealth funds as 'future proofing' strategies as they store funds to be applied to repayment of future debts if the state finds itself in deficit. He expressed the view that sovereign wealth funds are 'a more prudent long-term strategy than spending a surplus on immediate handouts'.[26]

1.11 Professor Bartos pointed to an International Monetary Fund working paper which highlighted five types of sovereign wealth funds: reserve investment corporations that aim to enhance returns on reserved, pension-reserve funds, fiscal stabilisation funds, fiscal savings funds and development funds that use returns to invest for development purposes.[27]

1.12 Based on the DRF's purpose, Professor Bartos considered that the DRF 'could be best characterised' as a fiscal savings fund where it is used to invest windfall budget gains, for example from unexpected royalty revenues or higher than expected returns from asset sales.[28]

22 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 21.

23 Udaibir S. Das et al, *Setting up a sovereign wealth fund: some policy and operational considerations*, (WP/09/179, International Monetary Fund Working Paper, August 2009, p 5) in Submission 3, Professor Stephen Bartos, p 3.

24 Evidence, Hon Daniel Mookhey, Treasurer, 21 July 2023, p 11. See also: EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 3; Evidence, Professor Stephen Bartos, 21 July 2023, p 6.

25 Submission 3, Professor Stephen Bartos, pp 2-3.

26 Submission 3, Professor Stephen Bartos, pp 2-3.

27 Submission 3, Professor Stephen Bartos, p 3.

28 Submission 3, Professor Stephen Bartos, p 3.

1.13 The EY report considered that the DRF sets itself apart from other sovereign wealth funds as its purpose focuses on reducing debt, unlike other governments which have set up sovereign wealth funds 'to smooth the use of exhaustible revenue streams (such as mining royalties), in the context of minimal net debt and large budget surpluses'.[29]

The state's economic and fiscal environment and its impact on the Debt Retirement Fund

1.14 A central discussion throughout this inquiry was the impact of the state's economic and fiscal environment on the operation of the DRF. This section compares the state's economic and fiscal environment when the DRF was established with the environment today ahead of the 2023-2024 Budget.

1.15 The committee heard that the DRF was established in 2018 with an initial investment of $10 billion, comprising $7 billion from the sale of 51 per cent in WestConnex and $3 billion from reserves.[30]

1.16 Stakeholders explained that the state's economic and fiscal environment at the time was in 'a strong fiscal position' and that 'the Budget had been in surplus for several years driven by progressive asset sales … significant levels of financial assets, low gross debt,[31] and a triple-A credit rating'.[32]

1.17 More specifically, NSW Treasury detailed the state’s financial position when the DRF was established in 2018, including:

- a surplus of $1.2 billion
- interest expenses of $1.8 billion (weighted average bond yield of 3.9 per cent)
- net debt of negative $10.4 billion
- gross debt of $38.7 billion
- real gross state product (GSP) growth[33] of 1.9 per cent
- unemployment of 4.6 per cent.[34]

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29 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 3.

30 Submission 3, Professor Stephen Bartos, Attachment A, Stephen Bartos 'An assessment of public policy implications of decisions in relation to the NSW Generations Fund and NSW Government Debt', (Coolibah Capital Investments, August 2021, p 6. See also: EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 12; Evidence, Hon Daniel Mookhey MLC, 21 July 2023, p 11; Evidence, Ms Marina van der Walt, Deputy Secretary, Financial Management and Services, NSW Treasury, 21 July 2023, p 16.

31 See key definitions, p xi.

32 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 12. See also: Evidence, Hon Daniel Mookhey, 21 July 2023, p 11; Evidence, Ms van der Walt, 21 July 2023, p 16. See key definitions, p xi.

33 See key definitions, p xi.

34 Submission 2, NSW Treasury, p 2.

1.18 Furthermore, NSW Treasury advised that national inflation was below the Reserve Bank of Australia's (RBA) 2–3 per cent band and the RBA cash rate was 1.25 per cent.[35]

1.19 However, stakeholders informed the committee that the state's economic and fiscal environment has significantly changed since the DRF's establishment.[36]

1.20 NSW Treasury explained that the state's fiscal position has weakened since the fund's establishment due to a number of factors that led to increased gross debt, such as increased spending for the COVID-19 pandemic, natural disasters, new policy measures and a large infrastructure program that is largely debt funded.[37]

1.21 The EY report noted that while New South Wales continued to hold a triple-A credit rating with Moody's and Fitch Ratings in 2020, S&P Global Ratings downgraded the state's triple-A credit in December 2020.[38]

1.22 Following the 2020-2021 Budget and the economic impact of the COVID-19 pandemic, the government committed to redirecting some surplus cash, dividends from state owned corporations and mining royalties into the fund to help reduce net debt towards 7 per cent of GSP. The government also contributed $2.1 billion in cash to the fund.[39]

1.23 By October 2021, the state's fiscal position 'deteriorated' and the government suspended contributions to the DRF to allow the funds to be re-directed to fund COVID-19 pandemic related expenses. Around the same time, the government announced that the net proceeds from the sale of its remaining stake in WestConnex would be used to retire debt and would not be invested in the fund.[40]

1.24 According to the EY report, to date $7.7 billion of debt has been retired using funds from the DRF.[41] According to NSW Treasury, the state previously used the DRF to repay debt in 2021-2022 and 2022-2023 using the sale proceeds of the state's 49 per cent share in WestConnex, repaying $11 billion of debt over time.[42]

1.25 NSW Treasury reported that the New South Wales' fiscal outlook is 'challenging [and] precarious' as the return to surplus in 2024-2025 'requires an intentional response to identify savings and lower gross debt'.[43]

35 Submission 2, NSW Treasury, p 2.

36 Submission 2, NSW Treasury, p 2; Submission 3, Professor Stephen Bartos, 2.

37 Submission 2, NSW Treasury, pp 2-3.

38 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 13; Submission 2, NSW Treasury, Attachment B Relevant Credit Opinions and Research Reports – 3 S&P Global – 11 October 2022 – Credit Opinion, p 6.

39 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 13.

40 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, pp 13- 14. See also: Evidence, Ms Walt, 21 July 2023, p 16.

41 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 14.

42 Submission 2, NSW Treasury, p 7.

43 Submission 2, NSW Treasury, p 3.

1.26 The department referred to the 2023 Pre-Election Budget Update which projected the General Government[44] financial position as follows:

- a $12.0 billion deficit in 2022-2023
- interest expenses of $4.4 billion (weighted average bond yield of 2.5 per cent)
- net debt of $79.2 billion
- gross debt of $129.5 billion
- real GSP growth of 3.75 per cent
- unemployment of 3.5 per cent.[45]

1.27 The department added that there are now significant inflation pressures and interest rates are materially higher, with the RBA cash rate at 4.10 per cent.[46]

1.28 Summarising the economic and fiscal situation that New South Wales faces today compared to the situation at the time of the DRF's establishment, the Treasurer stated: 'To put it really simply, it's a much riskier time now than it was in 2018'.[47]

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44 See key definitions, p xi.

45 Submission 2, NSW Treasury, pp 2-3.

46 Submission 2, NSW Treasury, pp 2-3.

47 Evidence, Hon Daniel Mookhey MLC, 21 July 2022, p 11.

Chapter 2 Is the Debt Retirement Fund fit for purpose?

A key focus of this inquiry was whether the operation of the Debt Retirement Fund (DRF) is still fit for purpose in today's economic and fiscal environment. This chapter considers how the DRF has been operating so far and its projected operational position. It then outlines the key risks and consequences to the state's fiscal outlook if contributions to the DRF resume following the 2023-2024 Budget.

Operational position of the Debt Retirement Fund

2.1 As of June 2022, the DRF was valued at $14.7 billion (2.3 per cent of GSP) comprising $12.5 billion in contributions and $2.3 billion in cumulative returns. In addition, the fund has invested in:

- 56 per cent in credit, unlisted property and infrastructure
- 35 per cent in overseas equities, predominantly developed markets
- 9 per cent in Australian equities.[48]

2.2 The NSW Treasurer, the Hon Daniel Mookhey MLC, provided an update on the current state of contributions to the fund as outlined below.

- No deposits have been made to the DRF in the last two years, following the former government's decision to pause payments in order to respond to the challenges in the state's economic and fiscal outlook (see Chapter 1 for more detail).[49]
- Deposits to the DRF would resume at a point where the state had a cash-operating surplus[50]. The 2023 Pre-Election Budget Update indicated that the Budget is expecting a cash-operating surplus for 2023-24 onwards, which would therefore result in deposits to the fund.[51]
- There is no limit to contributions to the DRF and that 'there is an element of discretion (regarding the contributions) that is available to a government of the day'.[52]
- Most of the contributions since the DRF's creation have come from the sale of WestConnex.[53]

2.3 In October 2021, the government announced it would temporarily suspend certain contributions to the DRF pending a review due to the COVID-19 pandemic and economic

48 Submission 2, NSW Treasury, Attachment A, 'NSW Generations Fund Contributions Framework' by EY Port Jackson Partners, 23 March 2023, pp 14, 28.

49 Evidence, Hon Daniel Mookhey MLC, Treasurer, 21 July 2023, p 22.

50 See key definitions, p xii.

51 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, p 22.

52 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, p 22.

53 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, pp 22-23.

recovery imperative.[54] The advice sought by NSW Treasury from EY Port Jackson Partners forms part of this review announced by the former government.[55]

2.4 NSW Treasury also provided a list of all payments into and out of the DRF as outlined in Table 1 below.

Table 1 List of cash payments into and out of the NGF

Financial year	Amount ('000)	Description
2018-2019	$8,900,000	Government contribution
2018-2019	$1,080,972	Distributions from state's investment in WestConnex
2018-2019	$7,102	Interest earned
2018-2019	$1	GST received
2019-2020	$0	Government contribution
2019-2020	$117,790	Distributions from state's investment in WestConnex
2019-2020	$727	Interest earned
2019-2020	$296,000	Windfall tax revenue
2019-2020	-$11	Administrative expenses – auditor's remuneration
2020-2021	$1,932,284	Government contribution
2020-2021	$95,000	Distributions from state's investment in Roads Retained Interest Pty Ltd
2020-2021	$2,289	Interest earned
2020-2021	$1	GST received
2020-2021	-$16	Administrative expenses – auditor's remuneration
2021-2022	$0	Government contribution
2021-2022	$684,099	Distributions
2021-2022	$10,288,529	Proceeds of sale of WestConnex
2021-2022	$48,693	Interest earned
2021-2022	$1	GST received
2021-2022	-$7,660,762	Repayment of state debt
2021-2022	-$13	Administrative expenses
2022-2023	$0	Government contribution
2022-2023	$	Distributions
2022-2023	$98,158	Interest earned
2022-2023	$2	GST received
2022-2023	-$3,339,238	Repayment of state debt
2022-2023	-$16	Administrative expenses

Source: For the financial years 2018 to 2022, the list of contributions is from audited and published annual reports. For the financial years 2022 and 2023, the list of contributions is from unaudited reports. Final figures will be available in the audited and published NGF annual report. Answers to supplementary questions, NSW Treasury, 2 August 2023, pp 3-4.

54 NSW Treasury, *NSW Generations Fund 2021-2022 Fact Sheet*, December 2023, p 3.

55 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 10.

2.5 NSW Treasury confirmed that during the financial year of 2021-2022 and 2022-2023, no cash contributions were made to the fund via appropriation.[56]

2.6 Moving forward, the committee received evidence on the fund's projected growth if contributions to the DRF resume in 2023-2024.

2.7 According to the EY report commissioned by NSW Treasury, the fund is projected to grow to around $47 billion by 2026-2027 and $94.3 billion by 2031-2032, noting that the increase in size would be driven primarily by annual contributions from mining royalties and state-owned corporations.[57]

2.8 The report added that accounting for the implied interest on higher borrowings, the net return on the fund is estimated to be around $15.2 billion, or 16 per cent of the fund balance by 2031-2032.[58]

2.9 In evidence, the Treasurer advised that the intended balance for the fund is to reach $50.8 billion by 2027. The Treasurer asserted that 'this would require the NSW Government to raise $25.3 billion of more debt to allow the equivalent amount to be deposited into the DRF'.[59]

2.10 Other stakeholders also told the committee that the intended plan is to raise more debt in order to grow the DRF.[60] For example, expert in public finance and governance, Professor Stephen Bartos referred to a report he wrote in 2021 where he noted that there were elements in the 2021-2022 Budget that 'can be read as endorsing such as approach'.[61]

2.11 NSW Treasury referred to an S&P Global Ratings report which indicated a view that 'New South Wales is running cash deficits and concurrently rerouting cash into the DRF that might otherwise be used to meet immediate spending needs' which in turn must borrow more than would otherwise be required to 'plug the deficit'.[62]

2.12 Conversely, based on current projections, the DRF is expected to improve budget outcomes by $1.2 billion in 2025-2026.[63]

56 Answers to supplementary questions, NSW Treasury, 2 August 2023, pp 3-4.

57 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 14.

58 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 14.

59 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, pp 11.

60 Submission 1, Mr Christopher Joye, pp 22-23; Submission 3, Professor Stephen Bartos, Attachment A, Stephen Bartos 'An assessment of public policy implications of decisions in relation to the NSW Generations Fund and NSW Government Debt', (Coolibah Capital Investments, August 2021, pp 2-3).

61 Stephen Bartos 'An assessment of public policy implications of decisions in relation to the NSW Generations Fund and NSW Government Debt', (Coolibah Capital Investments, August 2021, pp 2-3).

62 Submission 2, NSW Treasury – Attachment B – Relevant Credit Opinions and Research Reports, 4 – S&P Global – 5 August 2021 – Credit FAQ, p 5. See also: Submission 2, NSW Treasury, p 3.

63 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 22.

What are the risks if contributions to the Debt Retirement Fund continue in the current economic and fiscal environment?

2.13 As mentioned in Chapter 1, the purpose of the DRF is to help the government maintain sustainable debt levels and support intergenerational equity. However, given the significant changes in the economic environment since the fund's establishment, stakeholders raised three key risks associated with the DRF if contributions were to continue as projected. These include:

- market volatility
- misinterpretation of the budget position
- quarantined income.

2.14 These risks are examined in the sections below.

Market volatility

2.15 The first risk associated with the DRF is the impact of market volatility on the fund. Stakeholders described the equities market as 'volatile', where instances of downturn, including as recently as COVID-19 pandemic, can take several years to recover.[64] This in turn can have an adverse impact on the fund's value and therefore the budget.

2.16 According to the EY report, based on current projections, the DRF is projected to grow faster than the economy and the New South Wales budget, and therefore it will become more significant relative to overall budget outcomes in a downturn. The report notes that the DRF's assets as a share of gross debt will increase from around 13 per cent in 2022-2023 to around 35 per cent in 2031-2032. The risk is that the value of the DRF's assets 'may fall materially in a market downturn'.[65]

2.17 The committee heard that the impact of a fall in asset values on budget outcomes depends on how long it takes for asset values to recover. These calculations are assessed by TCorp, who take into account the diversification of the DRF portfolio and the potential length of downturns. For example, TCorp historical stress test scenarios suggest that the 2001 and 2008 financial market downturns would have reduced the value of the current NGF portfolio by approximately 20 per cent for a period of 1.5 years while the 1987 and 2020 downturns would have reduced the value of the fund by around 18 per cent for 1-3 months.[66]

2.18 Given that the assets invested from the DRF are linked to the equities market and the concerns in raising more debt to make contributions to the DRF, stakeholders explained the risks

64 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 4.

65 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, pp 27- 28.

66 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 28.

associated with the fund in the event of a market downturn.[67] For example, Professor Bartos advised that there are particular risks due to the high volatility of both interest rates and share prices:

> Taking on debt to invest in equities is inherently high risk for any entity, including a government agency. There is no guarantee that the return on investment from equities will always be higher than the cost of debt. Because both interest rates and share prices are subject to high volatility the risks involved in this kind of strategy can compound - for example, if interest rates were to rise at the same time as share values fell, compelling an entity to refinance its debt at higher cost (assuming it could find willing lenders) and/or divest itself of shares at a disadvantageous time.[68]

Misinterpretation of budget position

2.19 A second risk raised by stakeholders included concerns about misinterpretation of the state's budget position. As mentioned in paragraph 2.16, the size of DRF is due to increase faster that the New South Wales economy and its budget. However, the Treasurer argued that the increased size of the DRF only 'artificially improves the budget bottom line'.[69]

2.20 Stakeholders explained the relationship between how the budget result is presented and its association with the DRF, with one stakeholder implying that contributions to the fund is disguised as the fund is treated as an offset to net debt.[70]

2.21 Explaining this concern, NSW Treasury advised that the primary mechanism for growing the DRF is by directing certain revenues into it including mining royalties and dividends from state-owned corporations. When these returns are captured through the budget result, it appears to improve the budget outcome however, these returns can only be used to reduce debt as stipulated by legislation. This then creates a perception that the government has discretion to allocate funds where it is most needed.[71]

2.22 Furthermore, stakeholders explained that the budget result focuses on net debt and not gross debt.[72] More specifically, NSW Treasury explained how this reporting leads to a misinterpretation of the budget:

> while a large DRF improves the state's net debt outlook and receives positive consideration from credit rating agencies in the form of debt offset, it results in an

67 Submission 1, Christopher Joye, p 7; Submission 2, NSW Treasury, p 4; EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 28; Submission 3, Professor Stephen Bartos, p 2; Evidence, Hon Daniel Mookhey MLC, 21 July 2023, p 23.

68 Submission 3, Professor Stephen Bartos, p 2.

69 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, p 11.

70 Submission 2, NSW Treasury, pp 3-4; EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 15; Evidence, Professor Stephen Bartos, 21 July 2023, pp 2-3.

71 Submission 2, NSW Treasury, pp 3-4.

72 Evidence, Professor Bartos, 21 July 2023, pp 2-3. See also: EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 15.

> increase in gross debt. Therefore, while the state's net debt burden may be less, debt affordability (interest expenses to revenue) will be lower with a large DRF.[73]

2.23 The impact on the state budget if contributions to the fund recommence is explored later in this chapter.

Quarantined income

2.24 Finally, the Treasurer raised concerns with the quarantined nature of the DRF's income, given that the income generated from the fund is isolated or restricted for use by legislation.[74] According to the EY report, rating agencies view this legislative constraint on the use of funds favourably in assessing the New South Wales credit rating.[75]

2.25 However, throughout the hearing, the Treasurer reiterated that in the event that the fund is in surplus, the payment of the fund is restricted and cannot be used for other purposes outside of its legislative provisions. For example, the Treasurer highlighted that contributing cash surplus into the DRF means that it cannot be used to offset infrastructure borrowing for essential services such as building schools, hospitals and railways. He declared that 'you are borrowing money to put into the DRF'.[76]

2.26 He highlighted the tension between reporting surpluses are 'quite large', yet at the same time having to explain to the people why money is not available to invest in essential services. To illustrate his point, the Treasurer stated:

> assume that [the DRF] gets to its $50 billion balance by 2027. A 10 per cent market variation shock would see the [s]tate lose $5 billion. A 10 per cent accretion would see us gain $5 billion. But the $5 billion gain cannot be used the same way we could, for example, if there was a windfall gain in royalties or a windfall gain in property prices, because you can only use it for this particular purpose.[77]

What are the potential consequences if contributions to the Debt Retirement Fund recommence?

2.27 As mentioned in paragraph 2.2, deposits into the DRF are set to recommence from this fiscal year onwards.[78] However, stakeholders raised concerns throughout the inquiry regarding potential consequences to the state's economic and fiscal outlook if contributions to the fund were to continue, including:

- the impact on the state budget
- the impact on the state's credit rating

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73 Submission 2, NSW Treasury, p 4.

74 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, pp 11, 22-23.

75 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 11.

76 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, pp 11, 22-23.

77 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, pp, 22-23.

78 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, p 22.

- the impact on public confidence.

2.28 These are discussed in turn below.

Impact on the state budget

2.29 In light of the current economic and fiscal environment as outlined in Chapter 1, NSW Treasury expressed the view that 'it is important to focus on the [s]tate's financial position, with constrained funds available for spending and reliance on debt'. The department advised that the government is looking to guide the 2023-2024 Budget with a financial strategy that considers the current economic conditions.[79]

2.30 According to the EY report, there is a 'core trade-off between revenue and risks' associated with the DRF as the fund 'increases both revenues and risks'.[80] In summary, the committee received evidence explaining how the DRF is incorporated in the state's budget result:

> The key balance sheet impact of the [DRF] is that gross debt – the volume of government bonds on issue – is higher than it would be otherwise, although the [DRF] does not (in the short term) affect net debt. Over time, [DRF] returns will affect net debt. If, as expected, the [DRF] generates returns higher than the interest costs on the extra gross debt, then these earnings will, other things equal, cumulatively reduce net debt, improving the [s]tate's budget position.
>
> While the [DRF] is likely to benefit the budget position over the medium term, it increases the volatility of budget outcomes, could make the budget position of [New South Wales] more vulnerable in a downturn, and it could affect the triple-A credit rating of [New South Wales].
>
> The [DRF] "grosses up" the [s]tate balance sheet so that both gross assets and gross debt are higher than if the [s]tate had instead used available funds to pay off existing debt. Higher gross debt locks in higher interest payments and greater obligations to repay principal, exposing the [s]tate to additional risk.
>
> The returns from the [DRF] should be assessed net of the borrowing costs on debt that could otherwise have been retired.[81]

2.31 More specifically, the Treasurer explained that the budget assumes a return of 7 per cent on every dollar deposited to the fund, even when it loses money.[82] He cautioned that 'if the projected returns are stripped out of the budget forecast, New South Wales will record consistent deficits every year over the forward estimates'. He added that in the last budget, New South Wales was to add $58.7 billion of additional debt over the next three years with $188 billion in gross debt owed to creditors by June 2026. Equivalent to about 21 per cent of the

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79 Submission 2, NSW Treasury, p 3.

80 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, pp 15-16, 22.

81 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, pp 15-16, 22.

82 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, p 11.

state's GSP, the Treasurer highlighted that this is 'the largest debt any incoming state government has inherited from its predecessors in more than three decades'.[83]

2.32 Moreover, the impact of incurring higher levels of debt not only affect the state's budget balance sheet but also on the interest accrued on these debts and potentially impact on the state's credit rating.[84] This issue is discussed in the next section.

Impact on credit rating

2.33 Another key consideration raised by stakeholders was the impact of the DRF on the state's credit rating. As discussed in Chapter 1, the objective of the DRF is to meet the requirements of the *Fiscal Responsibility Act 2012* in order to assist the government to maintain sustainable debt levels consistent with a triple-A rating.

2.34 The value of higher credit ratings means the cost of borrowing may be lower and assist an entity (or government) in accessing financial markets as they are viewed to be able to meet financial commitments and have a lower risk of default.[85]

2.35 Stakeholders raised concerns with the impact of the government paying higher interest costs to the state's gross debt as a result of the current high inflation environment which places significant pressure on the state's credit rating.[86] This therefore means that the cost of NSW Government paying interests on its debts has also increased.[87]

2.36 When asked about this issue at the hearing, the Treasurer described the current fiscal environment that the government is currently facing with regard to interest rates:

> [In 2021, New South Wales'] three-year borrowing was roughly 0.43 per cent [compared to 4.26 per cent today]. … That's a tenfold increase in the cost of government borrowing. In addition to that, we're having to issue new debt, we're having to refinance old debt from a low-interest environment into a high-interest environment as well, and that's part of the reason why our interest expenses are rising to $7 billion. It's not the same as it was back in 2018. When you are paying 10 times more for capital than you were previously, you've got to ask yourself whether you're getting 10 times the return.[88]

2.37 Moreover, the EY report advised that the DRF can affect the state's triple-A credit rating by 'changing the state's fiscal health and increasing the state's risk of being adversely affected by a change in ratings agency methodology' as credit rating agencies assess how the government is

83 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, p 11.

84 Submission 1, Christopher Joye, p 7; Submission 2, NSW Treasury, p 3; Submission 3, Professor Stephen Bartos, p 5.

85 NSW Treasury, The state's credit rating, 2 March 2023, https://www.treasury.nsw.gov.au/nsw-economy/about-nsw-economy/states-credit-rating.

86 Submission 1, Christopher Joye, pp 22-23; Submission 2, NSW Treasury, pp 1-2; Submission 3, Professor Stephen Bartos, pp 4- 5.

87 Submission 2, NSW Treasury, p 3.

88 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, pp 24-25.

funding the strategy.[89] This was the case when S&P Global Rating downgraded the state's credit rating due to the large increase in gross government debt in 2020.[90]

2.38 NSW Treasury pointed to an S&P Global Rating Credit FAQ in 2021 in which S&P Global Rating considered that 'if a government were to borrow to invest in financial assets [distinct from borrowing to fund real infrastructure or to prefund upcoming debt maturities] this would weaken its credit risk profile. S&P Global Rating added that 'the rapid projected growth of the fund toward A$90 billion, at a time when New South Wales is also incurring substantial deficits, may accentuate exposure to market risks'.[91]

2.39 Furthermore, NSW Treasury highlighted that each of the three main credit ratings agencies flagged a potential downgrade of the state's triple-A rating as a result of increased debt and delays to returning to a surplus:

- Moody's (2022) flagged that "a larger and longer-lasting increase in debt" could lead to a downgrade. Moody's "expect N[ew] S[outh] W[ales] cost of debt to progressively increase given its large funding requirements", with increasing pressure on the State's debt affordability.
- Fitch Ratings (2022) flagged that the "failure by the [s]tate to control expenditure and return to surplus… could result in downward rating action".
- S&P Global Rating (2023) also flagged downward pressure on the [s]tate's credit rating if there is a further delay in the return to a net cash operating surplus.[92]

Impact on public confidence

2.40 The impact on public confidence with government if the operation of the DRF fails to meet public expectations was also a recurring theme throughout the inquiry. For example, Professor Bartos highlighted that there is a need for the government to manage the fund's 'direction in terms of what the overall social preferences are of the people of New South Wales, because it is their fund'.[93]

2.41 The EY report considered that although the fall of value of the DRF is 'unlikely to have a large impact on public confidence … poor outcomes from government investments can affect public confidence in government' and that this perception can 'ultimately affect trust in government'.[94]

2.42 As mentioned in paragraph 2.26, NSW Treasury raised the issue of explaining to the public when surplus received from the DRF cannot be used for essential services. The department emphasised that the DRF's long term purpose must also consider the broader policy objectives for the state.[95] Plainly, the Treasurer expressed the view that 'the state is not the same as other

89 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 31; Evidence, Hon Daniel Mookhey MLC, 21 July 2023, pp 19-20.

90 Submission 3, Professor Stephen Bartos, p 4; Evidence, Professor Bartos, 21 July 2023, pp 7-8.

91 NSW Treasury, 'Relevant Credit Opinions and Research Reports, 4 – S&P Global – 5 August 2021 – Credit FAQ', pp 5-6.

92 Submission 2, NSW Treasury, p 3.

93 Evidence, Professor Bartos, 21 July 2023, p 7.

94 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 41.

95 Submission 2, NSW Treasury, p 4.

investors', noting that the state has obligations that other investors do not have to consider. He declared:

> We have other obligations that we have to do and we have to fund. We have to decide how much money we can put into schools and into hospitals and into our Police Force and into our TAFE system. We've got to compete multiple objectives here. By simply pretending that the state is the same as every other investor in financial markets, you are risking the ability to achieve other objectives that only governments can do. It's not like other investors are benevolently funding our schools and hospitals; we have that obligation.[96]

Committee comment

2.43 The DRF is a significant aspect of the state's budget. This inquiry has been an important opportunity to examine the longer-term outlook of the fund given the significant changes in the state's economic and fiscal environment between the fund's establishment in 2018 and the imminent 2023-2024 Budget announcement.

2.44 The DRF was established at a time when the strength of the economy was high - inflation was low, interest rates were at an historic low and the state's budget was in surplus with very little gross debt.

2.45 However, the economic environment today is the complete reverse - the state is facing a number of pressures such as high inflation and rising interest rates, combined with the state's balance sheet recovering from the necessary support provided during the COVID-19 pandemic.

2.46 With these pressures facing New South Wales, the committee is concerned that the DRF is operating in a volatile economic environment and potentially putting the state's overall fiscal outlook at risk. The committee questions whether the pressures of the ongoing market volatility mixed with the growing size of the fund is worth the risk to the state's budget and credit rating. This risk is contrary to the purpose of the DRF which is to bring down debt, not raise it, and to ensure intergenerational equity.

2.47 While the committee notes that the fund's longer-term forecast is higher revenues and a reduction in net debt, the reality is that these figures only artificially improve the budget and do not provide a full picture as the fund is treated as an offset to net debt only and not gross debt. In addition, any income from the fund cannot be used for other essential services.

2.48 Ultimately, the committee does not believe the current policy settings of the fund are fit-for-purpose in today's context. While the DRF may have been a sound fiscal strategy in a strong economic environment, it is a risky strategy in today's precarious economic environment.

96 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, p 3.

Finding 1

That the current policy settings of the Debt Retirement Fund are not fit-for-purpose in today's economic environment, given the increasing economic pressures that New South Wales is currently facing.

2.49 The committee understands that contributions to the fund are set to recommence following the 2023-2024 Budget, informed by the outcome of the review announced in October 2021. The committee appreciates that the government faces a difficult task in balancing the operational needs of the DRF with other fiscal pressures facing the state. More importantly, the government is not like any other investor and has to prioritise its key obligations in rebuilding and investing in essential public services such as schools, hospitals and the wider public sector.

2.50 If the government does not balance these needs, the impact on public confidence will suffer. The government must ensure that they can manage this large public financial asset whilst maintaining the public's confidence.

2.51 In the next chapter, the committee considers how the government can better manage the DRF moving forward in light of the current economic and fiscal environment.

Chapter 3 Looking forward: the future management of the Debt Retirement Fund

This last chapter examines the future of the Debt Retirement Fund (DRF). Looking forward, this chapter considers the role of government in managing the fund and how the fund should be operated. Key considerations regarding the future operations of the fund include the criteria for further contributions and for retiring debt as well as addressing transparency concerns regarding reporting on the fund's operations.

The role of government in managing the Debt Retirement Fund

3.1 The committee heard evidence on the role of government in managing the DRF and the extent to which the government should use the DRF to leverage the state's balance sheet to generate financial returns. In particular, stakeholders questioned whether it should be the role of government to invest in the stock market.[97]

3.2 Professor Stephen Bartos, expert in governance and public finance, considered whether the role of government is 'to be a fund manager and invest in the stock market' or whether the government should manage the DRF as 'incidental' to its overall purpose.[98]

3.3 Similarly, Mr Christopher Joye, Chief Investment Officer, Coolibah Capital Investments expressed concern that, through the DRF, the state's balance sheet 'starts to resemble a leveraged equity hedge fund' as taxpayer revenue is diverted into shares and other high risk strategies, funded by a 'huge increase in debt'.[99]

3.4 Moving forward, the government advised that they were not pursuing legislative changes to the NGF Act but instead recommended a 'holistic approach' when considering the management of the DRF and its optimal size. According to NSW Treasury, this approach should consider how the state manages its medium and long-term fiscal capacity, size of gross debt, budget sensitivities and the operating position under various economic scenarios.[100]

3.5 NSW Treasury advised that the following metrics have been previously considered to inform the DRF's optimal size and therefore the management of the fund:

1. General Government (GG) Net Debt to GSP, which measures the overall net debt burden
2. GG interest expenses to GG Revenue, which measures debt affordability
3. DRF balance to GG Gross Debt, which measures the DRF’s capacity to provide an effective and meaningful offset to debt (noting this does not include any adjustments made by S&P Global Ratings)

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97 Submission 1, Christopher Joye, p 1; Evidence, Professor Stephen Bartos, 21 July 2023, p 2.

98 Evidence, Professor Bartos, 21 July 2023, p 2.

99 Submission 1, Christopher Joye, p 1.

100 Evidence, Hon Daniel Mookhey MLC, Treasurer, 21 July 2023, p 17, Submission 2, NSW Treasury, pp 4-5. See also: Answers to supplementary questions, NSW Treasury, 2 August 2023, p 3.

4. DRF investment returns to GG interest expenses, which measures the DRF's capacity to cover borrowing costs
5. DRF Conditional Value at Risk (CVaR) to GG revenue, which is a measure of how much DRF risk the balance sheet can support.[101]

3.6 Given the state's fiscal position and the economic environment as discussed in the previous chapters, NSW Treasury argued that 'it is appropriate to consider the adoption of a more conservative approach to contributions into the DRF'.[102] Criteria for the fund's operation are considered in the next section.

Criteria for the operation of the Debt Retirement Fund

3.7 This section examines options for the future operation of the DRF, including criteria for further contributions, criteria for retiring debt and suggestions for reporting on the fund's operations.

Criteria for further contributions

3.8 Stakeholders noted that the key criteria when considering further contributions to the fund is to decide when to contribute, how much to contribute and the government's risk appetite.[103]

3.9 When considering possible options for setting such criteria, NSW Treasury referred to the possible benchmarks noted in the EY report it commissioned in March 2023:

- **Option 1: Contribute when Net Lending/(Borrowing)[104] is positive**
  - The government would only contribute to the DRF once all operating and capital funding requirements have been met from operating revenues. In effect, contributions would only be made when the state had no new net borrowing and current revenues are covering all operating and capital expenses.
  - NSW Treasury noted that this metric would be the most risk averse approach, with the GG only achieving a net lending surplus three times in the past 20 years.
- **Option 2: Contribute if there is a surplus on the Budget Result[105]**
  - The government would only contribute to the DRF once all operating funding requirements including depreciation have been met. Contributions would only be made if recurrent revenues exceed expenses and depreciation on historic capital investments. Under this metric, new debt borrowing would still be required for growing capital expenditure and net debt would therefore increase as a share of GSP.
  - NSW Treasury noted that this would be less risk averse than the Net Lending/Borrowing rule, with the state in surplus 13 times in the past 20 years.

101 Submission 2, NSW Treasury, p 4.

102 Submission 2, NSW Treasury, pp 4-5.

103 Submission 2, NSW Treasury, p 5; Submission 2, NSW Treasury, Attachment A, 'NSW Generations Fund Contributions Framework' by EY Port Jackson Partners, 23 March 2023, pp 44-45; Evidence, Professor Bartos, 21 July 2023, pp 2-3.

104 See key definitions, p xii.

105 See key definitions, p xi.

- **Option 3: Contribute if there is a positive Net Cash Operating Balance**[106]
  - The government would only contribute to the DRF once all cash operating funding requirements have been met from cash operating receipts.
  - NSW Treasury noted that this metric is less risk averse than the other two metrics as it would not account for either the funding of new capital or depreciation of assets.[107]
  - According to the EY report, the NSW Government has used this metric so far when managing contributions to the fund.[108]

3.10 Professor Bartos agreed with NSW Treasury's suggested approach of setting metrics for the fund's management. He maintained that:

> Trying to set a dollar figure doesn't work. What's important is to set principles for how you should manage the flows in and out of the fund … and a target, for example, of progressively reducing gross debt as a percentage of gross product … then you can measure progress over time in each successive budget against that target.[109]

3.11 Furthermore, he supported option 1 as a possible benchmark, describing it as a 'sensible position'. He stated that he does not suggest 'closing down the fund' but instead using the fund to manage the state's surpluses when there is no net debt.[110]

3.12 When the committee asked NSW Treasury about which of the three options it recommended that the government to adopt, the department advised that 'how much and when to contribute is a policy decision for government and will depend on the risk appetite of the state and how the state operationally defines the threshold for making contributions'.[111]

3.13 However, the department indicated that given the state's fiscal position and the economic environment have 'changed materially since the COVID-19 pandemic … it is appropriate to consider the adoption of a more conservative approach to contributions into the DRF'.[112] The department added that such a decision would 'largely mitigate the need to focus on the optimal size of the DRF in the short and medium term' as the fund's size would 'primarily be driven by the considerations and metrics adopted to determine when contributions or withdrawals should be made'.[113]

3.14 Moreover, NSW Treasury made the following recommendations about how criteria for further contributions to the fund should be applied.

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106 See key definitions, p xii.

107 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, pp 6-7, 45.

108 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 17.

109 Evidence, Professor Bartos, 21 July 2023, p 7.

110 Evidence, Professor Bartos, 21 July 2023, p 2.

111 Answers to supplementary questions, NSW Treasury, 2 August 2023, p 2.

112 Answers to supplementary questions, NSW Treasury, 2 August 2023, p 2.

113 Submission 2, NSW Treasury, pp 4-5.

- Thresholds in consideration should use defined financial metrics that are common across Australian states and comparable international peers, such as operating position, debt position, cash operating position.
- The metric selected should also serve to create the cap on the amount of contributions made. For example, if a budget result metric is adopted, contributions should be capped at the amount of the budget surplus in any given year.
- Any budget result metric should be calculated after removing the net impacts of the DRF (removing both the investment revenues and implied borrowing expenses of the DRF).
- Even when the threshold for contributions is triggered, the government should retain the discretion to allocate any underlying budget surplus to where this is most needed. This approach removes the need to consider specific sources of funding to provide limits on contributions. Rather the contributions are capped by the size of the underlying budget surplus and could simply be appropriated on that basis.[114]

3.15 However, NSW Treasury also noted that limiting DRF contributions to the amount of an underlying budget surplus would result in a materially smaller fund over the forward estimates compared with previous forecasts. The department suggested that an alternative approach could be to target a desired level of gross debt for the state and to determine the quantum of contributions or withdrawals required to meet that desired level of gross debt.[115]

Criteria for retiring debt

3.16 Another option to consider when examining the future use of the DRF is to use the fund to retire debt as stipulated by the NGF Act.[116]

3.17 According to NSW Treasury, the state previously used the DRF to repay debt in 2021-2022 and 2022-2023 using the sale proceeds of the state's 49 per cent share in WestConnex, repaying $11 billion of debt over time. The submission noted that the government at the time did not have to rely on liquidating existing investments to fund the debt repayments because of the WestConnex proceeds.[117] In evidence, the NSW Treasurer, Hon Daniel Mookhey MLC, was supportive of the decision to use the WestConnex sale proceeds at the time to repay debt, noting that 'had that money been deposited in the DRF, we would have lost a lot of it just in terms of the market cycle'.[118]

3.18 NSW Treasury advised that there are two possible scenarios under which drawdowns could be considered:

- **Scenario 1 - during a fiscal and economic shock**: In this scenario, the government would need to weigh the temporary fiscal impacts of the DRF during a fiscal and economic shock versus the likelihood of having to liquidate investments when asset prices are comparatively low.

114 Submission 2, NSW Treasury, pp 5-6.
115 Submission 2, NSW Treasury, p 6.
116 *NSW Generations Funds Act 2018*, s 8.
117 Submission 2, NSW Treasury, p 7.
118 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, p 21.

- **Scenario 2 - when the state is on negative outlook or credit watch by the ratings agencies:** For example, this scenario may arise if rating agencies determine that they no longer treat the DRF as an offset to the state's debt for ratings purposes. In this scenario, the benefit of maintaining the DRF, as a debt offset, no longer outweighs the fiscal risk of maintaining a larger DRF.[119]

3.19 In considering whether to use the fund to pay down debt, the Treasurer explained that fiscal risks to the state would result in some losses in the current market. He expressed the view that 'it's [not] a sensible strategy to be pursued right now in terms of liquidating the existing balance'.[120]

Transparency in the reporting of Debt Retirement Fund contributions

3.20 Finally, stakeholders also raised concerns with the level of transparency in the government's reporting on reporting the contributions to the DRF and the fund's impact on the budget balance.[121]

3.21 The Treasurer advised that the previous government did not report the amount of contributions to the fund and considered that there should be more transparent ways in which to report on contributions to the DRF so that 'people can at least know what's going on.[122]

3.22 He reflected that that market participants and bank analysts found it difficult to understand how the budget result was presented in relation to DRF and its contributions, let alone a 'layperson' who isn't 'an accountant [or] an expert in government finances'.[123]

3.23 In support of this view, Professor Bartos agreed that not all investments made by the DRF are 'obvious' and that the budget result should report on the total levels of debt, interactions of the DRF and future programs.[124]

3.24 He further suggested a quarterly statement on New South Wales debt policy, including full disclosures about movements in DRF investments. He considered that more transparency on the fund's operation would be 'highly desirable' and would give 'the best information for the voters of New South Wales'.[125]

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119 EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 46.

120 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, p 21.

121 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, pp 24-25; Evidence, Professor Bartos, 21 July 2023, pp 8- 9.

122 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, pp 24-25.

123 Evidence, Hon Daniel Mookhey MLC, 21 July 2023, pp 24-25.

124 Evidence, Professor Bartos, 21 July 2023, pp 8- 9. See also: EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 15.

125 Evidence, Professor Bartos, 21 July 2023, pp 8-9. See also: EY Port Jackson Partners, 'NSW Generations Fund Contributions Framework NSW Treasury', 23 March 2023, p 15.

3.25 While not clearly presented in the budget paper, all inflows into the DRF were reported in the NSW Generations Fund annual reports for 2018-2019, 2019-2020, 2020-2021 and the NSW Treasury Annual Report 2021-2022.[126]

Committee comment

3.26 Considering the future management of the fund, the committee questions whether it is the role of government to leverage its balance sheet to try and generate financial returns, particularly considering the economic environment of today, as discussed in Chapter 2.

3.27 The committee was concerned to hear that the management of the DRF so far appears to have largely focused on purely generating returns rather than a holistic approach which considers the state's other financial risks and responsibilities.

3.28 Ultimately, the committee believes that it is not the role of government to focus on investments over other priorities, such as essential services. As mentioned in Chapter 2, the government is different to a regular investor and needs to consider the needs of the state more broadly. Therefore, the committee recommends that the NSW Government adopt an approach to managing the DRF that incorporates the needs of the state more broadly.

Recommendation 1

That the NSW Government adopt an approach to managing the Debt Retirement Fund that incorporates the needs of the state more broadly.

3.29 As the 2023-2024 Budget announcement is imminent, it is time for the government to reconsider its strategy moving forward. The committee recognises that, while the previous approach in managing the DRF may have been a sound strategy while the economy was in a strong position, it is not the best strategy in today's environment. The committee acknowledges the previous government's decision to suspend further contributions during the COVID-19 pandemic and use the proceeds of the second WestConnex sale to repay debt rather than as a deposit into the DRF.

3.30 Now, the government must continue this positive trajectory regarding decisions of the DRF's contributions for the interest of the state. A holistic approach must be considered with regard to the future management of the DRF and its optimal size. By avoiding a prescriptive approach, the government can adjust contributions to the fund based on the state of the government's finances at any given time.

3.31 The committee therefore does not recommend that the fund be closed down or be used to retire debt at this stage. Rather, we recommend that the government adopt an approach to contributions to the DRF that reflects the current and expected economic and fiscal climate, and is strongly informed by surpluses. The committee believes that this approach would alleviate

126 All annual reports are available at: NSW Treasury, *Documents Library*, (February 2022), https://www.treasury.nsw.gov.au/index.php/documents-resources/documents-library.

the need to focus on the size of the DRF in the short and medium term and instead focus on adopting appropriate metrics for contributions and withdrawals from the fund.

Recommendation 2

That the NSW Government adopt an approach to contributions to the Debt Retirement Fund that reflects the current and expected economic and fiscal climate, and is strongly informed by surpluses.

3.32 Lastly, the committee was concerned to hear that previously, the government did not report on the operation of the DRF as clearly and specifically as it could. It was particularly concerning to hear that contributions were not more clearly set out in the annual budget where even analysts and financial experts found it difficult to understand. Given the size of the DRF and its impact on the state budget, understanding how much and when contributions to the fund are made should not be a struggle to comprehend.

3.33 The committee urges the government to consider best practice in reporting on future contributions to the DRF given the size of the fund and how its investment and operations affect the state's overall fiscal outlook. As such, the committee recommends that the NSW Government report on future contributions to the fund more clearly and specifically in future budget papers, including in the 2023-2024 Budget.

Recommendation 3

That the NSW Government report on future contributions to the fund more clearly and specifically in future budget papers, including in the 2023-2024 Budget.

Appendix 1 Submissions

No.	Author
1	Mr Christopher Joye
2	NSW Treasury
3	Professor Stephen Bartos

Appendix 2 Witnesses at hearings

Date	Name	Position and Organisation
Friday, 21 July 2023 **Macquarie Room** **Parliament House, Sydney**	Professor Stephen Bartos *(via videoconference)*	University of Canberra
	Hon Daniel Mookhey MLC	Treasurer
	Ms Marina van der Walt	Deputy Secretary, Financial Management and Services, NSW Treasury

Appendix 3 Minutes

Minutes no. 3
Tuesday 27 June 2023
Standing Committee on State Development
McKell Room, Parliament House, Sydney at 3.35 pm

1. Members present

Ms Suvaal, *Chair*
Mr Farraway, *Deputy Chair*
Mr Buttigieg
Ms Faehrmann
Ms Hurst
Mr Lawrence
Mr Murphy (substituting for Mr Primrose)
Mr Tudehope (substituting for Mr Martin for the duration of the inquiry into the Debt Retirement Fund)

2. Previous minutes

Resolved, on the motion of Mr Lawrence: That draft minutes no. 2 be confirmed.

3. Correspondence

The committee noted the following items of correspondence:

Received

- 23 June 2023 – Letter to the Hon Emily Suvaal MLC, Chair, Standing Committee on State Development from the Hon Daniel Mookhey MLC, Treasurer, requesting the committee to consider terms of reference for an inquiry into the NSW Generations Fund – Debt Retirement Fund
- 26 June 2023 – Email from Ms Bo Ok, Office of the Hon Chris Rath MLC, Opposition Whip to the secretariat, advising that the Hon Damien Tudehope MLC will be substituting for the Hon Taylor Martin MLC for the duration of the inquiry into the Debt Retirement Fund if the committee adopts the terms of reference.

4. Inquiry into the Debt Retirement Fund

The Chair tabled the following terms of reference received from the Hon Daniel Mookhey MLC, Treasurer on 23 June 2023:

1. That the Legislative Council Standing Committee on State Development inquire into and report on the Debt Retirement Fund (DRF), with particular reference to:
    a) What the longer term purpose of the DRF is, considering the State's fiscal outlook (e.g. operation position, debt levels), including:
        a. Factors that should be considered when determining the DRF's optimal size,
        b. The appropriate thresholds for further contributions to the DRF, and
        c. The appropriate thresholds for retiring debt using funds from the DRF
    b) What risks and opportunities, to the Budget or otherwise, the Government should consider with respect to the DRF.

Resolved, on the motion of Mr Murphy: That the committee adopt the terms of reference.

5. Conduct of the inquiry into the Debt Retirement Fund

5.1 Proposed timeline

Resolved, on the motion of Mr Lawrence: That the committee adopt the following timeline for the administration of the inquiry:

- Tuesday 11 July 2023 – closing date for submissions
- Friday 21 July 2023 – 1 hearing
- Thursday 10 August 2023 – circulation of Chair's draft report
- Tuesday 15 August 2023 – report deliberative
- Friday 18 August 2023 – tabling of report.

5.2 Stakeholder list
Resolved on the motion of Mr Lawrence: That the following stakeholders be invited to make a submission:

- NSW Treasury
- NSW Treasurer
- NSW Audit Office
- Department of Premier and Cabinet
- TCorp
- International Forum of Sovereign Wealth Fund
- Mr Saul Eslake, independent economist
- Mr Christopher Joye, Australian Financial Review.

Mr Tudehope moved: That the following stakeholders be invited to make a submission:

- Dr Angela Cummine, NSW Treasury
- Mr Michael Pratt, former Secretary, NSW Treasury.

Mr Buttigieg moved: That the motion of Mr Tudehope be amended by removing Dr Angela, Cummine, NSW Treasury from the list.

Amendment of Mr Buttigieg put and passed.

Original question of Mr Tudehope, as amended, put and passed.

6. Adjournment
The committee adjourned at 3.45 pm until Friday 21 July 2023 (public hearing – DRF inquiry).

Shaza Barbar
Committee Clerk

Minutes no. 5
Friday 21 July 2023
Standing Committee on State Development
Macquarie Room, Parliament House, Sydney, 1.03 pm

1. Members present
Ms Suvaal, Chair
Ms Boyd (substituting for Ms Faehrmann for the duration of the inquiry into the Debt Retirement Fund)
Mr D'Adam (substituting for Mr Primrose), via videoconference
Mr Donnelly (substituting for Mr Buttigieg until 2.08 pm)
Mr Fang (substituting for Mr Farraway for the duration of the inquiry into the Debt Retirement Fund)
Mr Lawrence
Mr Nanva (substituting for Mr Buttigieg from 2.09 pm), via videoconference
Mr Tudehope (substituting for Mr Martin for the duration of the inquiry into the Debt Retirement Fund)

2. Apologies
Ms Hurst

3. Election of Deputy Chair
The Chair noted the absence of the Deputy Chair for all meetings of the inquiry into the Debt Retirement Fund.

The Chair called for nominations for a member to act as Deputy Chair for all meetings of the inquiry into the Debt Retirement Fund.

Mr Donnelly moved: That Ms Boyd be elected as Deputy Chair for all meetings of the inquiry into the Debt Retirement Fund.

There being no further nominations, the Chair declared Ms Boyd elected as Deputy Chair for all meetings of the inquiry into the Debt Retirement Fund.

4. Previous minutes
Resolved, on the motion of Mr Lawrence: That draft minutes no. 4 be confirmed.

5. Correspondence
The committee noted the following items of correspondence:

Received

- 27 June 2023 – Email from Ms Cate Faehrmann MLC to the secretariat, advising that Ms Abigail Boyd MLC will be substituting for Ms Cate Faehrmann MLC for the duration of the inquiry into the Debt Retirement Fund
- 29 June 2023 – Email from Bo Ok, Office of the Hon Chris Rath MLC, Opposition Whip to the secretariat, advising that the Hon Wes Fang MLC will be substituting for the Hon Sam Farraway MLC for the duration of the inquiry into the Debt Retirement Fund
- 26 June 2023 – Out of office reply from Michael Pratt, former Secretary of NSW Treasury in response to the invitation to make a submission to the inquiry into the Debt Retirement Fund
- 10 July 2023 – Email from Michelle Kelly, Director, Executive & Ministerial Services, Financial Management Services, NSW Treasury, requesting an extension deadline for their submission until Monday 17 July 2023
- 11 July 2023 – Email from Emma Wallhead, A/Executive Director, Professional Services, Audit Office, advising that the Audit Office will not be providing a submission to the inquiry into the Debt Retirement Fund as the scope of the inquiry is outside the jurisdiction of the Audit Office
- 12 July 2023 - Email from Paul Smith, Chief Operating Officer, NSW Treasury Corporation (TCorp), advising that TCorp will not be providing a submission to the inquiry into the Debt Retirement Fund
- 14 July 2023 – Email from Heidi Morrisey, Executive Assistant, Coolibah Capital, advising that Mr Christopher Joye is unable to attend the hearing scheduled on 21 July 2023 due to prior commitments
- 17 July 2023 – Email from Paul Smith, Chief Operating Officer, NSW Treasury Corporation (TCorp), advising that TCorp is declining the invitation to attend the hearing scheduled on 21 July 2023.

6. Inquiry into allegations of impropriety against agents of the Canterbury Bankstown Council
The committee noted that during the 57th Parliament, the committee undertook an inquiry into allegations of impropriety against agents of the City of Canterbury Bankstown Council. The report was tabled in February 2023.

The report recommended that it 'refer the influence of property developers in the creation of planning instruments and the positioning of infrastructure in the City of Canterbury Bankstown Council to the Independent Commission Against Corruption, along with this report and committee transcripts of evidence, for investigation.'

The then Chair of this committee, the Hon Aileen MacDonald MLC wrote to the Commission on 28 February 2023, referring the matter.

On 12 July 2023, the Commissioner wrote to Mrs MacDonald, outlining the Commission's decisions.

Resolved, on the motion of Mr Donnelly: That the committee:

- write to members of the committee in the 57th Parliament and attach the Commissioner's letter
- authorise the publication of the Commissioner's letter, with the exception of paragraphs 2 and 8 on page 2 which are to remain confidential, as per the recommendation of the secretariat.

7. Inquiry into the Debt Retirement Fund

7.1 Submissions

The committee noted that submissions nos.1-3 were published by the Committee Clerk under the resolution appointing the committee.

7.2 Questions on notice and supplementary questions

Resolved, on the motion of Mr Donnelly: That for the hearing on 21 July 2023:

- witnesses be provided with a copy of the uncorrected transcript with questions on notice highlighted following receipt of the transcript by the secretariat
- supplementary questions for witnesses are to be lodged with the committee clerk within 24 hours of receipt of the hearing transcript and members have a truncated timeframe for reviewing any supplementary questions
- witnesses be asked to return answers to questions on notice and supplementary questions by Monday 31 July 2023.

7.3 Sequence of questions

Resolved, on the motion of Mr Lawrence: That the sequence of questions to be asked at the hearing is to alternate between opposition, crossbench and government members, in that order, with equal time allocated to each.

7.4 Public hearing

Witnesses, the public and the media were admitted.

The Chair made an opening statement regarding the broadcast of proceedings and other matters.

The following witness was sworn and examined:

- Professor Stephen Bartos, University of Canberra

The evidence concluded and the witness withdrew.

The Hon Daniel Mookhey MLC, Treasurer, was admitted.

The following witness was sworn and examined:

- Ms Marina van der Walt, Deputy Secretary, Financial Management and Services, NSW Treasury.

The evidence concluded and the witnesses withdrew.

8. Adjournment

The committee adjourned at 3.08 pm until Wednesday 26 July 2023 (site visit – inquiry into the feasibility of undergrounding the transmission infrastructure for renewable energy projects).

Frances Arguelles
Committee Clerk

Minutes no. 6
Wednesday 26 July 2023
Standing Committee on State Development
Execujet Terminal, 394 Ross Smith Ave, Mascot at 6.00 am

1. Members present
Ms Suvaal, *Chair*
Mr Donnelly (from 12.47 pm, substituting for Mr Primrose via Webex)
Ms Susan Carter (from 1.00 pm until 5.16 pm, substituting for Mr Martin via Webex)
Ms Faehrmann
Mr Fang (from 8.30 am)
Ms Hurst (via Webex from 12.47 pm to 12.59 pm)
Dr Kaine (from 12.47 pm, substituting for Mr Buttigieg via Webex)
Mr Lawrence
Mr Tudehope (via Webex from 12.47 pm to 12.59 pm, substituting for Mr Martin for the duration of the inquiry into the Debt Retirement Fund)

2. Previous minutes
Resolved, on the motion of Mr Fang: That draft minutes no. 5 be confirmed.

3. Correspondence
The committee noted the following items of correspondence:

Received
- 24 July 2023 – Email from Mr Ted Woodley, Executive Committee, National Parks Association of NSW to committee, attaching responses to evidence given by Transgrid
- 24 July 2023 – Email from Mr William Jennings, Research Officer, Office of Dr Joe McGirr MP, Member for Wagga Wagga, advising of attendance of community members at site visits on Wednesday 26 July 2023
- 24 July 2023 – Email from Ms Lisa Williams, Senior Electorate Officer, Northern Tablelands Electorate, declining invitation to attend the public hearing on Thursday 27 July on behalf of Mr Adam Marshall MP
- 24 July 2023 – Email from Ms Julie Rogers, Director Planning & Environment, Yass Valley Council, declining invitation to attend the public hearing on Wednesday 26 July 2023
- 25 July 2023 – Email from Dianne James, Upper Lachlan Shire Council, to secretariat, declining invitation to attend the public hearing on Wednesday 26 July 2023.

4. Inquiry into the feasibility of undergrounding the transmission infrastructure for renewable energy projects

4.1 Tumut site visit
Resolved, on the motion of Mr Fang: That the committee authorise Dr Joe McGirr MP, Member for Wagga Wagga and any other relevant persons to accompany the committee on the bus to the properties of Mr Peter Lawson and Ms Pippa Quilty.

The committee visited agricultural properties in Book Book and Darlow led by Dr Joe McGirr and Mr William Jennings.

The committee met with the following stakeholders on the site visits:

- Peter Lawson
- Malcolm, Craig and Kerrie Plum
- Jim Morgan
- Leanne Rogers
- Lachlan Brown

- Mark Lucas
- Paul and Robin Quilty
- Ian and Donna Robson
- David Whiteman
- Rebecca Tobin
- Andrew MacDougall
- Jess Reynolds
- Andrea Strong.

5. Inquiry into the Debt Retirement Fund

Mr Tudehope joined the meeting.

Ms Hurst joined the meeting.

5.1 Supplementary questions to NSW Treasury

Mr Fang moved: That the following supplementary questions be sent to NSW Treasury:

1. Does TCorp issue bonds?
2. What impact would a reduction of gross debt have on the value of TCorp-issued bonds?
3. How would holders of TCorp-issued bonds benefit from a change in the value of those bonds?
4. Mr Christopher Joye proposes in his submission to this inquiry that besides using all the funds in the DRF for "aggressive debt reduction", "There is more than $10 billion in other special TCorp investment funds that" Treasury "could also use to help cauterise the state's fiscal crisis". Which funds could Joye to be referring to?
5. Is Treasury considering using monies from the NSW Infrastructure Future Fund, the Social and Affordable Housing Future Fund or any other "special TCorp investment funds" for "aggressive debt reduction?
6. Treasury submission, Attachment B Relevant Credit Opinions and Research Reports, Item 2, is the latest commentary from S&P, dated 27 March 2023. It mentions just one risk to the AA+ credit rating – the risk from "higher overall spending on public sector wages" calling into question "the quality of the state's financial management". What steps is Treasury taking to avoid this risk to our credit rating?
7. In Treasury's submission, it identifies three metrics to consider for further contributions to the DRF - Net Lending/Borrowing, Budget Result or Net Cash Operating Balance. Which of these three metrics does Treasury recommend the Government adopt?
8. Is there a registry of bond-holders for all TCorp-issued bonds?
9. Where can this registry be found?
10. Does Coolabah Capital Investments own or invest in TCorp-issued bonds?
11. Has Treasury been directed or requested to prepare any briefing notes or memos Treasury that includes references to changes to the NSW Generations Fund Act 2018 or any other legislation that would affect the Debt Retirement Fund?
12. Is any work underway within Treasury that would involve changes to the NSW Generations Fund Act 2018 or any other legislation that would affect the Debt Retirement Fund?
13. Please provide a list of all payments into the Debt Retirement Fund and out of the Debt Retirement Fund by date, specifying the nature of each payment.
14. Who can authorise a payment into the Debt Retirement Fund and under what circumstances?
15. When did NSW Treasury ask EY Port Jackson Partners to advise on a possible framework to guide when additional contributions should be made to the NSW Generations Fund? Please provide all correspondence between NSW Treasury and EY Port Jackson Partners relating to this report.

Mr Lawrence moved: That Mr Fang's motion be amended by omitting questions 1 to 6, 8, 9 and 15.

Amendment of Mr Lawrence put.

The committee divided.

Ayes: Mr Donnelly, Ms Faehrmann, Dr Kaine, Mr Lawrence, Ms Suvaal.

Noes: Mr Fang, Ms Hurst, Mr Tudehope.

Amendment of Mr Lawrence resolved in the affirmative.

Original question of Mr Fang as amended put and passed.

Mr Tudehope left the meeting.

Ms Hurst left the meeting.

6. Inquiry into the feasibility of undergrounding the transmission infrastructure for renewable energy projects

6.1 Timeframe for answers to questions on notice and supplementary questions
Resolved, on the motion of Mr Fang: That:

- members provide any supplementary questions to the secretariat within 24 hours of receiving the transcript of evidence
- witnesses be required to provide answers to questions on notice/supplementary questions within 7 days.

6.2 Format of public forum
Resolved, on the motion of Ms Faehrmann: That each public forum speaker be allocated three minutes to address the committee, with a bell to sound at the conclusion of three minutes.

6.3 Public hearing

Sequence of questions
Resolved, on the motion of Mr Fang: That the sequence of questions to be asked at the hearings on 26 and 27 July 2023 are to alternate between opposition, crossbench and government members, in that order, with equal time allocated to each.

Witnesses, the public and the media were admitted.

The Chair made an opening statement regarding the broadcasting of proceedings and other matters.

The following witnesses were sworn and examined:

- Cr Julia Ham, Snowy Valleys Council
- Cr Ian Chaffey, Mayor, Snowy Valleys Council
- Cr James Hayes, Snowy Valleys Council
- Mr Peter Thompson, General Manager, Wagga Wagga City Council
- Mr Darryl Woods, Executive Manager, Major Projects, Wagga Wagga City Council.

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Les Brand, Director and Principal Consultant, Amplitude Consultants
- Mr Kenneth Barber, Director, Istana Park Pty Ltd
- Prof. Simon Bartlett AM, Independent expert.

The evidence concluded and the witnesses withdrew.

The hearing concluded at 3.20 pm to allow for a public forum.

6.4 Public forum
The Chair made an opening statement regarding the broadcasting of proceedings, guidelines for the public forum and other matters.

The following participants addressed the committee:

- Peter Brunskill
- Philip Clements
- Brad Dumbrel
- Louise Suzanne Freckelton
- Barney Hyams
- Anne Hallard
- Bill Kingwill
- Renate Lunardello
- Rachael Purcell
- Berlinde Rand
- Jessie Reynolds
- Andrea Strong
- Paul Sturgess
- Rebecca Tobin
- Chris Piper
- Peter Barratt
- Michael Kingwill
- Dave Purcell
- Jim Morgan
- Kenneth Barber

The evidence concluded and the participants withdrew.

6.5 Public hearing resumed

The public hearing resumed at 5.10 pm.

The Chair noted that Members of Parliament swear an oath to their office, and therefore do not need to be sworn prior to giving evidence before a committee.

Dr Joseph (Joe) McGirr MP, Member for Wagga Wagga was admitted and examined.

The evidence concluded and the witness withdrew.

The public hearing concluded at 5.37 pm.

Tendered documents

Resolved, on the motion of Mr Fang:

- That the committee accept and publish the submission from Mr Mark Lucas, tendered during the site visit in Book Book
- That the Chair table in the House the petition tendered by Mr William (Bill) Kingwill during the public forum, subject to advice from the Clerk.

6.6 Public submissions

The committee noted that submission nos. 5, 16a, 69a, 109, 111-116, 118-119, 121, 123-130, 133-134, 139, 143, 145-153, 157, 161, 163-165, 167-172, 176, 178-179, 192-193, 198-200, 202-203, 205-208, 212-216, 218-219, 223-224, 226, 230-232, 233 and 235-236 were published by the Committee Clerk under the resolution appointing the committee.

6.7 Partially confidential submissions

Resolved, on the motion of Mr Fang: That the committee keep the following information confidential, as per the request of the author: names and/or identifying and sensitive information in submissions nos. 105, 120, 122, 131-132 135-138, 140-142, 144, 155-156, 158-160, 162, 166, 173-175, 177, 191, 194, 196, 201, 204, 209-211, 217, 220-222, 225, 227-228 and 237.

6.8 Additional witness for Armidale hearing

Resolved, on the motion of Mr Lawrence: That the committee invite representatives from Uarbry Tongy Lane Alliance to give evidence at the public hearing in Armidale on 27 July 2023.

6.9 Adjournment
The committee adjourned at 5.46 pm, until 6.30 am, Thursday 27 July 2023 (regional public hearing – Armidale).

Stephen Fujiwara
Committee Clerk

Minutes no. 8

Monday 7 August 2023
Standing Committee on State Development
Macquarie Room, Parliament House, Sydney at 1.50 pm

1. Members present
Ms Suvaal, *Chair*
Mr Buttigieg
Ms Faehrmann (until 4.58 pm)
Mr Fang (via Webex until 4.58 pm)
Ms Hurst
Mr Lawrence
Mr Martin (until 3.15 pm)
Mr Primrose

2. Apologies

3. Previous minutes
Resolved, on the motion of Mr Lawrence: That draft minutes nos. 6 and 7 be confirmed.

4. Correspondence
The committee noted the following items of correspondence:

Received

- 26 July 2023 - Email from Mr Michael Katz, Stop, Rethink Humelink, to the secretariat, providing a supplementary submission
- 26 July 2023 - Email from Ms Maheshini (Mesh) Weerackoon, GM Networks Regulation & Connections, Iberdrola Australia Networks, to the secretariat, requesting the committee publish attachment to the Iberdrola Australia Networks submission (submission number 113)
- 26 July 2023 - Emails from Ms Pippa Quilty, to the secretariat, providing photographs of transmission infrastructure and annotations regarding impacts
- 31 July 2023 - Email from Cr James Hayes OAM, Councillor, Snowy Valleys Council, to the secretariat, providing photos of a fire caused by 132 kv transmission lines he attended at Gilmore, near Visy Pulp and Paper, on 4 January 2018
- 2 August 2023 – Email from Ms Rhiannon Heath, Policy Advisor – Environment, NSW Farmers, to the secretariat, requesting to appear before the committee at the next hearing date in Sydney
- 4 August 2023 – Email from Mr Douglas Rand, to the committee, providing a supplementary submission
- 4 August 2023 – Email from Mr Ted Woodley, to the secretariat, providing a short document entitled 'Further issues for the NSW Legislative Council inquiry', and inquiring about the publication of his prior correspondence
- 5 August 2023 – Email from Hannah Gustavson, Project Manager, Stride Renewables, requesting permission for Allthread industries to make a late submission to the inquiry.

Resolved, on the motion of Ms Faehrmann: That the committee authorise the publication of:

- supplementary submission from Mr Michael Katz, Stop Rethink Humelink, dated 26 July 2023
- attachment to submission 113 from Iberdrola Australia Networks, as per request of the author, dated 26 July 2023
- supplementary submission from Mr Douglas Rand, dated 4 August 2023
- documents provided by Mr Ted Woodley on 3 August and 24 July 2023.

5. Inquiry into the feasibility of undergrounding the transmission infrastructure for renewable energy projects

5.1 Public submissions

The committee noted that the following submissions were published by the committee clerk under the authorisation of the resolution appointing the committee: submission nos. 36, 69b, 106a, 111a, 154, 180, 181, 184, 185, 187, 188, 190, 197, 229, 238, 242, 243, 244, 245, 248, 249, 250, 251, 253, 256, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 269a, 270, 271, 272, 273, 275, 279, 280 and 281.

5.2 Partially confidential submissions

Resolved, on the motion of Mr Lawrence: That the committee keep the following information confidential, as per the request of the author: names and/or identifying and sensitive information in submissions nos. 104, 182, 183, 186, 189, 241, 246, 247, 252, 255, 257, 277.

5.3 Confidential submissions

Resolved, on the motion of Mr Buttigieg: That the committee keep submission 234 confidential, as per the recommendation of the secretariat, as it contains potential adverse mention.

Resolved, on the motion of Mr Lawrence: That the committee keep submission nos. 110, 195, 274, 276, 278 confidential, as per the request of the author.

5.4 Documents tendered during public forum – Tumut – 26 July 2023

Resolved, on the motion of Mr Primrose: That the committee accept and not publish the document tendered by Ms Renate Lunardello during the public forum held on 26 July 2023 in Tumut, as per the recommendation of the secretariat, as it is not a public document and was not provided in full.

5.5 Answers to questions on notice and supplementary questions – responses received

The committee noted that the following answers to questions on notice and supplementary questions were published by the committee clerk under the authorisation of the resolution appointing the committee:

- Office of the Australian Energy Infrastructure Commissioner (AEIC), received on 28 July 2023
- Transgrid, received on 28 July 2023
- Australian Energy Regulator (AER), received on 1 August 2023
- Mr Michael Katz, Stop Rethink Humelink, received on 3 August 2023
- Ms Andrea Strong, Stop, Rethink HumeLink, received on 4 August 2023.

5.6 Answers to questions on notice and supplementary questions - time frame for further responses

The committee noted that due to the short timeframe between the return of the transcripts and drafting the report for the deliberative, it may be unlikely for any written responses received in relation to questions on notice/supplementary questions to be included in the final report.

Resolved, on the motion of Ms Hurst: That:

- members provide any supplementary questions to the secretariat within 24 hours of receiving the transcript of evidence
- witnesses be required to provide answers to questions on notice/supplementary questions within 3 days.

5.7 Hearing date

The committee noted that it previously agreed via email to bring forward the date of the hearing proposed for Tuesday 8 August 2023 to Monday 7 August 2023, with Transgrid invited as a witness.

5.8 Additional witnesses

The committee noted that it previously agreed via email to invite the Australian Energy Regulator to appear to give evidence at a public hearing on Monday 7 August 2023.

5.9 Scheduling of report deliberative

The committee noted that it previously resolved to hold a deliberative meeting to consider the Chair's draft report on Monday 28 August 2023.

Resolved, on the motion of Ms Faehrmann: That the committee conduct a report deliberative at 10.00 am on Monday 28 August 2023, to consider the Chair's draft report for the inquiry into the feasibility of undergrounding the transmission infrastructure for renewable energy projects.

5.10 Public hearing

Sequence of questions

Resolved, on the motion of Ms Faehrmann: That the sequence of questions to be asked at the hearing on 7 August 2023 are to alternate between opposition, crossbench and government members, in that order, with equal time allocated to each.

Witnesses, the public and the media were admitted.

The Chair made an opening statement regarding the broadcasting of proceedings and other matters.

The following witnesses were examined on their former oath:

- Ms Marie Jordan, Executive General Manager – Network, Transgrid
- Mr Jeremy Roberts, Major Project Delivery Director, Transgrid

Ms Jordan tendered the following documents:

- National Grid UK 400kV double circuit (DCCT) pictorial example
- Photo – Nordlink cable feeder
- Photo – Suedlink excavation cable trench for the 525kV DCCT DC
- Photo – Nordlink excavation cable trench for the 525kV single circuit (SCCT) DC
- Photo – Suedlink excavation

Mr Martin left the meeting.

The evidence concluded and the witnesses withdrew.

The following witness was examined on his former oath:

- Mr Jim Cox, Deputy Chair, Australian Energy Regulator

The evidence concluded and the witness withdrew.

The public hearing concluded at 4.58 pm. The public and the media withdrew.

Mr Fang and Ms Faehrmann left the meeting.

Tendered documents

Resolved, on the motion of Mr Buttigieg: That the committee accept and publish the following documents tendered during the public hearing, subject to the secretariat confirming with Transgrid that they have no objections to them being published:

- National Grid UK 400kV double circuit (DCCT) pictorial example
- Photo – Nordlink cable feeder
- Photo – Suedlink excavation cable trench for the 525kV DCCT DC
- Photo – Nordlink excavation cable trench for the 525kV single circuit (SCCT) DC
- Photo – Suedlink excavation

6. Inquiry into the Debt Retirement Fund

6.1 Scheduling of report deliberative
The committee noted that it previously resolved to hold a deliberative meeting to consider the Chair's draft report on Tuesday 15 August 2023.

Resolved, on the motion of Ms Hurst: That the committee conduct a report deliberative at 11.00 am on Tuesday 15 August 2023, to consider the Chair's draft report for the inquiry into the Debt Retirement Fund.

7. Adjournment
The committee adjourned at 5.03 pm until 11.00 am, Tuesday 15 August 2023 (report deliberative - inquiry into the Debt Retirement Fund).

Arizona Hart
Committee Clerk

Draft minutes no. 9
Wednesday 15 August 2023
Standing Committee on State Development
Room 1043, Parliament House, Sydney, 11.02 am

1. Members present
Ms Suvaal, *Chair*
Ms Boyd, *Acting Deputy Chair*
Mr Buttigieg
Ms Hurst
Mr Lawrence (via videoconference)
Mr Primrose
Mr Rath (substituting for Mr Fang)
Mr Tudehope

2. Previous minutes
Resolved, on the motion of Mr Buttigieg: That draft minutes no. 8 be confirmed.

3. Correspondence
The committee noted the following item of correspondence:

Received
- 27 July 2023 – Emails from Michelle Kelly, Director, Executive & Ministerial Services, Financial Management and Services, NSW Treasury, requesting an extension until 2 August 2023 for NSW Treasury to provide their answers to supplementary questions.

4. Inquiry into the feasibility of undergrounding the transmission infrastructure for renewable energy projects

Further hearing - Deniliquin, Wednesday 16 August 2023

4.1 Resolved, on the motion of Ms Hurst: That the committee:
- conduct a further hearing and public forum in Deniliquin on Wednesday 16 August 2023,
- travel by charter flight to and from Deniliquin on Wednesday 16 August 2023, due to the absence of direct commercial flights,
- invite the following witnesses to appear and give evidence:
    - Edward River Council and Murray River Council
    - Member for Murray, Ms Helen Dalton MP

  - o Submission authors 282-296 (residents of the Murray electorate who provided a submission via Ms Dalton's office).

4.2 Sub-committee

Resolved, on the motion of Ms Hurst: That the committee:

- appoint a sub-committee for the purposes of travelling to Deniliquin to conduct a public hearing and public forum on Wednesday 16 August 2023
- appoint Ms Suvaal, Ms Faehrmann, Mr Martin and Mr Fang as members of the sub-committee
- note that Mrs Carter will substitute for Mr Martin as a member of the sub-committee
- appoint Ms Suvaal to act as Chair of the sub-committee.

5. Inquiry into the Debt Retirement Fund

5.1 Attachments to submission no. 2

Resolved, on the motion of Mr Primrose: That the committee authorise the publication of attachments A and B to submission no. 2.

5.2 Answers to questions on notice and supplementary questions

The committee noted that the following answers to questions on notice and supplementary questions were published by the committee clerk under the authorisation of the resolution appointing the committee:

- answers to questions on notice, Professor Stephen Bartos, received Monday 31 July 2023
- answers to questions on notice, NSW Treasurer, received Monday 31 July 2023
- answers to questions on notice, NSW Treasury, received Monday 31 July 2023
- answers to supplementary questions, NSW Treasury, received Wednesday 2 August 2023.

5.3 Consideration of Chair's draft report

The Chair submitted her draft report entitled Debt Retirement Fund, which, having been previously circulated, was taken as being read.

Chapter 1

Resolved, on the motion of Mr Tudehope: That the following sentence be inserted at the end of paragraph 1.23:

'According to NSW Treasury, the state previously used the DRF to repay debt in 2021-22 and 2022-23 using the sale proceeds of the state's 49 per cent share in WestConnex, repaying $11 billion of debt over time [FOOTNOTE: Submission 2, NSW Treasury, p 7].'

Chapter 2

Resolved, on the motion of Mr Tudehope: That:

- the following new paragraph be inserted after paragraph 2.2:

  'In October 2021, the Government announced it would temporarily suspend certain contributions to the DRF pending a review due to the COVID-19 pandemic and economic recovery imperative.' [FOOTNOTE: NSW Treasury, NSW Generations Fund: 2021-22 Factsheet, December 2022]. The advice sought by NSW Treasury from EY Port Jackson Partners forms part of this review announced by the former Government.' [FOOTNOTE: Submission 2, NSW Treasury, Attachment A, 'NSW Generations Fund Contributions Framework' by EY Port Jackson Partners, 23 March 2023, p 10.]'

- paragraph 2.49 be amended by omitting 'Budget.' and inserting 'Budget, informed by the outcome of the review announced in October 2021'.

Resolved, on the motion of Mr Tudehope: That:

- paragraph 2.48 be amended by omitting 'fund in its current policy settings' and inserting instead 'the current policy settings of the fund'.
- Finding 1 be amended by omitting 'Debt Retirement Fund in its current policy setting is' and inserting instead 'current policy settings of the Debt Retirement Fund'.

Chapter 3

Resolved, on the motion of Mr Tudehope: That the following new paragraph be inserted after paragraph 3.24:

> 'While not clearly presented in the budget paper, all inflows into the DRF were reported in the NSW Generations Fund annual reports for 2018-19, 2019-20, 2020-21 and the NSW Treasury Annual Report 2021-22' [FOOTNOTE: All annual reports are available at: NSW Treasury, Documents Library, (February 2022), https://www.treasury.nsw.gov.au/index.php/documents-resources/documents-library]

Resolved, on the motion of Mr Tudehope: That Recommendation 2 be amended by omitting 'more accurately and clearly in future budget results' and inserting instead 'more clearly and specifically in future budget papers,'.

Resolved, on the motion of Ms Boyd: That the following new recommendation be inserted after paragraph 3.27:

> **'Recommendation X**
>
> That the NSW Government adopt an approach to managing the Debt Retirement Fund that incorporates the needs of the state more broadly.'

Resolved, on the motion of Mr Primrose: That:

(1) the draft report as amended be the report of the committee and that the committee present the report to the House
(2) the transcripts of evidence, submissions, tabled documents, answers to questions on notice, and correspondence relating to the inquiry be tabled in the House with the report
(3) upon tabling, all unpublished attachments to submissions be kept confidential by the committee
(4) upon tabling, all unpublished transcripts of evidence, submissions, tabled documents, answers to questions on notice, and correspondence relating to the inquiry, be published by the committee, except for those documents kept confidential by resolution of the committee
(5) the committee secretariat correct any typographical, grammatical and formatting errors prior to tabling
(6) the committee secretariat be authorised to update any committee comments where necessary to reflect changes to recommendations or new recommendations resolved by the committee
(7) the report be tabled with the Clerk on Friday 18 August 2023.

6. Adjournment

The committee adjourned at 11.49 am until 6.45 am, Wednesday 16 August 2023, Execujet Terminal, 394 Ross Smith Ave, Mascot (visit to Deniliquin for the inquiry feasibility of undergrounding the transmission infrastructure for renewable energy projects).

Frances Arguelles
Committee Clerk