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GENERAL PURPOSE STANDING COMMITTEE No. 1

Tuesday 14 September 2010

Examination of proposed expenditure for the portfolio area

**TREASURY, SPECIAL MINISTER OF STATE, STATE AND
REGIONAL DEVELOPMENT**

The Committee met at 9.15 a.m.

MEMBERS

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

The Hon. L. A. Foley
The Hon. K. F. Griffin
Dr J. Kaye
The Hon. T. Khan

The Hon. M. R. Mason-Cox
The Hon. M. Veitch

PRESENT

The Hon. E. M. Roozendaal, *Treasurer, Minister for State and Regional Development, Minister for Ports and Waterways, Special Minister of State, and Minister for the Illawarra*

NSW Treasury

Mr M. Schur, *Secretary*

Mr M. Ronsisvalle, *Deputy Secretary, Budget and Financial Management Directorate*

Mr K. Cosgriff, *Deputy Secretary, Fiscal and Economic Directorate*

Mr R. Timbs, *Deputy Secretary, Commercial Management Directorate*

Mr S. Brady, *Deputy Secretary, Expenditure Review Directorate*

Office of State Revenue

Mr T. Newbury, *Executive Director and Chief Commissioner*

Department of Industry and Investment

Dr R. Sheldrake, *Director General*

Mr B. Buffier, *Deputy Director General*

Mr M. Cullen, *Executive Director, Regional Development Branch*

Dr C. Gellatly, *Director, NSW Electricity Reform Project Office*

CORRECTIONS TO TRANSCRIPT OF COMMITTEE PROCEEDINGS

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

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

CHAIR: I declare this hearing for the inquiry into budget estimates 2010-11 open to the public. I welcome Treasurer Roozendaal and accompanying officials to this hearing. Today the Committee will examine the proposed expenditure for the portfolios of Treasury, Special Minister of State, and State and Regional Development. Before we commence I will make some comments about procedural matters. In accordance with the Legislative Council guidelines for the broadcast of proceedings, only Committee members and witnesses may be filmed or recorded. People in the public gallery should not be the primary focus of any filming or photos. In reporting the proceedings of this Committee you must take responsibility for what you publish or what interpretation you place on anything that is said before the Committee. The guidelines for the broadcast of the proceedings are available on the table by the door. Any messages from attendees in the public gallery should be delivered through the Chamber and support staff or Committee clerks. Treasurer, I remind you and the officers accompanying you that they are free to pass notes and refer directly to your advisers while at the table. I remind everyone to please turn off their mobile phones.

The Committee has agreed to the following format for the hearing: Treasury and Special Minister of State portfolios to be examined from 9.15 a.m. until 12.15 p.m., and the State and Regional Development portfolio to be examined from 12.15 p.m. until 1.00 p.m. The House has resolved that answers to questions on notice must be provided within 21 days or as otherwise determined by the Committee. The Committee has not varied the 21-day time frame for answers to questions on notice. Transcripts of this hearing will be available on the website from tomorrow morning. All witnesses from departments, statutory bodies or corporations will be sworn prior to giving evidence. Treasurer, I remind you that you do not need to be sworn as you have already sworn an oath to your office as a member of Parliament. Mr Buffier, you do not need to be sworn in as you will give evidence under your previous oath.

COL GELLATLY, Director, NSW Electricity Reform Project Office,

STEPHEN BRADY, Deputy Secretary, Expenditure Review Directorate, NSW Treasury,

MARK RONISVALLE, Deputy Secretary, Budget and Financial Management Directorate, NSW Treasury,

KEVIN COSGRIFF, Deputy Secretary, Fiscal and Economic Directorate, NSW Treasury,

RICHARD TIMBS, Deputy Secretary, Commercial Management Directorate, NSW Treasury, and

TONY NEWBURY, Executive Director and Chief Commissioner of State Revenue, Office of State Revenue, sworn and examined:

MICHAEL SCHUR, Secretary, NSW Treasury, affirmed and examined:

CHAIR: I declare the proposed expenditure for the portfolios of Treasury, Special Minister of State, and State and Regional Development open for examination. As there is now no provision under the rules for a Minister to make an opening statement before the Committee commences questioning, we will begin with questions. However, does the Treasurer wish to make an opening statement? That will be part of my allocation for questions.

The Hon. ERIC ROOZENDAAL: I have a brief statement I want to make. I am pleased to be here today and to report the good news to the Committee since I was here last, a year ago. As you can see from the board I have on my right, the position of the budget has improved dramatically. We have seen a \$1.1 billion turnaround in the State's budget position. The New South Wales budget is back in the black—two years earlier than was forecast a year ago. Surpluses are forecast to be worth a combined \$3.15 billion over the next four years. That is an average of around \$800 million a year. The New South Wales economy has recorded a massive \$11.5 billion turnaround in the past year, with gross State product forecasts improving by 3 per cent compared with last year's budget.

As the chart clearly shows—and I am happy to provide copies to all members—the New South Wales budget position has clearly improved since this time last year. Briefly, the result for 2010-11 is expected to be a surplus of around \$773 million. In last year's budget, originally the forecast was for a deficit of \$990 million for the same period. The improved 2009-10 result is driven by the growth in revenues, at 4.8 per cent higher than budget, exceeding expenses growth, at 2.7 per cent higher than budget. New South Wales has seen strong recovery in our revenue base: our total revenue for 2000-11 is estimated to be \$57.7 billion. That is an increase of \$2.2 billion, or 3.9 per cent, over the revised estimates for 2009-10. The 2009-10 budget estimated a revenue loss of \$10 billion over four years to 2011-12 as a result of the global financial crisis. However, with improved economic outlook the budget has since recovered about half that loss.

Our \$400 billion State economy continues to grow from strength to strength. The latest National Accounts data, released earlier this month, shows that New South Wales recorded six consecutive quarters of growth in economic activity. This is a strong result, and the same cannot be said for Victoria, Queensland or Western Australia. In fact, even during the entire life of the previous Coalition Government in New South Wales, there were never six consecutive quarters of economic growth in New South Wales. It is clear that the stimulus programs of both the Commonwealth and New South Wales governments helped us avert the worst of the global financial crisis. As economies around the world remain gripped from the downturn, and the United States contemplates the real fear of a double-dip recession, Australia and New South Wales are in recovery.

Without a doubt the Australian economy leads the developed world, and the stimulus policies of both the national and state governments averted a recession in this country. Our commitment to stimulus is clear. We are continuing with the biggest infrastructure building program in this State's history and the biggest infrastructure building program of any Australian government. That is a \$62.2 billion investment over the next four years, supporting around 155,000 jobs each year; work that is happening right now on the ground across New South Wales.

The Hon. TREVOR KHAN: Mr Schur, I take you back to the middle of August of this year and the announcement of the Epping to Parramatta Rail Link project made by Prime Minister Gillard. When were you made aware that that announcement was to be made?

Mr SCHUR: I cannot remember the specific day, but I was aware on the day that it was going to be brought to the attention of the budget committee of Cabinet for decision. So this would have been some time in August.

The Hon. TREVOR KHAN: The announcement was made on 11 August. Are you able to tell me, taking 11 August as a reference point, as to when either prior to or after that date you were aware that the announcement was to be made?

Mr SCHUR: The budget committee would have happened prior to that date.

The Hon. TREVOR KHAN: Can you recollect, using 11 August as the reference point, when you say that budget committee met?

Mr SCHUR: Probably the day before, or two days before.

The Hon. TREVOR KHAN: When were you asked to do any modelling on the proposal?

Mr SCHUR: We were not asked to do any modelling on the proposal.

The Hon. TREVOR KHAN: You would agree with me, would you not, that as of 1 August, as stated by the Minister for Transport, the rail link was not a project within the 10-year horizon?

Mr SCHUR: It was not in the 10-year transport plan. It was identified in the plan as a project that could have been brought forward if additional funding was made available. I think that reference is made on page 43 to a series of projects that could have been brought forward if additional funding was forthcoming. Epping to Parramatta was one of those projects.

The Hon. TREVOR KHAN: You provided a letter to the Premier on or about 11 August regarding the Epping to Parramatta Rail Link, is that right?

Mr SCHUR: That is correct, yes.

The Hon. TREVOR KHAN: Is it your custom normally to date letters?

Mr SCHUR: Yes.

The Hon. TREVOR KHAN: Have you had a look at your letter on about 11 August?

Mr SCHUR: I have.

The Hon. TREVOR KHAN: The copy that was hawked around the media seems to be absent a date. Can you explain that?

Mr SCHUR: No, simply an error. I must have forgotten to put a date on the letter.

The Hon. TREVOR KHAN: For a \$500 million commitment by the State Government of New South Wales?

Mr SCHUR: I am not sure I understand the relationship between my forgetting to put a date on a letter and a \$500 million project. I simply forgot to put a date on the letter. That letter would have been post the decision of the budget committee because all it was doing was confirming in a letter what Treasury's advice had been to Government; that that project could be funded within the \$50.2 billion transport plan. So logically, even though it did not have a date on it, that letter would have happened after the announcement and after the budget committee decision. So I am presuming it happened on 12 or 13 August, or perhaps a few days later.

The Hon. TREVOR KHAN: Would it be that this letter arose not out of inspiration but as a result of a request from somebody to write the letter?

Mr SCHUR: I was requested by the Premier to provide further clarification to Treasury's advice, mainly because there was some concern and some controversy around the fact that our advice had been that the Parramatta to Epping Rail Link should be funded out of the existing \$50.2 billion program. I was happy to provide that advice because it simply reflects previous advice that Treasury had provided to Government.

The Hon. TREVOR KHAN: Do I take that request for the letter came from the Premier or did it come from one of her staff members?

Mr SCHUR: The request came from the Premier in a discussion about seeking further clarification as to the basis for our advice on how we could actually ensure that the Epping to Parramatta Rail Link could be funded without there being any detrimental impact on any other projects.

The Hon. TREVOR KHAN: Do I take it that your letter, undated, which confirms that the State Government can make a contribution of \$520 million, is the first written document from you/Treasury following the budget committee meeting?

Mr SCHUR: Yes, is the first confirmation in writing following our advice to the budget committee, which would have said essentially the same thing.

The Hon. TREVOR KHAN: If one were to go to the forward estimates, with regards to the 10-year transport plan for New South Wales, what one does not find is any contingency fee of \$520 million, or like amount, to allow for a project such as this, does one?

Mr SCHUR: There is not a specific contingency fee in the forward estimates. If you understand the basis of the \$50.2 billion capital program for Transport, you will understand that it is made up of funding that is allocated to a range of specific projects, and those projects are listed in the 10-year transport plan. But, in addition, the balance of funds is available for business as usual spending—the typical capital spending that Transport would make over that 10-year period, which would include things such as the ongoing replacement of train signals, upgrades to power supplies, and it would also include some unidentified projects and funding for contingencies. The reason you have this is because over any 10-year planning period it is very normal for there to be a proportion of funds that are not linked to specific projects. If you were to take the State Infrastructure Strategy as an example, in 2008 we mentioned that the State Infrastructure Strategy was a \$140 billion program over 10 years.

What you will find is that not every single project listed in the 10-year State infrastructure program is funded. There are unidentified projects, which is pretty normal in a 10-year planning period. What the State Infrastructure Strategy does, for example, it represents the likely level of spending. The difference with the transport plan is that Government had committed to this funding envelope of \$50.2 billion. If you look at the context here for this contribution of New South Wales, our contribution to the Parramatta to Epping Rail Link was \$520 million. This represents about 1 per cent of total spending under that 10-year transport plan, 1 per cent of total spending. I have mentioned earlier that, in addition, funding was indicated and made available for specific projects. The \$50.2 billion program also includes funding for business as usual, for unidentified projects and also for contingencies.

Given that the Commonwealth had committed to funding 80 per cent of the project, the \$2.1 billion, our view, Treasury's view, which was our advice to Government, was that there was sufficient flexibility within this 10-year program to accommodate construction of the project without it having any negative impact on any of the other projects in the 10-year transport plan. What my letter said, which was to provide further clarification on this, was that we advised that some uncommitted funds in the later years of the 10-year program—in other words, funds that were potentially available for projects that had not yet been identified—could be brought forward to meet the State's share of the cost of the Parramatta to Epping Rail Link, without it having any negative impacts. What we were suggesting is that we would bring forward some funding from the later years of the project. The reason why this is not reflected in the forward estimates is because the forward estimates would have been settled prior to this decision. When we update the forward estimates as part of the mid-year review, to the extent that we are bringing forward some cash flows from the later years of the project we will, in fact, modify the forward estimates.

The Hon. TREVOR KHAN: Is the summary of what you just said that, effectively, you robbed Peter to pay Paul?

Mr SCHUR: No, I think I have answered the question, which suggests that we did not do anything of the kind. There is sufficient flexibility in the \$50.2 billion program to accommodate the Epping to Parramatta Rail Link. If it had been a \$3 billion or \$4 billion contribution, I am pretty sure our advice would have been that we would not have been able to fund it out of the \$50.2 billion funding envelope and we would have had to enhance that envelope. Given the size of it, given that the \$520 million contribution was equivalent to 1 per cent of the total spend over that 10-year period and because there are contingencies brought into that funding envelope, because there are as yet unidentified projects in that, because there is funding for business as usual, we thought it was appropriate that it be funded within the funding envelope. That was our advice to Government and Government decided to take that advice.

The Hon. MATTHEW MASON-COX: Mr Schur, continuing on that theme, how much in the transport plan did you set aside for contingencies, specifically?

Mr SCHUR: I would have to take that on notice. I do not know the details on that. I am happy to provide that to you.

The Hon. MATTHEW MASON-COX: Similarly, how much of the \$50.2 billion is set aside for what you identify as unidentified projects?

Mr SCHUR: Again, I will take that on notice. Some of that detail is in the 10-year Metropolitan Transport Plan. I just do not have that on me right now. I am happy to take that on notice.

The Hon. MATTHEW MASON-COX: When did your department find out that the Prime Minister wanted to proceed with this project specifically?

Mr SCHUR: It would have been either on the day of the budget committee or the day before.

The Hon. MATTHEW MASON-COX: You think that the budget committee meeting was 24 hours or 48 hours before the actual announcement?

Mr SCHUR: Yes. I am happy to take that on notice and come back with a specific date. I would have said it was 24 hours or maximum 48 hours before the announcement.

The Hon. MATTHEW MASON-COX: What happened was you received a call from the Prime Minister's Office saying, "We are going to announce significant funding for a project that is not in your 10-year transport plan. What do you think about that? Could you provide \$520 million?" and you then called a budget committee of Cabinet to give that approval?

The Hon. ERIC ROOZENDAAL: I think that question would be well outside the knowledge of the Secretary of Treasury. Any discussions that may have taken place between the newly elected Prime Minister Julia Gillard, her office or the New South Wales Government is really within the knowledge of others.

The Hon. MATTHEW MASON-COX: Perhaps you could answer that question, Treasurer? When did you get the call from the Prime Minister or the Prime Minister's Office?

The Hon. ERIC ROOZENDAAL: I did not get a call.

The Hon. MATTHEW MASON-COX: When did you get that call from the Premier?

The Hon. ERIC ROOZENDAAL: I was actually on a trade mission during this process.

The Hon. MATTHEW MASON-COX: A trade mission?

The Hon. ERIC ROOZENDAAL: That is right.

The Hon. MATTHEW MASON-COX: So you found out after the event?

The Hon. ERIC ROOZENDAAL: Obviously I think it is important that the New South Wales Government takes every opportunity to support trade internationally.

The Hon. MATTHEW MASON-COX: So do I, Treasurer. What I want to determine is when did you personally first become aware of the Prime Minister's decision to fund this project?

The Hon. ERIC ROOZENDAAL: From recollection, I was advised at some point while I was overseas that there were discussions occurring. You can imagine when a very generous offer from the national Government to put more than \$2 billion into a rail project that, indeed, had been on the planning board for some time—

The Hon. MATTHEW MASON-COX: That was not in your 10-year transport plan, let us be frank, Treasurer.

The Hon. ERIC ROOZENDAAL: It is very important that we be clear on this. It was actually in the transport plan. As the Secretary of Treasury has already stated, what was clearly spelt out was that the size of the particular project would require additional funding outside what the State had available. You can imagine when you get a phone call from the Prime Minister's Office saying, "We are prepared to put \$2 billion towards a rail project in New South Wales that you would like to do if you can come up with another \$520 million. What do you think?", it is quite appropriate that the wheels of Government in New South Wales, having a look at the offer on the table, would have moved quite swiftly to assess whether it was a serious offer and then obviously to capitalise on it. I think it was a very generous gesture by the Prime Minister and the Labor Government, which no doubt assisted in their re-election at the time. It demonstrates why Julia Gillard deserves to be Prime Minister and the Labor Government returned, albeit as a minority Government.

The Hon. MATTHEW MASON-COX: Thank you very much, Treasurer.

The Hon. ERIC ROOZENDAAL: You have asked a question and I will give you my full insight. It really highlights the difference in engagement between the Coalition and the Labor governments federally. Under Howard and Costello—

The Hon. MATTHEW MASON-COX: If we could come back to the specific question?

The Hon. ERIC ROOZENDAAL: Let me finish. Under Howard and Costello, they denied any funding at all towards the central business district of Sydney, towards Sydney in general. They were not interested in funding or supporting infrastructure in Sydney. It was the foresight and intelligence of the Federal Labor Government to put up \$2 billion and all we had to do was find \$520 million. You can imagine the wheels of Government would turn quickly to address and deal with that matter. I think it reflects well on Treasury and on the State Government that we did that.

The Hon. MATTHEW MASON-COX: You got a call while on your trade mission, wherever you were overseas, roundabout 11 August?

The Hon. ERIC ROOZENDAAL: I cannot recall the date.

The Hon. MATTHEW MASON-COX: Could you take that on notice and confirm the date to the Committee? We would like the sequence of events. Did it strike you as odd that the Federal Government offered \$2 billion for a project that your Government had decided was not a priority for funding in your 10-year transport plan? Did that strike you as odd?

The Hon. ERIC ROOZENDAAL: No. In fact, I thought it showed a lot of foresight and intelligence by the Federal Government to make that sort of determination.

The Hon. MATTHEW MASON-COX: Why did you not show that foresight and intelligence and put it in your transport plan and fund it yourself?

The Hon. ERIC ROOZENDAAL: You ask me about that and I can understand how upset you are, particularly now that Tony Abbott sits in Opposition for another three years.

The Hon. MATTHEW MASON-COX: Would you answer the question, Treasurer?

The Hon. ERIC ROOZENDAAL: State governments need to prioritise and, indeed, a 10-year—

The Hon. MATTHEW MASON-COX: It was not a priority for your Government.

The Hon. ERIC ROOZENDAAL: A 10-year, \$50.2 billion transport plan, of which \$22 billion is allocated in the first four years, is a commitment by this Government to deal with the transport challenges for New South Wales, particularly of Sydney. Within that transport plan we also include other projects that we would have liked to have done if we had additional funds. The Federal Government heeded the call of New South Wales, saw the need for the people of New South Wales and found \$2 billion to support that project. We then moved the wheels of government to address that and take up that opportunity, and I think it was a smart decision by the Federal Government and one that will certainly benefit the people of New South Wales when that particular piece of rail is completed.

The Hon. MATTHEW MASON-COX: We will move on, Treasurer.

The Hon. ERIC ROOZENDAAL: Are you sure? You can keep going on this if you want.

The Hon. MATTHEW MASON-COX: You are not willing to acknowledge the blatant political opportunism of the Prime Minister so we will move on.

The Hon. ERIC ROOZENDAAL: I think you should be in fear that the newly elected Prime Minister of Australia is doing a very good job and I think her decisions during the campaign vindicated her position. Tony Abbott and your other mates can consider that for the next three years in opposition.

The Hon. MATTHEW MASON-COX: Mr Schur, have you ever questioned the feasibility of the gentrader model and, in particular, its ability to deliver fair value to the taxpayers of New South Wales?

Mr SCHUR: No, I have not.

The Hon. MATTHEW MASON-COX: Have you ever questioned whether the gentrader model is indeed in the best interests of the taxpayers of New South Wales?

Mr SCHUR: No, I have not.

The Hon. MATTHEW MASON-COX: Mr Schur, will you confirm or deny—and I remind you that you are on oath—that a meeting took place in early February where you articulated your opposition to the gentrader model to the Treasurer?

Mr SCHUR: No such meeting took place.

The Hon. MATTHEW MASON-COX: Have you taken any action to remove resources from New South Wales Treasury from the transaction?

Mr SCHUR: No.

The Hon. MATTHEW MASON-COX: Do you personally believe that the gentrader model is in the best interests of New South Wales?

Mr SCHUR: I am not sure my personal view is relevant here. But, under the circumstances, the energy transaction is the appropriate response given the need to ensure that it is the private sector that makes investments in future generation.

The Hon. MATTHEW MASON-COX: In the circumstances would you consider any other model than the gentrader in relation to the realisation of—

Mr SCHUR: You will recall, Mr Mason-Cox—

The Hon. Michael Veitch: Point of order—

The Hon. MATTHEW MASON-COX: I will withdraw that question.

The Hon. Michael Veitch: Asking for an opinion of a bureaucrat is out of order.

The Hon. MATTHEW MASON-COX: Can I then move to the reserve price, Mr Schur? Have you determined the reserve price for the electricity sale as yet?

Mr SCHUR: I am not in the best position to answer that question. I might ask Mr Gellatly to answer that. That exercise will happen.

Dr GELLATLY: No.

The Hon. MATTHEW MASON-COX: When do you intend to determine a reserve price?

Dr GELLATLY: Retention value at the appropriate time.

The Hon. MATTHEW MASON-COX: When do you think would be the appropriate time?

Dr GELLATLY: Towards the end of the year. Bids are due in on 1 November.

The Hon. MATTHEW MASON-COX: Has any analysis been done or modelling in relation to determining the price?

Dr GELLATLY: Work has been going on in that process, yes.

The Hon. MATTHEW MASON-COX: Who is completing that work at this stage?

Dr GELLATLY: There are a number of people doing it. There is a working party set up as part of the transaction. We have some modelling work that will be done by Frontier Economics. There are some Treasury officials engaged in the project who will do work on it as well.

The Hon. MATTHEW MASON-COX: Just in terms of the sale process, you expect the sale process to be completed by the end of this calendar year?

Dr GELLATLY: Yes.

The Hon. MATTHEW MASON-COX: I might return to that shortly.

Dr JOHN KAYE: Mr Schur, can I just go back to an answer that you gave to Mr Mason-Cox where you said you had never questioned the gentrader model? Does that mean that you just accepted that the gentrader model was what was going to happen and you have never done any analysis to see whether it is going to work or not? You did say you have never questioned the gentrader model, did you not?

Mr SCHUR: Yes.

Dr JOHN KAYE: So you have never actually asked critical questions about the gentrader model?

Mr SCHUR: You are putting words in my mouth, Dr Kaye. There clearly is ongoing work in optimising the gentrader model. To say there have not been discussions about how to go about that would be unrealistic. I accept the gentrader model as the best way of delivering on Government's objectives.

Dr JOHN KAYE: In order to accept that it is the best way to deliver on Government objectives does that mean that you never entertained that it might not be the best way to deliver on Government objectives? As soon as it was suggested to you—because it did not arrive from the political process; it did not come out of Treasury—does that mean that you automatically accepted that was the right thing to do?

The Hon. Luke Foley: Point of order: That is a very unfair question for the witness. Dr John Kaye is asking a public servant to provide a personal opinion on Government policy, and that is out of order.

Dr JOHN KAYE: Not at all; I am asking him whether he ever did any analysis of alternatives and of whether or not the gentrader model would work. That would be a valid function for a public servant to do, particularly given that we are talking about a massive transaction.

The Hon. Luke Foley: That is not the question you asked.

Dr JOHN KAYE: It was the question I asked.

CHAIR: Reframe the question.

Dr JOHN KAYE: What analysis has Treasury done that might be critical of the gentrader model?

Mr TIMBS: The gentrader model which has been developed over the last probably nine months has been determined by a large working group as being the most optimum way of achieving the Government's objectives for the transfer of the energy assets, given the restriction from actually trading with the generators themselves.

Dr JOHN KAYE: I am sorry, Mr Timbs, I am having difficulty hearing you. Can you talk closer to the microphone please? You are saying that there was a group that analysed the gentrader model?

Mr TIMBS: There has been a lot of work done on the gentrader model over the last probably 12 months by a large number of people—Treasury people, financial advisers, energy market advisers and other Government officials.

Dr JOHN KAYE: Did any of that work at any stage come up with a suggestion that perhaps the gentrader model was not the best model? Did it always come up that the gentrader model is a good model?

Mr TIMBS: I am not aware personally of what other models were suggested as an alternative.

Dr JOHN KAYE: Leaving aside alternatives, whether the gentrader model was a good model for New South Wales privatisation?

Mr TIMBS: I think in the absence of other alternatives the gentrader model would appear to be the most optimum.

Dr JOHN KAYE: Can I now ask Mr Schur about the issue of Cobbora coalmine, which was being developed by the three State-owned coal-fired generators? I understand that there were negotiations between the Government and Whitehaven Coal for the development of that coalmine, is that correct?

The Hon. ERIC ROOZENDAAL: I will answer that. There indeed was a tender process for Cobbora for that particular coal reserve. There is a preferred tenderer and negotiations are continuing with that preferred tenderer.

Dr JOHN KAYE: Treasurer, you are telling us that negotiations are ongoing?

The Hon. ERIC ROOZENDAAL: Yes.

Dr JOHN KAYE: Those negotiations have not hit a hurdle—you would characterise them as going well?

The Hon. ERIC ROOZENDAAL: I would characterise them as ongoing.

Dr JOHN KAYE: The data rooms opened some months ago, is that correct?

The Hon. ERIC ROOZENDAAL: Yes.

Dr JOHN KAYE: Those data rooms do not have information about coal supply contracts?

The Hon. ERIC ROOZENDAAL: The data rooms are being continually updated with new information as it becomes available. In relation to future coal demands for the generators, as that information becomes available it is updated into the rooms.

Dr JOHN KAYE: You used the expression "coal demands". I was talking about coal supply, which, of course, is a different thing. For example, is there information about the negotiations with Whitehaven?

Dr GELLATLY: No. That is a commercial matter between the joint venture and the preferred tenderer.

Dr JOHN KAYE: I take it from what the Treasurer says, Mr Gellatly, that the negotiations between Whitehaven and the owners of Cobbora, which are the three State-owned generators, have not yet concluded?

Dr GELLATLY: That is right.

Dr JOHN KAYE: Hence, there is not a secure coal contract at the time at which we have opened the data rooms and are running the data rooms?

Dr GELLATLY: There are these existing on-supply agreements that are already in existence and they are updated, as the Treasurer said, as further information becomes available.

Dr JOHN KAYE: So those existing contracts presumably expire some time in the next three or four years?

Dr GELLATLY: No.

Dr JOHN KAYE: Is that incorrect?

Dr GELLATLY: Some do and some do not.

Dr JOHN KAYE: But a majority or a fair proportion of them expire within the next few years?

Dr GELLATLY: Not necessarily. I will not go into the details of their commercial-in-confidence information.

Dr JOHN KAYE: Would it be fair to say that an outside observer would conclude that, given that the Government is busy negotiating with Whitehaven for the operation of Cobbora, something is happening with the coal contracts? Why else would the Government involve itself with the Cobbora coalmine?

Dr GELLATLY: That is why the Government identified Cobbora as a resource that was available for the three generators.

Dr JOHN KAYE: At this stage we are going into the largest electricity transaction that this State has seen since the Second World War and there is huge uncertainty about the future coal supply contracts.

The Hon. ERIC ROOZENDAAL: Can I jump in?

Dr JOHN KAYE: Will you answer the question first?

The Hon. ERIC ROOZENDAAL: I am more than happy to answer the question.

Dr JOHN KAYE: There was no question.

The Hon. ERIC ROOZENDAAL: Then you are making a statement and wasting the Committee's time.

Dr JOHN KAYE: It was the preamble.

The Hon. ERIC ROOZENDAAL: If you have a question, ask it.

Dr JOHN KAYE: It was the preamble to the question.

The Hon. ERIC ROOZENDAAL: I have taken the opportunity to review all the questions you have asked about any transaction in the past two years. You have been consistent in every question since the day it started in objecting to the process and tending to sabotage the project. Therefore, I object—

Dr JOHN KAYE: Point of order: First, the Minister is debating the question—

The Hon. ERIC ROOZENDAAL: I am getting to the answer.

Dr JOHN KAYE: —which is completely out of order. Secondly, I have not even asked the question and he has already started debating it.

The Hon. ERIC ROOZENDAAL: How can I debate it if you have not asked it?

CHAIR: You made a rhetorical statement and he is responding to that.

The Hon. ERIC ROOZENDAAL: It was a rhetorical answer.

Dr JOHN KAYE: There is no such thing as a rhetorical statement.

The Hon. LUKE FOLEY: Eric gets his retaliation in first.

The Hon. ERIC ROOZENDAAL: This deliberate attempt to talk up uncertainty—your word not mine—demonstrates a complete lack of understanding. The Government has identified a major coal reserve for future coal supply.

Dr JOHN KAYE: Now I will ask my question.

The Hon. ERIC ROOZENDAAL: You are interrupting.

Dr JOHN KAYE: Can I ask my question?

The Hon. ERIC ROOZENDAAL: No, I have not finished my response. We have identified a major coal reserve and set it aside through a joint venture with the three generators. That coal is there to supply the generators. We are in discussions with a preferred tenderer. Let us be very clear: This is coal owned by the people of New South Wales and it has been set aside to supply the generators that provide the electricity that power the lights in this place, and they will continue to do so into the future. For you to continue with this consistent pattern of talking down this transaction and trying to sabotage it and leak information to the media that you know to be incorrect and talking about uncertainty, which is your deliberate subjective measure—

Dr JOHN KAYE: To leak something to the media I would need to have information.

The Hon. ERIC ROOZENDAAL: —is offensive.

Dr JOHN KAYE: I never get information because you never answer any of my questions.

The Hon. ERIC ROOZENDAAL: If you asked decent questions I would be happy to answer them.

Dr JOHN KAYE: My question was going to be: Given that the negotiations with Whitehaven are ongoing—in your words—and given that the Government is committed to a sale by the end of the year, does that not put it in a very difficult position as a negotiator not only with Whitehaven but also with the entire coal supply industry in New South Wales? That is, is it not true that the Government, with its politically driven time scale of needing to have this concluded before the election, has created an opportunity for the New South Wales coal industry to screw it on price?

The Hon. ERIC ROOZENDAAL: That sort of emotive language underlines your deliberate strategy of talking down the equation. I will go through it again clearly and slowly so you can perhaps gain some understanding, but given that your mind is so closed that is unlikely. We have identified and conserved a major coal reserve specifically for the use of the three generators. Whether the preferred tenderer digs it out of the ground or another option is developed, that coal will fire up the three generators to ensure that the lights of New South Wales—

Dr JOHN KAYE: At what price?

The Hon. ERIC ROOZENDAAL: That is obviously a commercial-in-confidence negotiation.

Dr JOHN KAYE: Which is where you get into trouble because of your time scale.

The Hon. ERIC ROOZENDAAL: We do not get into trouble because—

Dr JOHN KAYE: You are going to have data rooms that do not have a coal contract.

CHAIR: Let the Treasurer finish his answer.

Dr JOHN KAYE: He does not let me finish my questions.

The Hon. ERIC ROOZENDAAL: Because you do not ask anything. You simply want to score cheap political points. You sometimes—

Dr JOHN KAYE: You can insult me all you like.

The Hon. ERIC ROOZENDAAL: Let me finish.

Dr JOHN KAYE: The people of New South Wales want to know—

The Hon. ERIC ROOZENDAAL: Yes, they do.

Dr JOHN KAYE: —what is going on.

The Hon. ERIC ROOZENDAAL: Yes, they do and I am trying to tell you, but you do not want to hear the answer.

CHAIR: Dr Kaye, your time has expired. Let the Treasurer answer your question.

The Hon. ERIC ROOZENDAAL: Let us be very clear. We have three generators that require coal to keep the lights on. We have a coal reserve identified and ready to be dug out of the ground. We are in negotiations with the preferred tenderer to resolve that issue. Those negotiations will ensure that coal will go into those generators so that the lights stay on in New South Wales. All of the generators have other coal supply agreements in place that will ensure that the lights stay on. This Government's priority is, first, to ensure that the lights stay on in New South Wales; secondly, to ensure that we get the best value for the people of New South Wales in terms of the cost of that coal; and, thirdly, to ensure that we get the best value and competitive process through that transaction.

Dr JOHN KAYE: And electricity prices do not come into that?

The Hon. ERIC ROOZENDAAL: Your time has expired.

Dr JOHN KAYE: Saved by the bell, Treasurer.

The Hon. ERIC ROOZENDAAL: Really! I am quivering in my boots.

Dr JOHN KAYE: Do I often that have that effect on you?

CHAIR: We understand that the metro project cannot proceed because of a lack of funds.

The Hon. ERIC ROOZENDAAL: Yes.

CHAIR: Is there any truth in the rumours that there is an attempt to revive it through the Barangaroo project?

The Hon. ERIC ROOZENDAAL: I am aware of those media reports. As part of the Barangaroo development a pedestrian tunnel will be built between that site and Wynyard. My advice is that we have no intention of reviving the metro plan.

CHAIR: The budget papers refer to various rebates for New South Wales clubs, including GST rebates. What other tax rebates are available for clubs in New South Wales with regard to poker machines and so on?

Mr NEWBURY: From the revenue side, yes, there is the GST rebate. However, if clubs are in any financial difficulty and cannot pay their quarterly gaming machine duty, they can defer payments with no interest charged.

CHAIR: It is reported that the Federal Government is considering some of the recommendations made by the Productivity Commission to reduce the impact of gambling. If those recommendations were adopted what impact would that have on the viability of clubs in New South Wales?

The Hon. ERIC ROOZENDAAL: I gather that you are referring to the agreement that I understand has been struck between Prime Minister Gillard and Andrew Wilkie in relation to various mechanisms around poker machines. The information is a bit scant at this stage. It has been suggested that players use a registration card to limit the amount of time or money they can play. It is a new sort of smartcard technology. I understand that pilot programs are underway in Victoria and Queensland. Many variables need to be considered. Obviously, we would support any process that helps to reduce the incidence of problem gambling.

However, a number of variations need to be considered, including the cost of the technology if it is to be implemented across all clubs and pubs. Obviously, a large club the size of, say, the Panthers would have a lot less difficulty implementing the necessary technology than a very small bowling club in rural or regional New South Wales. We must consider the technology and how it will be implemented. Those are the questions that need to be addressed. We are waiting for further details to assess the possible impact. If we are going to address the issue of problem gambling this is a welcome initiative. However, I would like to see a broader discussion. I feel quite uncomfortable when I watch the NRL finals—particularly the Roosters-Tigers game the other night—

The Hon. MATTHEW MASON-COX: An unfair result.

The Hon. ERIC ROOZENDAAL: Not from where I was sitting. The point I am making is what I find disconcerting as I watched that game with my two boys is that continual advertising occurs for Internet gambling before and during the game. If we are going to address the challenges of problem gambling, I believe the really big developing issue for society will be Internet gambling. I would like to see a broader discussion that takes into account Internet gambling, the accessibility to Internet gambling and the advertising of gambling in general.

CHAIR: One of the problems that seems to be occurring is that the Commonwealth has moved into an area that is normally a matter for State governments. Do you see any tension with legislation coming in federally that could affect New South Wales?

The Hon. ERIC ROOZENDAAL: We have seen under the Labor Commonwealth Government a new cooperation between the State and Federal governments that we had not seen previously under a national Coalition Government. A number of reforms have been worked out between the State and Federal governments. Of course, the most recent was the health reform that occurred towards the end of the last term of government and resulted in \$1.2 billion in additional funding over the forward estimates for Health and, in return, a commitment by the Commonwealth Government at the end of the forward estimates to take up 60 per cent of health costs going forward and the growth of health costs going forward, which is a welcome participation by the national Government into the issue of growing health costs. I think there are opportunities for cooperation. My long experience in politics and in Parliament has been that a cooperative, consultative style tends to achieve better outcomes than other styles. So, I am confident we will see that cooperation going forward.

CHAIR: I notice in the budget papers that your figures show the development of the first homeowner's grant scheme, and the grants in 2009-10 were \$727 million, and it seems as if for 2010-11 that you are anticipating only \$393 million. I was wondering why there is a reduction. Do you believe there will be a downturn in building new homes?

The Hon. ERIC ROOZENDAAL: We provide some of the most generous benefits to first home buyers in Australia. I think the reduction you refer to is the phasing out of the Federal Government's additional stimulus bonus, a doubling of the first homeowner's grant at the time. As that phases out you will see a drop off. There was a view in relation to the first homeowner's grant combined with the Federal Government's additional

stimulus for first homeowners that it brought forward a demand as first-time buyers took advantage of very generous support from both the State and Federal governments in relation to the stimulus process. That would explain part of that.

The Hon. KAYEE GRIFFIN: Treasurer, will you update the Committee on the issue of collateralised debt obligations, more commonly known as CDOs, and the latest information on these debt products?

The Hon. ERIC ROOZENDAAL: Members may recall at my first estimates hearing as Treasurer in 2008—you were here for that?

The Hon. MATTHEW MASON-COX: I was. It was not very impressive. You were not impressive.

The Hon. ERIC ROOZENDAAL: I felt that about you too. Members may recall my first estimates hearing as Treasurer in 2008, at the height of the global financial crisis. I received many questions at the time on the issue of CDOs or collateralised debt obligations. From memory, Dr John Kaye questioned me extensively on CDOs, both in 2008 and again last year, as did the Hon. Greg Pearce, who is, unfortunately, not with us today. To remind members, in a nutshell, CDOs were one of the triggers for the global financial crisis because of the way in which they repackaged risky debt, debt which eventually could not be repaid. Malcolm Edey, the assistant governor of the Reserve Bank, spoke in 2009 about how CDOs came to play an important role in the spreading of the crisis—he was referring of course to the global financial crisis. Indeed, even the New South Wales shadow Treasurer on 3 December 2008 spoke in Parliament about CDOs as a risky investment linked to the sub-prime mortgage scandal.

The Hon. MATTHEW MASON-COX: You have learnt a lot from him.

The Hon. ERIC ROOZENDAAL: I will be referring to him a bit more. I am glad you have raised that issue.

Dr JOHN KAYE: You have not mentioned Iceland yet.

The Hon. ERIC ROOZENDAAL: Okay, Iceland. I have mentioned it. He talked about the underwritten scandals of CDOs. I am very vigilant about the issue of CDOs. You can imagine that only recently I was shocked, horrified and stunned to discover that Mike Baird, the shadow Treasurer, may well have been directly involved—and I have this to play for you about CDOs—up to his neck, and he has actually confessed it.

The Hon. Eric Roozendaal proceeded to play a recording.

Dr JOHN KAYE: There is a problem, mission control.

The Hon. ERIC ROOZENDAAL: There is a problem, hold on.

The Hon. Eric Roozendaal proceeded to play the recording.

Dr JOHN KAYE: I cannot hear that.

The Hon. MATTHEW MASON-COX: I cannot hear that, and it is really inappropriate. We have a serious question and the Treasurer is performing stunts like a paid chimpanzee. Can we have a fair dinkum answer to the question asked by his own side or table his answer. At the end of the day this is a complete waste of the Committee's time.

The Hon. ERIC ROOZENDAAL: What he just said—and I have copies for all the members—was that he admitted that he was on a working desk when he was at the National Bank working with the guy who was developing CDOs and how, indeed, that particular person had a discussion with him and told him—and he laughed about this—it is amazing how you can get something that smells so rotten to be so wonderful. Then he went on to say, "Those words have haunted me as I have looked back." So they should. Here we have on YouTube Michael Baird confessing his involvement in CDOs and working with a Scotsman, who he makes derogatory comments about—you will see that on the YouTube, I will not repeat them—to create CDOs. You may say—

The Hon. MATTHEW MASON-COX: Point of order: This is a complete waste of time. It is not relevant to the question that was asked. It is a complete and utter circus. I ask you to draw the Treasurer back to the question and examine his knowledge of CDOs rather than this circus he is performing at the moment.

CHAIR: The Treasurer will return to the question asked by the member.

The Hon. ERIC ROOZENDAAL: I make this one final point. Not only is he caught on YouTube talking about his involvement in CDOs, he puts the speech on his website and deliberately omits those comments from his speech.

The Hon. MATTHEW MASON-COX: Point of order: The Treasurer is flouting your ruling. I ask that you draw him back to the question instead of turning this Committee into a complete circus.

The Hon. ERIC ROOZENDAAL: Why would he put it on his website? He takes those words out of his speech.

The Hon. MATTHEW MASON-COX: Chair, I ask you to rule on the point of order.

The Hon. ERIC ROOZENDAAL: He has been caught red-handed, telling the truth in a moment of honesty—rare for a merchant banker—and then when he puts the speech on his website he deletes those words.

The Hon. MATTHEW MASON-COX: Chair, he is now casting aspersions on the character of a member of the other place. I ask that you draw to the attention of the Treasurer that that is in breach of the standing orders of this place and bring him back to the question and ask him to withdraw those aspersions.

CHAIR: Government members will move on to another question.

The Hon. ERIC ROOZENDAAL: I have copies for everybody here, pass them out. Get the attendants to do it. What is really important is that people be aware who has been involved with CDOs for the future of the State.

CHAIR: We are moving on to another question.

The Hon. ERIC ROOZENDAAL: I have one on you too here if you want it.

The Hon. MATTHEW MASON-COX: You have one for me too? That is terrific.

The Hon. MICHAEL VEITCH: Will the Treasurer update the Committee on the New South Wales home builders bonus?

The Hon. ERIC ROOZENDAAL: Yes. The New South Wales home builders bonus was announced in this year's budget—an Australian first initiative to boost our State's \$17 billion housing sector. From 1 July New South Wales families and investors have been able to save up to \$22,490 under the home builders bonus, and first home builders get benefits of up to \$29,490. This is a comprehensive investment in the New South Wales housing construction sector with many components.

There is zero stamp duty if you buy a home worth up to \$600,000 off the plan prior to the start of construction. That is a saving of up to \$22,490. No other State has this zero stamp duty initiative. This is an Australian first and it is open to anyone, including investors. The zero stamp duty also applies to vacant land costing up to \$400,000 on which the buyer intends to build a new home. Then there is a 25 per cent cut to stamp duty for families and investors buying a newly constructed home worth up to \$600,000, a saving of up to \$5,623. First homebuyers are also eligible for all of these stamp duty cuts, giving them total possible benefits of up to \$29,490.

Importantly, first homebuyers are still able to access the New South Wales Government funded \$7,000 first home owners grant, as well as the New South Wales home builders bonus. The New South Wales Government is also cutting stamp duty to zero for people aged over 65 when they buy a newly constructed home worth up to \$600,000, a saving of \$22,490. This only applies to people aged 65 selling their primary place of residence and moving to a newly constructed home. This is to encourage downsizing and to encourage the regeneration of the State's housing stock. I am pleased to announce today that the New South Wales home

builders bonus has already supported more than \$466 million in housing construction activity in the first two months.

This is great news for the New South Wales economy. Already 1,533 families and investors have taken advantage of the home builders bonus since it began on 1 July. The New South Wales Government has returned more than \$14 million worth of stamp duty back into people's pockets under this major housing construction initiative. Just as importantly, the home builders bonus has supported more than \$466 million worth of construction activity in New South Wales. That is work for builders, plumbers, electricians, landscapers, cabinetmakers and other tradesmen, and flows through the housing construction sector into the rest of the New South Wales economy.

The home builders bonus is a worthy successor to the New South Wales Government's Housing Construction Acceleration Plan, which I announced in the 2009 budget. Members may recall that in December last year the Government announced an extension of the Housing Construction Acceleration Plan for a further six months. We were able to extend this important program because of the strong position of the New South Wales budget. The Housing Construction Acceleration Plan was a 50 per cent stamp duty cut for newly constructed dwellings worth up to \$600,000. I am pleased to report that it provided important stimulus for the New South Wales housing construction sector. I can advise the Committee that 5,025 New South Wales homebuyers and investors took advantage of the scheme between 1 July 2009 and 30 June 2010.

They purchased newly constructed properties worth over \$2.1 billion. The scheme returned more than \$37 million worth of stamp duty back into people's pockets. This is all good news for the \$400 billion New South Wales economy. I am pleased to report the official data about the State's housing sector is showing more good news, more green shoots—just like on the board. According to the Australian Bureau of Statistics, dwelling approvals in New South Wales increased by 9.7 per cent in July 2010 compared with June 2010. This is above the national average of just 2.3 per cent and the second highest of all States. In fact, Queensland declined by 18.3 per cent and on a trend basis private sector housing approvals in New South Wales have increased by 4.2 per cent in July 2010 compared with a year ago.

This is the highest of all States and compared with a national average decline of 1.7 per cent. Also, the number of people taking out mortgages in New South Wales has increased by 3.9 per cent in the month of July alone. This is more than double the national average. This is all good news for the New South Wales economy as the green shoots of recovery continue to blossom.

The Hon. LUKE FOLEY: Treasurer, would you update the Committee on the latest New South Wales economic data?

The Hon. MATTHEW MASON-COX: We are in question time.

The Hon. ERIC ROOZENDAAL: It is an excellent question. Thank you.

Dr JOHN KAYE: You put a lot of time and effort into that question.

The Hon. MATTHEW MASON-COX: Perhaps you could just table your answer, Treasurer. We would be happy to accept that.

The Hon. ERIC ROOZENDAAL: No. I am pleased to report good economic news to the Committee. I think it is important that this good news gets out. It is for the people of New South Wales to understand the strength of the New South Wales economy as we lead the recovery. I think it is important—strong positive growth for the \$400 billion New South Wales economy, with continued job growth for New South Wales families and business. The latest official job data shows that the New South Wales unemployment rate is now at 5 per cent. This is a fall of 0.5 per cent since July 2010 and it is now below the national average of 5.1 per cent. The New South Wales unemployment rate is below Victoria's, which is 5.5 per cent, and below Queensland's, which is at 5.4 per cent.

The Australian Bureau of Statistics data released late last week reveals 23,679 jobs were created in New South Wales in August this year alone. This accounted for 77 per cent of all new jobs created in Australia. Since its peak in March last year the New South Wales unemployment rate has fallen further than that of any other State, a drop of 1.8 per cent compared with a 0.6 per cent fall nationally. This is just great news about jobs in our State. Since March 2009, 120,032 jobs have been created in New South Wales. That is around one-third

of all jobs created in Australia. The latest data shows job growth in New South Wales is strong compared with Queensland, where 12,400 jobs were actually lost last month. On a trend basis jobs in New South Wales have grown for 18 consecutive months. The number of full-time jobs has grown for nine consecutive months.

This is all good news for the economy and it continues. I am pleased to advise the Committee of the latest ANZ job survey advertising data for the month of August. In New South Wales newspaper job advertisements have increased by 6.6 per cent compared with just 1.5 per cent nationally—more good news. Earlier this month we saw the release of the national accounts figures. The official Australian Bureau of Statistics data shows that State final demand for New South Wales grew by 5.7 per cent through the 2009-10 financial year. This is well above the national average of 5.3 per cent growth.

The Hon. KAYEE GRIFFIN: Treasurer, can you update the Committee on the economic outlook for New South Wales?

The Hon. ERIC ROOZENDAAL: At budget time last year the outlook for the global economy had really deteriorated quite rapidly and we were facing the worst downturn since the Depression, and indeed, there was a lot of discussion about that. It pleases me greatly to take the opportunity today in front of the estimates hearings to report the really good news for the New South Wales economy. I might add that I know how much the Coalition hates hearing good news about the New South Wales economy. The New South Wales economy has recovered strongly in 2009-10 supported by fiscal and monetary stimulus, high population growth, strong trade links with Asia and a sound domestic financial system. In spite of the global recession and financial crisis the New South Wales economy grew by 0.2 per cent in 2008-09. Joseph Stiglitz, the Nobel laureate stated in July:

Australia had the shortest and shallowest of the downturns of the advanced industrial countries ... Your preventative action, you might say pre-emptive action, prevented the downturn while things got turned around in Asia, and they still have not gotten turned around in Europe and America.

Murilo Portugal, the Deputy Manager of the IMF, has remarked that Australia has been remarkably resilient to global turmoil. I would like to contrast this with what is happening globally. I think it is important that we compare the State of New South Wales and Australia with what is happening globally. In May this year we saw an escalation of sovereign risk concerns in Europe which had led to renewed market volatility and risk aversion. Credit ratings in Greece, Spain and Portugal have all been downgraded. The European Union, working in conjunction with the IMF, has established the European stabilisation mechanism to provide financial assistance to euro zone countries. Only last week President Obama announced further stimulus measures to provide support for the flagging economic recovery in the USA.

It is little wonder that the Australian economy is the envy of the world. Throughout the financial crisis and subsequent recovery New South Wales has been well served by the actions of the State and national governments to strengthen our fiscal position. This has enabled us to respond effectively to challenging economic circumstances without endangering fiscal sustainability. Australia used its fiscal strength to support the economy during the global financial crisis without weakening balance sheets, as seen in other OECD economies. For this reason New South Wales and Australia as a whole are less exposed to sovereign debt problems currently faced by overseas governments, particularly in southern Europe.

In spite of these headwinds, the latest information from the IMF is that they have ruled out an immediate prospect of a double-dip recession. As expected, the glowing economy in financial markets will continue to recover. In Australia, the improving labour market and stronger household income growth is also expected. The period will see a transition from stimulus in public sector-led growth to sustainable and strong growth in all components of private-sector demand.

The outlook for New South Wales is very promising indeed. Both national and New South Wales economic activity is expected to increase at above trend rate in 2010-11 and 2011-12. New South Wales Treasury forecasts that in New South Wales economic growth in 2009-10 is estimated to be 2.5 per cent. Economic growth in 2010-11 and 2011-12 is forecast to increase further to 3 per cent and 3.5 per cent respectively. As I said earlier, just one year ago the economic outlook for the State was much grimmer than it is today. Confidence has returned to the economy and New South Wales is in a prime position to take advantage of the economic recovery.

The Hon. TREVOR KHAN: Mr Schur, earlier you were asked about a meeting. I want you to confirm or disagree with the proposition that in or about February this year you held a meeting attended by, amongst others, the Treasurer and Dr Gellatly, at which you expressed opposition to the electricity sale process.

Mr SCHUR: There was no such meeting.

The Hon. TREVOR KHAN: Did you communicate with the Treasurer and/or Dr Gellatly your view, in or about February of this year, as to the electricity sale process?

Mr SCHUR: We had a discussion about governance arrangements on the transaction and how we should go about managing the transaction going forward, if that is what you mean.

The Hon. TREVOR KHAN: Yes, all right. If you had a discussion, was that by telephone or—?

Mr SCHUR: I had several discussions with Dr Gellatly and I had some discussions with the Treasurer, and it was agreed on new governance arrangements for the transaction.

The Hon. TREVOR KHAN: What does "new governance arrangements for the transaction" mean?

Mr SCHUR: It essentially meant that Dr Gellatly—I am not sure that this happened in February; we can check the dates—

The Hon. TREVOR KHAN: You will take that on notice?

Mr SCHUR: I will take the specific date of those discussions on notice. But essentially the transaction had moved from the strategy development phase into the transaction implementation phase. Given what was going on in the broader economy, I felt that I could not give the transaction the kind of dedicated time and attention it would require for me to continue to chair the steering committee that was overseeing the transaction. There was a discussion with the Treasurer that it would make sense that we would bring in someone like Dr Gellatly, given his experience, to oversee the transaction and effectively to become the executive director for the transaction and to chair the steering committee. This is not that unusual; there is a fair bit of precedent for this. If you look at—

The Hon. TREVOR KHAN: On a transaction of this size?

Mr SCHUR: Yes.

The Hon. TREVOR KHAN: This is essentially the largest transaction the State has undertaken, I think since the war.

Mr SCHUR: I was about to say, there is some precedent for this. With regard to the Victorian privatisation of its electricity assets, if you go back and look at the history there you will find that the secretary was informed and kept up to date with the ongoing developments in the transaction. But they, too, decided to bring in a dedicated individual who would oversee the transaction, someone from outside Treasury. If you look at what is happening with the massive \$16 billion privatisation program that is happening in Queensland, my understanding there is that the secretary has identified an individual who has day-to-day responsibility for overseeing the entire privatisation program and the Treasury Secretary continues to run the Treasury. I think, given the economic circumstances that we faced last year with the global financial crisis and the downturn—

The Hon. TREVOR KHAN: But we are now talking about February-March this year. You are talking about this decision not last year, when the global financial crisis—

Mr SCHUR: This did not happen in February. I believe this happened in September last year, when Dr Gellatly took over. We can get back to you on the dates. So it was not this year. I believe it was last year; we can confirm that. The point is, though, that Treasury continues to be involved in the ongoing development of the transaction through the steering committee. Two of my executives, Richard Timbs and Kevin Cosgriff, represent Treasury on the steering committee. The steering committee is where all the robust discussions and detailed decision-making happens before it is brought to the Treasurer or budget committee for acting on those recommendations. Clearly, my executives keep me abreast of what is going on and brief me on the critical issues, and we have discussions and we develop our own views on those things during those discussions.

The Hon. TREVOR KHAN: Mr Schur, do you agree with the concept that public servants, particularly senior public servants, are obliged to give frank and fearless advice to Government?

Mr SCHUR: Yes, I do. And we do, and we always have, and I always do.

The Hon. TREVOR KHAN: Earlier you were asked about your opinion as to efficacy of the Gentrader model. You said to us, in short, "My personal opinion does not really count", after what could be described as a very pregnant pause. You have an opinion on this model, do you not? Have you ever expressed it to Government?

Mr SCHUR: The decision to proceed with the Gentrader model happened before I was made the Secretary of Treasury. I support the initiative, and I believe that with regard to the Gentrader model—I believe I am on record stating this point this time last year—under the circumstances, given the failure of legislation to enable the transaction to proceed on a different basis, the transaction strategy was the appropriate one to proceed with. I have not changed my mind on that; my position on that remains exactly the same.

The Hon. TREVOR KHAN: Mr Schur, you are putting two caveats on expressing that view. Is it not the case that your view is that the Gentrader model is a "dog"?

The Hon. LUKE FOLEY: Point of order: It is out of order to ask a public servant to express an opinion on the merits of government policy. The honourable member should direct that question to the Minister, not to a public servant.

Mr SCHUR: Mr Khan, I refer to my previous answer. I have answered that question; you have asked it of me several times. Therefore I have answered that question.

The Hon. TREVOR KHAN: I turn to the Cobbora coalmine issue. Is it the case that Treasury received modelling from Frontier Economics on the transaction?

Mr SCHUR: I think it is the case that the steering committee would have received modelling. I will refer to Dr Gellatly on that.

Dr GELLATLY: Yes.

The Hon. TREVOR KHAN: When that was that modelling from Frontier Economics received?

Dr GELLATLY: In the previous month.

The Hon. TREVOR KHAN: Do I take that to mean in the month of August?

Dr GELLATLY: Or July. I am not sure; I have not got the dates with me.

The Hon. TREVOR KHAN: Can I ask you to take on notice that date upon which the Frontier Economics modelling was received?

Dr GELLATLY: Yes.

The Hon. TREVOR KHAN: Do I take it that part of the modelling provided by Frontier Economics included the impact of the project upon wholesale electricity prices?

Dr GELLATLY: We are always looking at that, yes.

The Hon. TREVOR KHAN: Do I take it that the Frontier Economics modelling included modelling on the impact of the project on wholesale electricity prices?

Dr GELLATLY: Yes.

The Hon. TREVOR KHAN: Do I take it that it also included estimates as to the impact of the project on retail electricity prices?

Dr GELLATLY: I would have to check on it.

The Hon. TREVOR KHAN: Dr Gellatly, this is a significant issue, is it not, both in terms of the sale of the electricity assets and, indeed, the impact upon retail prices for everyone in New South Wales? It is not a minor matter?

Dr GELLATLY: Can I just say that we are in the process. As has been mentioned by the Treasurer, we are still in commercial discussions with the preferred tenderer. We have not settled on what will be any prices for the Cobbora project. So it is very premature to be making any assumptions about what the results on prices will be.

The Hon. TREVOR KHAN: I am not asking your view on it; I am asking about the contents of the Frontier Economics study. It is the case, is it not, that the study included estimates as to the impact upon retail electricity prices?

Dr GELLATLY: Of some Cobbora prices, but I will just repeat that we have not settled on what the prices for the Cobbora coal are going to be.

The Hon. TREVOR KHAN: It is the case, is it not, that what the study showed was that the Cobbora deal would have significant impacts upon wholesale electricity prices?

Dr GELLATLY: The Cobbora deal has not been finalised.

The Hon. TREVOR KHAN: It is the case, is it not, that the Frontier Economics study showed that the Cobbora deal would have significant impacts upon wholesale electricity prices?

The Hon. ERIC ROOZENDAAL: Dr Gellatly has just responded to that. The negotiations in relation to the Cobbora project are ongoing. Dr Gellatly has responded with an answer. Yesterday I had to sit through a Perry Mason imitation. I do not really feel like sitting through another day of it with Trevor. If Trevor has a new question he should ask it, but to continue to try and badger the witness, when he has given an answer and made it clear that the negotiations are ongoing, is unreasonable.

CHAIR: I gathered the questions were referring to what is in the report, not what is happening in any negotiations. Is that report confidential or can it be tabled?

Dr GELLATLY: Yes, it is Cabinet-in-confidence, part of the commercial negotiations.

The Hon. MATTHEW MASON-COX: So you are not willing to answer the question in relation to the report based on it being Cabinet-in-confidence?

Dr GELLATLY: I am trying to emphasise that we are in commercial negotiations. You do not go out publicly saying what the results of the advice you are getting are.

The Hon. MATTHEW MASON-COX: Is it not the right of the people of New South Wales to understand what the implications will be for their electricity prices?

The Hon. ERIC ROOZENDAAL: Before you try this grandstanding, let us be very clear. We have a very detailed process, which involves both the budget committee and Cabinet, reviewing these decisions. They are, of course, protected under the Westminster system—Cabinet deliberations and budget committee deliberations are protected. We are in commercial negotiations in relation to the Cobbora coal reserve, as has been explained. Now you can try and grandstand all you like but the reality is that these transactions need to take place with normal commercial confidence.

The Hon. MATTHEW MASON-COX: Dr Gellatly, if I could ask you a different question: Did you give a recommendation to the Treasurer that the negotiations with Whitehaven should be discontinued?

Dr GELLATLY: No, because we are still in negotiations with Whitehaven.

The Hon. MATTHEW MASON-COX: When do you expect those negotiations to be finalised?

Dr GELLATLY: At the appropriate commercial time.

The Hon. MATTHEW MASON-COX: When? Let me ask a different question: Do you consider the finalisation of those negotiations to be critical to the successful completion of the sale process?

Dr GELLATLY: As the Treasurer has mentioned before, there are other options we are looking at but clearly from a longer-term perspective there needs to be some finalisation over the pricing of the Cobbora resource.

The Hon. MATTHEW MASON-COX: And the reason for that? Spell it out to me, Dr Gellatly?

Dr GELLATLY: There is publicly available information that there are some shortages of coal for some generators in the future—

The Hon. MATTHEW MASON-COX: Ah, there is a shortage of coal!

Dr GELLATLY: Some shortage of coal in the future. The whole reason why the Cobbora resource has been identified and obtained by Government is to provide that supply in the future.

The Hon. MATTHEW MASON-COX: So if I could submit to you that there is a shortage of coal, as you have just said, in the future and as a result—

Dr GELLATLY: Can I just explain? It is not a shortage of coal per se. There is never a shortage of coal per se; you can always buy coal at a price. The fact is that the coal market has changed in New South Wales in the last 10 to 15 years because of export growth, and the price has been retained in the export market. So previously where the coal that was supplied to generators was maybe a significant percentage of say 60 per cent or 70 per cent of the coal market, it is now down to around 20 per cent, and the driver in the coal market now is the export price. So we are in a different situation. There is never a total shortage of coal; you can always get coal at a price.

The Hon. MATTHEW MASON-COX: The price of coal will be critical to bidders in formulating their bid—

Dr GELLATLY: For that part of the coal supply. There are already coal supplies that are committed past that time, to 2013 and 2014 and so on, as being publicly identified. It is a matter of the combined price that the generators will have to pay for that coal into the future. That is what we are obviously working on.

The Hon. MATTHEW MASON-COX: Because there is a scarcity of coal at a known price in relation to this transaction into the future, be it two years, three years, four years, depending on the rolling coal contracts, and, as you mentioned, the export price is much higher than the existing price under those coal contracts, I put it to you that the negotiation of contracts with Whitehaven are critical documents for the data room in order for bidders to formulate a price for these assets? Can you confirm that to the Committee or not?

Dr GELLATLY: I cannot confirm that because I am under a confidentiality agreement about who the preferred tenderer is. But the preferred tenderer negotiations and the outcome of those negotiations or other options about the pricing of that Cobbora coal obviously will be important for the value of generators when they go to market.

The Hon. TREVOR KHAN: I think you can summarise one of your earlier answers by saying that essentially the generators have now changed from being price setters to price takers in the market for coal?

Dr GELLATLY: Yes.

The Hon. TREVOR KHAN: The bottom line is that what we are looking at is significant upward pressure in terms of the price the generators will have to pay for the coal that is supplied after the fixed-term contracts expire?

Dr GELLATLY: I mean it depends obviously on the mix and the commercial attitude of those coal companies. With a state-owned generator you have got a fixed price for a long period of time, which you have not on the export market. There is a balance there and they have got to make a commercial decision.

The Hon. TREVOR KHAN: Sure, but the commercial decision they are going to make is that if China and north Asia continue to take our coal at the prices that it is taking they are not going to be interested in supplying the coal to our generators at anywhere near the price that they have under the fixed-term contracts?

Dr GELLATLY: We do not know that. That is your assessment.

The Hon. TREVOR KHAN: It is your assessment too, is it not, Dr Gellatly? It does not take a rocket scientist to work that out?

The Hon. Michael Veitch: Point of order: Chair, the Hon. Trevor Khan is acting like Rumpole on Ritalin. I would ask you bring him to order. He is way out of line.

CHAIR: Do you have any more questions?

The Hon. TREVOR KHAN: No, thank you.

The Hon. MATTHEW MASON-COX: I just want to be clear, if I can, Dr Gellatly. Have we clearly established that these negotiations on price with Whitehaven are critical in relation to finalising this transaction?

Dr GELLATLY: They are important, yes.

The Hon. MATTHEW MASON-COX: I will now ask you the opposite question: If we do not have finalised negotiations with Whitehaven with respect to price is it possible for this sale to proceed and for bidders to give you a firm price, in your view?

Dr GELLATLY: Yes, there are other options which we are looking at.

The Hon. MATTHEW MASON-COX: Can you please expand on what the options are that you are referring to?

Dr GELLATLY: No.

The Hon. ERIC ROOZENDAAL: It is commercial-in-confidence.

Dr GELLATLY: It is commercial negotiations. We are not going to tell someone publicly what the other options are.

The Hon. MATTHEW MASON-COX: We will move on then. Treasurer, in relation to the competition aspects of the sale, you have made a number of statements as to the need to ensure there is a new entity or new—

The Hon. ERIC ROOZENDAAL: Entry.

The Hon. MATTHEW MASON-COX: —entry into the market, so far as the electricity market is concerned in New South Wales. A critical feature of that is the IPO Strategy, as a backstop for the transaction. Can you provide us with some details in relation to the status of setting up the IPO?

Dr GELLATLY: We have done some preliminary work that obviously cannot really get started until the decisions are made on the bids that we have received. We are doing some preliminary work on the structure and business strategy but we cannot do much until we see what happens with the bids.

The Hon. MATTHEW MASON-COX: What preliminary work have you done?

Dr GELLATLY: We have engaged some advisers to look at a business strategy.

The Hon. MATTHEW MASON-COX: Can you expand on the business strategy in that regard?

Dr GELLATLY: No, if you are going to have an IPO it involves commercial-in-confidence.

The Hon. MATTHEW MASON-COX: Have you appointed a prospective board of directors and chairman?

Dr GELLATLY: We have appointed an interim chair.

The Hon. MATTHEW MASON-COX: An interim chair?

Dr GELLATLY: Yes.

The Hon. MATTHEW MASON-COX: Can you please confirm the name of the interim chair?

Dr GELLATLY: No.

The Hon. MATTHEW MASON-COX: Why? Because that is—

Dr GELLATLY: It is commercial-in-confidence.

The Hon. MATTHEW MASON-COX: In relation to the completion of the revenue and profit forecasts, have you developed anything in that regard?

Dr GELLATLY: They have not been finalised, no.

Dr GELLATLY: It has not been finalised, no.

The Hon. MATTHEW MASON-COX: What about the appointment of accountants and advisers in relation to an IPO?

Dr GELLATLY: We already have existing accountants and lawyers as part of the transaction. My assumption would be that we continue to employ them, as they are already engaged.

The Hon. MATTHEW MASON-COX: In relation to this strategy, I presume that relates to the assets that will be the subject of the IPO and how it will maximise competition?

Dr GELLATLY: Yes, it depends on the bids. It is a work in progress.

The Hon. MATTHEW MASON-COX: It is commercial in confidence?

Dr GELLATLY: Yes.

The Hon. MATTHEW MASON-COX: You are not going to make a decision to progress that until you receive the bids, is that correct?

Dr GELLATLY: That is right.

The Hon. MATTHEW MASON-COX: When do you expect to receive the bids?

Dr GELLATLY: On 1 November.

The Hon. MATTHEW MASON-COX: You expect to have this transaction completed before the end of this calendar year, is that correct?

Dr GELLATLY: Yes.

The Hon. MATTHEW MASON-COX: You get the bids on 1 November. Let us take ourselves into the future and have a look at how this is all going to work. You have done preliminary work in relation to an IPO. Once you receive the bids you will make a decision whether to proceed. How long do you think it will take you to get an IPO up and running in order to meet completed sales at the end of this calendar year?

Dr GELLATLY: Clearly, if there is an IPO it will not be done this calendar year. We are talking about transactions in terms of the sale of the assets that are on the table.

The Hon. MATTHEW MASON-COX: When do you think an IPO will be completed by?

Dr GELLATLY: In the next year.

The Hon. MATTHEW MASON-COX: When next year?

Dr GELLATLY: Six months. It is early days yet.

Dr JOHN KAYE: I want to continue with the line of questioning by Mr Mason-Cox. You are saying now that the IPO cannot be completed until next year?

Dr GELLATLY: Obviously.

Dr JOHN KAYE: If an IPO is required it will not be completed until next year?

Dr GELLATLY: Obviously you cannot do an IPO from November 1 in a month, two months.

Dr JOHN KAYE: I am glad to hear you say that. That is an important statement. You are saying then that the IPO will be transacted across a possible change of government?

Dr GELLATLY: If it is required, yes.

Dr JOHN KAYE: Have you or anyone working with you done an analysis of the political risks associated with this and the way that a potential change of government—what many people perceive as a likely change of government—will interact with the whole IPO process?

Dr GELLATLY: Clearly, it is a matter for the Government that is in power after March to make the decision on where it is up to. We would not do anything in the caretaker period, as per convention. Other than that, we will proceed on.

Dr JOHN KAYE: You would see a situation in which the binding bids are received on 1 November?

Dr GELLATLY: Yes.

Dr JOHN KAYE: They are resolved in some fashion in which some of the assets are transferred to the ownership of some of those binding bids?

Dr GELLATLY: Ideally all.

Dr JOHN KAYE: Possibly not. Then, according to the commitment of both the Government and the Australian Competition and Consumer Commission [ACCC], in order to bring a third entrant, a third player into the market, that IPO would then be conducted. You would commence public work on that IPO, that is to say, you would notify the stock exchange of an IPO. Roughly speaking, when do you think that would happen?

Dr GELLATLY: I have not done any detailed work on that.

Dr JOHN KAYE: This does not require detailed work. You know you are going to get your bids on 1 November. You are deliberately not being open with the Committee.

The Hon. ERIC ROOZENDAAL: I am happy to respond to this.

Dr JOHN KAYE: You know full well when the bids come in. You should know full well the timing.

The Hon. ERIC ROOZENDAAL: It is out of order for John Kaye to start telling witnesses what they know or do not know. It is out of order. If John Kaye had perhaps looked at any of my answers in the House over the last 12 months, he would have seen many references to the IPO. We have consistently made it clear that

our objective is to complete the transaction by 1 November. We have consistently referred to the interest of getting a new entrant coming into the electricity market. We also have consistently said to industry and I have said many times in the House that in the event we do not succeed in a new entrant through the bidding process on 1 November we envisage a number of the assets being sold and then a number of the assets being bundled up into an IPO, which would then proceed from that period and go into the new year. That is not a revelation. It is well and truly on the public record. Whether John Kaye was aware of it or not, I suspect he was and he is just doing his little show here trying to skewer people, as he has been boasting. But, of course, he is getting it wrong again. It is all on the public record.

Dr JOHN KAYE: Thank you, Treasurer, I appreciate your saying that. A wonderful answer again, Treasurer.

The Hon. ERIC ROOZENDAAL: Thank you, very much, I appreciate the compliment.

Dr JOHN KAYE: Mr Gellatly—

CHAIR: Dr Gellatly—

Dr JOHN KAYE: I apologise, Dr Gellatly.

Dr GELLATLY: That is all right, Dr Kaye.

Dr JOHN KAYE: Dr Gellatly, what is the earliest possible stage in your analysis that the IPO can go to the stock exchange?

Dr GELLATLY: Realistically towards the middle of the year.

Dr JOHN KAYE: Towards the middle of 2011 would be the first time it could go to the stock exchange?

Dr GELLATLY: Yes.

Dr JOHN KAYE: You are saying that the assets that can be sold will be sold through the preferred tendering process. Then we will wait around until the middle of next year to go to an IPO?

Dr GELLATLY: No, I said there is a process. The bids are received on 1 November. There will be decisions made on accepting or rejecting those bids and, ideally, all the assets will be sold by the end of December. Then if there is a need for an IPO, obviously we would start to work. So we would start but the actual floating would not happen until towards the middle of the year. It is obvious that is the time required to do the analysis, get the forecast, do all the data, all due diligence required. It takes time. There has been no secret about that.

Dr JOHN KAYE: Mr Schur, I heard you refer to the need to transfer these assets in order to make sure that the private sector participates in the development of future generation. That is the argument that was put forward by Tony Owen in 2007.

The Hon. ERIC ROOZENDAAL: That is right.

Dr JOHN KAYE: That is still the guiding philosophy behind the transaction, is it?

The Hon. ERIC ROOZENDAAL: These are questions in relation to the philosophy of the transaction. If you want to go into the area of philosophy, I am more than happy to. I have a lot of philosophy that I am happy to share with the Committee, if they are interested. In relation to the transaction, there has been a very clear series of determinations by the Cabinet that it is the intention of the New South Wales Government to remove itself from any need for future generation and to take that responsibility away from the people and taxpayers of New South Wales. That has been a clear objective of the energy transaction from day one, and it stays a clear objective.

Dr JOHN KAYE: Mr Schur, you are aware of the statement of opportunities formerly put out by the NGMC and now put out by the Australian Energy Market Commission [AEMC]. You would be aware that in

2007 the statement of opportunity, quoted extensively by Associate Professor Owen, said that there would be about a 200 megawatt shortfall by 2013-14. You also would be aware that the 2008 statement of opportunities said that that shortfall would occur in 2014-15, in 2009 in 2015-16 and in 2010 in 2016-17. That is to say there is a clear 6½ year lead before that happens.

You would also be aware that Mr Brian Spalding, then managing director of what is now the AEMC, said clearly in a submission to Tony Owen that whatever shortfall opened up could be dealt with by demand site participation. What he was really saying was it was not a baseload issue, it was actually a peaking issue. You are aware of all those issues. Do you think that this ought to trigger alarm bells in respect of the Owen inquiry and the whole issue of the need to engage further to privatise the industry or to transfer control of the industry in order to continue the development of the baseload generation in New South Wales?

The Hon. ERIC ROOZENDAAL: Chair, this question goes to the determination of the Cabinet. The honourable member is asking one of the witnesses to respond to a decision of Cabinet. This is a position taken by the Cabinet. The transaction process has been commenced. It is inappropriate to ask the witness the line of questioning he is asking. He is questioning a Cabinet determination.

Dr JOHN KAYE: The only reason I was asking the witness was in terms of getting an answer that understood the flaws within the Owen inquiry. I have asked you, Minister, this question many times before and you have never given me a sensible answer. I was hoping someone in Government would be able to give me a sensible answer. Clearly, that is not the case.

The Hon. ERIC ROOZENDAAL: That sort of witty remark underlines—

Dr JOHN KAYE: Let me ask you a question. Are you aware of—

CHAIR: The Minister was still answering your question.

Dr JOHN KAYE: No, he was not; he was abusing me—that is a different thing. Treasurer, are you aware of statements made by Professor Tony Owen—the man who informed what we are now told is a Cabinet determination and therefore unquestionable—on Monday 13 September, yesterday, to the *Australian Financial Review* in which he says very clearly that the outcome is far from ideal. He says there are ways and means to upset things if they tried. He says, "For an incoming Liberal Government this will be a bonanza in the early years. It's going to be a pretty awful deal for the Gentraders if they haven't got the coal contracts in place as soon as they take over." He also goes on to say that he thinks that there is a good chance that the privatisation will not go ahead. Treasurer, is Tony Owen correct in all of these statements?

The Hon. ERIC ROOZENDAAL: No.

Dr JOHN KAYE: So Mr Owen was correct in the advice he gave you in 2007—a highly reliable expert in 2007—suddenly in September 2010 he does not know what he is talking about, is that correct?

The Hon. ERIC ROOZENDAAL: That is not what I said. You asked me was it correct and I have answered it.

Dr JOHN KAYE: Does he know what he is talking about when he makes these statements in the *Australian Financial Review*?

The Hon. ERIC ROOZENDAAL: I think we need to go back to the Owen report since you have so selectively chosen to talk about it because, of course, the recommendation in the Owen report was to sell the whole electricity industry kit and caboodle, sell the whole lot—the publicly owned generators, the poles and lines—much along the Victorian model.

Dr JOHN KAYE: That is actually not true. It is nothing like the Victorian model in the Owen inquiry. It did not include transmission, it did not include distribution and it did not include necessarily a recommendation for the sale of generators.

The Hon. ERIC ROOZENDAAL: If Mr Owen wants to express a particular point of view many years later that is certainly within his prerogative to do so. But there is no shortage of people expressing views in

relation to this transaction, and, of course, Mr Kaye has developed quite a talent for cherry picking only those perspectives that suit his agenda to sabotage this transaction, as in every other privatisation he has criticised.

Dr JOHN KAYE: The Treasurer distributed some material on CDOs. Are we not going to get those?

CHAIR: There are no official documents. It was not a Treasury document.

The Hon. ERIC ROOZENDAAL: I wanted to table it.

Dr JOHN KAYE: I wanted a copy of it.

The Hon. ERIC ROOZENDAAL: Don't worry; I will get you a copy of it.

CHAIR: Treasurer, just getting back to electricity prices in New South Wales, as you know, they have increased dramatically and one of the factors, according to the reports, is that they are including allowances for carbon trading effects in those prices, is that correct?

The Hon. ERIC ROOZENDAAL: I will let Mr Cosgriff answer that.

Mr COSGRIFF: Yes, that is correct.

CHAIR: How can they include it when there has been no decision made about it and no legislation, Federal or State?

Mr COSGRIFF: The process of setting regulated tariffs for energy prices involves a process of pass through where effectively changes in the wholesale price, which would be affected by things that affect the supply and demand balance, including greenhouse prices, are able to be passed through. The Independent Pricing and Regulatory Tribunal made an estimate of what the likely impact might be and that was included in the view of forward prices. When they determine prices for the year in question they take account of an estimate of what will happen to wholesale prices for the next year, for instance. They do not include a specific greenhouse gas component until some national legislation comes into place. The process of determining it is effectively a process of allowing for the pass through of things that affect the wholesale cost and regulated retail tariffs.

CHAIR: But it does include that component?

Mr COSGRIFF: It includes the capacity to pass through greenhouse gas prices as they affect the energy price at some point in the future.

CHAIR: But we are not certain when that will occur.

Mr COSGRIFF: No, we are not certain when that will occur and therefore we are not certain of the exact greenhouse effect on energy prices and consequently the effect on regulated retail prices.

CHAIR: But it has forced up electricity prices, has it not?

Mr COSGRIFF: It has not forced up electricity prices at the moment because there is no national scheme in place. Most of the price changes that have happened in the most recent determination have been as a result of the determination by the Australian Energy Regulator [AER] into network charges. The electricity prices faced by the retail customer comprises three components. First, the wholesale energy price—the price at which generators sell on to the electricity market; second, an allowance that recovers the costs of network charges, transmission and distribution, and those two factors are, roughly, from memory, about 45 per cent each of the retail price; and, third the retail margin, which is, from memory, around 10 per cent of the price.

So the energy prices faced by a customer comprises approximately 40 per cent the wholesale energy price, a margin for network and distribution costs and approximately 10 per cent retail margin. The most significant component that is impacting on prices at the moment is the allowance for distribution and other network charges that the AER determines as part of its independent regulatory process.

CHAIR: That is your explanation for why the electricity prices have increased so dramatically?

Mr COSGRIFF: Yes. There have been changes in the wholesale price but the most significant impact has been the determination by the Australian Energy Regulator.

CHAIR: There certainly has been a big increase in customers' bills and the impression was that that was because they were including an allowance for carbon trading even though the legislation had not been passed. As you said, it has not been passed.

Mr COSGRIFF: In due course, if legislation was to pass, a greenhouse trading scheme, for instance, would have an impact on the wholesale price of energy, and under the methodology IPART used to determine regulated retail prices, that cost of wholesale energy would be passed through into the retail prices. But that is not a factor that is impacting retail prices as we speak at the moment.

CHAIR: I note in the budget papers that there is a calculation for the Office of State Revenue in collecting fines and I was curious as to why they are anticipating it will cost more to collect fines in 2010-11 than in 2008-09, according to Budget Paper No. 3, Volume 2, page 14-15. In 2008-09 it was \$11.02 and for 2010-11 it is anticipated that it will be \$12.81 per \$100 fine. Is there any reason why you are allowing for what seems to be a large increase? Perhaps there should be a decrease?

Mr NEWBURY: There are two reasons for that. The first reason is that we have changed the method of calculating the cost of collection. The previous method that you referred to where the figure was \$11.02 did not include some of the overheads such as depreciation. So we have changed the calculation method to be more in line with the modern practice of counting the cost of collection. The second reason is that there will be an increase in the number of camera fines in 2010-11. That is due to the Government's road safety program. Camera speed fines and red-light camera fines are the most resource intensive fines because the State Debt Recovery Office gets a photo image that it must adjudicate to verify the vehicle registration and whether the driver was committing an offence. Many of the other penalty notices do not require that process. These are far more resource intensive so the cost of collecting the revenue increases.

CHAIR: I note in the budget papers a reference to payroll tax reduction harmonisation. Can you explain that?

Mr COSGRIFF: Harmonisation has involved making the standards and policies for the collection of payroll tax consistent between the jurisdictions. A process was kicked off between ourselves and the Victorian Treasury to ensure that the definition and policies that we used for the collection of payroll tax were consistent. That applied just to that rather than the rates at which payroll tax was set. That has been extended through a Council of Australian Governments process across state-based jurisdictions. The idea is to harmonise as much as possible the policies relating to payroll tax collection as distinct from the tax rate.

CHAIR: That would produce a more accurate comparison between the States.

Mr COSGRIFF: It makes it easier for employers who have people working for them in different jurisdictions. Effectively the same policies apply.

CHAIR: I obviously fully support the reduction in workplace injuries and fatalities. According to the budget papers you have been able to reduce premiums by 30 per cent. Is that correct?

Mr RONISVALLE: The cost of workers compensation premiums charged by self-insurance corporations has fallen over a number of years. In recent years there has been an increase in the aggregate premium resulting from some issues in the death and disability scheme, particularly in the police area.

CHAIR: If you are able to reduce the premium rates does that mean you have eliminated that outstanding WorkCover—

Mr RONISVALLE: Are you referring to the WorkCover scheme or the State self-insurance scheme?

The Hon. ERIC ROOZENDAAL: I am advised that the details of the WorkCover premiums are the province of the Minister for Finance.

The Hon. TREVOR KHAN: Mr Schur, I refer you to the Metropolitan Transport Plan. The document contains various subcategories set out for a range of projects, and they are not round figures. For instance, if you refer to "Planning the Future Transport Network" there is a figure of \$536 million. Obviously, some fairly precise calculations have been done behind the scenes to come up with that figure; it is not plucked out of the air. Is that right?

Mr SCHUR: Yes.

The Hon. TREVOR KHAN: Science, as opposed to art, was applied in arriving at the figures; is that right?

Mr SCHUR: Yes.

The Hon. TREVOR KHAN: In summary, Western Express has \$4.53 million; light rail, \$500 million; south-west, north-west, Chatswood, rail quadruplication, \$2.759 million; bus projects, \$2.878 million; cycleways, \$158 million; ferries, \$225 million; roads, \$21.85 million; and freight, \$483 million.

The Hon. ERIC ROOZENDAAL: Is there a question coming?

The Hon. TREVOR KHAN: I am getting there. It continues: Better customer experience, \$16.244 million; and planning, \$536 million. They are all precise figures. The total is \$50.163 billion.

The Hon. MICHAEL VEITCH: You are well briefed.

The Hon. ERIC ROOZENDAAL: It is a public document.

The Hon. TREVOR KHAN: Do I take it that where you are talking about the money now to be allocated for the Epping to Parramatta line that would have to come from a rail category as opposed to, for instance, ripping it out of cycleways? The cycleways figure of \$158 million is a precise figure that has obviously been scientifically calculated.

Mr SCHUR: Yes.

The Hon. ERIC ROOZENDAAL: Can I just say—

The Hon. TREVOR KHAN: That is a yes.

The Hon. ERIC ROOZENDAAL: It is important to understand that it is a 10-year plan and \$50.2 billion has been allocated. I do not want you to get too hung up with your Rumpole impersonation. You refer to a "precise science". The numbers allocated to those projects are developed by Treasury using the appropriate model based on the best information supplied by the agencies. As you can imagine, with particular projects, such as the western express line, until you do a lot of the work—the geotechnical and route work—and analyse it, that number is not set in stone. It is the best possible number that can be allocated with the information available on a particular project.

CHAIR: They are estimates.

The Hon. ERIC ROOZENDAAL: It is a determination based on the best possible information supplied by the agency. My experience, particularly with projects that involve tunnelling and major construction, is that many variables can have an impact. The cost of land and geotechnical challenges can create problems. Soil can settle 5 metres, 10 metres, 15 metres or 20 metres. There are places on the North Coast where it can settle up to 60 metres during construction. It literally must settle down before they can build. The rock that must be drilled can also cause variations that need to be taken into account. However, the numbers put towards the projects are the best available.

The Hon. TREVOR KHAN: If you allocate \$4.53 million for the western express line that figure includes a contingency of 25 per cent on the project cost. Would that be right?

Mr SCHUR: I do not know the answer to that. You would have to get that information from the Ministry of Transport.

The Hon. TREVOR KHAN: Mr Schur, you provided the undated letter stating that the money can come out of the budget.

Mr SCHUR: I refer to my previous answer. What you have repeated to me are not specific projects—they are categories of spend; they are programs. I will repeat what I said previously, which is that the Metropolitan Transport Plan—the 10-year, \$50.2 billion metropolitan plan—identifies specific projects and there is also available funding for as yet unidentified projects that fit into some of the categories you referred to. There are contingencies and funding for business-as-usual activities, such as upgrades to power supply and other conventional aspects of the RailCorp program. Treasury's advice—it has not changed and it will not no matter how many times you ask me the same question—is that a dollar amount equivalent to 1 per cent of that spending can be allocated to the Epping to Parramatta rail link without its having an impact on any of the specific projects that are identified in the 10-year metropolitan plan. That was our advice and I reflected that advice to the Premier in the updated letter to which you referred.

The Hon. TREVOR KHAN: When you were asked to provide that letter, had it typed up and sent it off, the bottom line is that you did not go back to the agency and say, "Look, where can I find \$520 million?" You just said, "It is 1 per cent so we should be able to find it."

Mr SCHUR: I did not need to do that. I consulted with the experts in Treasury who are in a position to confirm our view on this.

The Hon. TREVOR KHAN: Who were those experts in Treasury that you say you consulted?

Mr SCHUR: The people who provide us advice on transport, people who work in that area within the Treasury branch.

The Hon. TREVOR KHAN: Who is that?

Mr SCHUR: I am not going to name individuals. It is a team of people who work within Treasury. I do not see the relevance of this. This is Treasury advice. I do not think I have to list names of individuals who participated in putting that advice together. This was Treasury advice. It was done in consultation with the agency. This was put to Government and Government accepted this position that it would be funding from within the funding envelope based on Treasury's advice.

The Hon. TREVOR KHAN: That is what they were telling you to advise them, was it not? That is what the Premier wanted. She got stuck into—

Mr SCHUR: No, you have the timing wrong, Mr Khan, and you are not listening to my answers. I have explained to you—and I will repeat it now—that there was a budget committee decision prior to the announcement, between 24 and 48 hours prior to that announcement. Our advice was consistent with what was reflected in that letter, not the other way around, notwithstanding that that letter was not dated. I have given you an answer. The advice came first in relation to the decision to fund this, then the announcement and then my letter. That is the order of the sequence of events, notwithstanding the fact that I made an error in forgetting to date my letter.

The Hon. MATTHEW MASON-COX: If we can just turn back to electricity for a moment, how do you respond to market participants' concerns that the gentrader contract is close to 280 pages long, which is a legal case waiting to happen on every page?

Mr SCHUR: I think I will let Dr Gellatly answer that question.

The Hon. MATTHEW MASON-COX: Has that concern been raised with you, Dr Gellatly?

Dr GELLATLY: Not that specific concern. We have asked for comments from the bidders when we put the pro forma contracts in and from 1 September we put in the detail, and we are getting feedback and we will be considering that over the forthcoming weeks.

The Hon. MATTHEW MASON-COX: Has that feedback been centred on the complexity of the gentrader model?

Dr GELLATLY: No, I think the main issue, and it is pretty obvious, is the allocation and risk issue between the gentraders and the owners or the generators. That is the whole key to the gentrader concept, the allocation of risk between the gentraders and the owners.

The Hon. MATTHEW MASON-COX: In relation to the allocation of risk can I ask you whether a moderate risk allocation will see some indemnities or guarantees coming from the Government in relation to specifically what might happen with an emissions trading scheme?

Dr GELLATLY: I am not entering into any of those commercial arrangements. They will be in the negotiations with the bidders.

The Hon. MATTHEW MASON-COX: Will you rule out the New South Wales public having to wear any potential financial risk associated with an emissions trading scheme by way of indemnity or guarantee from this Government?

The Hon. MICHAEL VEITCH: Point of order: Dr Gellatly has continually—

The Hon. MATTHEW MASON-COX: I am directing my question to the Treasurer.

Hon. MICHAEL VEITCH: It is still commercial-in-confidence.

The Hon. MATTHEW MASON-COX: The people of New South Wales need to understand that the allocation of risk should not see massive financial implications into the future for New South Wales taxpayers. I am just asking the Treasurer to rule out the use of guarantees, the use of side deals, the use of indemnities to protect the position of New South Wales taxpayers.

The Hon. ERIC ROOZENDAAL: I refer the question to Dr Gellatly.

Dr GELLATLY: One of the responsibilities of the gentraders will be the carbon line liability arising from any emissions trading scheme.

The Hon. MATTHEW MASON-COX: So what do you intend to do in that regard?

Dr GELLATLY: What do you mean?

The Hon. MATTHEW MASON-COX: Do you rule out having the taxpayers of New South Wales assume that risk by indemnity, side deals, and guarantees?

Dr GELLATLY: Yes, I am saying the gentrader concept is a risk that a private sector trader will take.

The Hon. MATTHEW MASON-COX: So the taxpayers will not wear any of those risks?

Dr GELLATLY: That is the whole idea of the gentrader agreement, the allocation of risk.

The Hon. MATTHEW MASON-COX: I will take that as ruling out any indemnity—

The Hon. ERIC ROOZENDAAL: No, you can take it as you want, but do not try to verbal any of the witnesses here. You ask your questions and you get answers. Do not make up your own answers and repeat them to yourself. That is not healthy for your mental health.

The Hon. MATTHEW MASON-COX: Thank you for that wonderful insight, Treasurer.

The Hon. ERIC ROOZENDAAL: That is all right.

The Hon. MATTHEW MASON-COX: Dr Gellatly, we have a whole range of uncertainties that you have identified. We have the uncertainty about the price of carbon federally. We have an uncertainty in relation to an emissions trading scheme, whether we have one or not and what might be the form of one if we do have one. We have difficult challenging capital markets in relation to lending that bidders have to contend with. We

have the uncertainty of coal contracts and no pricing going forward that bidders can rely on at this point in time, and that may not be forthcoming at any time given your previous evidence.

Dr GELLATLY: No, I disagree with that.

The Hon. MATTHEW MASON-COX: In light of all those things, in light of all those uncertainties, and the complexity of the gentrader model as well, and the uncertainty that brings, how can you justify the decision that the sale model is in the best interest of the people of New South Wales?

Dr GELLATLY: I think the whole process of the gentrader model and the reform strategy is for the trading activities and the associated risks to be with the private sector, to get the Government out of that, and that is the whole idea of it. You cannot have an arrangement where there is no risk. That is the whole idea of the model, that the private sector takes those risks.

The Hon. MATTHEW MASON-COX: Precisely. Are you concerned that those risks will be factored into the prices the private sector will pay for these assets?

Dr GELLATLY: Obviously.

The Hon. MATTHEW MASON-COX: Are you concerned that that may not be in the best interests of New South Wales, given that there are figures around the marketplace at the moment that \$5 billion is the cost associated with—

The Hon. ERIC ROOZENDAAL: I will respond to that. I have a sense of déjà vu about this line of questioning because it reminds me of exactly the same line of questioning the Opposition was running on lotteries when it was talking down the lotteries transaction and forecasting an outcome of \$400 million and saying we should have got \$600 million for it and it was sold for a total of a billion dollars in proceeds. We are in a serious transaction and obviously the participants in this transaction are very well versed with the industry. They understand the industry and the marketplace and they also understand the risks and they will value those risks accordingly in the process of their bids. That is how normal large commercial transactions proceed.

The Hon. MATTHEW MASON-COX: It sounds like the risk you took in New South Wales, Treasurer.

The Hon. ERIC ROOZENDAAL: I can appreciate your line of questioning is a bit clouded because you have a shadow Treasurer up to his neck in CDOs, who has been caught fabricating information before, who was caught trying to talk down the lotteries transaction and proved wrong by the market, and here we have it again—every attempt to taint the waters of this transaction, every attempt to talk it down, not in the best interests of the people of New South Wales, just talk it down. All of the participants are sophisticated operations. This is not a lolly shop we are selling here; we are selling the output of the generators, development sites and the retail books. All of the bidders in the data room are sophisticated investors and bidders, with large teams working through and valuing the risk. Someone with your lack of knowledge would not make it into any of their teams. So do not pretend you know more than you do, because clearly you are getting poor advice from the shadow Treasurer.

The Hon. MATTHEW MASON-COX: I put it to you, Treasurer, that given all the uncertainties I have listed in relation to the emissions trading scheme—prices for coal, the complexity of the model, et cetera—that this is really a fire sale of these assets given that these risks have to be factored into the prices that bidders are willing to pay?

The Hon. ERIC ROOZENDAAL: In every commercial transaction the participants in the process factor in the appropriate risks. When I look at your record, particularly in talking down the lotteries transaction and forecasting proceeds at around \$400 million when the proceeds were closer to a billion, you have no credibility in trying to value this process, no credibility.

The Hon. MATTHEW MASON-COX: Let us move on to Special Minister of State. Let us have a couple of questions on that. On what date did you receive the first draft scripts for the Be Aware Take Care advertising campaign? Are you familiar with that in relation to the Building the Education Revolution nation building?

The Hon. ERIC ROOZENDAAL: Yes, I am. I will have to take that question on notice.

The Hon. MATTHEW MASON-COX: On what date did you return the scripts to advertising producers with your suggestions and amendments?

The Hon. ERIC ROOZENDAAL: Since you have raised the Building the Education Revolution—

Hon. MATTHEW MASON-COX: I have raised the advertising campaign.

The Hon. ERIC ROOZENDAAL: Yes, and it is a very important campaign. I appreciate this opportunity. I was very concerned that we had over 3,000 schools as construction sites around New South Wales. It is worth contemplating that with the construction being undertaken in relation to the Building the Education Revolution and the State's own education capital works program, which was in addition to the Building the Education Revolution, that we had some 3,000 construction zones. You asked about the advertising campaign.

The Hon. MATTHEW MASON-COX: I would like to ask a specific question.

The Hon. ERIC ROOZENDAAL: And you will get your answer. With those 3,000 construction sites, you have to be extra vigilant because you have schoolchildren, teachers, construction workers, the traffic associated with schools and construction all interacting.

Dr JOHN KAYE: That is not true.

The Hon. ERIC ROOZENDAAL: Well, it is true.

Dr JOHN KAYE: It is not true.

The Hon. ERIC ROOZENDAAL: It is true.

Dr JOHN KAYE: Name a school where they interact? Name one school in New South Wales where they interact.

The Hon. MATTHEW MASON-COX: Point of order: I have limited time. I am asking a specific question about the advertising campaign, not the program.

The Hon. ERIC ROOZENDAAL: And I am explaining to you exactly why the advertising campaign is put there.

The Hon. MATTHEW MASON-COX: I will ask you a different question.

The Hon. ERIC ROOZENDAAL: Fine.

The Hon. MATTHEW MASON-COX: Can you please explain the fact that you personally oversaw this \$2.5 million campaign and that you asked for the campaign strategy to be rewritten in clear contravention of the New South Wales Auditor-General's recommendations? Why did you do that?

The Hon. ERIC ROOZENDAAL: I thought this was a very important campaign. We had some 15,000 construction workers, working in over 3,000 school sites around the State, both public and private independent schools. That is an awful lot of people working on an awful lot of work sites. I was particularly concerned that there be a community awareness campaign, to be aware and take care around those, to make sure that workers, parents, teachers and school communities were aware of the potential hazards and what can occur around construction sites. The campaign went through all the appropriate approval processes for a public education safety campaign and was assessed and approved in line with the New South Wales Government advertising guidelines.

Dr JOHN KAYE: I notice before, in answer to another question, that you effectively said that the shadow Treasurer was, to some extent, tainted by his connection to CDOs, is that correct?

The Hon. ERIC ROOZENDAAL: Yes. I will say it again if you like?

Dr JOHN KAYE: No, I do not want you to. There is no need. That is fine. What I really want to ask you is: Does not your criticism of the shadow Treasurer also equally apply to the rating agencies Standard and Poor's and others who are also heavily involved with the issue of CDOs? Indeed, Standard and Poor's quite famously went around giving triple-A ratings to CDOs, so your criticism of the shadow Treasurer also applies to the rating agencies?

The Hon. ERIC ROOZENDAAL: I will take that in two parts. Because you have raised my criticisms of the shadow Treasurer, I will respond directly to that and I will deal with the issue.

Dr JOHN KAYE: No, you have already responded to that. I want you to respond to the rating agencies.

The Hon. ERIC ROOZENDAAL: In fact, there are parallels in the two.

Dr JOHN KAYE: Are you saying the shadow Treasurer is like a rating agency? You trust the rating agencies, therefore you trust the shadow Treasurer?

The Hon. ERIC ROOZENDAAL: Should I go and have a toilet break while you answer my own question?

Dr JOHN KAYE: You are welcome to.

The Hon. ERIC ROOZENDAAL: It might bore the Committee a bit. The shadow Treasurer, in a rare moment of honesty, confessed at a lecture that he was involved in CDOs. He was embarrassed by it, made a derogatory comment about the person involved and he felt haunted by those words. The cover-up came when he published that exact speech on his website and deliberately omitted those comments, because when he went back and referred to them, he realised that he had outed himself and he did not want that going on to his website. He deliberately covered up on the issue, and I think that is inexcusable for someone who envisages that he wants to be the Treasurer of this State.

On the issue of the rating agencies, there is no doubt that the rating agencies have a lot to answer for in the way they were rating those products and other financial products that contributed to the sub-prime. There is no doubt and certainly there has been a lot of discussion internationally, particularly in the United States, about the conduct of the rating agencies. I think the rating agencies have adopted a number of policies since to ensure that that sort of mistake does not happen again, but the rating agencies can argue for their own position on that.

Dr JOHN KAYE: Certainly the rating agencies can and do argue for their own position on that, but my understanding is that we use Standard and Poor's and Moody's, and one other?

The Hon. ERIC ROOZENDAAL: Yes. We use Standard and Poor's to rate the State. We also use Fitch for some of the State-owned corporations.

Dr JOHN KAYE: And every year we give them how much, what, \$300,000, \$400,000, for the exercise?

The Hon. ERIC ROOZENDAAL: I am sure I answered this last year. It is about \$300,000 a piece.

Dr JOHN KAYE: Thereabouts?

The Hon. ERIC ROOZENDAAL: Roughly, yes.

Dr JOHN KAYE: You spend a lot of time worrying about maintaining the triple-A rating. In fact, you often attack both the Greens and the Opposition because you suggest that we are threatening the triple-A rating?

The Hon. ERIC ROOZENDAAL: I do not attack the Greens just for that. I attack the Opposition for their incompetence, their fabrication and lots of other issues.

The Hon. MATTHEW MASON-COX: Do not open yourself up to attack, John.

Dr JOHN KAYE: No, it is good for business. On the one hand, we know that the rating agencies were actually pivotal in creating the global financial crisis.

The Hon. ERIC ROOZENDAAL: I think it was the products themselves.

Dr JOHN KAYE: They also tried to cover it up—it was only when a house committee in the United States actually got to the bottom of it and forced them to tell the truth about the role they played. So you are saying that the rating agencies have the same level of creditability, in your mind, as the shadow Treasurer?

The Hon. ERIC ROOZENDAAL: In relation to the rating of those CDO products, yes.

Dr JOHN KAYE: Let us move to the issue of coal royalties. I note from Budget Paper No. 2 that coal royalties fell by about 30 per cent between 2008 and 2009. That presumably was partly a decline in price and partly a decline in quantity. The budget then very boldly predicts that they will leap up by 86 per cent for the year 2010-11 and remain more or less in the vicinity of \$1.6 billion to \$1.7 billion for the remainder of the forward estimates period. This question might be to you, Mr Schur?

The Hon. ERIC ROOZENDAAL: I think Mr Cosgriff will answer it.

Dr JOHN KAYE: What risk analysis did you do on those figures? The nature of budget forward estimates is that they are presented to the public just as a one line forecast. Surely there is a fair amount of uncertainty associated with those figures?

Mr COSGRIFF: Yes.

Dr JOHN KAYE: Although we do not export huge amounts of thermal coal to China, the international coal market is very dependent on Chinese consumption of coal and our price and quantity would be determined by that. You would probably be aware that the Chinese Government has made some fairly dramatic moves to reduce greenhouse gas emissions, including shutting down a number of coal burning activities within that country?

Mr COSGRIFF: Royalties are affected strongly by three things—the volume of exports that go out of New South Wales, the United States dollar price that contracts are traded at and the exchange rate. Significant changes in one of those three things will lead to significant changes in our royalty revenue.

Dr JOHN KAYE: You did not include price in that?

Mr COSGRIFF: Yes. The United States dollar contract prices for coal are significant. The exchange rate has been quite significant for the revenue received by New South Wales as well. Most of the coal contracts are denominated in United States dollars so any exchange rate risk will be borne domestically and that will affect the revenue that New South Wales gets. Historically it has been true that forward contracts for the year ahead have generally been settled around April and you generally get a good sense of what the prices are for the year ahead.

You then have to make a judgement about what the exchange rate will be and, if that changes significantly from your assumption, then that will affect our royalty regime, and there is a question of volumes. The increase that is in the budget papers largely reflects a volume increase from the increased capacity through the Newcastle port. We have assumed an exchange rate of 90¢ to the dollar. That has been reasonably robust at that rate in this year and the United States dollar prices have been consistent with the numbers that we have in the budget. Looking forward, there is an issue around all three of those variables. We could be a little bit more confident, I suspect, about the volumes than the exchange rate and the United States dollar price but they are the two principal variables that you have to think about looking forward in terms of determining our royalty revenue.

Dr JOHN KAYE: When Treasury determines the forward estimates—you can see the outcome of the forward estimates as in the Treasurer's red and green diagram here—does your group provide risk analysis to the Treasurer? Does it look at any scenarios whereby perhaps we will not get \$1.76 billion in coal royalties in 2013-14?

Mr COSGRIFF: The sensitivities are done on the basis that different exchange rates and different United States dollar prices will lead to different impacts on the total coal royalties. Those scenarios are developed and they are understood.

Dr JOHN KAYE: Can you inform the Committee as to what the scenarios look like for 2013-14 and, apart from those three factors, what were the underlying factors that were driving that? Were you looking at economic conditions in China? Were you looking at global attitudes to burning coal? Were you looking at, for example, a move away from coal in some of our key markets?

Mr COSGRIFF: I can take the question on notice and provide the Committee with the sensitivity analysis.

Dr JOHN KAYE: That would be great. Thank you.

CHAIR: The media reported a claim that the Treasurer helped to organise cuts of up to \$200 million from various projected upgradings of various highways: the Pacific Highway, the Princes Highway, the Great Western Highway and the Hume Highway. For example, the projected cost of the Pacific Highway upgrade was \$973 million, and it was reduced to \$871 million; the projected cost of the Princes Highway upgrade was \$66 million, and it was reduced to \$62 million; the projected cost of the Great Western Highway upgrade was \$178 million, and it was reduced to \$174 million; and the projected cost of the Hume Highway upgrade was \$418 million, and it was reduced to \$345 million. Effectively, each of those projects was skimmed, to produce a \$200 million saving. Treasurer, what is your response to that claim?

The Hon. ERIC ROOZENDAAL: The Keneally Government will invest a record \$4.7 billion to build and maintain critical road infrastructure across New South Wales. That is the highest Roads budget in the history of the State. It represents a \$300 million increase on last year's record Roads budget. The Keneally Government's 2010-11 Roads budget is strongly focused on the demands of a growing metropolitan area, reinforcing the capacity of the core, established network and the need for increased capacity on our major highways. The road investment programs will support over 6,000 construction jobs.

CHAIR: You have not responded to the question. Was there a deliberate trimming of those amounts in order to help increase the surplus?

The Hon. ERIC ROOZENDAAL: We increased the Roads budget by \$300 million from last year. Each agency puts in its nominal bid, and there is a process whereby those bids are dealt with through a budget process. In fact, the Roads portfolio did very well, with a \$300 million increase. As to the specific projects, I am unaware of the information that was in the media and I do not know where that came from.

CHAIR: Will you take the question on notice and investigate that matter?

The Hon. ERIC ROOZENDAAL: I am happy to.

CHAIR: I note that in the budget papers there are still references to the HIH claims liability, which is \$32.5 million. I understand that a levy has been added to registration charges. When will that insurance protection phase out?

The Hon. ERIC ROOZENDAAL: In July 2011 we are phasing that out. That is announced in the budget papers, I believe.

CHAIR: There was also some discussion about a proposed sale of the Pillar superannuation activity. What is the current situation in that regard? Is that still the projected plan?

The Hon. ERIC ROOZENDAAL: In relation to Pillar I can advise the Chair that we had announced originally a potential sale of the Pillar superannuation administration business. Extensive investigations have been conducted into Pillar Administration—normal due diligence investigations—and they have been completed. From that process, a number of business improvement opportunities have been identified. What we have decided to do, and what we have announced, is that we are seeking innovative proposals to now leverage Pillar's superannuation administration activities to develop a financial services centre of excellence in the Illawarra region. Expressions of interest were sought recently; that was publicly advertised. A number of

proposals are now with us and they are being currently assessed, and a decision regarding the next steps will be made in due course.

CHAIR: What is the timetable? When you say "in due course", what does that mean?

The Hon. ERIC ROOZENDAAL: My advice is that we are assessing the proposals now. I think that process will take some time, because they are quite different proposals. Hopefully, by the end of this year we will be able to give some further public indications as to how we will develop that financial sector for the Illawarra.

CHAIR: Obviously, you would want to get that completed before the next State election?

The Hon. ERIC ROOZENDAAL: That will not be a driving pressure. We think that Pillar presents good opportunities to develop a financial services sector, and we think it is appropriate that we take forward those proposals.

CHAIR: That brings us to the end of the questions with regard to the Treasury portfolio. We have rearranged the schedule to move on earlier to the portfolios of Special Minister of State, and State and Regional Development.

(The witnesses withdrew)

(Short adjournment)

CHAIR: Welcome to the continuation of the inquiry into Treasury, Special Minister of State, State and Regional Development. We only need to swear in one witness, Michael Cullen, because the other witnesses were sworn in yesterday.

MICHAEL CULLEN, Executive Director, Enterprise, Small Business and Regional Development Branch, Department of Industry and Investment, sworn and examined:

RICHARD SHELDRAKE, Director General, Department of Industry and Investment, and

BARRY BUFFIER, Deputy Director General, Department of Industry and Investment, on former oath:

CHAIR: Treasurer, do you wish to make any additional comments?

The Hon. ERIC ROOZENDAAL: I do. As I said earlier today, New South Wales is growing strong through six consecutive quarters of economic growth. This financial year we are investing \$129.8 million in investment attraction and industry development activities. The New South Wales Government's investment attraction and business development programs have secured billions of dollars worth of investment for New South Wales, created thousands of jobs and, importantly, underpinned the economic recovery of New South Wales. The Government has secured a number of key projects for New South Wales, including Forgacs Engineering, securing a defence contract to build parts of hulls for the Navy in Newcastle—this represents an investment of \$10 million and 200 new jobs; *Fury Road*, George Miller's latest *Mad Max* film, I believe it is No. 4 in the series, to be filmed in Broken Hill and produced in Sydney—this represents about 540 jobs for New South Wales; and we have also given assistance to HPM Legrand to build a consolidated facility in Western Sydney—this attracted \$36 million in new investment and 328 direct jobs¹.

The New South Wales Government is also rolling out a strategy to help New South Wales companies win more defence contracts. Defence not only plays a crucial role in the security of our nation, it also plays an important role in our economy. The New South Wales defence industry strategy aims to win 30 per cent of in-country defence expenditure within 10 years and supports 1,500 new jobs in defence-related industries—

Dr JOHN KAYE: Sorry, will you repeat that again. You said 30 per cent of?

The Hon. ERIC ROOZENDAAL: In-country defence expenditure within 10 years and supports 1,500 new jobs in defence-related industries within four years. We are targeting major projects for the State's defence industry with a commitment of \$75 million announced in the 2010-2011 budget to drive investment and growth. This record commitment will help New South Wales companies secure new defence projects and build defence capability in the State.

The Keneally Government is taking New South Wales to the global stage. In June I signed a memorandum of understanding, on behalf of the New South Wales Government, with Bright Food and the China Development Bank. The memorandum of understanding acknowledges the potential for up to \$3 billion in investment in New South Wales by Bright Foods, which would be financed by the China Development Bank. The New South Wales Government has also secured the future of footy in New South Wales, thanks to an historic \$90 million package to support both the National Rugby League [NRL] and the Australian Football League [AFL] in western Sydney. The Government has invested \$45 million over 10 years to secure Sydney as the home of the National Rugby League final until 2019. The Committee would also be aware that we will invest \$45 million to upgrade the Sydney Showground main arena at Homebush to be the home of the greater western Sydney Australian Football League team.

Our commitment to driving economic growth in New South Wales does not end in the cities. The New South Wales Government also continues to actively support the economic development of regional New South Wales. Thanks to the support of the New South Wales Government, Regional Express Airlines has been able to invest in New South Wales to construct one of the leading pilot training academies in the world. The new academy will provide training for pilots from not only the rest of the country but right across the globe. With support from the Government, Regional Express Airlines invested around \$25 million into this new academy,

¹ Advice has been provided from Industry & Investment NSW that this statement should read: "and we are in discussions with HPM Legrand to build a consolidated facility in Western Sydney – this attracted \$36 million in new investment and 328 direct jobs".

which will create 70 new jobs and provide places for more than 200 trainees per year. In fact, for the 2010-11 financial year alone the New South Wales Government is investing \$90.3 million to regional development programs.

The centrepiece of these programs, Building the Country package, \$85 million over five years, comprises a suite of seven-targeted programs that will create jobs and make valuable improvements to community facilities in regional New South Wales. I would like to take this opportunity to give just a few recent examples of the kind of assistance provided under Building the Country. Assistance was provided to Wyong Shire Council for the construction of a main access road into the new Warnervale town centre. Warnervale is expected to be a significant growth area for the Central Coast in years to come. This development will ultimately support 1,200 jobs and attract significant private sector investment. Coonamble Shire Council received assistance towards the cost of upgrading infrastructure associated with the expansion of the Coonamble Industrial Estate. Again, this expansion will drive economic growth and fuel investment in the region.

In June last year the Government launched the \$7 million Regional Business Employment Fund and the \$12 million Western Sydney Business Employment Fund. These funds will help small and medium sized businesses in western Sydney and regional areas to create much-needed jobs by offsetting the costs of business growth. It is expected that up to 3,200 jobs will be created over the life of projects assisted through these funds. The New South Wales Government, through our State and regional development programs, is driving economic growth in New South Wales. We are supporting jobs, attracting investment and, importantly, securing our economic future.

The Hon. TREVOR KHAN: Dr Sheldrake, can you confirm that you were asked to undertake a review of the honorary Ambassadors Program? If so, by whom?

DR SHELDRAKE: That is correct. The Treasurer asked. The Minister for State Development sought that we undertake a review of the New South Wales Ambassadors Program.

The Hon. TREVOR KHAN: Not being rude, but when you say "we", that is the royal pronoun?

DR SHELDRAKE: I am sorry, the Department of Industry and Investment to undertake that review.

The Hon. TREVOR KHAN: You, in a sense, headed that review process, did you?

DR SHELDRAKE: I, as the Director General, sought the work that was undertaken in the department.

The Hon. TREVOR KHAN: When was that request made?

DR SHELDRAKE: I will have to take the day that it was made on notice. I cannot recall the exact day.

CHAIR: What month?

DR SHELDRAKE: I think late July, but I will take it on notice. I cannot recall the day.

The Hon. TREVOR KHAN: Were there terms of reference set down for the review? If so, what were they?

Dr SHELDRAKE: I will take the terms of reference on notice. We have done the work. The piece of work has been conducted and we are at a stage of potentially making recommendations to the Minister.

The Hon. TREVOR KHAN: No recommendations have been put yet?

Dr SHELDRAKE: To the Minister the recommendations have not been put and we are finalising it at this stage.

The Hon. TREVOR KHAN: Was some interim action taken that resulted in the determination of the relationship with the number of honorary ambassadors?

Dr SHELDRAKE: That is correct.

The Hon. TREVOR KHAN: Was that at your or your department's recommendation?

Dr SHELDRAKE: Certainly from the department's point of view, as part of the review we thought it was appropriate that we effectively cease, if you like, some of those arrangements with a view to being able to make clear recommendations on, for example, the guidelines that you would look to appoint people, the management that you would engage in once an ambassador has been appointed, the outcomes that you would strive to achieve, the appointment processes that an ambassador would be made through. They are the sorts of things we have tried to address in the review.

The Hon. TREVOR KHAN: I take it from your answer that not all the honorary ambassadors' relationships were terminated, only some?

Dr SHELDRAKE: That is correct. A small number due to engagements that were ongoing remain in place.

The Hon. TREVOR KHAN: I am not quite sure what that meant. I will come back to that and you can explain. Some five ambassador relationships were terminated, is that right?

Dr SHELDRAKE: I will take the number that have been terminated on notice.

The Hon. TREVOR KHAN: For example, Alan Fang was terminated, Mr Ian Tang, Mr Karl Kazal was terminated?

Dr SHELDRAKE: That is correct.

The Hon. TREVOR KHAN: Dr Zhengrong Shi?

Dr SHELDRAKE: Dr Shi has remained as one of our ambassadors.

The Hon. TREVOR KHAN: I believe Henry Tsang may have been terminated as well?

Dr SHELDRAKE: I will take the details of those on notice.

The Hon. TREVOR KHAN: You cannot remember?

The Hon. ERIC ROOZENDAAL: He is taking it on notice. He has answered it.

The Hon. MATTHEW MASON-COX: You would probably know, Treasurer. Henry Tsang is a former colleague. You would probably know whether he was terminated or not?

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

The Hon. TREVOR KHAN: Dr Shi's relationship was not terminated?

Mr BUFFIER: Could I cover that matter? We had some relationship retained with Dr Shi for Expo. We had involvement with the Solar Sailor. In a sense, we have a continuing relationship with him but purely for Expo. The whole program, as the director general said, is being reviewed and recommendations will be coming forward.

The Hon. TREVOR KHAN: My understanding was—and you can correct me if I am wrong—that his honorary ambassadorship was terminated, yet he was kept on in some other role. Is that what you understand to be the case?

Mr BUFFIER: He was kept on in order to help with our engagement at Expo, where we were a gold sponsor and where we had some involvement with the Solar Sailor.

The Hon. TREVOR KHAN: His honorary ambassadorship was terminated but he was retained essentially in another role?

Mr BUFFIER: We retained the relationship with Neville Roach to go to India. We retained the relationship with Dr Shi in relation to Expo.

The Hon. TREVOR KHAN: But his ambassadorship was terminated?

Mr BUFFIER: I would have to take that on notice as to what the strict legal position was.

The Hon. TREVOR KHAN: What contact did the department have with Mr Karl Kazal in his role as honorary ambassador?

Mr BUFFIER: There was no formal contact with Mr Kazal with the department directly. There was some informal contact when Minister Macdonald had been planning a trip to Abu Dhabi earlier in the year in terms of providing some suggested meetings and contacts. That trip did not eventuate.

The Hon. TREVOR KHAN: But he was appointed as an honorary ambassador, was he not?

Mr BUFFIER: The Minister appointed him as an ambassador, as an envoy to him to provide advice to him.

The Hon. TREVOR KHAN: Does that mean he was appointed as an honorary ambassador or not?

Mr BUFFIER: It means the Minister appointed him as an honorary trade envoy to provide advice to him.

The Hon. TREVOR KHAN: Do I take it on a letterhead or business card he would have had a different designation from, for example, one of the other honorary ambassadors?

Mr BUFFIER: I have never seen his letterhead or business card.

The Hon. TREVOR KHAN: I did not ask that.

Mr BUFFIER: We did not have a specific letterhead for the ambassadors. So that question did not arise.

Dr SHELDRAKE: Can I—

The Hon. TREVOR KHAN: Were you going to assist the Committee in some way?

Dr SHELDRAKE: I was going to say that clarification of the issues that you are raising at the moment is part of the recommendations to the Minister.

The Hon. TREVOR KHAN: You obviously knew where I was going. Do I take it that one of the issues you are looking at is what the method of appointment of the honorary ambassadors is and should be?

Dr SHELDRAKE: That is correct.

The Hon. TREVOR KHAN: Including how it should be signed off?

Dr SHELDRAKE: That is correct.

The Hon. TREVOR KHAN: It should not be up to a Minister, in essence, to appoint someone because the Minister reckons he is a good bloke?

Dr SHELDRAKE: It will be part of our recommendations to come forward to the Minister with a way that ensures there is a clear understanding as to how people are appointed to these ambassadorial roles.

The Hon. TREVOR KHAN: In that respect, when do you anticipate your recommendations and the like will be presented?

Dr SHELDRAKE: It is nearing completion, so very shortly.

The Hon. TREVOR KHAN: Is that like, "I will sign off tomorrow after this is over and we will get it to him"?

Dr SHELDRAKE: Very shortly.

The Hon. TREVOR KHAN: Is that a yes?

Dr SHELDRAKE: Very shortly.

The Hon. TREVOR KHAN: How many honorary ambassadors are there now or how many honorary ambassador positions are there?

Dr SHELDRAKE: Were there.

Mr BUFFIER: There are currently none. There are currently no honorary ambassadors.

The Hon. TREVOR KHAN: So they all got it in the neck, so to speak?

Mr BUFFIER: The program is being reviewed and with that in mind there are none currently.

CHAIR: Which Minister appoints them? Is it the Treasurer or another minister?

The Hon. ERIC ROOZENDAAL: I think the responsibility will come to me as State and Regional Development.

The Hon. TREVOR KHAN: Is it anticipated you will nominate how many there will be?

The Hon. ERIC ROOZENDAAL: That is a matter that has not been determined yet.

The Hon. TREVOR KHAN: In relation to those that had been appointed but are no longer ambassadors, were they appointed for a period or was their appointment at large until terminated? Was there a formal contract arrangement?

Mr BUFFIER: The appointment generally was at large until terminated but some were appointed for a specific purpose or for a specific reason. So some in the US, for example, in financial services were appointed because of some involvement with financial services workshops and "G'Day USA". Some of those people have moved on to other roles, so obviously they are no longer relevant. It was often for a specific purpose.

The Hon. TREVOR KHAN: I am not being derogatory when I say this. Apart from title, what benefits flowed to these individuals from the appointment?

Mr BUFFIER: The benefits were designed to flow to New South Wales, not to the individuals.

The Hon. TREVOR KHAN: I understand that.

Mr BUFFIER: In fact, there was payment of their expenses, travel and accommodation, if they were undertaken. That was not always paid because sometimes they would be in a location overseas as a result of their other activities. So basically it was payment of out-of-pocket expenses. There may have been one—I would have to take that on notice—where some payment was made.

The Hon. TREVOR KHAN: With regard to Mr Kazal, are you able to tell me whether any payments, reimbursements or the like were provided by the department to him?

Mr BUFFIER: I am not aware of any.

The Hon. TREVOR KHAN: Do I take it you can go and check and get back to us?

Mr BUFFIER: I will take it on notice, but that is my understanding at this point, yes.

The Hon. TREVOR KHAN: Just so we are clear, you will go and check—

Mr BUFFIER: I will take it on notice and provide the answer.

The Hon. TREVOR KHAN: With regards to Mr Kazal and his relationship with Mr Macdonald, are you able to tell us what the nature of the contact was that Mr Kazal was having with Mr Macdonald and vice versa?

Mr BUFFIER: No, I am not.

Dr SHELDRAKE: I am not.

The Hon. TREVOR KHAN: Did you ever attend any meetings involving Mr Kazal?

Mr BUFFIER: No.

Dr SHELDRAKE: No.

The Hon. TREVOR KHAN: Are you aware of any meetings that anyone else in the department held that involved Mr Kazal?

Mr BUFFIER: The only possibility—and I take it on notice—might be in relation to the trip that was being planned earlier in the year and there may have been some contact with our person who runs the UAE office, but I am not certain as to whether that was face-to-face or by email.

The Hon. TREVOR KHAN: Do I take it you will be able to check and get back to us on that?

Mr BUFFIER: That is what I said: I will take it on notice.

The Hon. TREVOR KHAN: Is it not the case that over a period of what seems to be years Mr Kazal has been having contacts with various government departments and various government Ministers?

Mr BUFFIER: Certainly not with me.

The Hon. TREVOR KHAN: Dr Sheldrake?

Dr SHELDRAKE: No, I have not met Mr Kazal.

The Hon. TREVOR KHAN: I take it that in a sense his name appearing is—and I am not being rude when I say this—of surprise to you? He is appointed in some relationship; he has popped out of somewhere. He has obviously, it would seem, some relationship with at least one Minister of the Crown.

The Hon. ERIC ROOZENDAAL: Be that as it may, you have asked both the witnesses and they have answered you to the best of their knowledge. To start speculating on areas outside of their knowledge—

The Hon. TREVOR KHAN: It could be helpful.

The Hon. ERIC ROOZENDAAL: It might be helpful to you but it is outside of their knowledge.

The Hon. TREVOR KHAN: With regard to you, Minister, what have your dealings been with Mr Kazal?

The Hon. ERIC ROOZENDAAL: None.

The Hon. TREVOR KHAN: You have not met him?

The Hon. ERIC ROOZENDAAL: No—well, I meet lots of people; I may have met him but I have no recollection of ever meeting him. I certainly do not know him in any way. I would not recognise him. But I might have bumped into him once in my 25 years in public office.

The Hon. TREVOR KHAN: We will put aside meetings in the lift.

The Hon. ERIC ROOZENDAAL: Okay. No, I do not know him.

The Hon. TREVOR KHAN: When did you become aware that he had a relationship with Mr Macdonald?

The Hon. ERIC ROOZENDAAL: My only awareness of this issue is from what media reports I have read on the matter.

The Hon. TREVOR KHAN: Could I just go to some travel issues? There was an FOI inquiry that was undertaken which indicates that Michael O'Sullivan managed to incur some \$73,000 worth of international travel costs during the period from April 2009 to March 2010 relating to travelling to various locations including the UAE, the United Kingdom, the United States of America, China, Japan and Canada, and it would seem that since March 2010 he has left the department and gone to a firm called Smart Services CRC. Firstly, with regard to the travel, it is correct, is it not, that he racked up some \$73,000 worth of travel costs?

Mr BUFFIER: If that figure was provided under FOI it would be a correct figure. I cannot say that that is the exact figure. Michael was responsible, and still is, for international markets and trade, so he has direct responsibility for the four overseas offices. His role involves a significant amount of travel. He is still with the department. He has approval to be a director on Smart Services CRC, for which he receives no remuneration.

The Hon. TREVOR KHAN: What is Smart Services CRC?

Mr BUFFIER: It is one of the cooperative research centres. It has a reasonable amount of work in the area of financial regulation and research into that area.

The Hon. TREVOR KHAN: Is there any financial relationship between the department and Smart Services CRC?

Mr BUFFIER: I would have to take that on notice. We may have provided some assistance, as we do for other CRCs in New South Wales.

The Hon. TREVOR KHAN: Over \$68,000 was spent on sending New South Wales business representatives to the Medica 2009 conference in Germany, and I take it that was under the BioBusiness program. Has that program now been cancelled?

Mr BUFFIER: No, but the BioBusiness program has been modified. That was the equivalent of one of our export promotions that we do overseas with a number of industries. I think that particular trade mission was very successful in terms of the outcomes that it achieved. I cannot recall exactly how many companies were involved but it is fairly standard procedure that we would support something like that.

The Hon. TREVOR KHAN: How has the program been modified, changed?

Mr BUFFIER: I would have to take that on notice to give you the details of the dollars and where it now is.

The Hon. TREVOR KHAN: How do you measure the success of that trip?

Mr BUFFIER: Generally, for any of the trade missions we ask the participants to fill out a sheet which indicates what successes they have had, what sales have occurred as a result of it, what prospective business there is. So we do it on that basis. We normally look to achieve an average of about 10 or 20:1 for the cost of the trip.

CHAIR: Just following up the honorary ambassador issue, how many were appointed altogether?

Mr BUFFIER: I will take that on notice. I think there were probably close to 14.

CHAIR: And they were all appointed by Minister Macdonald?

Mr BUFFIER: No, they were not all appointed by the Minister. There were various methods by which they were appointed for different events.

CHAIR: You could have appointed them?

Mr BUFFIER: No, I did not.

CHAIR: Who else would appoint them if the Minister did not?

Mr BUFFIER: I think the Premier may have appointed some.

CHAIR: You mean another Minister?

Mr BUFFIER: Yes.

CHAIR: When you do this review you need to consider the title "honorary ambassador" because it is used in smaller countries that cannot afford an ambassador or a consulate and they call their representative an honorary ambassador. Some countries may think that person has some official capacity representing our country.

DR SHELDRAKE: We have taken that into consideration.

CHAIR: Can you summarise any of the benefits that New South Wales has received from their role? Have there been any investments?

Mr BUFFIER: Certainly. We use ambassadors is because of their network of contacts. For example, Neville Roach is also on the Indian Prime Minister's International Advisory Council. Someone such as Neville is very well-connected to India, so if we are going there he is able to give us some guidance as to whom we should be meeting with, who are the appropriate people, where to make the contacts, et cetera. A large part of the value is around the networks that they have available to us. They are able to assist us make the right meetings and make the right contacts.

CHAIR: I note in the budget papers that obviously one of your priorities is helping small business, and the Treasurer referred to that. The budget papers state that you helped 784 New South Wales companies to export. I assume that is over a period. Is that over 12 months?

Mr BUFFIER: That would be over 12 months. However, I can take that question on notice. That would be part of the export facilitation program and the investment missions that we run overseas.

CHAIR: How many New South Wales companies are there? I am trying to get an idea of the percentage you are working with.

Mr BUFFIER: There are about 600,000 small businesses in New South Wales. Export facilitation is one small part of it. At the moment we are in the middle of Small Business September, which runs a series of events across New South Wales. On current count, we are running 527 events. I am not sure what the final number of participants is likely to be, but it is substantial. In addition, we have the small business website, which is very interactive. Many small businesses access that site to get assistance. We also run business advisory services. The total number of small businesses we interact with is very substantial.

CHAIR: So it would be more than 784?

Mr BUFFIER: Many more. That is the number involved in the export facilitation program.

CHAIR: How many out of the 600,000?

Mr BUFFIER: I will take that question on notice. Our service measures in the budget project that we will assist up to 200,000 small businesses.

CHAIR: Do you directly approach those businesses? You have the website, but that means they have to be motivated. Are you also directly approaching them through the Internet?

Mr BUFFIER: We would not be directly contacting 200,000. That would be way beyond any reasonable number to put there as a key performance indicator.

CHAIR: Through email you could contact unlimited numbers.

Mr CULLEN: The website is for self-help—the new starters or micro businesses. The next set of businesses we are dealing with in workshops, training seminars et cetera. We have face-to-face contact with those businesses that are able to create jobs or new investment. We look at the business's needs and the return to Government and apply the appropriate resources.

Dr JOHN KAYE: Treasurer, in your introductory remarks you referred to \$75 million of public money going into defence.

The Hon. ERIC ROOZENDAAL: It comprises two parts: There is the new \$50-million defence precinct at Macquarie Park.

Dr JOHN KAYE: Is that \$50 million of public money?

The Hon. ERIC ROOZENDAAL: It certainly involves setting aside a valuable piece of land for the development of a defence precinct. In addition, another \$25 million has been set aside to support defence industries in New South Wales.

Dr JOHN KAYE: Is that \$75 million in cash or in kind?

The Hon. ERIC ROOZENDAAL: The \$50 million represents the value of the defence precinct.

Dr JOHN KAYE: I was talking about the \$25 million.

The Hon. ERIC ROOZENDAAL: Yes.

Dr JOHN KAYE: Is that cash?

The Hon. ERIC ROOZENDAAL: Yes.

Dr JOHN KAYE: What steps have been taken to ensure that we are getting the maximum number of jobs for the public money invested given that defence is a notoriously low jobs per dollar invested industry? Some studies indicate that you get about a quarter of the number of jobs for each dollar spent in defence as you do in the civilian economy. Has the department undertaken studies to ensure that this is a good investment in jobs?

The Hon. ERIC ROOZENDAAL: I think we need to be clear about the objectives. It also involves defence-related industries. The Government's objective with the defence industry strategy is effectively to target high-value positions, particularly in the systems and technology areas. We see the opportunity, because of the highly skilled workforce in New South Wales, to develop in the systems technology area. Forgas is doing some of the shipbuilding work, but the majority is being done in other parts of the country. However, the high-value systems that go into those defence assets are being developed in New South Wales. We have a number of companies already here and that is why we are keen to encourage further defence-related industries.

Dr JOHN KAYE: I appreciate that, but I asked what analysis has been done by your department to ensure that the people of New South Wales are getting good value for money in terms of jobs generation given the notoriously low rate of jobs per dollar invested characteristic of the defence industry.

Mr BUFFIER: As with all the projects we seek to attract, we look at the jobs we think will be created as a result. We look at that relative to other industries and determine the cost-benefit ratio. In fact, some of our defence investments have produced very attractive returns relative to the cost per job.

Dr JOHN KAYE: Are you prepared to put that information in the public domain?

Mr BUFFIER: We cannot do not that because there are commercial-in-confidence arrangements in place. It would be very difficult to release that information without breaching those arrangements. As you would know, defence contracting is a very competitive business with other States. We would probably affect not only our customers' competitive position but also the State's competitive position.

Dr JOHN KAYE: So the people of New South Wales have to take it on faith that that \$75 million is a good investment?

The Hon. ERIC ROOZENDAAL: I think they can do more than that. The Government has been able to realise a number of successful opportunities. For instance, it assisted BAE Systems Australia to win a seven-year contract to provide maintenance support for the Navy's Seahawk helicopters at Nowra. That contract supports 130 jobs. As part of that project, a new purpose-built maintenance facility is to be constructed at the Albatross Aviation Technology Park in Nowra. The Government has also supported Turbomeca to expand its operations in western Sydney. That company has now opened its new helicopter engine repair and maintenance facility at Bankstown Airport. The Government has also worked closely with numerous companies to ensure their success in the joint strike fighter program, including Ingleburn-based specialist tooling specialists Broens Industries. In 2010 that company won an \$8.5-million contract to produce equipment for the joint strike fighter.

The Sydney-based company Marathon Robotics was awarded a \$57-million contract with the United States Marines to trial advanced robot technology for training soldiers in live firing exercises. That was a major win for New South Wales technology. The company's Rover system will also be tested by the Marines for advanced marksmanship training. The Government is now helping Marathon Robotics to target worldwide exports. It has also supported the Thales Soldier Systems facility at Lithgow and a number of different projects as part of our strategy to develop the defence industry and related industries.

Dr JOHN KAYE: That is very nice, but it does not answer my question. I refer to the NRL grand final. Treasurer, you suggested that \$45 million of public funds—in this case it was cash over five years if I am not mistaken—will secure the NRL grand final for Sydney. I support that outcome; it is a good thing.

The Hon. TREVOR KHAN: That is an amazing concession.

Dr JOHN KAYE: Thank you.

The Hon. ERIC ROOZENDAAL: He is a Roosters supporter.

Dr JOHN KAYE: I am indeed. It was stated in the media that that was an outrageous amount of money to spend given the size of the potential audience in New South Wales and that it could have been a substantially smaller sum or, indeed, zero. In fact, the expression used in the media was that New South Wales was "taken to the cleaners" by the NRL. Do you want to comment on that or to refute that accusation?

The Hon. ERIC ROOZENDAAL: Under an historic agreement with the NRL the New South Wales Government contributed \$45 million to host the grand final for the next 10 years—that is, until 2019. Sydney is the rugby league capital of the world and has been the national home of rugby league in Australia for more than 100 years. The grand final is the State's most significant annual sporting event. This is a major win for New South Wales and its thousands of fans who follow the code. In addition to the financial support, the New South Wales Government has also facilitated a major grand final festival to attract more fans and tourists to Sydney in the week leading up to the grand final. The festival will include events such as community involvement with NRL stars, visual displays at iconic Sydney landmarks, corporate functions, the grand final breakfast, the Men of League Ball, the One Community Awards night and media promotions, and a number of other landmark events will be introduced in the years ahead. I assure the Committee that at least one other State was seriously trying to steal our NRL grand final. I think it is appropriate that we repel those northerners and save the NRL grand final for the people of New South Wales.

The Hon. MATTHEW MASON-COX: At any cost.

Dr JOHN KAYE: The "at any cost" comment was made by Mr Mason-Cox. Treasurer, I presume you did not say that.

The Hon. MATTHEW MASON-COX: I am channelling the Treasurer.

Dr JOHN KAYE: Your response, therefore, to the accusation is, "We just needed to do it." You have not really refuted the allegations that we spent too much money—\$4.5 million a year over 10 years—to keep the NRL grand final.

Hon. ERIC ROOZENDAAL: I think it represents good value for what is a premier sporting event.

Dr JOHN KAYE: Can you prove that?

The Hon. LUKE FOLEY: What, that it is a premier sporting event?

Dr JOHN KAYE: No, that we needed to spend the money.

The Hon. ERIC ROOZENDAAL: Certainly it is the view of the budget committee that it was an appropriate arrangement.

CHAIR: The additional revenue from having the grand final will more than exceed the amount of money each year.

Dr JOHN KAYE: That was not my question. My question was did we have to spend the money at all.

The Hon. ERIC ROOZENDAAL: I am confident that in the event that the NRL grand final was being played in Brisbane Dr John Kaye and his colleagues over there would be kicking the backside of the Government as hard as you could say: You should have spent more, you should have spent more.

CHAIR: What major projects as Special Minister of State are you responsible for handling?

The Hon. ERIC ROOZENDAAL: Projects that come up from time to time—onerous responsibilities. As you can imagine, with my extensive portfolio responsibilities now as Treasurer, Minister for State and Regional Development, Minister for Ports and Waterways, Minister for the Illawarra, and Special Minister of State, I have a number of overlapping responsibilities.

The Hon. MATTHEW MASON-COX: I think it is organising Federal campaign advertising campaigns.

Dr JOHN KAYE: Do you get paid additional amounts for additional portfolios?

The Hon. ERIC ROOZENDAAL: No.

(The witnesses withdrew)

The Committee proceeded to deliberate.
