

GENERAL PURPOSE STANDING COMMITTEE No. 1

Tuesday 14 October 2008

Examination of proposed expenditure for the portfolio area

TREASURY

The Committee met at 9.15 a.m.

MEMBERS

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

The Hon. K. F. Griffin
Dr J. Kaye
The Hon. M. R. Mason-Cox

The Hon. G. Pearce
The Hon. P. G. Sharpe
The Hon. E. Obeid

PRESENT

The Hon. E. M. Roozendaal, *Treasurer*

Treasury
Mr J. Pierce, *Secretary*

Office of State Revenue
Mr A. Newbury, *Executive Director*

CORRECTIONS TO TRANSCRIPT OF COMMITTEE PROCEEDINGS

Corrections should be marked on a photocopy of the proof and forwarded to:

**Budget Estimates secretariat
Room 812
Parliament House
Macquarie Street
SYDNEY NSW 2000**

CHAIR: I declare the hearing for the inquiry into the budget estimates for 2008-2009 open to the public. I welcome the Treasurer, Eric Roozendaal, Mr John Pierce and Mr Tony Newbury to this hearing. Today the Committee will examine the proposed expenditure for the Treasury portfolio. Before we commence I would like to follow up two matters raised at the conclusion of last Thursday's hearing during which Mr Pierce gave evidence to the Committee as part of the inquiry into the need for a mini-budget. Mr Pierce, I first requested that you provide the Committee with a typed version of your opening statement and you undertook to do so.

Mr PIERCE: Yes, Mr Chairman. I have had it typed and cross-checked against the draft of *Hansard* that we have. I just need to proof read it and will get it to the Committee this afternoon.

CHAIR: Thank you. Second, I requested that you advise us of the date of an undated interest-rate calculation, a briefing note, of the former Treasurer. Dr Kaye later requested that you provide the Committee with a copy of that briefing note and you undertook to consider whether to provide that briefing note. Do you have those documents with you?

Mr PIERCE: I am advised that the Crown Solicitor has advised that the Committee does not have the power to order the production of documents. If necessary, that should be dealt with by the whole House under Standing Order 52. If the Committee wishes to progress this request, I ask that the Committee refer the matter to the House.

Dr JOHN KAYE: Does that include telling us what the date was of the supposedly undated memo?

Mr PIERCE: Yes.

The Hon. GREG PEARCE: That is answering our question. You were asked the question what was the date of the member. So, you are saying that the advice is you do not have to answer?

Mr PIERCE: Yes.

CHAIR: We cannot start questioning because we have not yet sworn the witness. We were just clarifying those two matters. You will have to defer that until the hearing commences. But that is the answer, the document will have to be requested by the House, and it will obviously have the date on it. In accordance with the Legislative Council guidelines for the broadcast of proceedings only committee members or witnesses may be filmed or recorded. People in the public gallery should not be the primary focus of any filming or photos. In reporting the proceedings of this Committee you must take responsibility for what you publish or what interpretation you place on anything that is said before the Committee. The guidelines for the broadcast of the proceedings are available on the table by the door.

Any messages from attendees in the public gallery should be delivered through the Chamber and support staff or committee clerks. Minister, I remind you and the officers accompanying you that they are free to pass notes and refer directly to your advisers while at the table. I remind everyone to please turn off their mobile phones.

The Committee has agreed to the following format for the hearing. There will be 20-minute questioning by Opposition members, 20 minutes by the crossbench and 20 minutes by the Government members. There will be a mid-hearing break at 10.30. The House has also resolved that answers to questions on notice must be provided within 21 days. Transcripts of this hearing will be available on the website from tomorrow morning. All witnesses from departments, statutory bodies or corporations will be sworn prior to giving evidence. Minister, I remind you that you do not need to be sworn as you have already sworn an oath to your office as a member of Parliament.

JOHN ERIC PIERCE, Secretary, NSW Treasury, and

ANTHONY JOHN NEWBURY, Executive Director, Office of State Revenue, NSW Treasury, sworn and examined:

CHAIR: I declare the proposed expenditure for the Treasury portfolio open for examination. As there is no provision for a Minister to make an opening statement to the Committee, we will commence with

questions. That was the motion passed by the Legislative Council, unless the Minister wishes to table an opening statement or make a brief comment?

The Hon. ERIC ROOZENDAAL: I would like to make a brief opening statement.

CHAIR: If it is only brief.

The Hon. GREG PEARCE: How brief?

The Hon. ERIC ROOZENDAAL: I am sure the Government members would not mind my taking up their time.

The Hon. GREG PEARCE: So be it.

CHAIR: All right, then.

The Hon. ERIC ROOZENDAAL: Thank you, chair. Let me be quite clear from the start: New South Wales is facing challenging times. As I am sure Committee members are aware, the ratings agency Standard and Poor's has placed New South Wales on negative outlook in relation to our triple-A credit rating. It is worth noting that this is not the same as credit watch, which is a more severe action, but it is nevertheless serious. This means there is a one in three chance that New South Wales's triple-A credit rating could be downgraded. In a global economic environment, where securing credit at all is becoming a challenge, a credit rating downgrade would severely impact on the State. It would do so in three ways: the cost of obtaining credit; competition with other States; and business confidence.

If we do not act now to protect the triple-A rating the cost of government borrowing could rise in the order of 20 to 25 basis points initially, leading to extra interest expenses of over \$100 million per annum by the end of the current forward estimates in 2011-12. That \$100 million is the equivalent of 220 buses, 1,000 additional classroom teachers or 30 new air-conditioned train carriages. We will do everything in our power to ensure future generations do not have to face that burden. The Government is not prepared to damage New South Wales with such a dent to business confidence—unlike the Opposition's deputy leader, who stated recently that the Opposition did not really care if the State lost its triple-A credit rating. They were grossly irresponsible comments for the deputy leader of the alternative government in this State to make, especially during times of economic instability.

We are seeing unprecedented events on the global financial stage, where the economic stability of major institutions is being rocked in ways not seen in more than 70 years. Credit around the world has tightened as institutions become more cautious and suspicious. Mr Chair, I understand last week a lot of time was taken up on Thursday with the Committee debating the effect of losing the triple-A credit rating, but I think it is important that several key points need to be reinforced at the outset here today. The downgrading from triple-A would discourage business investment and have an impact on the plans of individual businesses intending to invest here.

In an economic environment experiencing a flight of capital, New South Wales cannot afford a lower credit rating than Victoria, Queensland and Western Australia. If New South Wales were to lose the triple-A credit rating, interest costs would rise. As I said earlier, it is estimated that interest rates would rise by 20 to 25 basis points for a one-notch downgrade to the rating and then there is the risk of further downgrades. As I have said, this would lead to an increase in interest payments and the costs could accumulate to more than \$500 million over time.

The Government remains committed to the fiscal strategy and retaining a triple-A credit rating. The reason that Standard and Poor's is considering a downgrade was triggered by the Coalition's irresponsible political decision to block electricity reform. Weak property prices, but more importantly, fewer property transactions, mean government revenue from property transfer duties was down \$90 million below forecasts in July, \$103 million below forecasts in August and \$77 million below forecast in September. If it continues in this manner, revenue from transfer duties could be below budget by as much as \$1 billion by the end of the financial year.

It is important to note property transfer duties make up 20 per cent of the Government's tax base, meaning a serious shortfall of revenue in this area will heavily impact on the budget. In addition to this, as

families tighten their belts, there is a risk of a fall in our GST revenue. Infrastructure investment is essential to the functioning of the State, but it must also be affordable.

New South Wales is not immune to global economic conditions and it is clear that times have changed since the budget in June. If this is not addressed these trends will compound on the balance sheet in the future. These are the reasons why the New South Wales Government will be handing down a mini-budget on 11 November. Thank you for your time. I am happy to take questions.

The Hon. GREG PEARCE: Just for the record, what is the State's credit rating as at today?

The Hon. ERIC ROOZENDAAL: The State's credit rating as at today is triple-A, with a negative outlook from Standard and Poor's.

The Hon. GREG PEARCE: It is triple-A, so the risk is that on your watch, if you do not manage the budget properly, there is a risk of a downgrade?

The Hon. ERIC ROOZENDAAL: Standard and Poor's have made it clear that by placing us on negative outlook there is a one in three chance that we may be downgraded. That is why it is imperative that we bring down the mini-budget and address the issues that have been raised by Standard and Poor's. There are a number of issues that they have raised, but we should be clear at the outset that the trigger was the decision by the Coalition, the Opposition in this State, to refuse to support electricity reform, and as was forecast in the budget, forewarned in the budget and forewarned by the rating agency in previous communications, that if we were not successful on electricity reform, we would have to look at reprioritising the capital expenditure program to accommodate the challenges of financing electricity in the future.

The Hon. GREG PEARCE: You went to visit Standard and Poor's in Melbourne. What exactly did they tell you has to be done to retain the rating?

The Hon. ERIC ROOZENDAAL: The way the agencies work is they do not exactly tell you what has to be done; they paint out the parameters of what they would like to see done. They have made it clear that they believe that there needs to be a reprioritisation of our capital expenditure program moving forward. They look beyond the forward estimates program to see what is further in the future and they take that into account when looking at the challenges that the capital expenditure program presents. On top of that, they also look at revenues and expenditures. They want to be confident that we will maintain a balance between revenues and expenditures. They look at our wages policy. They also look at the change of Premier and Treasurer to see if we can enforce the previous discipline that the previous Premier and Treasurer had. They look at all those issues. They look at whether we have the ability, moving forward, to manage the challenges, particularly managing net financial liabilities. That is one of the measures they look at—net financial liabilities as a ratio to revenues. That is one of the measures they look at more closely because that is a whole-of-government approach—of course, the budget only deals with the general government sector—and they take that into account as part of their process.

The Hon. GREG PEARCE: So they did not actually say to you that they wanted a mini-budget?

The Hon. ERIC ROOZENDAAL: They certainly acknowledged, I think in their latest publication, that they see the mini-budget as the first step in addressing the challenges of protecting the triple-A. I think they were quite explicit, from memory—I am sure you have got the document there; I can find it for you—when they said that the first step in addressing the challenges was the mini-budget. The second step—

The Hon. GREG PEARCE: No, they actually said the first step was reformulating and they thought that might happen in the mini-budget.

The Hon. ERIC ROOZENDAAL: Mr Chair, I am in the process of answering a question. I am happy to answer it, but I am not going to debate it.

CHAIR: Let the Minister continue his answer.

The Hon. ERIC ROOZENDAAL: The first step was, of course, announcing the mini-budget and delivering the mini-budget. The second step is implementation of the mini-budget and they would wait to see how we implement the mini-budget to be confident that we can maintain the triple-A.

The Hon. GREG PEARCE: Well, just to—

The Hon. ERIC ROOZENDAAL: Is this a question or a statement? I do not want to waste your time.

The Hon. GREG PEARCE: Just to clarify it, as you said, I do have the ratings document here, which actually says, "the Government formulating and communicating a plan that adequately addresses the identified risks" is the first step. You mentioned reprioritising capital expenditure. What exactly does that mean?

The Hon. ERIC ROOZENDAAL: I just want to check what you just said.

The Hon. GREG PEARCE: It is on page three, the second last dot point.

The Hon. ERIC ROOZENDAAL: I just think at the outset, Mr Chair—

The Hon. GREG PEARCE: Have you managed to check that it is correct?

The Hon. ERIC ROOZENDAAL: I have actually got it right here.

The Hon. GREG PEARCE: It is correct, is it not?

The Hon. ERIC ROOZENDAAL: If we are going to go through this process today there should be honest questions.

CHAIR: Let the Treasurer finish his answer.

The Hon. ERIC ROOZENDAAL: The honourable member may have a reading issue. It said, "... the Government formulating and communicating a plan that adequately addresses the identified risks. This is likely to happen in the mini-budget." So it is explicitly stated there by the agency. That is the first step in the process. The second step is the implementation of the mini-budget process.

The Hon. GREG PEARCE: What exactly does re-prioritising the capital budget expenditure mean?

The Hon. ERIC ROOZENDAAL: It means looking at our capital expenditure program and having a look at what is in there and reprioritising parts of it.

The Hon. GREG PEARCE: What does that mean?

The Hon. ERIC ROOZENDAAL: It means adjusting programs, perhaps moving infrastructure plans forward. It may mean delaying things; it may mean cancelling things. It could be any of those.

The Hon. GREG PEARCE: Earlier you said that Standard and Poor's looked beyond the current estimates period.

The Hon. ERIC ROOZENDAAL: Yes.

The Hon. GREG PEARCE: Did Standard and Poor's indicate that they wanted reprioritisation of capital expenditure within the current estimates period?

The Hon. ERIC ROOZENDAAL: They look at the capital expenditure program going forward. They look at the forward estimates beyond, because they are also aware of a number of projects that are mooted that do not appear at the moment but that may well appear in there. So they expect us to put forward a capital expenditure program going forward that manages their concerns and is affordable by the State.

The Hon. GREG PEARCE: Could you answer that question? Is their concern for reprioritising capital expenditure within the current forward estimates period? Yes or no?

The Hon. ERIC ROOZENDAAL: That, and going forward.

The Hon. GREG PEARCE: Yes or no?

The Hon. ERIC ROOZENDAAL: No, Greg. You ask the questions and I will answer them. If I do not give you the answer you like—

The Hon. GREG PEARCE: I am trying to get a clear answer from you.

The Hon. ERIC ROOZENDAAL: Chair, if he wants to answer his own questions, perhaps I should have a break and he can answer his own questions.

The Hon. GREG PEARCE: Did you say yes or no?

The Hon. ERIC ROOZENDAAL: I have answered your question. Move on.

The Hon. GREG PEARCE: You are a bit sensitive about that, Eric.

The Hon. ERIC ROOZENDAAL: No. I am just not going to be bullied by you.

The Hon. GREG PEARCE: You mentioned the second part of the requirements of Standard and Poor's, which is executing the strategy. What did they mean by the need to be satisfied as to your political willingness and ability to execute what was required?

The Hon. ERIC ROOZENDAAL: Obviously they need to be confident that we can manage our expenditure going forward. They want to be confident we can manage our expenditure and keep it in line with revenues, and that we have the political will to make the decisions that need to be made in the process of the mini-budget and going forward, to protect the State's triple-A rating.

The Hon. GREG PEARCE: Is that lack of experience one of the reasons that Messrs Macfarlane and Fraser have been retained—to satisfy Standard and Poor's about your lack of experience and ability?

The Hon. ERIC ROOZENDAAL: We are starting with the cheap points very early in the piece, aren't we? In relation to both Bernie Fraser and Mr Macfarlane, I think at the outset I said in my opening statement we are facing extraordinary financial and economic times right around the world. There is an unprecedented set of circumstances happening right around the world. We have seen institutions that have survived more than a century collapsing; we have seen the bailout of institutions in the United States. In fact, Greg, I remember your suggestion to the Parliament that we should duplicate the United States Government and pump a trillion into our economy. Remember that contribution of yours?

The Hon. GREG PEARCE: No, I do not. That is a lie.

The Hon. ERIC ROOZENDAAL: It is all there in *Hansard* for people to go back and have a look. We have had the United Kingdom also step in and participate and rescue their banks and buy back debt. These are absolutely extraordinary times. Greenspan described it as a once-in-a-century event. When you are facing those sorts of circumstances, I think it is prudent for the State Government to seek out two former Reserve Bank governors, Bernie Fraser and Ian Macfarlane, to seek their advice on the way forward. I believe in extraordinary times you should seek the best advice around, and I think it is quite appropriate that the Government has engaged Mr Fraser and Mr Macfarlane to give us advice on the way through. Frankly, if I thought there were other people that could contribute I would encourage the Premier to put them on board as well. We need as much good advice as we can get, because these are extraordinary times and we have seen governments right around the world struggle with these times and I think it is totally appropriate.

The Hon. MATTHEW MASON-COX: Treasurer, we are all aware that you have been extensively briefed by the Treasury for this hearing. So I thought I might ask you a few basic questions to warm you up. What is the size of the New South Wales economy?

The Hon. ERIC ROOZENDAAL: Well over \$300 billion.

The Hon. MATTHEW MASON-COX: Can you give me a more precise figure?

The Hon. ERIC ROOZENDAAL: I will come back to you with the exact number if you like. Chair, we have a lot of important challenges ahead of us. I am not here to play warm-ups with Mr Mason-Cox. If he

wants to play this game, he can take the budget papers and do his own research. I really think it is a waste of the Committee's time to play this game.

The Hon. MATTHEW MASON-COX: As the Treasurer pointed out earlier, Chair, it is our role to ask the questions and his role to answer them. These are fair questions, and I will continue with them. What was the New South Wales unemployment rate for the year ended September 2008?

The Hon. ERIC ROOZENDAAL: 4.8 per cent.

The Hon. MATTHEW MASON-COX: What was the consumer price index for Sydney for the June quarter 2007 to the June quarter 2008?

The Hon. ERIC ROOZENDAAL: 4.3 per cent for New South Wales. Did you say Sydney or New South Wales?

The Hon. MATTHEW MASON-COX: Sydney.

The Hon. ERIC ROOZENDAAL: I will have to come back to you on Sydney, but it is 4.3 per cent for New South Wales.

The Hon. GREG PEARCE: Does not Mr Pierce have the figure on his piece of paper for you?

The Hon. ERIC ROOZENDAAL: If you want to waste your time asking questions on the public record, then you waste your time. That is exactly what you are doing here.

The Hon. MATTHEW MASON-COX: What was the New South Wales growth rate in the June quarter?

The Hon. ERIC ROOZENDAAL: Minus 0.1 per cent.

The Hon. MATTHEW MASON-COX: How many public servants are employed by the New South Wales public service?

The Hon. ERIC ROOZENDAAL: Matters in relation to public servants fall under the privy of the Premier and Cabinet, and you should refer that question to the Premier.

The Hon. MATTHEW MASON-COX: So you do not know?

The Hon. ERIC ROOZENDAAL: No. Let us be very clear. I have given you an answer. Is anyone in the gallery keeping score of what it is at the moment? I reckon I have knocked everyone back so far. I have not hit a six yet, but we will get there.

CHAIR: Let the Treasurer answer the questions and do not paraphrase the Treasurer's answers.

The Hon. MATTHEW MASON-COX: Treasurer, do you have any economic or commerce qualifications?

The Hon. ERIC ROOZENDAAL: The issue of my qualifications has been canvassed in the House. I refer to my previous answers.

The Hon. MATTHEW MASON-COX: It is a pretty simple question, Treasurer.

The Hon. ERIC ROOZENDAAL: And I have answered it. Do you want to move on?

The Hon. MATTHEW MASON-COX: So the answer is no?

The Hon. ERIC ROOZENDAAL: Chair, if they are going to answer every question they ask, perhaps I and my staff can do could do something a bit more useful—

CHAIR: Do not paraphrase the Treasurer's answers. The Treasurer's answer is the answer.

The Hon. MATTHEW MASON-COX: Do you have any experience running a business?

The Hon. ERIC ROOZENDAAL: I have run organisations, yes.

The Hon. MATTHEW MASON-COX: I asked you whether you have any experience running a business.

The Hon. ERIC ROOZENDAAL: I have answered that.

The Hon. MATTHEW MASON-COX: Do you run the household budget at home?

The Hon. ERIC ROOZENDAAL: As a matter of fact, I do.

The Hon. MATTHEW MASON-COX: Is it not true that your only experience is with numbers in the ALP backroom, with the likes of Joe Tripodi?

The Hon. ERIC ROOZENDAAL: I think we should take this in the context that it is given. Who did you replace in the House when you came in? Was it Patricia Forsythe?

The Hon. MATTHEW MASON-COX: Treasurer, I know this is difficult for you—

The Hon. ERIC ROOZENDAAL: I think this is a very good question for the education of the people in the gallery.

The Hon. MATTHEW MASON-COX: I have asked you a question, Treasurer—

The Hon. ERIC ROOZENDAAL: Okay. You have bowled the ball, and now I am going to hit it. This is the bloke that is best mates with David Clarke, that stepped over the body of Patricia Forsythe to get into the Parliament. And he has the audacity to talk to me about numbers! I do not know whether you are good at numbers or you are just David Clarke's best mate. But that is how have you got to be sitting here. So do not lecture me about that.

The Hon. MATTHEW MASON-COX: It is rich coming from you, Treasurer. Given your complete lack of qualifications for the job, do you really think the New South Wales public can have any confidence in you as Treasurer of the State?

The Hon. ERIC ROOZENDAAL: I do not accept the premise of the question.

The Hon. MATTHEW MASON-COX: Can you outline to me what qualifications you have for the job?

The Hon. ERIC ROOZENDAAL: I have previously referred to my answer on this in the House.

The Hon. MATTHEW MASON-COX: Is it not true that your personal lack of qualifications and your Government's lack of credibility with rating agencies is the real reason why on 24 September the Premier appointed Bernie Fraser and Ian Macfarlane as expert advisers to Cabinet?

The Hon. ERIC ROOZENDAAL: Let us be very clear at about what caused the trigger for Standard and Poor's concern to put us on negative outlook and a one-in-three chance of a downgrade. That was a direct consequence of the Opposition's decision to gamble with the future of the State's economy. You have relinquished any possible claim to improve the fiscal management of this State. You turned your back on your own principles and your own ideological views and on the principles of leaders past and present. In fact, let me quote from what was said on the front page of the *Sydney Morning Herald* on 29 August 2008:

The conservatives who said: New South Wales is closed for business.

If anything was clear, electricity reform was needed. Mark Goodsell from the Australian Industry Group said:

The case of privatisation has been made repeatedly in reports and reviews of the energy sector. Investments in the sector must be made without delay for the benefit of business and the community.

This is the kind of issue that should not be brought down to a political party position. It should be a bipartisan approach to solve such an important issue of State significance. Malcolm Turnbull supported electricity reform in this State but you, the State Coalition, did not. Joe Hockey supported electricity reform in this State but you, the State Coalition, did not. Brendan Nelson supported electricity reform in this State but you, the State Coalition, did not. Jeff Kennett supported electricity reform in this State but you, the State Coalition, did not. Nick Greiner supported it. It goes on and on. Any leader from the conservative side of politics that understood the issues knew the importance of supporting this reform. It was a decision by you and by you in the Coalition. No wonder Mike Baird—

The Hon. MATTHEW MASON-COX: Point of order.

The Hon. ERIC ROOZENDAAL: No, you asked the question—

The Hon. MATTHEW MASON-COX: The Treasurer is simply not answering the question I put to him. He is off on some misleading diatribe about electricity privatisation. I would ask the Chair to bring him back to the question. It was specifically about the Government's lack of credibility and the appointment of two ex-Governors of the Reserve Bank—

The Hon. ERIC ROOZENDAAL: In fact, Chair, I wish to check with *Hansard* but he was asking what triggered Standard and Poor's putting us on negative outlook.

The Hon. MATTHEW MASON-COX: That was not the question, and your Government's lack of credibility and the reason why the—

The Hon. ERIC ROOZENDAAL: You can fudge it all you want. The only one in the Coalition that actually stood up on power privatisation to be honest was the Shadow Treasurer, Michael Baird. He actually acknowledged that there were a range of reports from industry experts who could have secured private investment as a road map towards baseload generation of assets that we obviously need.

The Hon. MATTHEW MASON-COX: Point of order. The Treasurer is not answering the question.

CHAIR: The Treasurer has the right to answer the question as he sees fit.

The Hon. ERIC ROOZENDAAL: So clearly the trigger for Standard and Poor's downgrade was a decision by the Coalition not to support electricity. That was the trigger and there is no doubt about that.

The Hon. MATTHEW MASON-COX: Mr Chair, can I make a comment?

CHAIR: No, you can only ask questions.

The Hon. MATTHEW MASON-COX: It is almost laughable. I pass to Mr Pearce. Extraordinary times, extraordinary Treasurer.

The Hon. ERIC ROOZENDAAL: Is that the best you have got?

The Hon. GREG PEARCE: Mr Pierce, I asked you the other day whether the negative outlook was a surprise or whether the Government expected that to happen. You said that you were surprised at how quickly it happened, at how quickly Standard and Poor's acted. I asked you if the Government had acted responsibly to secure electricity supply by putting funding for baseload in the forward State Infrastructure Plan instead of gambling that they would be able to privatise electricity, would the triple-A rating now have a negative outlook? You said, "I doubt if we would be on negative outlook". Given the benefit of hindsight, do you think it behoves well on the Treasury that you allowed the Government to proceed with that plan and you did not actually deal with electricity in the forward State Infrastructure Plan?

Mr PIERCE: There are two responses to that. One is, of course, that we reported in the budget papers quite explicitly—and I remember the previous Premier and Treasurer commenting on it—that in the absence of the electricity privatisation there would need to be a re-prioritisation of the capital program. So people were quite explicit about what they had done. If, let's say, we did just hypothetically—

Dr JOHN KAYE: Can you clarify which people were explicit about what they had done?

Mr PIERCE: In the budget papers it is very explicit that the capital program put forward in the budget was, if you like, dependent on our electricity privatisation not because of the proceeds, as I explained before, but because of the deferral or continuation of investment in the power generation section by the Government, if that transaction did happen then that capital program would have to be adjusted to accommodate that—

The Hon. GREG PEARCE: In terms of —

CHAIR: The Secretary of the Treasury is answering the question. Please let him finish.

Mr PIERCE: The second way to think about it is that if we had put it into the published Government capital program then there would have been two things happen. One—as distinct from the Owen Report of course—the Government would have been showing dates, times, the quantities and the size of investments and the value of them, and when you are going to sell these businesses—as we thought we were going to be doing at the time. Those sorts of things are not the sort of stuff that you would probably try and signal to general purchasers to decide on, to give to them to make up their mind about that. I am sure if we had put it in then they would have expected to discuss and debate about whether they were the right numbers and the right times. In that sense perhaps you cannot win either way you do it. So by being explicit about what you have done to preserve the integrity of the transaction the Government took the appropriate course of action at the time.

Dr JOHN KAYE: Minister, you would be aware on Thursday of last week when I asked your departmental secretary if he was concerned about the public debate being based on a \$500 million a year figure for the cost of downgrading your State's credit rating, he said, "It did cause me to cringe." Did it cause you to cringe as well that both your former leader and your current leader are on the public record as saying that there would be a \$500 million a year figure for the cost of downgrading the triple-A rating?

The Hon. ERIC ROOZENDAAL: I thank the honourable member for his question and his interest in this matter because it gives me an opportunity once and for all to deal with the challenge of credit downgrading. I want to say at the outset that there seems to be this uninformed debate that a credit downgrading is something like when you have overdrawn your credit card and once you make a payment you can go and draw again. You cannot use your credit card when you are overdrawn. It is a real life example, which reflects on the honourable member, because it shows the ineffectiveness of his question to say downgrading—

Dr JOHN KAYE: Point of order. The question was about your response to a public statement by your secretary.

The Hon. ERIC ROOZENDAAL: Yes, and I am about to explain it.

Dr JOHN KAYE: Sorry, I am taking a point of order and you then say you are about to educate me as to what a downgrade would mean?

The Hon. ERIC ROOZENDAAL: Yes.

Dr JOHN KAYE: I would appreciate education—it is a wonderful thing and I have been a great supporter of it throughout my life—but that was not in response to my question. My question was did you cringe? Were you also concerned about the public debate being misinformed?

The Hon. ERIC ROOZENDAAL: I am concerned about the public debate being misinformed, which is exactly why I am going to explain to you how the downgrade works.

Dr JOHN KAYE: No, no.

CHAIR: Dr Kaye, the Treasurer is answering your question.

The Hon. ERIC ROOZENDAAL: Sorry, Dr Kaye, but if you really want to get the answer, you need to listen. This is what happened in Victoria. This is the lesson about the risk that we face. This is what can happen. They were downgraded a first time; they did not take the appropriate action. They were warned about a downgrade, they did not take the appropriate action.

Dr JOHN KAYE: What date did that happen?

The Hon. ERIC ROOZENDAAL: It happened in 1990.

Dr JOHN KAYE: Can you tell us what happened in 1990 to cause that downgrade?

The Hon. ERIC ROOZENDAAL: It is really important for me to explain. I am not going to play 50 questions on the Victorian economy. I am explaining to you about a downgrade.

Dr JOHN KAYE: You are talking about the Victorian economy.

The Hon. ERIC ROOZENDAAL: There was an initial downgrade. They did not take the appropriate action. They had a second major downgrade bringing them right down until Kennett in 1992 from a triple-A rating to A1—four grades.

The Hon. GREG PEARCE: Point of order: The Treasurer is pointing to a chart. Is he prepared to table the chart?

The Hon. ERIC ROOZENDAAL: Sure.

Dr JOHN KAYE: Is this your prediction of what is going to happen under your stewardship?

The Hon. ERIC ROOZENDAAL: Chair, let me be explicit, I am giving a real-life example of what has happened to a State.

CHAIR: Will you table those documents?

The Hon. ERIC ROOZENDAAL: I will supply them. This is what happened to Victoria. It is a lesson.

The Hon. GREG PEARCE: Is it your prediction of what will happen under you?

The Hon. EDDIE OBEID: No, it is not his prediction, you idiot.

The Hon. ERIC ROOZENDAAL: This is why you have to take action to prevent the downgrade because it puts you onto the slippery slide of further downgrades. Once you downgrade it once, it signifies you have not taken the action required by agencies to meet the challenges that they are raising. You then get onto the slippery slide.

Dr JOHN KAYE: Point of order: The Committee is well aware of what happened in Victoria in the early 1990s. We do not need a lecture on that. In fact, what the Treasurer does not know is that the reason why it happened was overinvestment in the electricity industry—the completion of two large units of brown coal burning power stations that crashed the economy. But that is not relevant.

CHAIR: That is not a point of order. You are making a speech.

Dr JOHN KAYE: My point of order is that the Treasurer is not answering my question. My question was: Did you cringe? You have answered that question.

The Hon. ERIC ROOZENDAAL: I am cringing about your question. Let us be very clear what I am cringing about.

Dr JOHN KAYE: Are you changing your answer and saying that you did not cringe?

The Hon. ERIC ROOZENDAAL: This is the point I want to make, Chair. Kennett took over in 1992. He made a number of savage cuts. I think in the first year he cut 15 per cent across government. In the second term he cut another 8 per cent. It took from 1992 right up to 2000, basically a decade, for Victoria to get back to its triple-A credit rating. This is the risk any State takes of getting onto the slippery slide of downgrades and then the slow slog back up. Every downgrade costs you more money, it is harder to raise funds and it damages business confidence. This is the challenge we face. That is why it is absolutely vital that this State protects its

triple-A credit rating through the mini-budget process and takes the appropriate action early on. I am happy to table that document.

Dr JOHN KAYE: Treasurer, when were you first aware that the cost to the State was not \$500 million a year? What date did you first become aware that that cost was not correct?

The Hon. ERIC ROOZENDAAL: Chair, this is the fundamental problem we have in that it depends at what point in time you are talking about and how many downgrades we may suffer if we do not take the action. This is exactly the problem I am trying to explain. A downgrade is not black and white.

Dr JOHN KAYE: So you disagree with your Secretary?

The Hon. ERIC ROOZENDAAL: It activates a process if you do not intervene to stop further—Greg knows this to be the case.

The Hon. EDDIE OBEID: Greg knows nothing.

The Hon. ERIC ROOZENDAAL: If you do not intervene to address the structural issues raised by the agencies with the first downgrade you risk further downgrade. Greg is nodding that is right.

Dr JOHN KAYE: Can we be clear, Treasurer, that what you are saying is you think that the cost might be \$500 million a year?

The Hon. ERIC ROOZENDAAL: There is no doubt—

Dr JOHN KAYE: Despite what your Secretary said?

CHAIR: Let the Treasurer answer the question, Dr Kaye.

The Hon. ERIC ROOZENDAAL: You are not listening, John.

Dr JOHN KAYE: Just answer the question.

The Hon. ERIC ROOZENDAAL: You do not want to hear the answer.

Dr JOHN KAYE: I want to hear an answer to my question.

The Hon. ERIC ROOZENDAAL: Over time, probably outside the forward estimates period, if we do not take action probably in years 6, 7, 8 we could well face interest rates of \$500 million per annum. We could well face that. That is reality. Once you start on the downgrade it is because you have not taken action. I want to emphasise this: they downgrade you because they believe you have not taken action. Then if you do not take action, they keep downgrading you. This is the challenge and why we are putting in the mini-budget and taking the action. You can fumble around this \$500 million number because it suits you to develop the conspiracy theory, and the Greens are big on conspiracy theories. But the reality is people out there understand how important it is, particularly at the moment, to maintain one's credit rating. We are seeing institutions all around the world eyeing each other suspiciously because they do not know what debt they carry, they do not know how risky they are. Any sovereign State that suffers a downgrade in the present economic climate will be carefully watched by everybody-else in the world. That is the reality.

Dr JOHN KAYE: Did your office receive a memorandum from the Treasury Secretary correcting the \$500 million a year figure?

The Hon. ERIC ROOZENDAAL: I have answered this issue of the \$500 million. You do not want to listen.

Dr JOHN KAYE: Did your office or did it not receive a memorandum correcting the \$500 million a year figure?

The Hon. ERIC ROOZENDAAL: I will take it on notice. I will have to check.

Dr JOHN KAYE: You do not know whether you received such a memorandum?

The Hon. ERIC ROOZENDAAL: I will take it on notice.

The Hon. EDDIE OBEID: He just answered the question.

Dr JOHN KAYE: You are not aware of any information going to you that in any way would have corrected the \$500 million a year figure?

The Hon. ERIC ROOZENDAAL: The question presupposes that the \$500 million number is wrong. "Corrected" implies that it is incorrect. I have just spent a good 10 minutes—can I get the graph back because I think I might have to show it to him a second time because he did not get it the first time? Downgrades are not like when you overdraw your credit card, you put money in and it is fixed. You do not just fix a downgrade. You do not just fix it. It starts you on the slippery slide of risking further downgrades. We are talking a 20 to 25 base point for the first downgrade. At the end of the forward estimates it could accumulate about \$100 million annually. Moving past that, it will be \$500 million over time, no doubt about that. John, you can fumble around the \$500 million, I cannot explain it to you any more clearly.

Dr JOHN KAYE: Let me ask Mr Pierce a question. Mr Pierce, why did you say to us that the figure that the Treasurer now says is a valid figure made you cringe? What is the difference between you and your Minister that he defends the figure in public, yet it made you cringe?

Mr PIERCE: The first time that I am aware that the number was used publicly was by Premier Iemma in Parliament at the end of August. When he used it he referred to the \$500 million as additional interest payments as an aggregate figure. He did not refer to it as a per annum figure. I was quite comfortable when it was used then. After that, the sort of statements that I think you are referring to as on the public record were those that I have seen released in media reports where for the first time I saw the "per annum" being attached to the \$500 million. Whether that is because people actually said that or the way in which the media was reporting it I cannot say. It was the reporting in the media, I suppose in the early part of September, that I was referring to in my statements the other day. It was those that caused us to check that the advice that we have provided, the written advice, was clear and that people understood it.

Dr JOHN KAYE: Mr Pierce, can I remind you that on 2 September the then Premier said:

"A cut in the State's interest rating by one notch from triple-A would cost \$500 million a year in higher interest payments alone" Iemma said.

Whether he said that or not, I am not interested. What is true is that it was allowed to be on the public record that a one notch drop, not the fancy graph that the Treasurer showed—

The Hon. PENNY SHARPE: It is not Dr John Kaye's time. The bell has rung.

Dr JOHN KAYE: I did not hear it. I shall return.

The Hon. ERIC ROOZENDAAL: Good on you, Arnie.

Dr JOHN KAYE: Arnie? It is General MacArthur, Treasurer.

The Hon. ERIC ROOZENDAAL: That was a pyrrhic victory.

CHAIR: To clarify for the public record the situation in regard to the proposed electricity reform legislation, a number of conditions were laid down for the successful passage of that legislation. What were those conditions?

The Hon. ERIC ROOZENDAAL: What conditions are you talking about?

CHAIR: Conditions that the House would support the legislation.

Mr PIERCE: From memory, the main one was that the Auditor-General undertake a review of the Government's transaction strategy. Secondly, that a rural communities impact statement be undertaken and provided. I have in mind that in total there were five, and they were the main two. One of the five was that the

network businesses, the poles and wires, distribution network and transmission system were not part of the transaction—and that was obviously certainly the case. I would have to recall what the other two were, but they were, I think, more to do with appropriate projections for the workforce and for consumers. That is specifically what they were, but I cannot recall what the other two were.

CHAIR: Did the Government meet those five conditions?

The Hon. ERIC ROOZENDAAL: It certainly did not get its legislation through, but I believe we did.

CHAIR: The Government met the five conditions, so at that point it was not a gamble in hoping the legislation would go through both Houses of Parliament?

The Hon. ERIC ROOZENDAAL: I think it is fair to say that we believed, on the basis of the overwhelming support of the three reports, one of which was specifically requested by the Coalition, and the overwhelming support from past and present Liberal leaders, that it was a reasonable decision to support the power industry reforms. Unfortunately, I guess in retrospect, we did not take into account a lack of leadership from the Leader of the Opposition.

I think it is important for the record to clarify the difference. There were people in the Labor Party who are ideologically opposed to power reform and were from day one and they were the views that they held quite strongly and firmly. They were quite genuinely held views and they were articulated in a number of forums both inside the Parliament and outside the Parliament. They are ideological views that they have held from day one. You need to contrast the genuine beliefs of the Labor Party members involved with the treachery of the Coalition. Because here you have a Coalition committed to privatisation, committed to power reform, who claim to be fiscally conservative, who demanded the Auditor-General examine the power reforms before they ticked them off, which he did, and then they said, "Oh no, we are not going to support them". That is against the advice of Brendan Nelson, Malcolm Turnbull, Joe Hockey, Nick Greiner, Jeff Kennett.

It was a malicious political decision by a Coalition that is bereft of any real morality or backbone. That is the reality. And what it flags to the people of this State—and you know when the *Sydney Morning Herald* has a front page saying "Conservatives close New South Wales for business", if the *Sydney Morning Herald* is attacking them you know they have really just done a deed that is just too dirty to be put up with. And that is exactly what they did.

CHAIR: In Budget Paper No. 2 you speak about the GST contribution, that New South Wales should receive \$15 billion and it only receives \$13 billion. With the new Rudd Labor Government do you anticipate any changes in which this State would get its fair share?

The Hon. ERIC ROOZENDAAL: We do expect to receive around \$13 billion in GST grants in 2008-09. You are right to say, and I think Treasury estimates are, that we actually generate out of New South Wales around \$15 billion worth of GST receipts. There is a cross subsidy from New South Wales to South Australia, Tasmania, the ACT and the Northern Territory, and that is around a \$2 billion cross subsidy. We are obviously in discussions with the Federal Government on those issues—not just the GST but also through the COAG process over the other payments—and we are hopeful of a better outcome

CHAIR: I realise there are lots of pressures on the State budget, but in Budget Paper No. 2 in appendix A-1 there is a section called "Targets and Principles" and I was concerned in reading that the Government itself has set a legislative target and you have indicated in most of those areas that you anticipate failing to reach your own legislative targets. For example, for general government sector net financial liabilities your target was at or below 7.5 per cent GSP by June 2010. You estimate now it will be 8.5 per cent of GSP at 30 June 2010. Is there any explanation why you are failing to reach your own targets?

The Hon. ERIC ROOZENDAAL: This has been well and truly ventilated both in the House and in the public arena by the previous Treasurer for New South Wales. New South Wales' fiscal strategy has been to ensure the State's balance sheet can withstand a temporary downturn in revenues from maintaining ongoing service delivery demands and maintaining a triple-A credit rating. The Fiscal Responsibility Act contains two medium-term targets, three long-term targets and 10 principles. All 10 principles are being adhered to and progress is being made towards the long-term targets. However, you are right to point out the medium-term targets—that is the two 10 targets for net debt and net financial liabilities—will be exceeded and that is because of higher borrowings to fund our record infrastructure program. The higher recorded unfunded superannuation

liabilities in this year's budget reflects short-term cyclic volatility in the finance markets and volatility measurement from the new accounting standards.

It does not alter the Government's long-term target to fully fund superannuation liabilities by 2030, and that does, on my advice, remain firmly on track. Net financial liabilities are projected to resume a downward trend from 2010, falling to 8 per cent by 2012. The advice is that resumption of a downward trend means that progress is being made towards a 2015 target. Although net debt will be above the 2010 target it is less than one percentage point higher and I am advised that it will stabilise at about 1.7 per cent of the gross State product. It is worth noting that this is well below the levels of the mid-1990s when it was 7.5 per cent in 1994-95 and allows debt to grow in line with the economy, which is consistent with the intention of the debt target.

CHAIR: On that same page you have another heading, "Total State Sector Unfunded Superannuation Liabilities" and you state that you believe it will be fully funded by 2030. In view of the economic crisis, would that date still be met?

The Hon. ERIC ROOZENDAAL: Good question. The short answer is that the advice I have is that we will still meet that target. I have got a longer answer, if you would like, on that one. The 2008-09 estimates are that general government unfunded superannuation liabilities will reach around \$17.26 billion by 30 June 2008 rising to \$20.024 billion by 2012, and that is using AASB 119 measures. Most of those increases result from technical adjustments to a discount rate used to value liabilities rather than increase underlying future cash obligations. The budget estimate for 2007-08 is based on the forecast of a deficit return of minus 3.8 per cent for scheme assets. Falling investment returns lead to an actual super State return line of minus 7.3 per cent by 30 June 2008. That did reduce the scheme's assets by about \$2 billion. There will be further significant falls in investment returns since 30 June, which will further reduce the scheme's assets.

Unfunded liability estimates have also affected the value of gross liabilities and variations in discount rates used to value them. The value of the assets under unfunded liability to 30 June 2008 will be published in the report on the State's finances. I believe that will be at the end of this month. Dated asset and liability estimates for this financial year and future years to 2012 will be included in the mini-budget.

The Hon. PENNY SHARPE: Can the Treasurer inform the Committee about new initiatives to allow people to access speed camera images on the Internet?

The Hon. MATTHEW MASON-COX: Is that as good as it gets?

The Hon. PENNY SHARPE: I want to know about this.

The Hon. ERIC ROOZENDAAL: It is a better question than the one you asked.

Dr JOHN KAYE: What about images of people talking on their mobile phones being on the Internet? Can we have that?

The Hon. ERIC ROOZENDAAL: Thank you for that question. As Committee members may be aware, the New South Wales Government recently launched a new website giving motorists access to images taken by fixed speed cameras and red light cameras in New South Wales. That initiative was announced on 3 September. The agency running the scheme is the Office of State Revenue, which comes under the responsibility of the Treasurer. This website is about being open and transparent and it demonstrates this Government's commitment to that principle. The website allows immediate access to photos free of charge.

Since 1 September, motorists who have received an infringement notice as a result of being recorded committing an offence by a speed camera or red light camera in New South Wales have been able to go online and view the picture taken at the time of the offence. In the first month of operation, more than 18,000 pictures have been downloaded. That is almost 600 pictures a day being downloaded. Motorists who receive an infringement notice can now go online and view the photo to verify that it is their vehicle. This service provides motorists with further transparency about how the infringement notice was incurred. It is also convenient because it allows immediate access to the photo for free. In some instances, viewing the image may help the owner in nominating the driver at the time of the event to ensure that the right person gets the infringement notice and associated demerit penalty.

Last financial year, about 675,000 fines were issued in New South Wales using speed cameras and red light cameras. I have said many times in the House and outside it that speeding is the biggest killer on our roads and speed cameras are there to slow down drivers. Of course, the best way to avoid a speed camera fine is to stick to the speed limit. I assure the Committee that this is a secure system. Both the infringement notice number and the vehicle registration number are required to access the photos, along with an automatically generated random code, which gives added security.

The website was established by the State Debt Recovery Office in consultation with other key agencies such as the Privacy Commission, the Attorney General's Department and the Roads and Traffic Authority. I note that Hugh Macken, the President of the Law Society of New South Wales, has welcomed the new initiative. He said:

The old system of applying for the photo from a red light or speed camera was cumbersome and time consuming. Now with the click of a mouse motorists can see the evidence for themselves very quickly indeed.

Some drivers aren't even aware that they've committed an offence until they get the fine in the mail. This website will quickly enable motorists to check where and when they were photographed.

People without access to the Internet can still request a copy of the photo by contacting the State Debt Recovery Office. People who have a problem can still call the office. In fact, the State Debt Recovery Office has been able to assist callers to understand the details in the pictures, such as the placement of their vehicle in relation to other vehicles and the road lanes. The office also publishes its infringement review guidelines on its website to allow people to see if their circumstances justify a review and to find out what evidence is needed to support their case. These initiatives confirm the New South Wales Government's ongoing commitment to ensuring that the infringement system remains fair and efficient. The photos are available by visiting the State Debt Recovery Office website and following the prompts. For those Committee members who are interested, that address is www.sdro.nsw.gov.au

The Hon. EDDIE OBEID: Treasurer, can you update the Committee about vehicle stamp duty relief in areas that have been devastated by storms and floods over the past two years?

The Hon. ERIC ROOZENDAAL: This is an important initiative by which the Government is supporting regions that are doing it hard. Some of the harshest weather conditions on the planet occur in Australia. Each year areas of this State are devastated by storms, floods and fires. In the most severe cases, the New South Wales Government is helping communities to get back on their feet. One initiative is to provide stamp duty relief for the replacement of motor vehicles written off as a result of a declared natural disaster across New South Wales.

The areas affected in 2007 and 2008 are: the Hunter and Central Coast, which suffered storm damage in June 2007; the Lismore area, which experienced a severe hailstorm on 9 October 2007; Western Sydney, which also had a severe hail and windstorm on 9 December last year; Far Western New South Wales, which suffered region-wide severe weather conditions on 21 and 22 December 2007; and northern New South Wales, which suffered severe floods in January this year.

This relief recognises the devastating impact the floods and storms have had on local families and businesses. I am advised that the Office of State Revenue has approved more than 4,280 applications for relief made by motorists from the affected regions resulting in \$1.5 million in refunds of motor vehicle stamp duty. This is an average refund of about \$336. Refunds are made only when the written-off vehicle being replaced was comprehensively insured and the insurance does not cover stamp duty for a replacement vehicle. The amount of duty refunded is calculated on the lower of the cost of the replacement vehicle or the value of the insurance payment for the vehicle written off.

The Hon. KAYEE GRIFFIN: Treasurer, can you update the Committee on the assistance provided by the New South Wales Government for first home buyers?

The Hon. ERIC ROOZENDAAL: For many young and not so young people, trying to purchase a first home can prove a considerable challenge. Despite the softening of the New South Wales housing market, particularly for those in Sydney, house prices are still high and securing a loan and deposit can be difficult. In recognition of the value home ownership brings, not only to individuals but also to the broader community, the New South Wales Government assists first time home buyers to climb the first rung on the home ownership ladder.

The total assistance to first home buyers provided through exemptions and grants by the New South Wales Government since July 2000 is about \$4.8 billion. It has been provided via a variety of initiatives, including First Home Plus. The First Home Plus scheme provides purchaser transfer duty concessions to first home buyers. It is expected to cost \$396 million in 2008-09. The scheme has provided assistance to more than 308,000 first home buyers in New South Wales, with stamp duty savings exceeding \$2.1 billion between July 2000 to September 2008. For a home valued at \$500,000, there is a transfer duty concession of \$17,990.

In addition to stamp duty exemptions, eligible first home buyers are entitled to a \$7,000 First Home Owners Grant. Within New South Wales this grant is funded and administered by the New South Wales Government. The First Home Owners Grant scheme has provided assistance to more than 361,000 first homebuyers in New South Wales, with total grants exceeding \$2.6 billion between July 2000 to September 2008. In the quarter ending March 2004, first home buyers in New South Wales represented only 16.2 per cent of owner-occupied housing finance loans, compared to an average of 24 per cent in the four years to 2001. By March 2008, the quarterly share of first home buyer housing finance increased to 27.5 per cent.

In February 2007, the then Treasurer announced the extension of first home buyer stamp duty exemptions and concessions available under First Home Plus to first home buyers using shared equity schemes. Through this scheme, first home buyers purchasing a home in conjunction with equity partners who have previously owned residential property in Australia are eligible for proportional transfer duty concessions and full mortgage duty concessions. So far, 540 first home buyers have taken advantage of the First Home Plus One scheme, with transfer duty savings of more than \$3.2 million between May 2007 and September 2008.

The Hon. GREG PEARCE: Treasurer, were you privy to the advice or view expressed by the former Treasurer last year that electricity privatisation could have proceeded without legislation?

The Hon. ERIC ROOZENDAAL: I have heard a debate around that.

The Hon. GREG PEARCE: Were you aware that electricity privatisation could have proceeded without legislation?

The Hon. ERIC ROOZENDAAL: I have heard the point put, but I believe the Government's view was that we needed legislation.

The Hon. GREG PEARCE: Was that the Government's view, or was it its choice to have legislation?

The Hon. ERIC ROOZENDAAL: I have answered that question.

The Hon. GREG PEARCE: So you concede that electricity privatisation could have proceeded without legislation?

The Hon. ERIC ROOZENDAAL: That would have been extremely difficult under the circumstances. The Secretary of Treasury can probably provide a bit more information.

Mr PIERCE: There was some legal advice that said in principle or theoretically that it could be done without legislation, but in practical terms, in practical commercial terms, particularly with the generation sector as part of the transaction, the legislation was necessary. It dealt with not just the power to enact the transactions but also the power to put in place vesting contracts and do things like assign existing contracts from the businesses to the new purchasers. As I say, in principle the advice we had was that that could be done without legislation but in terms of the commercial reality of trying to get these things done in a reasonable time and giving potential purchasers confidence in the property rights they were purchasing, legislation was seen as necessary.

The Hon. GREG PEARCE: So the legislation is that it could have been done without legislation but for commercial convenience you chose legislation?

Mr PIERCE: My advice would be to get the best value for the taxpayer to run a clean transaction. When you face the practical realities of effecting these transactions, legislation is necessary.

The Hon. GREG PEARCE: So, best value, convenience?

Mr PIERCE: If I may, it is not just convenience or hassle. It is just for practicality. It would have been impractical to try to do it without legislation, given the electricity generation sector.

The Hon. GREG PEARCE: Are you saying you could not do it without legislation?

Mr PIERCE: In practical terms, no.

The Hon. GREG PEARCE: Well, could you or could you not privatise without legislation?

Mr PIERCE: I think I have answered that question. In practical terms you could not have got it done without legislation.

The Hon. GREG PEARCE: Mr Roozendaal, if the privatisation of electricity is so important to you and so important to the credit rating, why are you not pursuing every possible avenue to proceed with privatisation without legislation? It is quite plain from what the Treasury Secretary has said that it is possible.

The Hon. ERIC ROOZENDAAL: I am not sure if there is a cone of silence on that side of the room and they cannot hear the answers coming through, but I thought the Secretary of Treasury was explicit in his answer. I am stunned by the audacity of this crew, that are directly responsible, and now they want to shirk their responsibility. Mike Baird, the shadow Treasurer, at least was honest enough to say publicly that if the Auditor-General's report supported power reform, they would back it. That is what he said.

Let us be clear. They asked for a report by the Auditor-General into electricity reform. They demanded that as a pre-requisite to support. They got it. They got an Auditor-General's report that ticked it all off, and they still reneged on their view. Brendan Nelson, Turnbull, Hockey, Kennett, Greiner—they could have dug up Menzies, and he would have supported it, let us be honest. But this lot over here are so unprincipled and come along and play sophistry today. It is very clear what the Secretary of Treasury said in his answer so do not try to mongrel it up now.

The Hon. GREG PEARCE: Let us explore that a little more. Mr Pierce, if the Treasurer said to you that the Government's policy was to proceed with privatisation without legislation, would you be able to implement that policy, yes or no?

Mr PIERCE: Not in a way that would be judged as—

The Hon. GREG PEARCE: Yes or no?

The Hon. ERIC ROOZENDAAL: He is answering the question. Do not try to badger him.

CHAIR: You cannot force witnesses to answer questions in your words. They can answer the questions in their own way.

The Hon. GREG PEARCE: Let us hear the Secretary's answer then?

Mr PIERCE: Not in a manner that would be judged as a success by not just us but by Parliament and the community generally. I might point out there has not been the privatisation of a major government business undertaking in this State or in any other without legislation. It just has not been done, and it is for the reasons I referred to.

The Hon. GREG PEARCE: What was your advice to the Government in relation to the State infrastructure plan and the failure to address the need for base load generation as the answer to retail capital expenditure?

Mr PIERCE: Sorry, what are you referring to?

The Hon. GREG PEARCE: The State infrastructure plan, which does not address base load generation capacity. What was your advice to the Government as to whether it was responsible or irresponsible to leave that major expenditure out of the future capital plan, given that Standard and Poor's reaction has been to place credit watch on a negative outlook?

Mr PIERCE: And that the Owen report more than the year before pointed out what the consequences for the State's debt level would be without the transaction. This is not a surprise. One of the things that makes Treasury officers such a popular breed with people is that our main role is to provide advice about what the choices are and what the opportunity costs are of decisions made by governments. Generally, people want more than they can afford, so our role is to point out that if you do X, the consequence is Y. That State infrastructure strategy that was published meant that you needed the avoidance of those investments in generation capacity and it was made explicit. Therefore, if the transaction did not go ahead there would need to be a reprioritisation of the capital program. That was fairly consistent advice, advice that was accepted and advice that got translated into the sorts of statements that were included in the budget papers.

I think you should distinguish, as I was referring to last week, between the effect on the investment program and the effect of receiving the transaction revenue. As I said then, as you would with any transaction of that type, you should not reflect that in budget numbers until the transaction proceeds are received. That putting aside, if you like, what might be possible if the transaction had proceeded was done not just by us but by the rating agencies, and they correctly put it aside on the basis that if it happened, those transaction proceeds would contribute towards funding future capital expenditure, some projects that may not be currently in the numbers. Transaction proceeds were set aside, the SIS was put together on the basis of the Government's stated and preferred policy, and the opportunity costs of that not coming about were made explicit.

The Hon. GREG PEARCE: Just to be clear on that, and using just the figures that were bandied about, do you think it was a reasonable decision of the Government to leave out potentially \$15 billion of expenditure from 2013-14 when publishing its State infrastructure strategy?

Mr PIERCE: The strategy was based on the policy of the Government. The policy of the Government was to enter into those transactions.

The Hon. GREG PEARCE: Do you think Treasury's reputation for fearless and impartial advice and independence has been in any way impacted by the failure to address that major obligation by the Government and by the subsequent negative outlook imposed by Standard and Poor's, as predicted?

Mr PIERCE: Primarily, that is for others to judge but I certainly do not have any problems, even in hindsight, with the sort of advice the Treasurer has provided for quite some period of time going back in terms of this sort of issue, 18 months to two years.

The Hon. GREG PEARCE: It was a major gamble, was it not? Mr Roozendaal, we were talking earlier about Mr Frazer and Mr Macfarlane. I want to clear it up a few issues about their appointments. What were the terms of reference for the consultancies?

The Hon. ERIC ROOZENDAAL: I understand they were engaged by the Department of Premier and Cabinet and you should refer those questions to the Premier.

The Hon. GREG PEARCE: You could not tell how much they are being paid or any of the other issues. It is an engagement by the Premier?

The Hon. ERIC ROOZENDAAL: Yes.

The Hon. GREG PEARCE: I understood from the announcements that were made that they would actually be responding to you, or is it to the Premier?

The Hon. ERIC ROOZENDAAL: They were engaged by the Premier. You should refer questions about them to the Premier.

The Hon. MATTHEW MASON-COX: I want to return quickly to electricity privatisation and I caution you that the Premier is appearing before this Committee directly after this hearing. I want to clarify, is it your view that New South Wales should privatise the electricity assets?

The Hon. ERIC ROOZENDAAL: I think we need to be clear that the proposal put forward by the Government was to retain the wires and poles, that is the transmission and distribution network, and lease the

generators and to privatise the retailers. I believe that the electricity reform program put forward by the Government was a responsible one.

The Hon. MATTHEW MASON-COX: Is it not true that the Premier was only 48 per cent comfortable with that policy and in fact voted against it in ALP caucus?

The Hon. ERIC ROOZENDAAL: Just like the secret caucuses you go to with David Clarke. I am sure there are candles burning with incense.

The Hon. MATTHEW MASON-COX: I think you are fantasising now, Treasurer. Let us get back to electricity. The Premier voted against electricity privatisation in the ALP left caucus, is that the truth?

The Hon. ERIC ROOZENDAAL: I do not know what planet you come from but let me assure you that in my time in the ALP I have never attended an ALP left caucus, so I could not really tell you and I am sure there are members of the ALP that would be aware of it, so I could not tell you what the inner actions were of the left caucus at the time. I cannot answer that question.

The Hon. MATTHEW MASON-COX: The reality is that the Premier does not support your policy; still does not support the privatisation of the electricity assets?

The Hon. ERIC ROOZENDAAL: Is there a question in here?

The Hon. MATTHEW MASON-COX: I am asking you is this true?

The Hon. ERIC ROOZENDAAL: It is a question that you should address to the Premier, but I have answered in response to it my view on electricity reform.

The Hon. GREG PEARCE: Going back to the Standard and Poor's report as to what they require, I would like you to explain to the Committee what is meant by each of the items, starting with the potential upside risk to the State's expenditure projections, the second dot point on page 3 of the 23 September document?

The Hon. ERIC ROOZENDAAL: Obviously we are talking about the issue of the State's expenditure projections. We have a weakened economy; we have had some challenges in the past containing operating costs within budget. They do actually allude to a number of projects that have been described or discussed in the public arena but have not yet been put onto the books. They talk about the challenge of how we manage the capital program and the incremental risk associated with continuing to own electricity assets, as well as they are concerned with the political situation if we cannot achieve our outcomes.

The Hon. GREG PEARCE: Let us deal with each of those separately. The problem with operating costs within the budget: you are aware that Stokes and Vertigan identified the issue. How would you see the growth of expenditure exceeding revenues being addressed?

The Hon. ERIC ROOZENDAAL: That will be part of the mini-budget process

The Hon. GREG PEARCE: Why has it not occurred to date?

The Hon. ERIC ROOZENDAAL: There has been some addressing in relation to that. You would be aware that in relation to audit expenditure and assets, the Government released its economic financial statement in February 2006. That focused on actions to improve service delivery and efficiencies to public administration. We have been seeking savings of around \$1.8 billion per annum and efficiency dividends by 2010-2011. Revenue is lower than expected, particularly from stamp duty, and we do have structural pressures, particularly in the Health portfolio, which is exactly why the mini-budget will deal with those challenges.

The Hon. GREG PEARCE: The savings in 2010-2011. What is the position after 2010-2011?

The Hon. ERIC ROOZENDAAL: We will reassess the efficiency dividends through the forward estimates period.

The Hon. GREG PEARCE: As part of the mini-budget?

The Hon. ERIC ROOZENDAAL: Yes.

The Hon. GREG PEARCE: The question of whether the budget should be balanced or otherwise, do you agree with the proposition that a deficit is not acceptable?

The Hon. ERIC ROOZENDAAL: Generally, I think the answer is that it is not the preferred option. Especially you do not want to be running deficits to fund recurrent. You get into all sorts of problems doing that. If you are in a cyclical downturn it might be reasonable to look at a deficit as a one-off. These are the sorts of issues we will be dealing with through the mini-budget process. We are suffering a major drop in revenues, there is no doubt about that, and we need to address the challenge in revenues as much as we can.

The Hon. GREG PEARCE: So you may look at a one-off deficit in the mini-budget?

The Hon. ERIC ROOZENDAAL: I am not ruling anything in or out and I am not going to be drawn on the detail of the mini-budget.

The Hon. GREG PEARCE: Another item is the Government's ability to wind back the capital program beyond 2012. What is behind that statement?

The Hon. ERIC ROOZENDAAL: It is basically as we have discussed earlier, the reprioritisation of the capital expenditure program.

The Hon. GREG PEARCE: After 2012?

The Hon. ERIC ROOZENDAAL: You have the forward estimates period, that is our immediate concern but the agencies look beyond that. I think they describe it as looking around the corner to see what other projects are looming in the distance and they look at those as well to say, "Well, we know you've got this on the books. We know you have a 10-year State Infrastructure Strategy, but there are the other projects that we hear about in the public arena that may or may not come to fruition but we want to know what is going to happen moving forward". So there is reason, when you are developing a mini-budget, that you do look beyond the forward estimates; you have to, which is why we are looking at the whole capital expenditure program.

The Hon. GREG PEARCE: So in the mini-budget you will be looking around the corner and looking at that future capital expenditure program?

The Hon. ERIC ROOZENDAAL: You have to. It is part of the process.

The Hon. GREG PEARCE: What do you say about their concerns about the ability of the Government to push further reforms? What sort of reforms are they talking about, by the way?

The Hon. ERIC ROOZENDAAL: They look in general terms. They want to be confident that we continue to be fiscally responsible and disciplined and we have assured them that we are doing everything in our power to do so.

The Hon. GREG PEARCE: Does that include getting the left wing numbers of your party—

The Hon. MATTHEW MASON-COX: That is impossible.

The Hon. EDDIE OBEID: You are part of the left wing of your party.

The Hon. GREG PEARCE: I am asking a serious question. What is the criteria for them to be satisfied that you are delivering?

The Hon. ERIC ROOZENDAAL: They have made it pretty clear by what they have said to us and publicly that they see a two-step situation. The first step is the announcement of the mini-budget, which deals with the challenges of revenue and expenditure and deals with the challenges of the capital expenditure program and the challenges of what we do with some of our assets. It is fine to announce the mini-budget, which we will do on 11 November, but then, after the mini budget, it is the will of the Government to deliver on the outcomes to project confidence that we can maintain the triple-A.

[Short adjournment]

Dr JOHN KAYE: Treasurer, can we talk about the Owen inquiry? It seems that it is central to your view of where the State's finances have been impacted. Do you stand by the predictions of the capital needs of the industry to be \$7 billion or \$8 billion of new investment in power stations?

The Hon. ERIC ROOZENDAAL: That is certainly what is in the Owen report.

Dr JOHN KAYE: And you still stand by that prediction?

The Hon. ERIC ROOZENDAAL: I think we certainly need to be conscious of that, yes.

Dr JOHN KAYE: What about the \$3 billion to \$4 billion on improving the "environmental performance" of the State's existing coal-fired power stations, which is admittedly later in the cycle?

The Hon. ERIC ROOZENDAAL: Owen does identify that in one of the costs.

Dr JOHN KAYE: Do you still think that is a real cost that the State's finances need to be concerned by?

The Hon. ERIC ROOZENDAAL: We certainly need to be conscious of it, yes.

Dr JOHN KAYE: In all of that, has any consideration been given to cheaper options, to lower capital cost options?

The Hon. ERIC ROOZENDAAL: I understand that Owen did look at other options in his report.

Dr JOHN KAYE: Given that we are driving the entire budget strategy from the failure to implement the Owen report, as it were, has Treasury looked at other lower capital cost options?

The Hon. ERIC ROOZENDAAL: The Government commissioned the Owen report, so it would be pretty imprudent of the Government not to take notice of the findings in Owen.

Dr JOHN KAYE: Treasury has done no alternative investigation of lower capital cost options? The whole strategy is based on what Owen says?

Mr PIERCE: In the context of the mini-budget, given the link between the energy strategy and the rest of the State's finances, the numbers, the demand and supply forecasts embedded in Owen—which, as referred to before, were made over 12 months ago—are being reviewed in order to determine both the mini-budget and the development of the alternative strategy that the Government has announced—that, effectively, the numbers in Owen, both the demand and supply numbers, are being reviewed for the purposes of the mini-budget.

Dr JOHN KAYE: That was not quite my question. My question was: Did you look at alternative options to building \$7 billion to \$8 billion worth of new baseload power stations? Did you look at any other alternative options?

Mr PIERCE: The Owen report went into all the detail about what sort of technologies were available and the relative costs of them in order to satisfy the level and the shape of the demand that is expected in the future, and we have been keeping tabs on changes in those costs that have occurred in the market since then. The relative capital costs of the different types of supplier options I would not have expected to have moved that much. But with the emergence of developments in the gas market and the ETS, certainly there could be some changes in the relative fuel costs and hence in the total costs.

Dr JOHN KAYE: On that point alone, is it not true therefore that the \$7 billion or \$8 billion which was largely around coal-power power stations might now be irrelevant—in fact, it might be about half that number because it might be combined cycle gas turbines that are more competitive?

Mr PIERCE: That was assessed in Owen—

Dr JOHN KAYE: But, as you said, that was a year ago.

Mr PIERCE: That is right.

Dr JOHN KAYE: And we know a lot more about the ETS now than we did then?

Mr PIERCE: That is precisely what is being assessed at the moment in the development of the alternative electricity strategy, because it is one of the things that will be charged against its success in calling for what is seen as the approach on investment. We need to know the estimate of that number and have confidence in it in putting the mini-budget together.

Dr JOHN KAYE: So the \$7 billion to \$8 billion, if we went to gas turbines alone, might be half that number. What about looking at even cheaper alternatives which are not supply-side options at all, looking at the demand side options? What about the twenty-first century, or even late twentieth century view of the electricity industry, known as least cost planning? Did you engage any least cost planning experts or look at least cost planning at all?

Mr PIERCE: The role of alternative technologies to the more traditional gas and coal—

Dr JOHN KAYE: You have misunderstood my question. I was not talking about renewable technologies—

The Hon. ERIC ROOZENDAAL: Can you let him finish his answer?

Dr JOHN KAYE: I am talking about the demand side.

The Hon. ERIC ROOZENDAAL: Let him answer. Chair, the secretary should be allowed to answer without being interrupted every three minutes.

Mr PIERCE: It still involves the use of some technology other than burning coal and gas. The potential contribution of those sorts of means of balancing demand and supply were factored into the numbers in Owen. They will be reviewed as part of this process, together with the potential impact of the Commonwealth's MRET scheme.

Dr JOHN KAYE: Who will do that review? Will that be internal to Treasury, or will that be external? Will you get an external opinion on the role that demand-side response can play?

Mr PIERCE: It will be done principally by people who are currently in Treasury, but they will obviously be drawing on whatever external advice is available—in effect, that we can get our hands on.

Dr JOHN KAYE: Can I ask you what role did Treasury play in writing the Owen report? Just for Mr Obeid's benefit—

CHAIR: Dr Kaye, you have asked a question and you should let the Secretary of the Treasury answer the question.

Mr PIERCE: I seem to recall this coming up last year. I chaired a Government committee to support Professor Owen, and Professor Owen had a secretariat to support him that was made up of people from Treasury and contracted by Treasury—the Department of Premier and Cabinet [DPC] and the Department of Water and Energy [DWE] was principally where the people came from.

Dr JOHN KAYE: Is it not true that it is an open secret that in fact Treasury wrote the entire play sheet of the Owen inquiry and Professor Owen's role was purely to fill in the dots?

Mr PIERCE: I think that would be a gross mischaracterisation of the process, particularly the extensive public consultation process that occurred through the Owen report, and the extensive consultation that Professor Owen did with both the participants in the industry and the people who made submissions. It was Professor Owen's report, and I do not know where you think you are casting aspersions on his independence or his own standing but he would be happy to attest to the fact that it is his report.

Dr JOHN KAYE: You would attest to the fact that you did not have any undue influence over the conclusions of the report?

Mr PIERCE: I have answered that.

Dr JOHN KAYE: That the report was not written on the basis of finding a way of justifying privatising electricity?

Mr PIERCE: No, absolutely not.

Dr JOHN KAYE: You totally reject that?

Mr PIERCE: Absolutely.

Dr JOHN KAYE: On oath?

Mr PIERCE: Absolutely.

Dr JOHN KAYE: Thank you. Can we talk a little more about the Owen inquiry and the sale of the retailers? Is it not true that the Owen report does not recommend the sale of the retailers without putting the ownership or, at least, the control of the generators in private hands for some chance of vertical reintegration?

Mr PIERCE: Yes, it is very explicit that just selling the retail businesses could not be expected to address appropriately the investment requirements going forward. He needed to address that because of the contrast between what New South Wales was proposing and what had occurred in Queensland where they did sell the retail sector. There was the need to highlight that the issues facing New South Wales were different to the problems that they were solving in Queensland.

Dr JOHN KAYE: So that means that the Iemma Government's plan B is not recommended by the Owen inquiry?

Mr PIERCE: Not quite. The alternative strategy encompasses the sale of development sites and, as you might expect, if you like, the prime development sites within New South Wales for both different types of gas and for coal that are in public ownership. Part of this development of the strategy and the review is to determine the effect and what else may need to be done to get us the maximum amount of private sector investment through the sale of the retailers and the sites—what can we rely on to emerge from that sort of transaction—and then to define what may be left for the public sector to have to do?

CHAIR: I wish to ask some questions relating to what we have been discussing. The Government's plan was to lease the generators, not to sell the generators. Is it still possible in the future to reconsider that option of leasing the generators with or without legislation?

The Hon. ERIC ROOZENDAAL: The people in the Parliament have spoken on this issue. We are currently assessing our options and developing a revised reform package which will ensure that New South Wales has reliable and secure electricity supply while minimising the cost to taxpayers and the risk of Government future investments. We are committed to withdrawing from the retail electricity market, where the three State-owned retailers already compete against numerous private companies. As we have always said, the distribution and transmission network businesses that are responsible for maintaining and upgrading the poles and wires remain 100 per cent in Government ownership. The mini-budget is to provide the State with the necessary flexibility to fund new baseload generation capacity, if necessary, while protecting the triple-A credit rating.

CHAIR: In that new baseload generation would you also consider public-Government partnerships—public-private partnerships?

The Hon. ERIC ROOZENDAAL: Yes, certainly PPPs are something the Government is always interested in—something we may consider.

CHAIR: The Government may be forced to do that because of the huge expense. Could you restate that figure? Is it \$10 billion potentially?

The Hon. ERIC ROOZENDAAL: What for baseloads?

CHAIR: Yes.

The Hon. ERIC ROOZENDAAL: I am advised it could be between \$7 billion and \$8 billion.

CHAIR: One of the factors in your future planning, in view of the economic crisis, is to prevent wage growth. I noted in the budget papers at page 1-23 it states under "Wages growth":

In 2008-9, employee related costs are budgeted at 49.5 per cent of total general government expenses.

On the same page the Government has said that it wants to keep it tied to a 2.5 per cent increase. Is there any danger of a wages blow out given cases such as the recent ferry engineer wage increase and pressure from other sectors, such as police and teachers, for a larger increase than 2.5 per cent?

The Hon. ERIC ROOZENDAAL: I am advised that the recent payments to outer harbour engineers employed by Sydney Ferries were in accordance with the wages policy. The engineers were paid a wage increase of 2.5 per cent and a one-off retention allowance. Retention payments are permitted under the wages policy. However, I think it is worth noting that a review of the underlying issues, which are qualification requirements and standards for outer harbour engineers, is being held which will inform the strategy to alleviate current attraction and retention issues. Our wages policy is to maintain over time the value of substantial real wage increases gained by public sector employees over the last decade. Current wages and salaries levels for New South Wales front-line service delivery jobs compare favourably with equivalent public sector jobs in other States. Future wage increases will be limited to a net cost of 2.5 per cent per annum. Agencies must fund any increase above 2.5 per cent per annum to wages through employee-related cost savings.

The latest information I have is that about 25 agreements have been completed under the new wages policy with outcomes ranging from 2.5 to 5 per cent per annum. I understand there are 14 union agreements, 2 non-union collective agreements and 9 arrangements for common law contract staff. Adherence to the wages policy is required to keep the Government's fiscal strategy on track, since employees account for nearly half of the government's total expenses. I am advised that if the cost of new wage agreements were to exceed 2.5 per cent by only 1 per cent per annum, the financial impact would be \$219 million in 2008-09, \$471 million in 2009-10 and around \$1 billion in 2011-12, which would have clear consequences for the budget position. I am advised that awards for public servants and firefighters are currently being negotiated and teacher and police awards are due for review next year.

CHAIR: In Budget Paper No. 2, page 1-9, under the heading "Revenue" it says that taxation revenue is expected to increase by an average of 4.1 per cent per annum and this is based on your expectation of a moderate growth in the property market. As there is now a dramatic slump in the property market, is that figure realistic or will it be reviewed?

The Hon. ERIC ROOZENDAAL: Chair, clearly with the downturn in land duty revenues over the last three months of around \$270 million we will be re-evaluating that growth figure and moving forward in the mini-budget process.

CHAIR: So the taxation revenue may not average 4.1 per cent?

The Hon. ERIC ROOZENDAAL: That is something we will have to look at.

CHAIR: It will be part of the mini-budget review?

The Hon. ERIC ROOZENDAAL: Yes.

CHAIR: On page 1-10 you outline capital grants for the forward estimates to be an average of 24.7 per cent and that this is mainly because of the anticipated funding in the rail sector of the North West Metro and the South West Rail Link. What effect will these extra pressures on the budget have on those two projects?

The Hon. ERIC ROOZENDAAL: Chair, clearly as part of the mini-budget process we are looking closely at the capital expenditure program and the projects within that. I do not want to be drawn on specifics in terms of the mini-budget process. It is worth repeating that we are not ruling anything in or out at this stage.

CHAIR: On page 1-14 there is a reference to some of the problems with the Government's budget due to the global credit crisis and sub prime failure in the United States. I want to check with you an implication. Are any superannuation investments affected by the sub prime failure in the United States?

The Hon. ERIC ROOZENDAAL: I will let the Secretary answer that.

Mr PIERCE: The assets that back up the superannuation liabilities are obviously managed by the trustees. There are some assets that are managed through TCorp but the superannuation assets are with the trustees. I am advised that the direct exposure amounts to something like \$3 million—quite small. The more significant effects obviously are the flow-on consequences of what is happening the United States on the market more particularly. Those broader movements will have an effect on all of the Government's investments and financial assets. That is the major issue, rather than direct exposure to sub prime or CDOs.

CHAIR: So there is no Government superannuation money invested in sub prime areas in the United States through those trustee boards?

Mr PIERCE: I have been advised that there was an exposure of around \$3 million, which in terms of the asset pool that they are holding is very, very small. What we are more concerned about is the broader market effects and the effect that will have on investment return, which is going to be multiples of that.

CHAIR: In view of what is happening in the United States obviously you would have a policy not to put anything into that area in the future?

Mr PIERCE: It is always a good principle not to invest in any instrument unless you have a thorough understanding of the nature of the assets that are behind that instrument. When these products were first being marketed, if you like, one of the first areas these people who construct those things went to was the central borrowing authorities across the States. Once TCorp had a look at it very early in the piece, they just said, no, we would not be touching any of that sort of stuff because we could not get a clear understanding of the nature of the underlying asset. There is no need, I do not think, to be specific about those particular instruments. The broader policy position of not investing in things that you do not understand what the underlying asset is, that covers it and effectively did.

CHAIR: It is correct though that many of the New South Wales local councils have invested in that area?

Mr PIERCE: Yes.

CHAIR: Will some of those councils, where it runs into millions of dollars, be seeking State Government support?

Mr PIERCE: Not that I have been made aware of, Reverend Nile. They have not approached us from that perspective at all. I think they are pursuing their actions directly with the arrangers.

The Hon. PENNY SHARPE: We have no questions at this time, Mr Chair.

The Hon. MATTHEW MASON-COX: Treasurer, I note your earlier response about the Fraser MacFarlane consultancy that was commissioned by the Premier's office. Is it not really a vote of no confidence from the Premier in your ability to manage the economy in unstable times?

The Hon. ERIC ROOZENDAAL: No.

The Hon. MATTHEW MASON-COX: Yesterday we found out that you are not alone in that Mr Tripodi confirmed that he has been shut out of the process as well. Whilst that may not be surprising, as Treasurer are you indignant about being sidelined by the Premier?

The Hon. ERIC ROOZENDAAL: I do not accept the premise of your question.

The Hon. MATTHEW MASON-COX: If you have not been sidelined, why are the ex-Reserve Bank Governors not reporting directly to you rather than to the Premier?

The Hon. ERIC ROOZENDAAL: I certainly have spoken to Bernie only yesterday. Obviously there is dialogue and we are quite grateful having their expertise on board.

The Hon. MATTHEW MASON-COX: What was the nature of your discussion yesterday with Bernie?

The Hon. ERIC ROOZENDAAL: It was to do with a number of economic issues, it may surprise you to know, Mr Mason-Cox.

The Hon. MATTHEW MASON-COX: It would surprise me. If I could now direct a couple of questions in relation to the recent package brought down by the Federal Government to rescue the financial markets. Treasurer, do you think that the proposed package will have any impact on the State budget?

The Hon. ERIC ROOZENDAAL: Which proposed package would you be referring to? Which particular item of the Federal Government?

The Hon. MATTHEW MASON-COX: The package in toto that would be specifically guaranteeing the wholesale debt of banks here in Australia.

The Hon. ERIC ROOZENDAAL: I certainly think that is a positive step by the Federal Government to bring confidence into the financial markets.

The Hon. MATTHEW MASON-COX: Given the Federal Government guaranteeing the debt of the banks, which is essentially granting them sovereign debt status and therefore a lower risk profile than State Government debt, is there not a risk that it might be more difficult for the State Government to raise sufficient debt internationally, which is critical to fund its extensive capital program?

Mr PIERCE: We are still getting more detail on the way in which the Federal Government is going to be implementing what they are proposing. They are guaranteeing deposits for, I think, three years. That is quite different to saying that they are guaranteeing their debts. They are taking action in the capital market and that is expected to have an effect on the banks' cost of borrowing. The effect of that on the relative cost of the banks' cost of borrowing versus the State's really depends on the way in which they implement it, and we are in discussions with them about that at the moment. I think very shortly the CEOs of the central borrowing authorities and their equivalent at the Commonwealth level are having discussions about precisely that.

I should note that when the banks' cost of borrowing comes down—the swap curve comes down—that tends to reduce the margin between semi-government bonds and Commonwealth bonds along with it because in at least the last little while semi-government bonds tend to be priced off the swap curve.

The Hon. MATTHEW MASON-COX: Mr Pierce, it has been put to me that clearly the Government is guaranteeing term funding for Australian bank institutions. Indeed, I have in front of me, which I hope you are aware of, some details issued by the Federal Government in relation to how that scheme might work. In particular it states that the guarantee will secure borrowings by Australian financial institutions overseas and in return for that there will be a fee paid by those institutions to the Australian Government. Are you aware of that?

Mr PIERCE: Yes. I was discussing this with the CEO of TCorp last night. The additional detail that you need in order to be able to assess the effect on the relative cost of borrowing of the banks versus the semi is the size of that fee. I think you said it was overseas borrowing; so there is both the size of the fee and the quantum of the debt on issue by the banks that will be covered by it and if it is an incremental amount on the new stuff that they issue then I would expect it would have a positive effect not just on the banks but on ourselves.

The Hon. MATTHEW MASON-COX: If I could just delve into that a little more closely. Is not the reality that the banks will now be in the market overseas for scarce funds directly in competition with TCorp and in that regard they will have sovereign backing of the Australian Government to secure that debt, which is a number of basis points below the rate at which that debt can be secured by TCorp. So, as a result, is it going to

be more difficult for TCorp to secure the extensive funding that is needed in international markets, given the financial crisis, to actually fund the capital program that your Government has put forward?

Mr PIERCE: Whether that turns out to be the case or not depends upon the way in which the Commonwealth implements it. At the moment, based on that information, we cannot make an assessment of it and that is why we are having discussions across all of the central borrowing authorities and the Commonwealth Office of Financial Management, which is their equivalent, to get more detail on how they are going to do it so we can make that sort of assessment.

The Hon. MATTHEW MASON-COX: Would it be a fair expectation that it might increase your cost of funding for that debt that you seek from international markets?

Mr PIERCE: No. In absolute terms, no. I thought the nature of your question was a question about whether it increases our cost of borrowings in relative terms. At the moment we just do not know because we do not know enough details, which is why we are talking to them. I should point out that that clearly would not be the intention of the Office of Financial Management at the Commonwealth level. One of the things we want to work through with them is how they go about implementing it so that does not happen.

The Hon. MATTHEW MASON-COX: Could you envisage a situation where the State is frozen out from securing enough international debt for its capital program and therefore needs to seek a guarantee from the Commonwealth, just as the banks have received it, to ensure sovereign debt status and access to capital? Is that a possibility?

Mr PIERCE: We have been there—it was called Lane Council. And I do not think either at the State level or at the Commonwealth level there is a desire to return to those sorts of arrangements because once the Commonwealth underwrites or guarantees the State debt you then end up with a whole lot of other administrative apparatus built around it such as the Commonwealth making decisions about what we can raise State debt for, and, effectively, a move away from those administrative arrangements to the States standing on their own two feet, issuing their own debt, getting their own credit ratings, is not a position that anyone who has spoken to me about it is having a desire to move away from, either at the Commonwealth or State level.

The Hon. MATTHEW MASON-COX: But going forward is a potential risk, is it not, that you may need to go cap-in-hand to the Commonwealth Government to seek their guarantee, just as the banks are receiving it, to ensure access to the funds?

Mr PIERCE: I cannot see that happening.

The Hon. MATTHEW MASON-COX: Would you undertake to report to the Committee the details of those discussions with the Federal Government in relation to its package for access to international markets and the implications that may have for States' access as well?

Mr PIERCE: I think you can expect that when we have had those discussions and analysed it that we will be advising the Treasurer and the budget Cabinet committee, if the Treasurer thinks it appropriate, of what its consequences are. The issue of providing advice to this Committee is something we will have to discuss with the Treasurer and also the legal people in the Cabinet office. I am not sure what the status of that sort of thing is.

The Hon. MATTHEW MASON-COX: The questions on notice will tell you in that regard in due course. I also wanted to go back to the discussion earlier in relation to Budget Paper No. 2, particularly page 2-5, which states that if the Government were to fund up to \$15 billion in base load electricity capacity then it would have to reprioritise the existing capital program. Are you aware, Mr Pierce, that the former Treasurer, Michael Costa, told Parliament that "no items in the infrastructure strategy are dependent upon the Government's electricity plans"? Are you aware of that statement?

Mr PIERCE: I am aware there was discussion about the way in which the proceeds from the electricity transactions were to be treated in the budget and that the Treasurer made it clear, as indeed we did in the budget papers, that there was nothing in this budget that was funded from the proceeds. My conclusion would be that the quote from the former Treasurer relates to the transaction process.

The Hon. MATTHEW MASON-COX: The Treasurer made it clear many times that the infrastructure program was fully funded and not dependent on the sale of electricity assets. Are you aware of that?

Mr PIERCE: It was fully funded in the sense that it came from the funds we had available without those electricity transaction proceeds. That is certainly the case. That is one of the issues I addressed in my opening statement last week. I drew a distinction and went back to the way in which that was explained by Owen. That is, that the transaction proceeds were treated as distinct from the effect of the investment part.

The Hon. MATTHEW MASON-COX: If that is the case, and the Government's infrastructure program was fully funded without the need for funds from the electricity sale, why is it stated in the budget papers that if the Government were to fund the electricity investment to keep electricity supply secure it would have to reprioritise the existing capital program set out the budget?

Mr PIERCE: Because it is talking about a different thing, as I was trying to explain last week. The proceeds were not accounted for, or not used, to fund anything in the budget or in the State Infrastructure Strategy. But without the transaction the issue becomes how we fund this now additional investment in the electricity sector that has to happen without the transaction. When that is added on—and that is effectively what the rating agencies have done—it causes them concern about the rating. The possibility of that is explained in the part of the budget papers to which you referred. If it is added, the rest of the program has to give somewhat to make room for it. However, that is a completely different issue from the treatment of the transaction process.

The Hon. MATTHEW MASON-COX: In that regard, the money required for the investment in those electricity assets is the post-2012 time frame for the estimates in this budget. Is that what you are really saying: that that it is outside the purview of this budget?

Mr PIERCE: Not necessarily. Owen referred to 2013-14 as the date on which it would be appropriate for the Government to be prepared for baseload investment. Obviously, if we are to have a piece of kit or the first unit and subsequent units on the ground by then, we would need to incur capital expenditure beforehand. I referred to the phrase "prepared for 2013-14" last week as being important, but I did not get the opportunity to explain why. The analysis of demand and supply in the Owen report suggested a range of dates on which the demand and supply would come to balance and we would need new generation kit on the ground. From memory, that range was from 2013-14 to 2017. So, the 2013-14 date is a mean expectation.

Professor Owen's preface refers to the balance of risk. Being too late with these types of investment has very different consequences from being a bit early, and when we start the development of these types of projects it is a lot easier to slow them down than it is to speed them up if the world changes. Given that, Professor Owen used the term "risk-averse approach" to planning for 2013-14. Then, of course, as the world moves on, that could change by a year or so. So, 2013-14 is the date to be prepared for. If we are to be prepared for it, there will need to be capital expenditure in the years beforehand.

I think we talked about taking four years to construct a major baseload power station. We do not have all of it in there in year one; we think of it as 2013-14. If there is a 500-megawatt unit in the ground, we are spending capital in the four years leading up to it. That would get us into the back end of the current forward estimates period.

The Hon. GREG PEARCE: How do you explain Professor Owen's funding scenario where he does not include any funding until 2014-15 for baseload power?

Mr PIERCE: I have had a chance to look at the graph in the Owen report that you showed me last week. They had this range of 2013-14 to about 2017. For the purposes of the fiscal modelling that was done as part of Owen, they modelled it on the basis of the plant being available in the mid point between those two dates, which means a bit of capital expenditure beforehand. That was used to generate some of the graphs and the results earlier in the report that showed net debt to GSP rising from about now. So capital expenditure was included in those pictures.

It is explained at the bottom of the page before that graph that for the purposes of doing that particular appendix they took the investments in baseloads as distinct from the other parts of the sector and divided it into two periods and then smoothed and averaged them for the purposes of presenting it in that appendix. I have asked why they did that, because it is not consistent. It was for the purposes of producing the graph rather than

doing the fiscal modelling, where the capital expenditure starts to occur in the back end of the forward estimates period.

The Hon. GREG PEARCE: Treasurer, have you had any briefing on Treasury's policy with regard to collateralised debt obligations by local government?

The Hon. ERIC ROOZENDAAL: I am aware. I understand that collateralised debt obligations are now prohibited investments as a result of the Cole report.

The Hon. GREG PEARCE: Were you advised or given a briefing on Treasury's earlier review of its own policy regarding investing in collateralised debt obligations, which was referred to by Mr Pierce?

The Hon. ERIC ROOZENDAAL: I think he was referring to TCorps' policy in relation to that, and that was prudent. Under the Local Government Act 1993 investment audit, councils were required to invest only in investment-grade products that were rated triple-A or greater. That was the minimum standard for councils when investing.

Dr JOHN KAYE: I ask you, Treasurer, about Moody's rating of Iceland, which is highly significant. Is it not true that one month ago, Moody's gave Iceland a triple-A rating?

The Hon. ERIC ROOZENDAAL: I would have no idea, interestingly enough, what Moody's had done about Iceland. Nor would I know the credit rating of North Korea or Cuba or Communist China. Interestingly enough, I am Treasurer of New South Wales. I am fascinated that the Greens are interested in the credit rating of Iceland.

Dr JOHN KAYE: Would it surprise you to hear that one month ago Iceland was given a double-A rating—one below triple-A—by Moody's and now it is almost in financial insolvency? It does not interest you? Okay, let us try another one. Let us go to the collateralised debt obligations, the CDOs.

The Hon. ERIC ROOZENDAAL: I will answer that. A lot of things interest me, what is happening around the world. At the moment I am particularly interested in the artwork of my children. That is taking up a lot of my time at home, as they do new artwork. I have an interest in classic cars. I have lots of interest, but I have to tell you, the credit rating of Iceland does not rank up there.

Dr JOHN KAYE: So the performance of the credit rating agencies is of no interest? The ones that we are paying—I do not know how much it is—a substantial amount of money each year to give us advice on our credit ratings, one of them being Moody's, and it does not worry you that they got it so badly wrong in the case of Iceland? That is of no interest to you? You are more interested in classic cars than that?

The Hon. ERIC ROOZENDAAL: One thing I have learned in my time in politics, and particularly in Parliament, is that I need to be very cautious in responding to the leading questions put forward by the Greens, because I understand basically you believe in international conspiracies and the agencies involved in international conspiracies.

Dr JOHN KAYE: I take a point of order on that, because you are now debating the question, which is outside the standing orders.

The Hon. ERIC ROOZENDAAL: I reckon it is about as relevant as asking about the credit rating of Iceland.

Dr JOHN KAYE: Is it not true that Moody's rates the State of New South Wales, yes or no?

The Hon. ERIC ROOZENDAAL: Moody's and Standard and Poor's both are engaged to rate—

Dr JOHN KAYE: Is it not true that Moody's got it badly wrong in the case of Iceland?

The Hon. ERIC ROOZENDAAL: Chair, as I stated previously, I have a lot of interests. There are other interests I have and I do not want the gallery to think I am so narrow-minded that I have only a few interests as well as my family. I can talk about my religious beliefs if we have time. I have a lot of interests, but

the credit rating of Iceland is not one of them. I have had some obscure questions in my time in this place, but we are getting up there.

Dr JOHN KAYE: Let me ask you another question about collateralised debt obligations, CDOs. Is it not true that both rating agencies used in New South Wales, Standard and Poor's and Moody's, gave a large number of CDOs a triple-A rating? Are you not aware of that?

The Hon. ERIC ROOZENDAAL: I will have to take that on notice.

Dr JOHN KAYE: How much do we pay each year to Standard and Poor's and Moody's?

The Hon. ERIC ROOZENDAAL: I will have to take that on notice.

Dr JOHN KAYE: It would be fair to say it is a substantial sum of money?

The Hon. ERIC ROOZENDAAL: Well, they are engaged as—

Dr JOHN KAYE: So we pay them for the service? Do we—

The Hon. ERIC ROOZENDAAL: Hold on. You asked a question. Can you allow me to finish before you move on to the next bit of the conspiracy? Every reputable sovereign State that seeks to raise funds engages rating agencies so the risk of their debt can be rated for them. We engage Moody's and Standard and Poor's. We have engaged them, I believe, since 1987?

Mr PIERCE: Maybe earlier—sorry, 1987, yes.

The Hon. ERIC ROOZENDAAL: I was right, since 1987. That is important because when you are out in the international market raising funds, a number of central banks and other sovereign States will only seek to invest in triple-A credit rated products, or bonds effectively. That is why we engage those two. Where you are going, you are saying the agencies—I understand where you are going—

Dr JOHN KAYE: No, you do not know where I am going. You cannot possibly.

The Hon. ERIC ROOZENDAAL: That is more of an indictment on the Greens in general and their economic policy, I would have thought.

Dr JOHN KAYE: You mentioned two rating agencies. There is a third one, is there not, called Fitch?

The Hon. ERIC ROOZENDAAL: Yes.

Dr JOHN KAYE: What does Fitch rate New South Wales as?

The Hon. ERIC ROOZENDAAL: I believe, from memory, Fitch rates the credit rating of a number of SOCs and PTEs.

Dr JOHN KAYE: Does it not also give a credit rating for the State of New South Wales, and is that credit rating not double-A plus, not triple-A?

The Hon. ERIC ROOZENDAAL: I will ask the Treasury Secretary about that one.

Mr PIERCE: I am not sure what Fitch do because we do not engage with them. We do not go through a credit rating review process with them and we certainly do not pay them. They have been trying to enter the market and, off their own bat, they may have decided to rate various people. But for our purposes it does not matter much what they say.

Dr JOHN KAYE: So, the only ones that matter are the ones we pay? The one we do not pay as a State, Fitch, which gives us a double-A plus rating, is not important?

Mr PIERCE: The issue is the degree of access and information we are able to provide to the rating agency. Each year we spend at least a day sitting down with them and going through the budget in detail. During

the course of a year, both at budget time and at other times during the year, we are in continuous discussion with them, responding to their questions and providing information, with Standard and Poor's and Moody's. That is not the nature of the relationship with Fitch.

Dr JOHN KAYE: Given that both Standard and Poor's and Moody's were involved in providing triple-A ratings for CDOs that later went belly up, to put it mildly, are you convinced that the credibility of those two credit agencies will survive the current financial turmoil?

The Hon. ERIC ROOZENDAAL: It is not for me to judge the credibility of any organisation at the moment in the financial sector. You would not have picked a number of institutions that survived the Great Depression hitting the fence in recent times. But it is worth noting that the criteria that the agencies use to rate sovereign States such as ours and what they use to rate commercial organisations or commercial products are very different. We are a lot more transparent than commercial products. I do not know where you want to lead all this but clearly the implications of a downgrade on a triple-A credit rating are there for all to see. I do not want to bore the Committee and go back through the graph again to show what happens when you do not address these challenges when they are brought up by the agencies.

Dr JOHN KAYE: You just said we are rated as a sovereign government. Is that correct?

Mr PIERCE: No.

Dr JOHN KAYE: We are not. We are rated as a local and regional government. It is that true?

The Hon. ERIC ROOZENDAAL: I will stand corrected on that point. There is your first point of the day.

Dr JOHN KAYE: Given that we are about to embark on a mini-budget project that, by your words, the words of the Treasury Secretary and the words of the Premier, is driven largely by fear of losing the triple-A rating, that is the rating given to us by Standard and Poor's and Moody's, are you not at all concerned that given that we are rated as a local and regional government and hence there is a fair amount of subjectivity in the rating, that they might be overreacting to the appalling track record they have in rating CDOs and they are trying to rescue their credibility at the expense of New South Wales by downgrading us or putting us on credit watch because they have had their fingers so badly burned over the CDO issue?

The Hon. ERIC ROOZENDAAL: Let me be very clear about what you are asking: You are suggesting in the context of the world financial market meltdown, the intervention of the United Kingdom Government of \$1.2 trillion, and \$700 billion, you are thinking that Standard and Poor's, with all this happening, picked the little old State of New South Wales down under as somehow a way to deflect—

Dr JOHN KAYE: The answer to the question is no.

CHAIR: Let the Treasurer finish his answer.

The Hon. ERIC ROOZENDAAL: That is just beyond a joke as a serious question.

Dr JOHN KAYE: That is not what I was asking.

The Hon. ERIC ROOZENDAAL: These agencies take their rating of us very seriously, as we take it. There are real implications if there is a downgrade and if we do not take fundamental steps required through the mini-budget process and implementation through the mini-budget process to address defending the triple-A rating. The whole basis of your questions and your logic is that you believe that the agencies are now in a conspiracy to protect their own reputations by downgrading or threatening to downgrade New South Wales.

Dr JOHN KAYE: That is not what I was saying.

The Hon. ERIC ROOZENDAAL: This is just a nonsense. I know you believe in the world financial conspiracy; I understand that is where you are coming from but I think this is a ridiculous line of questioning.

CHAIR: We will not pursue that line of questioning.

Dr JOHN KAYE: I would like to, if you are prepared to give me 30 seconds to ask my next question.

CHAIR: No.

The Hon. ERIC ROOZENDAAL: Where else do you want to pick?

The Hon. EDDIE OBEID: Somalia.

The Hon. ERIC ROOZENDAAL: Iraq? What do you want to pick next?

CHAIR: I know we have very difficult economic conditions but I note in Budget Paper No. 2, page 2-9 that you are trying to work out future costs in relation to the future population and the relative age of the population. There is a graph at 2.3 showing the change of the State population aged 65 and over?

The Hon. ERIC ROOZENDAAL: Yes.

CHAIR: The budget papers indicate that as the population ages, hospital and medical costs will increase. Are there any changes to the projections shown on that page as "actual"?

The Hon. ERIC ROOZENDAAL: Is this in relation to the age profile demographic changes going forward?

CHAIR: Yes? Are there any changes to that because the way in which the graph has been prepared seems to be vague?

The Hon. ERIC ROOZENDAAL: I think the Secretary of Treasury has a response.

Mr PIERCE: The graph is reproduced from the 2006 budget paper that addressed this issue specifically. At the time we were going to be reproducing that major report once every five years, five years being an appropriate gap because these demographic type numbers do not shift by very much over time. In order to report the effect of the budget on the fiscal gap, we do not date it during the year. It is true that since that report was done there has been an increase nationally in the fatality rate compared to the numbers put forward in the 2006-07 report, but in terms of its flow-on the effects of the fiscal position in that period, up until those additional people have been born in the last couple of years into the workforce, the effect will not be all that great. I know it does have an effect in lowering slightly the size of the fiscal gap and giving us a bit more time, but the effects are quite small and they are certainly not significant in terms of the measurement of the fiscal gap.

CHAIR: You are anticipating that the proportion of the population aged the five years or more will almost double from 13.7 per cent in 2005 to 24.8 per cent in 2044?

Mr PIERCE: Yes.

CHAIR: What impact will the new Federal Government immigration numbers have on that? I assume that it must have an impact.

Mr PIERCE: The reason that we worry about population numbers is because that is the starting point to then look at the labour force because it is really the rate of growth in the labour force, together with productivity of the economy which is the major driver of growth. To the extent that immigration gives us a larger rate of growth in the workforce beyond what is naturally occurring within the country, then the potential gross domestic product [GDP] growth becomes higher. That has an effect on the economy that can be quite different from the effect on State finances.

In that report we went to some pains to point out that just because there are policy actions that improve economic growth, those policy actions do not necessarily translate into a larger economy, an improved State fiscal position. To the extent that higher population results in a higher rate of growth in health services, for instance, then people can add to fiscal pressures at the State level.

CHAIR: Budget Paper No. 2, page 1-13 has a table at 1.3 "Revenue from Transactions, Interest Income". It was budgeted at \$720 million. That has been revised by \$162 million. What is the explanation for that reduction?

Mr PIERCE: It would have been the reduction effectively in equity markets and reduction in returns on investments. There would be more detail on that in appendix D-3. You will see across the NSW Self Insurance Corporation, the Building Construction Industry Long Service Payments Corporation and a little bit on the Dust Diseases Board that there are lower than projected financial market returns. When we produced the budget—and we are looking 12 months ahead—essentially we budget on very long-term investment returns and this naturally bounces around, depending on what the market actually does compared to that long-term trend. In previous years the numbers in brackets there would have been positive numbers.

CHAIR: On page 1-8, table 1.2 relating to some questions asked about superannuation, it has net actuarial superannuation gains or losses of \$3.316 million for 2006-07 and for 2007-08 it has dropped to minus \$1.69 million, a revised figure of \$2.710 million. What is explanation for that dramatic drop?

Mr PIERCE: If you look at footnote C that is attached to that, you will see that it is a consequence of both lower financial returns and also the fact that the discount rate that is applied to the value of the liabilities changed. That is really in 2009-10. But that 2007-08 movement is investment returns.

CHAIR: Page 1-19 refers to cash flow and states that there will be an expected cash deficit of \$1.4 billion in 2007-08 and this is lower than the budgeted deficit of \$1.7 billion. Will there be any change to that figure of \$1.4 billion, in view of the economic crisis?

Mr PIERCE: In between the published accrual budget result and the cash flow number there are lots of things that link the two. We certainly know that the revenues from property transactions fell off in the last month of 2007-08 compared with what we were budgeting for or expected, and that there were additional expenses. The operating result will therefore be slightly lower—that is the \$600 million number we were talking about last week. If nothing else changed, we would then expect there to be a change in that \$1.4 billion number by something similar. But, as I say, there may well be some other things. I would not be surprised if that deficit is slightly larger once we finalise the account.

The Hon. GREG PEARCE: Minister, when we concluded earlier I was asking you about the CDOs. I think you said that you have been briefed that Treasury and/or TCorp had made a decision some time ago not to invest in CDOs. That is where we got to, is it not? Were you briefed as to when that decision was made by Treasury and TCorp?

The Hon. ERIC ROOZENDAAL: I am sure the Secretary of Treasury can inform us of that.

Mr PIERCE: What I said was that TCorp—there did not need to be a conscious decision not to do it; the existing policy about which we were investing just meant we did not get into it in the first place. There were some holdings of financial assets that TCorp now manages on behalf of New South Wales Lotteries that were previously managed by somebody else that Lotteries contracted with, and when TCorp took over the management of those financial assets there was a very small component of those that did have an exposure to CDOs, something in the order of \$1 million or so. But that is the only exposure of CDOs that TCorp has had. It was taken over by TCorp on the condition that they would be managing those assets, and to reduce the risk associated with the investments they had or they had inherited.

The Hon. GREG PEARCE: When you answered earlier, you said something that indicated that Treasury or TCorp had done some sort of review of CDOs, and then you went on to say you would not touch them because—

Mr PIERCE: No. I think the question related to local government. The distinction was between what the State Government does as compared with what local government does. The coal review that was undertaken was in relation to what local government does, not in relation to what the State Government does.

The Hon. GREG PEARCE: Did the State Government at any time do a review on what it does?

Mr PIERCE: Not a formal review, because the existing policy meant we did not get into it.

The Hon. GREG PEARCE: Did you have an external adviser talk to you about those products?

Mr PIERCE: I certainly did not. I know TCorp assessed them and when they were being marketed to them they said they would not touch them. So that is the end of the story.

The Hon. GREG PEARCE: Did TCorp get external advice?

Mr PIERCE: I am not aware, but I am sure that they have the internal skills and resources to make that assessment themselves.

The Hon. GREG PEARCE: Could you take that on notice, as to whether they did get external advice?

Mr PIERCE: There was external advice in relation to the council review, but that is quite separate. In fact, Michael Cole, who undertook that review, is a director of TCorp.

The Hon. GREG PEARCE: I am asking you to take that question on notice.

Mr PIERCE: Okay.

CHAIR: Take it on notice with regard to the State?

The Hon. GREG PEARCE: With regard to the State, whether it obtained an external review from the TCorp group, and if so who did it and when it was.

Mr PIERCE: I am a little at a loss as to what we are reviewing, because it was not something we were investing in.

The Hon. GREG PEARCE: I am simply trying to close off your previous answer, in which you said you assumed that TCorp had internal resources to make its decision. I want to know whether that is the case, or whether TCorp got external advice in relation to these products.

Mr PIERCE: Okay, that is straightforward.

The Hon. GREG PEARCE: Minister, does the Government have any current valuation on New South Wales Lotteries?

The Hon. ERIC ROOZENDAAL: I have seen a few numbers kicked around. There are a number in today's *Financial Review*, but I do not believe we have one.

The Hon. GREG PEARCE: You do not have a current one, or you do not have any valuation at all?

The Hon. ERIC ROOZENDAAL: I think there might be a few estimations of the value of a number of Government assets, but I do not know whether we have a precise valuation.

The Hon. GREG PEARCE: Where would those numbers be?

The Hon. ERIC ROOZENDAAL: Which numbers are you talking about?

The Hon. GREG PEARCE: The ones you just mentioned. You said that you believe there would be some numbers in Government assets. Where would those numbers be?

The Hon. ERIC ROOZENDAAL: Generally we have the ability to have an estimation of the value of our asset.

Mr PIERCE: From the accounts of New South Wales Lotteries we will have a value for it. That gives us an estimation of the value of the business as it is at the moment. There is nothing different about that from any other business.

The Hon. EDDIE OBEID: It is not the market value.

Mr PIERCE: Precisely. It is a different issue.

The Hon. GREG PEARCE: What I am after is your valuation of New South Wales Lotteries.

Mr PIERCE: That would be in the annual report of New South Wales Lotteries.

The Hon. GREG PEARCE: Well, it is not. Unless you suggest the value is just your equity. Is that what you are suggesting is the value?

Mr PIERCE: Yes, equity would be what I had in mind.

The Hon. GREG PEARCE: So \$53 million or \$54 million?

Mr PIERCE: That sounds about right.

The Hon. GREG PEARCE: Minister, I return to our earlier discussion, which we had not finished, on what Standard and Poor's would like you to do in relation to retaining the triple-A rating. We started to talk about further reforms. What do they have in mind in relation to further reforms?

The Hon. ERIC ROOZENDAAL: They are to ensure that we can keep our recurrent expenditure within affordable limits, effectively, to ensure our revenue streams, and re-prioritise the capital expenditure program.

The Hon. GREG PEARCE: What sort of things are we talking about as reforms?

The Hon. ERIC ROOZENDAAL: I will not be drawn on specifics. That may well be part of the mini-budget process as what we announce.

The Hon. GREG PEARCE: It may well be?

The Hon. ERIC ROOZENDAAL: It may well be.

The Hon. GREG PEARCE: You have announced one so-called reform, which is RailCorp to be reorganised and to come back directly under the control of the Minister.

The Hon. ERIC ROOZENDAAL: Yes.

The Hon. GREG PEARCE: How does that fit in with the reforms that Standard and Poor's might be looking at?

The Hon. ERIC ROOZENDAAL: It may not be connected to what they are referring to. But I can say that deciding to bring RailCorp back in and get rid of the salt—which is about boosting accountability and improving services for the people who use the rail system every day—means that RailCorp becomes a statutory authority reporting directly to, and taking direction from, the Minister for Transport. RailCorp will still be classified as a PTE. There is no impact on the budget as a consequence of change in governance structure. There is, of course, an immediate budget saving of, I am advised, around half a million dollars per annum resulting from board fees and associated operating costs.

The Hon. GREG PEARCE: The capital expenditure in the rail sector is primarily through the Transport Infrastructure Development Corporation [TIDC]. Could you outline how that capital expenditure is funded and the process for capital expenditure in the rail sector?

Mr PIERCE: I think we covered this earlier. Most of it is funded effectively out of general government revenues and is provided as a grant to TIDC and RailCorp. That grant, although it is spent by TIDC and RailCorp as capital and is recognised as capital expenditure in their books, is an expense to the general government sector and hence affects the budget result. We distinguish between those and recurrent grants in the way in which we present our operating results. So effectively for the purposes of the capital expenditure, because of the nature of their revenues, we can think of it as a recurrent expense to the general government sector.

The Hon. GREG PEARCE: In terms of what Mr Roozendaal said earlier about controlling the current expenditure, how does that fit in with the rail infrastructure capital expenditure?

The Hon. ERIC ROOZENDAAL: It is being reviewed as part of the mini-budget process.

The Hon. GREG PEARCE: Can you explain why TIDC received a \$960 million grant at the end of the last financial year, the one just gone?

Mr PIERCE: Most of that would have been for the purposes of debt repayment.

The Hon. GREG PEARCE: I am asking you. Do not look at me for the answer.

Mr PIERCE: I was just seeing if you follow what that means. They incur debts from previous things that have been built, I think the major one being the Epping to Chatswood railway line. When that construction had finished, they were given a grant to repay that debt. That debt, of course, is reflected in the total State net debt numbers.

The Hon. GREG PEARCE: I assume from the fact that you have answered these questions on rail capital funding that you have not yet briefed Mr Roozendaal?

The Hon. ERIC ROOZENDAAL: It is important to get the most precise answers to keep the Committee informed.

The Hon. GREG PEARCE: So you have been briefed on the way rail capital funding operates?

The Hon. ERIC ROOZENDAAL: I am aware of these issues. I have had dozens of briefings, obviously, in the last month. I think it is important that the Committee is as best informed as possible. That is what you are here for—to find out as much as possible and for you to ask as many questions as you can from the shadow shadow Treasurer sitting over there, Mr Baird, as he scrawls them out. I hope you can read his writing because he is busy writing them.

The Hon. GREG PEARCE: Would you tell the Committee what your last briefing was in relation to expected growth in GSP for New South Wales?

The Hon. ERIC ROOZENDAAL: My last briefing?

The Hon. GREG PEARCE: The latest. What is the current expectation in Treasury in relation to growth in GSP? The budget figure is 2 per cent. I am asking you whether or not you have had an update on that?

The Hon. ERIC ROOZENDAAL: I think we will deal with that in the context of the mini-budget.

The Hon. GREG PEARCE: Why would you want to deal with it in the context of the mini-budget? Have you had a briefing about the new figure or not?

The Hon. ERIC ROOZENDAAL: I have had a number of briefings. I think it is appropriate for it to be dealt with through the mini-budget process.

The Hon. GREG PEARCE: You are aware of the Budget Management Committee briefing dated 28 August 2008, which you so kindly provided in papers last week, in which it seems to revise the 2008-09 forecast to 1.75 per cent? It is a public document.

The Hon. ERIC ROOZENDAAL: I am not going to be discussing Cabinet subcommittee workings.

The Hon. GREG PEARCE: It is not Cabinet subcommittee workings. This is a document you have provided on the public record. It says 1.75 per cent revised growth. How did the budget reach the assumption that growth in 2008-09 was going to be 2 per cent?

Mr PIERCE: The same way in which it is reached each year. The process we go through is looking at the data we have got and putting it through models. We have a number of points during the year when we do forecasts. If you have got the stuff there you will see that we have forecasts leading up into the last budget that

we did in February and then we redo them in April. It is a bit of a continuous process. The componentry of it, I will have to go back to the budget papers but, from memory, I think it was predicated on a softening of world demand and to some extent an increasing domestic demand to offset it, but not by the full amount. We are hoping that the monetary policy would be successful in engineering a restructuring of the components of growth.

The Hon. GREG PEARCE: It was a bit like the transfer duty—Mr Roozendaal would know this—where you had in February for the first time since 1997, I think it was, stamp duty revenues lower than anywhere since 1997, but you still went ahead with these slightly revised revenues that ended up in the budget?

Mr PIERCE: The revisions in the budget, we revised them down. Year on year it was revised down about \$300 million. Compared to the previous base forecast for 2008-09, we revised the 2008-09 figure down by over \$600 million and revised it down compared to the last published estimates in the mid-year review, I think, by about \$550 million. So the revision in the budget numbers was quite significant.

The Hon. GREG PEARCE: Your own forecasting notes for April, which I referred to earlier, say that revenue slowed significantly in March and for the first time since 1997 revenue in March was less than revenue in February. We have seen evidence from the Property Council and various others of the slowdown. Are you comfortable that your assessment of the slowdown was anywhere near appropriate at the time, given the continual slowdown in the New South Wales property market for many years?

Mr PIERCE: Given the information available at the time the budget estimates were put together, certainly I am comfortable with what was done at that time up until the end of May, so after the budget numbers had been locked down. When we got the May numbers in, there was still a possibility of meeting the 2007-08 numbers. But it did indicate to us that the 2008-09 projections may not be met because of the flow-on consequences into the next financial year. The really big drop compared to what we would have expected was in June, and that was principally in the large commercial transactions.

The Hon. GREG PEARCE: Mr Roozendaal, you have been quoted in the press as saying that the 2007-08 surplus is now round about \$130 million. Is that correct?

The Hon. ERIC ROOZENDAAL: It could well be between \$100 million and \$130 million, in that range. That is an unaudited number we are looking at at the moment. We are waiting for the Auditor-General to complete his audit.

The Hon. GREG PEARCE: Did you have an opportunity to review the transcript of the hearing last week regarding the mini-budget?

The Hon. ERIC ROOZENDAAL: Yes, I have got a copy of that.

The Hon. GREG PEARCE: I think Mr Pierce actually said the figure was \$128 million.

Mr PIERCE: As an unaudited number.

The Hon. GREG PEARCE: When do you expect the Auditor-General to sign off on the—

The Hon. ERIC ROOZENDAAL: We are hoping as soon as possible. We are waiting for it.

The Hon. GREG PEARCE: When will you then put the audited accounts up on the website?

The Hon. ERIC ROOZENDAAL: Almost immediately afterwards.

The Hon. GREG PEARCE: Based on those numbers, what is the expectation for growth for the 2007-08 year?

The Hon. ERIC ROOZENDAAL: Let us wait until we get the audited accounts back.

The Hon. GREG PEARCE: You were able to give us the surplus. I am simply asking for—

The Hon. ERIC ROOZENDAAL: That is an unaudited number and I am giving you a range. Let us just wait until we get the audited accounts back. I think it would be imprudent until we get those audited accounts back.

The Hon. GREG PEARCE: Perhaps Mr Pierce can help us. What is your current assumption for growth in 2007-08? Has it been revised?

Mr PIERCE: You mean for last year?

The Hon. GREG PEARCE: Yes, last financial year—the completed one; the one that has happened.

Mr PIERCE: Obviously we do not have numbers for that full amount off the ABS; we have to make an estimate, and that estimate we will be putting into the mini-budget.

The Hon. GREG PEARCE: You have been able to forecast a revised figure of 1.75 per cent from 2 per cent for 2008-09 and having done that surely you have reforecast for 2007-08? The budget figure was 2.5 per cent so what is your current reforecast?

Mr PIERCE: We will be putting that in the mini-budget. It is not a number that we have finalised as yet.

The Hon. GREG PEARCE: It is not a number you have finalised?

Mr PIERCE: Not in the formal sense of having been approved as a Treasury estimate and provided to the Treasurer. I have not signed off on it yet.

Dr JOHN KAYE: Mr Pierce, can we just have a bit of a talk about how Standard and Poor's grants a rating number or level to the State of New South Wales as a local and regional government? Am I correct in saying that there are eight criteria on which the State is rated?

Mr PIERCE: This is Standard and Poor's or Moodys?

Dr JOHN KAYE: Standard and Poor's.

Mr PIERCE: That sounds about right.

Dr JOHN KAYE: In each of those criteria the State is awarded a rating from one to five, where one is best and five is worst? One is contributing the greatest amount to credit worthiness and five contributes the least?

Mr PIERCE: The issue with that—if you are looking at what I think you are—

Dr JOHN KAYE: No, I am not. If I am, you have broken into my office and taken my notes, so I doubt it.

Mr PIERCE: As I was trying to explain last week, there is a range of things the rating agencies look at. Yes, some of them are qualitative and some of them are driven by economic numbers and financial numbers and some of those scores are governed by the institutional arrangements within the country. Because of the request from a number of people for them to be more transparent about how they weight those things—that is in the last couple of months or earlier this year—they have been explicit about the total State net financial liabilities to revenue ratio.

Dr JOHN KAYE: That is the weighting to come up with a single credit rating, but within each of those areas, such as economy, assistance, support and predictability, management capacity and institutional legitimacy, it is not an exact science; there is a degree of subjectivity within those?

Mr PIERCE: Yes, and it is relative to other sub-national governments that they are rating around the world. So they would make a relative ranking of, let us say, the robustness of Commonwealth-State relations in Australia and, let us say, Canada, as compared to Brazil.

Dr JOHN KAYE: Can you tell us briefly about systems support and predictability? What does that actually mean?

Mr PIERCE: I would have to get the detail of it—I would have to remind myself what their scale is—but generally the main thing they are looking at is the predictability of the relationship between the Commonwealth and the States and the outcomes out of the Grants Commission process.

Dr JOHN KAYE: So basically it is the support given to the State finances, if they were to get into trouble, from the Commonwealth Government?

Mr PIERCE: There is no doubt that one of the things that underpins the rating of Australian States is the degree of the nature of the relationship between the Commonwealth and the States. But I would contrast that with some other jurisdictions where the institutional frameworks around the way in which those grants are provided are not as predictable as they are in our country.

Dr JOHN KAYE: So you are saying there is a high degree of predictability in the relationship between the States and the Commonwealth?

Mr PIERCE: Standard and Poor's and Moodys would say that is relative to other Federations, and you must bear in mind that they are looking at places not just like Australia, Canada and Germany but places like Brazil and various other people—India.

Dr JOHN KAYE: To the best of your knowledge what was the Federal Government's surplus the last time you looked?

Mr PIERCE: \$20 billion, or something of that sort of nature.

Dr JOHN KAYE: Probably a bit less than that, but okay. I think I heard you say before, and I am paraphrasing you so please correct me, that it is better to be early with an investment such as a power station than to be late with an investment?

Mr PIERCE: No, I said the consequences of being a little bit early are different to the consequences of being late. That is, the risk is not symmetric.

Dr JOHN KAYE: Can I take you back to the Treasurer's graph of the credit rating of the State of Victoria, which shows a dramatic decline in the credit rating of the State of Victoria in 1990? Mr Pierce, I seem to recall that you were working in the electricity industry in New South Wales in about the period of 1989, 1990 when the Victorians got into trouble. Is it not true that one of the major reasons why they got into trouble was because of the construction of Loyang Power Station—a large coal-fired power station—and that the debt on that was unable to be serviced by the electricity industry because it was excess to need?

Mr PIERCE: Last week we had a little discussion down memory lane of the McDonald inquiry and I thought in a similar question then you were trying to attribute to me the excess investment in electricity generation during that period of time.

Dr JOHN KAYE: That was not my intention at all actually.

Mr PIERCE: I worked very hard in that McDonald inquiry to argue that some of those power stations did not need to be built.

Dr JOHN KAYE: I want to correct the record. That was not my intention last week nor is it now. I have a totally different intention.

Mr PIERCE: The specific answer to your question is that, as I said last week, two things are going on: the softening of the economy and the need to deal with this investment. In that period of time there was more than just a softening of the economy, we had a fair dinkum recession on. Yes, they did have debt levels associated with Loyang, just like we did in New South Wales, but the relative weight of that as compared to the fact that there was a recession on, I would have to have a look at. But it would be a mistake to attribute that purely to the decisions in the electricity industry at that time. When you get to the position where you have to

borrow not only to meet an accrual expense but also to meet cash expenses, and all that borrowing is relatively short term, you cannot blame that on electricity investments.

Dr JOHN KAYE: But is it not true that in Victoria part of the reason the collapse in the State's finances happened was that it took money that would normally be spent to meet recurrent expenses to service the debt on Loyang because, like Mount Piper in New South Wales, it was not needed and therefore was not earning a rate of return?

Mr PIERCE: They had a large debt and a large interest bill, and Loyang would have been a component of that. However, identifying that as the single cause is a gross oversimplification.

Dr JOHN KAYE: But you would agree that it was a contributor?

Mr PIERCE: I have no doubt that there was a contributing cause.

Dr JOHN KAYE: So you would agree that early investment in coal-fired power stations in New South Wales at this stage of the economic cycle could likewise leave the State exposed to massive risk of an unserviceable debt?

Mr PIERCE: When I am talking about investing early rather than late, I am talking about it being 12 months or 18 months earlier than when it turns out to be needed. I do not think that having that debt for that additional period will make any difference to the State's credit rating. The incurring of that debt is something that will grow over time; it will not all happen on day one or within the next 12 months.

Dr JOHN KAYE: Treasurer, I refer you to a statement published in yesterday's Sydney Morning Herald. You state:

If we do suffer a downgrade, business when thinking about investing in NSW or another part of Australia will say, 'Well, if NSW's credit rating is dropping they'll need to take steps either to increase taxes, or cut services,'" he said. "Therefore, [they] might want to invest in a different state.

The Hon. ERIC ROOZENDAAL: What is the question?

Dr JOHN KAYE: Do you stand by that statement?

The Hon. ERIC ROOZENDAAL: Obviously, if you are deciding where to invest in Australia and you look at the credit ratings of different States and New South Wales has had a downgrade, you then say, "Okay, they are on the slippery slide of downgrades. They need to address the issue causing the downgrade and that may well mean a reduction in services." This is from a business point of view. Business will say, "They might increase taxes or cut services." That becomes a risk that they factor into their business investment decision. That is precisely why we do not want to have a different credit rating from that of the other States. Business may well decide that it does not want to take on the risk of what might happen in New South Wales and as a result move somewhere else.

Dr JOHN KAYE: To some extent you are saying that we need to tighten our belt to avoid the risk of frightening off investors because we might tighten our belts in the future.

The Hon. ERIC ROOZENDAAL: No. I will go through it again slowly. I need to labour this point. When you start on the process of a downgrade, it occurs because the agency—Moody's, Standard and Poor's or both—takes a view that there are issues with the way things are operating, whether it relates to capital expenditure, revenue or income. They say that if the State does not take the remedial action that it believes is appropriate, it will put the State on a downgrade.

If business is making a decision about whether to invest in New South Wales or another State and there is a downgrade in New South Wales, they will ask what is the cause of the downgrade and what action will be necessary to rectify it. It may mean that the State reduces services or increases taxes. That is a risk and business recognises and values risk. Business may well decide to invest in Queensland or Victoria—assuming they have a triple-A rating. That is precisely why it is important for us to maintain the triple-A rating.

Dr JOHN KAYE: I understand that. Is it not therefore true that there is a balancing act between how much you tighten up the economy now or later? For example, Patricia Forsythe expressed her concerns about

infrastructure and about it being critical. You are in a balancing act between investment in infrastructure now to keep constraints out of the economy in the future versus the risk of a downgrade of the triple-A rating and the need for tighter action later.

The Hon. ERIC ROOZENDAAL: Let us be clear about who has the controls of the economic levers—that is, whether it is the State or the Commonwealth Government—and what the Reserve Bank does with monetary policy. They are major levers. We must remember that New South Wales is coming off the back of record investment in infrastructure; there has been a huge capital expenditure program compared to the previous forward estimates period.

Dr JOHN KAYE: Over what period?

The Hon. ERIC ROOZENDAAL: From memory, it is about \$58 billion in capital expenditure over the forward estimates. That is a huge investment in infrastructure.

Dr JOHN KAYE: When you say "record investment", do you mean looking forward?

The Hon. ERIC ROOZENDAAL: In the forward estimates period.

Dr JOHN KAYE: It is not investment yet made; it is forecast investment?

The Hon. ERIC ROOZENDAAL: I am sure they do things differently in Iceland. Over the 10-year period covered by the State Infrastructure Plan, it represents about \$140 billion in infrastructure investment. That is out there. Obviously we need to look at reprioritising part of the capital expenditure program. We have made it clear that that is one of the things we are looking at in the mini-budget. Yes, there is a need to balance how we rein in recurrent expenditure and what we can do on the revenue side and with regard to asset sales and reprioritising the capital expenditure program. Is it a balancing act? It is certainly a challenge to deal with these different aspects of producing a mini-budget.

CHAIR: Treasurer, in the Standard and Poor's ratings document that we now have copies of—

The Hon. ERIC ROOZENDAAL: Which one?

CHAIR: The one that you were looking at earlier dated 23 September 2008. Committee members now have copies of the document. As stated on page 2, the State's credit rating was affected. The document states:

Firstly, no sales would be likely to require the reprioritisation or deferment of the capital program or an increasing in debt to accommodate about \$15 billion in investment in the electricity sector by June 2020.

This is quite clear. However, the agency has raised another factor. The document states:

Secondly, it may call into question the Government's ability to enact difficult or unpopular decisions in the future.

How do you interpret that qualification?

The Hon. ERIC ROOZENDAAL: That is a good question and it demonstrates how the agencies work. Standard and Poor's saw that this Government had a strong commitment to electricity reform. It also saw that the Government was not able to achieve that reform because of what happened in the Parliament with the Coalition deciding not to support the enabling legislation.

The Hon. MATTHEW MASON-COX: We are back there again.

The Hon. ERIC ROOZENDAAL: If you do the crime you should accept committing some time to it.

CHAIR: The Committee will allow the Treasurer to answer the question.

The Hon. ERIC ROOZENDAAL: The member for Manly said explicitly that if the Auditor-General's report supported it, the Government should proceed with electricity reform. He is sitting over there.

The Hon. MATTHEW MASON-COX: You should not verbal him in the Committee. You should answer the question.

The Hon. ERIC ROOZENDAAL: I am stating what is on the public record. I am sure the member will correct me if he thinks I am wrong. However, I note that he is deadily silent on the issue.

Obviously the agency asks what the Government plans to do and whether that means it does not have the ability to get difficult decisions implemented in New South Wales. We have had a meeting with Standard and Poor's and discussed this. The agency was particularly interested in the Government's decision to look at selling retail with development sites attached, and it asked whether that was achievable. It was explained that that decision had gone through both Labor caucus and Cabinet and had been approved. I am sure that gave the agency some confidence that the Government would be able to deliver.

CHAIR: In those discussions was there any reference to the unusual situation of the Australian Labor Party State Conference voting against the proposal for the electricity reform legislation? Does that have some impact on the agency's decision? Are those factors taken into consideration?

The Hon. ERIC ROOZENDAAL: I think from memory they asked about it, which is appropriate, and we explained how the ALP works and how it fits into the process. I think they were quite pleased to hear that this had been through caucus and through Cabinet in terms of the strategy on retail.

CHAIR: Page 7-14 of Budget Paper No. 2 speaks in detail about the restructuring of the electricity industry and quotes the Owen inquiry and its recommendation:

that the State should implement an appropriately structured long-term lease of current generation assets. The State would retain ownership of the assets, with operational and commercial control by the private sector.

The Government's response to the Owen Inquiry is a decision to:

- lease the generation assets to the private sector
- transfer the retail operations of Country Energy, EnergyAustralia and Integral Energy to the private sector and
- retain an ownership of electricity transmission and distribution assets.

As you are well aware, there was quite a public debate about this proposal. One of the terms used in the media particularly was that the Government was privatising the industry, which the public seemed to interpret as selling everything. Do you believe that was a factor in affecting the public response to the proposal and perhaps even the media, the accuracy of the word "privatisation"?

The Hon. ERIC ROOZENDAAL: I have no doubt that those who opposed the electricity reform did their very best to paint it in its worst possible light. That is part of the robustness of the democratic process. They decided to describe the whole thing as a privatisation of the whole electricity industry. Clearly, it was a different proposal to the one that had been considered previously by Carr and Egan in 1997, because critical to this proposal was the leasing of the generators and, secondly, the retaining of the distribution network, particularly the poles and wires which is a critical part of a whole power industry. You could argue the semantics. I am sure there would be an opponent who would argue it is a privatisation. I have no doubt it was a robust debate and there are some complexities to the debate. Often with a debate where there is a certain amount of emotion, complexities get lost in the process.

CHAIR: The other factor in the debate was the issue that if it went ahead there would be increases in the prices of electricity. This was a strong campaign by the unions. Was that, in your mind, accurate and did the Government have some plan to deal with that in the sale documents?

The Hon. ERIC ROOZENDAAL: A number of safeguards were put forward as part of the power reforms. I think the Secretary can give you what has happened to the Victorian power markets since they privatised. A whole lot of safeguards were included as part of the package but the package did not occur, it did not happen, and we are now looking at a new package of doing retail and some development sites with it.

CHAIR: There was some provision for the safeguard of the price increases in that original proposal?

Mr PIERCE: Yes. The Government took a decision to extend retail price regulation from 2010 out to 2013 as an additional protection for people, and then maintain the option to extend it further, of course. What I think most people did not realise is that in volume terms the amount of electricity that is sold under those

regulated retail tariffs is now around 24 per cent of the total amount of electricity sold within New South Wales. Most of the electricity that is sold is sold under contracts that people agree between themselves. The amount that is sold under these regulation tariffs is relatively small.

Dr JOHN KAYE: What percentage of retail electricity is sold that way?

Mr PIERCE: You mean relative to the retail sales, you mean taking out the smelters effectively?

Dr JOHN KAYE: Take out the smelters and the other large consumers.

Mr PIERCE: Well, a lot of large consumers have contracts with retailers, of course. I do not have it off the top of my head but the number would be larger than 24 per cent.

CHAIR: Again, there was some provision for the protection of employees in the generation sector? Can you restate that for the record?

Mr PIERCE: From memory, for the generation employees at the point of being moved across there was a five-year job guarantee plus a transfer package as they moved across.

Dr JOHN KAYE: That is for the generator employees?

Mr PIERCE: For the generation employees, yes.

Dr JOHN KAYE: Not for the retail?

Mr PIERCE: The retailers were given an option effectively because at the moment they are part of the distribution business. They were given the option of staying with the distribution business and, hence, keeping their existing employment arrangements, and that included the ability to stay at their current location. So, the nature of the task they do each day might well be slightly different but they could stay where they are and the various network businesses would manage that by moving functions to where people work. But, as they decided to move across to the new owner, they were provided with a transfer package.

The generation is different from the retail on two counts. One, the retail employees could make an election themselves, make a choice themselves, if they were offered something from the new owner whereas the generation workforce could not. Secondly, it was envisioned there would be a need for what was referred to as transitional service arrangements, a transitional service contract, between the distribution business and the new owner because it would take the new owner some time to develop the new information systems, the IT and the call centres and that sort of thing, to support the business. That service would be provided by the existing business.

We anticipated those transitional service agreements would be offered at least for a period of three years. So, you can imagine somebody would be working to those transitional service agreements in the existing business for a period of up to three years. Towards the end of the three years they are made an offer to join the new owner and at that point they can decide to go and get a transfer payment or to stay with the existing business. The circumstances between the two sets of employees were different, hence the nature of the package that was offered to them was different.

CHAIR: You said there was a package for the generation employees in round terms. What was that package?

Mr PIERCE: I think it got to a maximum level of something like 30 weeks. I will have to check the actual figure.

CHAIR: In money terms there was talk of \$50,000?

Mr PIERCE: Yes, it would depend on the particular employee you are talking about. It could have been in that sort of order of magnitude. I understand colloquially on the ground it was referred to as the commodore equivalent.

The Hon. KAYEE GRIFFIN: Treasurer, will you advise the Committee of the impact of the recent interest rate cut by the Reserve Bank?

The Hon. ERIC ROOZENDAAL: As the Committee would be aware, the Reserve Bank of Australia announced a 1 per cent cut in its interest-rate target to 6 per cent on Tuesday 7 October 2008. That cut follows a 0.25 per cent cut in September this year. The interest-rate cut in September followed 12 consecutive increases since the most recent monetary tightening cycle began in May 2002. Of course, most of those were under the Howard-Costello regime. The 1 per cent cut in official rates is welcome news. However, it comes at a time when the global growth outlook, driven by developments in credit markets, seems considerably worse than it was just a month ago. This means that the domestic outlook, which was for a slowing in output and demand to below trend levels, has become even weaker than expectations. I think it is worth talking about the impact on the New South Wales budget. Interest rates have an impact on the housing market. Low interest rates are crucial to helping to stimulate a recovery in housing investment. The State's revenue is affected by low activity in the housing market.

Dr JOHN KAYE: Given that the Treasurer is reading a document and not doing a fabulously good job of it, would he prefer to table the document and move on to another question?

The Hon. EDDIE OBEID: He will answer the question as he pleases.

CHAIR: The Minister can answer the question the way he wishes.

The Hon. ERIC ROOZENDAAL: I appreciate that it is not as exciting as the credit rating, which is clearly in the forefront of the Greens member. However, I think its impact on the budget is an important issue. Transfer duty is the largest component of stamp duty revenue and it can vary significantly from year to year. It is affected by fluctuations in the volume of property transfers and in variations in prices. A reduction in the Reserve Bank of Australia [RBA] interest rate targets should have a positive effect on housing investment and therefore on transfer duty revenue. The impact of changes in interest rates on household consumption is more difficult to assess. That is because only around 34.5 per cent of New South Wales households are mortgage holders and some households are net recipients of interest income.

According to the annual State Accounts, New South Wales paid \$26.4 billion in 2006-07 in interest on dwellings and consumer debt. In that year the average standard mortgage interest rate was 7.95 per cent, implying that the level of household borrowing was about \$332 billion. A reduction in the RBA interest rate target can reduce interest rate payments for mortgage holders, thus increasing household disposable income and supporting consumption, or higher savings. In conclusion, we will continue to keep a watchful eye on developments, noting that these are tough economic times and New South Wales, as a participant in the global economy, will inescapably feel some effects from recent global economic developments.

The Hon. EDDIE OBEID: Can you please inform the Committee about the state of the New South Wales labour market?

The Hon. ERIC ROOZENDAAL: In Australia State governments do not control the macroeconomic levers that drive State economic cycles and credit growth and they certainly do not control or even influence such cycles at a global level, nor do we influence, in fact, Iceland, because I know that is very topical at the moment. In that respect we would play the hand we are dealt. The levers that control the State's economy, to a large extent, are influenced by the forces of international demand for our goods and services, the Australian dollar, the Reserve Bank through monetary policy and the Commonwealth through fiscal policy.

However, State governments can influence the microeconomic issues associated with the allocation and efficiency of service delivery, regulatory policy and taxation. The New South Wales labour market is showing signs of slowing under the weight of the international economic slowdown and the credit crisis. Nevertheless, the total number of people employed is near record highs, while the unemployment rate is still at generational lows. As I said earlier, the unemployment rate for September 2008 is around 4.8 per cent. During September 2008 unemployment in New South Wales rose by 9,166 to 3,404,900. That is 31,740 higher than in September last year.

The New South Wales labour market also performed well in terms of the proportion of full-time workers. Of those employed, I am advised that 2,472,000 were in full-time employment, which is around 72.6 per cent of the employed workforce. This compares to 71.4 per cent in the rest of Australia. From March 1995

until September 2008 employment in New South Wales has risen by 688,219. The vast bulk of this employment has been generated in the last decade, with 493,559 that rise having occurred since March 1999, 255,087 since March 2003 and 91,586 since March 2007. The continued relative strength of the New South Wales labour market indicates that the State is well poised to deal with whatever the international markets throws at it.

The Hon. PENNY SHARPE: Reverend the Hon. Fred Nile touched on this a little earlier, but could you inform the Committee of the most recent forecasts in relation to New South Wales' share of the GST revenue?

The Hon. ERIC ROOZENDAAL: New South Wales will receive around \$13 billion in GST revenue grants from the Commonwealth in the 2008-09 period. Again, this means we receive less than the population share of GST revenue, and less than the share of GST revenue generated by economic activity in New South Wales. New South Wales generates around \$15 billion or 33 per cent of GST revenue in 2008-09; that is about a third. In receiving around \$13 billion in GST revenue, we are effectively subsidising the other States to the tune of around \$2 billion in the 2008-09 period.

If one considers this by households, this roughly equates to around \$745 per New South Wales household is what we are subsidising the other States. Since the introduction of the GST, New South Wales has received \$211 million less in GST grants than was initially estimated. New South Wales is the only State that has received lower GST grants compared to initial expectations. Since the introduction of the GST, other States have received \$18 billion more in GST-related grants than was initially estimated. In addition to not receiving our share of the GST raised, New South Wales has also been receiving less than the other States in GST revenue above the revenue that the States would have received under the pre-GST financial arrangements.

The background to this is that when the GST was introduced by the Howard-Costello regime, New South Wales gave up a range of taxes and grants, and took on a range of new expenditure responsibilities in exchange for the revenue from the GST. Under these arrangements New South Wales is estimated to have received \$2.2 billion in GST revenue above what we would have received under the previous arrangements. But by contrast, the other States combined have received a total of \$12.7 billion above their combined GMA. In per capita terms, New South Wales' gain has been \$313 per person over the period 2000-01 to 2008-09, compared to an average gain of \$875 per person for the other States.

These are first order issues that the Premier and I have raised and will continue to raise at the Council of Australian Governments with our Federal counterparts. It is to the credit of the Rudd Government that it is prepared to look at the inequities that have evolved under current formulas used by the Grants Commission. Negotiations are underway to establish a new framework for specific purpose payments and national partnership payments between the States and the Commonwealth, and it is this process that provides the opportunity to get a fairer deal for New South Wales. The Premier and I will be vigorously making the case for New South Wales over the next few months, and I am hopeful of being able to report good news to the people of New South Wales as we develop a better relationship with the Federal Government—one that is far more committed to fairer outcomes than the previous Federal Government was committed to.

The Hon. KAYEE GRIFFIN: Treasurer, could you please outline the Government's plans for cutting payroll tax?

The Hon. ERIC ROOZENDAAL: It is a good question and I think it is worthwhile talking about this important initiative to support business and jobs in New South Wales. The Premier has confirmed that payroll tax cuts will go ahead. It is important that we confirm that payroll tax cuts will go ahead, because it sends a strong message to New South Wales business that the Government is working with them to help them survive in these difficult economic times.

I can advise the Committee that payroll tax cuts will go ahead, as scheduled, from 1 January 2009 and is the equivalent of injecting \$1.9 billion into the New South Wales economy over the next four years. Payroll tax will be reduced from 6 per cent to 5.5 per cent, as announced in the 2008-09 budget. This will start with a reduction to 5.75 per cent from 1 January 2009, then a further reduction to 5.65 per cent from 1 January 2010, and to 5.5 per cent from 1 January 2011.

Additionally, and also consistent with the budget announcement, the payroll tax threshold increased from 1 July 2008 to \$623,000 and will be indexed annually in line with the consumer price index. A business

with a \$1 million payroll in 2008-09 will save around 20 per cent of their payroll tax bill when the new tax rates and indexed threshold are fully implemented.

Given examples such as this, it is not surprising that support from the New South Wales business community for the initiative has been immediate and overwhelmingly positive. For example, the New South Wales Business Chamber congratulated the Government, describing the initiative as a victory for common sense. Mr Mason-Cox may be interested to know that the head of the Sydney Chamber of Commerce, Patricia Forsythe—he would be acquainted with her—said:

This decision sends a strong and positive message to the business community.

The Premier's announcement prior to the November mini-budget demonstrates the necessity to reassure business during a period of substantial global instability.

This is a positive step that will help secure jobs in New South Wales and is a first step in dealing with the new reality that confronts the State's finances. That is one of the major reasons why we felt it important to make the announcement in relation to payroll tax and to reaffirm our commitment to the payroll tax cuts so that business can be confident of the ongoing support of the New South Wales Government.

CHAIR: Thank you, Treasurer. That brings us to the end of our budget estimates committee hearing. We thank you, Mr Pierce and Mr Newbury for your attendance. We know you are very busy with the mini-budget and that Mr Pierce has already appeared before an estimates committee. We thank you and your staff for your attendance. The Committee would appreciate your answers to the questions taken on notice within 21 days.

(The witnesses withdrew)

The Committee proceeded to deliberate.