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GENERAL PURPOSE STANDING COMMITTEE No. 1

Friday 26 October 2007

Examination of proposed expenditure for the portfolio area

TREASURY, INFRASTRUCTURE, HUNTER

The Committee met at 9.00 a.m.

MEMBERS

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

The Hon. M. J. Gallacher
The Hon. K. F. Griffin
Dr J. Kaye
The Hon. E. M. Obeid

The Hon. G. S. Pearce
Ms L. Rhiannon
The Hon. P. G. Sharpe

PRESENT

The Hon. M. Costa, *Treasurer, Minister for Infrastructure, and Minister for the Hunter*

New South Wales Treasury

J. Pierce, *Secretary*

A. Newbury, *Executive Director and Chief Commissioner*

CORRECTED

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 this hearing open to the public. I welcome the Treasurer and accompanying officials to the hearing. At this hearing the Committee will examine the proposed expenditure for the portfolios of Treasury, Infrastructure and Hunter. Before we commence I will make some comments about procedural matters.

In accordance with Legislative Council guidelines for the broadcast of proceedings, only Committee members and witnesses may be filmed or recorded. People in the public gallery should not be the primary focus of any filming or photographs. In reporting the proceedings of this Committee the media must take responsibility for what they publish or what interpretation they place on anything that is said before the Committee. The guidelines for the broadcast of proceedings are available from the table by the door. Any messages from attendees in the public gallery should be delivered through the Chamber support staff or the committee clerks. Treasurer, you and the officers accompanying you are reminded that you are free to pass notes and refer directly to your advisors while at the table. I remind everyone please to turn off their mobile telephones.

Treasurer, the Committee has agreed to the following format for the hearing: three and a half hours for Treasury and Infrastructure and half an hour for the Hunter. The sequence of time allocation is: Opposition 20 minutes, Government 20 minutes, the Greens or Independents 10 minutes and the Chair 10 minutes. There will be a break at approximately 11.00 a.m. for 15 minutes. Treasurer, do any of those arrangements cause you any problems?

The Hon. MICHAEL COSTA: No, but I do not think the Government will need 20 minutes.

CHAIR: I advise you that the Committee has resolved to request that answers to questions on notice be provided within 21 calendar days from the date on which they are sent to your office. Do you anticipate that this will cause any difficulties?

The Hon. MICHAEL COSTA: It depends on the questions. Sometimes we get some absurd questions seeking details that require us to take people away from their usual duties.

CHAIR: You may need an extension.

The Hon. MICHAEL COSTA: We will seek an extension in those cases. But, in general, there is no problem.

CHAIR: All witnesses from departments, statutory bodies and corporations will be sworn prior to giving evidence. Treasurer, you do not need to be sworn as you have already sworn an oath to your office as a member of Parliament.

JOHN PIERCE, Secretary, Office of Financial Management, New South Wales Treasury, and

ANTHONY JOHN NEWBURY, Executive Director and Chief Commissioner, New South Wales Treasury, sworn and examined:

CHAIR: I declare the proposed expenditure for the portfolios of Treasury, Infrastructure and Hunter open for examination. Treasurer, do you wish to make a brief opening statement?

The Hon. MICHAEL COSTA: Yes, I do, and it will be very brief. It relates to the overall budget position, because of course I have responsibility for that as well as the day-to-day operations of the Treasury. I can announce today the 2006-07 budget result. The final result for 2006-07 is a \$584 million surplus. That is a \$140 million improvement on the estimates that were published in this year's budget papers. Clearly, that is a massive \$1.28 billion improvement on the original budget estimate of a \$696 million deficit. This is the eleventh consecutive budget surplus by this Government. The higher than expected result is a result of higher than projected payroll tax receipts because of our robust jobs market—which the Opposition kept claiming during the election campaign was in recession—and the higher than projected transfer duty receipts.

The total expenditure for the year was \$43.9 billion—\$94 million higher than the original budget estimates. That is a variance of 0.2 per cent. It followed a good result in 2005-06, when the variance was 0.3 per cent. In 2006-07 our assets rose by \$6.3 billion and liabilities fell by almost \$2 billion. The net worth of the total State sector is now \$134.7 billion. By way of comparison, the net worth of the Commonwealth in 2006-07 was negative \$6.1 billion. This result is pleasing. It also follows two recent assessments—and I mean as recent as the week before last—from the ratings agencies that have reaffirmed our triple-A credit rating. In addition, the result comes despite the fact that we are continuing to be ripped off by the GST arrangements. Clearly, if we were to get our fairer share of the GST the results would be even better.

I have to also advise the Committee that since the budget was formulated there have been some changes at the national level in the economy, particularly with pressures on interest rates, which will certainly put some pressure on our budget going forward. We will be publishing this afternoon the audited New South Wales report on State finances. That will be available on the web this afternoon. Overall, the State is in a very strong and sound position. Despite the performance I expect at this Committee, we have objective evidence from the ratings agencies that we are in a very healthy position in relation to our budget at a time when we have a record infrastructure program. So let the silly buggers begin.

CHAIR: We have been lecturing Committee members about being polite to Ministers. We would like the Treasurer to be polite to the Committee also.

The Hon. MICHAEL COSTA: I do not mind how they are.

CHAIR: I would like you to be polite to the Committee too.

The Hon. GREG PEARCE: It is good to see you, Treasurer. We had a terrible experience on Monday fortnight when the Premier, Mr Iemma, lost his cool and embarrassed us all. I just want to make sure that you are okay for the day, are you?

The Hon. MICHAEL COSTA: I have taken my pills. I hope you have taken yours.

The Hon. GREG PEARCE: Fantastic. Was that a cash surplus you were talking about in the budget result?

The Hon. MICHAEL COSTA: No, I was talking in terms of the general government accounting standards—operating results.

The Hon. GREG PEARCE: What was the cash result? You do not know.

The Hon. MICHAEL COSTA: The Treasury Secretary can answer that. It is not a relevant figure.

The Hon. GREG PEARCE: Because you do not know.

The Hon. MICHAEL COSTA: It is not a relevant figure.

The Hon. GREG PEARCE: The figure that Treasurer Egan reported for nine years? You have had cash deficits since you have been Treasurer. What was the figure?

The Hon. MICHAEL COSTA: I have answered the question. We report in accordance with the generally accepted accounting standards for the government sector.

The Hon. GREG PEARCE: My question was: What was the cash result?

The Hon. MICHAEL COSTA: It is in the budget papers. You can find it yourself.

The Hon. GREG PEARCE: What was the cash result? It is not in the budget papers. You just announced the result.

The Hon. MICHAEL COSTA: You are talking about the new result. That will be on the web page this afternoon.

CHAIR: Mr Pierce indicated that he was going to answer the question.

The Hon. MICHAEL COSTA: You can put out your weekly Friday press release this afternoon with that information in there. I want to give you something for the Friday press release.

The Hon. GREG PEARCE: What is the cash result?

The Hon. MICHAEL COSTA: It has been getting very lean in recent times.

The Hon. GREG PEARCE: What is the cash result?

The Hon. MICHAEL COSTA: It will be on the website this afternoon. I think I have answered that question.

The Hon. GREG PEARCE: No, you have not answered it. You know what it is. What is the cash result?

CHAIR: Mr Pierce indicated that he was going to give an answer.

The Hon. MICHAEL COSTA: It is on the website this afternoon, is it not?

Mr PIERCE: Yes.

The Hon. GREG PEARCE: What is the cash result, Mr Pierce?

Mr PIERCE: I do not have the number in my head, I must admit.

The Hon. GREG PEARCE: You do not have it in your head?

Mr PIERCE: No.

The Hon. GREG PEARCE: Where do you have it—in your back pocket?

The Hon. MICHAEL COSTA: Mr Pierce might explain the standard we use to measure our results.

The Hon. GREG PEARCE: I understand the standard. I do not understand why you do not know the number. It is a deficit and you are embarrassed, are you not?

The Hon. MICHAEL COSTA: Look, we—

The Hon. GREG PEARCE: You are embarrassed already because you have a deficit cash result?

The Hon. MICHAEL COSTA: I am not embarrassed. Our accounts are produced in the way that is determined by the relevant accounting agencies as being the appropriate way. If Mr Pearce wants to report on other methods it is up to him. He can put it in his press release.

CHAIR: Minister, can you give an approximate figure?

The Hon. GREG PEARCE: What is the cash result, John? You know, come on, think hard.

The Hon. MICHAEL COSTA: I will give you the page number. It is page 9—

The Hon. GREG PEARCE: Think really hard, John.

CHAIR: Mr Pearce, we do not want any badgering of the witnesses.

Mr PIERCE: Probably the easiest reference to make is in chapter 9 of budget paper No. 2, where there are the operating results, balance sheets, operating results and cash flows for the general government sector. The underlying cash results were presented there historically, and, at the time we were bringing down the budget, the projected underlying cash position was a deficit of \$2.4 billion.

The Hon. GREG PEARCE: Thank you very much. Now, Mr Treasurer, you mentioned the—

CHAIR: Please wait, Mr Pearce.

The Hon. GREG PEARCE: He has answered the question.

CHAIR: No, he was still speaking.

The Hon. GREG PEARCE: Well, it is a deficit of \$2.4 billion so it is either up or down from that.

Mr PIERCE: As you would be aware—

The Hon. MICHAEL COSTA: Change is a measure of desperation.

The Hon. GREG PEARCE: That is the measurement Mr Egan used. You are not anywhere near Mr Egan as a Treasurer.

CHAIR: Mr Pearce!

Mr PIERCE: Strictly speaking, it is not the measure that we reported at that time. That was the net lending result, which is also presented in chapter 9. But given that, as you know, net debt is increasing, and if net debt is increasing it follows that you have to catch up.

The Hon. GREG PEARCE: A \$2.4 billion deficit, that is fine.

The Hon. MICHAEL COSTA: I might add—

The Hon. GREG PEARCE: You remember now, do you?

CHAIR: Let the Treasurer speak. He wants to add to the answer.

The Hon. EDDIE OBEID: Point of order: Is this haranguing going to continue? He has asked a question and he does not allow anyone to answer.

The Hon. GREG PEARCE: He said he does not know the answer.

The Hon. MICHAEL COSTA: I did not say that. I said the answer—

The Hon. EDDIE OBEID: You have been interjecting all the way.

CHAIR: Yes, you are right.

The Hon. MICHAEL COSTA: Can I also make the point, if the honourable member decides he wants to recast the standard financial accounting standards, the reason we have a cash deficit is that we are investing massively in infrastructure. As a result of that our financial position in relation to cash certainly is in deficit, but in terms of standard accounting arrangements we are running a very healthy operating surplus, and that has been endorsed by the ratings agencies.

The Hon. GREG PEARCE: That is lovely. You mentioned the ratings agencies. Page 2 of their credit report states:

It is a weakness that the State forecast an accrual operating deficit in its previous budget—

That was your first budget, an operating deficit, which you got wrong. You could not even work that out—

and is not fully meeting its fiscal targets.

Why is it that you cannot manage the State's budget to meet your own legislated fiscal targets?

The Hon. MICHAEL COSTA: Let me start off with an apology to the taxpayers of New South Wales which I have already made in Parliament. Yes, we did turn a deficit into a surplus and I do apologise for that. It was unfortunate that I could not meet the targets—

The Hon. GREG PEARCE: You could not get any of it right.

The Hon. MICHAEL COSTA: But on balance, having delivered a surplus, I feel I could be forgiven by the taxpayers, if not by the Opposition, for that position. In relation to the matter of targets, they are the Government's targets and the Government has those targets to set a framework of fiscal discipline. The targets will vary. The most important target, the net financial liabilities, we will achieve that target one year later than we projected—a great result, given that we inherited a mess from the previous Coalition government. Net debt and net financial liabilities were so bad that the State was on credit watch. The member conveniently forgets the State was on credit watch. I think the Australian public is sick of Coalition governments that try to guild the lily in terms of results. I heard the Treasurer coming in this morning—that is why I was a little late—trying to explain how he was responsible for all the interest rates coming down but not for the ones going up. I think that is another example of how the Coalition approaches financial matters.

The Greiner-Fahey Government left this State in an absolute mess. We were on credit watch. This Government has turned it around to the extent that we are now able to invest \$50 billion over four years, which is the reason our cash debt position is increasing, because if you are going to invest money you have to borrow it, and part of the borrowing is paying back those borrowings. The relevant accounting agencies understand, as the Opposition does not, infrastructure investments for the long term, and by investing in infrastructure, as you do with your home—when you buy your home and take out a mortgage—you are improving your financial position. That is why our net assets have gone up to around \$135 billion, where the Commonwealth last year had a negative net worth.

If the honourable member wants to selectively pick statistics and make his comments, he is free to do that, but ratings agencies are very sensible, more sensible than the member that has asked the questions, and they have given us a clean bill of health of triple-A. It must be galling for the Opposition to have a Labor government, given the advertising campaign the Coalition is running at the moment—I have to thank them for that, by the way, they are going to give me a Federal mandate when Kevin Rudd gets in, and I look forward to injecting myself in the Federal debates around new Federalism and new Federal financial arrangements.

But the bottom line is, any time you increase your expenditure through borrowings, which the business community and the general community have argued we do, you will see your cash debt position go up. That is a reality, because you are paying out money on interest. But, it is in the context of a government that has prepared the New South Wales balance sheet and is able to borrow \$50 billion. I make that point. The figure is meaningless.

The Hon. GREG PEARCE: Let us just look at the fiscal strategy. You mentioned it was a government—

The Hon. MICHAEL COSTA: Hang on, you have to say the figure is meaningful and I am wrong. You raised that as a figure, I am telling you the reason we got that figure.

The Hon. GREG PEARCE: We will come to that in a minute.

The Hon. MICHAEL COSTA: No, come to it now because I want to give you an answer.

The Hon. GREG PEARCE: I want to clarify something you said then. You said it was the Government's fiscal strategy. In fact, it is an Act of Parliament.

The Hon. MICHAEL COSTA: That is right.

The Hon. GREG PEARCE: It is the Parliament's strategy that you have breached.

The Hon. MICHAEL COSTA: That is right.

The Hon. GREG PEARCE: And you said the key target was to meet financial liabilities, that will be 7.5 per cent of gross State product by 2010. Are you meeting that or not?

The Hon. MICHAEL COSTA: No, we—

The Hon. GREG PEARCE: Yes or no.

The Hon. MICHAEL COSTA: I do not have to answer yes or no. I am not in the lower traffic court where you used to represent—

The Hon. GREG PEARCE: How original is he? He has a quote from Bob Carr.

CHAIR: Mr Pearce—

The Hon. GREG PEARCE: Why do you not quote from Mr Egan?

CHAIR: You will not be asking any more questions—

The Hon. MICHAEL COSTA: Dennis Denuto is acting like he is in the lower traffic court.

CHAIR: You will not be asking any more questions if you keep that up.

The Hon. MICHAEL COSTA: That is ridiculous.

The Hon. GREG PEARCE: Keep up what?

CHAIR: The way you are going on. Just ask the questions.

The Hon. GREG PEARCE: Well, he would not—

The Hon. MICHAEL COSTA: I do not mind. He uses bluster because he has just been caught out trying to distort the State's finances.

The Hon. GREG PEARCE: Do you meet the target or do you not?

CHAIR: The Minister may answer the question anyway he wishes.

The Hon. MICHAEL COSTA: We will meet the target one year later.

The Hon. GREG PEARCE: So, you do not meet the target?

The Hon. MICHAEL COSTA: We will meet the target one year later.

The Hon. GREG PEARCE: So, you do not meet the target?

The Hon. MICHAEL COSTA: It is our own target and it is a great result because the trend is the right way. By the way, we would have been in a better position—

The Hon. GREG PEARCE: Okay, let us keep going.

CHAIR: Let the Minister answer the question.

The Hon. MICHAEL COSTA: —had the Federal Government had not had six interest rate increases, counting the ones about come, in the last period that have thrown out the budget assumptions. I hope you will explain that part of the—

The Hon. GREG PEARCE: No, in the budget assumptions you do not meet the target so do not try to raise that sort of issue. In your own budget you do not meet the target.

CHAIR: Just ask questions, do not make commentary, thank you.

The Hon. GREG PEARCE: You reckon that you are going to meet it in 2011. Where does the GSP figure come from for 2011?

The Hon. MICHAEL COSTA: From us.

The Hon. GREG PEARCE: So you put your own figure up?

The Hon. MICHAEL COSTA: Yes.

The Hon. GREG PEARCE: And you say that on your own figure you meet your own target?

The Hon. MICHAEL COSTA: That's right. It is our budget. Don't you understand?

The Hon. GREG PEARCE: So where is the GSP forecast in the budget papers?

The Hon. MICHAEL COSTA: Can I explain this? This document is the Government's budget. It is a set of estimates. That is why this process is called the budget estimate process. You make a budget because you cannot forecast the future. You look at the assumptions that underlie it and you try to predict to the best of your ability what the result is going to be. The Federal Government has been very bad at predicting the result.

The Hon. GREG PEARCE: And you predicted a deficit.

The Hon. MICHAEL COSTA: They have pulled in about \$45 billion over the last four years more than they budgeted for.

The Hon. GREG PEARCE: And how much more did you get than you budgeted for?

The Hon. MICHAEL COSTA: But that is part of the budget process.

The Hon. GREG PEARCE: How much more did you get than you budgeted for?

The Hon. MICHAEL COSTA: That is part of the budget process. I don't understand the member. This is not the Bible, where every word may be true, this is a budget estimate. We make a judgment about what it is going to be and then we report to this process to check the veracity of the estimates. The honourable member is bereft of an ability to ask any decent questions or any sensible questions, so he plays the man and always loses when he plays the man because he is half the man that I am.

The Hon. GREG PEARCE: So the GSP is your own estimate, so you set the target and then you set the test of it as well?

The Hon. MICHAEL COSTA: Yes, that is why I am called the Treasurer. You see it says "Treasurer"?

The Hon. GREG PEARCE: Yes, so you set the performance. Why did you remove from Budget Paper No. 3 in the program outcomes the 10-year average GSP target?

The Hon. MICHAEL COSTA: Is that any longer relevant?

The Hon. GREG PEARCE: No longer relevant?

The Hon. MICHAEL COSTA: I am asking the Treasury Secretary, but before we get to that, the member does understand the budget now?

The Hon. GREG PEARCE: I understand the budget.

The Hon. MICHAEL COSTA: It is a set of estimates based on assumptions and if you look at Budget Paper No. 2, that is the key document—

The Hon. GREG PEARCE: It is interesting to see you get it wrong, wrong, wrong.

The Hon. MICHAEL COSTA: I do this every year: I try to educate you about the budget process. There are estimates in there. One of them happens to be what interest rates are likely to be and clearly that is outside our control, so based on that one key variable one would expect that he would understand that the Government does not control every single factor that influences the budget. We do not control our revenue estimates, so if the economy happens to tank because of Costello's poor management, which we have seen in recent times in relation to interest rates, that reduces our property related revenue, and as a consequence those numbers will change. Those numbers will change. And you have to understand—

The Hon. GREG PEARCE: Can Mr Pierce just answer the question I asked?

The Hon. MICHAEL COSTA: I don't know how you run your personal budget, but the reality is that anybody—and this is probably why the Liberal Party is not concerned about interest rates because obviously their personal budgets are not interest-rate sensitive, but the rest of the population does have interest-rate sensitive budgets and so does the State Government. So clearly anything that is in here is subject to variation in those assumptions. I hope the honourable member understands that, and when those assumptions vary, medium-term targets and long-term targets may change in terms of the delivery date, but what is important is the trend and the trend is positive in terms of net financial liabilities and sneaking around, looking for disconnected causal components of a process that has to be seen as a whole as a way to explain a problem in a budget or score political points is hardly credible and it makes a mockery of the budget estimates process.

CHAIR: Mr Pierce was going to answer the question. Is there an answer to the question?

The Hon. MICHAEL COSTA: I have got to educate them, but they will never get into government to use the education I give them every year. Very frustrating.

CHAIR: Does the Secretary to the Treasury have an answer to the question that was asked?

Mr PIERCE: I think there were two questions. Budget Paper No. 2 in chapter 6 sets out the economic assumptions that underpin the budget and the numbers that were used consistently throughout the process.

The Hon. MICHAEL COSTA: When you say "assumptions" you mean they might change?

Mr PIERCE: Yes, they are estimates.

The Hon. MICHAEL COSTA: I just wanted to check--

The Hon. GREG PEARCE: You didn't meet your targets.

The Hon. MICHAEL COSTA: Maybe you didn't understand what an assumption was.

The Hon. GREG PEARCE: You didn't meet your targets at the time of the budget.

The Hon. MICHAEL COSTA: An assumption for this bloke is an absolute.

The Hon. GREG PEARCE: You didn't meet your target in your budget.

The Hon. MICHAEL COSTA: I used to assume he was an idiot; now I know he is an absolute idiot.

The Hon. GREG PEARCE: If that is the best you can do—

The Hon. MICHAEL COSTA: Well, you started the tone of this discussion, mate.

The Hon. GREG PEARCE: Point of order. Your budget did not meet the target, full stop. It has nothing to do with anything else. Your budget did not meet the target, but if the Treasury secretary could answer my question about the indicator, why you do not show the GSP indicator any more, I would like you to answer that.

The Hon. MICHAEL COSTA: Our budgets are based on assumptions.

The Hon. GREG PEARCE: Your budget is based on fairyland, pal.

The Hon. MICHAEL COSTA: Great. That is because—

The Hon. GREG PEARCE: You cannot get anything right.

The Hon. MICHAEL COSTA: We have an interest rate assumption that is based on Costello. It's got to be based on fairyland. That is why the public is going to throw him out.

The Hon. GREG PEARCE: Last time you thought it was a deficit—

The Hon. MICHAEL COSTA: That's right, and I apologised to the taxpayers.

The Hon. GREG PEARCE: You couldn't work out your revenues; you couldn't get anything right.

The Hon. MICHAEL COSTA: I apologised to the taxpayers.

The Hon. GREG PEARCE: Wrong, wrong, wrong.

The Hon. MICHAEL COSTA: I did not bring in a deficit this year, I apologise to you. We brought in a surplus.

The Hon. GREG PEARCE: How can anybody rely on you?

CHAIR: Mr Pierce is trying to answer your question, so be quiet.

The Hon. GREG PEARCE: Well, get him to answer.

Mr PIERCE: Table 6.2 in Budget Paper No. 2 has the estimates of various economic parameters, but the one referred to is gross state product, that is table 6.2, as well as State final demand, which in the short term is more important to us. Table 6.3 has the medium term economic parameters, which are used to underpin the numbers beyond the budget year, and it would have been that growth rate that was used in getting to any number that is a percentage of GSP, as I say, beyond the budget year. So the numbers that we have used or the growth rates are there. In terms of Budget Paper No. 3 the indicators for Treasury went through a review process—they are constantly being reviewed, but the objective of the review that led to these sorts of numbers was really to get a set of indicators that were more closely aligned to the key things that Treasury is managing to and the key financial statement indicators as distinct from things that underpin that. So it was about a tightening up of those result indicators to things we were more directly involved in. Our influence over what gross state product is, as the Treasurer announced, is pretty diverse, but there are numbers as a per cent of GSP obviously embedded in those performance indicators, so the GSP projections underpin some of the numbers that we see in Budget Paper No. 3.

The Hon. GREG PEARCE: So what you are saying is it is no longer a target for the Government to have New South Wales GSP growing at a greater or equal rate than the national average?

The Hon. MICHAEL COSTA: No, that is a Government target.

The Hon. GREG PEARCE: So you have accepted that New South Wales is falling behind.

The Hon. MICHAEL COSTA: I should answer that. It is a Government target.

The Hon. GREG PEARCE: Well, he was the one just answering.

The Hon. MICHAEL COSTA: No.

CHAIR: The Treasurer is in charge of the answers.

The Hon. GREG PEARCE: So you are happy that New South Wales growth falls behind the national average?

The Hon. MICHAEL COSTA: I am never happy. I take pills for depression—you know that. But look, it is not about being happy or not, it is about the target.

The Hon. GREG PEARCE: That is right.

The Hon. MICHAEL COSTA: And the things that we can—

The Hon. GREG PEARCE: And it is no longer your target to be ahead of the rest of the country in growth.

The Hon. MICHAEL COSTA: Do you want me to finish? The things that we can influence. Clearly New South Wales economy I think, from memory, is about 34 per cent of the national economy and despite—I thought this question would probably come from the Greens rather than the Liberal Party because I thought they had an understanding or a degree of understanding of economics.

Dr JOHN KAYE: "They" being the Greens or the Liberal Party?

The Hon. EDDIE OBEID: You have a better understanding.

The Hon. MICHAEL COSTA: No, you don't.

Dr JOHN KAYE: I thought you said we did?

The Hon. MICHAEL COSTA: I am surprised at you. That is an individual thing rather than a party thing. The reality is that we cannot—

The Hon. GREG PEARCE: Did you say you did take your pills this morning or not?

The Hon. MICHAEL COSTA: Yes, I did, I always take my pills when I have to do things that are important. I have something important this afternoon, which is to farewell my chief of staff because she is going off on maternity leave.

The Hon. GREG PEARCE: Again. Congratulations.

The Hon. MICHAEL COSTA: She will be having a baby to add to our population and I think we all understand the need for doing that. So I did have something important to do today, so I made sure that I was well prepared, and that is that farewell. In relation to this particular process, the reality is that New South Wales—

The Hon. GREG PEARCE: Just go back to the GSP, will you?

The Hon. MICHAEL COSTA: I am going to GSP. In relation to this particular process, clearly if you represent by definition 34 per cent of the national economy there are going to be events—

The Hon. GREG PEARCE: Saved by the bell.

CHAIR: You have wasted your time, Mr Pearce.

CHAIR: Act as a Chair and do not make judgments.

The Hon. MICHAEL COSTA: Can I finish the answer?

CHAIR: By commentary you are wasting half your time.

The Hon. GREG PEARCE: I will use my time the way I want to.

CHAIR: Are there any Government questions.

The Hon. KAYEE GRIFFIN: I am happy to ask that the Treasurer elucidate on his previous answer?

The Hon. MICHAEL COSTA: Thank you very much, that is a very good question. If you represent 34 per cent roughly of the national economy, by definition, by logic there are going to be factors outside of your own State budget that are going to affect the outcomes of your budget. I do not think there would be any sensible economist who would dispute that. Dennis Denuto might but the rest of them do not.

The Hon. EDDIE OBEID: But he is not an economist.

The Hon. MICHAEL COSTA: He is not an economist, I forget. He was in the lower traffic court.

The Hon. GREG PEARCE: Come up with an original insult.

The Hon. MICHAEL COSTA: I do not need to come up with that.

The Hon. GREG PEARCE: Because you are not up to it, are you?

The Hon. MICHAEL COSTA: No, because Bob Carr nailed you. When he said that you performed like you were in the lower traffic court, he was absolutely right. I have to acknowledge that was one of the legacies of the Carr—

The Hon. GREG PEARCE: I would not bring Bob Carr up because that raises the spectre of Michael Egan, who was a good Treasurer.

CHAIR: Treasurer, could you answer the question?

The Hon. MICHAEL COSTA: Yes, I will. Clearly, when you do a budget, those other variables that are outside your control, that is, national growth, which is affected by a range of factors—monetary policy being the key one that concerns us—will affect our underlying assumptions. If we are to keep to our goal of trying to be above the national average in terms of GSP or close to it over time, you have to look at it over time, and over time the New South Wales economy has performed very well. We have just come out of a property market slump that has affected New South Wales. I do not think there is any secret about that. We kept saying at the time that it would be a factor that would affect not only New South Wales but other State economies. It is starting to do that. We see what is happening globally in terms of the residential housing bubble. We were the first into that housing bubble and we were the first out of it. So the prospects in the future for New South Wales doing very well in relation to that target are quite good.

The Hon. KAYEE GRIFFIN: Mr Chairman, we do not have further questions at this time.

CHAIR: We will move on to Dr Kaye.

Dr JOHN KAYE: Treasurer, can we talk first of all about revenue that you receive from public enterprises. I understand that is going to be about \$8.3 billion in terms of return over the years 2007-08?

The Hon. MICHAEL COSTA: No, from memory it is just over \$1 billion. I think you are wrong on that. Are you taking our revenue line or dividends? What are you talking about? I think you are talking about the revenue, but of course revenue has to be offset—

The Hon. GREG PEARCE: Is that your original figure or your adjusted figure?

The Hon. MICHAEL COSTA: Why is that clown jumping in?

The Hon. GREG PEARCE: Is it your original figure or your adjusted figure?

Dr JOHN KAYE: Greg, do you mind? What I am talking that, Treasurer, is financial distributions from public trading enterprises and operating revenues such as a sale of goods and services?

The Hon. MICHAEL COSTA: It is over \$1 billion usually.

Dr JOHN KAYE: Why does the Independent Pricing and Regulatory Tribunal say it is \$8.3 billion?

The Hon. MICHAEL COSTA: You are talking about private trading enterprises?

Dr JOHN KAYE: What I am talking about is financial distributions from public trading enterprises and operating revenue such as the sale of goods and services and investment income?

The Hon. MICHAEL COSTA: That is a different figure altogether.

Dr JOHN KAYE: Well, that is the figure I would like to have.

The Hon. MICHAEL COSTA: That includes disposal of assets and other activity. But from State-owned corporations—and this is no secret—we get, from memory, \$1.1 billion or \$1.2 billion in terms of dividends. Other operating revenue relates to a whole range of things. It could be charges in some agencies; it could be disposal of some assets, investment income.

Dr JOHN KAYE: How much of that \$1.1 billion comes out of the electricity industry?

The Hon. MICHAEL COSTA: It is about \$600 million, somewhere around that, about 60 per cent or 70 per cent of it.

Mr PIERCE: The lion's share.

Dr JOHN KAYE: It is \$741 million.

The Hon. MICHAEL COSTA: See how well I know my budget.

The Hon. GREG PEARCE: What, \$600 million against \$741 million?

The Hon. MICHAEL COSTA: You do not even understand that when you borrow you end up having to pay things back. I would like to be your bank manager.

Dr JOHN KAYE: So roughly speaking that is about 1 per cent of general government expenditure?

The Hon. MICHAEL COSTA: Sorry?

The Hon. GREG PEARCE: Do not focus on me. He is asking the questions.

The Hon. MICHAEL COSTA: I am still looking for the reds under the table.

Dr JOHN KAYE: We will get to those in a minute, Treasurer. One per cent of general government expenditure?

The Hon. MICHAEL COSTA: What is your point? Just make the point?

Dr JOHN KAYE: The point is: is it about 1 per cent of general government expenditure?

The Hon. MICHAEL COSTA: What is?

Dr JOHN KAYE: Income from the electricity industry?

The Hon. EDDIE OBEID: No, it is less.

The Hon. MICHAEL COSTA: Hang on, we have a budget of about \$43 billion. One per cent of that. You are supposed to have a Ph.D.

The Hon. EDDIE OBEID: It is 400.

Dr JOHN KAYE: Okay, so it is about 2 per cent.

The Hon. MICHAEL COSTA: You have got the Ph.D., not me. What kind of an engineer are you? Do your buildings fall down all the time?

Dr JOHN KAYE: My question is sale of the electricity industry will remove that revenue stream from the State?

The Hon. MICHAEL COSTA: Sorry?

Dr JOHN KAYE: If you sell the electricity industry or sell parts of the electricity industry—

The Hon. MICHAEL COSTA: But you are presuming—

Dr JOHN KAYE: This is a really simple question, Treasurer.

The Hon. MICHAEL COSTA: No, it is not simple. You have got your maths wrong and you are a bloody civil engineer—

Dr JOHN KAYE: I am not a civil engineer.

The Hon. MICHAEL COSTA: And now you are telling me that the question is simple.

Dr JOHN KAYE: Can we concentrate, rather on personal abuse on the numbers?

The Hon. GREG PEARCE: You are a bit stressed?

The Hon. MICHAEL COSTA: No, I am not. The guy said it was 1 per cent and it is 2 per cent and he has a Ph.D. in civil engineering.

Dr JOHN KAYE: I do not have a Ph.D. in civil engineering, Treasurer.

The Hon. MICHAEL COSTA: What do you have it in?

Dr JOHN KAYE: I will ask the questions.

The Hon. MICHAEL COSTA: Electrical engineering, sorry. He is a bright spark.

Dr JOHN KAYE: Now, \$741 million a year will disappear from the revenue stream?

The Hon. MICHAEL COSTA: No, that is not right. You must be going to Dennis Denuto's school of accountancy.

The Hon. GREG PEARCE: Do not forget Dennis Denuto won the case.

The Hon. MICHAEL COSTA: He did; he had the vibe, but he had a lot of help.

Dr JOHN KAYE: Can you just tell me what is wrong with my logic, Treasurer, and not distract on to personal vitriol?

The Hon. MICHAEL COSTA: Let me explain it to you, and I find it intimidating to explain to a Ph.D. these simple concepts but our dividends are a function of two things: revenue expenses, dividends and dividend policy, so it is not just revenue. What we would get back to us is a function of what we have got to also expend and what our dividend policy is.

Dr JOHN KAYE: Treasurer, I am confused here.

The Hon. MICHAEL COSTA: I know you are confused.

Dr JOHN KAYE: If you do not own the assets you are not going to get any revenue from them.

The Hon. MICHAEL COSTA: That is not what you are saying. You are saying that because in one particular year we got \$700 million in dividends, we are always going to get \$700 million in dividends. I am saying to you that whatever the dividend result is at a particular point is a function of what the revenue was—and this is all subject to what the revenue was and what the expenditure was. What we are projecting electricity going forward—

Dr JOHN KAYE: If we had not owned—

The Hon. MICHAEL COSTA: Do not you want to listen to the answer?

Dr JOHN KAYE: Treasurer, no. If we had not owned the electricity industry this year we would not have got \$741 million.

The Hon. MICHAEL COSTA: That is probably right—that is right, but that is not the point in the future. If we did not own the electricity industry this year, \$700 million this year, however, we would have had the equity that we have in those particular assets and that could have been invested and got a greater return in the general equity market. I think the returns in the equity market this year were 10 per cent. Now 10 per cent of our asset base of \$10 billion roughly—you can see we would have got more money.

The Hon. EDDIE OBEID: It is \$1 billion.

Dr JOHN KAYE: Is it not true that your colleague, the roads Minister—

The Hon. MICHAEL COSTA: Are you going to question the logic of that?

Dr JOHN KAYE: There is a question of logic about the roads Minister.

The Hon. MICHAEL COSTA: What is the problem?

Dr JOHN KAYE: Your colleague the roads Minister said that you were not going to invest it in general equity markets but you are going to put it into the M4 East extension?

The Hon. MICHAEL COSTA: I do not know what my colleague said.

Dr JOHN KAYE: Your colleague said that. If you do that—

The Hon. MICHAEL COSTA: This is really pathetic, Mr Chair. I have caught out Mr Ph.D and he is running for cover now. Not bad for a train driver, is it?

Dr JOHN KAYE: Is it not true that your \$580 million surplus—

The Hon. MICHAEL COSTA: Let us go back to your question. Your question was that it was \$700 million that the State gets from having electricity assets—that was your question and do not try to avoid the silly question. I am happy to answer it—and if we sold our generators we would not get \$700 million. I said to you that is crap. Firstly, the \$700 million is not guaranteed; it is a function of your revenue and expenditure on an historical basis and a prospective basis. Secondly, I said to you the equity and the assets could get a greater return somewhere else and on a back-of-an-envelope calculation estimate that is \$1 billion. In fact, we probably would have got more. Now what do you say to that, rather than running away looking for reds under the bed.

Dr JOHN KAYE: What I say to that is that one of your colleagues has said that they are going to put the sale—

The Hon. MICHAEL COSTA: Hang on a minute, you asked the question.

Dr JOHN KAYE: You asked me a question and I am answering it. What you said to me—

The Hon. MICHAEL COSTA: I said you are wrong on the \$700 million.

Dr JOHN KAYE: What your colleague said was that you were not going to put the money into the equity market; you are going to build roads with it. If you build roads with it you will get no return on those roads and is it not true that \$584 million surplus would in fact turn into a deficit of about \$150 million?

The Hon. MICHAEL COSTA: They must give these Ph.Ds out in cornflakes packets.

Dr JOHN KAYE: Let us go somewhere else.

The Hon. MICHAEL COSTA: No, don't go somewhere else. You have bloody made a fool of yourself and I want to extricate you from the position you have put yourself in. Do you accept the proposition that if you have an equity position in a particular—

The Hon. GREG PEARCE: Did you have a big night last night or something?

The Hon. MICHAEL COSTA: No, I did not.

CHAIR: Let the Treasurer answer the question.

The Hon. MICHAEL COSTA: If you have an equity position in a group of assets, you expect a return from those. The equity return that you can get at the moment, in general equity markets, is probably around 10 per cent. What we got on our assets last year was below that. Do you accept that?

Dr JOHN KAYE: No, I do not accept that at all.

The Hon. MICHAEL COSTA: Explain it to me. I would like to know how your economics work.

Dr JOHN KAYE: That would be fine if you sold everything that you owned. You would not sell your own house and put it in the equity market. You would not sell your car. You would not sell assets, but that is not the point here.

The Hon. MICHAEL COSTA: I do not live in a generator. I do not know where you live. I know the Greens live in strange places but I do not live in a generator.

Dr JOHN KAYE: You asked me a question and I am answering it. You will not put the asset on to the equity market—

The Hon. MICHAEL COSTA: Look at him! He is trying to slink away from the answer. Let us come back to the answer. You said that if we got rid of our ownership of electricity we would lose \$700 million. You are wrong. Do you concede that you are wrong?

Dr JOHN KAYE: No, I do not concede that I am wrong. In this year if we had not owned that asset and we put that money into something else that was not generating a return then we would have \$740 million less—

The Hon. MICHAEL COSTA: In other words, if you took the money and did not invest it we would not get anything. That is a genius proposition.

Dr JOHN KAYE: No. Get the wax out of your ears! What I said—

The Hon. MICHAEL COSTA: Why would you not invest it in something? Is that what the Greens would do with the money?

Dr JOHN KAYE: Excuse me, what I said was that if you invest it in something that does not give you a financial return, such as a motorway—

The Hon. MICHAEL COSTA: Why would you invest in something that does not give you a financial return?

Dr JOHN KAYE: You need to talk to Eric Roozendaal. Eric the Red said you were going to put it into a motorway. That does not give you a return.

The Hon. MICHAEL COSTA: Let us go back to the fundamental proposition. You do not understand opportunity costs. You have no conception that if you put money in one area it stops you putting it in another and you measure the returns, the differential between the two. That is how it works. I do not know how the Greens work.

Dr JOHN KAYE: I have limited time.

The Hon. MICHAEL COSTA: You have limited intelligence, too.

Dr JOHN KAYE: Thank you. I turn now to gambling. Is it true that State revenue gets about \$1 billion a year from gambling?

The Hon. MICHAEL COSTA: I do not know. Is that what it says in the budget paper?

Dr JOHN KAYE: Roughly speaking, yes.

The Hon. MICHAEL COSTA: So it must be true.

Dr JOHN KAYE: About 9.5 per cent of tax revenue—

The Hon. GREG PEARCE: No, it must be an assumption.

The Hon. MICHAEL COSTA: It is probably an assumption because it could vary.

Dr JOHN KAYE: Whether it is an assumption, it is about 9.5 per cent.

The Hon. MICHAEL COSTA: Equine flu will impact on it.

Dr JOHN KAYE: The Independent Pricing and Regulatory Tribunal report refers to this as being an inefficient tax and also, I presume, a vertically inequitable tax. Are you concerned—

The Hon. MICHAEL COSTA: Which tax? Which particular gambling tax are you talking about?

Dr JOHN KAYE: This is specifically talking about poker machines and the inequity of the tax in that it is charged at different rates—

The Hon. MICHAEL COSTA: On which page did it say that? I did not see that in the Independent Pricing and Regulatory Tribunal report.

Dr JOHN KAYE: Did you see the Independent Pricing and Regulatory Tribunal report?

The Hon. MICHAEL COSTA: It made a general comment about inefficient State taxes.

Dr JOHN KAYE: No, it specifically referred to gambling taxes.

The Hon. MICHAEL COSTA: Show me the page.

Dr JOHN KAYE: I do not have the page number in front of me. Are you concerned about the dependency of State revenue on a tax which is highly regressive, that is, it collects money from those who can least afford to pay it, and which is also described by the Independent Pricing and Regulatory Tribunal as being inefficient and inequitable?

The Hon. MICHAEL COSTA: What happens if they choose to put the money under the bed, like you want to do with the State's money? These people have chosen to do something with their money as opposed to what you were proposing before, which is that we choose not to do anything and assume zero.

Dr JOHN KAYE: I just asked you a question. Do not ask me about my assumptions.

The Hon. MICHAEL COSTA: I have to understand the question.

Dr JOHN KAYE: Are you concerned about the dependency of the State Government on gambling tax?

The Hon. MICHAEL COSTA: The State Government has programs to deal with people who have chronic problems with gambling and we fund those. But I say this: I am not a wowsler. If people choose to gamble and they do that in a responsible way, that is their choice. I know the Greens want to dictate how people live, but that is not the position of the State Government.

Dr JOHN KAYE: So you are not concerned about the inequity and the inefficiency of the gambling taxes?

The Hon. MICHAEL COSTA: There are two different questions. One is: do I morally or socially object to gambling?

Dr JOHN KAYE: You introduced "morally".

The Hon. MICHAEL COSTA: That is a different issue.

Dr JOHN KAYE: I asked you whether you were concerned about the inefficiency and the inequity of the gambling taxes—

The Hon. MICHAEL COSTA: I am concerned that States—let me answer the question.

Dr JOHN KAYE: —and your dependency on those taxes.

The Hon. MICHAEL COSTA: We are not totally dependent on, as you pointed out, \$1 billion out of a revenue base of \$44 billion—

Dr JOHN KAYE: It is 9.5 per cent of your tax stream.

The Hon. MICHAEL COSTA: Can I answer these questions, or do we have to go through this process of people asking silly questions and me trying to interpret them and then try to give them a sensible answer and then they cannot comprehend the answer itself? Let me go through it. We have \$43 billion roughly. Our revenue is \$44 billion. You said gambling was \$1 billion. It is hard to draw, even on a logical basis, that that is somehow a dependency on gambling taxes. Do you agree with that? One forty-fifth of your revenue is hardly a dependency on gambling taxes.

Dr JOHN KAYE: Well, 2.2 per cent but in terms of your tax stream it is 9.5 per cent.

CHAIR: Let the Treasurer answer the question.

Dr JOHN KAYE: He asked me a question.

The Hon. MICHAEL COSTA: Do you think it is a dependency on 2.2 per cent?

Dr JOHN KAYE: I do.

The Hon. MICHAEL COSTA: So we differ on that. I would have thought one forty-fourth was not a dependency.

Dr JOHN KAYE: Where would you make it up? Take out \$1 billion—

The Hon. MICHAEL COSTA: Hang on, I am just answering your question. You said we are dependent on questioning the assumptions. I do not agree with your proposition that we are dependent on it. The second part of it, whether it is a regressive tax or not, I can answer it this way. Any tax that is not broadly based, one could argue in an economic sense, is an inefficient tax, and the inefficiency we refer to in economics is about the broadness of the tax base, not about specific consequences of a particular tax. Nobody likes paying tax. But as I said, most people who choose to gamble do so in a responsible, voluntary way and I will not make any judgments about that. I do not gamble, though I should be on the Federal election result because the odds are pretty good for Labor.

CHAIR: As you know, there has been a statement by Russell Crowe from the South Sydney leagues club about phasing out poker machines. Are you doing any calculations on what impact that would have on your budget if that policy was taken up? Obviously that would be a big reduction in the income from tax.

The Hon. MICHAEL COSTA: What, from South Sydney?

CHAIR: If other clubs followed their lead.

The Hon. MICHAEL COSTA: That is a hypothetical. Clearly, Dr John Kaye set the parameters. He said that we have about \$1 billion in gambling-related taxes. That would be the impact. I hate to disappoint you but I do not think it will happen. I think people will be gambling for a long, long time.

CHAIR: Another issue raised in relation to the poker machines is whether the Government should buy back poker machine licences to try to reduce the quantity of poker machines in the State.

The Hon. MICHAEL COSTA: That is up to the regulatory structures, but we already have a policy of phasing out poker machines. As you know, there is a cap and there is a reduction on that cap. But at the end of the day, from a budget perspective, we would rather have a fairer share of the GST and we would rather have a sensible division of labour in terms of the States and the Federal Government managing services. Certainly, that would be the ideal position, and that is what we are arguing for. In the meantime, if people want to gamble and they want to do it responsibly, the Government will not stand in their way.

CHAIR: Returning to your earlier answers about the \$50 billion borrowed over four years—

The Hon. MICHAEL COSTA: It is not all borrowed. It is about 45 per cent of it. Some 40 per cent to 45 per cent will be borrowed. Again, just to explain that, when you borrow you have to pay, so that is cash going out. Dennis Denuto should be listening to this.

CHAIR: I remember in previous estimates hearings the former Treasurer Mr Egan made a big point about trying to reduce borrowings. He said the interest payments became so high—I think about \$1 billion was going on interest payments, which he thought was a waste of the State's money. What are the interest payments you are anticipating now?

The Hon. MICHAEL COSTA: They are in those figures—

CHAIR: I assume it will increase each year as you borrow the money. You are not borrowing it all on the first day. Is there any sort of ratio to show that, for example, interest payments will be \$1 billion in 2007 or \$2 billion in 2010?

The Hon. MICHAEL COSTA: If you look at Budget Paper No. 2, section 1-24, table 1.3, that outlines what will be in our forward estimates. Let me just deal with the broader principle. The Carr Government, in its first eight years, made a dramatic improvement in terms of the State's debt position. The real issue for us has been in looking at whether we should borrow going forward. What are we borrowing for? In our case we are borrowing for long-term infrastructure, infrastructure that will have 30, 40, 50 year horizons in terms of its useful life. We view that as a sensible investment, and we view that sort of borrowing as an investment in the future. The stuff that you worry about is the stuff that was happening under the Greiner Government, when they were borrowing to pay for their recurrent expenditure because they could not manage their budget. That is why we ended up on credit watch.

This Government is clear: we will live within our means in relation to our recurrent expenditure, and that is why we set the budget targets that way. But we will borrow where it is required for two things: long-term investment and—I have some economic difficulties with this proposition, but it is certainly one that some economists think is valid—to do things that are countercyclical. I think it is in the preamble to one of our documents, about looking at the business cycle. By the way, how you do that is the issue. The two things are not inconsistent: you can bring forward infrastructure investment that has countercyclical impact. What we will not do is spend on recurrent—have people out painting rocks, because somebody thinks that is going to improve the budget position.

What we have done is very sensible. It is to bring forward, on a sound balance sheet, some investment in long-term infrastructure. It is done on the basis of ensuring that our net debt position is manageable. I think it is worth looking at the ratings agency documents. They point to the fact that our borrowings are significant, in line without our infrastructure program, and they do challenge the Government to keep its recurrent expenditure under control. That is really what our strategy will be. Debt will go up over that period, but it will not go up to where it was when we came into government. In fact, if you look at the tables it will be well below. There is one on Budget Paper No. 2, page 1-11. It shows that even at the end of that process we will be at least 2.2 per cent below where we were when we came into government. It is manageable debt, debt that will improve our economic efficiency, debt that will lead to an investment in the State's economy, and jobs and productive activity.

CHAIR: We have already referred to the electricity issue. Obviously, with the growing population there will be a greater demand for power. How do you plan to meet that increased demand?

The Hon. MICHAEL COSTA: That is the purpose of the Owen report. When I was responding to the good doctor over there, it was not about any decision to sell power, because we have not made a decision. I was simply questioning his one-sided financial assessment. Clearly, any dollar has a multitude of places it can earn a return and act productively in an economy, and really that is a judgment that taxpayers have to make through their elected officials.

In terms of going forward with electricity, the Owen report lays the basis for that; it sets a framework. I know that the Greens are questioning whether we need baseload generation, but everyone else thinks we do. Somewhere around 2013 or 2014 we will need to put some baseload in

again. For the Hon. Greg Pearce's edification, that report from the National Energy Market Management Company is based on assumptions and assessments.

Dr JOHN KAYE: Actually, the report from NEMMCO does not say that, Premier—I am sorry, Treasurer. What a horrible thought!

The Hon. MICHAEL COSTA: For me, too. I do not want to have to be nice to you. That is why I would never take the job. I am sorry, I should not be diverted.

Dr JOHN KAYE: You are wrong.

The Hon. MICHAEL COSTA: I am not wrong.

Dr JOHN KAYE: The NEMMCO report does not say that.

The Hon. MICHAEL COSTA: What I said is that the NEMMCO report is full of assumptions about outcomes that lead to forecasts, like any budget document. I am just explaining to the Hon. Greg Pearce how you put forecasting documents—

The Hon. GREG PEARCE: The trouble is, your results are full of assumptions.

The Hon. MICHAEL COSTA: One of the biggest assumptions, of course, is interest rates. I will keep coming back to that, if you want to.

CHAIR: What plans do you have to meet that increased demand?

The Hon. MICHAEL COSTA: We have commissioned Professor Owen to put out a report to start a public discussion on the way forward. One of the things that is clear from the Government's point of view—the Premier made this point but I will make it also—is that, given fairly expansive infrastructure program, we are not in a position to self-fund any future investment in generation, and we think that would be a waste of public funds. If you have the private sector that can support future generation investment, that frees up capital for more needy projects within the public sector. So we have put out the discussion paper, and the Government will respond in time to that discussion paper.

The issue in terms of baseload is clear: We do need base load generation. The issue that remains open is what form that baseload will take and what market conditions would best enhance the prospect of private sector investment in that area. That is what we are looking at doing. We are very concerned that we do not find ourselves in a position where the lights go out. We have been able to manage our electricity requirements for two programs; one has been management of demand. Everyone agrees that we have almost reached the point in that—unless you want to go back to a primitive lifestyle like the Greens advocate, of living in mudbrick houses, and eating nuts and berries—

Dr JOHN KAYE: Could you say those words again, Treasurer, because I would like to use them in my speeches?

CHAIR: They will be in the transcript.

The Hon. MICHAEL COSTA: They will be in the transcript. As I said to you people the other day, you want to take us back to the Stone Age. The reality is that, for the rest of us, who want to use air conditioners, have flat-screen television sets, play our PlayStations, and everything else, we are going to need electricity. Short of some massive change in consumer patterns, that means the demand will continue to grow and we will have to meet it through baseload. In the meantime, peaking has managed to keep us in a position where the power—

The Hon. GREG PEARCE: Peking? Do you mean Beijing?

The Hon. MICHAEL COSTA: Peaking plants. The Hon. Greg Pearce is referring to the People's Republic of China and its agents, who are out here trying to influence me. Peaking plants will keep us in a position where we will have power supplies. What the Greens do not recognise is that if

there is global warming—alarmist global warming—how the population is responding is by buying air conditioners.

CHAIR: Do you have any preference for how to meet that power demand?

The Hon. MICHAEL COSTA: I like biomass coal, as I said to you once before.

CHAIR: Clean coal?

The Hon. MICHAEL COSTA: Clean coal is a good way to go; it makes a lot of sense. We have 350 years of supply in New South Wales. We have approved new mines; the port of the Hunter is growing. Of course, that is a decision that will be made in the marketplace ultimately, and it is a matter for the Government to respond in due course. We will not take a view on the preference of a fuel source; it is up to the market to determine that. But we certainly will not rule out that good biomass called coal.

The Hon. GREG PEARCE: Treasurer, I take you to Budget Paper No. 2, page 4-12, Table 4.7, Net Financial Liabilities Estimates. Looking at 2011 estimates in the general government sector, what is the figure for unfunded superannuation?

The Hon. MICHAEL COSTA: Our strategy is to meet our unfunded superannuation liabilities by 2030.

The Hon. GREG PEARCE: 2030, or 2031?

The Hon. MICHAEL COSTA: 2030. You see, I have a good memory for this stuff, for someone who is not across it. It is 2030, and we are on track to do that.

The Hon. GREG PEARCE: Have another look at the table. What is the unfunded superannuation for 2011 for the general government sector? Do you see the last line?

The Hon. MICHAEL COSTA: I have it: it is the fourth figure down.

The Hon. GREG PEARCE: What is it?

The Hon. MICHAEL COSTA: Can you not read it?

The Hon. GREG PEARCE: I want you to tell me what it is.

The Hon. MICHAEL COSTA: I can see it.

The Hon. GREG PEARCE: Can you not read it either?

The Hon. MICHAEL COSTA: I do not understand your point. What are you on about?

The Hon. GREG PEARCE: The figure for the general government sector is \$17 billion?

The Hon. MICHAEL COSTA: Yes.

The Hon. GREG PEARCE: If you go to the heading "Public Trading Enterprises Sector", what is the figure for unfunded superannuation?

The Hon. MICHAEL COSTA: I can see the figure.

The Hon. GREG PEARCE: I will quote the figure. It is a positive, a plus, \$163 million. Under the heading "State Sector", you will see that the unfunded superannuation is \$16.8 billion. We have taken the general government unfunded superannuation and deducted from that a surplus in the public trading enterprise sector.

The Hon. MICHAEL COSTA: To get the final number?

The Hon. GREG PEARCE: Yes.

The Hon. MICHAEL COSTA: Do you think there is something wrong with that?

The Hon. GREG PEARCE: Do you think your union mates in the public trading sector would be happy to have \$163 million of their super marked off and into the general government—

The Hon. MICHAEL COSTA: I am glad you asked that; it is another own goal.

The Hon. GREG PEARCE: Just explain it.

The Hon. MICHAEL COSTA: do I have to explain to you how super works?

The Hon. GREG PEARCE: No, what I want to know is why you have taken the super out of the employees in the public trading enterprises and given it to the general government sector.

The Hon. MICHAEL COSTA: I will answer you, but I should get an additional allowance for educating the Opposition and the Greens. Again I have to do it.

The Hon. GREG PEARCE: Just answer the question.

The Hon. MICHAEL COSTA: It is simple, and without notes. Do you notice there are no notes around while I have been talking to you?

The Hon. GREG PEARCE: Explain why you have taken super from the public trading enterprises and given it to the general—

The Hon. MICHAEL COSTA: We have two types of super schemes. One type of super scheme is the defined benefit. Do you understand what that is?

The Hon. GREG PEARCE: Yes, I do, very well.

The Hon. MICHAEL COSTA: That is the scheme where you, at the end, get a defined benefit; sometimes as a proportion of your final two years of salary, it varies, but the idea is—

The Hon. GREG PEARCE: I want you to address why you have taken the super from the public trading enterprises and put it into the general government sector?

The Hon. MICHAEL COSTA: I am not taking it out. It is netting off—

The Hon. GREG PEARCE: Oh, netting off is not taking it?

The Hon. MICHAEL COSTA: No, it is not.

The Hon. GREG PEARCE: It is not deducting it?

The Hon. MICHAEL COSTA: No. The composition of the people in that sector may well be different to the other place. Let me explain it to you. You are really dumb, you are even dumber than Mike Baird on this stuff. The reality is, if you have a different profile of people—

The Hon. EDDIE OBEID: Just take over.

The Hon. MICHAEL COSTA: No, let me explain it. This is a beauty.

The Hon. GREG PEARCE: You explain it. Explain to the unions—

The Hon. MICHAEL COSTA: No, note this one. See all the journalists there, they should note this one down. This bloke is in the allegedly free enterprise party, he cannot read a balance sheet.

CHAIR: The Minister will answer the question.

The Hon. MICHAEL COSTA: Let me go through it? And why do you net it off? Because you have different profiles in each of those sectors, do not you? And the liability refers to our liability, not to their liability. Do you get that one? That is how much the Government has to put in. Because of the age profile in those areas, and the returns on investments, we are having to put less money into those public trading entities. That is why you net it off against the government sector, which is still—

The Hon. GREG PEARCE: So you take it away from the employees in the enterprises? That is exactly right.

The Hon. MICHAEL COSTA: No, it is our liability. The employees get exactly the same. You have really screwed this one up. That is so dumb.

The Hon. GREG PEARCE: You have got in here a positive figure in the public trading enterprises that you are taking off the general government sector liability?

The Hon. MICHAEL COSTA: I will explain it to the back of the room. We fund that. We make an estimate every year because these people are on a defined benefits scheme, they get a proportion of their final salary. It does not matter to them as long as they get that final proportion of their final salary. The liability is on the Government. If we get a decent investment return, we can reduce that liability. If the age profile of the people retiring changes, we also reduce our liability. There is no money being taken out of anyone's pocket.

The Hon. GREG PEARCE: Can you explain to your union mates how it is that the public trading enterprise sector has a positive figure?

The Hon. MICHAEL COSTA: Hang on boofhead. You are a financial boofhead, and you have just proved it.

The Hon. EDDIE OBEID: I think he is more a flathead.

The Hon. MICHAEL COSTA: He is a financial boofhead. What you do is you net it off. When you look at the whole of government you say, "What is our position in the general government sector?" "Oh, we still need to put money in." "Okay, what is our position in the State-owned corporations, the public trading?" "Oh, it is good, we don't have to put in as much money."

The Hon. EDDIE OBEID: You have a surplus in there.

The Hon. GREG PEARCE: You have trouble with deficits and surpluses?

The Hon. MICHAEL COSTA: No, you have trouble with numbers. You are classically innumerate.

The Hon. GREG PEARCE: Stick with superannuation for the moment.

The Hon. MICHAEL COSTA: No, hang on. Do you understand it?

The Hon. GREG PEARCE: You could not even read out the figures when I asked you to.

The Hon. MICHAEL COSTA: Look, he has gone red, he has been caught out. Mike Baird will be clapping upstairs. He will be watching this on TV and saying, "Oh, Greg Pearce is not going to last as shadow Treasurer".

The Hon. GREG PEARCE: Mate, you are not even a shadow of your former Treasurer, Michael Egan, about this stuff.

The Hon. MICHAEL COSTA: Do you understand that?

The Hon. GREG PEARCE: I do. You could not explain it, that is your problem.

[Interruption]

CHAIR: The Hon. Greg Pearce has not finished asking his question.

The Hon. GREG PEARCE: Let us stick with super for a moment, which you have suggested. How did you calculate the discount rate for the unfunded—

The Hon. MICHAEL COSTA: Basically we got a report, the Mercer report, for looking at the discount rate. The discount rate was 1 per cent, and now you going into Mike Baird's stuff. He is the bloke who allegedly worked in the investment banking area but did not understand the basic discount rates.

The Hon. GREG PEARCE: Do you understand it?

The Hon. MICHAEL COSTA: I understand it, with no notes.

The Hon. GREG PEARCE: Go for it.

The Hon. MICHAEL COSTA: I can explain discount rates. The reason we have a higher discount rate than the government rate is that we have a capacity within our super funds to earn a return. Over the last three or four years we have been earning returns of around 9 and 10 per cent. We took professional advice and the discount rate from memory was 7.4 per cent. That is pretty good, is it not?

The Hon. GREG PEARCE: You are saying that the report—

The Hon. MICHAEL COSTA: It was 7.4.

The Hon. GREG PEARCE: The advice to you is that figure, is it?

The Hon. MICHAEL COSTA: I think it was Mercer's advice.

Mr PIERCE: That is for the return on assets, that number. The other number that is relevant to the number in the general government account is the Commonwealth bond rates at 30 June.

The Hon. MICHAEL COSTA: I will send the Hon. Greg Pearce a bill for tuition.

The Hon. GREG PEARCE: To be clear on that, did you use the discount rate suggested to you by Mercer?

The Hon. MICHAEL COSTA: We used the discount rate that was advised by our advisers to use.

The Hon. GREG PEARCE: Mercer?

The Hon. MICHAEL COSTA: Was it Mercer?

Mr PIERCE: Mercer is the scheme actuaries.

The Hon. MICHAEL COSTA: Some adviser advised us.

The Hon. GREG PEARCE: So you used an adviser, but you do not know who it was?

[Interruption]

CHAIR: Mr Pierce is answering the question.

Mr PIERCE: Mercer was—

The Hon. MICHAEL COSTA: Go back to how we are stealing money off super. I reckon that is a beauty.

The Hon. GREG PEARCE: Did you use the discount rate advised by an adviser—

The Hon. MICHAEL COSTA: Yes.

The Hon. GREG PEARCE: Who was the adviser?

CHAIR: Mr Pierce is trying to answer your question.

The Hon. MICHAEL COSTA: I cannot remember. Are we talking about the super scheme?

Mr PIERCE: Just to clarify that; in the accounting standards for valuation of super liabilities areas one standard, AAS25—

The Hon. GREG PEARCE: That is not clarifying anything. I just want to know who was the adviser?

The Hon. MICHAEL COSTA: There was more than one.

Mr PIERCE: The scheme adviser is Mercer.

The Hon. GREG PEARCE: So you used Mercer's advice?

The Hon. MICHAEL COSTA: He is trying to answer the question.

The Hon. PENNY SHARPE: Stop interrupting.

The Hon GREG PEARCE: How hard can this be? Whose advice did you use?

The Hon. MICHAEL COSTA: We might have used two advisers.

The Hon. GREG PEARCE: You said you used one adviser. Who was it?

The Hon. MICHAEL COSTA: I do not know. We took advice, and I think Mercer was one of the advisers.

The Hon. GREG PEARCE: Oh, one of the advisers. Whose advice did you take? It is a simple question.

CHAIR: Let Mr Pierce answer your question. Just wait.

The Hon. GREG PEARCE: He said he took the advice, I want to know who he took advice from.

Mr PIERCE: Can I just explain this. The unfunded liability in the general government sector is driven by a different accounting standard than in the scheme. In the general government sector the discount rate used to fund liabilities is the Commonwealth bond rate, which is observable, you do not need advice on that number, you just observe. The scheme accounting standard requires them to use a return on the assets and they get that advice from Mercer. That is for the valuation of the liability. To work out our expense in the general government sector, we do need a rate of return assumption, and we get that from a combination of advisers that includes Mercer, Intec, Russells, the usual group of fund managers.

The Hon. MICHAEL COSTA: The usual people who do this sort of stuff.

The Hon. GREG PEARCE: Well, thank you, Sir Humphrey. My original question was, and the Treasurer said, that you used the discount rate that was advised to you by the adviser. Who was the adviser that advised the discount rate? Is that clear?

The Hon. MICHAEL COSTA: For the scheme?

The Hon. GREG PEARCE: Yes, unfunded superannuation.

The Hon. MICHAEL COSTA: It was Mercer for the scheme.

The Hon. GREG PEARCE: Thank you, goodness gracious me.

The Hon. MICHAEL COSTA: I said that right at the beginning, you kept going on.

The Hon. GREG PEARCE: You handed it over to Sir Humphrey. He went around in circles with weird expressions, gobbledygook.

The Hon. MICHAEL COSTA: It was not gobbledygook.

The Hon. GREG PEARCE: It was a very simple question.

The Hon. MICHAEL COSTA: This is pathetic, Mr Chair.

CHAIR: The Hon. Greg Pearce will not use that term to describe the Secretary of Treasury.

The Hon. GREG PEARCE: What, Sir Humphrey?

CHAIR: Yes.

The Hon. GREG PEARCE: Your colleague, Reverend the Hon. Dr Gordon Moyes, used it.

CHAIR: Do not use it here.

The Hon. GREG PEARCE: Certainly, if you object to it, I have no problem with that.

The Hon. MICHAEL COSTA: Dopey Baird got this wrong. You are getting it wrong too. Everyone took investment advice. Get on with the questions. We have heard your traffic court impersonations.

The Hon. GREG PEARCE: How much did you contribute to the unfunded super last year?

The Hon. MICHAEL COSTA: It was nearly \$8 billion because we moved that money.

Mr PIERCE: It was \$7.4 billion or \$7.2 billion.

The Hon. GREG PEARCE: What was it? Was it \$7.4 billion or \$7.2 billion?

The Hon. MICHAEL COSTA: Is it material?

The Hon. GREG PEARCE: It is a question.

The Hon. MICHAEL COSTA: I have given you the answer; it is in the budget papers.

The Hon. GREG PEARCE: It is in the budget papers?

The Hon. MICHAEL COSTA: That is what we are dealing with.

Mr PIERCE: It is \$7.2 billion.

The Hon. MICHAEL COSTA: It is on page 4-17.

The Hon. GREG PEARCE: What was the source of that funding?

Mr PIERCE: The General Government Liability Management Fund.

The Hon. GREG PEARCE: Was any money out of last year's revenue contributed to superannuation?

Mr PIERCE: Yes.

The Hon. GREG PEARCE: Yes?

Mr PIERCE: Yes.

The Hon. GREG PEARCE: What was that? How much was it?

The Hon. MICHAEL COSTA: If you are talking about cash it would have gone into—

The Hon. GREG PEARCE: Yes.

Mr PIERCE: There would have been something close to under \$1 billion, which went into the General Government Liability Management Fund and, from that fund, into superannuation.

The Hon. MICHAEL COSTA: Do you understand why we did the liability management?

The Hon. GREG PEARCE: Yes.

The Hon. MICHAEL COSTA: Baird does not understand it.

The Hon. GREG PEARCE: We will come back to that.

The Hon. MICHAEL COSTA: It was basically a vehicle to get some tax benefits from the Commonwealth; that is what it was.

The Hon. GREG PEARCE: What was the quantum of those tax benefits?

The Hon. MICHAEL COSTA: Baird did not understand that.

The Hon. GREG PEARCE: Just answer the question. What was the quantum of those tax benefits?

The Hon. MICHAEL COSTA: I am trying to help you here, mate. He is challenging you for the position of shadow Treasurer. I am just proving that he is a bigger dope than you.

Mr PIERCE: It is of the order of \$720 million.

The Hon. GREG PEARCE: Just back to your—

Mr PIERCE: Effectively, the \$720 million does not end up directly in the Government's budget; it is additional financial assets to the superannuation fund.

The Hon. GREG PEARCE: Could you just repeat that? I did not hear you.

Mr PIERCE: The additional \$720 million ends up as assets in the superannuation fund.

The Hon. GREG PEARCE: How much are you contributing in cash this year to superannuation from this year's budget?

The Hon. MICHAEL COSTA: God!

Mr PIERCE: In total—

Dr JOHN KAYE: This is an important question.

The Hon. GREG PEARCE: It is an important question. Your union mates will be relying on this money later on, so let us find out what you are contributing.

The Hon. MICHAEL COSTA: They are not going to be relying on you, mate. You cannot even read a balance sheet or a table.

The Hon. GREG PEARCE: You do not know the detail. We have to wait for—

The Hon. MICHAEL COSTA: I am doing pretty well.

The Hon. GREG PEARCE: What table is it?

Mr PIERCE: It is table 4.9 on page 4-17 which has the cash contributions from—

The Hon. GREG PEARCE: That is a table of graphs. I am trying to get the figure.

The Hon. MICHAEL COSTA: What? What do you mean by that?

Mr PIERCE: Page 4-17—

The Hon. MICHAEL COSTA: What do you mean when you say, "It is a table of graphs; I am trying to get the figure?" It is a table with numbers in it.

The Hon. GREG PEARCE: I was looking at another table. So it is on page 4-17?

Mr PIERCE: Table 4.9 on page 4-17 has the cash contributions from the general government sector as \$902 million.

The Hon. GREG PEARCE: So it is \$902 million in this budget. The same Mercer report that you initially kept secret and that you relied on to set your discount rate states:

Total employer contributions of \$1.2 billion will be required to meet the unfunded super liabilities by 2031.

Why are you putting in only \$902 million?

Mr PIERCE: There will be a difference. Within that fund, that is, the fund actuary, the general government sector or the Crown is just one—and obviously it is the most important—of the employers in the fund. So the fact that there is a difference does not surprise me. There would be non-Crown employers, for instance, universities that would make up the difference.

The Hon. GREG PEARCE: So you are saying that the difference between the \$900 million that you are contributing and the \$1.2 billion that Mercer says is required is for other employers?

The Hon. MICHAEL COSTA: That is for the fund. Do you understand?

Mr PIERCE: Yes.

The Hon. GREG PEARCE: You would have to take this question on notice, but could you give us a breakdown of how you get those figures?

Mr PIERCE: Yes.

The Hon. MICHAEL COSTA: Do you understand the point now?

The Hon. GREG PEARCE: Yes, I do. That is why I am asking the question.

The Hon. MICHAEL COSTA: Can you tell Baird what it is so that he understands it and so that next time he does not put out a dopey press release and he is not overheard in the corridor saying, "It wasn't me today"?

The Hon. GREG PEARCE: Can we turn for a moment to wages because there is an important assumption in the budget? What is the total increase in employee expenses for Treasury for this budget year?

The Hon. MICHAEL COSTA: This is the question you asked me the other day.

The Hon. GREG PEARCE: I want to explore it now.

The Hon. MICHAEL COSTA: You are asking, "How come we have a wages policy of 2.5 per cent but our employee number costs went up 4.5 per cent?" Is that right?

The Hon. GREG PEARCE: That is right.

The Hon. MICHAEL COSTA: I am even asking his questions for him now.

The Hon. GREG PEARCE: That is good. What is the answer?

The Hon. MICHAEL COSTA: Mr Pierce will give you an answer.

The Hon. GREG PEARCE: He will give me an answer?

The Hon. MICHAEL COSTA: I gave you the answer in Parliament.

The Hon. GREG PEARCE: You did not give me an answer in Parliament.

The Hon. MICHAEL COSTA: I am doing well then.

Mr PIERCE: That, of course, is an expense line, not a wage rate line.

The Hon. MICHAEL COSTA: Can I just explain it? That is what I am here for.

The Hon. GREG PEARCE: We are here to get the detail.

CHAIR: Order! Members should cease interjecting. Hansard is having a great deal of trouble recording these proceedings.

Mr PIERCE: This is an expense line, not a wage rate line. The major influence is the number of people that you employ. So you can have the—

The Hon. MICHAEL COSTA: Good. I now have my red cordial.

Dr JOHN KAYE: Chair, I ask you to advise the Minister not to drink that. He will just get worse if he drinks it.

The Hon. GREG PEARCE: He is trying to keep up his energy level. He is wilting and he is nervous. Is it a bit stressful?

Mr PIERCE: In relation to the wage rate changes I take it you are referring—

The Hon. GREG PEARCE: Shall we take a break while the Minister cleans up his mess?

The Hon. MICHAEL COSTA: No, it does not matter. I can do this and answer your idiotic questions.

Mr PIERCE: If you are referring to the difference between 2006-07 and 2007-08, the wage rate change is blocked in within current agreements. The Government's wages policy, of course, applies from the period of the expiry of the current agreements but, from memory, the wage rate changes are of the order of 4 per cent for that period.

The Hon. GREG PEARCE: Could the Minister just let Mr Pierce answer? I did not hear the answer; the Treasurer was too busy cleaning up his mess.

The Hon. MICHAEL COSTA: I was cleaning up the Greiner Government's mess; get it right.

The Hon. GREG PEARCE: No, Egan did that.

The Hon. MICHAEL COSTA: I am glad you admitted that. Put that in the record, "Pearce said, 'Egan cleaned up the Greiner Government's mess.'"

The Hon. GREG PEARCE: No, you said that.

The Hon. MICHAEL COSTA: You said it was the Greiner Government.

The Hon. GREG PEARCE: Can I just hear what the secretary has to say?

CHAIR: Order! We will go back to the answer to the question. Mr Pierce was trying to answer the question.

Mr PIERCE: The wage rate change from 2006-07 to 2007-08 would be consistent with the existing agreement, which, from memory, was of the order of 4 per cent.

The Hon. GREG PEARCE: The current wage rate in Treasury is a 4 per cent increase?

Mr PIERCE: Yes. It is the existing agreement that applies generally, not just to Treasury. The wages policy that you referred to, which is discussed in the budget papers, applies from the time the existing agreements expired. Our current agreement covers this period—2007-08.

Dr JOHN KAYE: Treasurer, can I take you back to an answer that you gave to Reverend the Hon. Fred Nile in respect of the need for baseload generation capacity in New South Wales?

The Hon. MICHAEL COSTA: Yes.

Dr JOHN KAYE: You referred specifically to what you called the National Energy Market Management Company report. I presume you are referring to the 2006 statement of opportunities?

The Hon. MICHAEL COSTA: Yes, which is provided by NEMMCO, as you know, do you not?

Dr JOHN KAYE: Yes, indeed.

The Hon. MICHAEL COSTA: So I am not inaccurate.

Dr JOHN KAYE: Treasurer, are you aware of the submission made by Dr Brian Spalding, chief operating officer of NEMMCO, to the Owen inquiry. Have you read that?

The Hon. MICHAEL COSTA: No, I have not.

Dr JOHN KAYE: Will you indulge me for one second while I read to you—

The Hon. MICHAEL COSTA: I read your question to the Premier the other night. I know what you are going to ask. It is the same answer.

Dr JOHN KAYE: Did you or did you not just say that the NEMMCO report stated that we need new baseload capacity in New South Wales?

The Hon. MICHAEL COSTA: Yes.

Dr JOHN KAYE: You did say that. Brian Spalding says—

The Hon. MICHAEL COSTA: Who is Brian Spalding?

Dr JOHN KAYE: Brian Spalding is the chief operating officer of NEMMCO. In his submission he states:

This assessment identified that an additional capacity of 327 megawatts would be required in New South Wales by the 2010-11 summer to ensure sufficient capacity to maintain reliability.

He goes on to state:

It may be uneconomic to meet constituent capacity requirement using baseload plant."

Treasurer, I do not understand, and you can explain this to me—

The Hon. MICHAEL COSTA: I will.

Dr JOHN KAYE: How is it that you and the Premier continue to say to us "NEMMCO says that we need a new baseload plant" when the chief operating officer of NEMMCO says that it would be uneconomic to build baseload plants?

The Hon. MICHAEL COSTA: No. But he was talking about 2010-11, not out to 2013-14.

Dr JOHN KAYE: No, sorry Treasurer.

The Hon. MICHAEL COSTA: No, sorry.

Dr JOHN KAYE: You said to us—

The Hon. MICHAEL COSTA: Sorry Dr Kaye. I have it in front of me, mate.

Dr JOHN KAYE: You said to us then that the NEMMCO report, which you agreed was a statement of opportunities. The 2006 SOO said specifically that we needed new base load capacity.

The Hon. MICHAEL COSTA: No, no. We did not say that at all.

Dr JOHN KAYE: That is what you just said.

The Hon. MICHAEL COSTA: We said that the Owen report based on its assessment of NEMMCO forecasts came to that conclusion.

Dr JOHN KAYE: But cat treasure, hang on a minute. A minute ago you did not mention Owen you said that the NEMMCO report—

The Hon. MICHAEL COSTA: I did not mention Owen. Did I mention Owen in regards to your question?

Dr JOHN KAYE: You said the NEMMCO report—I know, I wrote it down. I thought it was so interesting to write it. You said that the NEMMCO report said that we need a base load capacity—

The Hon. MICHAEL COSTA: Okay, let us get into the substantial question.

Dr JOHN KAYE: —by 2013-2014.

The Hon. MICHAEL COSTA: You are confusing peak with base load. That is where your problem is.

Dr JOHN KAYE: No, you are confusing peak with base load.

The Hon. MICHAEL COSTA: No I am not.

Dr JOHN KAYE: What the NEMMCO report says, we need new base load capacity.

The Hon. MICHAEL COSTA: No, you are confusing peak with base load.

Dr JOHN KAYE: We need new peak capacity that could best be provided by demand management. That is what NEMMCO is saying. It is you and the Premier who do not understand the difference between base load and peak.

The Hon. MICHAEL COSTA: All right.

Dr JOHN KAYE: So you admit that you do not know the difference between base load and peak?

The Hon. MICHAEL COSTA: No. I admit that you do not understand what you are talking about in terms of electricity because we have gone round this. You have confused peak with base load.

Dr JOHN KAYE: You are telling Brian Spalding he has confused them?

The Hon. MICHAEL COSTA: Well, I do not know what he said. I have not read his report. You are claiming it, and knowing The Greens—

Dr JOHN KAYE: You have not read the report?

The Hon. MICHAEL COSTA: I have not read Spalding's comments.

Dr JOHN KAYE: So you have not read the SOO?

The Hon. MICHAEL COSTA: I have not read Spalding's comments, submissions.

Dr JOHN KAYE: Have you read the 2006—

The Hon. MICHAEL COSTA: I have not read them. I told you that. You asked me, "Are you aware of Dr Spalding's comments?" I told you I am not. Let me tell you what the position is. The NEMMCO report states that we will need 327 megawatts of additional New South Wales generating capacity in 2010-11. That is what it states.

Dr JOHN KAYE: 327 megawatts?

The Hon. MICHAEL COSTA: Yes, 327. And it is best provided by peaking and we will be doing that. And that is why we have a process at the moment to put peaking plants in operation. But when we get out to 2013 and 2014, according to Owen and his reading of it, we are starting to need base load. What is so confusing about that?

Dr JOHN KAYE: But that is not what the report says. I mean, you guys have read into the report a statement—

The Hon. MICHAEL COSTA: Oh, we have read into it and now we are coming—

Dr JOHN KAYE: Well, you keep quoting the report when the report itself does not say that at all.

The Hon. MICHAEL COSTA: No. I said—

Dr JOHN KAYE: What the report says is that we can meet these shortfalls—

The Hon. MICHAEL COSTA: Till 2010-11, yes

Dr JOHN KAYE: And beyond by using, it says—

The Hon. MICHAEL COSTA: No it does not say that.

Dr JOHN KAYE: Well, okay. Suppose we do what—

The Hon. MICHAEL COSTA: Oh, suppose now? It does not say that. You are wrong.

Dr JOHN KAYE: Well it does say that.

The Hon. MICHAEL COSTA: Show us where it says it.

Dr JOHN KAYE: What Spalding is saying—

The Hon. MICHAEL COSTA: You have the report. Show us where it says it.

Dr JOHN KAYE: What Spalding is saying is meeting the 327 megawatts by either peaking plan or by what he calls demand side participation. Once you take 327 off the forecast, which Owen did not do, you did not do and the Premier did not do, what is the remaining capacity shortfall, Premier?

The Hon. EDDIE OBEID: Treasurer.

The Hon. MICHAEL COSTA: No, hang on. I can answer that. I mean, it is simple. This guy, he has a PhD in electrical engineering. He does not understand the difference between capacity and the energy required. You can have a capacity at a particular point, but your energy requirements might be greater. You do not understand.

Dr JOHN KAYE: Where does energy come from, Treasurer?

The Hon. MICHAEL COSTA: Oh, it comes from a range of things.

Dr JOHN KAYE: It comes from capacity.

The Hon. MICHAEL COSTA: When I was at school there was kinetic energy and potential energy. I mean, do not be ridiculous. The fact of the matter is—

Dr JOHN KAYE: Put a sock in it.

The Hon. MICHAEL COSTA: —you have made a mess of this. You are confusing peaking generation with base load generation. You are confusing—

Dr JOHN KAYE: The terms of reference—

The Hon. MICHAEL COSTA: You are confusing the annual capacity of the sector with its requirements at particular points.

Dr JOHN KAYE: The terms of reference—

The Hon. MICHAEL COSTA: I do not know. "Beserkley" might have to take your PhD off you.

Dr JOHN KAYE: They will be interested to hear you call them that.

The Hon. MICHAEL COSTA: "Beserkley"?

Dr JOHN KAYE: The terms of reference for your inquiry specifically—

The Hon. MICHAEL COSTA: Hang on, get back to your point. Oh, do not sneak away. I like people coming back to where they started. Come back to—

Dr JOHN KAYE: Treasurer. I will ask the questions in my own way. The terms of reference specifically refer to—

The Hon. MICHAEL COSTA: No, you are sneaking away from the question you asked me.

Dr JOHN KAYE: If you shut up for one minute and let me ask my questions.

The Hon. MICHAEL COSTA: Ooh.

Dr JOHN KAYE: The terms of reference—

The Hon. MICHAEL COSTA: Ooh.

Dr JOHN KAYE: —specifically referred to the NEMMCO report.

The Hon. MICHAEL COSTA: I am supposed to get angry.

The Hon. MICHAEL GALLACHER: Greens sees red.

The Hon. MICHAEL COSTA: Greens sees red. Good one.

Dr JOHN KAYE: They specifically refer to the NEMMCO report. The terms of reference setting up the Owen inquiry specifically refer to the NEMMCO report. Nowhere in the NEMMCO report anywhere does it talk about a need for new base load capacity. It talks about a capacity shortfall. That is all it talks about. It does not talk about energy shortfall. It only talks about capacity shortfalls, and if you follow the logic of the report you would not meet—

The Hon. MICHAEL COSTA: You mean not the words in the report, the logic of the report as filtered through The Greens? Oh, that is pretty frightening. What are you talking about? The report is clear.

Dr JOHN KAYE: Treasurer—

The Hon. MICHAEL COSTA: We are going to need base load generation somewhere around 2013-2014. That is clear.

Dr JOHN KAYE: So you are saying that the NEMMCO report or the Owen report?

The Hon. MICHAEL COSTA: I am saying the Owen report—

Dr JOHN KAYE: Okay, well—

The Hon. MICHAEL COSTA: —which was based on assessment of NEMMCO.

Dr JOHN KAYE: Okay.

The Hon. MICHAEL COSTA: You have confused peaking and base load—

Dr JOHN KAYE: No, Treasurer.

The Hon. MICHAEL COSTA: —and you have been caught out again.

Dr JOHN KAYE: Treasurer, it is you who has confused those two.

The Hon. MICHAEL COSTA: How have I confused them?

Dr JOHN KAYE: I have limited time. I want to take this—

The Hon. MICHAEL COSTA: No, you have limited capacity, not time.

Dr JOHN KAYE: Thank you very much, Treasurer.

The Hon. MICHAEL COSTA: You are getting the Government time.

Dr JOHN KAYE: I will happily take the Government time.

The Hon. MICHAEL COSTA: They are giving you time. They are not asking questions. They are giving you people more time.

Dr JOHN KAYE: I want to take you somewhere else. You said in Parliament the other day—

The Hon. MICHAEL COSTA: No, come back to this.

Dr JOHN KAYE: We are going to get back there actually, Treasurer. You will see where we are going in a minute, just have a bit of patience. You said in Parliament the other day that you actually were not all that fired up over the greenhouse issue, but that you accepted it was a valid part of the public debate and the Government delivered on what the public wanted. Do you or do you not accept that the issue of foreign, of the purchase of—

The Hon. MICHAEL COSTA: Foreign ownership, ooh.

Dr JOHN KAYE: —the purchase of—

The Hon. MICHAEL COSTA: Oh, foreign!

Dr JOHN KAYE: —the electricity industry by a company that will be controlled by a foreign government, the purchase of the electricity industry by a company, I will start the question again because you interrupted me. Do you except that there would be a valid public interest—

The Hon. MICHAEL COSTA: The purchase by foreigners, those awful foreigners.

Dr JOHN KAYE: Chair, I cannot actually even get my question out. Can you ask him—

The Hon. MICHAEL COSTA: That is because you are stumbling over saying foreigners and not seen to be the racist or xenophobic.

Dr JOHN KAYE: Can I just get my question out, Treasurer?

CHAIR: He is going to give you a full ball.

Dr JOHN KAYE: Treasurer, I want to ask you the following question. Do you accept that it is a valid part of the public debate that there would be concern that the Government of a foreign country—

The Hon. MICHAEL COSTA: Ooh, which one?

Dr JOHN KAYE: The Government of a foreign country would own the electricity industry or part thereof in New South Wales? Yes or no answer, Treasurer?

The Hon. MICHAEL COSTA: No.

Dr JOHN KAYE: You do not accept that? You are saying that the public would not be concerned,? It is your opinion that the public would not be concerned if the electricity industry were to be sold to a foreign country?

The Hon. MICHAEL COSTA: I never said that. You said to me I do have concerns if there was foreign government investment in assets. I do not have a problem because we do it ourselves.

Dr JOHN KAYE: No.

The Hon. MICHAEL COSTA: You know—

Dr JOHN KAYE: Do you—

The Hon. MICHAEL COSTA: Yes, we do. We used to have companies in this State, electricity companies that went over and investors—

Dr JOHN KAYE: You do not think—

The Hon. MICHAEL COSTA: Because part of the—

Dr JOHN KAYE: You do not think—

The Hon. MICHAEL COSTA: Let me finish answering your question. We used to have companies here because I was involved on the boards of some of these companies. I was opposed to it because I thought they were stupid investments, but put that aside. We had companies that went over and as part of the requirement was, if you are going to do this work, take an equity stake. So, you know, there is nothing. This is conspiracy theories.

Dr JOHN KAYE: Treasurer—

The Hon. MICHAEL COSTA: It is consistent with your environmental McCarthyism.

Dr JOHN KAYE: Treasurer, can I just say—

The Hon. MICHAEL COSTA: It is consistent with you really not understanding—

Dr JOHN KAYE: I did not ask you—

The Hon. MICHAEL COSTA: —globalisation. There are super funds where governments have representatives all over the world investing in assets.

Dr JOHN KAYE: Yes. No, no, no, Treasurer, you did not answer my question.

The Hon. MICHAEL COSTA: I did answer your question. You said am I concerned—

Dr JOHN KAYE: I am asking—

The Hon. MICHAEL COSTA: —that foreign governments—

Dr JOHN KAYE: No. Treasurer—

The Hon. MICHAEL COSTA: —own assets in Australia. No. No.

Dr JOHN KAYE: —that is not the question I asked.

The Hon. MICHAEL COSTA: There is a coalmine next to me, Aустar, that is owned by the Chinese. You know, I do not see anything different. The coal comes out of the ground, it gets processed, put on the trucks. What is the point you are making? Have you got something against China?

Dr JOHN KAYE: The point I am making, Treasurer, is do you or do you not accept that there is a valid public interest in the issue of who controls the electricity industry and that there would be valid public concern? You might not agree with that.

The Hon. MICHAEL COSTA: Why are you taking on the Chinese?

Dr JOHN KAYE: Let me finish. You might not agree with it, but there is a valid public concern—

The Hon. MICHAEL COSTA: The Victorian power industry is owned by companies that are foreign.

Dr JOHN KAYE: It is not about foreign companies, Treasurer.

The Hon. MICHAEL COSTA: Oh, it is not about foreign.

Dr JOHN KAYE: It is about companies that are directly under the control of foreign governments. Now, you might not be worried about that, but to you or do you not accept—

The Hon. MICHAEL COSTA: This is madness.

Dr JOHN KAYE: Maybe you think it is, but do you not accept that there would be concern amongst some Australians, among some people in New South Wales—

The Hon. MICHAEL COSTA: Certainly people you mix with, I accept that.

Dr JOHN KAYE: —who would be concerned—

The Hon. MICHAEL COSTA: I accept that amongst the people—

Dr JOHN KAYE: —that if the electricity industry—

The Hon. MICHAEL COSTA: —there is concern.

Dr JOHN KAYE: —fell into the hands—

The Hon. MICHAEL COSTA: Not the communists!

Dr JOHN KAYE: —or was sold into the hands of a company that was controlled by a government of a foreign nation.

The Hon. MICHAEL COSTA: Is this guy a flip or what?

Dr JOHN KAYE: Do you accept that there would be public concern about it?

The Hon. MICHAEL COSTA: Let me explain—

Dr JOHN KAYE: Not whether you think there is concern or whether I think there is concern—

The Hon. MICHAEL COSTA: Okay. Yes, I think—

Dr JOHN KAYE: Is there public concern?

The Hon. MICHAEL COSTA: I accept that amongst a limited group of people that mix with you there may be concern and that is all I can say.

Dr JOHN KAYE: So you accept there is public concern?

The Hon. MICHAEL COSTA: Hang on, let me finish. Let me finish. Let me inform you, just in case you do not know, the Chinese Government has investments right across Australia. They have invested in coal companies, in iron ore facilities—

Dr JOHN KAYE: In the competitive market?

The Hon. MICHAEL COSTA: Hang on, hang on.

Dr JOHN KAYE: Not in monopoly ownership?

The Hon. MICHAEL COSTA: Oh, so that is the concern?

Dr JOHN KAYE: And not in critical social and economic infrastructure.

The Hon. MICHAEL COSTA: All I can say to you, mate, is that it is pathetic. For an allegedly intelligent person, you are running One Nation policies here.

Dr JOHN KAYE: Treasurer, I reject that.

The Hon. MICHAEL COSTA: The reality is we live in a global economy.

Dr JOHN KAYE: Treasurer, I totally reject that.

The Hon. MICHAEL COSTA: Oh, you reject that. The public will determine this.

Dr JOHN KAYE: That is not what I am saying. You are putting words into my mouth that are totally inappropriate. What I am saying to you is: Do you, or do you not, accept that part of the debate on privatisation of the electricity industry ought to be, if you are considering this, the issue of a foreign country's government controlling those assets?

The Hon. MICHAEL COSTA: No. I think you are completely paranoid and you do not understand globalisation. But that is not the point. Your question to me was an idiotic question about whether I had met with agents of the People's Republic of China about selling—

Dr JOHN KAYE: That was not my question.

The Hon. MICHAEL COSTA: Yes it was.

Dr JOHN KAYE: It was whether you had met with people who were representing a company owned and controlled by—

The Hon. MICHAEL COSTA: The word "agent" was in there—"agents of".

Dr JOHN KAYE: Agents and representatives of a company, not of the government, of a company owned or controlled by—

The Hon. MICHAEL COSTA: So it is not the government.

Dr JOHN KAYE: —owned and controlled by the People's Republic of China. That was my question to you. You have on five occasions now, including an idiotic media release, refused to answer the question.

The Hon. MICHAEL COSTA: Because it is stupid.

Dr JOHN KAYE: My contention to you, treasurer, is that this is a matter of valid public concern.

The Hon. MICHAEL COSTA: My contention to you is that you are a fruitcake and you are off the planet.

Dr JOHN KAYE: But you are refusing to answer that question.

The Hon. MICHAEL COSTA: No, because the question is absurd. The question is absurd. We live in a globalised economy. Within the context of a globalised economy, if people adhere to a government's sovereign legal arrangements and financial arrangements, it is not my business what is going on. I do not know why it is the Green's business, unless you can tell me that you are worried about the yellow peril coming down here and selling our strategic assets.

Dr JOHN KAYE: This is outrageous, Treasurer, even from you.

The Hon. MICHAEL COSTA: Well, what is your point?

Dr JOHN KAYE: My point is that it does not matter whether it is China or anywhere else. My point, since you ask, Treasurer, is that there is a valid public concern that the critical economic and social infrastructure in Australia is being privatised into the hands of a government of a foreign country.

The Hon. MICHAEL COSTA: But this is One Nation all over.

Dr JOHN KAYE: It is not One Nation.

The Hon. MICHAEL COSTA: What does it matter? We buy our defence equipment off foreign countries, foreign government contracts. What are you on about?

Dr JOHN KAYE: It is one thing to buy defence equipment; it is another thing to sell critical infrastructure such as power generation.

The Hon. MICHAEL COSTA: What? Are they going to turn it off and apparently cripple us, are they?

Dr JOHN KAYE: Well, I do not know, Treasurer.

The Hon. MICHAEL COSTA: Oh, you do not know!

Dr JOHN KAYE: Do you or do you not accept that there is a public concern about this?

The Hon. MICHAEL COSTA: I am worried about you thinking they were going to stick it on the back of the ship and take it to China.

Dr JOHN KAYE: That is just silly. What you are saying to me is, no, there is not a concern among Australian people and it ought not to be part of the debate on privatisation.

The Hon. MICHAEL COSTA: I conceded that.

Dr JOHN KAYE: It ought not to be part of a debate on privatisation.

The Hon. MICHAEL COSTA: Chair, I conceded there was a concern among his lunatic friends about this. I conceded there was a concern among your lunatic friends about this, but the proposition that somehow in a globalised economy, where people are adhering to our national laws and investing within the context of what is appropriate, and for that to be some sort of issue—that is One Nation stuff. It is reminiscent of when the Japanese were buying Gold Coast land and people were screaming about it.

Dr JOHN KAYE: This has nothing to do with that, Treasurer and you know it.

The Hon. MICHAEL COSTA: It is the xenophobic, it is potentially racist and it is stupid.

Dr JOHN KAYE: It has nothing to do with that and I object to being called racist. But let me take you one step further. If there is no big issue with this, why do you not tell us whether you have met with Citic or representatives of any other company?

The Hon. MICHAEL COSTA: Because I do not want to take your conspiracy off you.

Dr JOHN KAYE: You do not want to tell us because you have met with Citic.

The Hon. MICHAEL COSTA: I want to make your life meaningful.

Dr JOHN KAYE: I will ask Mr Pierce.

The Hon. MICHAEL COSTA: No. You are asking me.

Dr JOHN KAYE: I am asking Mr Pierce.

The Hon. MICHAEL COSTA: I want to make your life meaningful. I do not want to remove the conspiracy from the Greens.

Dr JOHN KAYE: Have you or any of your officers of your department met with Citic or anyone associated with Citic?

The Hon. MICHAEL COSTA: Don't answer it. I am telling him not to answer it.

The Hon. GREG PEARCE: He is a witness. He is sworn in. He has to answer it.

Dr JOHN KAYE: So you are refusing?

The Hon. MICHAEL COSTA: Your answer should be, "I will refer the question to the Treasurer".

Dr JOHN KAYE: You continue to stonewall on the question as to whether you have met with Citic or not.

The Hon. MICHAEL COSTA: Because I want you to have meaning in your life. I think Greens should always have conspiracies to worry about, and this is a good conspiracy for the Greens.

Dr JOHN KAYE: But you could kill this conspiracy by one simple word, "No".

The Hon. MICHAEL COSTA: I do not want to kill the conspiracy. I would want to give you meaning. I do not want you sitting around drinking your lattes and talking about "How evil he is. He's going to sell our electricity industry. He's a menace, and we've got such a good power system."

Dr JOHN KAYE: You want to hide the fact that you have met with them. You have met with them. You have met with them, and you want to hide that.

CHAIR: That is the end of your time.

Dr JOHN KAYE: Thank you, Chair.

The Hon. MICHAEL COSTA: I will make a deal with you. You name the dates you allege that I have met with them, and I will give you my diaries of those dates, as long as you give me your diary.

Dr JOHN KAYE: You can have my diary. In fact I will give you a copy of my diary.

The Hon. MICHAEL COSTA: Name the dates.

Dr JOHN KAYE: I will give you a copy of my diary right now.

The Hon. MICHAEL COSTA: No, name the dates you alleged because you are making this stuff up.

Dr JOHN KAYE: Sometime between January 2006 and yesterday, Treasurer.

The Hon. MICHAEL COSTA: Sometime between the fourth and the fifth you went into the pumpkin patch and you found spy documents.

Dr JOHN KAYE: Treasurer—

The Hon. MICHAEL COSTA: This is McCarthyism, mate—environmental McCarthyism.

Dr JOHN KAYE: It is not McCarthyism. You are the McCarthyist.

The Hon. MICHAEL COSTA: What I am saying to you is that you can end this by saying no.

CHAIR: You have asked the question, and that is it.

Dr JOHN KAYE: Thank you, Chair.

The Hon. MICHAEL COSTA: I have made an offer. If he can give me the dates, I will produce the diaries for him. He can come to my office and I will show him. I mean, he raised this. He came in and made accusations that I had met with them.

Dr JOHN KAYE: I made no accusation, Treasurer, until you refused to answer it. All I said was, "Have you?"

The Hon. MICHAEL COSTA: I did not refuse to answer. I said it was absurd.

Dr JOHN KAYE: You went off and talked about North Korea and Reds under the bed. You put out the most idiotic media release—quite amusing—that I have seen in a long, long time. It is you who is keeping this conspiracy alive, not I.

The Hon. MICHAEL COSTA: No.

The Hon. EDDIE OBEID: He is giving us a bit of fun.

The Hon. MICHAEL COSTA: I enjoy this conspiracy. I reckon that makes the Greens look complete loops. I hope it keeps going.

Dr JOHN KAYE: It will, Treasurer, until you tell the truth.

CHAIR: Your time is up, Dr Kaye. You are well over time.

The Hon. MICHAEL COSTA: You will look stupid.

Dr JOHN KAYE: You look stupid.

The Hon. MICHAEL COSTA: I am happy to show you the diary. You tell me the dates and I will show you my diary.

Dr JOHN KAYE: I will tell you what, Treasurer. I will show you my diary if you show me your diary. I will show you mine if you show me yours.

The Hon. MICHAEL COSTA: Mine is bigger than yours.

Dr JOHN KAYE: Mine is more interesting than yours.

The Hon. MICHAEL COSTA: Probably is. You are into exotic things, are you?

Dr JOHN KAYE: I will go down the list.

CHAIR: Treasurer, you said a moment ago that in meeting the future baseload demand that it would be left to private companies to take part in some tender process and they would have the opportunity to put up different alternatives.

The Hon. MICHAEL COSTA: We have not made that decision.

CHAIR: They could put up a coal-fired generator or they could put up a gas-fired one. Is that how they would operate?

The Hon. MICHAEL COSTA: No, we have not made a decision.

CHAIR: But if you did?

The Hon. MICHAEL COSTA: The Government has not responded to this budget, hypothetically, the issue of what power source will be dictated by the rules that we have in terms of environmental standards and in terms of carbon abatement. Really that will be a matter for the market to deal with. One of the problems we face in this area is that the Commonwealth has not actually announced its cap-and-trade framework which would make a lot clearer what power source is likely to emerge over the process. What we are saying is that we are not ruling out anything and we will allow the market to determine that over time, particularly if it ends up being a private sector investment. But the Government has not responded. That response will come after consultations that are currently going on with interested stakeholders.

CHAIR: What would happen if a private company said that the greatest way to reduce all the greenhouse gases is a nuclear power plant?

The Hon. MICHAEL COSTA: Well, look, the Government has ruled out nuclear. I am a supporter. Everybody knows that.

CHAIR: They would not be allowed in?

The Hon. MICHAEL COSTA: The Government's policy is that they have ruled out nuclear power.

Mr PIERCE: It is currently illegal.

The Hon. MICHAEL COSTA: It is currently illegal. You have to change the Act to do it. Personally I support nuclear energy but that is my personal bent. My work is part of the Government and the Government's policy will remain until people persuade the Government that it should change.

CHAIR: Would it be better to take away the legal aspects so that companies can prove that it may be more beneficial than any other source?

The Hon. MICHAEL COSTA: Well, no. I think legitimately there is a lot of public concern about factors to do with that nuclear energy, particularly waste disposal. You cannot rush these things. Do I believe in the future that people will be discussing nuclear energy as a viable source? My answer to that is that I am surprised they actually are. Ten years ago they would not have been. That is one thing good that Al Gore has done: He has put alternative technologies on the agenda for discussion, but I do not think you can rush this debate. The Government's position is reflecting the community's view at the moment and that is that it has concerns with nuclear energy particularly with two aspects, location and waste disposal. We have just got to let the public debate go.

CHAIR: Moving on to another area, I point out that there has been a report that under this new infringement process for minor crimes your department is responsible for collecting fines, but it has been quoted in the media that only 50 per cent of those fines have been paid under this new minor infringement policy. Is that accurate?

Mr NEWBURY: That is reasonably close. I do not have the figure in my head but I think it is around about 50 per cent.

The Hon. MICHAEL COSTA: We can take that on notice.

Mr NEWBURY: We have done a very limited trial across 12 local area commands in this State. I think the number of infringements we have processed is only 10,000, so it is very early days.

CHAIR: As a follow-up to that question, because this is part of the responsibility, what may you do to collect the money? That responsibility is not for the police but it comes under your department.

Mr NEWBURY: We have a range of sanctions that we can apply. If the infringement is not paid by the due date we can enforce it. We can garnishee wages. We can invoke property seizure orders and we can go to the courts and get community service orders applied for the payment. We have a range of strategies at our disposal. But it is not a perfect world: sometimes these amounts are not paid.

CHAIR: Is that very low rate of payment worse than the rate for payment of parking fines?

Mr NEWBURY: Yes. The actual resolution rate on other fines prior to enforcement is around 77 per cent. So at about 50 per cent it is lower. But it is still early days. This has been a trial to date and we are still gearing up on it.

The Hon. GREG PEARCE: Can I take you back to Budget Paper No. 2, page 130—the cash flow statement.

The Hon. MICHAEL COSTA: What do you mean by "130"?

The Hon. GREG PEARCE: I mean 1-30—the little numbers at the bottom of the page.

The Hon. MICHAEL COSTA: The dash is pretty important, mate. I would hate to be doing your maths—you put the decimal point in the wrong spot and it could make a big difference.

The Hon. GREG PEARCE: It could; you are absolutely right. It certainly does with your budgets. You cannot get anything right.

The Hon. MICHAEL COSTA: You are trying another table, are you?

The Hon. GREG PEARCE: That is what we are here for. This is budget estimates; we ask you about the budget papers.

The Hon. MICHAEL COSTA: That is good.

The Hon. GREG PEARCE: We ask you to explain things. I notice that general government sector borrowing is forecast for \$2.357 billion in 2007-08. Do you agree with that? That is the little column in the middle. It has 2007-08 up the top—"Budget". You go down that little table and you will see a couple of little lines. It has "Total Cash Flows from Financing Activities".

Mr PIERCE: Yes.

The Hon. MICHAEL COSTA: Net cash flows from operating activities.

The Hon. GREG PEARCE: Is that net borrowing?

Mr PIERCE: No, the net borrowing position is more driven by the bottom line. There are financing activities but then you have got operating activities. So it is more than that. We do more than finance; we also operate. It is the net effect of those things that drives it. Your borrowings are more closely related to the \$1.9 billion.

The Hon. MICHAEL COSTA: The two lines at the bottom will give you borrowings.

The Hon. GREG PEARCE: Are you saying that the borrowings are the \$1.9 billion?

Mr PIERCE: That would be closer to the change in net debt. There is a balance sheet—

The Hon. GREG PEARCE: If you have to take the question on notice you can. I am just asking how much you are projecting to borrow in 2007-08.

The Hon. MICHAEL COSTA: It is around that figure there.

The Hon. GREG PEARCE: How much are you projecting to borrow in 2007-08? I know it is a tough question.

The Hon. MICHAEL COSTA: It is not as simple as that because, for example, we have just indicated that we have had a \$140 million improvement in our position and that will go to pay off net borrowings.

The Hon. GREG PEARCE: I am asking about the budget papers. What was your projection for net borrowings? You printed off all these papers. What was your projection for net borrowings?

Mr PIERCE: Chapter 4, table 4.1 on page 4-3 has the general government net debt position. There are net borrowings and there are gross borrowings. It depends which one you want to focus on. That spells out all the details.

The Hon. GREG PEARCE: What are you projecting to borrow in 2007-08 according to these papers? Forget about the adjustment since. According to these papers, what are you projecting to borrow in the general government sector?

Mr PIERCE: The net position—the difference between \$5.3 billion—

The Hon. GREG PEARCE: I am asking a simple question. You used the example of personal finances. How much are you projecting to borrow in 2007-08?

The Hon. MICHAEL COSTA: You are not asking a clear question.

Mr PIERCE: The net debt position—it is the additional net borrowings and there is a difference between \$5.3 billion and \$3 billion. The actual activities of T-Corp in going into the market and borrowing is obviously a different number. From memory, the funding requirement for T-Corp this year is predicted to be in the order of \$10 billion, but a bit under \$6 billion of that is refinancing of things maturing during the year. So the net change in gross borrowings is the difference between roughly \$6 billion and \$10 billion, which lines up reasonably well with those numbers.

The Hon. MICHAEL COSTA: I think the Hon. Greg Pearce is asking: What are the net additional borrowings?

Mr PIERCE: Yes.

The Hon. GREG PEARCE: Yes, that is what I am asking. It has taken a long time to get there.

The Hon. MICHAEL COSTA: You never said that. T-Corp is in the market all the time.

The Hon. GREG PEARCE: So what is the answer?

Mr PIERCE: At the gross level it is the difference between the numbers on the top line—gross debt borrowing. The difference between the budget year and the projections of the year that just ended is the difference between \$15.3 billion and \$12.6 billion.

The Hon. GREG PEARCE: We have got to do the deduction, do we? You cannot just give me the figure. The answer is \$15.3 billion less \$12.6 billion.

Mr PIERCE: Yes.

The Hon. GREG PEARCE: Thank you. Returning to table 1.5, under that cash flow figure that we were talking about at the beginning—\$2.3 billion—there is a net increase in cash held of \$723 million.

Mr PIERCE: Yes.

The Hon. GREG PEARCE: Am I missing something? Does that mean you are borrowing money to increase the cash that you have?

Mr PIERCE: There are borrowings, some of which will go out in the year in which you borrow them to fund the capital expenditure. But because of other things that are going on it is quite possible that there is an increase in the cash that is held within the general government sector.

The Hon. MICHAEL COSTA: You understand that this is a snapshot of one date. That is the whole point. If you ask what it is now—

The Hon. GREG PEARCE: It is a snapshot at the end of the year. Your projection was you are going to borrow \$723 million to give you cash that you will pay interest on—remember that horrible word?

The Hon. MICHAEL COSTA: There is no doubt that we are borrowing—

The Hon. GREG PEARCE: You are borrowing to pay interest on cash.

Mr PIERCE: There will be a reason for the need to hold onto that cash.

The Hon. GREG PEARCE: What is the reason?

The Hon. MICHAEL COSTA: We can take the question on notice.

Mr PIERCE: I will have to take the question on notice to delve into it.

The Hon. MICHAEL COSTA: Different departments have different profiles. They might be involved in a process where there is a progress payment coming up. I can explain it. There might be a progress payment to come up on one of the projects out there and they might need to hold cash to deal with that.

Mr PIERCE: Of course, when we hold the cash it does not sit in a drawer in my office.

The Hon. MICHAEL COSTA: No, it sits in T-Corp and earns money. Whatever the interest payment is it is offset against the return.

The Hon. GREG PEARCE: It is not offset because you pay more on the borrowings than you will earn.

The Hon. MICHAEL COSTA: Yes, because we are increasing our borrowings and that is the nature of increasing borrowings.

Mr PIERCE: Hopefully not.

Dr JOHN KAYE: You were contradicted there.

The Hon. GREG PEARCE: What was Mr Pierce's answer then?

Dr JOHN KAYE: He said, "Hopefully not."

The Hon. GREG PEARCE: All I am concerned about is that you are borrowing money to have cash.

The Hon. MICHAEL COSTA: Let us have a look at it. At the moment—

Dr JOHN KAYE: He is contradicting himself.

The Hon. MICHAEL COSTA: No, we are not contradicting ourselves. At the moment T-Corp is making good returns. The difference is between the cash rate and the whole bundle. Let us explain it very clearly so you know.

The Hon. GREG PEARCE: No, Mr Pierce has taken the question on notice.

The Hon. MICHAEL COSTA: I am talking about Dr John Kaye.

The Hon. GREG PEARCE: Do not take up my time with Dr John Kaye. He has been behaving himself.

The Hon. MICHAEL COSTA: Do you understand the difference? The cash rate is less than a bundle of other assets that will give you a higher return.

The Hon. GREG PEARCE: In terms of borrowing, the budget papers include guarantee fees from the PTE sector. Can you explain what that is all about? It is on page 3-19 in a table headed "Taxation Revenue", which is interesting. It has "Government Guarantee of Debt" and it is roughly \$110 million, \$130 million and it goes up to \$200 million in 2010-11. What is that about?

Mr PIERCE: Well, two things. First, it ends up in this table because that is the GFS standard rules, we get told to put it there. Particularly what we do is go to our PTEs and get them rated by the rating agencies on a standalone basis, that is, as if they were just a normal corporate in the market, that is to say, as if they were not owned by the Government, and particularly of course because they are involved in commercial activity—

The Hon. MICHAEL COSTA: This is for competitive neutrality.

Mr PIERCE: Yes, so this derives out of the competition policy agreements. So say one of the electricity people might be rated—

The Hon. MICHAEL COSTA: Double-B or something.

Mr PIERCE: Yes, we like them to be investment grade, i.e. double-B, double-B-plus, something less than triple-A. The State, of course, through TCorp, we do all our borrowings through one entity and we raise funds at the triple-A rate and then we on-lend it to these public trading enterprises and the guarantee fee is the difference between, if you like, the triple-A rate and the rate that they would have to pay if they were standing in the market by themselves, so it is a mechanism for ensuring that when that corporation is looking at its funding and the cost of debt and equity, the cost of debt that it sees is the cost that would be seen as if they were standing in the market by themselves without the government concerned behind them.

The Hon. GREG PEARCE: So basically the State is guaranteeing the PTE and therefore the State is taking the risk.

Mr PIERCE: Yes. If you got to the situation where a public trading enterprise defaulted then the liability would rest with the State.

The Hon. MICHAEL COSTA: But for competitive neutrality reasons, you don't want them having an advantage in terms of their capital structure with operators. That is the reason for it.

Mr PIERCE: Naturally we cannot allow the PTEs to be too highly geared because the State's rating as triple-A is a function not just of what the general government sector is doing but also what the public trading enterprise sector is doing. So from the rating agency's viewpoint of the State, it puts all the revenues that come from taxes—

The Hon. MICHAEL COSTA: Chair, that is a good point. The pressure on our triple-A in this area is largely because of the PTEs. It is their balance sheets that are the things we have to worry about, and that is part of this argument with whether we can borrow more for generation investment and the other things that are required to run those businesses.

The Hon. GREG PEARCE: Just to be 100 per cent clear, are the PTEs paying a higher interest rate on their borrowings than the State—

The Hon. MICHAEL COSTA: They pay at the risk-adjusted rate.

The Hon. GREG PEARCE: So it is higher?

The Hon. MICHAEL COSTA: Well, it is higher than you could get from a TCorp rate, but it is risk-adjusted to reflect what the risk of that particular sector is. In other words, they are not getting an advantage in the marketplace, particularly the national marketplace where they compete with other generators.

Mr PIERCE: It is a way of removing from the viewpoint of the PTE the cross-subsidy that they would otherwise see from the taxpayer.

The Hon. GREG PEARCE: So are the PTEs paying a higher interest rate?

The Hon. MICHAEL COSTA: They are paying an interest rate that is equivalent to their risk profile.

The Hon. GREG PEARCE: But they still have the Government guarantee, the triple-A rating, so why are you giving them a guarantee if they are paying higher interest rates?

The Hon. MICHAEL COSTA: Because unfortunately, and this comes right to the Owen issue whether the State Governments should own these types of assets, that is what it is about. At the end of the day, in a normal marketplace—and I hope that Dr Kaye is listening to this rather than sending his messages off to the North Korean Government—if you hold on to an asset clearly there is an implicit Government guarantee for that State asset, and that is the worry.

The Hon. GREG PEARCE: Could you just explain this to me: Sydney Water, which I think is rated triple-B—it doesn't matter.

Mr PIERCE: I would have to check, but I think it would be higher.

The Hon. GREG PEARCE: I think Standard and Poor's said it was mid-investment grade.

Mr PIERCE: That would be higher. Investment grade is usually regarded as being triple-B, so mid-investment is greater.

The Hon. GREG PEARCE: So it is lower than triple-B?

Mr PIERCE: No, I expect Sydney Water would have been higher than triple-B, more highly rated. They are fairly lowly geared.

The Hon. GREG PEARCE: But they borrow with the State's guarantee and your triple-A rating.

Mr PIERCE: Yes.

The Hon. GREG PEARCE: In their IPART submission they are seeking higher water charges in part based on an increase in the cost of capital from 6½ to 7 per cent because of alleged higher risk. What higher risk is there if they have a triple-A government guarantee?

Mr PIERCE: The risk is inherent in the business driven by the fact that, off the back of their capital program, which has increased substantially, obviously primarily the recycling and desalination plant and various environmental works make up their capital program. That has increased significantly. That has caused them to increase their borrowings, their gearing has increased and because their gearing has increased then from a credit viewpoint they are inherently more risky.

The Hon. MICHAEL COSTA: By the way, just on that, it is a good point because when we do assessments about—Dr Kaye has gone, has he? He has gone to look for the Chinese. Oh, he's back. When we do assessments about PPPs and use the public sector comparator you have to take these financing costs into account and clearly if you don't do that there will be a skew against the private sector being able to get involved in these areas because you are not measuring the risk of the business, you are measuring the Government's ability to tax and maintain a triple-A, so it is an important point, that one.

The Hon. GREG PEARCE: Treasurer, yesterday I asked you a little bit about GST and your tax review and so on.

The Hon. MICHAEL COSTA: He has already done a press conference, Baird and O'Farrell were out there. They have just put out a press release saying that we are going to increase the GST. Let me again say, as I said yesterday, we have got no intention of increasing GST, we have got no intention of introducing a State GST. It is nonsense; it is a political scare campaign to help a defunct and embarrassed Federal Liberal Government, the Howard-Costello Government, get out of its economic mess. But you can ask the question.

The Hon. GREG PEARCE: Thanks, you have answered it.

The Hon. MICHAEL COSTA: We are not putting a State GST on.

The Hon. GREG PEARCE: And not a State income tax either?

The Hon. MICHAEL COSTA: No, those powers were handed over, as you know.

The Hon. GREG PEARCE: A long time ago.

The Hon. MICHAEL COSTA: Some time ago. There is no State GST, no intention of us asking for an increase in the Federal GST rate and I wish people would stop scaremongering.

The Hon. GREG PEARCE: Could I just ask Mr Newbury who signed off on the roughly \$400 million stamp duty assessment relating to the Sydney airport sale?

The Hon. MICHAEL COSTA: I do not think we can talk about that, Chair, because there is a principle about the affairs of particular taxpayers and I think the principle should apply.

The Hon. GREG PEARCE: I am not asking about the taxpayer, I am asking who from your Office of State Revenue signed off on the assessment?

The Hon. MICHAEL COSTA: I don't think we can talk about it. It is going to be subject to a—

The Hon. GREG PEARCE: It is not subject to anything.

The Hon. MICHAEL COSTA: It is subject to a court case at the moment.

The Hon. GREG PEARCE: It is a simple question: Who signed off on it? I am not asking about the court case, I am asking who signed off on it?

The Hon. MICHAEL COSTA: Can we take some advice on that, whether it prejudices our position? I am happy if it doesn't to take it on notice.

The Hon. GREG PEARCE: Well, why would it prejudice your position to say who signed off on it?

The Hon. MICHAEL COSTA: I don't know, because there is a court case going on at the moment, I don't know what—

Mr NEWBURY: Not yet.

The Hon. GREG PEARCE: There is no court case, so there you go, you're contradicted again.

The Hon. MICHAEL COSTA: No, but they are disputing it.

The Hon. GREG PEARCE: There is no court case. Who made the ruling? It is going to come out.

The Hon. MICHAEL COSTA: Alright, he is happy to answer it.

Mr NEWBURY: I was the one who authorised the assessment to be issued.

The Hon. GREG PEARCE: You did?

Mr NEWBURY: Yes.

The Hon. GREG PEARCE: Did you get concurrence or any sign-off from your predecessor, Mr Achterstraat?

Mr NEWBURY: No.

The Hon. GREG PEARCE: The reason I am asking that is that he is now the Auditor-General and I wanted to make sure that there is no question over his involvement in this particular assessment. If you made the ruling, can you just explain why when the airport sale took place in 2002 you made that ruling in November 2006? It was November 2006, was it not?

Mr NEWBURY: Yes. There was a significant time taken up with—

The Hon. MICHAEL COSTA: Again, that could go to the heart of the case.

The Hon. GREG PEARCE: There is no case.

The Hon. MICHAEL COSTA: There will be a case.

Mr NEWBURY: There is an objection on foot.

The Hon. MICHAEL COSTA: There is an objection on foot—that is what I was referring to.

The Hon. GREG PEARCE: Well, you will have to say this in due course anyway.

The Hon. MICHAEL COSTA: Why would we do it before and prejudice the State's position? It is not that we are trying to avoid it, but we just don't want to prejudice the State's position in terms of this potential case.

The Hon. GREG PEARCE: It is not a prejudice to the State's position to have the head of the Office of State Revenue who made the ruling explain why he made the ruling.

The Hon. MICHAEL COSTA: I think it will be.

The Hon. PENNY SHARPE: The Minister has indicated that he will take it on notice and that should be enough.

The Hon. GREG PEARCE: So you admit that there is something dodgy about this ruling, do you?

The Hon. PENNY SHARPE: No.

The Hon. GREG PEARCE: Well, what is your problem? You either can give the answer or you can't.

Mr NEWBURY: I would not be in a position to explain the reasons for the decision.

The Hon. GREG PEARCE: You would?

Mr NEWBURY: I would not.

The Hon. GREG PEARCE: You are not.

Mr NEWBURY: No.

CHAIR: You will have to take that question on notice—

The Hon. MICHAEL COSTA: Subject to legal advice.

CHAIR: —and get legal advice. You would not want to have a decision made that disadvantaged New South Wales financially.

The Hon. GREG PEARCE: So you are taking that on notice.

The Hon. MICHAEL COSTA: Yes, subject to legal advice.

The Hon. PENNY SHARPE: He said that three times.

The Hon. GREG PEARCE: Let us have them answer. You do not have to answer.

The Hon. PENNY SHARPE: He said that. You should listen?

The Hon. GREG PEARCE: I want to ask you about the Fiscal Responsibility Act. Do you think that the ratios in the Fiscal Responsibility Act are the best ratios measuring your financial strategy?

The Hon. MICHAEL COSTA: Do I think that?

The Hon. GREG PEARCE: Yes.

The Hon. MICHAEL COSTA: They are as good as any ratios. I was not the Treasurer when these were put together but I was part of the budget committee discussion. They are based on practice in other jurisdictions. They are based on what reasonably one would expect in relation to the triple A credit rating to be outcomes that would preserve the triple A credit rating. That was the basis of it. Mr Pierce can explain the details. As I said, I was not the Treasurer at the time but I was involved in the discussion.

Mr PIERCE: The numbers that are reflected in the Act are expressed as targets and in that sense are guides for the budget process and fiscal policy. The numbers emerged out of a modelling process associated with the State's total financial position. Like the results from any modelling process, the output or the nature of any one number depends upon what is happening with every other number that comes out of that process. We do not tend to look at one number in isolation; we look at the total set. In order to assess whether a particular number is good, bad or indifferent, that assessment must be against the objective you are trying to fulfil. The objective was essentially that we wanted to be able to manage the financial resources of the State in a way that allowed service delivery to grow at a reasonably constant rate through time and not have to adjust service delivery growth rates and expenditure growth rates just because revenues are bouncing up and down. I do not want to have to advise the Government that it needs to cut back on service delivery just because the property market has gone into a downturn.

Therefore, you need two conditions to be satisfied: that your opening balance sheet and your initial levels of debt and liabilities are low enough and your expenditure and trend revenue growth

rates are in line with one another. So you end up with an operating set of constraints and a balance sheet set of constraints. The modelling around those conditions produces the sorts of numbers that are reflected in the Fiscal Responsibility Act. It should be said though that even within that there is a hierarchy, particularly in the balance sheet constraints. At the top level you have net worth. The physical assets in the general government sector, while they may produce all sorts of services and economic benefits, do not produce much in the way of financial returns to help you pay your liabilities. We need financial assets to pay our financial liabilities; hence we focus on net financial liabilities. That is the key driver of the balance sheet constraints underpinning the fiscal strategy. It is made up of net debt, unfunded superannuation liabilities, insurance liabilities and things like long service leave.

In order to be able to maintain the rate of growth of service delivery, we regard it as important to achieve the net financial viability targets. The make-up of liabilities though, whether we get there through the debt number being a bit higher and some other number being lower is and of itself from a fiscal policy viewpoint is not a concern to us provided we get to that net financial viability number, which is predicated, over this period of time, on the modelling suggested that unfunded superannuation liabilities would fall through time and fall by a greater amount than we needed, and the net financial liabilities number to fall so there was some scope for debt to increase over that period of time. In effect, we were substituting one form of liability for another. That is fine as long as the net financial liabilities aggregate continues to fall.

The Hon. MICHAEL COSTA: Earlier Dr John Kaye took offence at a comment I made about One Nation. I have One Nation's policy here, and it says "to restrict foreign ownership of Australia". I just put that on the record.

[Short adjournment]

The Hon. MICHAEL COSTA: Mr Chair, to help the Hon. Greg Pearce I have managed to obtain a letter from the Audit Office and I am happy to make it available. It concerns the Sydney Airport duties assessment accounting treatment, signed by the Deputy Auditor-General. It states:

In response to your letter received on 30 May 2007 regarding the assessment issued on the purchase by Southern Cross Airports Corporation of shares in Sydney Airports Corporation I confirm that based on the information advised that recognition of his revenue is correct under Australian accounting standards, Treasury Circular 92/25 and government finance statistics principles.

Yours sincerely

A T Whitfield
Deputy Auditor-General

Document tabled.

Dr JOHN KAYE: Treasurer, are you aware that when the owners of Hazelwood power station in Victoria were seeking to upgrade their units, they applied to and received from the Victorian State Government relief from any future carbon pricing regime? That is to say, the Victorian Government, the Victorian taxpayers, took full liability for any tax for any carbon pricing. Were you aware of that?

The Hon. MICHAEL COSTA: No, I was not.

Dr JOHN KAYE: You are now. Treasurer, can you give an undertaking that no such thing would happen while you are Treasurer of New South Wales with a prospective coal-fired power station? That is to say, if a coal-fired or gas-fired power station, any new baseload unit, is built in New South Wales, it will be fully exposed to any future carbon pricing?

The Hon. MICHAEL COSTA: There is a problem with getting that guarantee, and I will tell you why. Currently, we are in the process where the Commonwealth is looking at setting up a national scheme and the rules of it will apply. We will be determining the process of setting up that national scheme. Certainly from our perspective there is an existing State scheme and we see that operating in the meantime.

Dr JOHN KAYE: Treasurer, I am a bit confused by that. Are you saying that you will not give a guarantee that you will not commit future taxpayers of New South Wales to paying a Federal carbon impost on—?

The Hon. MICHAEL COSTA: No, I am saying that at the moment we have a State-based scheme and the principles involved in that State-based scheme will be the basis. However, it is only fair that we put on the record that at the moment both major political parties at the Federal level have indicated that they want to go to a national emissions trading scheme and the rules for that will determine the way it is handled in the future. I do not know what those rules are, because they have not been put in place.

Dr JOHN KAYE: As a statement of principle, Treasurer, would it be highly inappropriate and incompetent of any future State Treasurer or existing State Treasurer to accept the future carbon risks of a baseload generator?

The Hon. MICHAEL COSTA: Chair, you asked me during the break to go easy on Dr John Kaye, and I wanted to, but—

Dr JOHN KAYE: Thanks, Fred. I knew I had a friend in the Christian Democrats.

The Hon. MICHAEL COSTA: But, to start calling people incompetent because they take a different policy position, or may take a different policy position is certainly—

Dr JOHN KAYE: But Treasurer—

The Hon. MICHAEL COSTA: Let me answer the question.

Dr JOHN KAYE: I did not call you incompetent. I asked you would you say it was incompetent to set carbon risk?

The Hon. MICHAEL COSTA: You are implying that someone who has a different policy position to yours is incompetent.

Dr JOHN KAYE: I am not implying anything. I am just asking you a question. All I want to know is whether the State of New South Wales is about to say to a developer of a coal-fired power station that it will commit to take the carbon risk from you? It is a simple question.

The Hon. MICHAEL COSTA: I could say to you that I doubt that that would be the case.

Dr JOHN KAYE: You doubt it, but you do not rule it out?

The Hon. MICHAEL COSTA: No, I do not know what national rules will be going forward. We are in the process of setting up national rules. Proposals have been put on the table that large users may be exempt. I am not saying that that will happen.

Dr JOHN KAYE: No, no, Treasurer. That is a totally different thing, and you know that. That is about trade-exposed exemptions. It is a totally different issue about which we can argue later. Will the State of New South Wales pick up the carbon costs of a private operator of a power station?

The Hon. MICHAEL COSTA: I can say categorically that the State of New South Wales will abide by whatever national rules come into place.

Dr JOHN KAYE: That does not answer my question.

The Hon. MICHAEL COSTA: I cannot answer your question if—

Dr JOHN KAYE: This is a really important question, and it is fundamental to the whole issue of private ownership of coal-fired power stations and gas-fired power stations in New South Wales.

The Hon. MICHAEL COSTA: I cannot comment on rules that do not exist.

Dr JOHN KAYE: This is not about rules that do not exist; this is to do with a principle of rejecting the idea that the carbon risk should be borne by the taxpayers rather than by the owners of the power station.

The Hon. MICHAEL COSTA: Again I will make the position clear. We will abide by whatever national rules are put into place. That is all I can say on the issue. I do not know what the rules are. They might be tighter than what you are saying; I do not know.

Dr JOHN KAYE: That is a highly unsatisfactory answer because it leaves it open to the people of New South Wales to assume that you will turn around to a private developer who comes forward and say, "We will build a coal-fired power station" and you repeat the mistake that was made by the Victorian Government in accepting the carbon risk.

The Hon. MICHAEL COSTA: I have answered the question. The problem I have with the Greens is that because I have given a particular answer that does not suit them they then draw a bunch of assumptions that do not logically follow from my answer. I will not stop you from doing that but you have a habit of doing that. I can only tell you what is the position. We will abide by whatever national rules are in place.

Dr JOHN KAYE: Treasurer, let me ask you a much easier question. On Wednesday in question time you held up a satellite photograph of North and South Korea that was taken in the evening, which showed North Korea blacked out. By the way, it is from Photoshop.

The Hon. MICHAEL COSTA: Let me correct you. It did not show it blacked out; it showed one pocket of lights. I assume that that is round the presidential palace or the nuclear reactors that they are building.

Dr JOHN KAYE: I would not know. You drew the conclusion from that map that you would never allow people from the government of the People's Republic of North Korea to run a power station.

The Hon. MICHAEL COSTA: No, I did not. I said that I would not take advice from them.

Dr JOHN KAYE: You would not take advice from them?

The Hon. MICHAEL COSTA: I would not take advice from people that lead to a regime where you have only one light.

Dr JOHN KAYE: Nor would I. I am holding up a satellite photograph of the United States of America taken on—

The Hon. MICHAEL COSTA: There are lots of lights right across the photograph.

Dr JOHN KAYE: Hang on a second. This photograph, which was taken at 11.15 p.m. on 14 August 2003, clearly shows that the states of Massachusetts, Connecticut, New York and New Hampshire have been blacked out.

The Hon. MICHAEL COSTA: Even when the blackouts were on?

Dr JOHN KAYE: What you see there is what was known as NEPOOL—the New England Power Pool—entirely blacked out. Do we assume from this map that you would not take advice on electricity matters from anybody who comes from the power authorities in New Hampshire, Connecticut, New York and Massachusetts?

The Hon. MICHAEL COSTA: If it were a choice between the North Korean experts on electricity and experts from the United States, I would always take the United States experts' advice.

Dr JOHN KAYE: So there is more to it than just the blackout issue?

The Hon. MICHAEL COSTA: No. It is a consequence, every day of the year, of government policy. You have picked a blackout and said that, because there is a blackout—I do not know what were the factors, whether it was snow—

Mr PIERCE: Transmission.

The Hon. MICHAEL COSTA: It was transmission on snow. If that is the case the two things are not comparable. This is a pathetic attempt to rebut what I thought was a very persuasive argument about—

Dr JOHN KAYE: There was no rebuttal; I understand your argument. There was no rebuttal.

The Hon. MICHAEL COSTA: Hold on. The satellite photograph showed the contrast between people who have adopted a free enterprise approach to the South Koreans, versus the North Koreans with one light—people with whom you or the Greens have some sympathy.

Dr JOHN KAYE: Point of order: That is an imputation that you continually make, but it is totally incorrect.

The Hon. MICHAEL COSTA: Okay, that is fine—you can rebut it. I think it is absurd to compare the power grid of North Korea with the United States, be it the east coast or the west coast—

Dr JOHN KAYE: I was not comparing it.

The Hon. MICHAEL COSTA: You did.

Dr JOHN KAYE: I just want to know why—

The Hon. MICHAEL COSTA: Will you let me answer the question? They had some transmission problems. We have transmission problems. What system does not have transmission problems? I will tell you what it is: the one that has no power is the one that the Greens advocate. You will never have transmission problems if you have no power.

Dr JOHN KAYE: That is another incorrect statement from the Treasurer. Leaving that aside, let us go to the issue of clean coal. Is it fair to say that your position—maybe you can tell us—is that—

The Hon. MICHAEL COSTA: It is not about my position; it is about the Government's position.

Dr JOHN KAYE: I want to talk about your position.

The Hon. MICHAEL COSTA: Why do you want to talk about that? We will go and have coffee afterwards.

Dr JOHN KAYE: I would rather have people present when we did it.

The Hon. MICHAEL COSTA: I will not turn up.

Dr JOHN KAYE: Is it fair to say that your position is: we do not need to worry about the carbon dioxide emissions from coal-fired power stations because clean coal technology will capture and store those emissions? Is that a fair summary of your position?

The Hon. MICHAEL COSTA: Of whose position?

Dr JOHN KAYE: Your position.

The Hon. MICHAEL COSTA: I am here to discuss the Government's budget and the Government's position.

Dr JOHN KAYE: Okay.

The Hon. MICHAEL COSTA: The Government's position is that it sees coal, in particular, coal that has been dealt with in a carbon-conforming manner, as being part of the energy profile for a few years into the future. In other words, if there is a way to reduce carbon emissions from coal-generated power plants, we should invest in that and look at that as an alternative. The fact of the matter is that even if we do not build another coal-fired baseload plant, we still have an existing system and it is worthwhile putting some money into that. I thought you would support that.

Dr JOHN KAYE: Can we talk about—

The Hon. MICHAEL COSTA: Do you want to close down the existing coal-fired power plants?

Dr JOHN KAYE: No, I do not.

The Hon. MICHAEL COSTA: That is the Greens' policy.

Dr JOHN KAYE: This is about you, not about me.

The Hon. MICHAEL COSTA: No, it is about the Government.

Dr JOHN KAYE: No, it is about you and your Government.

The Hon. MICHAEL COSTA: It is not my Government; it is the Premier's Government.

Dr JOHN KAYE: What do you mean by the expression "carbon conforming?"

The Hon. MICHAEL COSTA: Ones that confirm to the principals that we established at a national level or, if we go global on this and we eventually end up with global regime that we can meet. In other words, the principles, I hope, will be either a carbon tax or a carbon trading arrangement.

Dr JOHN KAYE: How does a generator conform in that sense?

The Hon. MICHAEL COSTA: If it is a trading regime they have to buy their permits on the open market.

Dr JOHN KAYE: That is only for the technology—

The Hon. MICHAEL COSTA: Hang on; let me finish. If it is carbon tax on which the Federal Government decides, they will have to pay the tax and that sets up incentives for them to invest in new technology. I thought you would understand this, having a PhD from "Beserkly".

CHAIR: In the budget papers there is a reference to Snowy scheme reform and the budget item shows a small amount of money. The original sales process was based on concern about the provision of capital to upgrade the Snowy scheme.

The Hon. MICHAEL COSTA: And that has come through. They have asked for an injection of equity, have they not?

CHAIR: Are they meeting that capital need?

The Hon. MICHAEL COSTA: No. The argument we put at the time was right. We have been approached, the Treasury secretary advises me, from the Snowy board for a cessation of dividends so that it can embark on its investment program, which is precisely what we said at the time. I am not only talking about the Snowy, I am talking about the other generators, who require

periodically a capital expansion program that can either come from debt or equity and will have an impact, on whoever the owner is, their dividend stream or the quality of their assets if they do not invest. So, the Snowy is precisely in the position we said it would be.

CHAIR: There was a report that it would need at least \$500 million, is that correct?

The Hon. MICHAEL COSTA: Yes. Again, that is against their business plan. People might take a view that their business plans are ambitious or unnecessary, but it is absolutely true that Snowy directors have taken the view that they need some additional capital for expansion of the system.

Mr PIERCE: The capital requirements were driven by the need to reinvest in the existing plan but also in order to prosper, if you like, and remain competitive in the national electricity market as it is to give them the capacity to invest in other types of generation capacity other than the hydro scheme in the Snowy. Since that time, of course, the Snowy has been affected by the ongoing drought and the effect it has had on water. They have continued the investment in the existing plans and they have proposals for other types of plans around the place, but whether they can do that or have the capacity to do that, comparing that with the situation they face now, is very much affected by the effect of the drought that they have been going through and hence the reduced revenues they have now compared to when we did that sort of analysis.

CHAIR: Is the Government involved with directing the Snowy scheme to use less water than the water they were counting on for power production?

The Hon. MICHAEL COSTA: There is not any water. I think somebody was telling me that Lake Jindabyne is down to record lows. They are not in a position where they are able to generate at the level they would.

Mr PIERCE: Their water use is governed by a water licence and a set of water regulations that they continue to conform with. The levels prior to the winter we just went through eventually gave them enough water to do pump storage—let some water down through the dams into a turbine store into lower reservoirs and pump back overnight. That was about it. I expect the winter we have just gone through would have altered that situation a bit, but the last set of numbers I saw implied that we needed quite a few years of average snowfall to get the reservoirs back to normal operating levels.

CHAIR: Treasurer, on page 21-23 there is reference to natural disasters relief. I note in the budget that natural disasters relief expenditure, or the estimate, has been dramatically reduced for 2007-08. Can you explain the reason for that or do you not anticipate disasters?

The Hon. MICHAEL COSTA: I am just looking at it. What happens is that on these matters we just made a provision for it. There are some triggers and arrangements we have at our level for declaring things natural disasters that bring in a whole range of benefits that apply and there are arrangements with the Commonwealth as well on those matters. The provision was a provision we put in on advice.

Mr PIERCE: We tend to put in like a fairly standard sort of provision each year and then the actual number varies depending, obviously, on what happens. If you use more than the provision, there are mechanisms under the Public Finance and Audit Act to top it up, if not through TA then section 21 or 22.

CHAIR: Like extra Treasurer's grants or something?

Mr PIERCE: Yes, that is right.

The Hon. MICHAEL COSTA: Or we come back to the department for that. The problem with these is that the provisions have been affected by the severity of the drought and the actual payments we have made have been higher in the last couple of years.

Mr PIERCE: The way we think about it is that the provision is there to dampen the effect of natural disasters to a budget bottom line. It does not restrict or alter what actually gets paid out in the

event of a natural disaster. That is triggered by a whole bunch of other agreements between the States and the Commonwealth.

CHAIR: There was \$52 million last year.

Mr PIERCE: Projected, yes.

CHAIR: And anticipating only \$25 million in 2007-08. I would have thought with concerns about the drought having a dramatic effect on future bush fires that, sadly, we may have a big demand on that relief fund.

The Hon. MICHAEL COSTA: The answer to that is whatever is required will be made available through the Treasurer's advance. How do you predict that? We had some rain early in the year as we were putting the budget together. The dam levels went up. There was a view at the time that the drought might have been easing. It is very hard to predict.

CHAIR: Could you give an update on the first home owners grant? I note there has been some success in discovering an amount of fraud in applications.

The Hon. MICHAEL COSTA: Before Tony answers that, I will put it in perspective. The fraud in the whole scheme has been very minor, but it is important that we take action to recover.

Mr NEWBURY: Since the scheme commenced in July 2000 we have paid over 317,000 grants to the value of about \$2.3 billion. We have been fairly active on the audit front because we believe the public would expect us to be active in that area - that people were not roting the grants. Through our compliance efforts we have identified 3,665 grants where people had not met all of the requirements for eligibility. That is worth about \$26.9 million. Sometimes these things can be accidental: people had intended to move into their home and for some reason they do not move in and then the grant is not available to them anymore. But where there are serious rorts, we undertake prosecution action. To date we have had 11 successive prosecutions. The sanctions range from gaol sentences to good behaviour bonds to rather substantial fines. There are four cases currently before the courts and we have another 18 in the pipeline that we expect to take action on in the near future.

CHAIR: I understand some of the abuse of the system involved getting the grant for rental property, which would have been against the rules?

Mr NEWBURY: That is true.

CHAIR: Is that a large percentage?

Mr NEWBURY: It is not a high percentage. One of the key things we do is take data from a whole range of agencies. For example, we take data from the Rental Bond Board and if on that data someone has a bond lodged with the Rental Bond Board and they have the first home owners grant, then that raises the possibility that they should not be entitled to the grant. We also take data from the Roads and Traffic Authority and a number of other sources. That is one of the key elements of the whole compliance program.

The Hon. MICHAEL GALLACHER: Mr Newbury, can I return to the criminal infringement notices for a short time?

Mr NEWBURY: Yes.

The Hon. MICHAEL GALLACHER: Can you indicate to the Committee how long you have operated in the position as executive director?

Mr NEWBURY: I was appointed temporarily in September 2006 and appointed permanently in June this year.

The Hon. MICHAEL GALLACHER: Can you indicate to the Committee, please, how many criminal investigation—what do you call them?

The Hon. MICHAEL COSTA: CINs, criminal infringement notices.

The Hon. MICHAEL GALLACHER: How many CINs have been issued and therefore have been received by your agency?

Mr NEWBURY: The pilot scheme started in September 2002. As I said earlier, it is operating across 12 local area commands in the State. The latest figures that I have were that 9,665 infringements have been referred to the State Debt Recovery Office.

The Hon. MICHAEL GALLACHER: Can you indicate to the Committee, therefore, how many of those, of the 9,665, had not been paid?

Mr NEWBURY: I do not have that figure in my head, the accurate figure. Therefore I would need to take it on notice. But my memory of it is that around about half have been paid.

The Hon. MICHAEL GALLACHER: About 50 per cent have been paid?

Mr NEWBURY: That is my memory.

CHAIR: You will take it on notice to get an exact figure?

Mr NEWBURY: Yes.

The Hon. MICHAEL GALLACHER: So we are looking in the vicinity of approximately four and a half thousand out of the nine and a half thousand, or somewhere in the vicinity.

Mr NEWBURY: Yes.

The Hon. MICHAEL GALLACHER: In relation to parking tickets where a person is issued with an infringement notice and it comes to your agency, what is the key factor used in the identification? Is it the registration number of the car?

Mr NEWBURY: The infringement notice is issued to the owner of the vehicle.

The Hon. MICHAEL GALLACHER: Yes, so that the registration number is the key factor to identify the owner of the vehicle.

Mr NEWBURY: Yes.

The Hon. MICHAEL GALLACHER: In relation to a traffic infringement notice, as opposed to a parking infringement notice—a TIN—what is the key factor that you would use in a traffic infringement notice for identification of the, we will call it, offender?

Mr NEWBURY: Again, that is a two-stage process. The first thing we identify is the vehicle that was involved and the infringement notice is sent the owner of the vehicle. Ultimately the owner of the vehicle might turn around and say, "I wasn't in that vehicle", and they then have the opportunity to nominate the driver.

The Hon. MICHAEL GALLACHER: But in the case in which a police officer pulls the motor vehicle over and issues an infringement notice to the driver?

Mr NEWBURY: In that case, yes, that is to the actual driver of the vehicle.

The Hon. MICHAEL GALLACHER: And that would be the licence number of that driver?

Mr NEWBURY: I would have thought so, yes.

The Hon. MICHAEL GALLACHER: So in relation to parked vehicles and a parking ticket, you use a registration number.

Mr NEWBURY: Yes.

The Hon. MICHAEL GALLACHER: In relation to the traffic infringement notice you use a licence number. Can you tell me in relation to CINs what you use for identification of the offender?

Mr NEWBURY: The actual infringement notice is passed to us by the New South Wales Police. We use the name that is on the infringement notice.

The Hon. MICHAEL GALLACHER: How many of the four and a half thousand, approximately, have said to you that they are not the offender?

Mr NEWBURY: I do not have that figure.

The Hon. MICHAEL GALLACHER: What would you use to identify the offender if a person challenged the identity? What is the process available to you to identify the offender?

The Hon. MICHAEL COSTA: Do you know the answer to this, do you?

The Hon. MICHAEL GALLACHER: Yes I do.

Mr NEWBURY: We would have to go back to the police.

The Hon. MICHAEL GALLACHER: What would they provide to you to identify the offender?

Mr NEWBURY: If the offence has not been paid, then there would be fingerprints.

The Hon. MICHAEL GALLACHER: But the legislation says that fingerprints are to be destroyed.

Mr NEWBURY: On payment.

The Hon. MICHAEL COSTA: I think that is an important component of this. Nothing is destroyed so they can still identify because you have the fingerprints.

The Hon. MICHAEL GALLACHER: That is fine in relation to a first offence, but what happens if you have a reoffender?

The Hon. MICHAEL COSTA: The same thing happens. They get issued with a CIN. The fingerprint is taken, the CIN, and the fingerprint is kept to the point where the payment is made.

The Hon. MICHAEL GALLACHER: If a person is a reoffender, you cannot rely upon a fingerprint that does not exist.

The Hon. MICHAEL COSTA: But they have already been caught.

The Hon. MICHAEL GALLACHER: On the first occasion they have paid the infringement notice.

The Hon. MICHAEL COSTA: But they have been caught for the second time. That is how come they get issued with the CIN.

The Hon. MICHAEL GALLACHER: Please. Mr Costa, please. I am asking about the process of identification.

The Hon. MICHAEL COSTA: You are using your tricky prosecutorial skills to catch the poor man.

The Hon. MICHAEL GALLACHER: Mr Newbury, did you make a submission to the Government following the Ombudsman's report in 2005 in relation to this system?

Mr NEWBURY: I am not aware of that.

The Hon. MICHAEL GALLACHER: Will you take it on notice that if a submission was made by your office you will supply a copy of that submission to the Committee?

Mr NEWBURY: A submission in relation to what, though?

The Hon. MICHAEL GALLACHER: The Ombudsman's investigation into this CIN system.

The Hon. MICHAEL COSTA: I do not think we made a submission. I would have seen it.

Mr NEWBURY: I do not think there is a submission.

The Hon. MICHAEL GALLACHER: If such a submission was made in relation to this new system, would you provide a copy for the Committee?

The Hon. MICHAEL COSTA: It does not exist.

The Hon. MICHAEL GALLACHER: If such a submission was made, would you be prepared to supply it to the Committee?

The Hon. MICHAEL COSTA: We will have a look to see if it is there. We will have a look.

Mr NEWBURY: I will see if the submission was made. I am not aware that one was made.

The Hon. MICHAEL GALLACHER: Do we take it, therefore, that the Office of State Revenue plays a very important role in the success of the system?

Mr NEWBURY: It plays a role. I do not think it plays the most important role.

The Hon. MICHAEL GALLACHER: But it plays a very important role at the end of the process. Could you tell me how many agencies are involved in this?

Mr NEWBURY: The State Debt Recovery Office is part of us. We would be the agency.

The Hon. MICHAEL GALLACHER: What other Government agencies play a role in the whole CIN system?

Mr NEWBURY: The New South Wales Police.

The Hon. MICHAEL GALLACHER: So there are two of you?

Mr NEWBURY: Yes.

The Hon. MICHAEL GALLACHER: So I would assume, therefore, it would have been fair to have asked your office to actually put forward its views. That is why I am asking for a copy of any submissions.

The Hon. MICHAEL COSTA: Yes, I know, but it would not necessarily have been in a submission. They would have had meetings and discussions as part of its role. You are asking for a submission. He is saying that there is probably not a submission around but they were still involved in consultation, were you not?

Mr NEWBURY: We were certainly involved in consultation and we were asked to identify cost that we would need to administer the program. But I am not aware that we were invited to comment on the actual process itself.

The Hon. MICHAEL GALLACHER: Mr Newbury, as you were there in September 2006 when these changes occurred in November 2006, can you indicate to the Committee what position the Office of State Revenue took?

Mr NEWBURY: None that I am aware of.

The Hon. MICHAEL GALLACHER: None whatsoever?

Mr NEWBURY: No.

The Hon. MICHAEL GALLACHER: Therefore it is right to assume that, from what you have said, that only the New South Wales Police, and not you as the other participating agency in the system, have actually opposed the Government's plan.

The Hon. MICHAEL COSTA: No.

The Hon. MICHAEL GALLACHER: Please. It was suggested in the Ombudsman's report of 2005, and stated in the Ombudsman's report of 2005, that the New South Wales Police were opposed to the Ombudsman's recommendation to do away with fingerprints upon the fines being paid. Are you aware of that?

Mr NEWBURY: Yes.

The Hon. MICHAEL GALLACHER: You are aware of that?

Mr NEWBURY: No. I am just—

The Hon. MICHAEL COSTA: Nodding in agreement. If you say so, he thinks it might be so.

The Hon. MICHAEL GALLACHER: Rather than that, can you please indicate whether you are aware of that report of 2005 by the Ombudsman, or not?

Mr NEWBURY: No.

The Hon. MICHAEL GALLACHER: What I am asking you now is, if there are only two agencies involved in the system, the New South Wales Police and your agency, and the New South Wales Police were opposed to the Government's position as a result of the Ombudsman report—

The Hon. MICHAEL COSTA: Hang on. It was not the Government's position. It was the Ombudsman's report.

The Hon. MICHAEL GALLACHER: The Government's position following the receipt of the Ombudsman report. What is your position now in relation to fingerprints?

Mr NEWBURY: We do not have a position. It is not our role.

The Hon. MICHAEL GALLACHER: But what will you be using to identify a person who has been a repeat offender?

The Hon. MICHAEL COSTA: To be a repeat offender, you have to have a second ticket issued or a third ticket, and then they take the fingerprints. What is missing in this?

The Hon. MICHAEL GALLACHER: For the first one, they are destroyed.

The Hon. MICHAEL COSTA: Yes, I know, but if they are a repeat offender, they get issued with another one and so they take the fingerprints at that point. That does not make sense.

The Hon. MICHAEL GALLACHER: What I am asking is whether there is any way available to you to identify through fingerprints persons who may well have paid a first fine but have not paid a secondary fine?

The Hon. MICHAEL COSTA: There would be a second set of fingerprints taken at the time of the second infringement that was issued.

The Hon. MICHAEL GALLACHER: But you do not necessarily know who those people are at that point to compare them to the earlier offences.

Mr NEWBURY: If the first set of fingerprints had been destroyed?

The Hon. MICHAEL GALLACHER: That is correct.

The Hon. MICHAEL COSTA: But let us remember that the police had made it clear that they are keeping a history of the CIN, so you get that information from the police.

The Hon. MICHAEL GALLACHER: Can I just interrupt there, though, Mr Newbury. As Mr Costa has just indicated, if the police are keeping a file or a registry of offenders, do you have any knowledge of what this file or this registry looks like?

Mr NEWBURY: No.

The Hon. MICHAEL GALLACHER: No idea whatsoever?

Mr NEWBURY: No.

The Hon. MICHAEL GALLACHER: Mr Newbury, would it surprise you, therefore, to learn that fingerprints are not retained as part of that file?

Mr NEWBURY: That is really a matter for the New South Wales Police. It is not part of our role. Our role is to enforce the infringement.

The Hon. GREG PEARCE: I want to ask some questions about infrastructure. Mr Treasurer, I take you back to Budget Paper No. 4. Last year on page 1-10 there was the item "The Spit Bridge and Approaches Widened to Six Lanes", and there was an estimated cost of \$50 million. When was the decision taken not to proceed with that project?

The Hon. MICHAEL COSTA: It was taken by the Minister for Roads. I think he made an announcement and there was a lot of public commentary about it at the time. It is on the public record.

The Hon. GREG PEARCE: Would it have been about 12 February when the Premier spoke to John Laws?

The Hon. MICHAEL COSTA: I do not know.

The Hon. GREG PEARCE: Do you remember the discussion he had with John Laws?

The Hon. MICHAEL COSTA: No, I do not. I do not listen to the radio.

The Hon. GREG PEARCE: You do not listen to the radio at all.

The Hon. MICHAEL COSTA: No. I do not like it.

The Hon. GREG PEARCE: Would you like to know what that discussion was?

The Hon. MICHAEL COSTA: No, not really.

[*Interruption*]

The Hon. GREG PEARCE: There it is.

The Hon. MICHAEL COSTA: Oh, audiovisuals. You are doing an Al Gore. Why do you not get out the chart?

The Hon. PENNY SHARPE: Turn it off.

The Hon. GREG PEARCE: During the interview John Laws asked the Premier whether the project was going ahead and the Premier disappeared—he dropped out—and later came back.

The Hon. MICHAEL COSTA: Is it the Chinese agents again?

The Hon. GREG PEARCE: No. What happened to that \$50 million?

The Hon. MICHAEL COSTA: That is a matter for the Roads Minister. From memory, he was going to come up with an alternative strategy to manage problems on Military Road. That is up to the Roads Minister, and I suggest that you direct the question to him. The money was not taken from the department's budget, if that is what you are asking. It is up to the Roads Minister who administers the Roads budget to get his priorities, and those of the RTA, right.

The Hon. GREG PEARCE: Do you recall on your first day as Treasurer calling for an urgent State-Federal summit on infrastructure?

The Hon. MICHAEL COSTA: Yes.

The Hon. GREG PEARCE: Have you discussed that with Mr Rudd or any of his shadow Ministers?

The Hon. MICHAEL COSTA: I think I answered this in question time.

The Hon. GREG PEARCE: No, it was a different issue.

The Hon. MICHAEL COSTA: It was not a different issue; they are all related. They are absolutely related. That is why the notion that we are going to sit around and talk only about the GST is a nonsense. That is why we commissioned Neil Warren: we are interested in getting a system of federalism for the twenty-first century that deals with the responsibilities of all tiers of government and funding commensurate with those responsibilities. Clearly, that is the issue. I put it again on the record: I do not believe Australian tax rates need to increase. As the OSR people know, I am very, very pro the taxpayers in terms of ensuring not only that they get justice but that people respect the fact that taxpayers are contributing to government resources for outcomes, and that money should be used effectively and efficiently. We do not believe Australian tax rates—

The Hon. GREG PEARCE: We switched to infrastructure for a minute.

The Hon. MICHAEL COSTA: But it all fits together. The current levels of tax in this country are sufficient, in my view, to meet the requirements. The problem is the different tiers of government and the different approaches to managing the tax base. Tax rates do not need to increase—I emphasise that point. In fact, our strategy is to try to get them down. In terms of infrastructure—

The Hon. GREG PEARCE: Hang on, let us finish with this matter. So you do not favour broadening the payroll tax base or land tax base?

The Hon. MICHAEL COSTA: The payroll tax base is one of our broadest bases. In fact, it is one of those taxes that people in an economic sense would regard as efficient because it is broadly based. I am not about increasing taxes—to the contrary, I want to see taxes go down and I want to see greater productivity out of the funds that we collect from taxpayers. Our issue is not that at all. In

terms of infrastructure, the State is demonstrating because of its financial management that it can borrow and do it within the triple-A credit rating to meet its infrastructure needs. Our concern is that the Commonwealth is underinvesting in infrastructure. We know that it is spending roughly \$6 billion nationally on infrastructure; we are spending nearly \$12 billion this year alone. Clearly there is a role for the Commonwealth, particularly in urban congestion—and that is what the argument is about. We have had discussions—the Premier has had direct discussions—with the Federal Opposition about greater investment in urban congestion and we have got some commitments on the public record from Kevin Rudd that he will invest.

The Hon. GREG PEARCE: What did your Government dismiss the Howard Government's offer of \$2.4 billion to complete the Pacific Highway upgrade?

The Hon. MICHAEL COSTA: We have not dismissed it. That is not right. Who said we dismissed it?

The Hon. GREG PEARCE: The Minister for Roads has.

The Hon. MICHAEL COSTA: He has not dismissed it at all.

The Hon. GREG PEARCE: What is your position in relation to it?

The Hon. MICHAEL COSTA: We are happy to talk. As Treasurer—I think Mr Pierce was in the room at the time—I talked to Costello. He said that he recognised implicitly that the GST was a bit of a problem and that New South Wales was not getting a fair deal. I said, "Why don't you offset it with some sort of bilaterals?", and I said that our priority was the Pacific Highway and could he put some money into the Pacific Highway. He said, "We've got \$800 million available" but he would not put it into the Pacific Highway. He wanted to put it into the Hume Highway, which was not our priority.

The Hon. GREG PEARCE: So you want to take the \$2.4 billion that has been offered now.

The Hon. MICHAEL COSTA: Subject to the details of how the money will be delivered to the State and what conditions surround it, I think any government would accept money. I do not think the Roads Minister has said anything different other than he welcomes the \$2.4 billion, provided we can sort out the details. Remember that in many cases this money is catch-up funding because we have put more into the Pacific Highway than the Commonwealth has. The reason we did not get the \$800 million was because Peter Costello did not want to put it into the Pacific Highway. I can only assume—

The Hon. PENNY SHARPE: He wanted to save Page.

The Hon. MICHAEL COSTA: Is that what it was about?

The Hon. PENNY SHARPE: Yes, it was about Page.

The Hon. MICHAEL COSTA: I do not know what it is about but he has now changed his mind and they want to put in \$2.4 billion.

The Hon. GREG PEARCE: Sticking with infrastructure, when is the updated State infrastructure plan likely to be released?

The Hon. MICHAEL COSTA: It is released every two years, so it will be next year.

Mr PIERCE: Just prior to the budget.

The Hon. MICHAEL COSTA: It will form part of Budget Paper No. 4.

The Hon. GREG PEARCE: I draw your attention to the summary of progress against fiscal principles in appendix A of Budget Paper No 2. Last year it was in chapter 1. No. 4 is "Evaluation of capital expenditure proposals". Last year you reported that preliminary analysis based on a sample of

370 major construction projects commenced before or after the introduction of gateway indicated a reduction in the order of 50 per cent in cost overruns. This year you say again that there is a reduction in the order of 50 per cent in cost overruns. Can you take this question on notice and provide the details of that analysis of the sample 370 major projects that were referred to in last year's budget papers?

The Hon. MICHAEL COSTA: I do not know whether that information is available. I will have a look at what is available.

The Hon. GREG PEARCE: So you will take a question on notice and provide it if it is available. Is that what you are saying?

The Hon. MICHAEL COSTA: No.

The Hon. GREG PEARCE: It is in the budget papers so it either existed or it did not.

The Hon. MICHAEL COSTA: Some of the stuff is commercial in confidence. Provided it is not commercial in confidence, I do not have a problem. Whatever is not—

The Hon. GREG PEARCE: So you will provide whatever information on the 370 that is not commercial in confidence. What is the basis of this year's conclusion that it is a 50 per cent reduction in cost overruns?

The Hon. MICHAEL COSTA: It is the result of the gateway process that was gone through.

The Hon. GREG PEARCE: So you are not just repeating the sample analysis from last year.

The Hon. MICHAEL COSTA: No. For the Committee's edification, the fact is that our agencies have not been good at running their capital programs. There is no doubt about that.

The Hon. GREG PEARCE: You would not admit that last year when I asked.

The Hon. MICHAEL COSTA: Because the Government has been good at it. But if you set up a department that has a specific function—be it providing disability services or something else—you cannot expect the people who provide those services well to have all the skills and expertise to manage their capital program. We have been aware of that—it is not a secret—and we have sought to deal with it. The gateway process has been part of that. We have also looked at getting 10-year capital plans from each major agency so that we can get a better handle on their priorities and how they can be sequenced in a way that does not cause problems in their management. I am proud of the fact that, as a government, we are seeking to address these problems. As I have said publicly, our record is much better than the Commonwealth's record. In the area of defence procurement, for example, it has been absolutely appalling. Maybe they should take our gateway principles and see whether they can learn something from them. But Government is about improving services.

Dr JOHN KAYE: I want to go back to the issue of clean coal that you were talking about before. Treasurer, you gave us an exposition, but what you did not answer is what role do you see clean coal playing in the electricity industry of New South Wales?

The Hon. MICHAEL COSTA: I do not think it is up to the Government to determine what fuels are used in an environment where the private sector is primarily responsible for investment.

Dr JOHN KAYE: Fair enough.

The Hon. MICHAEL COSTA: Let me finish. Having said that, the Government independently has provided funds—I don't know how much is in the fund at the moment, I think it started off at 20 for clean coal—

Dr JOHN KAYE: I think it is \$400 million, is it not?

The Hon. MICHAEL COSTA: Well, whatever it is, we have provided funds for supporting research and development in the area of clean coal. I mean clearly, given the importance to our State economy, given the importance of coal to our energy sector, we would be remiss not to try to support the development of technologies that reduce carbon emissions, and we are doing that.

Dr JOHN KAYE: The State Plan says that the commitment of the State is to return to 1990 level emissions by 2025. Are you aware of that?

The Hon. MICHAEL COSTA: I am. I argued against it.

Dr JOHN KAYE: You argued against it?

The Hon. MICHAEL COSTA: I lost.

Dr JOHN KAYE: But, as Treasurer, you and your department would have a commitment to the State Plan?

The Hon. MICHAEL COSTA: That is why we are investing in those very programs that we are talking about.

Dr JOHN KAYE: So a new coal-fired power station, two 700 megawatt units operating at 90 per cent capacity factor, best available international technology, on standard coal, would produce about 8 million tonnes of carbon dioxide a year, roughly speaking, which would blow that target right out of the water if we build one.

The Hon. MICHAEL COSTA: No, but you can get offsets.

Dr JOHN KAYE: Let me—

The Hon. MICHAEL COSTA: Hang on, hang on, hang on.

Dr JOHN KAYE: No, you hang on.

The Hon. MICHAEL COSTA: This is just being mischievous and naïve—deliberately, I hope. Clearly when we do these things we are entitled to operate, and this is what I was talking about, within existing framework for dealing with the issues and people can choose the carbon trading method to deal with these problems or other—

Dr JOHN KAYE: So you are saying, Treasurer, whether or not clean coal actually does work is not relevant to the future, being able to meet the State Plan's carbon emissions by 2025?

The Hon. MICHAEL COSTA: No, I am saying that there will be a regime that I could not fully expand on because it is going to be a Commonwealth regime that will provide—

Dr JOHN KAYE: So you just—

The Hon. MICHAEL COSTA: Hang on, let me finish. You asked me the question. You haven't got his prosecutorial skills, you know, he does it well and you should take some lessons off Michael. But look, the bottom line is that we've got to wait and see what the carbon trading scheme is and within the context of that there are a variety of ways people can meet their requirements to reduce carbon. Remember, this scheme will have a cap. One would assume that, if all things go well, the cap would be in line with our existing policy, that is what we are arguing for, and within that framework people can use those techniques to reduce exposure in the area of carbon and risks associated with it.

Dr JOHN KAYE: What you are therefore saying is that, if a new coal-fired power station is approved by the State Government, 8 million tonnes a year of offsets?

The Hon. MICHAEL COSTA: That may well be.

Dr JOHN KAYE: So forestry offsets?

The Hon. MICHAEL COSTA: I don't know.

Dr JOHN KAYE: Where would you get 8 million tonnes of offsets?

The Hon. MICHAEL COSTA: That is up to the market. You see, I believe in free markets and I believe in the carbon—

Dr JOHN KAYE: So you are—

The Hon. MICHAEL COSTA: Hang on. I don't believe that I should dictate to people how they are going to meet their offsets, that is up to the proponents of these schemes, assuming that they go ahead, to find a way to deal with those problems. We set the rules; they operate within the rules.

Dr JOHN KAYE: If you are committed to the State Plan then you have to presume that there are 8 million tonnes of offsets available. Has your department done any analysis of the total available offsets?

The Hon. MICHAEL COSTA: It is not our responsibility to do that. It is our responsibility to conform with the rules that will be in place. The State has set a target. It will argue that that target ought to be embodied in the national arrangement and then that scheme will determine how it operates—and you know how it operates. Do I need to explain it to you?

Dr JOHN KAYE: No, you don't.

The Hon. MICHAEL COSTA: You know the price will go up.

Dr JOHN KAYE: Please don't, please spare us.

The Hon. MICHAEL COSTA: And that will make the silly technologies more financially attractive artificially.

Dr JOHN KAYE: Give us a break, Treasurer.

The Hon. MICHAEL COSTA: And that will lead to more, you know, bird killers, more bird killers out there killing all the birds and the State of New South Wales covered with glass collectors—you know the argument.

Dr JOHN KAYE: Thank you for that, Treasurer, but I want to go back to the issue of the State Plan which commits us to reducing to 1990 levels by 2025. We build a new coal-fired power station some time between now and 2012; 8 million tonnes per annum. What then happens to the State Plan's target, which you said you were committed to enforcing? What then happens to it? Or is the State Plan target just a green wash? How do you know that there are 8 million tonnes worth of offsets?

The Hon. MICHAEL COSTA: Could I suggest the easiest thing to do is—you obviously like reading—read chapter 5 of Owen and all of this is outlined.

Dr JOHN KAYE: I have read chapter 5.

The Hon. MICHAEL COSTA: I can't deal with comprehension problems. All I can do is guide you to reading information.

Dr JOHN KAYE: I want to hear it from you, Treasurer.

The Hon. MICHAEL COSTA: Why?

Dr JOHN KAYE: So the answer we get is that you have no idea whether there are 8 million tonnes of offsets or not?

The Hon. MICHAEL COSTA: I have a—

Dr JOHN KAYE: Do you or do you not know there are 8 million tonnes—

The Hon. MICHAEL COSTA: "Do you or do you not"?

Dr JOHN KAYE: Whether there are 8 million tonnes worth of offsets?

The Hon. MICHAEL COSTA: You guys have just got to slow down.

Dr JOHN KAYE: No, I've got to do nothing, Treasurer. You've got to answer the questions.

The Hon. MICHAEL COSTA: I don't have to answer your questions.

Dr JOHN KAYE: Do you or do you not know whether there are 8 million tonnes worth of offsets?

The Hon. MICHAEL COSTA: I don't have to answer your questions. All I have to do is guide you to where that information is, and I have—it is in chapter 5 of Owen—and I don't have to get up here and recite chapter 5 of Owen for you. It is in there. In terms of the broader proposition, I have made the answer very clear. It will be up to the regime that operates in terms of emission trading to deal with that problem. And do you know what will happen? If you believe in market forces, what will happen is the price of carbon will go up, it will make all of those technologies, those whiz-bang technologies that don't work that you support, much more viable financially, but whether they can achieve the things that the public wants, that is base-load power, that is another question, and you will have to explain it at the time.

Dr JOHN KAYE: Of course at that point the coal-fired power station would be pushed offline and would be a very bad investment for the private owner.

The Hon. MICHAEL COSTA: Except you haven't got an alternative technology that provides base-load power, so how are you going to do that? What are we going to do? Are we going to wait for the wind to blow to turn on our computers? What are we going to do?

Dr JOHN KAYE: So you're saying there are not offsets? I am confused now by your answer. One minute you are saying it is okay, the State Plan is intact because there are 8 million tonnes of offsets out there, then you tell us no, it is not going to work.

The Hon. MICHAEL COSTA: I didn't say that. The offsets, as you know, can come in a variety of forms. You talked about sequestration and forests and all sorts of things.

Dr JOHN KAYE: So 8 million tonnes of forest each year?

The Hon. MICHAEL COSTA: I don't know—

Dr JOHN KAYE: That would be something like 4 million hectares in planting each year.

The Hon. MICHAEL COSTA: You've got a problem at the moment. You got your maths wrong before, so I worry about that.

Dr JOHN KAYE: It is a lot of forest.

The Hon. MICHAEL COSTA: Let me go through it again and say somebody has to explain to me—I am not convinced. I accept the proposition that there is going to be the trading regime. What technology is going to provide base-load power? Can you tell me?

Dr JOHN KAYE: But that is not the question here. The question here, Minister, is your State Plan.

The Hon. MICHAEL COSTA: It is a pretty important question, isn't it?

Dr JOHN KAYE: It is not my State Plan.

The Hon. MICHAEL COSTA: I don't want to wash my—

Dr JOHN KAYE: It is not my position to answer questions here.

The Hon. MICHAEL COSTA: Well, you are advocating the regime.

Dr JOHN KAYE: I am happy to debate you in public on this issue, in fact I would enjoy the opportunity to debate you in public, but you would not do that. What I want to do here is go back to the issue of the State Plan, but clearly you do not know that there are 8 million tonnes of offsets, you are about to commit the State to a coal-fired power station—

The Hon. MICHAEL COSTA: That is not true.

Dr JOHN KAYE: So you do know there are 8 million tonnes worth of offsets?

The Hon. MICHAEL COSTA: I know there will be a regime in place that will have a cap and trade component. It is up to that regime to deliver the offsets if somebody chooses to go down that path. They will be required to operate within that regime. What I have a real doubt about, a personal doubt, is how we are going to provide base-load if we price all of our base-load power stations out of the marketplace, but that is something that time will tell and then the Greens will be able to get their ambition of having us back in the Stone Age.

Dr JOHN KAYE: Thank you for your very erudite explanation of our policy, Treasurer.

The Hon. MICHAEL COSTA: I want to use my computer 24 hours a day, not on a day when there is wind.

Dr JOHN KAYE: Can we go back to the issue of CITIC?

The Hon. MICHAEL COSTA: I could come in here and generate it.

Dr JOHN KAYE: Could we go back to the issue of CITIC?

The Hon. MICHAEL COSTA: Who?

Dr JOHN KAYE: CITIC.

The Hon. MICHAEL COSTA: We don't use acronyms. Who is that?

Dr JOHN KAYE: I am actually not sure what it stands for because I have seen two different explanations of it. It is a company owned by the Chinese Government.

The Hon. MICHAEL COSTA: Hang on, let me take my shoe off and ring Max.

Dr JOHN KAYE: Please do, but let's just go back to my original question on the issue of the concerns that the public might feel about foreign ownership—

The Hon. MICHAEL COSTA: What is it called? KAOS.

Dr JOHN KAYE: Not foreign ownership, but ownership by a company which was fully controlled by a foreign government.

The Hon. MICHAEL COSTA: This is the One Nation policy.

Dr JOHN KAYE: How would your Government relate to the electricity industry being purchased by a company that was fully controlled by the government of Iran?

The Hon. MICHAEL COSTA: What? I do not know how to answer that. I will put it in the same thing. I will not answer the question whether I have had meetings with agents of the Iranian Government on electricity. You can put out a press release, go to the ABC and they will probably run it, but it is a ridiculous question. It is reminiscent of One Nation. In a globalised economy—

Dr JOHN KAYE: It is not about foreign ownership. It is about ownership by a company that is controlled by a foreign government.

The Hon. MICHAEL COSTA: Unfortunately we live in a world—

Dr JOHN KAYE: So you are saying that you do not mind if the Iranian government, if President Ahmadinejad, is in charge of the electricity industry in New South Wales.

The Hon. MICHAEL COSTA: Can I explain what happens in a modern capitalist economy when they manage their financial assets with reference to T-Corp? T-Corp—you asked this question—

The Hon. MICHAEL GALLACHER: We should talk about Tcard.

The Hon. MICHAEL COSTA: We can talk about that, too. Let us talk about T-Corp for a moment. You will find that T-Corp, a government instrumentality, probably has equity investments through managed funds or other mediums in lots of companies. That is the modern world. Are you objecting to T-Corp having investments—

Dr JOHN KAYE: No. I am asking you if you have an objection to the Government of the Islamic Republic of Iran having direct investment in our power system. That is all I am asking. It is a yes or no answer.

The Hon. MICHAEL COSTA: I will not answer that question because it is as ludicrous as the previous one you asked. Let me just make this point, because it is absolutely essential that Dr John Kaye understands this. The converse is that he does not want governments—

Dr JOHN KAYE: I would be concerned by it. All I am asking is whether you are concerned about it.

The Hon. MICHAEL COSTA: There are two issues. I am concerned about the Government of Iran, absolutely. I think they are absolute lunatics.

Dr JOHN KAYE: And you would be concerned about them controlling our electricity industry.

The Hon. MICHAEL COSTA: Nobody will control our industry. There will be a regulatory framework. There will be all sorts of arrangements put in place that determine how people operate.

Dr JOHN KAYE: It is you who does not understand the electricity industry.

The Hon. MICHAEL COSTA: Let me also make the point so it is absolutely clear: The Government of New South Wales, through T-Corp and other instruments, has equity holdings in companies all over the world. The Greens now want to rule that out.

Dr JOHN KAYE: What nonsense! It is absolute nonsense, and you know it. You are just covering. You are covering because you will not tell us that you have had meetings with a company controlled by the Chinese Government.

The Hon. MICHAEL COSTA: I will ring up Max. We will have the cone of silence. I will tell you under the cone of silence.

Dr JOHN KAYE: I wish you would get in the cone of silence.

The Hon. MICHAEL COSTA: Yes, KAOS is out there wanting to destroy the world.

CHAIR: Returning to the budget papers, can you explain the current situation with the Federal and State Governments funding of New South Wales hospitals? There was a ratio. Is it a fact that that ratio is now distorted, that the State is contributing a greater percentage to hospitals than the Federal Government?

The Hon. MICHAEL COSTA: Yes. The Minister for Health outlined that in the Parliament the other day. Rather than make it specifically about health, let me make it specific about all State services. There has been a decline in Federal Government grants to the States. I think that has been confirmed by independent observers and independent analysts. It is not a New South Wales Government propaganda point. That decline has been quite significant and it is putting pressure on services. In the 1980s we were about 6 per cent of gross domestic product as a contribution. I think State grants were 6 per cent; they are down to about 5 per cent at the moment. **But I can give you the actual figures, and it has had an impact.**

More importantly—and this is a subtle point that has been missed in all of this—the grants we are getting, the special purpose payments from the Commonwealth, are more and more tied with conditions around them, and those conditions create inflexibility and lower productivity outcomes in how those funds are utilised. One good example is roads, where they are requiring that we sign up to their ideological agenda on WorkChoices as being the basis of expending those particular funds. So we have a compounding problem. It has two dimensions. One is that the rate is going down in terms of gross domestic product, and also we are having more and more conditions placed on those grants, and it is putting our system under pressure. That is the basis of our argument about recasting federalism to get a more sensible arrangement.

The Premier has already said—and I have said it—that if they want to look at better arrangements in health, this Government will sit down and discuss those. We have offered to sit down and look at a better casting of the division of responsibilities between the Commonwealth and the State, particularly in primary health care and acute health care.

CHAIR: You have mentioned a number of times the problems with the GST, that we do not get back in GST 100 per cent of the amount that New South Wales contributes through the taxes of all its citizens. It is a shortfall of about \$300 million or \$400 million shortfall.

The Hon. MICHAEL COSTA: No, it is \$2.5 billion.

The Hon. GREG PEARCE: It is what Mr Carr and Mr Egan agreed to.

The Hon. MICHAEL COSTA: We are not arguing for the whole lot back.

The Hon. GREG PEARCE: How much do you want?

The Hon. MICHAEL COSTA: We want a sensible formula that does not punish the States for ridiculous things. You have probably heard me talk about this. We got punished on the last formula for overservicing the community in New South Wales. It was claimed that we had 1,270 too many buses, almost 16,000 too many bus stops, 18 kilometres too much underground railway and 38 kilometres too much rail track in general. Listen to this: we spent \$1.76 billion too much on urban transport infrastructure, \$280 million too much on roads, \$31 million too much on family and child services, and \$82 million too much on housing. That is out of the Commonwealth Grants Commission formula arrangement. We think that that type of micro-management is part of the problem.

Not only do you get penalised on the expenditure side; you also get penalised on the other side in terms of your capacity to raise taxes. Effectively, if you do not have the average rate of taxation in a particular category of the States you get penalised as well. So the system might have made sense in the 1920s when we had an overly egalitarian approach to everything. In the modern world where we are much more focussed on opportunities rather than outcomes in terms of these social policy areas particularly, it does not make sense. We want that formula and the restrictive nature of it to be revised. It will probably lead to an increase in GST arrangements.

Our particular beef is with Queensland and Western Australia. Queensland put out a preposterous press release the other day claiming that it was a donor State in terms of the GST. The way they did that was they took the whole GST pool and divided it by their population and claimed on a per capita basis that they were now a donor nation because they did not get the exact proportion. It was an absolute nonsense because the reality is that our issue is about where GST is derived from.

CHAIR: The actual money.

The Hon. MICHAEL COSTA: The actual money. They are still a recipient of GST from New South Wales. I notice the Western Australians are getting a bit worried and want to see a review of the GST arrangements because they are starting to become a donor or they will be a donor this year. So hopefully within that context we sit down and work out a new set of arrangements. To take up the Hon. Greg Pearce's point about who signed off on this, the issue for us is broader than just the GST. It is the question of getting that division of labour right. The formulas have been around a long time. They are too narrow. They are too focussed on micro-management. For example, in States that have a high indigenous population, a set of variables and adjustments are made that take in that factor. I do not disagree with that, but you could argue the same thing for things like other social problems in terms of housing and congestion and other things—

Mr PIERCE: Urban congestion.

The Hon. MICHAEL COSTA: —and urban congestion, which are not taken into account. So the thing has to be looked at. The figure is about \$2.5 billion.

CHAIR: I think the figure I was referring to is what Queensland was getting, which should be New South Wales money.

The Hon. MICHAEL COSTA: Yes, \$340 from every person in the State. This is a time when the Commonwealth is getting about \$40 billion above its revenue projections over the past four or five years. There is plenty of scope at a time when the national economy is very buoyant, to try to deal with this problem.

CHAIR: A moment ago you read out the figures that New South Wales is spending too much money on roads and whatever.

The Hon. MICHAEL COSTA: It is a deviation from the average.

CHAIR: How was that assessed?

The Hon. MICHAEL COSTA: It is a deviation from the average.

CHAIR: In comparison with the other States?

Mr PIERCE: It is a standard derived of the average of what all of the States do.

The Hon. MICHAEL COSTA: It is ridiculous. It makes—

CHAIR: So the other States are inefficient?

The Hon. MICHAEL COSTA: It is not about efficiencies.

CHAIR: And we were more efficient?

The Hon. MICHAEL COSTA: No, there are two sides to it, one is expenditure and it tries to equalise it so every citizen has equal access to the same bundle of services. That is done on an average basis. The other side is taxation, where they try to do the taxation capacity of raised funds so you are not deviating too far from the average. Both sides have a problem.

CHAIR: The New South Wales Government has been criticised for meeting the needs of the population in all those areas.

The Hon. MICHAEL COSTA: I go further. If you want to have a history lesson, it goes back to the view at the time around Federation when extreme egalitarianism—and the Greens will disagree with this—was the ruling, the political ethos, and we had the Harvester judgment on wage fixing and protectionism for manufacturing industries. In the 1920s we came up with principles that sought to equalise everything, that was the ethos at the time. The world has changed. We have globalised and there has been a focus on equality of opportunity rather than on equality of outcome.

This stuff is much too focused on equality of outcome and does not take into consideration new social and economic constraints: urban congestion being the one that we focus on the New South Wales because we are affected by it, and the Victorians as well. Those things should be built into it too, there should be compensating factors for that and a looser set of arrangements that lead to a much more realistic set of outcomes. We are not arguing that we should not help States such as Tasmania and South Australia and those States have issues such as the Northern Territory with its greater indigenous population, that is not our argument at all.

Really our major issues are with Queensland and Western Australia. By the way, everyone would be better off if they did what we are arguing for, and that is new federalism, and looked at getting sensible divisions of labour between the different tiers of government while listening to the mix.

Dr JOHN KAYE: Hear! Hear!

CHAIR: Have you been able to get any agreement from a potential Rudd-Swan government as to who would reconsider the whole GST formula?

The Hon. MICHAEL COSTA: They have agreed, but it is not the GST we are talking about, it is the broader issue of fiscal—

CHAIR: GST is a fundamental part of it?

The Hon. MICHAEL COSTA: Yes, but it is only a small part of it. I will not exaggerate it either. If you look at our budget, it is about \$12 billion, 40 per cent, so we still have other issues that are important as well. For us it is not the 40 per cent, it is the difference between what we would have got and what we are getting. It is actually smaller than that, it is probably 4 per cent or something of that nature. It is important. If we could sort out the different funding arrangements in Health, for example, we would be in a better position. I have spoken about this publicly. We have such perverse incentives in our system, and the way it is structured.

We put in MRI machines and they sit in hospitals for 12-18 months and we have been questioned during question time, legitimately, by the Opposition about why those machines have not been switched on. They have not been switched on because the Commonwealth will not licence them, because it would then have to take up the funding responsibility. That just does not make sense. Putting aside politics, we have to do it within the next couple of decades, because we have an ageing population. Our estimate is still that between the mid-2020s and mid-2030s we will have a problem in how we fund our health system. It might take up the whole of the budget with current growth rates. I do not have a solution.

Therefore, it was legitimate for the Opposition to criticise us and I hope they do on our long-term fiscal gap, because if you leave aside all the argy-bargy that is the most important figure in the budget. We have not made progress on that, we are stagnant, we are standing still. When you and I and everyone else in this room are gone, that is the issue that will really hurt.

The Hon. MICHAEL GALLACHER: Mr Newbury, you indicated that about 50 per cent of people do not pay their fines. Of the 50 per cent that remain, approximately how many go to court and have the matter determined at court?

Mr NEWBURY: I will take that on notice, I do not have that figure.

The Hon. MICHAEL GALLACHER: No idea?

Mr NEWBURY: No.

The Hon. MICHAEL GALLACHER: Have you done any financial modelling on this scheme, or what it costs the Office of State Revenue?

Mr NEWBURY: No.

The Hon. MICHAEL COSTA: Do you mean the costs of running it?

The Hon. MICHAEL GALLACHER: Yes.

The Hon. MICHAEL COSTA: We recoup that.

Mr NEWBURY: At the time that the scheme was put forward, there was an analysis of the cost to administer the scheme.

The Hon. MICHAEL GALLACHER: And what was that?

The Hon. MICHAEL COSTA: Pretty low. From memory it was under \$400,000.

Mr NEWBURY: About \$200,000 or \$240,000, but, again, I am not absolutely sure of the figure.

The Hon. MICHAEL GALLACHER: Have you done any comparisons between criminal infringement notice system, in terms of appearing at court, and the police system? Do you know the number of people who would not appear at court in the traditional form of charging versus the 50 per cent, or thereabouts, who do not appear as a result of, say, paying a fine as a non-appearance and the 50 per cent who do not pay the infringement notice?

Mr NEWBURY: We would not have done that sort of modelling.

The Hon. MICHAEL GALLACHER: I put it to you that the numbers of people who would not appear at court after being charged by a police officer would be substantially less than the 50 per cent who elect not to pay a fine. Are you in a position to comment on that?

Mr NEWBURY: I cannot comment.

The Hon. MICHAEL GALLACHER: Minister, will you indicate—and pardon my ignorance on this—the position of the Government on the issue of forced redundancies for people on the unattached list?

The Hon. MICHAEL COSTA: We made our position clear, I think, about two years ago. Essentially, people get about a 12 month period—are you talking about the unattached list?

The Hon. MICHAEL GALLACHER: Yes.

The Hon. MICHAEL COSTA: There are two lists; one is the displaced list and the other is the unattached list. The unattached is the senior executive service, is that the one you are asking about?

The Hon. MICHAEL GALLACHER: Can you answer for both?

The Hon. MICHAEL COSTA: The current position on the SES is that they have fewer than 60 days—I changed what it was, but I cannot remember what I changed it to—or a short time if they are on the unattached list, to sort out an alternate position.

Mr PIERCE: It is 30 days.

The Hon. MICHAEL COSTA: After that they are, and I do not want to say "disposed of"—

The Hon. MICHAEL GALLACHER: Terminated?

The Hon. MICHAEL COSTA: No, that is a Schwarzenegger description, and I am not a girlie man. We find an exit strategy. In relation to the displaced list, that is different.

Dr JOHN KAYE: Find a platitude to describe what is happening.

The Hon. MICHAEL COSTA: Well, mate, let us be honest. I have personal sympathy for the people, but they are senior people who earned high salaries and who should have marketable skills.

The Hon. MICHAEL GALLACHER: Can we return to the displaced list?

The Hon. MICHAEL COSTA: No, I am trying to answer the point raised by Dr John Kaye.

Dr JOHN KAYE: You made the statement.

The Hon. MICHAEL GALLACHER: The displaced list?

The Hon. MICHAEL COSTA: That is the non-SES people and there is a policy in place under which we seek to redeploy and reskill people and try to find them alternate positions within the public service. That operates on the basis that they are given 12 months to look for that and then they are given a 12-month notice period. If they cannot find a position they will be forcibly made redundant.

The Hon. MICHAEL GALLACHER: To your knowledge how many have fallen into that category?

The Hon. MICHAEL COSTA: Not many. I tried, but not many. That is largely because they have either taken voluntary redundancy or, alternatively, we have found a position for them. I personally did the last group in the Residential Business Management Corporation, to make sure that the policy was applied. We were able to find positions for them, and that is our preference. Our preference is to find positions for people. The Government's policy is clear on this; we are not having people sitting around doing nothing. We seek to redeploy, we seek to retrain, then we give them a sufficient period in which they can find alternative employment, or they are given notice.

The Hon. MICHAEL GALLACHER: I turn now to the very important area of the Hunter. In relation to being redeployed, is it the case that they also have to take a 15 per cent pay cut?

The Hon. MICHAEL COSTA: No, that is not right. I know somebody leaked that document to you and you have been running around screaming about it. That is not the Government's position. The Government's position—

The Hon. MICHAEL GALLACHER: Who drafted it?

The Hon. MICHAEL COSTA: I do not know. There are heaps of papers in government departments. That is why you guys go on fishing exercises. Half the time people do not know what people somewhere in the bureaucracy are coming up with. At the end of the day the Government works on the basis that these are put up. There is a process to vet them and the Government makes the policy, not somebody who has drafted a document. Unless it is endorsed by Cabinet and put out as government policy, it is not government policy.

The Hon. MICHAEL GALLACHER: When you were asked on radio some months ago about this document you said words to the effect, "That is just codifying current practice"?

The Hon. MICHAEL COSTA: I do not think I said that at all.

The Hon. MICHAEL GALLACHER: You did.

The Hon. MICHAEL COSTA: Not about 15 per cent; that is not current practice.

The Hon. MICHAEL GALLACHER: You were asked about this legislation.

The Hon. MICHAEL COSTA: If I said that I made a mistake.

The Hon. MICHAEL GALLACHER: Just before the election?

The Hon. MICHAEL COSTA: No.

The Hon. MICHAEL GALLACHER: It was. It was within two weeks of the election.

The Hon. MICHAEL COSTA: Show me the reference and I will have a look at it. I do not want to go around on this issue. The position is pretty clear. I was involved in—

The Hon. MICHAEL GALLACHER: In drafting this legislation?

The Hon. MICHAEL COSTA: No, I was not involved in drafting legislation. As I understand it, that came out of the Premier's Department. The point with it is that I often ask John Pierce to give me options on three or four things to do. He prints them up and I say, "That is the socialist in Treasury again. I do not want that."

Dr JOHN KAYE: A socialist in Treasury?

The Hon. MICHAEL COSTA: There are lots of them; you would be surprised.

The Hon. MICHAEL GALLACHER: So the Premier's office had this drafted and not you?

The Hon. MICHAEL COSTA: I assume that the draft came out of that area; I do not know the details of it. You got the leak. Why do you not ask the person who leaked it to you?

The Hon. MICHAEL GALLACHER: I do not have the time to ask them about that.

The Hon. MICHAEL COSTA: It is a he. The bottom line is that, until the Government endorses it, it is not policy. There will be dozens of documents around the place that you people often get your hands on.

The Hon. MICHAEL GALLACHER: Treasurer, is it not disconcerting that the Premier's office drafted legislation that states to public servants, "Take a 15 per cent pay cut, or goodbye"? That is what this legislation clearly states.

The Hon. MICHAEL COSTA: Let us put the issues that we are addressing into context. One of the issues was the question of salary maintenance. Salary maintenance is an issue. As much as possible we want to try to keep our government sector in line with practice in the private sector. You would not argue against that.

The Hon. MICHAEL GALLACHER: When this legislation was drafted by the Premier's office in 2005, that was the time that you are alleged to have said something about the number of public servants you could cut.

The Hon. MICHAEL COSTA: I did not say that. I have said before that I was talking about productivity. I make no apology for that. I would like to see public service productivity improve.

The Hon. MICHAEL GALLACHER: I am sure you agree it is a cute coincidence. At the time you were talking about productivity it was somehow construed that you were talking about the jobs of tens of thousands of public servants. The Premier's Department drafted this legislation that states to displaced employees, "Either take a 15 per cent pay cut or a forced redundancy." You never discussed this publicly prior to the election.

The Hon. MICHAEL COSTA: Because it was not government policy.

The Hon. MICHAEL GALLACHER: Prior to the election?

The Hon. MICHAEL COSTA: It is not government policy and it was not government policy.

The Hon. MICHAEL GALLACHER: Two weeks before the election you said it was codifying current practice.

The Hon. MICHAEL COSTA: I did not see that document.

The Hon. MICHAEL GALLACHER: In the radio interview you were being asked—

The Hon. MICHAEL COSTA: Give me the radio interview. If I have made a mistake I will apologise to you on that.

The Hon. MICHAEL GALLACHER: It is not me to whom you should apologise; it is the person who was interviewing you at the time and who asked you that question.

The Hon. MICHAEL COSTA: Fine.

The Hon. MICHAEL GALLACHER: You said, "I am codifying current practice."

The Hon. MICHAEL COSTA: I will do that if that is the case. When I look at your transcripts after you have made these allegations they often do not bear any relationship to the allegation that is being made. Let me make a point: first, we make no apology for implementing a process that seeks to increase public sector productivity; and, second, it seals the deal with displaced people in a humane and sensible way that has some finality to it. We will not have people sitting around the public sector for 10 years with no meaningful work or no jobs. It does not make any sense and it is not the modern public sector.

CHAIR: We agreed to keep questions on the Hunter to half an hour if possible.

The Hon. MICHAEL COSTA: I will take any questions.

The Hon. GREG PEARCE: I have one final quick question on infrastructure. What financial analysis did Treasury do on the desalination plant? In particular, did you do an opportunity cost analysis of any description?

The Hon. MICHAEL COSTA: What do you mean by "an opportunity cost"?

The Hon. GREG PEARCE: Using the money for other things.

The Hon. MICHAEL COSTA: I can answer that. Opportunity cost is certainly a great tool, but the opportunity cost analysis that we were looking at would have been in the confines of the policy we were trying to solve, that is, how do you guarantee water supply? So it would have been a comparative analysis of the relative costs of different options.

The Hon. GREG PEARCE: Did Treasury do that analysis?

The Hon. MICHAEL COSTA: Sydney Water did an analysis of a variety of options that were available. People know my views on some of these things but I have to say that desalination came up quite well compared to the rainwater tanks that the Greens were advocating. It is cheaper water than the water from rainwater tanks.

The Hon. MICHAEL GALLACHER: Treasurer, could you indicate to the Committee when the report that was to be done, or that has been done, relating to redirecting rail services to the University of Newcastle—the Sydney to Newcastle railway—will be released?

The Hon. MICHAEL COSTA: I do not know. The transport Minister is doing that. You know my views. I got rolled. I had another loss trying to pull that railway line out. After that they decided that they would do a study. It was a different transport Minister. I will refer that to the transport Minister. I have not changed my view.

The Hon. MICHAEL GALLACHER: As Minister for the Hunter do you support the creation of a Hunter transport authority?

The Hon. MICHAEL COSTA: Nobody is proposing a Hunter transport authority.

The Hon. MICHAEL GALLACHER: Nobody in government?

The Hon. MICHAEL COSTA: No, nobody in government, not in the terms it was talked about a number of years ago, that was, throwing in private buses, the rail and the public buses. Nobody is talking about that.

The Hon. MICHAEL GALLACHER: So you have examined it and I take it that you have disregarded it?

The Hon. MICHAEL COSTA: No, I did not think that it would work. I had a look at it when I was transport Minister and I thought that it would not work.

The Hon. MICHAEL GALLACHER: Do you mind me asking you why it would not work?

The Hon. MICHAEL COSTA: First, because the rail component of it, as you know, is pretty minimal in the Hunter. Second, we were going for bus reform, which I introduced, strategic bus corridors, that define the problem as a different problem. That is the inner regional one rather than one that was located specifically around the Newcastle central business district, which is where its prime focus was.

The Hon. MICHAEL GALLACHER: Treasurer, can you confirm whether one of the current private sector tenderers will be awarded the development rights of the former BHP steelworks later this year?

The Hon. MICHAEL COSTA: No, I cannot confirm anything. As you know, a process is going on at the moment. I think there are three options and they will be worked through.

The Hon. MICHAEL GALLACHER: When do you expect the announcement to be made in relation to the BHP site?

The Hon. MICHAEL COSTA: It is no secret that I want the Rail Management Centre to make an announcement sooner rather than later. I think the original schedule was for some time next year. I think we should endeavour to do it a lot sooner. I have probably spoken to the same people that you have spoken to and I have made it clear that I would like to see it done earlier, if we can.

The Hon. MICHAEL GALLACHER: One of the things I am interested in finding out—

The Hon. MICHAEL COSTA: I think government takes a long time to make decisions.

The Hon. MICHAEL GALLACHER: Yes, there is no doubt that that is a fact. There is no doubt that, as Treasurer, you have a considerable interest in a lot of these matters. But I am interested in finding out. You have no say over transport and you obviously have no say over what is happening on the BHP site.

The Hon. MICHAEL COSTA: Do you want to know what the Minister for the Hunter does?

The Hon. MICHAEL GALLACHER: What does he do?

The Hon. MICHAEL COSTA: I have explained that to you on three or four occasions.

The Hon. MICHAEL GALLACHER: It appears as though it is becoming more neutered as it goes on.

The Hon. MICHAEL COSTA: It is not becoming more neutered. We are going back over old ground. It was a coordinating function—an umbrella function that would look at different responsibilities within government agencies. But the primary responsibility was with the agencies. We would not have the Minister for the Hunter doing education policy in the Hunter as that would be ridiculous. I would not have the Minister for the Illawarra—not that I have a problem with him—telling Treasury officials what to do in the Illawarra. That is not the role of people in those positions. We had to take a whole-of-government view in the region and we have done that. Where it has come become useful is in things like the lower Hunter strategy, dealing with bottlenecks in government process.

I am forever dealing with proponents of particular projects, be they development projects or technological processes that have had a bottleneck in dealing with government departments. My staff have had to try to massage their way through. You know from talking to people that some of these projects would not get off the ground unless our office became involved in them and manoeuvred them through the bureaucracy so that they have a greater focus in the regions. But there is no budget other than that for staff, and nor should there be.

The Hon. MICHAEL GALLACHER: How many staff?

The Hon. MICHAEL COSTA: It is not our role to be little dictators in each of our regional areas. It would not work if that were so. It was a coordinating function.

The Hon. MICHAEL GALLACHER: Could you indicate to the Committee exactly when you will see the results of the report into the *Pasha Bulker*? When do you expect to see that?

The Hon. MICHAEL COSTA: As you know, it is going to the Ports Minister. I am a shareholding Minister of that as Treasurer, and I am sure that within the confines of those responsibilities I can get a report if I want it. But at this stage I do not necessarily want a report on the *Pasha Bulker*. I have got a lot of confidence in Garry Webb and the people at Newcastle ports to deal with that. I do not see myself sitting there and micro-managing these people.

The Hon. MICHAEL GALLACHER: I am more interested to see exactly at what level this position cuts in. Is it more of a sort of dead letter office where people write to it and hopefully get some response or do you get consulted in terms of what will be the impact of this in the Hunter?

The Hon. MICHAEL COSTA: I get consulted on a lot of things, as you know.

The Hon. MICHAEL GALLACHER: I know. But is that under your Treasury portfolio or under your Hunter portfolio?

The Hon. MICHAEL COSTA: Any of these regional Ministers, if there are issues going on in the region, would be consulted. There is no doubt about that. The Hunter is in the fortunate position of having somebody who has got a very senior portfolio there as their regional Minister. I probably get involved in more things than the other Ministers, but there is no barrier to them and they are involved in setting up the regional strategies, particularly the land use strategies, which are the critical ones for most of these regions. I think the system has operated well. I am sure you are not proposing to get rid of it, but you would not be proposing to set up a mini government in the Hunter or a mini government in the Illawarra or Western Sydney; it just would not work.

The Hon. MICHAEL GALLACHER: I am interested to see whether you actually get briefed on a lot of these issues.

The Hon. MICHAEL COSTA: I get briefed on lots of stuff.

The Hon. MICHAEL GALLACHER: Only because of Treasury rather than the Hunter portfolio.

The Hon. MICHAEL COSTA: No. As you know, in the Hunter there are public servants who work in the Premier's Department who have got responsibility for servicing and providing advice to the regional ministers, and they are for ever in there talking about whatever the regional issues are, be it the social issues that are of concern in the Hunter or economic issues, all of that stuff happens. But, again, with all ministries—and it is unfortunate you will never find out—Ministers have got a lot of scope to get involved in things if they so choose.

The Hon. MICHAEL GALLACHER: How many of these regional ministries do you have?

The Hon. MICHAEL COSTA: We have Western Sydney, Illawarra, Hunter, Central Coast; that is it.

The Hon. MICHAEL GALLACHER: Do you provide your views as the Minister for the Hunter on matters that go before Cabinet in that capacity as Minister for the Hunter, and what the impact of this will be on the Hunter?

The Hon. MICHAEL COSTA: I put a Hunter perspective on lots of things.

The Hon. MICHAEL GALLACHER: Not verbally, I am talking about in writing. Is there a prepared submission in relation to—

The Hon. MICHAEL COSTA: You know me, I do not even have notes; I keep it in my head. I have got a lot of capacity there and I need to fill it up.

Dr JOHN KAYE: You are big in the modesty department.

The Hon. MICHAEL COSTA: No, I am not very modest at all; I have got a realistic assessment of my abilities and expectations in life. Basically, I do not seek briefs, even from Treasury. I do not get many briefs: I do not need them.

The Hon. MICHAEL GALLACHER: It is interesting; if I compared your answers with the ones that Richard Face used to give in this very room when he had virtually the same portfolio, it is the same story, different actors, in terms of exactly how involved you are.

The Hon. MICHAEL COSTA: That is the whole system. One day there will be a different Opposition leader; there will be the same position, different actor.

The Hon. MICHAEL GALLACHER: It seems to be the same answers though. With the continual growth in population in the Hunter region, what is the Government doing to alleviate the area's growing infrastructure crisis?

The Hon. MICHAEL COSTA: Firstly, I dispute there is a growing infrastructure crisis. I do not accept the premise. But if you are asking me what are we doing to deal with growth—you could ask me that—I can tell you that.

The Hon. MICHAEL GALLACHER: But, given the time we have left, it would probably soak all that up.

The Hon. MICHAEL COSTA: You could have just got it out there.

The Hon. MICHAEL GALLACHER: You disagree, you think there is not a crisis. I feel that there is.

The Hon. MICHAEL COSTA: There is certainly a need for additional infrastructure. There are needs everywhere for additional infrastructure, and if your colleagues at the Commonwealth level get their finger out of their bottom we probably would have had additional funding—

The Hon. MICHAEL GALLACHER: We have had a colourful presentation from you this morning. We have had all parts of the body described in one way or the other.

The Hon. MICHAEL COSTA: It is quite personal, the body. Do you realise that?

The Hon. MICHAEL GALLACHER: There are things that come out of it too. What is the time frame for basic services to be delivered to the development of the 7,000 new homes at Morisset?

The Hon. MICHAEL COSTA: That is part of the lower Hunter strategy; that is one of the town centres within it. That will be determined by the development applications that come out. Do you understand what happens in these processes? We put the broad plan out, then there are local environmental plans that reflect that plan and within the context of the local environmental plans councils will make judgments about local infrastructure and development approvals and those development approvals will bring on the need for the infrastructure. There is no magic in this.

CHAIR: Dr Kaye?

The Hon. MICHAEL COSTA: Ask me about Anvil Hill.

Dr JOHN KAYE: I am actually not going to. I just want to ask one more Treasury question and then I will ask you some Hunter questions.

The Hon. MICHAEL COSTA: I will be generous. That is fine.

Dr JOHN KAYE: Just going to the desalination plant and picking up on the question of Mike Gallacher: \$1.833 billion of capital investment, \$55 million a year operating costs, according to Sydney Water Corporation. That is a net present value of about \$2.5 billion entirely un-needed.

The Hon. MICHAEL COSTA: That is your view.

Dr JOHN KAYE: No, it is the view of the Metropolitan Water Plan, which was put together by your water experts.

The Hon. MICHAEL COSTA: It is your view.

Dr JOHN KAYE: Un-needed—

The Hon. MICHAEL COSTA: Get on to your question; what is it?

Dr JOHN KAYE: Two questions. Firstly, did you do any sensitivity analysis on the assumptions of Sydney Water?

The Hon. MICHAEL COSTA: Yes.

Dr JOHN KAYE: In particular, the maintenance costs?

The Hon. MICHAEL COSTA: Yes.

Dr JOHN KAYE: And also the electricity costs?

The Hon. MICHAEL COSTA: I have answered it. Yes.

Dr JOHN KAYE: You did do a sensitivity analysis?

The Hon. MICHAEL COSTA: Yes.

Dr JOHN KAYE: Did that sensitivity analysis agree with the analysis of Associate Professor Greg Leslie in his submission to Independent Pricing and Regulatory Tribunal?

The Hon. MICHAEL COSTA: I do not know.

Dr JOHN KAYE: In which he says that there is significant understatement of the total costs.

The Hon. MICHAEL COSTA: No, I think that is wrong.

Dr JOHN KAYE: So, what did your analysis say?

The Hon. MICHAEL COSTA: Our analysis looked at the assumptions that Sydney Water was making. You do not do capital projects of this extent without having Treasury involved.

Dr JOHN KAYE: Will you release that analysis?

The Hon. MICHAEL COSTA: No, because it is commercial in confidence and it is also Cabinet in confidence.

Dr JOHN KAYE: Two coward's excuses in one sentence. This is a matter of grave public concern.

The Hon. MICHAEL COSTA: No, it is not.

Dr JOHN KAYE: It is.

The Hon. MICHAEL COSTA: The Government got re-elected. I do not know where you were on 25 March—

Dr JOHN KAYE: I was celebrating. According to Sydney Water, \$110 per household, on average. Greg Leslie says it will be significantly more than that. Linter says it could be up to 2½ times there.

The Hon. MICHAEL COSTA: We had an election on 25 March. The Government went to the people, whether you like it or not, with a policy to build a desalination plant. The Government got re-elected.

Dr JOHN KAYE: The Government went to the people against an Opposition that was threatening to decimate the public service. That is why you got re-elected. That is why we gave you our preferences.

The Hon. MICHAEL COSTA: But the Government had a mandate to go ahead with its policy, the Premier has made that clear. You are asking: did we look at the assumptions, as a Treasury, that underpinned the desalination plant. Yes, we did.

Dr JOHN KAYE: And what did you find?

The Hon. MICHAEL COSTA: We found that the model we are going forward with was the right one. What else can I say to you? That is ridiculous. If we did not find that they would not have gone ahead.

Dr JOHN KAYE: What impact on cash flow would, for example, the cost of increased maintenance have because of the price effects of water?

The Hon. MICHAEL COSTA: The policy you support, which is rainwater tanks, is more expensive water.

Dr JOHN KAYE: This is not about my policy, it is about your desalination plant.

The Hon. MICHAEL COSTA: If there was any issue canvassed before the election more vigorously than the desalination plant I would be surprised.

Dr JOHN KAYE: Public sector employment was the issue that the election was fought on. That is what your leader said.

The Hon. MICHAEL COSTA: Maybe in politics in the pubs of Newtown. But, more broadly, the desalination plant was on the public agenda, it was in the papers—in fact, I think all the major commentators opposed it and the public made its decision; they had confidence in the Government to go ahead with its water plan; it was put to the public, and that should be the end of it in terms of the nonsense you are carrying on with.

Dr JOHN KAYE: If they did support it surely they supported it on faulty data. If you have done an analysis you should show us what that is because there is now significant debate over the cost structures that have been put forward.

The Hon. MICHAEL COSTA: There is not significant debate. There is you and a bunch of people that sit around—I do not know what reading group you have—

Dr JOHN KAYE: Are you capable of answering a question without personal insults? It is a great shame. Let me take you to your Hunter portfolio and let us talk about the port of Newcastle. What have you done to expand the port operations in Newcastle?

The Hon. MICHAEL COSTA: We have done a lot to expand the port operations in Newcastle, and you know that because you have been opposing part of the expansion. You opposed the coal loader, so what are you on about?

Dr JOHN KAYE: Let us talk about the stevedoring opportunities in the port of Newcastle. Why did Newcastle miss out on the car import stevedoring opportunities to Port Kembla?

The Hon. MICHAEL COSTA: I do not understand the question. Somebody has given you some rubbish, because I do not understand that.

Dr JOHN KAYE: Darling Harbour, Glebe Island and White Bay have been closed, correct?

The Hon. MICHAEL COSTA: Yes, that is true.

Dr JOHN KAYE: And the importation of cars is now going to Port Kembla, true or false?

The Hon. MICHAEL COSTA: No. There has been a decision made by the industry to go to Port Kembla, that is right, and the Government supported that decision.

Dr JOHN KAYE: There was a government decision, as I understand it, which was vigorously opposed?

The Hon. MICHAEL COSTA: By who?

Dr JOHN KAYE: The Federal Chamber of Automotive Industries Chief Executive Peter Sturgess vigorously opposed the movement of those stevedoring opportunities to Port Kembla and said Newcastle was a better port. What the Maritime Union of Australia says is that Newcastle lost out in a factional battle within the Australian Labor Party?

The Hon. MICHAEL COSTA: Oh, really? Do we have factional battles? I have not seen one for a long time. I would like to have a good factional battle.

Dr JOHN KAYE: Do you think as the Minister for the Hunter—

The Hon. MICHAEL COSTA: What an absurd proposition.

Dr JOHN KAYE: Let me ask you another question, okay? Let us start again.

The Hon. MICHAEL COSTA: It might happen in The Greens because you will not talk to Lee Rhiannon this week and Ian Cohen is on the outer with all three of you. We do not operate that way, sorry. Government policy is not made that way.

Dr JOHN KAYE: Treasurer, or Minister for the Hunter, we got off on the wrong foot. Let us start this again.

The Hon. MICHAEL COSTA: Well, you started the factional battle.

Dr JOHN KAYE: Okay, okay, I take it back. Let us start again. Let us not part on a bad note. Why was Port Kembla superior to Newcastle for importing those vehicles?

The Hon. MICHAEL COSTA: The decision on our port strategy was made in consultation with all the relevant stakeholders. The actual decision to invest is a private-sector decision. We are not actually doing the investment other than the associated upgrade that is required to the port as a consequence of that. I have said it on many occasions—

Dr JOHN KAYE: Minister, you—

The Hon. MICHAEL COSTA: Let me finish, let me finish, please. If people want to move cars to Newcastle, if they want to move them to any other port, that is really up to the private sector. What we have done is facilitate a decision that was made by the private sector, which was our support. But let me also make the point that part of that decision was to make the Hunter, the port of Newcastle, the next major container terminal for New South Wales, and that will happen as soon as Port Botany goes through its current expansion. We have reserved land, we have put in planning instruments that will ensure that the port of Newcastle is vibrant and continuing. By the way, is this partly guilt because you want to close down all the coal industry up there? At the moment we are the largest coal port in the world and as you know we are about to expand through another loader. The port has a capacity of about 200 million tonnes roughly and coal is expected over time to reach 160 million tonnes. So, there is still plenty of capacity up there for what we want to occur, that is, container movements, but it will be the private sector that determines it. It is not ours. We do not go up there and move particular production units here and there like they used to do under Goss plan. It is not our way of doing things. The private sector is responsible for its investments and we will put capacity in to ensure that those investments are facilitated.

Dr JOHN KAYE: Since you have mentioned the coal loader, Minister, are you aware that during the consultation—

The Hon. MICHAEL COSTA: I threw the bait out.

Dr JOHN KAYE: —for the State Plan that a lot of people who attended that consultation actually wanted to diversify employment away from coal and the power industries, particularly the younger people.

The Hon. MICHAEL COSTA: I did not know that. I never met any of those. How many did you meet? How many of those? Are they the little people that meet—

Dr JOHN KAYE: No, I am quoting from the *Newcastle Herald* of 15 November.

The Hon. MICHAEL COSTA: Oh, you are quoting Greens from the *Newcastle Herald*.

Dr JOHN KAYE: No. I am actually quoting—

The Hon. MICHAEL COSTA: Read it out.

Dr JOHN KAYE: I am quoting Ian Kirkwood.

The Hon. MICHAEL COSTA: Oh, Ian Kirkwood. His wife's a Green, you know that. She is one of your people. Come on!

Dr JOHN KAYE: This is a Green under the bed now, is it Treasurer?

The Hon. MICHAEL COSTA: No. There are lots of Greens in the Hunter that—

Dr JOHN KAYE: There are a lot of Greens in the Hunter?

The Hon. MICHAEL COSTA: Yes, lots of them that want to—

Dr JOHN KAYE: That is probably because you are the Minister. You are driving them into our hands.

The Hon. MICHAEL COSTA: I hope.

Dr JOHN KAYE: Long may you be the Minister.

The Hon. MICHAEL COSTA: But there are a lot more sensible people than I see—

Dr JOHN KAYE: You requested I read it out. I am obliging you here by saying, "Hunter consultation sessions showed people wanted diversified employment away from the coal and power industries—"

The Hon. MICHAEL COSTA: I was at that.

Dr JOHN KAYE: "—particularly for young people, the Government says in the State Plan itself." So, in fact, I was wrong there and I retract that.

The Hon. MICHAEL COSTA: Good.

Dr JOHN KAYE: It was not even Ian Kirkwood. It was Ian Kirkwood quoting directly from the State Plan.

The Hon. MICHAEL COSTA: No, from the State Plan consultative meetings.

Dr JOHN KAYE: Indeed—

The Hon. MICHAEL COSTA: Which I was at.

Dr JOHN KAYE: So you are aware, therefore—

The Hon. MICHAEL COSTA: Which I was at. By the way, I was there, so if you want to ask what the view was, I can tell you.

Dr JOHN KAYE: So you are saying the consultative report on the State Plan is wrong?

The Hon. MICHAEL COSTA: No, I am not saying that. There are lots of people that want a diverse Hunter economy. That is not inconsistent with recognising that coal is an important economic resource—

Dr JOHN KAYE: So what are you doing?

The Hon. MICHAEL COSTA: —and employment generator.

Dr JOHN KAYE: What are you doing?

The Hon. MICHAEL COSTA: You people are drawing—

Dr JOHN KAYE: What are you doing to diversify employment away from coal and power stations?

The Hon. MICHAEL COSTA: What we are doing is already demonstrated in the figures. The unemployment rate in the Hunter—

Dr JOHN KAYE: No, no, no. That is an outcome. I asked for an input, not an output. You might not know the difference. I am asking what are you doing, not what the output is.

The Hon. MICHAEL COSTA: Well, this comes back to a real big philosophical discussion about who actually runs economies and whether governments—

Dr JOHN KAYE: No, but you said you were doing things.

The Hon. MICHAEL COSTA: Hang on, can you let me finish the answer?

Dr JOHN KAYE: I asked you what you were doing. You said you were doing lots of things. Then you say what has happened. I want to know what you are doing?

The Hon. MICHAEL COSTA: Can I answer the question?

CHAIR: The member will let the Treasurer answer the question.

The Hon. MICHAEL COSTA: The Hunter economy is already diversified. Coal is an important component of that economy and will be a continuing important part of the economy, but at the moment Hunter is also booming in a range of other sectors, largely as a consequence of a government policy framework that supported after the closure of the steelworks through the Hunter Advantage Fund and other programs, including an active purchasing program in rolling stock in the Hunter for manufacturing purposes, the skills base that was there at the time of the closure of the steelworks and also going back further to the State dockyard, these investments that facilitated that growth. But at the end of the day the growth itself will emerge out of the private sector, not out of the government sector. We do not believe in Goss plan. We are not going to plan the Hunter's economy. It will emerge out of both government-related activity and private-sector activity and coal, my friend, will be a key component of that for a long, long time and we will have a third coal loader. I hope we get a fourth and a fifth and a sixth.

Dr JOHN KAYE: In November 2006 after all that had happened people were still saying that they want a diversification of employment away from coal and power industries.

The Hon. MICHAEL COSTA: But it is already. Look, this is what—

Dr JOHN KAYE: That is what people are saying.

The Hon. MICHAEL COSTA: But hang on. You quote. You know, the other faction of The Greens, Lee Rhiannon, gets up and attacks on me and says why do you protect an industry in the Hunter that only has 2 per cent or 3 per cent of the population employed? By definition, if that is the case, even if I accept your bodgie premise on this, it is already diversified, you know. Obviously, everybody else is employed in other industries, based on your own logic.

Dr JOHN KAYE: Clearly.

CHAIR: The 97 per cent.

Dr JOHN KAYE: Clearly it is 97 percent. But I am telling you—

The Hon. MICHAEL COSTA: You cannot have it both ways. You cannot get up and say we do not have a diversified—

Dr JOHN KAYE: I do not have any premises with this at all, Treasurer. All I am saying is that people wanted—

The Hon. MICHAEL COSTA: You should have more caucuses. You should all get together more often.

Dr JOHN KAYE: People wanted more diversified employment. Let me ask you,

CHAIR: Your time is up.

The Hon. MICHAEL COSTA: No, let him go.

The Hon. MICHAEL GALLACHER: What is the projected cost of the medium level of the replacement bridge for Swansea that has been put forward?

The Hon. MICHAEL COSTA: I do not know. I will get it off the roads Minister. That has not come to Treasury yet.

The Hon. MICHAEL GALLACHER: No submissions have been put to you in relation to it?

The Hon. MICHAEL COSTA: No. I think there is a range of estimates I have seen starting I think somewhere at 50 and going down, depending on what they decide.

The Hon. MICHAEL GALLACHER: Do you have any say in the final outcome?

The Hon. MICHAEL COSTA: No. The local member would be a much more appropriate person, and the local community. I am happy if you want me to give, what, the colour scheme or something? What, do you want me to have a stab?

The Hon. MICHAEL GALLACHER: No, just the total cost.

The Hon. MICHAEL COSTA: Oh, we will have that. That will come through to us.

The Hon. MICHAEL GALLACHER: That is what I am asking.

The Hon. MICHAEL COSTA: That will come through the normal Treasury practice. You are asking me as the Minister for the Hunter, I thought. If you are asking me as the Treasurer, yes, we will have.

The Hon. MICHAEL GALLACHER: But you told us earlier that your position at the table is determined by virtue of the fact that you are not Minister for the Hunter, you are the Treasurer.

The Hon. MICHAEL COSTA: No, I did not say that. That is you putting words into—

The Hon. MICHAEL GALLACHER: Your mouth?

The Hon. MICHAEL COSTA: No, not into my mouth because I would spit them out very quickly. So, you are trying to distort the *Hansard* record. The fact of the matter is—

The Hon. MICHAEL GALLACHER: Oh, that is terrible.

The Hon. MICHAEL COSTA: It is terrible. The fact of the matter is that Treasury will have an input into that process. My role in that, I would like to see a new bridge like everybody else. I would like to see a transport solution that works, but I am not going to get out the Dulux colour card and have a look at the colours.

The Hon. MICHAEL GALLACHER: Everything will be black or grey anyway I suppose?

The Hon. MICHAEL COSTA: Probably black with me. I like black.

The Hon. MICHAEL GALLACHER: Yes, depending on the mood.

The Hon. MICHAEL COSTA: Nobody else does.

The Hon. MICHAEL GALLACHER: Are you aware of the current status in relation to the widening of the Swansea channel?

The Hon. MICHAEL COSTA: No, I am not, but I can take that on notice. But have you not asked this on notice?

The Hon. MICHAEL GALLACHER: No.

The Hon. MICHAEL COSTA: I think you did.

The Hon. MICHAEL GALLACHER: You are getting me mixed up with somebody else. You can take that on notice. I am just interested, the projected cost is around about \$3.8 million, from what I understand?

The Hon. MICHAEL COSTA: I do not know. I will find out.

The Hon. MICHAEL GALLACHER: I would be interested to find out what the government position is in relation to it.

The Hon. MICHAEL COSTA: I do not know. I will find out what it is.

The Hon. MICHAEL GALLACHER: Have you got a total cost at this stage to Newcastle for infrastructure damage from the flooding in June? What sort of money are we looking at there, State infrastructure?

The Hon. MICHAEL COSTA: Not much State infrastructure was damaged. A lot of it was privately insured. There are some road projects. I can get that figure, but the bulk of the damage was to private properties that were privately insured.

The Hon. MICHAEL GALLACHER: In your infrastructure role, are you monitoring the progress of the repairs? Is that part of your responsibility?

The Hon. MICHAEL COSTA: No. A lot of that will be maintenance unless some new facilities are built, which will go through the normal process. As I said, I do not think there was much damage. As you know, I was flooded in. Once the water level fell, the road was okay. My private road was damaged, and I have not fixed it yet. It will have to wait until I can afford it.

The Hon. MICHAEL GALLACHER: Given specialist findings that the area was on the brink of a much more serious outcome, what is being done to develop a Newcastle and lower Hunter wide flash-flood warning system and how much will it cost?

The Hon. MICHAEL COSTA: I think that it is being done through the catchment authority. It is looking at those issues. I have not seen a submission. The Government will cooperate with the relevant people to see that a system is implemented. However, we must put this in perspective. Whilst these floods happen on a historically regular basis, in a general sense they do not happen often. Just down the road from me at Wollombi there is a marker for the 1950s flood. The next markers will probably be for the 1970s flood and the recent flood. The marks are not getting higher. The mitigation strategies have—

The Hon. MICHAEL GALLACHER: The problem is that the insurance companies will probably adjust their policies and unfortunately, if we do not go down the path of an early warning system, many people could be exposed and not covered by insurance.

The Hon. MICHAEL COSTA: We have an early warning system. The Bureau of Meteorology issues warnings and we cooperate with it on a State level. We also have the State Disaster Recovery Centre. People were warned to the extent that they could be warned. I was there and I know that people could not have been warned about what happened around the stadium. It just happened, and very quickly.

(The witnesses withdrew)

The Committee proceeded to deliberate.
