

**REPORT ON PROCEEDINGS BEFORE**

**PUBLIC ACCOUNTABILITY COMMITTEE**

**TRANSPORT ASSET HOLDING ENTITY**

**CORRECTED**

**At Macquarie Room, Parliament House, Sydney on Monday 21 February 2022**

**The Committee met at 10:00.**

**PRESENT**

Mr David Shoebridge (Chair)

Ms Abigail Boyd

The Hon. Scott Farlow

The Hon. Daniel Mookhey

**PRESENT VIA VIDEOCONFERENCE**

The Hon. Lou Amato

The Hon. John Graham



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**The CHAIR:** Welcome to the final hearing of the Public Accountability Committee's inquiry into the Transport Asset Holding Entity, which we will almost certainly refer to as TAHE throughout the course of today's hearing. Before I commence, I acknowledge the Gadigal people, the traditional custodians of this land, and pay our collective respects to those Elders past, present and emerging. I extend that to any other First Nations persons present or on the webcast.

Today we will be hearing from Mr Michael Pratt, the former Secretary of NSW Treasury, who was central to the establishment of the Transport Asset Holding Entity and indeed was a key player in the negotiations with the Auditor-General regarding the auditing and budgeting treatment of that entity. Before we commence, I will make some brief comments about the procedures for today's hearing. Today's hearing is being broadcast live via the Parliament's website. The transcript will be available and placed on the Committee's website as soon as it becomes available from Hansard. In accordance with broadcasting guidelines, media representatives are reminded that they must take responsibility for what they publish about the Committee's proceedings. While parliamentary privilege applies to what is said in the hearings, it does not apply to the coverage outside. Committee hearings are not intended to provide a forum for people to make adverse reflections about others under the protection of privilege. In that regard, we would appreciate people sticking to the issues.

All witnesses have a right to procedural fairness according to the procedural fairness resolution adopted by this House in 2018. If witnesses are unable to answer a question or would like more time to respond, then they have 14 days in which to take a question on notice and provide a written answer. If witnesses wish to hand up documents, please do so through the Committee and secretariat staff. In terms of audibility for the hearing today, I remind Committee members and witnesses—Mr Pratt—to speak clearly into the microphone in front of you. Finally, I ask everybody to please put their phones on silent for the duration of the hearing.

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**Mr MICHAEL PRATT**, Former Secretary, NSW Treasury, sworn and examined

**The CHAIR:** I welcome today's witness—indeed, our only witness—Mr Michael Pratt, the former Secretary of NSW Treasury. As you are appearing under summons, Mr Pratt, I draw your attention to paragraph 12 (b) of the procedural fairness resolution of the House, which states that witnesses appearing under summons may be required to answer questions if the Committee so desires and failure to do so may constitute a contempt of Parliament, punishable under section 11 of the Parliamentary Evidence Act 1901. Would you like to commence with any short opening statement?

**MICHAEL PRATT:** Yes, I would. Thank you, Chair. While I appreciate the opportunity to answer further questions about this matter, I have been troubled by the cavalier attitude of this Committee, under the chairmanship of Mr Shoebridge, towards summoning me here today. Since 29 January I am no longer a public servant. I am a private citizen whose affairs are his own and I believe that I, like any other free citizen, should be afforded sufficient respect, courtesy and privacy in that respect. My experience in respect of my appearance today has been characterised by misleading assertions, inadequate notice and poor processes. I would like to put on the record the problems, as I see them, with the process that brought me here today.

Firstly, on 8 February 2022 I saw an invitation via the social media networking platform LinkedIn from a person I did not know, with no photograph but only a purported LinkedIn profile of administration officer of the Parliament of New South Wales, to attend, so it said, this Committee to give evidence. At the time, it was not apparent that this was a reliable invitation to attend Parliament for the purpose of giving sworn evidence. I had also attended upon this Committee a number of times already and given extensive evidence. It therefore did not appear to be genuine. As I say, I did not know the identified administration officer, and it was not clear at all that the invitation was not some kind of semi-sophisticated phishing scam. Certainly I do not think members of the public would not expect that serious committees of Parliament would try to communicate with citizens by such an informal channel owned by a foreign corporation. Indeed, it does not appear to be a secure means of communication and is liable to be ignored or missed. I think most people would agree that a LinkedIn invitation to attend to give evidence about serious matters which this Committee is considering is totally inappropriate. Given my reservations about the platform and means of communication between Parliament and its citizens, and given the uncertainty that surrounded it, I deleted the purported invitation.

Second, insofar as the 8 February invitation constituted a genuine invitation, the invitation was sent on 8 February, requesting a response by 10.00 a.m. on 9 February, for a hearing said to be scheduled to occur at 2.00 p.m. on 10 February, with an estimated time of 45 minutes. In other words, I was being given only a single business day to consider whether to attend, had it been necessary to make arrangements to attend. This was grossly unacceptable amount of time to be given to a private individual to organise their affairs, irrespective of whether they intend to attend voluntarily or not. I think members of the public would be shocked to learn that a committee of Parliament would treat someone with such obvious disdain by failing to offer sufficient time to consider whether to attend or not, or be able to make arrangements to do so.

Third, on 11 February 2022 the Committee Chair wrote me a letter, albeit through a third party, indicating that I had declined an invitation to appear before this Committee. That was not true. I did not decline any invitation to attend before this Committee. Rather, I had deleted a purported invitation sent on a social media platform owned by a foreign company from a person I did not know and who did not purport to be a member of this Committee, which required a response in an appalling short period of time. To assert that I had declined an invitation is misleading and unhelpful. It also suggests the writer was not apprised of the facts, which is concerning when the writer is the Chair of this Committee entrusted to make serious public inquiries.

Fourth, after finally having been given the appropriate opportunity to consider my position and indicating to the Committee that I was prepared to attend of my own volition, I was then informed the Committee wanted me to give evidence not for 45 minutes but for two hours. Again, this bespeaks a level of disorganisation and clear absence of considered process that is "unbecoming of a parliamentary committee". Surely the Committee had already considered what questions it intended to ask me and was able to appropriately estimate how long the evidence would take to get through. I can only assume that the order requiring me to attend to give evidence for two hours is either intended to punish me forsaking some considered approach to this Committee's invitation, or otherwise demonstrates that no genuine thought has gone into what questions the Committee wanted answered and needed to buy itself more time to ensure the relevant evidence could be obtained.

Fifth, after determining that I be summonsed, notwithstanding that I had agreed to attend voluntarily—albeit for the original represented 45 minutes—I was then informed that the hearing would take place in person. The Committee should be aware that attending to give evidence is a seriously disruptive intrusion into a private

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citizen's day. It is altogether unfair to represent to a person that they will be required for 45 minutes and then, for no apparent reason, requiring an attendance for two hours in person.

Again, it was not apparent that anything had changed since 8 February that would have made a video appearance inappropriate or unsuitable. Rather, without explanation, either negligently or punitively, the summons was simply amended to require an attendance in person. Any reasonable decision-maker would realise that this meant not only that I would be effectively detained for two hours at Parliament but also diverted from my own affairs for the time required to travel to and from Parliament. I have found this whole exercise and asking me to appear to be shambolic and disorganised, which is disappointing for a committee investigating something that is so important. My comments are particularly for the benefit of Government committee members who may not be aware of these mismanaged events and the process failure that I have experienced under this Chair's leadership.

Finally, to demonstrate how committed I am to volunteering my evidence, it was really quite unnecessary to issue a summons. I refused the conduct money that was offered to me to attend today. Taxpayers do not deserve to have their money wasted on repeated appearances by witnesses at inquiries which, if planned properly, could have been avoided. In contrast to the disorganised processes engaged by this Committee, I am proud of the work done by Treasury on the Transport Asset Holding Entity. I stand by the work done, processes followed and decisions made around it. Thank you.

**The CHAIR:** Thank you, Mr Pratt. You are entitled to your views as to how you came to be here. I will read two things onto the record. The first is the email that the Committee sent on 31 January to New South Wales Treasury. I will quote from part of it:

The Public Accountability Committee would like to invite Mr Michael Pratt, in his capacity as former Secretary of New South Wales Treasury, to appear at a hearing into the Transport Asset Holding Entity on Thursday 10 February 2022. Mr Pratt will be invited to appear in a separate session to New South Wales Treasury. Would you be able to provide me with Mr Pratt's contact details to send through his invitation?

The substantive response that we got from Treasury did not appear until 8 February, eight days after we sent the request on 31 January. I will read from that:

As discussed previously, Treasury has informed Mr Pratt that the Committee is seeking his personal contact details in order to invite him to be a witness at the TAHE hearing this week. As per the Committee's request, we have sought Mr Pratt's consent to his personal details to be shared with the Committee. I have been advised that Mr Pratt does not believe he can add anything further to the inquiry, and he does not give consent to his personal information details to be shared. Please let me know if you have any further questions.

Unambiguously, Mr Pratt, you were on notice about the Committee's request for the invitation. The evidence you gave about the LinkedIn invitation, in circumstances where you refused to provide contact details to the Committee so that we could contact you in a more standard fashion—you failed to inform the Committee in your opening that you had been approached by Treasury, that we had sought your contact details and that you had refused to provide them. That is a decision for you, Mr Pratt—

**MICHAEL PRATT:** Mr Shoebridge—

**The CHAIR:** Let me finish. That is a decision for you, Mr Pratt. You are entitled to take that decision but, by failing to tell the real story about the circumstances where we sought your contact details in your opening, you do yourself no credit. You do the Committee no credit in putting that partial position before the Committee. Nevertheless, you are here. We thank you for returning the \$108 cheque to the people of New South Wales. We are grateful for that. I will hand over to the Opposition.

**MICHAEL PRATT:** Mr Shoebridge, you are well aware that, as a private citizen, I have every right to not give out my private details. You are well aware of that, so do not—

**The CHAIR:** If you are going to criticise the conduct of this Committee—

**MICHAEL PRATT:** May I finish?

**The CHAIR:** —you have an obligation to tell the full story—

**MICHAEL PRATT:** Chair, I did not come here to be abused by you.

**The CHAIR:** —not come with that.

**The Hon. SCOTT FARLOW:** Point of order—

**The CHAIR:** You do yourself no credit, Mr Pratt.

**MICHAEL PRATT:** I have every right to respond, Chair.

**The CHAIR:** You do yourself no credit.

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**CORRECTED**

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**MICHAEL PRATT:** I have every right to not give out my private details—

**The CHAIR:** You do yourself no credit.

**MICHAEL PRATT:** —as you are well aware, Chair.

**The CHAIR:** I hand over to the Opposition.

**MICHAEL PRATT:** So that justifies a LinkedIn invitation, does it?

**The CHAIR:** You do yourself no credit by telling a partial story. I hand over to the Opposition.

**The Hon. DANIEL MOOKHEY:** Thank you, Mr Pratt, for your appearance today. I was not intending on doing this but, at first instance, if there is anything further you would like to say in respect to comments that have been made this morning, feel free to do so now.

**MICHAEL PRATT:** Mr Mookhey, all I would say, as I have set out in my opening remarks, by virtue of no further comment around this table, I am assuming that other members of this Committee accept that a LinkedIn invitation is an acceptable means of being invited to this Committee.

**Ms ABIGAIL BOYD:** When there is no other option.

**MICHAEL PRATT:** I find that completely unsatisfactory.

**The Hon. DANIEL MOOKHEY:** I understand. Mr Pratt, thank you for your appearance. Equally, I just want to, at the outset, acknowledge your years of service as a public servant to the State as. What date did you actually leave the Treasury?

**MICHAEL PRATT:** I will just check this date, Mr Mookhey. Friday 28 January was my last day.

**The Hon. DANIEL MOOKHEY:** Did you resign?

**MICHAEL PRATT:** I came to an agreement. I was to resign, but the Treasurer found a new secretary earlier than planned, so we came to an agreement.

**The Hon. DANIEL MOOKHEY:** Did the Treasurer ask for your resignation?

**MICHAEL PRATT:** No. As I have said previously at this Committee—I think Mr Graham asked me at the last meeting in December—

**The Hon. DANIEL MOOKHEY:** He did.

**MICHAEL PRATT:** —my intention was to work on for some time this year, but I had signalled to the Government that I would finish this year because of the election next year. I had no intention of going into that and beyond it. That would mean that I would finish sometime at either the end of March or the end of June, perhaps, to another budget. That was my intention. I had made that known because, out of respect for everyone involved, that is good forward and succession planning, rather than just giving government a month's notice of leaving. I think I have done absolutely the right thing. As it transpired, the Treasurer found a new secretary earlier than anticipated and requested that I finish up earlier. That is what occurred.

**The Hon. DANIEL MOOKHEY:** Was the only reason that the Treasurer advanced his request for your early departure that he had found your successor?

**MICHAEL PRATT:** As far as I am aware, yes.

**The Hon. DANIEL MOOKHEY:** When you say you reached an agreement, does that mean you were formally terminated under section 41 of the GSE Act?

**MICHAEL PRATT:** Yes, I was.

**The Hon. DANIEL MOOKHEY:** Therefore, you were entitled to a severance payment?

**MICHAEL PRATT:** That is correct.

**The Hon. DANIEL MOOKHEY:** Presumably, that was the full 38 weeks that is standard by law, correct?

**MICHAEL PRATT:** That is correct.

**The Hon. DANIEL MOOKHEY:** So, in effect, the Treasurer had asked for your resignation and agreed to a 38-week severance despite you saying that you were prepared to leave sometime before or after the budget?

**MICHAEL PRATT:** That is correct.

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**The Hon. DANIEL MOOKHEY:** Were you given any advance notice of that from the Treasurer?

**MICHAEL PRATT:** Two weeks.

**The Hon. DANIEL MOOKHEY:** How much advance notice were you given?

**MICHAEL PRATT:** Two weeks.

**The Hon. DANIEL MOOKHEY:** So you were told circa January 14?

**MICHAEL PRATT:** I would have to check that day, Mr Mookhey, but it was somewhere around that time.

**The Hon. DANIEL MOOKHEY:** Was any reason given for the Treasurer's request related to the Transport Asset Holding Entity?

**MICHAEL PRATT:** Not at all. There is no connection between my departure and TAHE, as I have already indicated.

**The Hon. DANIEL MOOKHEY:** So the Treasurer asked you to leave your position and agreed to a 38-week severance, with the only nominated reason being that he found your successor?

**MICHAEL PRATT:** You would have to ask him that. There was no connection to TAHE. Why would there be, with a set of unqualified accounts? There is absolutely no connection.

**The Hon. DANIEL MOOKHEY:** Were you aware that the Treasurer was looking for your successor at the time?

**MICHAEL PRATT:** Not specifically but, given that I had already indicated to the Government some months earlier what my plans were, I would imagine that process was going on.

**The Hon. DANIEL MOOKHEY:** The one thing that I am struggling to understand—I accept that your evidence is that it was not related to the Transport Asset Holding Entity. Of course, I will take it up with the Treasurer, as you suggest. But your employer is the Premier; it is not the Treasurer. Formally, he delegates this to the Secretary of the Department of Premier and Cabinet. Did you have any conversations with the Premier about your departure?

**MICHAEL PRATT:** No, I did not.

**The Hon. DANIEL MOOKHEY:** Did you have any conversations with the Secretary of DPC?

**MICHAEL PRATT:** I did.

**The Hon. DANIEL MOOKHEY:** What was discussed?

**MICHAEL PRATT:** He facilitated the outcome of what we have just discussed.

**The Hon. DANIEL MOOKHEY:** Although it was effectively the Treasurer who made the decision, it was formally executed by the Secretary of DPC?

**MICHAEL PRATT:** That is correct.

**The Hon. DANIEL MOOKHEY:** On behalf of the Premier, which is not unusual that the portfolio Minister might—

**MICHAEL PRATT:** I would imagine so, yes.

**The Hon. DANIEL MOOKHEY:** Okay. But you never had any conversations with the secretary of DPC.

**MICHAEL PRATT:** I did post the message from the Treasurer around departure. He then prepared the appropriate documentation and so on.

**The Hon. DANIEL MOOKHEY:** Did you express any dissatisfaction with the Treasurer's decision?

**MICHAEL PRATT:** To the extent that I was more than happy to keep working and I was keen to do another budget, yes, I did. But at the end of the day, as you would well appreciate, that is the Treasurer's decision. He has every right to have the secretary that he wants going forward. I had indicated my departure, as I have just covered, so that is absolutely the Treasurer's prerogative.

**The Hon. DANIEL MOOKHEY:** Sure. In evidence that has been given to this Committee, it is the case that the secretary of DPC—and I caveat this by saying that I accept that you absolutely reject all these

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allegations—has indicated to this Committee that he is awaiting our outcomes from our inquiry before he makes a decision as to whether or not to act on complaints about bullying about Treasury officials and yourself. Did the secretary of DPC raise that with you in any form of the severance discussions that you had?

**MICHAEL PRATT:** No, he did not.

**The Hon. DANIEL MOOKHEY:** Okay. They were quarantined completely from any conversations you had about your departure?

**MICHAEL PRATT:** Yes, and I reject totally those allegations, as you know, Mr Mookhey.

**The Hon. DANIEL MOOKHEY:** As you have rejected multiple times, Mr Pratt. I accept that you reject those allegations—fair enough. But, again, no aspect of any conversation you had with the secretary of DPC related to the Transport Asset Holding Entity whatsoever?

**MICHAEL PRATT:** No.

**The Hon. DANIEL MOOKHEY:** Okay. You formally left on 28 January. At that time, did you see any draft reports from the Auditor-General about the State's finances?

**MICHAEL PRATT:** I think I would have, Mr Mookhey. I would have to check. There were drafts being prepared. I am just trying to recall whether I may have seen the final draft of the document. I do not know, is the answer. I may have done; I may not have done. There was a lot of documentation going around.

**The Hon. DANIEL MOOKHEY:** I am sure. I might just pause there and ask if my colleague Mr Graham has any questions before I move into the next line just on that, if that is okay, Chair.

**The Hon. JOHN GRAHAM:** Mr Pratt, thank you for that evidence. I think you have been really clear-cut in those answers. I only wanted to ask, in addition to any of those discussions you might have had with the Treasurer or the secretary of DPC, did you have any discussions with the Premier about these arrangements?

**MICHAEL PRATT:** No, I had a brief meeting with the Premier after the arrangements were done simply to say goodbye. That was it, really, Mr Graham.

**The Hon. JOHN GRAHAM:** Thank you.

**The Hon. DANIEL MOOKHEY:** Have you read the Auditor-General's final report on State finances?

**MICHAEL PRATT:** Yes, I have.

**The Hon. DANIEL MOOKHEY:** In full.

**MICHAEL PRATT:** I have read the TAHE component, Mr Mookhey. I have not read the rest of the document.

**The Hon. DANIEL MOOKHEY:** That is fair. To be fair, it is good to establish that that is what you have read as well. Mr Pratt, in light of that, firstly, do you accept that the Auditor-General's findings in respect to the Transport Asset Holding Entity, certainly in that report, is a searing indictment of Treasury's competence and integrity?

**MICHAEL PRATT:** I do not accept that. Firstly, I would say this is a financial audit report. The basis of this report is to certify the accuracy of the State's accounts, which the Auditor-General has done. Mr Mookhey, the best way I would describe what has occurred here with the report is that it is almost like the Auditor-General had to certify the accounts as unqualified and on the way out the door threw a hand grenade in the room and closed the door. This is not a process audit report; this is a financial audit report. The accounts are unqualified. I found the report very poorly structured. The comments on process are disturbing and clearly unacceptable, but there is no evidence of some of them. There is no clarity of what occurred through that process; it is purely the Auditor-General's view of what occurred. A number of these things—it is actually what is not there rather than what is there that is reported in the report.

If the Auditor-General was going to comment on process, that should be done jointly. I have had years of management experience, Mr Mookhey. I have done a huge amount of process management. I did the design and establishment of Service NSW; I turned driver's licences from two hours into two minutes. I do know about process. If you are going to get into process issues, then what you should do, first of all, is identify all the parties to a process. In this particular case, not only the audit function but obviously Treasury, TAHE, Transport and DPC all had involvement in this process issue. Should I keep going, Chair?

**The CHAIR:** The bell should not impact your evidence, Mr Pratt. You can complete your evidence.



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**MICHAEL PRATT:** Thank you. The point I am making, Mr Mookhey, is that what you have got in front of you is the Auditor-General's opinion of how she experienced process. But to make statements, for example, in her introduction that this is "frustrated by the fact that information was withheld", that is a very strong statement. There is no evidence of that in the report. The Auditor-General never raised that with me in all the meetings we had and the discussions we had, and we had some tough discussions. This was a complex assignment and there was a lot of interpretation challenges around accounting policy and standards. But if you are going to make a statement like that, would you not think that would have been said to me? She certainly raised issues around timing of documents, and I can talk to that, and we discussed a lot around accounting standards, but that is the point I am making. I find some of those comments really unsatisfactory.

**The Hon. DANIEL MOOKHEY:** Mr Pratt, I accept that there are criticisms directed at Treasury about processes, but, respectfully, the criticisms also go to substance. In fact, the most worrying are to do with substance and not processes. I will read you these before I hand to the Chair again. The Auditor-General says:

NSW Treasury presented late, unsophisticated, and inaccurate forecasts to the Audit Office, all of which sought to support the desired outcome of higher projected returns.

She goes and substantiates it, or at least puts the claims very clearly, and says:

Between 9 July and 1 December 2021, NSW Treasury submitted three versions of estimated returns with respect to the GGS's investment in TAHE. All of these models were unsophisticated, containing errors, omissions, and/or poor logic.

She further substantiates these criticisms about substance and says that the Treasury excluded "TAHE's original asset writedown value of \$24.8 billion" when it was trying to calculate its sufficient return. I am reading page 11 of the report, Mr Pratt.

**MICHAEL PRATT:** Thank you.

**The Hon. DANIEL MOOKHEY:** She also says that you included government guarantee fees of \$2 billion—when I say "you", I mean the Treasury—and these fees should not have formed part of return calculations. She says as well that the Treasury included "\$4.6 billion in cumulative forecast commercial incentive revenue that was not supported with sufficient and appropriate evidence", and she says that, equally, Treasury included "possible future cumulative revaluation increments of \$15 billion, which could not be supported with any evidence to explain how it was derived, and was described as a plug figure". She goes on and finally says that Treasury included "the projected value of the residual net assets of TAHE of \$59 billion as part of the overall return on investment".

Mr Pratt, I accept that you take strong exceptions to the Auditor-General's opinions on your processes but our concern is about the outcome here, and the Auditor-General's claims here are worrying about just how wrong Treasury got its models and as a result the hit to the budget. When you last appeared before us, in your opening statement you took very strong exception to the claim that TAHE would leave the State \$10 billion worse off. You said:

There has been a false narrative TAHE would lead to a \$10 billion or more worse-off result.

The Auditor-General lays it out as clear as day that Treasury got its model wrong, but equally she says here that this was deliberate because Treasury was trying to support the desired outcome of higher projected returns. I will ask you to respond directly to that section because that section goes straight to the competence and integrity of the Treasury as you led it, sir.

**MICHAEL PRATT:** I reject that totally, Mr Mookhey. What is defined here as errors by the Audit Office? If you have a different interpretation of the accounting standard, you will obviously get a different answer, and that applies to a lot of the comments that are made here. The accounting interpretations were being debated right up until, I think, after we met in our previous hearing—right up to Christmas—before it was finalised. Some of these interpretations were really complex. I think, as you would appreciate, the more complex the accounting becomes, the more it is open to interpretation.

I mean, basic accounting 101—accounting with journals and double entries—is obvious, but when you get into very sophisticated, complex accounting, then it is open to interpretation. Now, in Treasury we have, as you would expect, a group of highly qualified accountants. Mr Walters chairs all Treasury, State with the federal Treasury, on their accounting standards committee. He is well recognised for his understanding of accounting and he is well qualified. Ms Heather Watson has appeared before this Committee—national practice leader of KPMG accounting. She spent 10 years in Audit NSW. They had different views, on some of these key accounting policies, to the Audit Office. So what is now being listed here as errors, I put it to you, that it is highly likely—without the knowledge of the detail—they are not errors. They are outcomes of a different approach to the accounting outcome.

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**Ms ABIGAIL BOYD:** Good morning, Mr Pratt. We actually put this directly to the Auditor-General when she appeared before this Committee. She detailed errors that were not to do with interpretation of accounting standards. These were, for example, the plug number that was just chucked in, seemed to be something that had materialised out of nowhere. These were substantial errors. At what point do you accept that you got it wrong?

**MICHAEL PRATT:** Good morning, Ms Boyd. I do not accept that at all. I am not saying, however, that there were not errors. In a matter of this complexity and substance, I am sure there were errors—but not only errors by Treasury. I would put it to you there were errors by Audit and others engaged in this process. This was a very complex matter. So I am not saying there were not errors. What I am saying to you is, there are complex accounting standards here and if you interpret those standards differently you will get different answers.

**Ms ABIGAIL BOYD:** Some of what we are looking at here is different accounting interpretation, I agree with you. I know that last time when we spoke you listed the accountants and other experts who supported the Treasury's accounting interpretations. But you also went to great lengths to rubbish some of the people who were putting the opposing interpretation out there—the head of them, Mr Lyon—

**MICHAEL PRATT:** Who is not an accountant.

**Ms ABIGAIL BOYD:** The PwC report and now the Auditor-General are all on that side of this debate, I guess. At what point do you begin to listen to what they have to say, or is the Auditor-General right when she says that what Treasury was doing was trying to get the outcome that it wanted, regardless?

**MICHAEL PRATT:** No, I completely reject that, Ms Boyd. Mr Lyon is completely discredited. We have talked about this at length previously. I am not going to go over that again, but he is not an accountant. He is not qualified to have a view on these things, which is why we have advisers who are qualified. I just find it surprising, Ms Boyd, that in this area of complex accounting interpretation you immediately jump to the assumption that Audit is right. Why do you do that? I mean, we have incredibly qualified people. We have external advice, and you have questioned Ms Watson at length. I do not recall her accounting interpretations being questioned. So why is that?

**The CHAIR:** Are you saying you do not accept the Audit Office's rulings? Sitting there today, after all of this, are you still saying you challenge the Audit Office's determinations?

**MICHAEL PRATT:** No, Chair, I am saying that on most rulings we have agreed. I would expect there will still be one or two that, during the course of this year, Treasury and Audit will want to discuss again. That is part of the normal process that happens every year. Every year, Treasury and the Audit Office sit down and discuss accounting interpretations. That is a normal thing. What I am putting to you is, I would expect that will happen again.

**Ms ABIGAIL BOYD:** There appears to be a lot of people who have made assertions about the accounting interpretation who have some other interest in the game, if you like. They are either trying to progress a particular structure or they are—whatever, there are perhaps some personal issues involved. But the Auditor-General is independent. So when we look at the Auditor-General's report and it backs up what Mr Lyon was saying and what PwC were saying, are you saying to us that somehow the independent Auditor-General also has some sort of agenda?

**MICHAEL PRATT:** Of course I am not, and you are assuming that I have an agenda, and others. My role is to get the right answer, Ms Boyd, which is what I have done. I take advice. I am not an accountant. I take advice from the experts. I have done that and—

**Ms ABIGAIL BOYD:** Some experts, though—a select group of experts, not the ones that you do not agree with?

**MICHAEL PRATT:** Are you suggesting that I take advice from the Audit Office in that process? Then they would not be independent.

**Ms ABIGAIL BOYD:** No. I am now saying that the Auditor-General has given her opinion and you still seem completely unshaken in your view that the people that you were listening to got it right.

**MICHAEL PRATT:** No, I am saying that there has been changes. They are in the report. But what I am saying to the Chair's question, Mr Shoebridge's question, is that every year these interpretations are revisited. As a citizen and a member of this House, you should be pleased that we have these discussions.

**Ms ABIGAIL BOYD:** Given that the Auditor-General has now recommended that Treasury speak to the accounting standards board about a couple of the issues—she is recommending that the accounting treatment be checked with the Australian Accounting Standards Board [AASB]—and given that you were so confident

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about the accounting treatment that applied to TAHE, a lot of which was built on assumptions around what the AASB would think about things, why didn't Treasury consult with the AASB beforehand?

**MICHAEL PRATT:** We had very strong advice, which I have covered already, both internally and externally. I stand by that advice. If that is a decision that the new secretary wishes to take, so be it. That is his decision going forward.

**Ms ABIGAIL BOYD:** When you appeared before us last time, you said that there was a false narrative around the relationship between Treasury and the Auditor-General. Given what you have now read in the Auditor-General's report, do you still stand by that assertion that there was no conflict, or perhaps a breakdown, in the relationship with the Auditor-General's office?

**MICHAEL PRATT:** Well, those comments were made on the basis of the relationship that I experienced with the Auditor-General, as you would appreciate—a challenging relationship, but an open and transparent relationship, dealing and working through difficult issues that we had to do here. Which is why, in my comments earlier, I mentioned that I am really surprised by some of these remarks, because they had not been raised with me. My analogy of her throwing a hand grenade in the room as she left really describes that, Ms Boyd. I am surprised. I say, again, this is a financial audit report. We have an unqualified audit. That is the outcome.

**Ms ABIGAIL BOYD:** Could you explain to us why a whole bunch of documents was basically dumped on the Auditor-General at, I think, midnight or something of the day when the report was to be released? What was that about?

**MICHAEL PRATT:** This is a good example of my comment to Mr Mookhey earlier about process versus financial audit. In the representation letter, which is a process that we go through around sign-off—and I must sign that representation letter with Mr Walters as the chief finance and operations officer, to give that to the audit function—there are words to the effect of "material and relevant" documentation. Now, for the benefit of Hansard, I have not got those exact words, but that is the intention of the words—"material and relevant" documents. Treasury would say that that had been delivered through the course of that period. What happened on the day before sign-off, so this was the day before Christmas Eve, late afternoon, the Auditor-General requested that clause be changed from "material and relevant" to, basically, "all" TAHE documents.

Now, Mr Walters made the point that it was Treasury's responsibility to deliver what was material and relevant, and we had done that. If we then changed that wording and then—I was in this meeting, Ms Boyd, so I can personally attest to this discussion. I made the point that I would need to be comfortable that we had delivered all documents or I could not sign the representation letter. So, Mr Walters said, "Well, if that's the case, we'll have to do a search of the databases", and that involved Treasury officials then working late, searching the databases and presenting anything, basically, I would think, with the name TAHE on it. Hence the 1,023-odd documents, I think, that she refers to were then delivered—the key point being that this was at the request of the Auditor-General; it was not at the request of Treasury.

**Ms ABIGAIL BOYD:** Can you restate when the Auditor-General changed what was required in that representation letter to include a specific reference to TAHE? Can you detail that again?

**MICHAEL PRATT:** It was the second-last day before sign-off. It was the afternoon. I have not got the exact time, but it was sometime mid to late afternoon when that request was made. We made it very clear to the Auditor-General that if she required that change this would be a consequence. So that happened, and this is a really good example of what I am talking about—my disappointment at process comments here. It is the Auditor-General's side, and she has not told the rest of the story. The other thing I would add on this is that Treasury was clear that we had produced material and relevant documentation. The Auditor then got the 1,023-odd documents. Did she change her decision? No, she did not, so I would argue that clearly upholds Treasury's view that we had delivered material and relevant documents.

**The CHAIR:** I hand back to the Opposition.

**The Hon. DANIEL MOOKHEY:** Mr Pratt, I return to a claim you made about the State having an unqualified set of accounts. The implication, as I understand it, is therefore that the report on State finances is an opinion but the fact is that we have an unqualified set of accounts. Did I understand that, basically, is the point you were trying to make?

**MICHAEL PRATT:** We have an unqualified set of accounts, yes.

**The Hon. DANIEL MOOKHEY:** It is the case, is it not, that the only reason we have an unqualified set of accounts is because the Auditor-General warned you that she was going to qualify the accounts and the Government spent an additional \$1.1 billion to effectively buy an unqualified set of accounts? Is that fair?

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**CORRECTED**

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**MICHAEL PRATT:** I do not accept that as a way to describe the process, Mr Mookhey. I would say certainly there was a lot of discussion around what would need to be done, what changes, in the Auditor's opinion. That is important, and that discussion was held. So some changes were made, which meant that the accounts would be unqualified.

**The Hon. DANIEL MOOKHEY:** But some changes were made, Mr Pratt. I accept that. The changes that were made is the Government agreed to put in an additional \$1.1 billion after you were warned that otherwise the Auditor-General would qualify the account. That is the fact, is it not?

**MICHAEL PRATT:** It went through a process. It was not a point in time. It was a process of saying, progressively through discussions, what would need to change to make the Auditor satisfied.

**The Hon. DANIEL MOOKHEY:** But, Mr Pratt, we asked you this last time you appeared. I asked you specifically to comment on the events that were reported at the time on the weekend—that there was a mad scramble in Treasury that particular weekend. I think it was the weekend of 13 or 14 December. You told us not to believe everything we read in the newspapers.

**MICHAEL PRATT:** Correct.

**The Hon. DANIEL MOOKHEY:** I presume that is still your view, but it is quite clear that the Auditor-General was going to qualify the accounts. She provides the time line. She provided you with that as a warning, and therefore the Government scrambled. That is what happened, is it not?

**MICHAEL PRATT:** "Scrambled" is not the word. The Government made the changes that the Auditor-General required.

**The Hon. DANIEL MOOKHEY:** I am reading from page 8 of the report. It states:

On 14 December,—

which is a Tuesday—

a government decision approved communicating revised shareholders' expectations.

Did you tell the Treasurer that he had to alter his expectations of TAHE's rate of return?

**MICHAEL PRATT:** Yes, because the Treasurer had to write to the portfolio Minister, as a shareholder Minister, yes.

**The Hon. DANIEL MOOKHEY:** And that happened on a Tuesday.

**MICHAEL PRATT:** I cannot clarify the date, Mr Mookhey, no.

**The Hon. DANIEL MOOKHEY:** It says here "on 14 December", which was a Tuesday.

**MICHAEL PRATT:** That is in the Auditor's report, but I am not aware of the date.

**The Hon. DANIEL MOOKHEY:** To be fair, TAHE has confirmed that it happened that day as well.

**MICHAEL PRATT:** Then I accept if that is the case, yes.

**The Hon. DANIEL MOOKHEY:** Thank you. And that took place after some form of an Expenditure Review Committee. Is that correct? Does that accord with your recollection?

**MICHAEL PRATT:** There would have been because the \$1.1 billion that you refer to did have to go to Expenditure Review Committee.

**The Hon. DANIEL MOOKHEY:** Equally, the Expenditure Review Committee was told that in the outer years of the budget—that is, years beyond 2025-26—an additional \$4.1 billion would be required in order to sustain TAHE's current accounting treatment. Does that accord with your recollection?

**MICHAEL PRATT:** They would have been advised that, yes, under these proposals.

**The Hon. DANIEL MOOKHEY:** And, as a result, between now and 2031, taxpayers are having to inject a further \$5.2 billion into TAHE. That is fair?

**MICHAEL PRATT:** I would say \$1.1 billion at this point, Mr Mookhey. This is a budget allocation. The additional \$4.1 billion that you are talking about is in the planning years. That is not in the budget. That is committing future governments to policy which, you would appreciate, I cannot do and would need to be addressed at the time.

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**CORRECTED**

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**The Hon. DANIEL MOOKHEY:** Mr Pratt, again, the truth is—you made the point that the State's accounts are unqualified. I put to you again that the only reason they are unqualified is because of the events that I described to you; namely, the Government had to inject a further \$1.1 billion, at least, of taxpayers' money in order to sustain TAHE's accounting treatment. That is fair, is it not?

**MICHAEL PRATT:** That is fair, yes, I agree. I agree with that.

**The Hon. DANIEL MOOKHEY:** Thank you. Mr Pratt, you came before the Committee on 16 December. That was also the day that the Government was releasing the half-year budget review. You told us at the time that it was a false narrative that TAHE was going to provide a result that was \$10 billion worse off. Do you recall saying that?

**MICHAEL PRATT:** Absolutely. I was accused by Mr Shoebridge of having a \$10 billion budget black hole. That is completely wrong.

**The Hon. DANIEL MOOKHEY:** To be fair, I am reading from an opening statement that took place prior to Mr Shoebridge putting that proposition to you. In your opening statement, which, to be fair, we got twice, you said:

There has been a false narrative that TAHE will lead to a \$10 billion or more worse-off result.

Can you explain to us why we should not assume that you gave that statement knowing it to be false at the time you gave it?

**MICHAEL PRATT:** It was not false, Mr Mookhey. I totally reject that. There is no negative result. There is no \$10 billion—I started that statement. Let me state there is no budget hole. There is no budget black hole. The budget is signed off at the half-year by the Treasurer. It shows the budget going back into surplus in the last year of the forwards, 2024-25, and in fact if you read the budget papers there is actually a \$7 billion provision, which is to allow for future COVID requirements and productivity reforms. So the notion you are putting is actually a \$17 billion difference in terms of what is in the budget versus what you are putting forward. There is no budget black hole.

**The Hon. DANIEL MOOKHEY:** But, Mr Pratt, at the time that you gave us this statement and the balance of your evidence that day, you knew you were about to leave here and reveal that the Government was injecting another \$1.1 billion into the Transport Asset Holding Entity. You were aware of that at the time, were you not?

**MICHAEL PRATT:** I was aware of that, Mr Mookhey, but you would appreciate the Treasurer had not released the budget. I could not talk to that number.

**The Hon. DANIEL MOOKHEY:** No, I am not critical of you for not volunteering that information at the time, because I accept that you were under such a constraint at the time, but the defence that you were mounting then—that TAHE presented no budget issues whatsoever and that you were having an amicable exchange with the Auditor-General—both those propositions were wrong. TAHE was presenting a problem in the budget and, as a result, the Government had to put in an additional \$1.1 billion, and you were in a very tense stand-off with the Auditor-General at the time.

**MICHAEL PRATT:** No, I did not say—I responded to the accusation by Mr Shoebridge that there was a \$10 billion budget black hole, Mr Mookhey.

**The CHAIR:** Mr Pratt, you put it in your opening statement.

**MICHAEL PRATT:** I did. I said, "There is no budget black hole."

**The CHAIR:** Twice you have been taken to the fact that it was in your opening statement.

**MICHAEL PRATT:** My opening statement says, "There is no budget black hole." That is what you accused me of, Mr Shoebridge, and it is clearly wrong.

**The CHAIR:** I must have been very quick to have made that accusation if you addressed it in your opening statement, Mr Pratt. Do you see the problem?

**MICHAEL PRATT:** Mr Shoebridge, could you point me to where the budget black hole of \$10 billion is?

**The CHAIR:** I am going to your point—

**MICHAEL PRATT:** I have asked you several times for that.

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**CORRECTED**

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**The CHAIR:** You keep asserting that it was in response to my question—your negating of the budget black hole—but you seem to fail to understand that you gave it in your opening statement before a question had even been put to you, Mr Pratt. I think that is what you are failing to understand here.

**MICHAEL PRATT:** I asserted there is no budget black hole.

**The CHAIR:** Yes, well, I will go back to Mr Mookhey.

**MICHAEL PRATT:** And then you and I talked about that during the session.

**The CHAIR:** Yes, anyhow—

**MICHAEL PRATT:** And you failed to show me where that is, still.

**The CHAIR:** We will come to that.

**The Hon. DANIEL MOOKHEY:** Mr Pratt, the broad point here, though, is that your evidence that you gave us on 16 December—and I want you to respond to this—in the eyes of a fair-minded observer was likely to mislead this Committee, was it not?

**MICHAEL PRATT:** Absolutely not.

**The Hon. DANIEL MOOKHEY:** You had adequate warning, at that time, that there were serious issues with the State's accounts, did you not?

**MICHAEL PRATT:** There was the 1.1 billion that we addressed with the Auditor. That was work in progress. That had been set up. I could not talk to that at the time, as we just covered, Mr Mookhey. But, other than that and the relationship with the Auditor-General—I have already expressed my surprise at the comments in her report. I thought the relationship was constructive. It was difficult, and it was complex because of the issues, but my response on the questioning about that relationship I still stand by.

**The Hon. DANIEL MOOKHEY:** Mr Pratt, at the time, on 16 December, I put it to you then that all of the issues which the Auditor-General has given us her views on, this year, she warned the Treasury of, last year. In fact, almost all of the issues that we have raised with you today and others that we have not were subject to high-risk findings in the State finances report of 2021. Why did Treasury not heed any of those warnings either? You were given clear notice that there was an issue around the rate of return, and yet Treasury persisted with its view, the almost identical view that it took in the last year's audit, and made no such changes until, effectively, the Auditor-General said she would otherwise impeach the accounts. Having received a high-risk warning the year prior, why was there no change in Treasury's approach? Why did you not look for new experts? Why did you go back to the same experts to repeat the same opinions?

**MICHAEL PRATT:** On the other hand, Mr Mookhey, you will accuse me of shopping around for consultants. You cannot have it both ways.

**The Hon. DANIEL MOOKHEY:** I do not. The Auditor-General does. To be fair, the Auditor-General accuses you of that, not I.

**MICHAEL PRATT:** Thank you.

**The Hon. DANIEL MOOKHEY:** To be clear, that is not my question. You were given a clear warning in 2021 about all these issues. Rather than adjusting Treasury's position—let alone its advisers—you effectively doubled down, did you not?

**MICHAEL PRATT:** So you would not want Treasury to debate these issues at length? You think we should just accept what is served up to us? Is that what you are saying?

**The Hon. DANIEL MOOKHEY:** Mr Pratt, if you are asking me a question, which I am not sure is necessarily allowed—but I would just make this point: This is the Auditor-General, who is your auditor, who is charged by Parliament to audit the accounts on behalf of the Parliament. That is the way the Act works. She provides a very clear warning, a year prior, that this was subject to high-risk conclusions by Treasury. In response, Treasury does not do anything, does not change your approach whatsoever—

**MICHAEL PRATT:** I do not accept that.

**The Hon. DANIEL MOOKHEY:** Can you explain to us any difference in the approach that you took between after you received the high-risk finding—after you received that high-risk finding, what did Treasury do different?

**MICHAEL PRATT:** There was a huge amount of work done, Mr Mookhey, on really trying to understand these key accounting issues at length, and Mr Walters is the right person to ask about this. But—

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**CORRECTED**

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**The Hon. DANIEL MOOKHEY:** Mr Pratt, you are secretary. You signed the accounts. Mr Walters is a process functionary, to be fair to him, and is a well-credentialed one. No-one has questioned his expertise. But you signed the accounts.

**MICHAEL PRATT:** Mr Mookhey, you are not suggesting that I spend all my time trying to write complex accounting papers, because that is what I am talking about.

**The Hon. DANIEL MOOKHEY:** Mr Pratt, I am suggesting that, as secretary of the Treasury, as the person who is responsible for signing the State's accounts—if the Auditor-General is warning you that there is a big problem with them, that should go to the top of your agenda. That is what I am putting to you quite clearly. What I am trying to understand—

**MICHAEL PRATT:** No, you are misrepresenting me.

**The Hon. DANIEL MOOKHEY:** Mr Pratt, what I am trying to understand is, after the Auditor-General told you this in 2021—I cannot identify a single change that either you made or the Treasury made, and you were the secretary of the Treasury at the time. Therefore, you were accountable. Thence we are asking you the questions. Can you nominate one change that you did or one change that you requested from the Treasury in response to the Auditor-General's high-risk findings in 2021?

**MICHAEL PRATT:** Yes. As you would expect, I charged my team, the responsible people, to do that work, with a lot more work that was undertaken. There was some very detailed accounting papers written on these issues and discussed with the Auditor-General at length—or the assistant Auditor-General. That occurred, Mr Mookhey. But, if you think I am going to be spending my day, writing complex accounting papers—that is not my role.

**The Hon. DANIEL MOOKHEY:** Mr Pratt, we have seen those reports.

**MICHAEL PRATT:** That is not my job.

**The Hon. DANIEL MOOKHEY:** We have seen those reports that were commissioned, the six of them that were commissioned, that Ms Watson wrote in September of this year. We have seen them. They have been produced to the House. In effect, they confirm what I am saying to you, which is, rather than making any adjustments of substance whatsoever, Treasury went back to the same adviser, for the same opinion, that was resubmitted again, assuming that, once more, the Auditor-General would agree with them, having made a high-risk finding. Having read those reports, which I have done—they are identical to the reports that were produced last year, almost word for word. It almost invites the question of why we paid for it twice. So I am asking you again, for a final time. Can you nominate a single change the Treasury adopted, other than—you asked your staff to do some work. Can you point to a single change of substance to the TAHE model that Treasury argued for to avoid another high-risk finding?

**MICHAEL PRATT:** Treasury went back, Mr Mookhey, and I will say again I asked the team to go back and fully review those issues that were being debated at the time. That is their job. That is what they did.

**The CHAIR:** Mr Pratt, after your opening statement on 16 December, where you asserted there were no substantive issues between you and the Auditor-General and there was no black hole, I asked you why it was that the Auditor-General had not signed off on the accounts, and you said:

The Auditor-General has flagged a number of issues to me, and I think I have indicated that already. That is what we are working through.

I then asked you:

In terms of "a number of issues", the fact of the matter is that you are not agreeing on some pretty fundamental aspects about how TAHE is treated. Can you give an indication of what the kind of financial impact of that difference of opinion is? Are you \$10 apart? Are you \$10 billion apart?

And you said:

No, I have indicated earlier to Mr Mookhey's question I am not prepared to talk about specifics today, Mr Shoebridge, because that would compromise the integrity of the Auditor-General.

I said:

But you made a very bold assertion, Mr Pratt, that there is no budget black hole. So I am asking you to give some details about that and to put some detail about that very bold assertion. Are you \$10 apart or \$10 billion apart or more with the Auditor-General? Is that the size of the potential black hole?

You then say:

Mr Shoebridge, there is no black hole. Let me be clear about that again.

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**CORRECTED**

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Do you remember that evidence?

**MICHAEL PRATT:** There is no black hole, Mr Shoebridge.

**The CHAIR:** Remember that evidence?

**MICHAEL PRATT:** If you are reading it from *Hansard*, then, yes, that will be the case.

**The CHAIR:** Mr Pratt, at the time you gave that evidence, you knew that there had to be an additional \$1.2 billion put into TAHE over just the next three years. You knew that at the time.

**MICHAEL PRATT:** I did know that, Mr Shoebridge, but that is not a \$10 billion black hole of the budget, is it.

**The CHAIR:** You said—

**MICHAEL PRATT:** Since when does 1.1 billion become 10?

**The CHAIR:** Mr Pratt, I will read your answer to you:

Mr Shoebridge, there is no black hole.

**MICHAEL PRATT:** Correct. There is no black hole.

**The CHAIR:** You knew at that time there was at least an additional \$1.2 billion that had to be pumped in in the next forward estimates. Your assertion there was no black hole was plainly wrong, and you knew it at the time, Mr Pratt.

**MICHAEL PRATT:** Mr Shoebridge, your assertion was a \$10 billion budget black hole. That was your assertion.

**The CHAIR:** Mr Pratt, I put that exchange to you—

**MICHAEL PRATT:** No. Was that not your assertion?

**The CHAIR:** I put that exchange to you because I wanted to make it clear I was asking whether it was a \$10 billion black hole or a \$10 billion budget black hole, and your unambiguous response—I put it to you, was false—was that there was no black hole. Yet you knew there was \$1.2 billion in the forward accounts being signed off as you spoke, Mr Pratt, as you spoke to us.

**MICHAEL PRATT:** Mr Shoebridge, you asserted a \$10 billion budget black hole. That was clearly not the case. And the 1.1 billion is moving from one part of the balance sheet to another. It is not a black hole in any case. It is going from the general government sector to the PNFC sector, the SOCs. So you are asserting that any money we put into Sydney Water, for example, is a black hole? Is that what you are asserting? That is the logical conclusion of what you are saying.

**The CHAIR:** You will be pleased to know, Mr Pratt, that this is an inquiry into TAHE, and I put to it you again—and I will give you the chance to correct the record—on 16 December, where you said, "Mr Shoebridge, there is no black hole", you knew that the State accounts were going to have to put an additional \$1.2 billion over the next three years, and your evidence was deliberately misleading, wasn't it, Mr Pratt.

**MICHAEL PRATT:** That is totally incorrect. I knew about the \$1.1 billion, of course, because it was in the budget papers to be released that afternoon. But that is not a budget black hole, Mr Shoebridge.

**The CHAIR:** Mr Pratt, not only did you know about the \$1.2 billion that had to be added in; you also knew that the only way you could persuade the Auditor-General's office to sign off on the accounts was to commit to an additional \$5.2 billion over the next 10 years. You knew that that was essential to get the audited accounts.

**MICHAEL PRATT:** 5.2 is actually 4.1. 5.2 includes the 1.1 that was in the budget papers. Again I would say to you they are in the planning years. Your question to me was around the budget. That is not the budget. You should appreciate, Mr Shoebridge, the budget is one year plus three and the forwards. It is not the planning years. A lot can happen between now and those planning years, Mr Shoebridge. Government might change its policy. It might choose to unwind TAHE.

**The CHAIR:** You can only hope.

**MICHAEL PRATT:** I do not know. But you are making assumptions which clearly cannot be made because they are not in the budget.

**The CHAIR:** Mr Pratt, when you said there is no black hole in sworn testimony to this Committee on 16 December, you knew there was an additional \$1.2 billion already committed in the budget, and you knew that



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**CORRECTED**

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in order to persuade the Auditor-General to sign off on the accounts that there had to be a collective commitment to an additional \$5.2 billion over 10 years. You knew that, and you falsely asserted that there was no black hole, Mr Pratt.

**MICHAEL PRATT:** Mr Shoebridge, I have just answered your question. There is no black hole. I have just answered your question.

**The CHAIR:** Well, Mr Pratt, reflecting back on the evidence you gave us, did you intend to give us the full story?

**MICHAEL PRATT:** I have already said to Mr Mookhey's question earlier, Mr Shoebridge: I could not talk about the \$1.1 billion. That was in the budget. In terms of dealing with the \$1.1 billion, it is up to the Treasurer to talk to that when he released the budget papers. It is not for me to do that, as you would appreciate.

**The CHAIR:** Mr Pratt, while you may have felt constrained about giving those details, that did not entitle you to mislead us, did it?

**MICHAEL PRATT:** Mr Shoebridge, I totally reject that, and I find that very insulting. That is completely wrong. I have just spoken to that. There is no budget black hole, and that is completely wrong. I mean, if you understand the structure of the Government's balance sheets, this is money moving from one entity to another. It is not a black hole. I have already indicated to you there is a \$7 billion provision in the budget papers on top of that. So you should—I mean, honestly, Mr Shoebridge, that is completely disappointing, your remarks, and misleading.

**The CHAIR:** Mr Pratt, do you assert that there were no issues with the modelling that NSW Treasury provided to the Auditor-General between 9 July and 1 December 2021 in relation to TAHE?

**MICHAEL PRATT:** Well, as I have indicated earlier, there was a lot of discussion about the models. There was a lot of discussion about accounting interpretation and, of course, as I have already indicated, how you interpret those accounting standards depends on what comes out of the model.

**The CHAIR:** Indeed, I will take you to some of the issues the Auditor-General had with the modelling and we will see you if you still stand by it. What about the fact that Treasury's modelling excluded the entire asset writedown of TAHE, initially \$24.8 billion, later amended to \$23.8 million? That is an extraordinary, big number to get wrong—failing to include more than \$20 billion of asset writedown. How do you explain that?

**MICHAEL PRATT:** Firstly, I am not going to comment on the model, Mr Shoebridge, because I have not seen those models, so I cannot comment specifically on those models. That is Mr Walters' responsibility. Secondly, there was a lot of discussion. This was a key accounting interpretation around the writedown, whether in fact it was a holding loss or a volume change. The strong advice from Treasury was a volume change, the advice from the Audit Office was a holding loss, and that was one of the changes that were made.

**The CHAIR:** Treasury was plain dead wrong and had to alter the accounts of TAHE and accept an alteration to make a \$20.3 billion correction in the assets. You were plainly wrong, and you grudgingly accepted it, Mr Pratt. Isn't that what happened?

**MICHAEL PRATT:** No, that is incorrect. The SOC approach to writedown is through a discounted cash flow approach. In the general government sector, it is at replacement value. This was always going to be a writedown, Mr Shoebridge, when we set up a SOC for TAHE. That was always the case.

**The CHAIR:** Correct, and you failed to include it in the accounts. When that was pointed out to you by the Auditor-General, you made an embarrassing backtrack. There was always going to be a \$20-odd billion writedown, and it was hidden from the accounts.

**MICHAEL PRATT:** Well, that is your assertion. I am not going to respond to that.

**The CHAIR:** It is the Auditor-General's assertion. The Auditor-General says that the accounts excluded TAHE's original asset writedown that you just accepted, Mr Pratt, was always going to have to be included.

**MICHAEL PRATT:** I cannot comment on that process. This is the point I have been making earlier.

**The CHAIR:** You are just the secretary. You are just the secretary and you are going to avoid responsibility for a \$20 billion error.

**MICHAEL PRATT:** Mr Shoebridge, I think the good citizens of New South Wales would like my time focused on dealing with the economy and COVID, which I have been doing and a big part of my team, not setting up Excel spreadsheets; that is not my job. Are you familiar with something called levels of work, Mr Shoebridge, a core management principle?

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**CORRECTED**

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**The CHAIR:** Mr Pratt, I think the good people of New South Wales would like Treasury not to make a \$20 billion mistake in the accounts.

**MICHAEL PRATT:** That is your view.

**The CHAIR:** I think the good people of New South Wales deserve accounts that do not have \$20 billion errors in them. Do you disagree with that?

**MICHAEL PRATT:** I have just explained that was always a writedown, and that is a balance sheet item.

**The CHAIR:** Which you failed to include in the accounts until the Auditor-General called you out on it, Mr Pratt.

**MICHAEL PRATT:** I cannot talk about timing, who did what to—

**The CHAIR:** Twenty billion here, twenty billion there.

**MICHAEL PRATT:** Mr Shoebridge—

**The Hon. SCOTT FARLOW:** Point of order: Chair, the witness is trying to answer your questions, or at least your utterances, but he is not getting the opportunity to do so. Can you please allow the witness to answer the question.

**The CHAIR:** Mr Pratt, you were explaining how it was not your responsibility to check there was not a \$20 billion error in the account.

**MICHAEL PRATT:** I was making the point, Mr Shoebridge, that I do not sit at my desk all day on Excel spreadsheets. That is not what is required of the Secretary of NSW Treasury. If you have questions about that detail, they should be made to Mr Walters.

**The CHAIR:** Alright. Well, I will ask you about another detail that the Auditor-General had concerns about the Treasury modelling. That was including a possible future cumulative revaluation increments of \$15 billion, which could not be supported with any evidence to explain how it was derived and was described as a plug figure. Were you aware that Treasury just made up \$15 billion of future revenue, inserted it in a model and gave it to the Auditor-General?

**MICHAEL PRATT:** You are making that assumption from what is recorded here. I do not know that is the case. That work was done by Mr Walters' team and you will need to discuss that with him, if you so choose.

**The CHAIR:** Again, a \$15 billion error is not something that would have come to your attention as secretary?

**MICHAEL PRATT:** I do not know that it is a \$15 billion error, Mr Shoebridge. That is the assertion.

**The CHAIR:** The Auditor-General's assertion, Mr Pratt.

**MICHAEL PRATT:** Right.

**The CHAIR:** Do you not accept it?

**MICHAEL PRATT:** Well, I have already spoken to a number of these assertions already and how incorrect they are by what is not recorded in this report.

**The CHAIR:** So the \$20 billion writedown did not come across your desk; the \$15 billion made-up figure did not come across your desk. What came across your desk in relation to TAHE if not a \$35 billion problem with the Auditor-General?

**MICHAEL PRATT:** Each of us had certain responsibilities, as you would expect, and we managed that.

**The Hon. DANIEL MOOKHEY:** Mr Pratt, remind me again, when did you become the Secretary of the Treasury?

**MICHAEL PRATT:** August 2017.

**The Hon. DANIEL MOOKHEY:** At that point in time, the decision to establish TAHE was already government policy, was it not?

**MICHAEL PRATT:** That is correct.

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**CORRECTED**

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**The Hon. DANIEL MOOKHEY:** And government made that decision in circa 2014, 2015? Is that your recollection?

**MICHAEL PRATT:** Mr Mookhey, it was 2015 I think was the original—I am sorry, I do not have access to Treasury information but 2015, I think.

**The Hon. DANIEL MOOKHEY:** I think it is 2015 too. In the 2015 and 2016 budgets TAHE had an interim classification from the ABS to have membership of the PNFC sector. Is that correct?

**MICHAEL PRATT:** That is correct, yes.

**The Hon. DANIEL MOOKHEY:** As a result, what otherwise would be classified as a capital grant in the government sector was capable of being presented as an equity investment in the PNFC sector—correct?

**MICHAEL PRATT:** Yes. To be a SOC, it needed to be equity, yes.

**The Hon. DANIEL MOOKHEY:** As a result, any investments in TAHE, albeit even on an interim basis, was reported in the budget to the PNFC sector. Is that fair?

**MICHAEL PRATT:** I would think that would have been the case, yes.

**The Hon. DANIEL MOOKHEY:** Okay. Thank you. TAHE commenced as a State-owned corporation in 2018. Is that correct? That is when the then Treasurer signed the papers to commence?

**MICHAEL PRATT:** I believe so, yes.

**The Hon. DANIEL MOOKHEY:** It actually began operating in July 2020. Is that your recollection?

**MICHAEL PRATT:** Yes, July 2020 was the operation date.

**The Hon. DANIEL MOOKHEY:** At the time, do you recall whether or not you had any conversations with the then Treasurer about not commencing the Transport Asset Holding Entity as a State-owned corporation?

**MICHAEL PRATT:** No.

**The Hon. DANIEL MOOKHEY:** It was always your understanding that it was the Government's policy to commence the Transport Asset Holding Entity as a State-owned corporation?

**MICHAEL PRATT:** Correct. Mr Mookhey, it might be helpful if I just made the observation that TAHE was never Treasury's policy. TAHE was led by Transport.

**The Hon. DANIEL MOOKHEY:** Sure.

**MICHAEL PRATT:** It was the transport Minister with the then Premier who wanted TAHE implemented. Treasury was part of that implementation, of course, but it was not Treasury's policy as such.

**The Hon. DANIEL MOOKHEY:** Mr Pratt, you might choose not to answer this question, but we have had a Cabinet submission presented to us, which I presented, that shows that actually the Transport Asset Holding Entity was proposed by both the then Treasurer and the then transport Minister as a joint proposition and, therefore, we are inferring that I am not necessarily sure we can rely on what you have just said, given the evidence before us seems to say that this was a joint project between Treasury and Transport.

**MICHAEL PRATT:** I am not sure of the timing of that, Mr Mookhey.

**The Hon. DANIEL MOOKHEY:** That was 2015.

**MICHAEL PRATT:** As you would appreciate, I cannot comment on Cabinet.

**The Hon. DANIEL MOOKHEY:** I figured.

**MICHAEL PRATT:** What I can say to you is that originally it was Transport, with then Premier—it was their initiative. The Treasurer at the time clearly then got engaged through the process, but it was not a Treasury policy. That is the point I am making.

**The Hon. DANIEL MOOKHEY:** At any point whatsoever, did you ever have a conversation with any Treasurer about reversing the decision to establish the Transport Asset Holding Entity? Did you have any conversation with the Treasurer at any point in time during your tenure about whether it would be sensible to reverse the decision about the Transport Asset Holding Entity?

**MICHAEL PRATT:** There were certainly discussions around some of the difficulties that the TAHE presentation was giving us. That would have occurred, definitely.

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**CORRECTED**

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**The Hon. DANIEL MOOKHEY:** Did you suggest to the Treasurer that one solution to this would be for the Government to reverse its decision to establish the Transport Asset Holding Entity?

**MICHAEL PRATT:** No, I did not suggest that. It was more about how we resolve some of those issues.

**The Hon. DANIEL MOOKHEY:** So at all points in time, the Treasurers that you served always supported the decision to establish the Transport Asset Holding Entity?

**MICHAEL PRATT:** To my knowledge, yes. To be really clear, the then Premier was the one leading this. The then Premier was very clear to myself and the transport secretary at the time, Mr Staples, that TAHE was to be implemented. That was very clear.

**The Hon. DANIEL MOOKHEY:** Just to be clear, given this has covered multiple premierships, we are talking about Premier Berejiklian?

**MICHAEL PRATT:** That is correct.

**The Hon. DANIEL MOOKHEY:** Sure. Because Premier Baird was in 2015.

**MICHAEL PRATT:** Sorry, yes. Premier Berejiklian, yes.

**The Hon. DANIEL MOOKHEY:** So Premier Berejiklian was always very clear with you that it was the Government's policy to proceed with the Transport Asset Holding Entity?

**MICHAEL PRATT:** That is correct. And with the transport secretary.

**The Hon. DANIEL MOOKHEY:** And, presumably, Treasurer Perrottet was as clear with you?

**MICHAEL PRATT:** Yes. Because he was following the Cabinet policy.

**The Hon. DANIEL MOOKHEY:** Was Treasurer Kean as clear with you that it was the Government's intention to continue with the Transport Asset Holding Entity?

**MICHAEL PRATT:** He came in right at the end of this, so—

**The Hon. DANIEL MOOKHEY:** The acute part of it, maybe we could describe it as.

**MICHAEL PRATT:** Other than Treasurer Kean's desire to have unqualified accounts, which you would expect would be the case, I do not remember engaging in a conversation around the detail of TAHE with Treasurer Kean at all.

**The Hon. DANIEL MOOKHEY:** So you never had a detailed conversation with Treasurer Kean about the Transport Asset Holding Entity?

**MICHAEL PRATT:** Not in any detail, no—other than that this is where we are at with the implementation and, of course, the budget that we talked about earlier. He got engaged on those issues.

**The Hon. DANIEL MOOKHEY:** I presume he would have been engaged if he had to agree to—

**MICHAEL PRATT:** He had to write, yes.

**The Hon. DANIEL MOOKHEY:** —an additional \$1.1 billion into Transport.

**MICHAEL PRATT:** I am answering your question on the basis of a lot more detail. That is not the case.

**The Hon. DANIEL MOOKHEY:** In any context, did Treasurer Kean never express an interest in the Transport Asset Holding Entity?

**MICHAEL PRATT:** I would not say that, no. He was interested, but he came in at the end of this whole process. He was obviously wanting to get unqualified accounts. He was well aware of what we needed to do and what the Auditor-General's requests were to do that. That was his involvement, really, towards the end.

**The Hon. DANIEL MOOKHEY:** Was it his suggestion that you inject an additional \$1.1 billion— I will put it to you in two steps. Was it his suggestion that he change his statement of expectations to lift the rate of return and, therefore, inject an additional \$1.1 billion? Or was that advice you gave him?

**MICHAEL PRATT:** I do not think that was his suggestion. It was certainly part of our advice.

**The Hon. DANIEL MOOKHEY:** You definitely advised him to lift his statement of expectations and put \$1.1 billion in?

**MICHAEL PRATT:** That would have been the case, from Treasury.

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**CORRECTED**

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**The Hon. DANIEL MOOKHEY:** That presumably would have taken place after the Auditor-General had warned you that absent such a change she would have qualified the accounts?

**MICHAEL PRATT:** I would think so, yes.

**The Hon. DANIEL MOOKHEY:** I have asked you this before and, at the time, you probably had a reasonable claim not to be in a position to answer the question. Now that this is all done, when were you told that the Auditor-General was intending to qualify the accounts?

**MICHAEL PRATT:** I cannot give you a date and time.

**The Hon. DANIEL MOOKHEY:** Was it circa sometime between 7 and 14 December? Sometime in that week.

**MICHAEL PRATT:** I am not avoiding your question, but I just do not want to be in *Hansard* with an incorrect time.

**The Hon. DANIEL MOOKHEY:** Would you like to take that on notice?

**MICHAEL PRATT:** It would have been early December.

**The Hon. DANIEL MOOKHEY:** Did you then pick up the phone to the Treasurer and say, "We have a problem"?

**MICHAEL PRATT:** I would have spoken to the Treasurer after that, definitely.

**The Hon. DANIEL MOOKHEY:** So you definitely provided the Treasurer with a clear warning that there was an issue?

**MICHAEL PRATT:** Yes, that we had to solve that issue.

**The Hon. DANIEL MOOKHEY:** What did you tell the Treasurer?

**MICHAEL PRATT:** That was about the feedback discussions that had been had from the Auditor-General and from the Auditor-General's team to my team. That played out in the results that you have seen, with the access fee increase.

**The Hon. DANIEL MOOKHEY:** Did you have any conversations with the Premier in December, prior to the half-year budget review, about the issues to do with the Transport Asset Holding Entity?

**MICHAEL PRATT:** Not personally. To my knowledge, the only involvement with the Premier would have been ERC, where he would have been an attendee.

**The Hon. DANIEL MOOKHEY:** Did you provide any briefings to his office?

**MICHAEL PRATT:** No.

**The Hon. DANIEL MOOKHEY:** Did your Treasury, to the best of your recollection, provide? Did you get any requests?

**MICHAEL PRATT:** Not that I am aware of.

**The Hon. DANIEL MOOKHEY:** Did you warn the Premier at any time that there was a chance that the State was about to have its accounts—

**MICHAEL PRATT:** No, I was dealing with the Treasurer.

**The Hon. DANIEL MOOKHEY:** Were you relying on the Treasurer to warn him?

**MICHAEL PRATT:** Yes, I was.

**The Hon. DANIEL MOOKHEY:** Did you inquire with the Treasurer as to whether he did?

**MICHAEL PRATT:** No.

**The Hon. DANIEL MOOKHEY:** I will go forward in time. Earlier, we established you may have seen draft versions of the State's finances report in January of this year.

**MICHAEL PRATT:** Yes.

**The Hon. DANIEL MOOKHEY:** Did you provide the draft report to the Treasurer's office or the Treasurer?

**MICHAEL PRATT:** I did not personally, but it should have been provided to the Treasurer's office.

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**CORRECTED**

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**The Hon. DANIEL MOOKHEY:** Did the Treasurer ever have a conversation with you in which he expressed his concerns around the Auditor-General's findings?

**MICHAEL PRATT:** Not that I can recall.

**The Hon. DANIEL MOOKHEY:** Did you have conversations with the Treasurer about the Auditor-General's draft—

**MICHAEL PRATT:** I had conversations, as I indicated earlier, around what we needed to do to not have the accounts qualified. That would have been around that time.

**The Hon. DANIEL MOOKHEY:** I am asking you, in January, in respect to the draft report on State finances—the one that you have taken exception to this morning. That report would have been provided to the Treasurer's office, would it not?

**MICHAEL PRATT:** I have had no discussion with the Treasurer on that report.

**The Hon. DANIEL MOOKHEY:** None whatsoever?

**MICHAEL PRATT:** None that I can recall.

**The Hon. DANIEL MOOKHEY:** So you are saying that the Treasurer never made any inquiries with you about what we can all agree are startling findings by the Auditor-General? You never had any conversations?

**MICHAEL PRATT:** Not that I can recall, no.

**The Hon. DANIEL MOOKHEY:** But, sometime afterwards, he asked you to give up your position earlier than you intended?

**MICHAEL PRATT:** Yes.

**The Hon. DANIEL MOOKHEY:** That is the sequence of events?

**MICHAEL PRATT:** Yes.

**The Hon. DANIEL MOOKHEY:** But it is a routine case that the Treasury would have been providing the Treasurer's office with the draft State finances report, correct?

**MICHAEL PRATT:** Yes. Just because I may not have had a conversation does not imply—

**The Hon. DANIEL MOOKHEY:** As you make the point, it is not your responsibility to make sure to send the report. I get that. But it is absolutely the case that the Treasurer would have had full warning as to what the Auditor-General was intending to report, correct?

**MICHAEL PRATT:** I would have thought so, yes.

**The Hon. DANIEL MOOKHEY:** But he never raised it with you—

**MICHAEL PRATT:** No.

**The Hon. DANIEL MOOKHEY:** —in any context?

**MICHAEL PRATT:** Other than raising with me the qualification and what needed to be done, no.

**The Hon. DANIEL MOOKHEY:** Chair, I might just pause there and ask if my colleague has any questions on this before we hand over, if you do not mind.

**The Hon. JOHN GRAHAM:** I am happy to hand to the Chair or Ms Boyd.

**Ms ABIGAIL BOYD:** If we could pick up on this idea of a budget black hole—and I have heard you say, Mr Pratt, that you do not agree that it was or is a black hole. The \$1.1 billion extra, under the access agreement, that is not an equity injection, is it?

**MICHAEL PRATT:** No, that is through the operating statement.

**Ms ABIGAIL BOYD:** If we take a step back and try to put it really simply, we have net revenue and funding allocations going to different places. This was a \$1.1 billion extra allocation to Transport for NSW for it to pay access fees, correct?

**MICHAEL PRATT:** That is correct.

**Ms ABIGAIL BOYD:** That is \$1.1 billion less to play with in the budget, wouldn't you say? That \$1.1 billion then cannot be allocated to hospitals or schools without borrowing extra money.

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**CORRECTED**

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**MICHAEL PRATT:** That is correct, Ms Boyd. But that is a policy decision of the Government, so that money then goes to TAHE, as you know. TAHE has a statement of expectations around what the shareholder Minister requires. The policy decision of the Government is that the money is put to better use in that investment. Of course, that returns to the Government in dividend.

**Ms ABIGAIL BOYD:** We could argue about semantics, but you can understand how someone might view that \$1.1 billion less money in the amount that could be funded elsewhere as a black hole.

**MICHAEL PRATT:** No, I cannot. It is not a black hole. It is a Government policy decision to move money from one part of government to another. It is akin to, as I indicated earlier, money that the Government puts into Sydney Water or to Landcom.

**Ms ABIGAIL BOYD:** But it was \$1.1 billion unexpected allocation, in that it was only made by the Government in order to fix an accounting problem.

**MICHAEL PRATT:** That is correct, yes. But it is not a black hole.

**Ms ABIGAIL BOYD:** Maybe it is semantics over what a black hole is. I think the point is there is \$1.1 billion notionally less for hospitals and schools.

**MICHAEL PRATT:** In that sense, yes, but it does not allow for the fact of net net—what dividend comes back to government—so \$1.1 billion may be a lot less than that once you allow for the dividend as well, alright?

**Ms ABIGAIL BOYD:** Understood. Thank you for clearing that up. Coming back to the Auditor-General's report and your opening statement where you made it clear that—I do not want to put words into your mouth. My understanding was that you did not think that you should be recalled to this Committee. Given the Auditor-General's report and your prior evidence on 16 December, could you not see why we might want to recall you to check your evidence?

**MICHAEL PRATT:** I cannot. I have given a lot of evidence to this Committee. My prior team are well across all these issues as well. So, no, I do not.

**Ms ABIGAIL BOYD:** When we heard from you on 16 December, you made a number of assertions about Mr Lyon. You also have since made a number of concerning statements around the Auditor-General and perhaps the Auditor-General has got it wrong. You thought that she had dropped a bomb I think was the expression that you—

**MICHAEL PRATT:** A hand grenade, yes.

**Ms ABIGAIL BOYD:** A hand grenade, sorry. You have also criticised the conduct of this Committee. Looking at that, it appears there is a pattern of you attacking the messenger rather than the message. Would you view that as correct?

**MICHAEL PRATT:** Absolutely incorrect. I attack the message, not the messenger, and anyone that has worked with me and for me, Ms Boyd, over many years, both private and public sector, will tell you that.

**Ms ABIGAIL BOYD:** When Mr Mookhey was asking you questions, he was talking about some of the warnings that the Auditor-General had given last year in relation to TAHE. He noted that, really, there had been no change in the Treasury's approach to TAHE. Is that correct?

**MICHAEL PRATT:** That is his assertion, but he does not work in Treasury. I think I am in the best position to make that judgment, not Mr Shoebridge.

**Ms ABIGAIL BOYD:** Mr Mookhey it was who was—

**MICHAEL PRATT:** Mr Mookhey—sorry.

**Ms ABIGAIL BOYD:** That is fine. The Auditor-General's comments in the report that she felt that the relationship between audit and Treasury was breaking down, in light of the evidence you gave on 16 December and now, do not surprise me in that if you were having a discussion with someone where they refused to adopt anything that you were saying and just kept telling you that you were wrong, that relationship would not be very productive. Do you think that is fair to say that there is perhaps a culture in Treasury of not taking criticism?

**MICHAEL PRATT:** Absolutely not. In my opinion—and not just me but if you talk to all the secretary colleagues and across government—we have an excellent culture in Treasury about working with agencies, and I do not say that lightly, Ms Boyd. We have a lot of data that would give evidence to that. We have done a lot of work on culture. We have turned Treasury into what I would say to you had a general response of "no" to everything to what I defined as "no with options". If we cannot do it this way, let us look at other ways to help the

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**CORRECTED**

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agency. That is a really strong culture in Treasury, hence why I really reject your assertion because I built with the team a culture on getting the right answer through addressing with rigour the issues, not the person. We do not attack the messenger.

**Ms ABIGAIL BOYD:** The new Secretary to the Treasury, when we had him in front of the Committee, was saying that he would conduct a review of sorts into the culture, but clearly change in culture and change in behaviour needs to start with leadership taking some responsibility. Is there anything, looking back, in your conduct and the conduct of Treasury within the context of the negotiations on TAHE that you would have done differently?

**MICHAEL PRATT:** No, because I thought the Auditor-General and I were working constructively—was the responses I was getting. We did not always agree, obviously, and we had to make changes, which is why my earlier, I guess, response Ms Boyd re the Auditor-General's report was quite surprising. I was disappointed in that, given earlier comments. But I did feel it was a constructive culture and relationship with the Auditor-General, and it has worked over many years very well. I think in context you also need to appreciate how difficult this initiative was for everybody involved in government, and it certainly had its willing moments I am sure with the teams.

Your question around where to from here and to Mr Grimes, which I saw, if I was still the Secretary to the Treasury, what I would constructively put forward now is a jointly sponsored process review. I have done a lot of process reviews in my career. The first thing you need to do is identify who the parties are involved in a process, and in this case there is the Audit Office but there are at least four others in Treasury, Transport, TAHE and DPC. I would be suggesting to the Auditor-General that she and the Treasury secretary jointly sponsor a review and, therefore, they are both a party to owning the findings, because I think if you buried down into Treasury at the worker level with the Audit Office, I am sure they would have a lot to say about negative interactions with the Audit Office. I am not being critical in that context; I am just making an observation. Therefore, a jointly sponsored review might be a way forward to look at these issues.

**Ms ABIGAIL BOYD:** Thank you. How limited is Treasury in pushing back against a government decision? In this case, as Mr Mookhey laid out, we have had a very clear policy from the Government for a number of years that it wants TAHE to work. How limiting is that in terms of Treasury's work in basically not wanting to disappoint the government, I guess, or as you say telling them no?

**MICHAEL PRATT:** No, it is a good question. A couple of things. I would say, firstly, if you spoke to the now Premier, who obviously I had most of my working career with Treasury with him, he would say I pushed back on him all the time. Sometimes I was listened to, other times I was not, but ultimately of course that is his decision. Secondly, given I am not a career bureaucrat, I do not bring a mindset to this of protecting my job. I bring a mindset to this of giving the right answer and advice to government. I am not saying career bureaucrats take that mindset all the time but perhaps some do. My absolute commitment to this job and to the people of New South Wales has been to give the very best advice I can, and that has remained right to when I left.

**Ms ABIGAIL BOYD:** Thank you.

**The Hon. DANIEL MOOKHEY:** Mr Pratt, I think that you made the point in our last round of questioning that it was always the intent of Premier Berejiklian to continue with this as a policy. You made reference to a discussion that was had with Mr Staples as well about this and this was communicated to you by the Premier directly to the two of you. How was that done?

**MICHAEL PRATT:** It was a meeting at one point, Mr Mookhey, and I know you are going to ask me what date it was. I do not recall—

**The Hon. DANIEL MOOKHEY:** Give me an estimate.

**MICHAEL PRATT:** —but it would have been in the second half of last year.

**The Hon. DANIEL MOOKHEY:** Do you mean 2021?

**MICHAEL PRATT:** 2021, yes.

**The Hon. DANIEL MOOKHEY:** Mr Staples was not the secretary in the second half of 2021.

**MICHAEL PRATT:** It must have been the first half then, sorry. He was certainly in that meeting.

**The Hon. DANIEL MOOKHEY:** To be fair, I do not think he was actually secretary in the first half of 2021 either.

**MICHAEL PRATT:** Actually, it was the second half of 2020, not 2021.



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**CORRECTED**

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**The Hon. DANIEL MOOKHEY:** Okay.

**MICHAEL PRATT:** And it was a meeting in the Premier's boardroom, and it was a meeting with respective Ministers and secretaries. Mr Reardon was in that meeting as well and the Premier made it abundantly clear to all engaged in that meeting that TAHE was going to be implemented.

**The Hon. DANIEL MOOKHEY:** Just to be clear, this was a meeting that took place in the second half of 2020 in the Premier's boardroom which was attended by then secretary DPC Mr Tim Reardon. You say Mr Staples was there and the portfolio Ministers were there?

**MICHAEL PRATT:** Portfolio ministers were there, yes.

**The Hon. DANIEL MOOKHEY:** So that includes Treasurer Perrottet and transport Minister Constance?

**MICHAEL PRATT:** And Minister Constance would have been there then, yes.

**The Hon. DANIEL MOOKHEY:** It was just the six of you?

**MICHAEL PRATT:** There was probably a few advisers in the room, but that is correct. The timing—look, I am sorry, I am not trying to be vague, Mr Mookhey—

**The Hon. DANIEL MOOKHEY:** You are not being, actually.

**MICHAEL PRATT:** —but I am just not sure of the timing.

**The Hon. DANIEL MOOKHEY:** That is okay. You are not being vague.

**MICHAEL PRATT:** But the meeting definitely occurred, yes.

**The Hon. DANIEL MOOKHEY:** And the Premier communicated with you directly that this was a Government policy that was to continue?

**MICHAEL PRATT:** That is correct.

**The Hon. DANIEL MOOKHEY:** Was that up for debate or discussion?

**MICHAEL PRATT:** There was, I think, a bit of concern around things not happening as quickly as they needed to, and I suspect that is what generated the comments.

**The Hon. DANIEL MOOKHEY:** So this meeting that took place would have taken place sometime within months, or a month, of the Transport Asset Holding Entity actually commencing operations—as it commenced operations on 1 July 2020?

**MICHAEL PRATT:** Yes.

**The Hon. DANIEL MOOKHEY:** Why was there a discussion about it not continuing if, actually, it had already been commenced?

**MICHAEL PRATT:** It was then the operationalisation of TAHE. So, you are quite right, July 2020 was the date. But, from there, as you would appreciate, what had to happen was Transport had to then address both the safety and the operations issues, to implement the right model for that, and Treasury was responsible for the fiscal and operating statement issues. I remember, at the time, Premier Berejiklian making that really clear to both Mr Staples and myself.

**The Hon. DANIEL MOOKHEY:** Just to be very clear here, did the Premier give you a specific reason why she felt the Transport Asset Holding Entity had to go ahead?

**MICHAEL PRATT:** No. No, I think that was just a given that it was.

**The Hon. DANIEL MOOKHEY:** Okay. But there was some discussion about it not continuing?

**MICHAEL PRATT:** Not in that meeting. The discussion was what needed to be done to make sure it was implemented.

**The Hon. DANIEL MOOKHEY:** And the Treasurer at the time, and the transport Minister at the time, neither of them expressed a view that disagreed with the Premier in any way?

**MICHAEL PRATT:** Not that I recall, no.

**The Hon. DANIEL MOOKHEY:** You are sure Mr Staples was at that meeting?

**MICHAEL PRATT:** He was at that meeting, yes.

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**CORRECTED**

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**The Hon. DANIEL MOOKHEY:** We have had evidence that another meeting was held later that year in which the Premier gave the same message, effectively, but Mr Staples was not in attendance. Do you recall that specific meeting?

**MICHAEL PRATT:** No I do not.

**The Hon. DANIEL MOOKHEY:** Were you at that meeting?

**MICHAEL PRATT:** Well, I do not know what the meeting was. I do not know. I mean—

**The Hon. DANIEL MOOKHEY:** It was a meeting that took place, apparently, in September 2020. I think the weekend would have been circa 9 September of that year.

**MICHAEL PRATT:** Right.

**The Hon. DANIEL MOOKHEY:** It is clear that the Premier had a meeting which you attended, Mr Reardon attended, the Treasurer attended, the portfolio ministers I think—I am not sure whether Mr Constance was there or not, but Mr Staples was not. We questioned Mr Staples about this. The first time he knew that such a meeting had taken place was when we questioned him. So I am trying to now understand, because what you are describing is a separate meeting—actually, it is a different one, which we had not heard of until this point.

**MICHAEL PRATT:** Right.

**The Hon. DANIEL MOOKHEY:** Do you have any recall of a meeting in September with the Premier and Mr Reardon and the Treasurer in which the Premier again communicated a view that TAHE was to continue?

**MICHAEL PRATT:** Mr Mookhey, certainly the meeting I have outlined definitely took place, because I can remember the meeting, as I have indicated, in the Premier's boardroom. The second meeting I am not clear on at all. But it may be—I mean, Mr Reardon and myself regularly met with the Premier and the Treasurer on a whole range of issues. It may not have been a specific TAHE meeting, but maybe TAHE was raised at some point. That could be what Mr Staples was referring to. But I am not aware of a specific meeting again with the Premier et cetera, as you have indicated.

**The Hon. DANIEL MOOKHEY:** To be fair, Mr Staples did not tell us about the meeting. The evidence Mr Staples gave us was that he sought a private meeting with the Premier in which he expressed his views that the Transport Asset Holding Entity was likely to create safety risks without achieving the Government's fiscal objectives. He then was given a commitment by the Premier to reconvene a meeting with everyone. Such a meeting does take place in September, that is established, but he is not at it. But you are; that is the evidence we have been given.

**MICHAEL PRATT:** Well—

**The Hon. DANIEL MOOKHEY:** I am just putting it to you, so you can fairly respond.

**MICHAEL PRATT:** No, I know. I know, yes.

**The Hon. DANIEL MOOKHEY:** Do you have any recall of that second meeting?

**MICHAEL PRATT:** I do not recall a specific TAHE meeting as you are indicating, no. But I would also say that, in the 1 July implementation, Mr Staples, as secretary, signed off safety. That was his responsibility.

**The Hon. DANIEL MOOKHEY:** Indeed, and I do not think anyone disputes that Mr Staples accepted it was Transport's responsibility to be responsible for safety. But I think Mr Staple's position—and you can respond or not respond—was that he had severe safety concerns and, in fact, he was acquitting his responsibility for safety by raising with the Premier directly that he had concerns about the safety implications of this model.

**MICHAEL PRATT:** Well, he can comment to that. But he did sign it off.

**The Hon. DANIEL MOOKHEY:** Yes, fair enough. Is there any other meeting that you may have had with the Premier or the Treasurer about TAHE that we are not aware of, other than those two?

**MICHAEL PRATT:** No. Nothing that I can think about, no.

**The Hon. DANIEL MOOKHEY:** Okay. One aspect that I did want to ask you to respond to, which you made reference to earlier, was when the Auditor-General criticised Treasury for undue reliance on consultants, was I think the way she—

**MICHAEL PRATT:** Sorry, undue reliance on?

**The Hon. DANIEL MOOKHEY:** On consultants.

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**CORRECTED**

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**MICHAEL PRATT:** On consultants, right.

**The Hon. DANIEL MOOKHEY:** The report page that I am referring to is page 23. She says that:

External consultants were used extensively to advise government agencies on matters related to TAHE.

Then she goes on to say—and I am reading now from the first dot point:

The extensive use of consultants can give rise to the risk that:

- agencies shop for opinions from multiple experts in order to receive advice that matches the outcome being sought ...

You took exception to that. I accept that. I think you characterised it as "doctor shopping". To be fair, I am prepared to adopt that label as well. But looking at the Treasury's annual reports, just last year, spending on consultants went from \$18 million to \$40 million. It has more than doubled in one year. Equally, millions of that are to do with the Transport Asset Holding Entity, and it is clear that, of the \$40 million in general, \$10 million of it went to one particular accounting firm. Are you confident you were getting the best advice available?

**MICHAEL PRATT:** Well, Mr Mookhey, you have raised the issues as well in your earlier comments. I, like you—I mean, I manage, or tried to manage, the consulting line very carefully across government, not just Treasury. Because I have seen in my own private sector experience, the first thing you do is go to a consultant and you pay a lot of money and so on. So we had rigour in Treasury around approval lines for consultants. Your comments about doubling the expenditure, please remember that we did the WestConnex sale in the year and that is a significant amount of consulting fees—of course, a huge sale price on the back of it for the Government. So, unless you break it out, it is wrong just to say "Here's the number for the year."

**The Hon. DANIEL MOOKHEY:** I agree with you, Mr Pratt. To be fair, I have broken it out and, in fact, most of the spending was—actually there were three issues that dominated it; it was WestConnex, icare and TAHE. And tax reform as well, to be fair. But the point is, across all three lines, or four lines, \$10 million—one in four dollars—went to one accounting firm. Specifically, when it comes to TAHE, you said that you carefully manage it and I accept that that is the intent of the Treasury, but we have had established that the original contract to engage Ms Watson at KPMG was let without tender in April 2020 and it has never been put to retender again. In fact, they are still operating to this day under the very same contract. I ask you again, therefore, do you stand by the Treasury's use of consultants when it comes to the Transport Asset Holding Entity? Is it your view that taxpayers got good value for the advice that, as it turns out, the Auditor-General disagreed with strongly?

**MICHAEL PRATT:** I do. Because it is, frankly, damned if you do damned if you don't, Mr Mookhey. I mean, if I then go off and find I do not like the advice and then I go and shop around and find another consulting firm to give me the answer I want, I am then accused of shopping around.

**The Hon. DANIEL MOOKHEY:** But, Mr Pratt, the problem is, that is exactly what happened. In 2019, PricewaterhouseCoopers, a wholly separate accounting firm, told you that this was not going to work and that both the financial model and the accounting treatment could not be sustained. They had that in 2019, the end of 2019—

**MICHAEL PRATT:** Well—

**The Hon. DANIEL MOOKHEY:** Just let me finish. But then, in April 2020, precisely what you just described you should not do is what happened, which is, you go to another firm, choose the expert—which is what Mr Midha's evidence was to us—they get a contract without tender, they keep it to this day and it turns out to be wildly off the mark. Do you not think that perhaps Treasury's relationship with that firm may have blinded you, potentially, to whether or not you were getting the best advice available?

**MICHAEL PRATT:** No, I do not. And, two things—the PwC report was commissioned by Transport, not by Treasury, so that was not our consulting commission.

**The Hon. DANIEL MOOKHEY:** Mr Staples' evidence to us is that he gives this report to Treasury and then thereafter has a discussion at that time about whether or not the Transport Asset Holding Entity could be sustained, and then finds out separately that Treasury has gone on and engaged another firm to support its views. That is the evidence that we have been given. I accept your point: The PwC report was not commissioned by you. But Treasury saw it and months later hires another firm to provide advice that supports its view.

**MICHAEL PRATT:** But this was my point, Mr Mookhey. You are now criticising us because we sought another view. You are damned if you do, damned if you don't.

**The Hon. DANIEL MOOKHEY:** What I am putting to you is—

**MICHAEL PRATT:** I would just clarify Ms Watson was hired in January of that year, not in April.

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**CORRECTED**

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**The Hon. DANIEL MOOKHEY:** To be fair, her own evidence that she put in her own submission is that she was hired in April 2019.

**MICHAEL PRATT:** Well, I am told it was January.

**The Hon. DANIEL MOOKHEY:** That is the evidence that we got directly from them—that she was engaged in April 2019. That is not coming from anyone else other than Ms Watson and KPMG.

**MICHAEL PRATT:** Well, I am surprised at that because I was told it was January 2020. Your point around consultant management, I do not disagree with in principle, but you understand where I am coming from as well. This is not Treasury shopping around.

**The CHAIR:** Mr Pratt, Treasury had the PwC report from the time it was given to you by Transport in 2019, did you not? You have a copy of it.

**MICHAEL PRATT:** I do not know when we received it, Mr Shoebridge. You would have to ask Treasury officials on that.

**The CHAIR:** You are aware, are you not, that the report was commissioned by the TAHE Advisory Board, which included senior representatives of the New South Wales Treasury? That was the genesis of the PwC report.

**MICHAEL PRATT:** I am not aware of the detail.

**The CHAIR:** Mr Pratt, did Treasury provide the PwC report to the Auditor-General as part of the request for documents for the audit?

**MICHAEL PRATT:** You would have to ask Treasury that, Mr Shoebridge.

**The CHAIR:** You were the secretary at the time. There were significant issues about the concerns from the Auditor-General's office about Treasury not providing documents as part of the standard audit process in relation to TAHE.

**MICHAEL PRATT:** But I do not tick off documents every day about who goes where, Mr Shoebridge, as you would appreciate.

**The CHAIR:** You did not know there were issues between the Auditor-General's office and Treasury about the provision of information?

**MICHAEL PRATT:** In what sense?

**The CHAIR:** The Auditor-General was concerned that Treasury was not providing full disclosure, as required, and they told you about it.

**MICHAEL PRATT:** No, we were, and where there were delays—let me just clarify this, Mr Shoebridge. The Auditor-General at one stage—in July or August, I think, of last year—wrote to me saying she was concerned about delay of documents. I did follow that up, as I should, within Treasury, and what transpired was the Auditor-General wanted to actually see Cabinet-in-confidence documents—documents on TAHE that had gone to ERC, that had gone to full Cabinet. That is most unusual, as you would appreciate, that the Auditor-General would ask for that. So I then wrote, through Mr Walters, to DPC. I said, "I'm fine to do that. The Auditor-General has a right to see those, given the circumstances." But you would appreciate I could not release that. I had no authority to do that. So I wrote to DPC, it went to DPC Legal and, I believe, ultimately to the Premier for that approval. References here—it is my point earlier around the 1,023 documents—again it is what is not said in this report, Mr Shoebridge, where there was a delay, absolutely, because we had to go through that process to get these documents.

**The CHAIR:** Mr Pratt, it was about vastly more than Cabinet documents, was it not? The request for information initially went in July 2020, and then Treasury's failure to provide information led to correspondence being sent to you, as secretary, from the Audit Office in June of 2021 outlining a whole series of documents that had not been provided. You remember getting that letter, do you not, Mr Pratt?

**MICHAEL PRATT:** I remember getting the letter, and I have just responded to it.

**The CHAIR:** You are saying that that letter and the outstanding requests only related to Cabinet documents?

**MICHAEL PRATT:** I do not recall the detail of that letter; what I do recall, though, post that letter, is taking the action that I have just described.

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**CORRECTED**

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**The CHAIR:** Indeed, the Auditor-General had to follow you up again three months later in September of 2021 again demanding the full and frank provision of documents, as is your obligation in Treasury, and saying that they had not been received and would likely, if they were not received, delay the audit. That was three months later, Mr Pratt. Do you remember getting that?

**MICHAEL PRATT:** I have just described the process that we had to go through. I do not know whether that relates to the Cabinet-in-confidence papers or other papers as well, Mr Shoebridge.

**The CHAIR:** This is correspondence you got only in September of last year. You know it was about significantly more than Cabinet-in-confidence documents, do you not, Mr Pratt?

**MICHAEL PRATT:** I do not. I was—

**The CHAIR:** And are you saying—sorry.

**MICHAEL PRATT:** Go on, you go.

**The CHAIR:** Are you saying that between June and September you spent three months going through the process about Cabinet-in-confidence documents and that is what explains the dispute between you, as the secretary, and Treasury and the Audit Office on the provision of information? Are you saying that three months were explained by your Cabinet-in-confidence process?

**MICHAEL PRATT:** I am not saying it was solely that; what I am saying to you is that was a key aspect of it. As to other documents, you would have to ask Mr Walters about that. I cannot comment on other documents, other than the need to chase those up, which I promptly did.

**The CHAIR:** I am asking you to comment on the correspondence you got from the Audit Office, Mr Pratt.

**MICHAEL PRATT:** Which I responded to.

**The CHAIR:** And you are saying you cannot recall what was in it?

**MICHAEL PRATT:** I cannot recall. I got the letter; I responded to it.

**The CHAIR:** You got two letters, Mr Pratt, three months apart, both asserting that Treasury had failed to provide the standard information required for the audit.

**MICHAEL PRATT:** And I followed up.

**The CHAIR:** And you did not provide it.

**MICHAEL PRATT:** I followed up.

**The CHAIR:** You did not provide it.

**MICHAEL PRATT:** I—

**The CHAIR:** You did not provide it, Mr Pratt, until midnight of the audit on 23 December. That is what happened, is it not, Mr Pratt? Midnight on the night of the audit.

**MICHAEL PRATT:** That is not what happened, Mr Shoebridge. I have explained that already. That was an audit request of a change of a representation clause.

**The CHAIR:** No, Mr Pratt, Treasury was trying to change the representation clause from the standard representation to exclude elements of the standard—

**MICHAEL PRATT:** Pardon me, Mr Shoebridge, but were you in that meeting?

**The CHAIR:** Let me finish, Mr Pratt. The evidence we have from the—

**MICHAEL PRATT:** Were you in the meeting?

**The CHAIR:** The evidence we have from the Auditor-General's office is that it sought the standard representation from Treasury and Treasury has tried to change the standard representation, and that is what led to dispute and that is why you would not sign it, Mr Pratt.

**MICHAEL PRATT:** I could not sign it because the change meant that all documents had to be produced, as I have indicated earlier. Once that occurred Treasury had no choice but to do a full search on any document that had TAHE as a reference point.

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**CORRECTED**

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**The CHAIR:** Mr Pratt, the Audit Office tells us, and I have no reason to disbelieve it, that it sought the standard representation from Treasury to be signed by you—the standard representation that it had never, ever, had a difficulty in receiving signed from government agencies before—and that you would not sign it. Is that what happened, Mr Pratt?

**MICHAEL PRATT:** Mr Walters made it clear at the time that if this change was made we would have to produce all those documents, Mr Shoebridge.

**The CHAIR:** Mr Pratt, why did you not provide the documents before midnight on the night before? You know that you have a full and frank obligation with your auditors to provide all relevant documents, and yet 34 megabytes of data were provided at midnight the night before the accounts get audited. Why did you not provide them earlier?

**MICHAEL PRATT:** The requirement of Treasury, as you are well aware, as I have covered earlier, is to provide all material and relevant documents. Treasury would argue it did that, and after the receipt of those documents, Mr Shoebridge, did the Auditor-General change her opinion? No, she did not. Therefore, it reinforces the Treasury position.

**The CHAIR:** Mr Pratt, you know that one critical document was not provided by Treasury, which was the external consultant report that Treasury had and that had been obtained by the TAHE Advisory Board in 2017-18, which pointed out the significant problems in the business model of TAHE. Can you explain why that was not provided to the Auditor-General?

**MICHAEL PRATT:** I do not know the document you are referring to.

**The CHAIR:** To refresh your memory, I will read from the Auditor-General's report. It states:

Not sharing key information with the independent external audit on a timely basis delays discussions and resolution of issues. For example, testimony given to the TAHE Public Accountability Committee Inquiry hearing on 15 November 2021 brought to our attention modelling performed by an external consultant in 2017–18 performed on behalf of the TAHE Advisory Board, which included senior executive representatives from NSW Treasury, Transport for NSW and RailCorp. The Audit Office was not made aware of this report's existence in 2018 or subsequent years, and was only provided a copy in late 2021 after repeated information requests.

How did Treasury fail to provide a critical report like that for three years of audited accounts?

**MICHAEL PRATT:** I am not aware of that. I only became aware, if it is the same document, of a discussion I had with the Assistant Auditor-General very late in the piece. This would have been mid-December. He was not aware of that document either, I believe. So I do not know what occurred with that document. But, if it went back three or four years, it would have been a document outlining some of the issues. It certainly would not have been a document with solutions, Mr Shoebridge.

**The CHAIR:** Mr Pratt, the failure to provide documents critiquing the TAHE model such as that to the Auditor-General is one of the reasons, under your leadership, NSW Treasury had an extreme risk finding from the Audit Office. It is failures like that—

**MICHAEL PRATT:** Mr Shoebridge, we provided a huge amount of documentation, and I reject your assertion.

**The CHAIR:** That you got an extreme risk letter—

**MICHAEL PRATT:** If you want to talk about not producing documents, what about all the documents on TAHE that came up in November, posted on this Committee's website. And two key documents were missing: Mr Brendan Lyon's accusations of bullying to me, played out in that document, and his apology. Those documents were not on the website, Mr Shoebridge. How was that overlooked? Or was that deliberate?

**The Hon. DANIEL MOOKHEY:** To be fair, Mr Pratt, I am not sure that those documents were provided to us.

**MICHAEL PRATT:** They were provided to this Committee.

**The Hon. DANIEL MOOKHEY:** By you. But they were not necessarily produced—

**The CHAIR:** We published them once we got them from you.

**MICHAEL PRATT:** I am told those two documents were in that pile—

**The Hon. DANIEL MOOKHEY:** Who told you that?

**MICHAEL PRATT:** Treasury.

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**CORRECTED**

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**The CHAIR:** How did they know?

**MICHAEL PRATT:** Because they were not posted. Those two documents were not posted.

**The CHAIR:** Who told you? We have not got time to run that conspiracy down through that little rabbit hole, Mr Pratt. We publish the documents we receive, subject to appropriate redactions. Mr Pratt, it is true that the \$1.1 billion that this budget has had to tip into TAHE is \$1.1 billion that is otherwise not available for schools and hospitals and other pressing budget needs. That is a fact you cannot escape, Mr Pratt, isn't it.

**MICHAEL PRATT:** I have already answered this question to Ms Boyd, Mr Shoebridge. That is a policy decision of Government. It is moving money from one part of Government to another. It completely overlooks any dividend that comes back to Government in a net-net outcome. That is true at one level, but it is not the whole picture.

**The Hon. DANIEL MOOKHEY:** Can I just follow up on that, Chair?

**The CHAIR:** Indeed.

**The Hon. DANIEL MOOKHEY:** Mr Pratt, you say this is on a net-net outcome. But, as a result of the Auditor-General—not in her report on State finances but in the actual State accounts, providing us the forward indication of the revenue, we never reach a net-net outcome on dividends, not in the first decade. In fact, the difference between money we are paying in access fees and the money we are getting back in dividends or any form of return—that actually is negative \$13 billion in just the first 10 years.

**MICHAEL PRATT:** But it completely overlooks—

**The Hon. DANIEL MOOKHEY:** Just let me finish. But the access fees are rising by 14 per cent per annum every year. So, when you say it is moving from one part of the budget to another and it is a net-net outcome, which you are implying is zero, that is just not factual.

**MICHAEL PRATT:** I am not implying it is zero, but—

**The Hon. DANIEL MOOKHEY:** What is the net-net outcome? When do you expect us to recoup the full money? As I see it, in terms of the information that the Auditor-General has published in the State accounts—to be very clear here, I am referring to note 11 of the accounts—it is clear that, in the first 10 years, we will give the transport operators \$13 billion more in access and licence fees than TAHE will give us back in dividends. We are losing \$13 billion in just the first decade.

**MICHAEL PRATT:** Five-point-one billion dollars in the planning years.

**The CHAIR:** 5.1 in addition.

**The Hon. DANIEL MOOKHEY:** No, in addition.

**MICHAEL PRATT:** Right. In addition. Yes.

**The Hon. DANIEL MOOKHEY:** The existing money that is already there is also included.

**MICHAEL PRATT:** That is correct. Yes.

**The Hon. DANIEL MOOKHEY:** But this trajectory—the Auditor-General has published the full financials—

**MICHAEL PRATT:** But that depends on the policy settings as they are today versus any changes, Mr Mookhey. What if the Government puts more liquidity into TAHE, looking for further return?

**The CHAIR:** Please, no.

**The Hon. DANIEL MOOKHEY:** Mr Pratt, that is not factual. It is very clear here. We do not actually reach a return above inflation for the first five years. We will not be recouping the \$13 billion net-net terms at any point conceivable in the next decade.

**MICHAEL PRATT:** I reject that because you are making assumptions about future policy. That is for a future government.

**The CHAIR:** On the current policy settings, Mr Pratt—

**The Hon. DANIEL MOOKHEY:** This was clear. The Auditor-General was—no ambiguity about this. She only signed off on the accounts on the basis that that was existing government policy. Therefore—

**MICHAEL PRATT:** Existing government policy.

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**CORRECTED**

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**The Hon. DANIEL MOOKHEY:** No. We can go through the complex accounting treatment, but it is clear here that the Government only has to have an intent of a sufficient return. And just to sustain that as of the date that she signed the audit report, on 24 December—on that date it is clear that the Government agreed to lose \$13 billion in order to avoid an unqualified account. You are the one who has repeated to us on multiple instances that this is moving money from Government to Government. But the truth is we are trapping this money in TAHE, we are losing \$13 billion and, as the Chair asked you, that is \$13 billion we are not spending on hospitals, schools, COVID response, wages, transport. That is just money that has disappeared into thin air, as a result of the Government's decision to establish the Transport Asset Holding Entity. I accept your point. That is their policy, not Treasury's. But that is the effect, is it not?

**MICHAEL PRATT:** The only addition at this point is the 1.1 billion, Mr Mookhey. That is the only addition that has been made, because that is the budget.

**The CHAIR:** Mr Pratt, the question put to you was about the forward projections on existing government settings, and you can either agree or disagree. But there is \$13 billion more going into TAHE than is going to come out of TAHE on the current government projections. That is, on the current government projections, \$13 billion that cannot be spend on schools and hospitals and other essential elements.

**MICHAEL PRATT:** The point I am making, Mr Shoebridge—I am not going to be drawn on future government policy. That is not my position.

**The Hon. DANIEL MOOKHEY:** It is existing government policy.

**The CHAIR:** Perhaps we will finish on this, Mr Pratt. Maybe it is not a \$10 billion black hole, but it sure looks like a \$13 billion black hole, sitting here, doesn't it.

**MICHAEL PRATT:** Absolutely not.

**The CHAIR:** Thank you for your assistance today.

**MICHAEL PRATT:** Thank you.

**The Hon. DANIEL MOOKHEY:** Mr Pratt did take one question, I think, on notice, a couple of questions on notice.

**The CHAIR:** Mr Pratt, you know the secretariat will assist you with the details of the questions on notice. We would seek them to be provided within 14 days from that detail being provided to you by the secretariat. But I will, just before we close the hearing, double-check with Government members if they have any questions.

**The Hon. SCOTT FARLOW:** No. Mr Pratt has been here long enough.

**The CHAIR:** That concludes today's hearing.

**(The witness withdrew.)**

**The Committee adjourned at 12:04.**