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GENERAL PURPOSE STANDING COMMITTEE No. 1

Tuesday 17 November 2009

Examination of proposed expenditure for the portfolio areas

TREASURY, FINANCE AND INFRASTRUCTURE

The Committee met at 3.00 p.m.

MEMBERS

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

Dr J. Kaye
The Hon. M. R. Mason -Cox
The Hon. G. S. Pearce

The Hon. P. G. Sharpe
The Hon. I. W. West
The Hon. H. M. Westwood

PRESENT

Treasury
Mr M. Schur, *Secretary*
Mr K. Cosgriff, *Deputy Secretary*
Mr S. Brady, *Deputy Secretary*
Mr R. Timbs, *Deputy Secretary*
Ms C. McLiesh, *Deputy Secretary*

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 open the inquiry into the budget estimates 2009-10. I thank the witnesses who have returned for the supplementary hearing. Today the Committee will examine the proposed expenditure for the portfolio of Treasury, Finance and Infrastructure. Before we commence I will make some comments about procedural matters. According to 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 photographs.

In reporting the proceedings of this Committee the media must take responsibility for what they publish or the interpretation they place on anything said before the Committee. Guidelines for the broadcast of 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 the Committee clerks. Witnesses are reminded they are free to pass notes and refer directly to their advisers while at the table. I remind everyone to turn off their mobile phones.

The Committee has agreed to the following format for the hearing: Opposition questions one hour, Greens questions 20 minutes, Christian Democratic Party questions 10 minutes. The Committee has agreed to allow an opening statement, which will come out of the chairman's allocated time. The House has resolved that answers to questions on notice must be provided within 21 days. A transcript of this hearing will be available on the Web from tomorrow morning.

All witnesses will be sworn prior to giving evidence. As Mr Schur and Mr Cosgriff were sworn at the initial budget estimates hearing they will give evidence today under their previous oath or affirmation.

MICHAEL SCHUR, Secretary, New South Wales Treasury, on former affirmation:

KEVIN COSGRIFF, Deputy Secretary, New South Wales Treasury, on former oath:

STEPHEN BRADY, Deputy Secretary, New South Wales Treasury,

CARALEE McLIESH, Deputy Secretary, New South Wales Treasury, and

RICHARD TIMBS, Deputy Secretary, New South Wales Treasury, sworn and examined:

CHAIR: I declare the proposed expenditure for the portfolio areas of Treasury, Finance and Infrastructure open for examination. As I said, we have agreed to have an opening statement. We have also received correspondence from Mr Schur, which we have agreed will be attached to the minutes. Thank you, Mr Schur?

Mr SCHUR: I appreciate the opportunity to make an opening statement and raise a number of matters that were not raised before. I think it is important to say a few words about the economic context of the 2009-10 budget and its strategic focus, and also to provide the Committee with a brief update on economic developments post the budget.

As you know, the 2009-10 budget was developed against the global economic crisis and the extraordinary set of circumstances that have taken place since September 2008. The world economy slowed very sharply in the second half of 2008 as the global financial system came under unprecedented strain following the United States sub-prime mortgage collapse. This led to severe disruptions in capital markets around the world. The turmoil in financial markets translated quickly to a sharp slowdown in the real economy, with the largest contraction in global growth since the great depression. The Federal Treasury revised down its forecast for the Australian economy several times in the lead-up to its 2009-10 Federal budget. New South Wales Treasury forecasts for the New South Wales economy followed similar downward revisions.

What was the impact of this on our 2009-10 budget and our strategy going forward? New South Wales revenues can be volatile and are affected by the state of the economy. On the other hand, expenses tend to be less affected by the state of the economic cycle and reflect longer-term economic trends. Reflecting these disparate influences, New South Wales' medium-term fiscal strategy has been to strengthen the balance sheet so that services can be delivered in a sustainable way. This allows the budget to support activity and jobs in the short term by using the strength of the balance sheet during periods of cyclically weak revenues. Debt will increase, cushioning the impacts of the economic downturn. In other words, when our revenues are down cyclically we can use the balance sheet to ensure that we keep providing services at a sustainable level. Consistent with the medium-term fiscal strategy, the fiscal strategy in the 2009-10 budget was to provide some short-term support for the economy while putting in place measures to return the budget to surplus and improve the balance sheet over the medium term.

Let us look first at the support for the economy in the 2009-10 budget. The first and obvious question to ask and answer is whether the 2009-10 budget was stimulatory. The broadest measure of the fiscal impact of the budget on the economy is the change in the total State net lending position from one year to the next. This measures the combined effect of automatic stabilisers, measures to increase spending or support the economy and infrastructure spending. I must stress that this is a State-only measure, because any Federal contribution is netted out in the net lending position. In this budget the total State net lending deficit would increase by 0.9 percentage points of GSP in 2008-09, and by a further 0.5 percentage points of GSP in 2009-10. Thus, the State is providing a large fiscal stimulus of around 1.5 per cent of GSP over the two years to 2009-10.

A significant part of the net lending increase comes from the record infrastructure program. Over the four years to 2012-13, the State's capital expenditure is expected to total \$62.9 billion, an increase of \$19.9 billion, or 46.3 per cent compared to the four years to 2008-09. In addition to the record infrastructure program, activity and jobs will be supported through a series of targeted, temporary and timely initiatives, including a range of measures to support the housing and construction sector. I will not go into detail on what those initiatives are because I think they are all outlined in the budget.

The outcome of the cyclical downturn in revenue and the stimulus measures to support jobs was an expected budget deficit of \$990 million in 2009-10. The actual budget result for 2008-09 was a deficit of \$897

million, \$440 million better than the deficit of \$1.3 billion estimated at budget time, partly reflecting a change in the timing of Commonwealth grants. The budget result is forecast to gradually improve over the forward estimates period to a projected surplus of \$642 million by 2012-13.

A key requirement for maintaining a sustainable fiscal position over the longer term is to align the growth rate of expenses with the average long-run growth rate of revenue. The 2009-10 budget contains initiatives to address structural expenditure issues through the Better Services and Value Plan. The five-point plan will significantly improve agency efficiency. Accordingly, the Government has extended the agency efficiency dividends to 2012-13 and increased them to 1.5 per cent in the final two years of the forward estimates. This translates into a saving of \$300 million in 2011-12 and \$600 million in 2012-13.

Key parts of the Better Services and Value Plan include an extension of the existing wages policy of 2.5 per cent policy per annum with increases above 2.5 per cent funded from offsetting employee-related savings. The non-frontline staffing freeze has been extended. There has been a significant agency restructure reducing the number of general government agencies and offices from 160 to 13. We intend to embark on a whole series of value-for-money reviews of whole-of-government expenditure, starting with a review of the business-as-usual ICT expenditure and expenditure on vehicle services. We are also embarking on line-by-line expenditure audits of government agencies beginning with the Department of Education and Training. We also will undertake financial and board performance assessment of all our State-owned corporations. These measures collectively will slow the growth in expenses from an average of over 6 per cent a year over the past six years to 4 per cent over the four years to 2012-13.

In conclusion, I thought I would talk about economic development since budget time. As we now know, the global and domestic economy and outlook has improved significantly since budget time. Globally we saw the worst of the global financial crisis related falls in output and exports by the end of the March quarter 2009. Subsequently the International Monetary Fund [IMF] has revised upwards its forecast for global growth in 2010, and 2009 still looks like a very weak year.

In Australia, gross domestic product [GDP] growth in 2008-09 was better than expected, with actual growth of 1 per cent compared with the forecast of zero growth at budget time. Both the Reserve Bank of Australia [RBA] and the Commonwealth Treasury have revised up their economic forecasts for 2009-10 and 2010-11. Revised Commonwealth Treasury forecasts show that in year-average terms, GDP growth has been revised up to 1.5 per cent from negative half a per cent in 2009-10, and to 2.75 per cent from 2.25 per cent in 2010-11.

In New South Wales, aggregate employment growth has held up better and the unemployment rate has risen less than expected at budget time. From September 2008 to September 2009, the value of New South Wales retail sales rebounded by a strong 8.8 per cent, reflecting very low levels of interest rates and the direct impact of the Federal fiscal stimulus packages. The number of New South Wales dwelling approvals in trend terms has been increasing for the last six months. In September 2009 they were 33.9 per cent above the lows reached in March 2009.

The number of land-related transfer duty transactions was around 29 per cent higher in the September quarter 2009 compared to 2008. The value of duty paid was around 11 per cent higher over the same period. The low increases probably reflect the increase in first home buyers, most of whom do not pay transfer duties. The fiscal impact and better economic position will be reflected in our mid-year review, which is due out in early December.

In conclusion, and to assist the panel in directing questions, I will quickly introduce the team in terms of the areas for which they have responsibility so that members of the panel know to whom they should direct questions.

CHAIR: Members of the Committee.

Mr SCHUR: Yes, members of the Committee; my apologies. First I announce an apology for Mark Ronsisvalle, who is not here today because he is on leave. Kevin Cosgriff, whom you have met before, is the Deputy Secretary—Fiscal and Economic Strategy Directorate, and he is responsible for fiscal strategy, revenue and intergovernmental strategy, economic strategy and national reform. As you know, he has also been taking the lead on behalf of Treasury on the electricity transaction.

Stephen Brady is the Deputy Secretary—Expenditure Review Directorate. He is responsible for coordinating the work of the Better Services and Value Plan task force to which I referred in my opening remarks. Ms Caralee McLiesh is the Deputy Secretary—Human and Social Services Directorate, which makes her responsible for Education and Training, Health and human services departments and agencies. Richard Timbs is the Deputy Secretary—Commercial Management Directorate, and he is responsible for overseeing all the asset sales, other than the electricity transaction.

CHAIR: Thank you.

The Hon. MATTHEW MASON-COX: I will direct some questions to you in relation to costings and I will come back a little later to the macro elements you outlined in your opening statement. Basically, can you take me through as if I am blindfolded and simply have no idea how these processes work and step-by-step explain to me the analysis that is done in relation to costing an infrastructure project before it is announced—first principles?

Mr SCHUR: I do not think there is a general approach. I think it would differ from project to project. Obviously, what one does is an initial assessment of the costs, and those costs assessments improve over time as more and more information comes to hand. To give you a specific answer, you would really have to address that question to the agencies responsible for specific infrastructure projects.

The Hon. MATTHEW MASON-COX: When a proposal comes forward to Treasury, what does Treasury do in relation to that project's cost estimate that is put to them? How do you look at that from a Treasury perspective?

Mr SCHUR: I am happy to give you a general answer.

The Hon. MATTHEW MASON-COX: Yes, a general answer. What would you expect Treasury to do? What would you expect an agency to do in relation to, for example, a significant transport infrastructure project?

Mr SCHUR: In the first instance, we would expect to see a business case that outlines the policy objective and the reason for the project, looking at the costs and benefits, identifying costs and identifying the potential risks associated with those cost estimates. There is a clear set of guidelines for the preparation of business cases, with which all government agencies are expected to comply.

For large capital projects, we also have a gateway review system, which is, if you like, an independent check on the veracity of the business case. This is not a Treasury oversight function; this is an opportunity for the agency to get an independent view, to take the findings of that gateway process into account and, if required, to modify their business case in order to bring that back to the program, and then to Cabinet for decision.

The Hon. MATTHEW MASON-COX: Is that gateway review system provided by Treasury?

Mr SCHUR: Yes, we facilitate and manage the gateway process, but the people who sit on an individual panel that oversees the gateway of an individual project would typically include someone from Treasury, not necessarily, but would usually include someone who has the relevant expertise to assess the particular projects. So if it is a very technical engineering project where one wants a view on the cost estimates, then one would typically engage someone who has the requisite skills to undertake that.

The Hon. MATTHEW MASON-COX: Would that sort of person be somebody within the actual State agencies or would you actually contract that work out from time to time?

Mr SCHUR: Not necessarily. I believe there is a panel—maybe Steven can talk about this in a bit more detail, but there is a panel of experts. These are usually individual consultants outside the public sector. Is there anything you want to add, Steve?

Mr BRADY: It is a mix. If there is capability within the sector, we would tend to rely on that capability. Clearly you want someone who is not from within the department though, so we try to get someone who has the skills within the sector. There is, as Michael mentioned, a panel of trained reviewers with different skill sets that we can call on as well.

The Hon. MATTHEW MASON-COX: Just to recap, you would expect an initial assessment or a business case with a cost benefit analysis and risks, as per the standard procedure in that regard. Then you would move to a gateway review system, where you would get some expertise fed back into that system to ensure that it is robust and perhaps where areas are needed to improve it. Then the department responsible would presumably move on to the Cabinet process and submit it to Cabinet; would that be the next step?

Mr SCHUR: Yes, I have probably missed out one step in the sense that before the full-blown business case is prepared, there is a strategic business case, if you like, which is a much shorter, less detailed document arguing for the strategic need for the particular project. Am I correct, Steve? That, too, is gatewayed?

Mr BRADY: That is right. That is something that happens earlier in the life cycle of the project where you have a variety of delivery options, so that you do not spend an enormous amount of money going down a particular path when there may have been a more suitable path to go down.

Mr SCHUR: If that gets over the hurdle, the strategic gateway, then you go to the full blown business case, and once that gets the tick, then what normally would happen is that the agency would bring that as part of a Cabinet minute for consideration by the budget committee of Cabinet if a funding decision was required. So normally attached to that Cabinet minute you would expect to see the full blown business case; you would expect to see the gateway review and what it said, and you would also expect to see how the individual agency responded to the issues raised in the gateway review to modify the business case.

The Hon. MATTHEW MASON-COX: That is a pretty rigorous process, would you agree?

Mr SCHUR: Yes.

The Hon. MATTHEW MASON-COX: If that is the benchmark of how infrastructure projects should be costed, developed, presented, and then a fully informed decision made, can you explain to me what happened in relation to the Rozelle metro?

Mr SCHUR: I would have to take that on notice. I am not sure.

The Hon. MATTHEW MASON-COX: You are not serious, are you?

Mr SCHUR: No, I am not sure what the process was, so we would have to take it on notice and come back and tell you the details of the business case.

Mr TIMBS: I could answer part of that question.

CHAIR: Do any of the witnesses have any information to answer that question?

Mr TIMBS: Yes, I will answer part of that question. As part of the business case, there was a detailed revenue study, a patronage forecast that was undertaken. In addition to that, there was a major costing review undertaken of all the expected civil works. That was obviously managed by the relevant department, being Transport. As part of the gateway process a number of the things that were looked at were the standard sort of metrics that we would look at, being the public sector comparator, the benefit-cost ratio, and whilst that process was managed by Transport, there were occasions when Treasury was asked to look at some of the costings, for example, some of the civil costings, to see whether they look reasonable for the sort of costings you would expect to see for major civil works programs.

The Hon. MATTHEW MASON-COX: Can you clarify when that process was undertaken? What time was that process started?

Mr TIMBS: I would like to take that on notice simply because most of that work was done prior to my commencement with Treasury just a few months ago so I do not have the specific dates.

Mr SCHUR: We will take that on notice, Mr Mason-Cox.

CHAIR: Does anyone else want to say something?

Mr COSGRIFF: No.

Mr SCHUR: No.

The Hon. MATTHEW MASON-COX: Can you explain why, when the Premier announced the investment in the Rozelle metro on 24 October 2008, it was very clear that no estimate of the costs for that project was done before that announcement?

Mr SCHUR: I do not know if that is the case, Mr Mason-Cox. I believe there was an estimate.

The Hon. MATTHEW MASON-COX: Would you be able to provide us with a time line as to the involvement of Treasury in determining the cost of that project, and would you work through that time line the procedures that you have just articulated in terms of what should be done as best practice in determining a business case and then putting it to Cabinet prior to a decision being made?

Mr SCHUR: Yes.

The Hon. GREG PEARCE: Sorry, Mr Schur, is that yes, you will provide the time frame or yes, you will go away and consider whether you can obey the request to provide the time frame in some way?

Mr SCHUR: I feel I have answered the question. I said I would go away and provide the timetable.

The Hon. MATTHEW MASON-COX: If we could take another project, the south-west rail link. Can you please outline in some detail the steps that you were involved with in relation to costing that project prior to its announcement?

Mr SCHUR: Again, I am happy to take that on notice and do the same thing there.

The Hon. MATTHEW MASON-COX: Is there anybody else here who has any involvement in the project and understands that time line?

Mr SCHUR: No.

The Hon. MATTHEW MASON-COX: Again if you could provide us with the details on that in the same manner in which we requested for the Rozelle metro that would be appreciated. Again to give you another project—we will try again—the Iron Cove Bridge; does anybody have any idea about the Iron Cove Bridge?

Mr SCHUR: Yes, but again the details would not be with any of the people here. Mark Ronsisvalle typically looks after transport projects, which is why he would have those details and we do not. We are happy to take that on notice as well.

The Hon. MATTHEW MASON-COX: What about Tillegra Dam, any takers on Tillegra Dam? Mr Timbs, are you in that area?

Mr TIMBS: No.

The Hon. MATTHEW MASON-COX: Ms McLiesh, you are education and training, but not water?

Ms McLIESH: No.

Mr BRADY: Sorry, at the last Committee meeting, I responded to some queries in relation to Tillegra Dam and I provided a clarification post the Committee meeting with respect to the process that the project went through for approval and the relevant governance arrangements for a State-owned corporation for a project of State significance. I provided that information, I think, at the last Committee meeting.

The Hon. MATTHEW MASON-COX: I do not think that went as far as providing the costings and how those costings were developed in the process that attached to those. Correct me if I am wrong, Mr Brady?

Mr BRADY: It would not have gone to that level of detail, Mr Mason-Cox, so we can take that on notice and respond in a similar manner.

The Hon. MATTHEW MASON-COX: If you could. In relation to Tillegra Dam, you may be aware that the costings have blown out by something of the order of 90 per cent. It is staggering in relation to projects of this significance and of concern to the Committee that there is a rigorous process, which is independently tested through that gateway process, yet we end up with estimates that are just completely out of the water?

Mr BRADY: Mr Mason-Cox, as to the Tillegra Dam project, I think in the last Committee meeting we discussed the cost of the project and I do not believe it has blown out by 90 per cent. Actually, in my clarification I pointed out that the gateway review process does not apply to State-owned corporations but it goes through a board process and a project of State significance comes forward to budget committee.

The Hon. MATTHEW MASON-COX: So it is a variation on a theme. It goes through a board process.

Mr BRADY: That is right, yes.

CHAIR: Do you know what the increase was? You are saying it was not 90 per cent.

The Hon. MATTHEW MASON-COX: Perhaps you can clarify what the increase was over the original estimate in relation to Tillegra Dam?

Mr BRADY: I would have to come back with the time line.

The Hon. MATTHEW MASON-COX: That is fine. In relation to a benchmark costing process, what would be the expected time frame to work up a firm cost base for a project, having gone through the initial assessment, the strategic business case being looked at, the gateway review system, the full-blown business case with agency comments, and then of course the Cabinet minute and decision by Cabinet, and then presumably announcement? How long would that be as a time frame, generally speaking? It will vary with the size of the project, naturally, but what would you expect?

Mr SCHUR: It is hard to say because it obviously varies from project to project.

The Hon. MATTHEW MASON-COX: In your experience what would be a minimum time?

Mr SCHUR: Probably anything from three to four months, depending on the nature of the project, up to a year and depending on the complexity of the business case involved. It is very hard to say.

The Hon. GREG PEARCE: Mr Schur, I apologise. I was held up and did not hear the first part of your presentation. Can you enlighten me, in terms of direct policy, about what action the Government took in response to the global financial crisis? The only policy item I can actually find is the housing construction acceleration plan. Can you enlighten us on other direct policy measures?

Mr SCHUR: Happy to oblige. There was a series of initiatives. As I pointed out, because the objective was, on the one hand, to provide some kind of stimulus to the economy in the short term but also to repair the balance sheet over the longer term, the initiatives over and above the large capital program were focussed on targeted temporary and timely initiatives—

The Hon. GREG PEARCE: Yes, but could you just tell me—

Mr SCHUR: I am trying to. They included the housing construction acceleration plan, the local infrastructure fund, the community building partnership, the major investment attraction scheme, the western Sydney employment fund and a regional New South Wales employment fund.

The Hon. GREG PEARCE: What was the total expenditure on those items?

Mr SCHUR: I will have to get back to you to be specific about that because it requires a calculation of the benefits under the housing construction acceleration plan.

The Hon. GREG PEARCE: The Premier said last week that the amount spent so far under that was \$8.4 million.

Mr SCHUR: Yes, and that is supposed to run until the end of the year.

The Hon. GREG PEARCE: So you are taking it on notice to come back with the expenditures on each of those items.

Mr SCHUR: Yes.

The Hon. GREG PEARCE: And that "yes" means that, yes, you will provide the information, not that you will consider whether you will provide the information.

Mr SCHUR: I said I would take it on notice. All that information is in the budget papers—I just do not recall exactly—so it should not be difficult to find. I will bring that information back to you.

The Hon. GREG PEARCE: Last week the Treasurer, in answer to a question without notice, told the Parliament, "Growth is occurring right across the State because of the Government's green shoots policy." Do you agree with that statement?

The Hon. PENNY SHARPE: It is Government policy. It is not up to him to have a view.

The Hon. GREG PEARCE: What is the Government's green shoots policy?

Mr SCHUR: I am sorry you missed my opening statement, so perhaps I can read from it again. The point I made is that the way in which we would measure the stimulatory impacts of the budget is to look at the change in the total State economic position from one year to the next.

The Hon. GREG PEARCE: I did hear that part, thank you.

Mr SCHUR: As I mentioned in my opening remarks, that indicates that the State is providing a fiscal stimulus of around 1.5 per cent of GSP over the two years to 2009-10.

The Hon. GREG PEARCE: So you cannot identify what the Treasurer called the Government's green shoots policy. You do not know what that is?

The Hon. IAN WEST: The Treasurer has told you all about it.

Mr SCHUR: I have explained it in the way I understand it. If you want a specific answer from the Treasurer I think you should ask him directly.

The Hon. GREG PEARCE: Does it concern you that the State accounts have been qualified again by the Auditor-General?

Mr SCHUR: No.

The Hon. GREG PEARCE: No?

Mr SCHUR: No.

The Hon. GREG PEARCE: Why does it not concern you?

Mr SCHUR: Because the two audit qualifications relate to pending valuations of specific State assets—the value of lands under roads and Crown reserves—which when complete will only increase the value of the State's balance sheet. We have very good reasons for not including those valuations. We respectfully disagreed with the Auditor-General on these points. The problem with the value of land under roads is that there is no standard agreed methodology on how to value the land under roads. What the RTA does, for example, is to use the average rateable value of adjacent land. We think there is a problem with that methodology because there is a constraint on what can be done with the value of land under roads. In other jurisdictions they have discounted the value of land on that basis very significantly. So we are not uncomfortable with that qualification.

The Hon. GREG PEARCE: Why have you not taken some action to change the way the RTA values that land?

Mr SCHUR: We are. We are working with other jurisdictions. We understand that the Australian Valuer-Generals are currently working to develop guidance on a reliable valuation methodology—there is not one—and we are happy to support that process. Once we are comfortable with that, we will apply that process to provide a value for land under roads.

The Hon. GREG PEARCE: Will that occur by next year? What is the program for that?

Mr SCHUR: I would have to get back to you on that. I am not sure what the timing is on that, but I believe what we are trying to do is make sure that we have the qualification removed for the 2009-10 State accounts. I think that is the intention. As far as the qualification of Crown lands is concerned, again the balance sheet does not include a valuation for Crown lands because the information is not currently available. The State has a project that is underway, and has been for some time, to identify and value the Crown reserves. We believe this exercise will be complete in 2010-11. Once it is complete the valuation of the land in the Crown reserves will be included in our balance sheet and the qualification will be removed.

The Hon. GREG PEARCE: The Auditor-General also expressed concern that half of the largest agencies presented financial reports with significant errors. Is that a concern to you?

Mr SCHUR: Yes, that is a concern. We have discussed this with the Auditor-General. We have agreed to set up a joint Treasury-Audit Office working group to develop some improvement strategies. In some respects we have already begun this process by now requiring agencies to set up audit committees that have a majority of independent members with an independent chair. We have a panel of qualified and suitable chairs for these roles so agencies can draw on the experience of the individuals on the panel. That will be implemented, and we will be writing to the chairs of the audit committees of the worst offenders, if you like, to raise these concerns with them and to develop a process for improving this on a going forward basis.

The Hon. GREG PEARCE: Would you be supportive of a broader independent review of the State's finances, financial discipline?

Mr SCHUR: I do not think that is necessary. That is the role of the Auditor-General, and we are working closely with him to address these concerns.

The Hon. GREG PEARCE: What changes in process do you expect to put in place, following the reshuffle and the greater role for the Treasurer in the sale of the electricity assets?

Mr SCHUR: It should not have any impact on the process. The team is in place. We have a clear government structure and reporting arrangements. Instead of reporting to the former Minister for Finance, Minister Tripodi, that team will work in exactly the same way and now report to the Treasurer.

The Hon. GREG PEARCE: Is Mr Cosgriff still the leader of that team? How does that work, with Mr Timbs not involved in it?

Mr SCHUR: Mr Cosgriff is Treasury's key person on the team. There are a series of advisers and people from other departments who report into a steering committee, which consists of the Department of Premier and Cabinet, the Department of Industry, and Treasury as well. That team will now report through the project management team, through to the Treasurer.

The Hon. GREG PEARCE: The Auditor-General has now expressed concern that there is no reserve price. What is the response of Treasury to that issue?

Mr SCHUR: There will be a reserve price by the time we execute the transaction.

The Hon. GREG PEARCE: There will be a reserve price by the time the transaction is executed?

Mr SCHUR: Yes.

The Hon. GREG PEARCE: How will that be settled?

Mr SCHUR: How do you mean?

The Hon. GREG PEARCE: How will that be determined? What is the process?

Mr SCHUR: There will be some work done by Treasury and its advisers, and they will determine that reserve price.

The Hon. GREG PEARCE: Some work by Treasury and its advisers?

Mr SCHUR: It will be appropriate work to make sure that it is defensible, because post the transaction the Auditor-General will be able to analyse that work and express a view on whether that was a robust analysis of an appropriate reserve price. We are confident we can do that appropriately.

The Hon. GREG PEARCE: Is it the team's objective to maximise the price for the sale of the assets?

Mr SCHUR: I think the objective was always to maximise the proceeds to the State, subject to meeting the competition requirements, as we would with our engagement with the ACCC—I do not think there has been any change to that process—and to ensure at the same time that we have sufficiently exited the industry in a way that ensures that the next tranche of investment in generation is made by the private sector, not the public sector. That remains the key objective of the strategy.

The Hon. GREG PEARCE: Since the last time we talked about this, in addition to the Auditor-General the business community has expressed more concerns about whether the Gentrader model is appropriate and whether that will produce a price differential. Have you done any more work on that, and is your view the same as before? What is your view on the price differential by going along the current route?

Mr SCHUR: I think the strategy we have now is appropriate, given the circumstances that led us to respond.

The Hon. GREG PEARCE: Do we have a ballpark figure for what we are expecting to receive on the sale at this stage?

Mr SCHUR: I would not be disclosing that figure here, if I did. Obviously, we would hardly want to reveal to potential acquirers of these assets what value we may put on them. That would really undermine the process. It is not something that anyone does in a privatisation process such as this.

The Hon. MATTHEW MASON-COX: What is now the timeline for the privatisation process?

Mr COSGRIFF: The timeline is essentially the same as it has been previously. The Government, in an expressions of interest process that closes tomorrow, will evaluate that and then we will open data rooms. The Government has stated that data rooms will open around February. That is still our intention: to be in a position where the data rooms can be opened in the lead-up to February.

The Hon. MATTHEW MASON-COX: And then?

Mr COSGRIFF: Then there will be a process of bidding, and concluding that in the normal manner. We have not finalised the exact timetable post the opening of the data rooms, but the financial advisers will give us some advice as to whether it should be six weeks, eight weeks or 10 weeks. It is that sort of order.

The Hon. MATTHEW MASON-COX: And then there will be an assessment of bids?

Mr COSGRIFF: An assessment of bids, and then a decision—

The Hon. MATTHEW MASON-COX: You would expect that decision to be when?

Mr COSGRIFF: On that timetable, we would be looking at the second quarter of the next calendar year.

The Hon. MATTHEW MASON-COX: What will be the situation if we do not have a Carbon Pollution Reduction Scheme [CPRS] by the time the bids are put in? You do not have a regulatory framework that governs the key cost implications for these generators. How can they price an asset without knowing the regulatory framework?

Mr COSGRIFF: The key there is to get as much certainty as possible around the parameters of the CPRS. That will effectively reduce the risks they are taking.

The Hon. MATTHEW MASON-COX: So will you proceed without a regulatory framework in the form of a CPRS?

Mr COSGRIFF: I think it is still possible to complete the transaction without all the details being done on the CPRS. An important point to remember here is that the impact the CPRS has on the generators, in particular, is something that we have effectively at the moment, and that the private sector will have to make the same sort of judgement about it as the public sector generators do. There is an impact of the CPRS on the businesses. To the extent that there is uncertainty about some of the details of the CPRS, particularly the compensation arrangements for generators, and in particular any uncertainty about the target and the timing of that target, yes, that will have an impact on the way potential purchasers view the transaction. But, the more clarity there is around those details, the more confidence a board of a purchaser could have in the underlying valuation of the asset.

The greater the Commonwealth announces that it is clear about the target, and the timing and the compensation payments, the easier the evaluation task is. A judgement still has to be made, for instance, about the extent to which carbon prices get passed through into electricity prices, but all market players will have to make that judgement because it will be a forecast of the future. But that is the—

The Hon. MATTHEW MASON-COX: The uncertainty we live in.

Dr JOHN KAYE: Mr Cosgriff, I wish to pick up on Mr Mason-Cox's line of questioning. Has your group done any modelling on the impact that the uncertainty surrounding the CPRS will have on the total sale price of all the assets?

Mr COSGRIFF: Not specifically, but—

Dr JOHN KAYE: You have done no modelling?

Mr COSGRIFF: No, no. Bear with me. The more details there are on the CPRS, the clearer people can be about the evaluation impact. What seems critical to me is the extent to which you assume the carbon price passes through into electricity prices. That is a view about which reasonable people can have quite different judgements. The evaluation, if you like, of any generation asset is very sensitive to assumptions made on that issue.

I can take you to the Commonwealth Government's white paper in this area. It demonstrated three modelling results that had quite different pass-through assumptions. From memory, two of them were of the order of 70 per cent and one of them was of the order of 100 per cent. That judgement makes quite a difference to underlying values, and that judgement is also quite specific to the individual production unit we are talking about. It is a clear fact that generators with a higher carbon intensity will be more severely affected by the CPRS than those with a lower carbon intensity.

Dr JOHN KAYE: Quite so, Mr Cosgriff. I think your point is well made that there is a great degree of sensitivity, in any study that might have been conducted, to the pass-through rate, as it were. My original question to you was: Have you done estimates of the range of impacts that a CPRS, and the various parameters that might emerge from the Senate relating to a CPRS, might have on the sale price of the electricity assets and undertakings?

Mr COSGRIFF: Yes, we have done sensitivity tests against some of the parameters.

Dr JOHN KAYE: You have done those studies?

Mr COSGRIFF: But the key—I keep coming back to it—is how you deal with pass through.

Dr JOHN KAYE: No, the Committee understands that. We do not want to do another pass through as we are on top of that. I think most people understand the sensitivity issues there. Will you provide an indication in percentage terms of what the outcome of those studies were in terms of what percentage range does the CPRS, or various versions of it, have on the total sale price?

Mr COSGRIFF: No, I cannot give you that. As Michael previously said, I am not going to discuss potential sale prices.

Dr JOHN KAYE: No, I did not ask you to discuss potential sale prices; I asked you to discuss percentages impact of the CPRS. That is a different question. I was not asking for a dollar figure, I was asking you for a range percentage.

Mr COSGRIFF: Off the top of my head I can remember some of the sensitivities of the pass through but I cannot remember the sensitivity impact it will have on expected future profits from the generation sector, which is the number you would need to do the discount cash flow analysis to work out what the value impact is.

Dr JOHN KAYE: I find that quite surprising given that the key debate is about the CPRS and you do not have any view in your mind as to what the percentage impact would be of whether it goes through, given that the majority of public debate about privatisation is centred around the impacts the CPRS might have, or the parameters the CPRS might have, on the sale price of electricity.

The Hon. PENNY SHARPE: That was not a question.

Mr COSGRIFF: The impact of the CPRS is an impact on all the generators, including the New South Wales Government owned generators. It is there. It exists. Its impact will be on the Government's balance sheet or on the private sector's balance sheet. The transaction itself does not make a difference to that fact. If we continue to own the generators, their value will change probably downwards when the impact of the CPRS comes in. When the private sector evaluates those Gentrader contracts that valuation will be lower than the valuation they would have done if the CPRS was not—

Dr JOHN KAYE: Quite so—

Mr COSGRIFF: That is the design of the scheme.

Dr JOHN KAYE: Do you accept the proposition that uncertainty usually favours the purchaser rather than the seller, and in this case it would?

Mr COSGRIFF: Generally yes, but not universally.

Dr JOHN KAYE: Are you saying "not in this case"? You are saying in this case uncertainty does not disadvantage the vendor?

Mr COSGRIFF: It is not clear to me that the key parameters are going to be uncertainty. People will have a clear idea of the target and the phase-in of that target, and will be able to construct their models appropriately. The thing that is most sensitive, as I have said before, are the pass through assumptions and they will have to form their own judgement about that. Different people will have different views and that is inevitably going to lead to different parties having different valuations for the underlying asset.

Dr JOHN KAYE: Let me take you to the data rooms which are going to open in February which contain, I presume, detailed data about each of the generators and their contract holdings? Is that correct?

Mr COSGRIFF: Yes.

Dr JOHN KAYE: It will have detailed information about the cost structures of each of the generators and have detailed information about the financial activities of each of the retailers and their contract holdings. Is that correct?

Mr COSGRIFF: Yes. Can I just spend a moment on talking a little about the Gentrader contracts so we are—

Dr JOHN KAYE: I would prefer if you did not. I will come back to those. I do have a question about Gentrader contracts and I am looking forward to your wisdom on that matter. Right now I just want to talk about the data rooms. You have told the Committee that the data available will be the detailed information about the cost structures of each of the players within the New South Wales component of the national electricity market. Is that correct?

Mr COSGRIFF: I think broadly that is right. I was going to say to be crystal clear about this that in the Gentrader arrangements the costs structures of the generation have to be disclosed because there will be a payment from the Gentrader to the generator to cover those costs.

Dr JOHN KAYE: Yes.

Mr COSGRIFF: In the case of the retailers we are envisaging for a period of time that there will be a commercial agreement or a transitional services agreement where services will be provided from the network business to the retail and the cost of that will clearly have to be disclosed.

Dr JOHN KAYE: In non-technical terms the Rees Government is giving access to the intimate details of each of the currently publicly owned operators within the electricity market to a select club of people who will have access to that room?

Mr COSGRIFF: That is the essence of an asset sale whether covered in the private sector of the public sector. It involves giving select access to data to enable the purchaser to undertake a sensible valuation. There are various hierarchies of that data. Some data may be available to everyone who gets admitted through an EOI process to the data room. Some data will be reserved—the technical term, I believe is—black boxed and will only be available to the party that gets right to the end of the process and is the designated purchaser. They may be access to the most intimate commercial details and that will allow them to finalise their valuation and their bid.

Dr JOHN KAYE: Have you analysed the impact of this degree of exposure of data on the competitiveness of the industry? That is to say: Have you analysed the impact of participants who end up buying one asset but not another, knowing some degree of intimate details of the cost structures, the contract holdings, the other financially sensitive details of the party that they do not purchase?

Mr COSGRIFF: Well, to the extent that that is a problem, that is why we have the black-boxed process to deal with it so that it is the most sensitive information only disclosed to, effectively, the purchaser.

Dr JOHN KAYE: Are you prepared to release to this Committee not the actual data, but the categories of data that are black boxed and the categories of data that are not black boxed?

Mr COSGRIFF: Eventually I think the answer to that is yes, but at the moment I am not 100 per cent sure in my own mind as to what data will be black boxed and what will not be. You will appreciate that as the data is assembled and put into the vendor data room, the lawyers have to form a judgement about that, and then data gets appropriately transferred into the sale data room with the appropriate designation.

Dr JOHN KAYE: It is going to be a long hot summer for you, I presume, working out what is and what is not going to be black boxed.

Mr COSGRIFF: Yes.

Dr JOHN KAYE: At some stage prior to the data rooms being open will you release to this Committee and to the people of New South Wales what data will be in the data room and what sub-set of that data will be black boxed?

Mr COSGRIFF: Can I take that on notice?

Dr JOHN KAYE: No, I do not think you can. I think this is something you should be able to answer, Mr Cosgriff, to be fair.

The Hon. PENNY SHARPE: He is choosing not to.

Dr JOHN KAYE: This is an important issue. This is a key issue about the future of the electricity assets.

The Hon. PENNY SHARPE: Point of order—

Dr JOHN KAYE: The Government that you work for set up a competitive market within New South Wales. Mr Cosgriff asked me if he could take this question on notice. I do not want him to. I think you have set up a competitive market—

The Hon. PENNY SHARPE: Yes, but you are not asking a question. You are simply making a long statement, badgering the witness who said he is going to give you the answer in 21 days.

Dr JOHN KAYE: I am alleging that you are undermining the competitiveness of that market.

The Hon. PENNY SHARPE: That is irrelevant, it is not a question.

Dr JOHN KAYE: I want you to respond to that.

The Hon. PENNY SHARPE: He has taken it on notice.

Dr JOHN KAYE: He is a big boy, Penny, he can look after himself. Will you answer the question?

The Hon. PENNY SHARPE: No, there are rules about how the Committee operates and he has indicated he is going to take it on notice and that is a reasonable answer.

Dr JOHN KAYE: Mr Cosgriff, will you respond to my question? How will this not undermine the competitiveness of the market?

Mr COSGRIFF: The data in the data room that is not particularly sensitive will be available to those people who pass the EOI process.

Dr JOHN KAYE: But not to the rest of us, not to the average person in New South Wales?

The Hon. IAN WEST: No, we are not tendering.

Dr JOHN KAYE: I want to ask these questions. If the Hon. Ian West does want them asked, he should not listen.

[Interruption.]

Mr COSGRIFF: Certain parties sign a confidentiality agreement and get into the data room.

Dr JOHN KAYE: I am sorry I cannot hear the answer. Will you repeat your answer?

Mr COSGRIFF: Certain parties, as a result of the EOI process, will sign a confidentiality agreement and have access to the data room. That will enable them to see certain data. Certain other data will be withheld right to the end of the process and that will be the most market sensitive, and sensitive information which will be available effectively to the party that is short-listed as a successful purchaser, and will be available at the end of that process. You will appreciate if it is in the black box it is commercially sensitive and will not be available for widespread—

Dr JOHN KAYE: The data that is not in the black box will not be commercially sensitive?

Mr COSGRIFF: No, I am not saying that. I am saying that the most sensitive data that it is inappropriate to have widely spread will have special arrangements around it and put effectively into the black box.

Dr JOHN KAYE: This is my last shot: So there will be data that is commercially sensitive that will be available to the vast majority of people who go into that data room?

Mr COSGRIFF: There will be data that, you know, reflects the underlying costs and those sorts of things, yes.

Dr JOHN KAYE: Which you would not be happy putting in the public domain?

Mr COSGRIFF: Generally we would not put it in the public domain—

Dr JOHN KAYE: But you would be happy for potential competitors to have access to it?

Mr COSGRIFF: Yes.

The Hon. IAN WEST: It is quite normal. It is done every day of the week.

Mr COSGRIFF: They have obligations on how they deal with us as well. They have signed confidentiality agreements.

Dr JOHN KAYE: Absolutely, they are not going to use that data—

Mr COSGRIFF: There are obligations that they have to follow.

Dr JOHN KAYE: The people that the end up owning MacGen will not use the data they find out about Delta, is that what you are saying?

The Hon. PENNY SHARPE: No-one can answer that question. That is a huge assumption.

Mr COSGRIFF: There are obligations in the confidentiality agreement about how they use data.

Dr JOHN KAYE: I find that extraordinary. Can we go forward to what happens after that? We possibly have an IPO, possibly not depending on whether your initial data room attracts the appropriate degree of new players into the industry, but then we are left over with some assets that did not go either the IPO process or the first round. Is it the commitment of the process that every asset will go into private hands—that is to say, none of the assets that are up for sale will remain in public hands because there simply is not a buyer for them?

Mr COSGRIFF: That is the intention of the Government, yes.

Dr JOHN KAYE: Does that mean that all the assets will go regardless of the price at the end?

Mr COSGRIFF: No. It believes, I think, there will be sufficient competition for the assets that will give the price for the assets.

Dr JOHN KAYE: You think so, but it is possible, is it not?

The Hon. PENNY SHARPE: Well, how do you know?

Dr JOHN KAYE: Do you admit the possibility that at the end there will be assets left over which will remain in public hands?

The Hon. PENNY SHARPE: That is the biggest hypothetical question.

Mr COSGRIFF: That is a hypothetical approach and to the extent—

Dr JOHN KAYE: No, it is not.

The Hon. PENNY SHARPE: It is.

Mr COSGRIFF: The strategy does say to the extent—for instance, I cannot envisage how that would happen on the retail side to the extent there is a Gentrader contract, the Government could reserve the position and put another Gentrader contract into the IPO. The answer is that we will have a process designed to

maximise competitive tension for the assets and competition from the asset sale in order to ensure that the assets clear value is obtained for the New South Wales taxpayer.

Dr JOHN KAYE: So it is a whatever it takes: whatever it takes to get those assets out of public hands you will pursue regardless of price?

Mr COSGRIFF: No.

Dr JOHN KAYE: So if you do not clear the reserve price on these assets there is a possibility they will remain in public hands at the end of the process?

Mr COSGRIFF: Look, if there is a reserve price—

The Hon. GREG PEARCE: If there is a reserve price?

Mr COSGRIFF: There will be a reserve price. If the assets do not meet their reserve price there is a theoretical possibility that we will have to reconsider the strategy. But, given what we know about the market and demand for these assets I think the probability of that is reasonably remote.

Dr JOHN KAYE: That is your view. I think there are other people, including parts of the business community of New South Wales, who possibly have a different view. So you are accepting—

The Hon. IAN WEST: Is that a statement or a question?

Dr JOHN KAYE: Can I just ask my question, would that be okay?

The Hon. IAN WEST: Well, ask a question.

Dr JOHN KAYE: I am just about to ask it. The possibility remains that some of the assets will remain in public hands at the end of the process and that is a scenario that you contemplated?

The Hon. PENNY SHARPE: You cannot say that.

Dr JOHN KAYE: Yes or no? I am trying to clarify a previous answer?

Mr COSGRIFF: What are you asking me?

Dr JOHN KAYE: What I am asking is—

CHAIR: You have repeated the same question about three times.

Dr JOHN KAYE: Because I am not getting an answer, Chair.

The Hon. PENNY SHARPE: Because he is not able to answer the question.

Dr JOHN KAYE: In your privatisation planning process do you have a scenario in which you do not clear reserve price on some assets, in which case do those assets remain in public hands?

Mr COSGRIFF: The Government strategy was clearly outlined: a two-stage process. The first stage process would involve trade sale of all assets; the second stage process enabled the Government to have an IPO should they not get sufficient entry into the market. So through that process I am confident we will be able to clear all the assets.

Dr JOHN KAYE: I know you are confident, but you still have not answered my question. I think it is a very important question because as I understand it—correct me if I am wrong—the reason this process was started was to get all assets into private hands so that the private sector would feel comfortable investing in new generation?

Mr COSGRIFF: Yes.

Dr JOHN KAYE: So the process was all about getting all the assets into private ownership—that is the Tony Owen report. You have also admitted to Mr Pearce that you are going to have a reserve price. A reserve price means if you go below it you do not sell, which means we could be in the beginning of the third quarter of the calendar year 2010 without having sold all the assets—some sold, some of them not sold. That is the scenario that you have entertained in your strategic planning for this process?

Mr COSGRIFF: That is why the Government has left the option of the IPO on the table so that it enables it to have options to manage that, should that eventuate.

Dr JOHN KAYE: That is interesting. Correct me if I am wrong but I thought the IPO was there to attract competition into the industry but not necessarily sell off the assets that were not being—

Mr COSGRIFF: If we attract competition to the industry then inevitably the trade-sell process will go successfully. It is when there is not sufficient competition for the assets—

Dr JOHN KAYE: You do not think that is a statement of faith rather than a statement of strategic planning?

Mr COSGRIFF: It is a statement of strategic planning.

Dr JOHN KAYE: So the IPO is the sale of last resort. Are you telling us—

Mr COSGRIFF: No, I am telling you the IPO is the Government's way of guaranteeing new entry into the market.

Dr JOHN KAYE: No, sorry, you just said a minute ago that the IPO was a way of making sure that everything was sold. That is different to guaranteeing a new entrant, is it not? Are they not two different objectives?

Mr COSGRIFF: I am telling you that the IPO was the Government's way of ensuring new entry into the market.

Dr JOHN KAYE: It is a little bit confusing because you have just moved ground on the IPO. A minute ago the IPO was about a new entrant, then it became about making sure assets are sold; now it is about a new entrant. Can you clarify that for us please?

Mr COSGRIFF: The IPO is about the Government ensuring new entry. It says that in the strategy document—that is the Government's strategy.

Dr JOHN KAYE: So what are you going to do with the assets that do not sell?

The Hon. IAN WEST: The Government will decide that.

The Hon. PENNY SHARPE: They do not know yet. How do you know they are not going to be sold?

Dr JOHN KAYE: I was not asking the Parliamentary Secretary—I was asking the Deputy Secretary of the Treasury.

The Hon. PENNY SHARPE: My point is that this question has been asked in four different ways and it has been hypothetical every time. I think that Mr Cosgriff has answered the question and this is going nowhere. You continue to ask the same question and then have a go at him when he tries to answer yet another hypothetical question that he is not in a position to answer.

Dr JOHN KAYE: That is your judgement. In the Treasury document that promotes the sale, you refer to the Alberta experience with the Gentrader model, is that correct?

Mr COSGRIFF: Alberta has been used as an example of Gentrader-type arrangements, yes.

The Hon. PENNY SHARPE: Time.

Dr JOHN KAYE: Was that my time?

The Hon. PENNY SHARPE: Yes.

The Hon. GREG PEARCE: I will continue on with that theme for a moment. The Auditor-General was also concerned that you do not have a strategy to calculate a retention value, what do you say to that?

Mr COSGRIFF: Retention value or reserve price will be calculated as part of the process.

Dr JOHN KAYE: Or? They are the same thing?

Mr COSGRIFF: Sorry?

The Hon. GREG PEARCE: You said retention value "or" reserve price would be calculated as part of the process. Will you not do both?

Mr COSGRIFF: Yes.

The Hon. GREG PEARCE: They will be different figures, will they not?

Mr COSGRIFF: Yes. I apologise for using the wrong word.

The Hon. GREG PEARCE: It is all right. That is why I am asking you—

Mr COSGRIFF: Retention value, reserve price will be calculated as part of the process.

The Hon. GREG PEARCE: So how would you calculate the retention value if there is no CPRS?

Mr COSGRIFF: If there is no CPRS?

The Hon. GREG PEARCE: Yes.

Mr COSGRIFF: I think we will have to make some assumptions around the evolution of carbon policy in Australia.

The Hon. GREG PEARCE: As the professionals and independent bureaucrats that you are—and traditionally the community relies very much on the independence of the Treasury—what do you have to say to the NSW Business Chamber, which said the other day in an editorial in the *Sydney Morning Herald*:

... we do have grave concerns about the partial privatisation plan.

Our concern is that the model being presented appears to be flawed and will ultimately result in NSW being underpaid for a very valuable asset. ...

It continued:

... a lemon of a proposal that will mean the assets are sold in a fire sale.

What is your response to that?

Mr SCHUR: We do not accept that characterisation. We do not necessarily believe they represent the entire business community with that statement and we simply do not accept that characterisation.

The Hon. GREG PEARCE: What about the *Australian Financial Review*, which described the current model as a "bizarre confection" and "like a surrealist work of multimedia sketched by Salvador Dali and narrated by Lewis Carroll"?

Mr SCHUR: I do not have any view on what journalists may say or write.

The Hon. GREG PEARCE: What about former Treasury Secretary Mr Pierce who told the budget estimates in 2008 that the Gentrader model was the next best model? What do you say to him?

Mr SCHUR: I would characterise it as the best option available to the State under the circumstances.

The Hon. GREG PEARCE: Remind us—what are the circumstances?

Mr SCHUR: That the opportunity to sell the generation assets is not an option available to the State.

The Hon. GREG PEARCE: Mr Cosgriff, I was having trouble following your answer as well. Is the IPO the way that the assets will be disposed of if they are not sold in the tender process?

Mr COSGRIFF: The IPO has been designed in order to ensure entry should the original trade sale process not enable a new entry, does not lead to a new entry.

The Hon. GREG PEARCE: What do we mean by new entry through the IPO process?

Mr COSGRIFF: We mean that the shares of the IPO vehicle we offer to the market in such a way that the wide shareholding means that from the perspective of the market this is a new entrant to the Australian energy market.

The Hon. GREG PEARCE: How would those shares be priced? Would they be based on the reserve price that was set in some way or the retention value? How would you get a price?

Mr COSGRIFF: The financial advisers would calculate the price based on expected earnings, those sorts of things, and come up with something that is attractive to market participants and also ensures the Government gets value from the assets.

The Hon. MATTHEW MASON-COX: In the circumstances—whatever they might be or how uncertain they might be—if we cannot sell them through this tender process, then you hope they will be able to sell them through the—

Mr COSGRIFF: No, we are appealing potentially to two quite different market segments. There is quite a lot of demand out there in the IPO market situation that probably was not the case 12 months ago. So that is a positive. And the participants in the IPO market are not quite the same participants in respect of the trade sale process. So it does provide you with an alternative market.

The Hon. GREG PEARCE: Do you see any circumstances at all—trade sale failing, IPO not being attractive—where the assets will remain in the State's hands?

Mr COSGRIFF: I think I have made that position clear. I do not envisage those circumstances, no.

The Hon. GREG PEARCE: What is the budget for the transaction costs? You must have a budget for what you are spending on transaction costs?

Mr SCHUR: I believe the budget was \$120 million for the transaction.

The Hon. GREG PEARCE: And still is?

Mr SCHUR: Yes, I believe so.

The Hon. GREG PEARCE: What is the breakdown between the advisers? How much is Credit Suisse to be paid?

Mr SCHUR: Are you talking about expenditure to date or as anticipated?

The Hon. GREG PEARCE: Both—the expenditure to date and budget.

Mr SCHUR: My understanding is that the two financial advisers, Credit Suisse and Lazard, are on a very small retainer. I believe we addressed this the last time the Committee met. Their fees will be on the basis of percentage of the sale proceeds. All the other advisers, to my knowledge, are on a time and materials basis.

The Hon. GREG PEARCE: You are correct, you did address it last time but we did not get any answers.

Mr SCHUR: I believe we said that that information would be commercial in confidence and it would not be possible to disclose the information to the Committee.

The Hon. GREG PEARCE: That is what you are maintaining, I assume.

Mr SCHUR: Yes.

The Hon. GREG PEARCE: Has the Government engaged any communications or public relations adviser in relation to the sale?

Mr SCHUR: I believe we have.

The Hon. GREG PEARCE: Who is that?

Mr COSGRIFF: I am sorry, I have a mental blank as to the name. Can I take that on notice?

The Hon. GREG PEARCE: Is their remuneration within that \$120 million budget?

Mr SCHUR: It would be, yes.

The Hon. GREG PEARCE: Could we have the amount of that remuneration as well?

CHAIR: Does anyone else know the name of the public relations company?

Mr SCHUR: No.

CHAIR: You have not heard the name mentioned?

The Hon. MATTHEW MASON-COX: They are probably calling them most days.

The Hon. GREG PEARCE: Going back to the infrastructure spend, precisely how much extra State funding was put into the infrastructure spend as a result of the global financial crisis, leaving aside the half dozen programs you mentioned earlier?

Mr SCHUR: I am not sure I understand the question, Mr Pearce.

The Hon. GREG PEARCE: Is it not the case that there was an infrastructure spend of some \$57 billion in the 2007-08 budget?

Mr SCHUR: Yes.

The Hon. GREG PEARCE: Following the global financial crisis, in the mini-budget is it not the case that the infrastructure spend was actually reduced?

Mr SCHUR: No.

The Hon. GREG PEARCE: The State spend?

Mr SCHUR: No. I believe the total spend was \$62.9 billion. It think it is really difficult to totally disaggregate the spend between the Federal contribution and the State contribution in the sense that within their original spend of \$57-odd billion you are referring to there would have been large contributions by the Federal Government through, for example, what was formerly called the AusLink project. Our overall total State capital contribution always includes a contribution from the Federal Government.

The Hon. GREG PEARCE: Mr Schur, you are very good at manipulating the answers. But the budget figures are very plain that the extra Federal stimulus, the \$5.18 billion, I think it is, was not in that earlier

expenditure. It is easy to disaggregate. It is the extra spending that got us up to the \$62.9 billion, is it not? And there was no extra State-sourced money to increase it to \$62.9 billion.

Mr SCHUR: I am not sure. What are you comparing? When you say there was no additional State funding, it is not clear from your question what you are comparing. And I take offence at your remark that I am manipulating my answer; I am giving you a straight answer. I am explaining to you that ordinarily our total State capital program has a component that is State funded and a component that is federally funded. It has always been the case. If you are asking how much of the \$62 billion includes a contribution from the State, as far as the Federal stimulus—

The Hon. GREG PEARCE: You know exactly what I am asking. I am asking how much of the increase to \$62.9 billion from the previous year's budget was as a result of the Federal stimulus package and how much was State funded?

Mr SCHUR: I believe it is about \$6 billion from the Federal Government.

The Hon. GREG PEARCE: Thank you. And how much from the State?

Mr SCHUR: The difference, I suppose.

The Hon. GREG PEARCE: The difference is a negative figure.

Mr SCHUR: A negative figure?

The Hon. GREG PEARCE: The difference is a negative figure.

Mr SCHUR: Are you talking about in terms of the rate of growth of that expenditure?

The Hon. GREG PEARCE: No, I am talking about the simple figure—\$62.9 billion less \$6 billion is less than the \$57.18 billion, I think it was, for the previous year.

Mr SCHUR: Are you talking over the previous four-year period?

The Hon. GREG PEARCE: Yes.

Mr SCHUR: Yes, 57 plus 6 would give you the \$62.9 billion. I am not sure what the point is though.

The Hon. GREG PEARCE: The point is—a simple question again—how much of the \$62.9 billion was extra State funds put in at the time of the mini-budget or later?

Mr SCHUR: You are trying to compare four years that have a new year in the second number that you do not have in the first period.

The Hon. GREG PEARCE: The budget was then followed by the mini-budget. We are talking about the figures that changed from one budget to the mini-budget.

Mr SCHUR: Which has an additional year. So the mini-budget relates to—

The Hon. GREG PEARCE: So there should have been more State funding.

Mr SCHUR: There was. In the last year of the forward estimates there was additional State funding. You are asking me to compare two four-year periods that have three years that overlap with each other and a fourth year that is new. In that fourth year of the forward estimates, which is new—2012-13—there would be new capital spending, which is the rollover of ongoing projects and there may be some new initiatives there as well. We are not comparing two four-year periods that have exactly the same four years.

The Hon. GREG PEARCE: Let us just try to get this answered: How much new State spending was in that new figure—new State spending that was not in previous forward estimates?

Mr SCHUR: In the forward estimates of the previous budget? You are saying you want to know the difference between State spending in the 2008-09 forward estimates period and the capital program in the 2009-10 budget?

The Hon. GREG PEARCE: What the increase is, if there is an increase.

Mr SCHUR: I will have to get back to you. I do not recall what the capital funding is in that last year. I will get back to you on that.

The Hon. GREG PEARCE: You will get back and you will provide the numbers?

Mr SCHUR: Yes, I will.

The Hon. MATTHEW MASON-COX: I have the mini-budget in front of me and we are talking about the same estimates period—2008-09 for the next three years—and the mini-budget in November last year has the same forward estimates period. There is not another year being added in. I am quite happy to show you this but it is the same forward estimate period. We are comparing like with like. I put it to you that the answer to the honourable member's question is that the difference is a negative, and that negative is stipulated in the mini-budget response. If you go to 5-2 in the mini-budget, it says in black and white:

Overall the Mini-Budget has reduced capital expenditure by around \$890 million over the four years to 2011-2012 ...

Mr SCHUR: Yes, and in the 2009-10 budget we are talking about the period to 2012-13.

The Hon. MATTHEW MASON-COX: With respect, Mr Schur, we are talking about the response of the State Government in terms of fiscal stimulus at the time in the mini-budget as a result of reacting to these external events. We are putting to you that in fact the Government's response was to cut infrastructure spending, and claim that it had actually increased it by looking to the Commonwealth's stimulus of \$6 billion. But the reality is that without that Commonwealth kick-up of \$6 billion we actually went backwards by \$890 million. It is in black and white and we are asking you to acknowledge the facts.

Mr SCHUR: No, I will not acknowledge the facts. I think you are confusing a whole series of numbers and issues. At the time of the mini-budget we made some cuts to our capital program. I am not denying that, and those numbers are what you are referring to. Those cuts to the capital program were made in response to a structural problem we had with our budget. I think the arguments around why we did that are well articulated. The Federal stimulus money had not been contemplated at that particular time. The point is despite those cuts to our capital program as envisaged by the 2008 mini-budget, our revised 2008-09 budget, as reflected by the changes we made at the time of the mini-budget, and our 2009-10 budget were stimulatory in the sense that I think matters and is very measurable as far as economists are concerned; that is, to look at the change in the net lending result from one year to the next. Over the two years, the change from 2007-08 to 2008-09 and the change from 2008-09 to 2009-10, there is no doubt that the net lending result implies that the budget was stimulatory.

The Hon. MATTHEW MASON-COX: We could go on but you are not acknowledging the facts.

Mr SCHUR: As I said, I am happy to take the question on notice.

The Hon. MATTHEW MASON-COX: We have got that. Can I take you back to a couple of points we were talking about earlier? In relation to some of the infrastructure projects, particularly the Rozelle metro, I think the latest cost estimate is \$5.3 billion. Is that correct?

Mr SCHUR: I might ask Mr Timbs to answer that question.

Mr TIMBS: Two numbers have been quoted in terms of the cost estimates but they are quite consistent because one is inclusive of rolling stock and some potential Government land transfers and one is exclusive, so they become the same number. I think one is \$4.8 billion and the other is \$5.1 billion or \$5.2 billion.

The Hon. MATTHEW MASON-COX: Okay. I would appreciate it if you could clarify that precisely for us on notice.

Mr TIMBS: Certainly.

The Hon. MATTHEW MASON-COX: I will come back to that in a moment. We had an announcement recently about the south-west rail link and the revised cost of that is \$1.3 billion, up from the original costing, which was some time ago, in 2004, of \$688 million. I want to get an understanding of how you account for that discrepancy of \$688 million becoming \$1.3 billion. Can you explain that one to me, Mr Timbs?

Mr TIMBS: That is not a project I have responsibility for.

Mr SCHUR: I think that is a question we have to take on notice. We are talking about costs in two very different time periods, so that is part of the fact that you take into account. We can take that on notice and get back to you about the cost increase.

The Hon. MATTHEW MASON-COX: Great, because you would have that information from your processing and Treasury comments on that submission presumably. It is Treasury knowledge within your purview, is it not?

Mr SCHUR: I refer to my previous answer on that question.

The Hon. MATTHEW MASON-COX: Given there seem to be quite large variations in estimates depending on when they are announced—and sometimes there is not a lot of time between one announcement and the next by this Government—what level of confidence have we got in this Rozelle metro estimate, which is \$5.1 billion or \$5.2 billion, or maybe less depending on what you include or exclude? What level of confidence have you got in that figure?

Mr TIMBS: I think from the Treasury point of view we have had the opportunity to review the cost estimates on all the major construction works for the project. They have been done by reputable firms. We have been able to benchmark them reasonably where possible compared to other construction projects that we have looked at, and they look reasonable on those measures given rates of pay, construction work material and those types of things. The other thing, of course, is that it is typical in these projects that there is a contingency built in. Depending on the size of the project and the complexity, the contingency could be anywhere up to 10 or 15 per cent. This project contains that sort of contingency. We are confident there is a margin for potential cost changes contained within the overall project figure.

The Hon. MATTHEW MASON-COX: So, \$5.2 billion plus or minus 15 per cent is about where it is at?

Mr TIMBS: That is right, and from what we have reviewed those figures would appear to be reasonable¹.

The Hon. MATTHEW MASON-COX: I want to ask you a question as the independent professional Treasury officials you are. Can we in New South Wales afford the Rozelle metro and the south-west rail link in the form they have been presented to you?

Mr SCHUR: What do you mean by "afford"?

The Hon. MATTHEW MASON-COX: Within the confines of parameters like the triple-A rating, the ongoing need to show fiscal balance in the budget and to have revenue and expenses in line—the parameters within which you operate.

Mr SCHUR: The Rozelle metro would have been in our numbers as presented by the 2008-09 and 2009-10 budgets and you would have seen—I cannot remember exactly where it is in Budget Paper No. 2—what impact our entire capital program had on the metrics that matter to Standard and Poor's and Moody's. You would know both those agencies have reaffirmed out triple-A credit rating.

The Hon. MATTHEW MASON-COX: So your answer is yes?

¹ "The contingency provides a capacity to address variations up to the \$5.2 billion estimate, consistent with the information provided in the early part of the exchange. It is not a 'plus or minus' calculation but rather a contingency within the overall cost estimate" (see Committee Minutes 36, 24 February 2010).

Mr TIMBS: I think also, just to add in relation to the metro project, the full costing for that project is contained within the forward-looking budget numbers. There are two major work streams in that project: there is one for the permanent root infrastructure, which is the tunnelling, the cabins, the major sort of civil work; the other package is the integrated metro operations, which relates to operations, rolling stock, stations. What we are endeavouring to do is to try and do a PPP transaction around the IMO component of the works. To the extent we are able to successfully bring private capital into that part of the works, it would actually flow back through to the budget as a boost to the budget plans. Not all of that money will be spent by the Government, potentially, as an upfront capital cost, but it could be done via availability payments over the term of the PPP.

The Hon. MATTHEW MASON-COX: So PPP in the IMO, did you say?

Mr TIMBS: Correct, yes.

The Hon. MATTHEW MASON-COX: Can you explain how that is going to work?

Dr JOHN KAYE: Can you explain what IMO is?

Mr TIMBS: IMO is integrated metro operations. The project is broken up into two distinct categories. The first one, PRI—permanent root infrastructure—relates to the major civil work: the tunnelling, the cabins. That will be done at government cost. The second component, the integrated metro operations—the IMO—relates to the operations. It involves some construction, particularly of the tracks themselves and the stations, but it also relates to the operational component of the metro—so the running of the stations, the running of the trains. What we are endeavouring to do is to deliver that component of the project via a PPP and if we are successfully able to do that it would involve private capital potentially funding some of the upfront costs for that but with an availability payment made to the operator over the term of the concession.

The Hon. MATTHEW MASON-COX: So the operational concession, if you will, with some infrastructure associated with it?

Mr TIMBS: That is right.

The Hon. MATTHEW MASON-COX: What sort of amount of the \$5.2 billion do you expect from this PPP?

Mr TIMBS: Very roughly, it is of the magnitude of maybe \$2 billion—so it is quite significant.

The Hon. MATTHEW MASON-COX: Would that concession be for some 30 years or some sort of payback period appropriately calculated?

Mr TIMBS: A long-term concession, yes.

The Hon. MATTHEW MASON-COX: Have you sought any expressions of interest and tested that as being a model that can work?

Mr TIMBS: Yes. Expressions of interest were called for a while ago. From memory, there were six or seven parties that responded to that, including a lot of significant overseas construction groups and metro rail operators, and a shortlisting for that component of the works has in fact been made.

CHAIR: There was some question that the passenger usage of the line would be very low. Would that be a factor?

Mr TIMBS: The patronage forecasting work that was done for the project—and this goes back to the earlier question—was done as part of the review of the business plan and then the gateway process.

The Hon. GREG PEARCE: On an entirely different issue, could one of you enlighten us as to what happened with other operating expenses in June? Looking at the May figures, other operating expenses were running at \$9.3 billion on an average of about \$850 a month and then the full-year figure in the audited accounts is nearly \$11 billion, so almost double other operating expenses in June to previous months.

Mr SCHUR: Sorry, are you talking about total State general government operating expenditures?

The Hon. GREG PEARCE: Yes, consolidated State—general government sector.

Mr SCHUR: Are you saying there was a doubling of operating expenses?

The Hon. GREG PEARCE: In June, yes.

Mr SCHUR: I will have to get back to you.

The Hon. GREG PEARCE: Based on the average spend each month before that.

Mr SCHUR: I will have to get back to you on the details of that.

The Hon. GREG PEARCE: On the May published figures, the other operating expenses were \$9.3 billion, which was averaging about \$850. The final figure in the audited account is \$10.97 billion, which gives you \$1.6 billion, roughly, in June. Also, you might explain to us how the budget so greatly miscalculated the employee expenses and other employee expenses. Can you answer that now?

Mr SCHUR: Yes, I can. What you are talking about is the difference between the number we published as part of the 2009-10 budget and the audited actual amount?

The Hon. GREG PEARCE: Yes.

Mr SCHUR: The primary reason for that increase is the impact of the number of the year-end employee liability calculations that are done at year end. This would include, for example, recreation leave, long service leave liabilities, workers compensation liabilities, and the police death and disability scheme. The calculation of those liabilities, those employee-related liabilities, is very sensitive to interest rates and it has to be done at year end because it is determined based on the prevailing interest rate at year end. It is very sensitive to movements in interest rates because the interest rate is the discount rate at which you discount those future liabilities, and so they tend to bounce around. That is the primary reason for those differences.

The Hon. MATTHEW MASON-COX: Mr Schur, I have got to ask you my favourite question. The Sydney airport stamp duty claim, where are we up to and are we ever going to see that money?

Mr SCHUR: Are you talking about the claim of \$400 million?

The Hon. MATTHEW MASON-COX: Yes.

Mr SCHUR: I cannot give you an answer on that. I believe that process is underway. It has been appealed and we are confident of our position, which is why we incorporated the valuation into our numbers.

The Hon. MATTHEW MASON-COX: It is still incorporated in the numbers, is it not?

Mr SCHUR: Yes, it is.

The Hon. MATTHEW MASON-COX: It is a big potential hole, is it not?

Mr SCHUR: I think it is the appropriate thing to have done. The Auditor-General actually agrees with us on this. I am trying to remember the term he uses.

The Hon. MATTHEW MASON-COX: The problem is the Commonwealth does not, does it?

Mr SCHUR: Yes, they do not, which is why there is a dispute around this.

The Hon. MATTHEW MASON-COX: How much have you spent on legal fees in that dispute so far?

Mr SCHUR: I have no idea. I am happy to take that on notice.

The Hon. MATTHEW MASON-COX: I understand that it is well beyond \$2 million and growing. But you have got no idea?

Mr SCHUR: I am happy to take it on notice.

The Hon. GREG PEARCE: Mr Schur, going back to the issue we have discussed a few times—the infrastructure levy modelling—we took your advice and got a Standing Order 52 motion through the House and still did not get the document. Can you clear up for me directly whether a document did in fact exist and what the basis is for it not being produced?

Mr SCHUR: I believe we have addressed this issue. We have corresponded with the Chair of the Committee on this issue; we complied with the Standing Order 52.

The Hon. GREG PEARCE: Did a document exist? You have previously said that it did, on oath, in front of this Committee.

Mr SCHUR: Yes, I said a document did exist, but that does not mean we did not comply with the standing order.

The Hon. GREG PEARCE: On what basis do you say you complied with the standing order? Has the document been destroyed?

Mr SCHUR: No. I can only speculate. I am speculating that that document was part of the deliberations of Cabinet, which is why it was excluded from the documents that were handed over as part of the Standing Order 52. But I believe we complied with the standing order.

The Hon. GREG PEARCE: So is it a Cabinet-in-confidence document?

Mr SCHUR: I am saying I am speculating that is the reason. I did not prepare the paperwork for that Standing Order 52. There is a very rigorous process and I am sure we applied that process in the circumstances.

The Hon. GREG PEARCE: To finish that off, can I be clear that when you say "yes" in answer to a direct request that you are going to deliver a document, in Mr Schur-speak that means, "Yes, I will go away and get advice and consider whether I will produce it and maybe produce it"; whereas the way the rest of us understand the English language is that when you say "yes" you should mean yes.

CHAIR: Mr Pearce, that is the conclusion of the hearing.

Mr SCHUR: I am happy to answer that question, Mr Chair. We have addressed that issue in the letter we wrote to you. I believe that it addressed it in relation to what I said at the hearings both last year and this year. I understand you are prepared to attach our response to the proceedings of the Committee, and I thank you for doing that.

CHAIR: That has been agreed, so it will be available for those who would like to see the contents. We thank you very much for attending our supplementary hearing and for answering our questions.

(The witnesses withdrew)

The Committee proceeded to deliberate.
