

# GENERAL PURPOSE STANDING COMMITTEE NO. 1

Tuesday 25 October 2011

Examination of proposed expenditure for the portfolio area

## TREASURY

The Committee met at 9.00 a.m.

### MEMBERS

The Hon. M. J. Pavey (Chair)

The Hon. J. A. Gardiner  
The Hon. G. J. Donnelly  
Dr J. Kaye

The Hon. M. R. Mason-Cox  
The Hon. W. Secord

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### PRESENT

**The Hon Mike Baird, *Treasurer***

**New South Wales Treasury**

**Mr Philip Gaetjens, *Secretary***

**Mr Kevin Cosgriff, *Deputy Secretary, Fiscal and Economic Directorate***

**Mr Mark Ronsisvalle, *Deputy Secretary, Budget and Financial Management Directorate***

**Mr Stephen Brady, *Deputy Secretary, Expenditure Review Directorate***

**Mr Richard Timbs, *Deputy Secretary, Commercial Management Directorate***

**Mr Matthew Roberts, *Deputy Secretary, Economic, Environment and Communities***

**Dr Caralee McLiesh, *Deputy Secretary, Human and Social Directorate***

**Ms Anne Ellison, *Deputy Secretary, Corporate Directorate***

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## **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**

**PHILLIP GAETJENS**, Secretary, NSW Treasury, and

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

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

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

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

**MATTHEW ROBERTS**, Deputy Secretary, Economic, Environment and Communities,

**CARALEE McLIESH**, Deputy Secretary, Human and Social Directorate, NSW Treasury, and

**ANNE ELLISON**, Deputy Secretary, Corporate Directorate, sworn and examined:

**CHAIR:** Good morning. I declare the hearing of the inquiry into the budget estimates 2011-12 open to the public. I welcome the Treasurer and accompanying officials to this hearing. Today the Committee will examine the proposed expenditure for the portfolio of Treasury. Before we commence I would like to 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 photographs. In reporting the proceedings of this Committee the media must take responsibility for what they publish or what interpretation they place on anything that is said before the Committee. The guidelines for the broadcast of proceedings are available on the table by the door.

Delivery of any messages from attendees in the public gallery should be directed through the Chamber and support staff or the Committee clerks. Minister, I remind you and the officers accompanying you that you are free to pass notes and refer directly to your advisers whilst at the table. Transcripts of this hearing will be available on the web from tomorrow morning, and the House has resolved that answers to questions on notice must be provided within 21 days. A gentle reminder that all mobile phones are to be turned off.

The Government has decided to withhold its questions so we can shorten the period of the budget estimates. I open with questioning from the Opposition.

**The Hon. WALT SECORD:** Treasurer, in response to a question on notice, answered on 18 October, you admitted that only 342 people have lodged applications to buy Waratah bonds. If all 342 paid the minimum of \$10,000 the State Government would raise \$3.4 million. On 28 August you predicted that you would raise \$300 million. Will you now admit that the Waratah bonds have been an absolute failure—a miss of \$296 million? I put to you that the Waratah bonds program has been an absolute disaster.

**Mr MIKE BAIRD:** Obviously, I dispute that at every level.

**The Hon. WALT SECORD:** Well, it is in fact—

**CHAIR:** Order! The member has asked the question. Please let the Treasurer answer.

**Mr MIKE BAIRD:** We can talk about this all morning if you want to.

**The Hon. WALT SECORD:** This is in an answer to a question on notice provided by your office. If you want to dispute your own data, I would find that extraordinary.

**Mr MIKE BAIRD:** I am just answering the question. At the moment, what we are seeing with the Waratah bonds is that we have raised about \$8 million a month. So that is the expectation, that is the current take-up rate, which we are incredibly pleased with. This is an overall strategy about diversifying our funding. There are a whole range of things that we should cover on this, because the Opposition is not up to speed; it changes its position quite regularly on this. I think it is very important that we lay this out. Our funding strategy very simply is, in relation to diversification, why would you want to diversify? That really is a question you

have to ask yourself. You do not have to go back too far to understand the importance of diversification. We saw in the global financial crisis that not only—

**The Hon. WALT SECORD:** Treasurer, I asked you a simple question. Has it been a disaster—yes or no?

**Mr MIKE BAIRD:** I think I am answering your question.

**The Hon. WALT SECORD:** No, you are not.

**Mr MIKE BAIRD:** I think I am. In terms of the reason to diversify, if you go back to the global financial crisis you see that even governments were struggling to fund; that is, there was a complete dislocation of capital markets. The New South Wales Government, as part of that, was forced to take a Commonwealth Government guarantee. That government guarantee, at this moment, has gone to costing the State tens of millions of dollars; in fact, it is currently costing less than \$2 million a month. At the peak of the global financial crisis it was costing just on \$3 million a month. I think TCorp has done a fantastic job in the overall funding of the State. In the lead-up to the global financial crisis I think the former Government failed to highlight that TCorp did a fantastic job of pre-funding. TCorp, rightly, as every company and every government round the world is doing, is looking at diversifying its funding sources. Where does a government go to start looking at diversifying its funding sources? It very clearly goes to the markets that are growing, sources of capital that are growing. Self-managed super funds are a perfect case in point. Currently, there is about \$300 billion in self-managed super funds.

**Dr JOHN KAYE:** Is that in New South Wales or Australia?

**Mr MIKE BAIRD:** That is across Australia. That is expected to grow to a trillion dollars over the next 15 years; so it will grow at about \$560 million a week in that period. The self-managed super funds do not have much government product, and that is what we are looking to target. We are looking to work with that sector, and in particular the retail sector, and providing an opportunity for them to have a safe investment in the midst of what is a very uncertain economic time.

**The Hon. WALT SECORD:** Treasurer, it seems you are not going to answer my question, so I will ask one of the bureaucrats.

**Mr MIKE BAIRD:** I have not finished. I have a long way to go on this. I think this is important. You asked a question that contained the very specific point that this had been a disaster. It is quite the contrary. It is an incredibly prudent strategy, and it is incredibly important for the State.

**The Hon. WALT SECORD:** You have raised \$3.4 million, when you said you would raise \$300 million.

**Mr MIKE BAIRD:** No, I have told you that it is currently growing at \$8 million a month, if you had listened.

**The Hon. WALT SECORD:** So what is it up to now? Is it up to \$11 million?

**Mr MIKE BAIRD:** No. How many months have we had since this program has been running?

**The Hon. WALT SECORD:** The information from—

**Mr MIKE BAIRD:** Anyway, let me finish, Walt. I will just finish this for you.

**The Hon. WALT SECORD:** No, this is information as of 18 October in answers to questions on notice. How much have you actually secured in the week since then? Are you are telling me that it has gone from \$3.4 million—

**Mr MIKE BAIRD:** No, you have made assumptions.

**The Hon. WALT SECORD:** No.

**Mr MIKE BAIRD:** You have said the number of investors multiplied by a minimum amount.

**The Hon. WALT SECORD:** No.

**Mr MIKE BAIRD:** You have not got the registry, so I am telling you—

**The Hon. WALT SECORD:** I have in front of me the answers to questions on notice.

**Mr MIKE BAIRD:** Yes, you have the number of investors.

**The Hon. WALT SECORD:** That is 342.

**Mr MIKE BAIRD:** Yes, but what I am saying—

**The Hon. WALT SECORD:** You said you would raise \$300 million. Mr Ronsisvalle, what will happen—

**Mr MIKE BAIRD:** No, Walt, can I finish because I still have to answer this question?

**The Hon. WALT SECORD:** You are going nowhere near answering it.

**Mr MIKE BAIRD:** What we are doing is diversifying our funding source. That is incredibly important if we have a repeat of global financial crisis type conditions. You may have been able to fund the shortfall in the State in that particular market without going to the Commonwealth Government, and that could have saved the State money. It is that sort of opportunity that we are leading on. In addition, we are looking at additional products to build in that particular market; we are talking annuity-style bonds. Again, that is currently only offered by life insurance style companies and products. If government is offering annuity-style bonds—

**The Hon. GREG DONNELLY:** Treasurer—

**CHAIR:** Order! The Treasurer is still answering the question.

**The Hon. GREG DONNELLY:** No.

**The Hon. WALT SECORD:** He is not.

**The Hon. GREG DONNELLY:** As I understand it, the Treasurer is claiming that the program is a success. That is the claim.

**Mr MIKE BAIRD:** We are very happy with the take-up.

**The Hon. GREG DONNELLY:** He is very happy with the take-up of 342 applications.

**Mr MIKE BAIRD:** We are very happy with the strategy. It is in the State's interest that we pursue this.

**The Hon. GREG DONNELLY:** He is extraordinarily happy with that outcome, so I want to just follow on from that. With the Restart program, which was announced in the budget—

**Mr MIKE BAIRD:** I think I need to finish answering this question because—

**The Hon. GREG DONNELLY:** No, no.

**CHAIR:** Order! It is not for the Hon. Greg Donnelly to tell the Treasurer how he is to answer the question.

**The Hon. WALT SECORD:** But he is not answering the question. It was a simple yes-no answer.

**Mr MIKE BAIRD:** No, it was not.

**CHAIR:** Order! He is answering the question.

**The Hon. WALT SECORD:** It was a simple yes-no answer.

**CHAIR:** The Hon. Walt Secord might not like the answer. Could you please let the Treasurer finish?

**The Hon. GREG DONNELLY:** He has answered the question by saying it is a success.

**The Hon. WALT SECORD:** He does not like the question.

**Mr MIKE BAIRD:** I love the question. I am happy to talk about it all day because it is really important.

**The Hon. WALT SECORD:** Clearly you are trying to.

**The Hon. GREG DONNELLY:** We do not have all day.

**The Hon. WALT SECORD:** Just answer the question.

**The Hon. GREG DONNELLY:** You claimed it is an outstanding success. Let us move on because the next question is related to that issue.

**Mr MIKE BAIRD:** No, I think—

**The Hon. WALT SECORD:** I will state for the record that as of 18 October 342 people lodged applications. That is nowhere near the \$300 million you claimed. You said there would be a stampede.

**Mr MIKE BAIRD:** No. It is growing at about \$8 million a month. Our expectation for the term was to get between \$200 million and \$300 million. We are very—

**The Hon. WALT SECORD:** You said \$300 million. Do not move the goalposts.

**Mr MIKE BAIRD:** We are very confident about the targets we have set. In addition, we are putting in further products.

**The Hon. WALT SECORD:** Are you changing the wording to one program now?

**Mr MIKE BAIRD:** No, we are not.

**The Hon. WALT SECORD:** You said "putting in new products."

**Mr MIKE BAIRD:** No. If you read the press release at the start—

**The Hon. WALT SECORD:** I have been through the website and I have lodged questions. I am very much across the Waratah bonds issue. I have followed this for a long time.

**Mr MIKE BAIRD:** Then I do not understand how you have missed the importance of diversity. Also, you have spoken about the rate. It is important that we understand the present disparity. Why are banks offering attractive term deposit rates?

**The Hon. GREG DONNELLY:** With the greatest respect, Treasurer, you are taking us—

**Mr MIKE BAIRD:** No, this is important—

**The Hon. GREG DONNELLY:** No, you are taking us—

**Mr MIKE BAIRD:** —because you are attacking the program.

**The Hon. GREG DONNELLY:** No. We asked you a specific question.

**Mr MIKE BAIRD:** We are aiming at some market functions.

**Dr JOHN KAYE:** Point of order: I have grave concerns about how this is working for Hansard. They are going to be struggling to keep up. Can we try to have just one person talking? It is an old-fashioned rule, but it works.

**Mr MIKE BAIRD:** I think that is fair.

**CHAIR:** The point Dr John Kaye raises is valid and fair. In view of the questions that we have to get through today, Treasurer, it would be good if we could bring this matter to a conclusion so that we can move on to the next line of questioning from the Opposition.

**Mr MIKE BAIRD:** Okay. I will just quickly finish this.

**The Hon. GREG DONNELLY:** The Treasurer says he wants to talk all day about this. We do not wish to talk about it all day.

**CHAIR:** Clearly, the Treasurer is not going to talk about it all day.

**The Hon. GREG DONNELLY:** That is what he said he wanted to do.

**CHAIR:** I encouraged him to wrap up his answer so that we could move on to the next line of questioning. For the sake of Hansard, if we could have some silence while he does that, it would be appreciated.

**Mr MIKE BAIRD:** I will just finish this, Greg. I will just give you this.

**The Hon. GREG DONNELLY:** No. We would like to move on, with the greatest respect, Treasurer, because the next thing is related to it.

**Mr MIKE BAIRD:** Okay.

**The Hon. GREG DONNELLY:** You might care to join the two together.

**Mr MIKE BAIRD:** I will come back to it.

**The Hon. GREG DONNELLY:** In your Budget Speech you said that the O'Farrell Government's key infrastructure fund is Restart NSW. Clearly, Restart NSW is a priority for this Government?

**Mr MIKE BAIRD:** Yes.

**The Hon. GREG DONNELLY:** At page 12 of your Budget Speech you talk about its key components as being windfall revenues in surplus, long-term lease of the desalination plant and Waratah bonds. Given the uncertainty of future windfall revenues—I shall return to that definition shortly—the question about long-term lease arrangements for the desalination plant and what we see as a pretty ordinary start for the Waratah bonds program, how can you assert that those three planks will be the key planks that will provide funding for the refurbishment and rejuvenation of infrastructure in New South Wales?

**Mr MIKE BAIRD:** We are very confident. It is worth running through our fiscal strategy as well because what we inherited is a very pertinent point on this: it was a structural deficit.

**The Hon. WALT SECORD:** You inherited a triple-A credit rating and a surplus.

**CHAIR:** Order! The Treasurer is talking and answering questions. This is not a time for interjections.

**Mr MIKE BAIRD:** We had been in a structural deficit. If you remove the economic stimulus and go back to 2008, there was more than an \$800-million deficit. Roll that forward through to 2014-15 in estimates and it goes out to a \$2.7 billion deficit. We were in a significant structural deficit. The credit rating—Walt raised the credit rating issue—would have been in serious jeopardy right now. Indeed, the forecast—

**The Hon. WALT SECORD:** That is untrue. You are nowhere near the trigger.

**The Hon. MATTHEW MASON-COX:** Point of order: The new member, the Hon. Walt Secord, perhaps needs to be reminded that these hearings are subject to the standing orders of the Legislative Council. Some latitude is given during estimates hearings, but the reality is that—

**The Hon. WALT SECORD:** Interjections are a fine Australian tradition.

**The Hon. MATTHEW MASON-COX:** The question has been asked. It is incumbent upon this Committee to let the Treasurer respond to the question and not have constant interjections.

**CHAIR:** I uphold the point of order. I encourage members of the Committee to allow the Treasurer to answer the questions put to him.

**The Hon. WALT SECORD:** He is still answering the first question and 15 minutes have passed.

**The Hon. GREG DONNELLY:** If the question is not being answered—

**Mr MIKE BAIRD:** I will answer it. It is very pertinent because what we inherited provided real challenges. We had to address the structural deficit.

**The Hon. WALT SECORD:** Point of order: The question was about Waratah bonds.

**Mr MIKE BAIRD:** No, it was not. It was about Restart NSW.

**The Hon. WALT SECORD:** And Waratah bonds. It was part of the three pillars.

**CHAIR:** It was about Restart NSW.

**Mr MIKE BAIRD:** Do you want me to return to Waratah bonds?

**The Hon. MATTHEW MASON-COX:** To the point of order: The question was about Waratah bonds, windfall revenues and the whole fiscal strategy about which the Treasurer is giving an overview to provide in specific detail some of the answer he wants to put. The belligerence of Opposition members is not helping the Treasurer in his response. As in the Chamber, the question can be asked but members must listen to the response. The person answering cannot be forced to give the answer wanted.

**Mr MIKE BAIRD:** I will finish the answer. The structural deficit meant that we had to make changes, which are well cleared. In relation to Restart NSW and how we would get some discipline back into this State, we have put Restart NSW in place. Over the past 10 years windfall revenues averaged about \$650 million; it is a huge amount of money. If Labor had done it, over \$6 billion could be put into infrastructure in this State. It is bringing it back to government. Your budget is your budget—every agency has that. Windfall revenues that come in do not get lost in increased expenditure; that goes to the future of the State. We are very proud of that. Obviously, we are in deficit this year. If we return to surplus, as anticipated, and we get windfall revenues, they will go into that. Treasury, to its credit, has a clear conservative record of revenue forecasts. We hope that continues. That will provide opportunity. That is the first one. We would love to have the support of the Opposition to complete the desalination plant because we hope to raise up to \$1.5 billion.

**The Hon. GREG DONNELLY:** On the windfall revenues, I understand that we are talking beyond this financial year, with around \$200 million in forward estimates for the following three years. Is that right?

**Mr MIKE BAIRD:** The windfall revenues? What is your question? We do not know the windfall revenues until we get to the end of the budget year.

**The Hon. GREG DONNELLY:** What do you predict as your budget surplus for the second, third and fourth year?

**Mr MIKE BAIRD:** The average is about \$200 million over three years.

**The Hon. GREG DONNELLY:** In that sum, what would you say are windfall surpluses?

**Mr MIKE BAIRD:** We do not know; we have to get there first.



**The Hon. GREG DONNELLY:** You do not know?

**Mr MIKE BAIRD:** If you look at the previous 10 years, the windfall revenue number—the excess—is about \$650 million a year. Is that going to be repeatable? We will wait and see; we are in challenging economic times.

**The Hon. GREG DONNELLY:** There is a question mark over it, you would accept that?

**Mr MIKE BAIRD:** I am very happy to accept that. What underpins that is a very important discipline that is across the whole of government. No longer when revenues all of a sudden start to come in do you peep your head over the parapet and ask: What can we spend the money on? That money is going to the future of the State. From the desalination plant we hope to raise \$1.5 billion. We certainly welcome Opposition support for that. We know you were trying to do that when in government. Back to the Waratahs—

**The Hon. GREG DONNELLY:** How confident are you about the \$1.5 billion?

**Mr MIKE BAIRD:** We are confident. We think it is a good asset, it will be a good transaction, and there is a lot of interest. Importantly on the desalination plant—and we need to reiterate this at every point because of the scare campaign—it will not do anything to water prices. No matter how many times you say that this transaction is not going to do anything to water prices—

**The Hon. GREG DONNELLY:** I am not saying anything, I am just asking questions. With the Waratah bonds, what do you think you will raise over the four year forward estimates? What is your ambition?

**Mr MIKE BAIRD:** Our target over the four years is to get up between the \$200 million and \$300 million.

**The Hon. GREG DONNELLY:** You think \$300 million?

**Mr MIKE BAIRD:** We are confident in that. At the moment we are in a position that we are happy with the early take-up and we have spoken about the need for diversification. I think we also need to point out in relation to that why banks are offering attractive deposit rates at the moment. Bear in mind that markets change regularly, they are very different this month from what they were last month. There is a long-term trend with banks, particularly Australian trading banks, in that they are trying to diversify their funding base away from wholesale funding. By doing that, they are looking to attract deposits in this market. There were also changes in Basel III, which has changed the liquidity requirements for banks. Previously they were able to go bank to bank with their paper and count that as liquidity. They cannot do that under the Basel III terms, which means that they need to have more domestic deposits as part of the overall funding base. That is why you are seeing them put up attractive rates.

**The Hon. GREG DONNELLY:** Going back to my question—which goes to a statement on page 12 of your speech to the Legislative Assembly—I am trying to grasp the infrastructure projects. I understand that we are looking at planned expenditure of \$62.6 billion. Underpinning that is the Restart NSW program, which is put out there as being so significant to achieve this expenditure on infrastructure investment in New South Wales. How is the combination of those three items that you nominate in the Restart program going to get close to funding the \$62.6 billion of infrastructure that you say you are going to build over the next four years?

**Mr MIKE BAIRD:** They are separate. That is the good news.

**The Hon. GREG DONNELLY:** They are separate?

**Mr MIKE BAIRD:** We have established Restart. The \$62.6 billion is funded as part of the budget. Restart sits there as additional money that is hoped to be raised in the course of this Government in terms of the desalination plant, and we have announced the sale of Port Botany.

**The Hon. GREG DONNELLY:** So none of the funds in Restart are going to be spent on infrastructure—or do I misunderstand you?

**Mr MIKE BAIRD:** The \$62.6 billion is part of the overall budget. We are already funding that program. What we are hoping to do through Restart is set up an additional fund that can look at infrastructure priorities in addition to those we have outlined and to provide an additional pool of capital to fund infrastructure in this State. That is one of the strengths of the budget. In the budget papers our Standard and Poor's ratio has been dropped by 5 per cent, which is a significant movement. You would have seen the endorsement by Standard and Poor's recently of a changed governance and fiscal strategy. That ratio is done before we take into account the benefit of the desalination plant and Port Botany. In terms of the metrics they only get bigger.

We have the capacity to reduce debt but, just as importantly, we have the capital to put towards additional infrastructure needs of the State. One of the telling things the Standard and Poor's report said is that one of the big challenges we have inherited is the infrastructure backlog. We have to get on with it. That is why in the lead-up to the election campaign I said we are happy to do sensible borrowing as part of our strategy in addition to releasing capital through asset sales, which we are doing, and looking for new capital sources, which we are doing through the Waratah bonds. We are happy to link those for mums and dads into infrastructure in this State. We think it is compelling.

**CHAIR:** We now turn to the crossbench questions.

**Dr JOHN KAYE:** I begin with a question about the sacking of Secretary Schur. I ask you, on oath: Why did you sack him?

**Mr MIKE BAIRD:** He was not sacked. This was a matter of public record at the time. I had a very clear view that when we came to government I wanted to advertise the position, and I said that at the time. I wanted to advertise the position because I wanted to be sure that we had the best possible person available to lead the Treasury in this State. We have a big job to do to turn New South Wales around. In the discussions I had with Mr Schur I offered him the chance to reapply and he decided not to do so. I wish him all the best. I think he did a good job in trying circumstances. From our point of view, that was a decision taken at the time.

**Dr JOHN KAYE:** There were two permanent heads of department who did not survive the transition to a new government: Michael Schur and Michael Coutts-Trotter. Michael Coutts-Trotter was appointed Director General of the New South Wales Department of Finance and Services, and effectively got a promotion. Michael Schur was the only head who was not reappointed. The appearance you created was that you sacked him. You might not have sacked him but the appearance you created was that you squeezed him out. Were you unhappy with the brief he presented to you when you first took office?

**Mr MIKE BAIRD:** No. The brief was shocking in the sense that, all of a sudden, we were confronted with \$5.2 billion less on the bottom line than we were told the week before. That was shocking. That is why we wanted to understand what had gone on—how did we get to the position where the former State Government issued a press release the week before saying that over the next four years there would be \$830 million-odd in surplus when that was \$5.2 billion wrong? That was the concern at that particular point in time. Mr Schur had done a good job in trying circumstances.

One of the downsides in this process is that I wrote to former treasurers asking for a briefing, a single briefing, from Treasury—from this team—to understand in opposition what the metrics and the challenges were. It was not political. I was trying to understand in a broad context what Treasury was doing in relation to undertaking their job and looking after the interests of the State from a financial point of view. I was not given a briefing. So it is difficult for me to have a personal assessment on individuals when I did not get a chance to meet them or understand the broad strategy. That is why I wanted to advertise the job in the process and I was going to offer, and I did offer, Mr Schur the opportunity to reapply. He decided not to. I genuinely wish him well. The two years he had to endure would have been incredibly tough for anyone. I am happy to support him in whatever his endeavours are going forward. It is in many respects a shame that a State Government took the view of shutting out the Opposition. When the Opposition asks me for a briefing from Treasury I can assure you that it will get one.

**Dr JOHN KAYE:** Was the figure of \$5.2 billion in Mr Schur's initial briefing to you before you indicated to him that he would be stood aside pending a competitive process for his job or was that in the Lambert report?

**Mr MIKE BAIRD:** It was \$4.5 billion at the first briefing and the additional blowout was \$700 million in the solar scheme, which was included as part of the Lambert report.

**Dr JOHN KAYE:** Let us correct the record. The report given by Mr Schur suggested that there was, to use the vernacular, a budget black hole of \$4.5 billion, not \$5.2 billion?

**Mr MIKE BAIRD:** Then you add in the solar scheme.

**Dr JOHN KAYE:** I understand; I can do the arithmetic. So it was \$4.5 billion. How did Mr Schur's briefing to you describe that \$4.5 billion? For example, did he use the words "budget black hole"?

**Mr MIKE BAIRD:** Whatever term you use, that money was there the week before and it was no longer there the week after.

**Dr JOHN KAYE:** What term did he use? How did he describe what was then \$4.5 billion?

**Mr MIKE BAIRD:** I would have to go back to the folder, but things like "revenue deterioration", "hidden costs" and others. There is a whole range of things.

**Dr JOHN KAYE:** Whenever you say that something is less than something else, you need to say what it is less than. He said to you, "Treasurer, there is \$4.5 billion, which is the difference between something and something". Can you tell us what those two somethings were?

**Mr MIKE BAIRD:** It is a deterioration in the bottom line. That is what it was.

**Dr JOHN KAYE:** In the bottom line for what years?

**Mr MIKE BAIRD:** From the budget year out to 2013-14—2014-15 was included.

**Dr JOHN KAYE:** In the five-year period?

**Mr MIKE BAIRD:** Correct.

**Dr JOHN KAYE:** Sorry, four-year period.

**Mr MIKE BAIRD:** Correct.

**Dr JOHN KAYE:** In the standard four-year budget period?

**Mr MIKE BAIRD:** The standard four-year budget period.

**Dr JOHN KAYE:** It was a deterioration between what was contained in the 2010-11—

**Mr MIKE BAIRD:** The mid-year review.

**Dr JOHN KAYE:** The mid-year review and what they believed was then?

**Mr MIKE BAIRD:** Yes.

**Dr JOHN KAYE:** It was a deterioration from the December figure to the March figure in the budget bottom line of \$4.5 billion?

**Mr MIKE BAIRD:** Yes.

**Dr JOHN KAYE:** That is what he told you was the case?

**Mr MIKE BAIRD:** Yes, and it is outlined in Budget Paper No. 2, table 1.1. You have the budget result estimate as at March 2011 and then the updated budget result and then the turnaround.

**Dr JOHN KAYE:** Do you appreciate by not reappointing Mr Schur you created the impression that Mr Schur was sacked for political reasons because he would not do for you the messages that you wanted—this

may not be true but this is the impression you created—and in doing so you damaged the reputation of New South Wales?

**Mr MIKE BAIRD:** I think that is a long bow, John.

**Dr JOHN KAYE:** To be fair, it is not my bow; it is Ross Gittins' bow. Ross Gittins, who is probably one of the most respected mainstream popular commentators, hammered you and your Premier for doing it and drew very unflattering comparisons between you and your opposite numbers in Victoria. I do not wish to pass judgement on that. He takes it from a conservative economic view that Treasury plays an important role in moderating the behaviours of government. His view is that by politicising the sacking of the Secretary of Treasury you undermined the capacity of Treasury to do that.

**Mr MIKE BAIRD:** I understand some of the comments Ross made at the time. Obviously I agree with a lot of what Ross says but not in relation to this issue, and I make no apologies. I make no apologies for standing up and saying that I want the best possible people to lead Treasury. That is a fact. You can turn it whatever way you like but that was my intent all along. That is what actually happened and at every point we should be prepared. Just as I should be under scrutiny for my performance in this job on a regular basis, everyone who is undertaking a job should be up to that form of scrutiny. We should be looking for the best possible people. Certainly in the replacement, Philip Gaetjens, New South Wales is incredibly lucky. We undertook a global search. We looked far and wide to find the best possible person we could for the job, and I am very confident that we have achieved that.

**Dr JOHN KAYE:** I should have said beforehand—and I apologise for not doing so—that I do not cast any aspersions on Mr Gaetjens. I am just asking about the perceptions created by what you did. You say you did it because you wanted the best possible person to lead to your department. Yet with the exception of the then Department of Education and Training, now Department of Education and Communities, no other Minister in the transition did that. Is the implication, then, that they did not necessarily want the best person to lead? Why did you feel you needed to do this when other incoming Ministers did not feel the need to dismiss their department head?

**Mr MIKE BAIRD:** You would have to talk to the other Ministers about that, John. There has been a change in Health as well, which you have not included.

**Dr JOHN KAYE:** That is correct.

**Mr MIKE BAIRD:** There has been a change of Premier as well. It is a question that is open to every Minister. Every leader has an opportunity to put in place the team they want. I need to reiterate that with Mr Schur, without the capacity to have a personal relationship and personal interaction and to understand in detail what was being implemented, I did not have that base. That is the reason I wanted to advertise the job and offer Mr Schur the opportunity to compete. He may well have been successful in the role but he decided not to pursue it, which is the reason Mr Gaetjens is here—and we are delighted that he is.

**Dr JOHN KAYE:** I now go to the issue raised by the Hon. Greg Donnelly in relation to the transaction at the desalination plant. Can you step us through what that means? What are you actually doing here?

**Mr MIKE BAIRD:** Sure. We are undertaking a long-term lease of the plant. At the moment that sits on our balance sheet. There are long-term operating arrangements in place.

**Dr JOHN KAYE:** I understand they are completely separate from what we are talking about here.

**Mr MIKE BAIRD:** But they govern the actual arrangement and operation of the desal plant. So they are in place.

**Dr JOHN KAYE:** To be clear, you are not proposing to change the contract between Veolia, which is the current operator of the plant, and Sydney Water, or Sydney Desalination Plant Pty Ltd, which is a wholly owned subsidiary of Sydney Water? That is not changing?

**Mr MIKE BAIRD:** No. What we have, and the Government has this choice, is capital on our balance sheet. As you know, we have a huge infrastructure backlog. How do we fund it? You can see in the forward estimates that we are increasing our borrowing, about \$3.5 billion less than was forecast under the former Labor

Government. So we have improved through our operating and expenditure control but we are borrowing. Within the triple-A context, if we want to catch up on the backlog we cannot continue to borrow. In a sense, at some point we have to curtail that borrowing and we need to look at whatever options are available to fund it. We have taken the decision both with the desal plant and Port Botany to release the capital. That plant can sit there on our balance sheet and it can continue to do what it does. But there is a capacity in this transaction, without an impact on the prices of water bills to households, to release that money and put it to work for the people of the State. That is the strategy.

**Dr JOHN KAYE:** They are really nice words but let us get down to it. What you are really saying is you transfer the lease of the desalination plant to a private company in return for which the State of New South Wales has to pay a lease fee. Who is paying the lease costs?

**Mr MIKE BAIRD:** There are lease costs currently being paid. The Independent Pricing and Regulatory Tribunal will determine—

**Dr JOHN KAYE:** You did not answer my question. Effectively, the private operator gives to us, say, \$1.5 billion in return for which it holds the papers on our desalination plant in case we default. We then have to pay back about \$1.5 billion over the next, say, 30 years. Is that correct?

**Mr MIKE BAIRD:** We get the money back so we get the value up front. The new owners will receive a payment from Sydney Water—the Independent Pricing and Regulatory Tribunal will determine what that amount is going to be—effectively for the provision and supply of desal water.

**Dr JOHN KAYE:** That goes to Veolia, which we agreed was not going to be there. This is another issue. This is paying a sum. Sydney, Blue Mountains and Illawarra households will now pay company, I will call it, M—

**Mr MIKE BAIRD:** They are already paying it, John, in the costs in water bills. In 2008 there was a determination and the costs of the desal were incorporated in that.

**Dr JOHN KAYE:** The capital costs of the desalination plant, the \$1.8 billion for the desalination plant and the pipeline, are already in household water bills?

**Mr MIKE BAIRD:** That is right.

**Dr JOHN KAYE:** But that money goes to Sydney Desalination Pty Ltd, who holds the debt on the desalination plant and is paying off that debt on the desalination plant. You are now going to transfer the lease to another company that is going to give the people of New South Wales, say, \$1.5 billion. We now have to pay them back for that \$1.5 billion? Is that correct? True or false?

**Mr MIKE BAIRD:** Effectively, the new owners will receive a 40-year income stream—that is what they are receiving. We are getting the value of that 40-year income stream up-front.

**Dr JOHN KAYE:** Unless you have created the magic pudding here—let us just draw a Gaussian boundary around the whole thing—

**Mr MIKE BAIRD:** What boundary is that?

**Dr JOHN KAYE:** A contained boundary. It is Friedrich Gauss. Let us put a box around the whole thing and look at the money flowing in and out. Right now the money flows out to service the debt that we have on that plant. What you are saying is that that debt gets taken out, but instead the money has to flow out to service the lease arrangement. So we swap the debt for a lease arrangement, effectively?

**Mr MIKE BAIRD:** Effectively right, yes. The payments are the same.

**Dr JOHN KAYE:** As was pointed out, I am not an economist, but is it not the same thing?

**Mr MIKE BAIRD:** I think we are in agreement.

**Dr JOHN KAYE:** Why are we doing this? The only difference is now we have another group of people who want to make a profit out of the transaction. I think the point is that the people of New South Wales simply do not understand how another player can enter the game and not in the long run cost us money. Where are the profits for company M that is going to buy this? Where is their slice of the action coming from if it is not coming out of the pockets of the people of Sydney, the Blue Mountains and the Illawarra?

**Mr MIKE BAIRD:** I hate to disappoint you, but ultimately—

**Dr JOHN KAYE:** I would not be disappointed. If you have discovered the magic way of bringing in a private partner and it is not costing us more, that is great—well done to you. But I do not think the people of New South Wales or I have a lot of confidence that you can get a private partner in there, we get the cash up-front and we do not end up paying something for that in the long run.

**Mr MIKE BAIRD:** Well, the good news is that that is the position. That is our objective: that water prices are not impacted by the transaction. We are finalising the structure and the structure will be made public and available. We will be able to run you through that in detail. But it is a good news story for the State because what previously just sat on our balance sheet we are able to turn into up to \$1.5 billion to put into the infrastructure we desperately need without impacting water prices. That is a very important thing for the State and something we are determined to deliver on.

**Dr JOHN KAYE:** Effectively what we are doing is taking a mortgage out on the desalination plant—almost like a second mortgage on the desalination plant? That is effectively what we are doing?

**Mr MIKE BAIRD:** I do not think that is a fair analogy because we are effectively taking the value up-front. But we can run through the transaction structure with you in detail when it is released.

**Dr JOHN KAYE:** I am sure I and everybody else will be fascinated to know how you can do this, how you can effectively take out a second mortgage for free. You are leasing out a plant that we have not paid for yet—

**Mr MIKE BAIRD:** It is simply a long-term income stream that is incredibly attractive to things like super funds. I think the upside it provides is increased competition into the provision of water, for the first time.

**Dr JOHN KAYE:** I simply do not believe that for one minute, because already you have got a private operator who is operating the plant—

**Mr MIKE BAIRD:** But only operating.

**Dr JOHN KAYE:** But its landlord is either Sydney Desalination Plant or company M—it does not make any difference. If indeed this is going to happen—and I doubt it—is it not true that if there were competition it would be at the operations level not at the capital investment level?

**Mr MIKE BAIRD:** No. I think that the new owners would have the capacity to engage in the provision of water across the city and I think that that is a very good thing. Introducing competition—you have got the capacity for buying the water.

**Dr JOHN KAYE:** Now I am even more confused than with your explanation of the capital side of this because at the operational side of this, the new owners—I guess they are not really owners; they are really lessees of the desalination plant—the new lessees are not going to be operating the desalination plant.

**Mr MIKE BAIRD:** Veolia are the current operators.

**Dr JOHN KAYE:** Veolia has a contract that goes for, I think, 20 years, is that correct? So you are not thinking of breaking that contract to create more competition?

**Mr MIKE BAIRD:** No.

**Dr JOHN KAYE:** So they are not going to be operating that plant? Whoever leases this plant leases it with an understanding that they have got an operating tenant in there for 20 years?

**Mr MIKE BAIRD:** You are getting tied up in knots in the detail. We are happy to run through it, but I think the simple point on the competition is whoever takes ownership of the desalination plant in whatever way, shape or form has got the capacity to introduce competition into water.

**Dr JOHN KAYE:** You keep saying "ownership". Do you really mean ownership? They own the lease on it.

**Mr MIKE BAIRD:** The lease, that is right, yes.

**Dr JOHN KAYE:** They do not own the plant.

**Mr MIKE BAIRD:** No, that is right.

**Dr JOHN KAYE:** The people of New South Wales still own the plant.

**Mr MIKE BAIRD:** That is right.

**CHAIR:** Opposition questions?

**The Hon. WALT SECORD:** My question is to Mark Ronsisvalle. What will happen if the Waratah bonds do not meet their \$300 million target?

**Mr MIKE BAIRD:** I thought you did not want to talk about them anymore?

**The Hon. WALT SECORD:** You are the one who did not want to talk about Waratah bonds.

**Mr MIKE BAIRD:** I am happy to talk about Waratah bonds.

**The Hon. WALT SECORD:** I am directing the question to Mr Ronsisvalle.

**Mr RONISVALLE:** I think the Government said that the money is going to Restart NSW to fund infrastructure. I am assuming if for some reason the program does not reach its target then there will be an adjustment to the level of infrastructure spending.

**The Hon. WALT SECORD:** Do you share the optimism of the Treasurer that you will meet the \$300 million target?

**Mr RONISVALLE:** I think it is early days for the program and like most new products it takes time to gear up.

**The Hon. WALT SECORD:** Do you acknowledge that the retail investors in Waratah bonds face capital losses if bond yields normalise off their current cycle lows over the next 12 months?

**Mr RONISVALLE:** The marketplace will determine what happens to interest rates, and if interest rates increase there is no capital loss for these people; they are guaranteed to get their money back.

**The Hon. WALT SECORD:** Would you have your mother invest in Waratah bonds?

**Mr MIKE BAIRD:** For goodness sake.

**The Hon. WALT SECORD:** Would you have your mother invest in Waratah bonds, Mr Ronsisvalle? It is a very simple question.

**Mr MIKE BAIRD:** No, I will give you this—

**The Hon. WALT SECORD:** The answer is no? I take silence as an answer.

**Mr MIKE BAIRD:** That is not something that—

**The Hon. WALT SECORD:** It is a very simple question. Yes or no?

**The Hon. MATTHEW MASON-COX:** Point of order: Madam Deputy-Chair, the line of questioning is outside the normal bounds of what is acceptable in estimates. Questions about someone's mother's decisions are really taking it a bit too far. Could you ask the member to bring back his questions to what is normally acceptable in this place?

**The Hon. WALT SECORD:** Mr Ronsisvalle is the State's third-most important economist and I asked him a simple question.

**Mr MIKE BAIRD:** The third-most important?

**The Hon. WALT SECORD:** I think you are number one.

**Mr MIKE BAIRD:** Really? Thanks. That is very kind. I do not think I am an economist.

**The Hon. WALT SECORD:** I am misleading the Committee.

**The Hon. GREG DONNELLY:** Just on the bonds, before we move on to another issue: The offer document talks about taxes. Under the heading "Taxes" it says, "will generally not be subject to tax". I am wondering what that statement means: "generally not be subject to tax". There is a heading "Other Tax Claims" on page 10 of the offer document and it says, "will generally not be subject to other tax claims".

**Mr MIKE BAIRD:** I will have to take that on notice. I am not sure. I cannot think offhand what additional taxes they might be.

**The Hon. GREG DONNELLY:** Can I return to an earlier answer given by you, Treasurer, and that I would like to direct to Mr Ronsisvalle just for clarification? You said, Treasurer, that in New South Wales we had over the previous 10-year period an average of \$650 million windfall gains. I think that is what your answer was. I was just wondering, Mr Ronsisvalle, if that is your understanding, that over the last 10-year period there has been an average of \$650 million of annual windfall gains in this State.

**Mr RONISVALLE:** I have not verified that calculation myself, but over a period of time the revenues have generally come in a little bit above budget, the same way as expenditures have come in above budget over that period of time.

**The Hon. GREG DONNELLY:** Are you prepared to agree with the Treasurer's statement on that figure of \$650 million per annum over the decade, or does that sound a little bit high to you?

**Mr MIKE BAIRD:** We can get you the advice.

**The Hon. GREG DONNELLY:** You can provide those calculations for us? Just on this issue of windfall gains, how do you define windfall gains? What is your definition of it?

**Mr MIKE BAIRD:** It is windfall tax revenues. You budget for a certain level of tax, you get more.

**CHAIR:** It is like Christmas.

**The Hon. GREG DONNELLY:** So it is as simple as that?

**Mr MIKE BAIRD:** It is as simple as that. As Mr Ronsisvalle rightly articulated, what has happened in this State is that windfall revenue has come in, so you receive this additional money you do not expect in the budget.

**The Hon. GREG DONNELLY:** That is \$650 million a year.

**Mr MIKE BAIRD:** So what ends up happening is all other agencies stick their heads over the parapet. They can see that money has come in and they say, "Happy days. Here we go. Hello sailor. Let's go and spend." On the back of that we have lost what I would call a wonderful opportunity with just a basic form of financial discipline to put it into the infrastructure, which is why I put the frameworks in place. I am glad that you are interested in it because it is an important point.



**The Hon. GREG DONNELLY:** Anyway, you will provide us with the figures for the last 10-year period.

**The Hon. MATTHEW MASON-COX:** It is about a Rozelle Metro a year, just to give you the picture.

**CHAIR:** Order!

**The Hon. GREG DONNELLY:** Can I move on to the issue of transparency. In both your statement to the House and in the document NSW 2021 there is much comment about the importance of transparency, it being a fundamental tenet of the new Government. I draw your attention to the Public Finance and Audit Act 1983, which I presume you are familiar with, about the provision of monthly statements. If you go to the Treasury website the last monthly statement that has been published that I can see is May 2011. So there has not been a monthly statement published for June, July, August, and September as well?

**Mr MIKE BAIRD:** There was a budget in September.

**The Hon. GREG DONNELLY:** Indeed, but we have got the period June, July, August. Why were those statements not published in accordance with the Act as required?

**Mr MIKE BAIRD:** Mr Ronsisvalle can answer that, but fundamentally it was the same process that was in place previously. The couple of months leading up to the budget were not published, which was established practice, and then obviously we have had the budget in September.

**Mr RONISVALLE:** I think the technical answer is that you cannot release June until the Auditor-General has finished his auditing of the State's accounts. Until June is finished it is not possible to publish July or August. It is not possible to publish the subsequent months until you have got the base June data correct. We have done this every year for as long as I can remember.

**The Hon. GREG DONNELLY:** When will we see the figures for those months, or what is the timetable for the publishing of those months? And into the future are we going to have the figures published in accordance with the Act?

**Mr MIKE BAIRD:** Mr Ronsisvalle has just said that the normal timing is when we release the total State sector accounts which are due out shortly. As soon as they are out we will then update the monthly position. Obviously we will have the mid-year review in December.

**The Hon. GREG DONNELLY:** So you will have June and July published?

**The Hon. WALT SECORD:** June, July, August and September?

**Mr RONISVALLE:** September is not due to be published until the end of October.

**The Hon. GREG DONNELLY:** But thereafter they will be published on a monthly basis?

**Mr RONISVALLE:** That is right.

**The Hon. GREG DONNELLY:** I will move on to the issue of the Jobs Action Plan, which was promoted as being a significant part of the budget initiative. I understand the figure of 100,000 jobs to be created by 2021 has been promoted as your target, and I think 40,000 of those are to be in regional New South Wales?

**Mr MIKE BAIRD:** That is correct.

**The Hon. GREG DONNELLY:** Where did that figure of 100,000 come from? Who suggested the figure of 100,000?

**Mr MIKE BAIRD:** We are not really talking about budget estimates here but I am happy to talk about it. We wanted an amount of jobs that turbocharged the economy and obviously 100,000 is a huge number. It is effectively about half the unemployed rate, or it was when we were considering it. It is not quite half the

unemployment rate but it is in that vicinity. So we thought that was the sort of level that we would target. Fundamentally it is a clear decision. If we had maintained growth with Victoria over the last 15 years there would have been another 193,000 jobs in the economy.

**The Hon. GREG DONNELLY:** It is a figure that you think is achievable?

**Mr MIKE BAIRD:** It is a figure that we are very hopeful of. Obviously we are in challenging global economic times and I am not going to try to tell you otherwise. I cannot say that we are here forever and a day in good economic times because I remain quite cautious about what is going on globally and that does have an impact on employment numbers. You would have seen in the budget that we have anticipated an up tick in unemployment.

**The Hon. WALT SECORD:** Do you agree with Australian Bureau of Statistics labour force data released on 13 October that shows that since the March election we have lost 17,300 jobs in New South Wales? You will have to create 117,300 jobs. You are going backwards.

**Mr MIKE BAIRD:** I think the point is that we are in challenging economic circumstances, but within that we are very glad that we have this stimulus that sits there because, yes, there has been a reduction. You need to be very careful in picking monthly statistics.

**The Hon. WALT SECORD:** Are you backing away from the 100,000 promise?

**Mr MIKE BAIRD:** No, we are not backing away at all. That is our intent. I think that you need to be careful in picking monthly statistics—and I said this in Opposition—because you are looking for long-term trends.

**The Hon. WALT SECORD:** The trend for the last seven months is 17,300 net job losses.

**Mr MIKE BAIRD:** Your trend for the last 10 years in Government was the lowest jobs growth in the country, so I do not think you want to rip right in and hook into the new Government when we are putting initiatives such as this in place to try to do two things: combat some of the global economic challenges and—

**The Hon. GREG DONNELLY:** We are testing your claims about what you say you are going to do. That is a reasonable thing for us to do. In terms of the 100,000 jobs, have you got advice from Treasury about the breakdown of those jobs in full-time jobs, part-time jobs and casual jobs?

**Mr MIKE BAIRD:** Yes, we have and we can provide that.

**The Hon. GREG DONNELLY:** Do you have those figures with you today?

**Mr MIKE BAIRD:** I do not. I have not got them with me. I know that in total jobs there are just about 3,345 jobs as at the end of September, but that is obviously a short time frame.

**The Hon. GREG DONNELLY:** I am saying of that 100,000 jobs over the 10-year period, have you done predictions about what breakdown you are looking for among that of full-time employment, part-time employment and casual employment?

**Mr MIKE BAIRD:** No, we have not but we do not mind. The policy is flexible. We think that providing flexibility through part-time employment is exactly what is needed. If you look at the global financial crisis, employers might not have put on a full-time job but they would—

**The Hon. GREG DONNELLY:** So you have a preference for part-time employment?

**Mr MIKE BAIRD:** No, it is just that the flexibility is open for part time.

**The Hon. GREG DONNELLY:** What did you say that figure was thus far?

**Mr MIKE BAIRD:** The figure was 3,345 as at 30 September.

**The Hon. GREG DONNELLY:** Was that broken down into full time, part time and casual.

**Mr MIKE BAIRD:** It is but I have not got that with me. I can provide that.

**The Hon. GREG DONNELLY:** If you could provide that information, that would be helpful.

**Mr MIKE BAIRD:** That is fine.

**The Hon. GREG DONNELLY:** This Jobs Action Plan that has been so important to the Government, the—

**Mr MIKE BAIRD:** I would find it amazing if the Opposition did not support providing incentives to employ people in this State.

**The Hon. GREG DONNELLY:** I did not say that. That is not the position we put.

**Mr MIKE BAIRD:** So you are supporting it? Does the Opposition support it?

**The Hon. GREG DONNELLY:** We are asking you questions, you are not asking us questions. This is budget estimates. It is not like question time. In regard to the payroll tax rebate, which is also part of the budget announcement, what percentage of employers will be entitled to the rebate?

**Mr MIKE BAIRD:** Are you asking for the percentage of employers that pay payroll tax? Is that the fundamental question? The Opposition is being quite mischievous on this point, as it was in government. The payroll tax-paying companies account for about two-thirds of the New South Wales workforce. That is the critical issue.

**The Hon. GREG DONNELLY:** In fairness, you are being argumentative. I asked you a question about the percentage of small businesses in New South Wales that are liable for payroll tax.

**Mr MIKE BAIRD:** As I said, two-thirds of the workforce in New South Wales is covered by companies that pay payroll tax. This rebate is open to anyone that pays payroll tax. That includes small businesses that currently are not paying payroll tax that decide they want to grow and expand, which is part of our incentive as well. So, it is open to anyone that pays payroll tax and our hope is, on the back of this policy, that this sort of incentive takes away those barriers to expanding, growing and employing.

**The Hon. GREG DONNELLY:** Perhaps I could ask Mr Cosgriff. Has Treasury done any calculations of the number of small businesses that are likely to be able to take advantage of this announcement by the Government?

**Mr MIKE BAIRD:** I do not understand the point. More than two million employees are covered by payroll tax. It is open to any business in the State to claim a payroll tax rebate, even those that are under the threshold at the moment. If they are expanding this might be just the sort of incentive they need to break through and pay payroll tax on the basis that they have an incentive to receive a rebate. It is pretty simple.

**The Hon. GREG DONNELLY:** So, you think this payroll tax rebate proposition will be a significant element in contributing to the target of 100,000 jobs over the next 10 years?

**Mr MIKE BAIRD:** It is an important initiative. You can attack whatever you like as part of an Opposition strategy—

**The Hon. GREG DONNELLY:** No, we are not attacking; I am asking questions to clarify what your logic is in terms of these numbers.

**Mr MIKE BAIRD:** I think we should be united on this. That is more to the point because we are undoubtedly in very challenging economic times. Taking the politics out of it, New South Wales has underperformed significantly. One of the fundamental ways to get the economy moving again is to get jobs back into the economy. The Jobs Action Plan provides a generous rebate of \$4,000, pitched at about a \$72,000 median salary. That provides an incentive for small businesses as well as large businesses. If we get jobs into the

economy, that is a good thing. At the moment we are pleased with the take-up. It is also helping to weather what we are seeing globally. That lack of confidence is a critical issue.

**The Hon. GREG DONNELLY:** Moving on to a related matter about employment, when are the first 2,000 public sector employees going to be made redundant?

**Mr MIKE BAIRD:** The Premier will be announcing those details this afternoon.

**The Hon. WALT SECORD:** It is actually in this morning's *Daily Telegraph*.

**Mr MIKE BAIRD:** Yes, but he is going to go through the details.

**The Hon. WALT SECORD:** There is quite a bit of detail in the *Daily Telegraph*. There are 489 jobs in jails and courts, 262 in education, 248 in trade and investment, 214 in finance, 200 in transport, 173 in family services, 150 in health, and 138 in Premier and Cabinet. That is quite a bit of detail.

**Mr MIKE BAIRD:** Yes. It is a tough decision. The Cabinet took no pleasure in making that sort of decision. We have run through what we inherited in terms of the finances.

**The Hon. GREG DONNELLY:** These are compulsory redundancies?

**Mr MIKE BAIRD:** These are voluntary redundancies.

**The Hon. GREG DONNELLY:** Are they all going to be voluntary?

**Mr MIKE BAIRD:** Yes. They are all voluntary, as was announced as part of the 5,000 job number in the budget. This is the first instalment of those. The reason we have to do this is because we were living beyond our means.

**The Hon. WALT SECORD:** Can I ask a clarifying question?

**Mr MIKE BAIRD:** We have to go back and look at the context of these jobs. We inherited a structural deficit of billions and billions of dollars. You can continue to borrow for wages and you can continue to borrow for infrastructure without generating any surpluses but you end up not in control of your budget and you hand it across to the market and institutional investors and the rating agencies, which we are seeing around the world at the moment. It was critical to get our budget under control.

**The Hon. WALT SECORD:** Treasurer, you are deviating from our question. It says here there will be voluntary redundancies. If they are knocked back after three months they will be made redundant. How is that a voluntary redundancy?

**Mr MIKE BAIRD:** You have the option—

**The Hon. WALT SECORD:** It is a case of, "You have three months to accept voluntary redundancy and if not we will make you redundant." How is that a voluntary redundancy?

**Mr MIKE BAIRD:** There is a capacity—

**The Hon. WALT SECORD:** So, up is down. I do not understand that. You have three months to take a voluntary redundancy and if you do not take it you are made redundant. How does that work? Explain that to me.

**Mr MIKE BAIRD:** You have the capacity to look for another job if you decide not to take the voluntary redundancy.

**The Hon. WALT SECORD:** Elsewhere?

**The Hon. GREG DONNELLY:** Or you are made redundant.

**Mr MIKE BAIRD:** There is three months to find another job.

**The Hon. GREG DONNELLY:** Or you are made redundant.

**Mr MIKE BAIRD:** The point is you have the choice to take the voluntary redundancy up-front or you can look for another job within the public service.

**The Hon. GREG DONNELLY:** But if you do not within that three-month period, you will be made redundant. Is that correct?

**Mr MIKE BAIRD:** You have three months to look for another job.

**The Hon. GREG DONNELLY:** And if you do not find one within that period you will be made redundant. Is that the case?

**The Hon. WALT SECORD:** That is what it says here. Yes or no?

**Mr MIKE BAIRD:** You have three months to look for another job. I am not going to put—

**The Hon. GREG DONNELLY:** I am asking you a simple question.

**Mr MIKE BAIRD:** I am not going to put a hypothetical into this because—

**The Hon. WALT SECORD:** This is not hypothetical. It is in black and white.

**Mr MIKE BAIRD:** How do you know whether you will find a job within that three months or not? You do not know.

**The Hon. GREG DONNELLY:** If a person does not find a job within that three-month period they will be made redundant. Is that correct?

**Mr MIKE BAIRD:** If in that three-month period no job is found across the public service—our commitment would be to work with them to look for other opportunities within that—

**The Hon. GREG DONNELLY:** Yes.

**The Hon. WALT SECORD:** And?

**CHAIR:** The Treasurer has—

**The Hon. WALT SECORD:** This is a very important question. He has not answered the question.

**Mr MIKE BAIRD:** I did answer it.

**CHAIR:** Order! The Treasurer has answered the question the way he sees fit, not the way you would like him to answer the question. I have given you extra time so you could continue your line of questioning. The Treasurer has indicated he has answered that question. I will now move on to crossbench questions.

**The Hon. GREG DONNELLY:** He has indicated they will be made redundant.

**The Hon. WALT SECORD:** We will return to this line of questioning.

**Dr JOHN KAYE:** What would be the impact on our weighted average effective interest rate on borrowings of the State of a downgrading of the triple-A rating by one or other of the rating agencies? I understand it is currently around 6 per cent.

**Mr MIKE BAIRD:** The point is the cost of credit differential between triple-A and AA-plus. You have raised a very important point because historically that has been reasonably tight. Queensland lost its triple-A rating and the difference between our bonds and theirs got down to about eight basis points. In recent times that has grown to about 30. It is very difficult to do like for like because they have a deteriorating story and the market is taking a more positive view of what we are doing in New South Wales. Indeed, if you look at yields,

since our budget Victoria and New South Wales have become aligned for pretty much the first time in a long time.

The market is making a distinction between some of the strategies being adopted by various governments. If you take at face value that 30 basis point differential, that is a huge cost. Obviously you cannot do it across the entire debt position because there are different maturities and one of the things that TCorp has done very well is to expand its maturity profile. Queensland has the challenge of both a huge net lending problem and a massive infrastructure catch-up and also they have let a number of their debt maturities align when they are borrowing new money. That glut is creating an issue for them.

**Dr JOHN KAYE:** What you are saying is, effectively, that a large percentage of the State's debt is tied up in longer-term borrowings, which means they are at fixed interest and would not be affected.

**Mr MIKE BAIRD:** Correct.

**Dr JOHN KAYE:** If we were to lose our triple-A rating, and presumably go to double-A plus—which I think is the next step down—by say 20 or 30 basis points, 0.2 and 0.3 percentage points—

**Mr MIKE BAIRD:** It is 0.3 at the moment.

**Dr JOHN KAYE:** —what would be the total increase in the cost of maintaining our borrowings in that first year?

**Mr MIKE BAIRD:** Over the forward estimates, I think our net lending position is about \$10 billion.

**Dr JOHN KAYE:** Ten billion?

**Mr MIKE BAIRD:** I think it is about \$10 billion. Is that right? It is close enough to \$10 billion.

**Dr JOHN KAYE:** But that is over the four-year period.

**Mr MIKE BAIRD:** That is right.

**Dr JOHN KAYE:** Are you saying that is \$10 billion in new borrowings?

**Mr MIKE BAIRD:** Correct.

**Dr JOHN KAYE:** That is over the four-year period.

**Mr MIKE BAIRD:** Over the four-year period.

**Dr JOHN KAYE:** So it is \$2.5 billion in the first year.

**Mr MIKE BAIRD:** That is right. Assuming things are constant, that would be \$30 million.

**Dr JOHN KAYE:** Over four years?

**Mr MIKE BAIRD:** Yes.

**Dr JOHN KAYE:** So about \$10 million a year in borrowing costs in the first four years.

**Mr MIKE BAIRD:** The Treasury analysis suggests that should we lose the rating across our entire debt portfolio the cost could be up to \$1 billion.

**Dr JOHN KAYE:** Up to a \$1 billion?

**Mr MIKE BAIRD:** Yes.

**Dr JOHN KAYE:** Over what period?

**Mr MIKE BAIRD:** Over the four-year period. It could be up to \$200 million to \$250 million a year in a normal context.

**Dr JOHN KAYE:** I am sorry, but I did not quite follow how we went from \$10 million—

**Mr MIKE BAIRD:** Our total net debt position is about \$50 billion or \$55 billion.

**Dr JOHN KAYE:** But, as we agreed before, a lot of that net debt is tied up in instruments with fixed interests and would not be affected—

**Mr MIKE BAIRD:** It depends on the—

**Dr JOHN KAYE:** I believe it is true that more than a third of the State's debt is in instruments with over five years of life.

**Mr MIKE BAIRD:** That is right.

**Dr JOHN KAYE:** So for the first four years that would not be affected at all.

**Mr MIKE BAIRD:** Yes. But the point is, give or take, you have got \$50 billion, on what we have worked out at 30 basis points, that is about \$250 million.

**Dr JOHN KAYE:** But we would never see that cost unless we lost the triple-A rating for a period in excess of five years, or a period in excess of 10 years probably.

**Mr MIKE BAIRD:** If you look at the historical averages of those that have lost their triple-A rating, it often takes more than 10 years to get it back.

**Dr JOHN KAYE:** Victoria lost its triple-A rating as a result of the bad investment in Loy Yang power station.

**Mr MIKE BAIRD:** I think it had a few other issues as well. Tricon did not help.

**Dr JOHN KAYE:** There were a number of issues, but the one that reflected most badly on the State's debt position was the investment in a power station that was not needed, and effectively they could not do anything with it. From recollection, Victoria lost its triple-A rating—and somebody might be able to help us—for, I think, two years.

**Mr MIKE BAIRD:** No, it was much longer. I think it was six or seven years. There are two parts to this. We have heard some of the Opposition's questioning around the economy. To lose the triple-A rating at this point would be a disaster. Not only would it limit access to capital—I have spoken about the need to diversify and that going into the retail segment is an incredibly important part of that, diversifying into new sources of capital—but loss of the triple-A rating, from what we have seen globally, means a dislocation of markets at sub-triple-A all the way down. So the highest credit rating gives you most capacity to access the most sources of capital. That is important, because we have an aggressive infrastructure program and we want to be able to access capital to help us to build that.

But there is also the confidence issue that comes with it. To lose confidence at this point in time—which a triple-A signal would do—would have a huge impact for households and for businesses. Then, as you have rightly articulated, there is a cost. That cost depends on how long you lost the triple-A for, and you would only be able to tally up the cost when that episode was done. It is a long, long time, on average, that people lose the rating. Assume it is across our entire debt portfolio, that \$250 million a year—assuming that is where it stays—is money that we would rather put into police, nurses and teachers.

**Dr JOHN KAYE:** We accept that \$250 million a year was the extreme case: where all the debt held by the State was exposed to a higher interest rate than it currently is. We spoke before about Waratah bonds, and I probably do not share the Opposition's scepticism with respect to Waratah bonds. They are probably a sensible idea. Do you really think that when a retail investor, a household investor is looking for something to put aside for their children's future, or another form of secure investment, they would be deterred by the fact that the State

had a triple-A or double-A plus rating? Are you seriously suggesting that that would make a difference to the retail investors that you are trying to find?

**Mr MIKE BAIRD:** I think it makes a difference across the market. Ultimately, in politics over two decades the triple-A rating has been seen as the sign of financial strength. Now there is something of a misnomer in that because if you have a \$1 million home and you have a \$100,000 mortgage, your bank does not care until you get up to about \$700,000 on that mortgage. That is effectively what we have had in New South Wales; we have had a position of tax capacity, together with balance sheet flexibility, that meant they had not really focused on how the money was being spent—or borrowed, because they let go up to a certain context. We are now in a position where we are right up against that triple-A rating and I think, from a household point of view through to businesses, they want to know that we are taking every single sensible financial approach we can. Ultimately, the triple-A demonstrates that.

**Dr JOHN KAYE:** Do you think that the rating agencies still hold that degree of credibility, the same degree of credibility they held prior to the global financial crisis?

**Mr MIKE BAIRD:** I am not going to defend the rating agencies, because I think—

**Dr JOHN KAYE:** I am sorry to interrupt, Treasurer, but they are used constantly, as your predecessors did, to justify a range of measures, which you call fiscal restraint and which have impacts on the quality of services, on the way we invest in infrastructure. You base it on the triple-A rating. You say that we have to keep the triple-A rating. The valid question there is—and I am not asking you for a personal opinion, but I am asking you for your opinion of the capitals markets and of the retail investors, the households—do you think that the rating agencies still maintain the same degree of credibility that they did prior to the global financial crisis?

**Mr MIKE BAIRD:** I think the rating agencies have a number of questions to answer. I spent a lot of time working in the markets with rating agencies. There are some incredibly bright people who have a deep understanding. But, fundamentally, where they got to a position of lagging actual financial events is where the broader market lost confidence in some of their decision-making. They have taken steps to address that. Certainly, minor action in this role with both Standard and Poor's and Moody's has been incredibly positive. They are looking at all the right things, all the things they should be looking at; they undertake deep scrutiny, line by line, of the budget, and of our overall governance and our fiscal strategy. It is much more rigorous than I remember—and it has been five years since I left that space—in terms of management's capacity and management's strategy in a government context. I do not remember, in terms of the government context, it paying that sort of attention to detail. Obviously, whether they have learned lessons out of what has happened in the global financial crisis, or whether it is just an evolved model, I think—

**Dr JOHN KAYE:** Are you saying that what we get for what we pay is now more detailed, more rigorous?

**Mr MIKE BAIRD:** You would have to ask them that.

**Dr JOHN KAYE:** Do we pay them more? For example, what are we paying Standard and Poor's?

**Mr MIKE BAIRD:** I am not sure on the fundamentals of that. I will have to take it on notice. TCorp pays. I can get that information for you.

**Dr JOHN KAYE:** Can you take on notice the amount that the people pay Standard and Poor's and pay Moody's?

**Mr MIKE BAIRD:** Yes.

**Dr JOHN KAYE:** I understand we also have one other rating agency, Fitch, that does some of the State-owned corporations. Is that correct?

**Mr MIKE BAIRD:** I think it does the shadow rating for a couple of the SOCs. I think that is right, but I will confirm that for you.

**Dr JOHN KAYE:** Can you confirm also what was paid in the financial years to June 2009, 2010 and 2011 so that we get a sense of where that is going?



**Mr MIKE BAIRD:** Yes.

**Dr JOHN KAYE:** I have in front of me figures from 2005 to 2008. Standard and Poor's got of the order of \$200,000 and Moody's got average figures a bit over, at about \$220,000 over those four years. Are we paying more? If you are saying they are doing more, it would be interesting to know what additional things they are doing.

**Mr MIKE BAIRD:** I will just clarify that. I am reflecting on the time in the market. In looking previously at government ratings, my sense is that there is much more of a focus both on qualitative and quantitative analyses, but they are taking also the management, strategy and fiscal approach. Obviously, I cannot comment on how they have interacted over the past four years.

*[Short adjournment]*

**Dr JOHN KAYE:** I refer now to the power sell-off. We will get to forward proposals shortly. Let us look at the previous Government's transactions. During your time in opposition you, like The Greens, were critical of the gentrader transaction and, in particular, the transaction supporting the Cobbora coalmine. Various figures were quoted for the costs of these transactions. Have you done anymore work? Since you got into government you have had access to the figures and now would have a better understanding of the total costs of those transactions. Can you tell us anything about what you have? Let us start with the costs and subsidies associated with Cobbora coalmine.

**Mr MIKE BAIRD:** You are right. Obviously, in opposition I was concerned about this entire transaction. An important part of that obviously was the Cobbora coalmine. There are two parts to it. At the moment, as you would have seen in the budget, we have taken a position that even under the contracted coal prices—even, I would argue, at the significantly discounted coal prices—there is an external concern, and we had Ernst and Young look at this, that we cannot recover the cost of our production. It is a potential contingent liability to the tune of \$300 million.

**Dr JOHN KAYE:** This is not the value lost in the coal?

**Mr MIKE BAIRD:** No.

**Dr JOHN KAYE:** This is just cost of production?

**Mr MIKE BAIRD:** Correct.

**Dr JOHN KAYE:** This is a cash subsidy, not an economic subsidy, to run the mine?

**Mr MIKE BAIRD:** On the assumption that all the assumptions are proven right, at the moment there is enough concern that would suggest it could be \$300 million.

**Dr JOHN KAYE:** Over what period?

**Mr MIKE BAIRD:** That is for the duration. That is one side. The other side is that assuming the State owns this particular asset, which is a coalmine, and it went to the open market, what would you sell that coal for versus the contract. I will take on notice the details of that. I am happy to provide the work we have. The expectation is that the differential is definitely in the billions.

**Dr JOHN KAYE:** So we could be looking at a far greater cost of this coalmine than we thought in January this year?

**Mr MIKE BAIRD:** Yes because, obviously, when the transaction was announced, the details on this were quite silent. We worked out through the inquiry or had confirmed how much has to be put into the capital costs of it. At the moment we have concerns that cost of production might not be captured by the existing coal contracts. The further concern from that State asset, and if we went to the market, is what coal price we would get. Obviously, by suppressing the coal price the proceeds received for the transaction have inflated.

**Dr JOHN KAYE:** Basically it is a cross-subsidy into the transaction for the loss of value of the people of New South Wales owning that coalmine to make the transaction fly?

**Mr MIKE BAIRD:** Yes.

**Dr JOHN KAYE:** By giving the gentraders access to below-market coal?

**Mr MIKE BAIRD:** Yes.

**Dr JOHN KAYE:** Which they would not have been able to secure by the normal competitive market contract approach to securing coal?

**Mr MIKE BAIRD:** That is right.

**Dr JOHN KAYE:** To be absolutely clear, you have studies on what I will call the economic subsidy, which are provisional on the future price trajectories for coal or what you think those prices will be?

**Mr MIKE BAIRD:** Yes.

**Dr JOHN KAYE:** Has your department, or somebody on behalf of your department, done those studies?

**Mr MIKE BAIRD:** Some preliminary work has been done but, obviously, there are many moving parts across it. You can look at it as an MPV basis or as a nominal basis. We will provide some detail back to this Committee on some of that preliminary analysis. It is fair to say that it is a significant concern of mine and of the Government and, obviously, part of the consideration of the Tamberlin inquiry is this element of the transaction.

**Dr JOHN KAYE:** You may not be able to answer the next question but I hope that you can. The information put out by both gentraders at 15 December last year was ambiguous as to the degree of commitment the previous Government on behalf of the people of New South Wales made to the gentraders. Are you able to resolve that ambiguity? When you inherited government was there a cast-iron contract that would be difficult to get out of?

**Mr MIKE BAIRD:** Obviously, the Tamberlin inquiry has considered this in detail. We will just wait for that outcome. I do not think we should hide the point that whatever information came to me, whichever way I look at the transaction, it is appalling. It is not in the interests of the people of New South Wales. The transaction should never have been done. To this day, all those who were involved in it should hang their heads in shame because it is an absolutely appalling indictment on public policy.

**The Hon. WALT SECORD:** I return to the question of redundancies. On page 8 of your Budget Speech you say that there will be 5,000 voluntary redundancies. In today's *Daily Telegraph* the figure of 2,000 is mentioned. Is it 5,000, 2,000 or 7,000? What is the actual figure?

**Mr MIKE BAIRD:** The current updated position is 2,000. The number is 5,000.

**The Hon. WALT SECORD:** Is it 5,000, 2,000 or 7,000?

**Mr MIKE BAIRD:** It is 5,000.

**The Hon. WALT SECORD:** I return to your definition of "redundancy". Someone is offered a voluntary redundancy and has three months in which to consider it?

**Mr MIKE BAIRD:** Yes.

**The Hon. WALT SECORD:** Then at the end of the three months they are sacked. How is that a voluntary redundancy? It is offered, three months is allowed to consider it and then they are sacked. Has the meaning of "voluntary" changed?

**Mr MIKE BAIRD:** Not at all. If you go to the budget and to box 4.3, Managing Excess Employees, you will find that it is detailed there. The position is very clear.

**The Hon. WALT SECORD:** Voluntary no longer means voluntary; it means sacked.

**Mr MIKE BAIRD:** No. It does not at all. You have three months, which is a considerable period, to look for another job. If you decide you do not want to take the voluntary redundancy and you want to stay in the public service there is a capacity for you to do that and there are three months within which you can look for an appropriate job across the entire public service.

**The Hon. GREG DONNELLY:** But if you do not your employment will be terminated. Your contract of employment will cease at the end of those three months, is that the case?

**Mr MIKE BAIRD:** It is a hypothetical case.

**The Hon. WALT SECORD:** This is not hypothetical.

**Mr MIKE BAIRD:** If you are saying that at the end of that three-month period a job has not been found, then yes, as described in the budget—

**The Hon. GREG DONNELLY:** The person will be sacked?

**Mr MIKE BAIRD:** Retrenched, yes.

**The Hon. GREG DONNELLY:** The person will be retrenched or sacked after a three-month period in the circumstances you have described?

**Mr MIKE BAIRD:** Two things have to happen: They have to decide that they do not want the voluntary redundancy program, which is attractive.

**The Hon. GREG DONNELLY:** So you say.

**Mr MIKE BAIRD:** It is attractive. If they then decide—

**The Hon. WALT SECORD:** Being sacked is attractive?

**Mr MIKE BAIRD:** I did not say that.

**CHAIR:** Order!

**The Hon. MATTHEW MASON-COX:** Point of order: Let the Treasurer finish his answer rather than consistently interrupting him.

**The Hon. WALT SECORD:** I am frustrated by your lack of clarity.

**Mr MIKE BAIRD:** I was answering the question; I think it was my turn.

**The Hon. WALT SECORD:** Explain to me—

**Mr MIKE BAIRD:** Have you looked at box 4.3?

**The Hon. WALT SECORD:** Yes.

**Mr MIKE BAIRD:** What does it say?

**The Hon. WALT SECORD:** I do not have it in front of me right now.

**The Hon. MATTHEW MASON-COX:** I will give it to you.

**The Hon. WALT SECORD:** We are asking the questions.

**Mr MIKE BAIRD:** Box 4.3 explains the process. There are two things: The employees are offered an attractive voluntary redundancy program. If they decide they do not want to pursue that course they have three months to look for another job.

**The Hon. WALT SECORD:** Then you are sacked?

**Mr MIKE BAIRD:** If you want to look for another job the hope is that you find another job.

**The Hon. GREG DONNELLY:** If you do not you are terminated; that is the position. There is no ambiguity; that is what will happen.

**The Hon. WALT SECORD:** Was that a "Yes", Treasurer?

**Mr MIKE BAIRD:** We got rid of that unattached list which is something—

**The Hon. GREG DONNELLY:** I think you have answered the question.

**CHAIR:** Order! I think the Treasurer is making a relevant point here. That is the way in which he wants to answer the question and he is entitled to answer the question.

**Mr MIKE BAIRD:** I do not know how you can defend having a list and paying people who do not have a job.

**The Hon. WALT SECORD:** We were not talking about the unattached list; we were talking about what is a voluntary redundancy.

**The Hon. GREG DONNELLY:** Can I move to another area?

**Mr MIKE BAIRD:** It is in box 4.3.

**The Hon. GREG DONNELLY:** I have that reference. With respect to the regional relocation grants announced as part of the budget, and given significant promotion and headlines by the Government, over the four-year period I understand the estimated budget impact will be \$46.9 million per annum, depending on how many people will take it up: Is that the figure with which you are familiar?

**Mr MIKE BAIRD:** I did not think you would raise this but I am glad that you have.

**The Hon. GREG DONNELLY:** I am trying to get the facts clear.

**Mr MIKE BAIRD:** Let me—

**The Hon. GREG DONNELLY:** I have not asked my question.

**The Hon. MATTHEW MASON-COX:** Give him a chance. You just asked a question and now you are continuing without giving the Minister an opportunity to answer.

**The Hon. GREG DONNELLY:** If you do the simple math of dividing that by \$7,000 that would come up with an annual take-up of about 6,700 families over the forward estimates. As I understand it, 49 families have taken it up.

**The Hon. WALT SECORD:** How many?

**The Hon. GREG DONNELLY:** Forty-nine families. I think the Treasurer would know that. How do you predict we will get from the 49 to 6,700 by the end of this financial year and 6,700 every year thereafter over the next three years?

**Mr MIKE BAIRD:** The important point is that this is an overarching strategy to encourage decentralisation. We are happy to support growth in regional and rural New South Wales. For too long they have been ignored. There are three elements in relation to the infrastructure spend: With additional

infrastructure spend the Government is looking to reserve 30 per cent of that for regional New South Wales. In relation to the Jobs Action Plan the Government is reserving 40 per cent of jobs for regional and rural New South Wales. The third part is the relocation grant. It is a three-pronged approach.

Obviously Opposition members made the decision to scrap this in their budget reply. They made one policy announcement. I will not hone in on the fact that the costing was not right. My assumption is that you have now changed your position and you do not support this. If you read *Hansard* you will find that my good mate the member for Maroubra supported it. He said, "The Opposition will not oppose the bill. I think it is worthy that people in the metropolitan area have decided to make a life for themselves in those regions. I have thought about it myself—perhaps retiring in a few years and taking my family to my little farm in Kempsey." That is where the father of the member for Maroubra, who is present in the room, came from. I support that as I have always loved the area. From my point of view the member for Maroubra and the Hon. Mick Veitch supported the Government's approach. I indicated at the outset that Opposition members did not oppose this approach.

**The Hon. MATTHEW MASON-COX:** Country Labor supports it.

**Mr MIKE BAIRD:** Country Labor supports it.

**The Hon. GREG DONNELLY:** I appreciate you going through *Hansard* references but I can do that after the estimates committee hearing. I am talking about the numbers stacking up to get to where you say you want to get—that is, 6,700 a year.

**Mr MIKE BAIRD:** That is the forecast. Obviously we need to review that as the numbers come in.

**The Hon. GREG DONNELLY:** Would you contemplate increasing it to more than \$7,000 to make it more attractive?

**Mr MIKE BAIRD:** Is the Opposition against it or for it?

**The Hon. WALT SECORD:** We are asking you the questions.

**Mr MIKE BAIRD:** Do you want to put it up or down?

**The Hon. GREG DONNELLY:** I am trying to understand. You have promoted this as a key part of your budget.

**Mr MIKE BAIRD:** It is a feature, certainly.

**The Hon. GREG DONNELLY:** You have described how it is important. I am trying to work out how important it is in the scheme of things. If you have 6,700 to get to in the current financial year and you are at 49, there is a long way to go. Then there is 6,700 thereafter for the next three years. Are you on track in achieving what you say is a key part of your budget?

**Mr MIKE BAIRD:** The Deputy Premier has outlined that we anticipate doing some advertising to make people aware of the opportunities to move to regional and rural New South Wales, which is something we are very keen to support. Obviously through our three-pronged strategy we are trying to do that: the grant, infrastructure and jobs. We are happy to look at every program and to report on its effectiveness and the effectiveness of the spend. One of the things that surprised me coming into this job was that of all the program spending that is undertaken by government it does not look to me as if any basic analysis was done of the effectiveness of the program and the effectiveness of the spend. It is something that we will look at.

**The Hon. GREG DONNELLY:** Following on from what you just said, what was the analysis done by Treasury to put to you that \$7,000 was the figure that should be considered and put in this proposition to make it an attractive incentive for people to relocate to the country? Where did the \$7,000 come from?

**Mr MIKE BAIRD:** That is Treasury's analysis. Treasury has undertaken an analysis on the expected take-up rate. At the moment you are making the shadowy announcement that we are below the anticipated level.

**The Hon. GREG DONNELLY:** It is not an announcement.

**Mr MIKE BAIRD:** I will not dispute that but that does not mean it cannot be made up or might not be taken up at later times.

**The Hon. GREG DONNELLY:** Treasurer, it is not an announcement. I am just trying to understand. You have put something forward and we are trying to analyse the significance of it. You are obviously trying to explain it. Perhaps I should ask the Treasury representative, Mr Ronsisvalle, what were the criteria used to develop the \$7,000 figure?

**Mr MIKE BAIRD:** That is a Government policy decision.

**The Hon. GREG DONNELLY:** It was just an arbitrary figure?

**The Hon. WALT SECORD:** You just plucked it out of the air?

**The Hon. GREG DONNELLY:** It is a fair question. It is \$7,000 and this is a key part of your program. You have identified it as one of three issues that are important in the package. Where did the \$7,000 figure come from?

**Mr MIKE BAIRD:** The \$7,000 figure came as part of an overall package, which I have explained to you. There is an overarching strategy. Importantly, we should note that in your own rural and regional task force paper, recommendation 12, section 3 states:

Government should play an active role in ensuring that regional towns and cities see population relocate from parts of the State with population pressure—particularly the Sydney basin.

**The Hon. GREG DONNELLY:** Did you get advice from Treasury about the \$7,000 figure or was it just a figure that you—

**Mr MIKE BAIRD:** If you remember, I was not even allowed a briefing with Treasury.

**The Hon. GREG DONNELLY:** So you did not get a briefing from Treasury. This is a \$7,000 figure that essentially you have made up, is that right?

**Mr MIKE BAIRD:** That is not right. As I have explained to you, Greg, there is an overarching strategy: infrastructure, jobs and the grant.

**The Hon. GREG DONNELLY:** I understand but the figure of \$7,000 must have come from somewhere. What is the basis for it?

**Mr MIKE BAIRD:** You can have a look. I have our costings document, which was released and is available.

**The Hon. GREG DONNELLY:** So there is no basis for it?

**Mr MIKE BAIRD:** Of course there is a basis. It is part of an overall—

**The Hon. GREG DONNELLY:** Is it an arbitrary figure? It is an arbitrary figure that you pulled out of the air? Is that the case?

**Mr MIKE BAIRD:** That is not right, Greg.

**The Hon. GREG DONNELLY:** Why could it not have been \$10,000 or \$15,000?

**Mr MIKE BAIRD:** You can argue the same thing on the First Home Owner Grant. Why is that \$7,000?

**The Hon. GREG DONNELLY:** I am not arguing. I am asking where you got the figure from. It is just a figure that you pulled out of the air, is that not the case?

**Mr MIKE BAIRD:** It is not the case, Greg.

**The Hon. GREG DONNELLY:** Where did it come from?

**Mr MIKE BAIRD:** It is part of an overall strategy and our overall analysis that we did in opposition in relation to what sort of incentives we can give to get people to rural and regional New South Wales. It is nothing more complicated than that.

**The Hon. GREG DONNELLY:** All of that did not have a metric associated with it or a formula for the creation of the amount of \$7,000. It was just an arbitrary figure you pulled out of the air, is that not the case?

**Mr MIKE BAIRD:** No, Greg. I refute this. It comes down to the basic approach we took to overall election costings.

**The Hon. GREG DONNELLY:** If there is no basis for the calculation, and you have admitted that—

**Mr MIKE BAIRD:** No, I have not admitted that.

**The Hon. GREG DONNELLY:** You have said it is just a policy figure.

**Mr MIKE BAIRD:** When you were asking Treasury, my point was that it was a Government policy. In opposition we did our own analysis.

**The Hon. GREG DONNELLY:** So the \$7,000 was a Government policy. It is a figure that is arbitrary and could be subject to change over time. What I am getting at is if this is falling short and not getting in the numbers you might consider increasing it to make it more attractive.

**Mr MIKE BAIRD:** I am not saying that in any way, shape or form. I am saying that like any responsible government, and I place an emphasis on "responsible" government, when you are running programs and incentives the onus is on you to review them in the sense of the effectiveness of the spend. Are you achieving your targets? At the moment you have made the absolute revolutionary comment that we are not on target in relation to relocation.

**The Hon. GREG DONNELLY:** It is not a revolutionary comment; I am trying to get some sense.

**Mr MIKE BAIRD:** Do you want us to be spending more? Is that what you are saying? I am trying to understand what your argument is.

**The Hon. GREG DONNELLY:** Now is not the time for asking questions of members of the Committee.

**Mr MIKE BAIRD:** Do you want us to blow expenditure because you can see we are operating a pretty—

**The Hon. GREG DONNELLY:** You cannot turn it around that way, Treasurer. You have indicated there is no basis to calculate the \$7,000. It is simply an arbitrary figure you have pulled out of the air.

**Mr MIKE BAIRD:** That is not true. We did our own analysis in opposition. We engaged with economists and experts in relation to the grants, infrastructure and jobs.

**The Hon. GREG DONNELLY:** Do you have that analysis with you?

**Mr MIKE BAIRD:** I have the analysis that is part of the Opposition document, which I will not give you.

**The Hon. GREG DONNELLY:** We cannot see it so we just take it on faith that the \$7,000 came out of this consultant report and they thought that was a good figure, is that what you are saying?

**Mr MIKE BAIRD:** No. We did our own analysis on how we relocate people to New South Wales. Engaging with economists and experts, there were grants, infrastructure and jobs.

**The Hon. GREG DONNELLY:** It is a completely unsatisfactory answer simply to say it has been plucked out of the air.

**Mr MIKE BAIRD:** They are your words, not mine.

**The Hon. WALT SECORD:** Treasurer, I will move on to the GST.

**Dr JOHN KAYE:** The great big tax on everything.

**Mr MIKE BAIRD:** I thought that was carbon.

**Dr JOHN KAYE:** Carbon is one-sixth of the GST.

**The Hon. WALT SECORD:** On 30 September this year you released a statement calling for the removal of inefficient taxes. Do you support the Premier's call for an increase in the GST?

**Mr MIKE BAIRD:** I support the Premier in—

**The Hon. WALT SECORD:** It was stated very clearly on 16 October on Sky News.

**Mr MIKE BAIRD:** —that the State needs to move from an inefficient tax base to a more efficient tax base, absolutely.

**The Hon. WALT SECORD:** Mr Ronsisvalle, if we were to remove those inefficient taxes as described by the Treasurer—stamp duty and payroll—by how much would we have to increase the GST?

**Mr MIKE BAIRD:** That is not right. Have you read my tax submission? I know you have not read the budget papers. Have you read my tax submission?

**The Hon. WALT SECORD:** Are you asking me questions again?

**Mr MIKE BAIRD:** You are making assertions that are just are not right.

**The Hon. WALT SECORD:** I am quoting your public statements. If your public statements are incorrect then retract them.

**Mr MIKE BAIRD:** My comments are as per my submission. Did you read the submission?

**The Hon. GREG DONNELLY:** This is not the opportunity for you to ask questions of Committee members, Treasurer. This is budget estimates.

**Mr MIKE BAIRD:** But it is very pertinent.

**The Hon. WALT SECORD:** You are the Treasurer—

**The Hon. MATTHEW MASON-COX:** Point of order: Members should pause and settle down for a moment.

**The Hon. WALT SECORD:** So you are chairing.

**The Hon. GREG DONNELLY:** We have another Government chair.

**The Hon. MATTHEW MASON-COX:** My point of order is that members are badgering the Treasurer and not giving him an opportunity to answer the question.

**The Hon. WALT SECORD:** No, we would like an answer to our questions.

**CHAIR:** I reiterate that in relation to questions on government policy the rule relating to the giving of opinions on matters of policy is to avoid public servants becoming involved in discussion or disputation. It is important to remember that it is not appropriate to ask our public servants about policy.



**The Hon. WALT SECORD:** Let me rephrase the question. I note your involvement in the Commonwealth tax forum on 4 and 5 October and the Premier's call on 17 October to increase the current GST of 10 per cent to remove inefficient taxes, such as stamp duty and payroll tax. What would the GST become if we adhere to the Premier's call?

**Mr MIKE BAIRD:** This is the point; it would not. Within the State Plan the key objective is to "refocus taxes towards more efficient and less volatile taxes". When I attended the tax forum, with the full support of Cabinet and the Premier, I argued not about increasing rates but about quarantining some of the efficient taxes of the Commonwealth Government. If you look at the vertical fiscal imbalance, it currently is—if you monetise it—at about \$73 billion a year. In normalised economic times that means the Commonwealth has \$73 billion in discretionary money. That is unacceptable.

In terms of total taxation the States currently account for about 16 per cent of revenue generated and we have 40 per cent of the expenditure responsibilities. That imbalance has to end, and the way to end that imbalance is to quarantine some of the Federal Government's efficient taxes, move it to the State and get rid of others. If you look at their submission the two most inefficient taxes we have are stamp duties and insurances taxes by some measure. Our argument is simple: Let us quarantine income tax or excise tax, then the State has a capacity to do two things: we get increased revenue, which starts to close the gap, and then we can start to get rid of some of these inefficient taxes so that the State and the nation gain both in terms of overall economic efficiency and less volatility, and you are addressing one of the fundamental problems of the Federation, which is this vertical fiscal imbalance.

**The Hon. WALT SECORD:** Madam Deputy-Chair, keeping in mind your ruling on asking opinions I would like to ask Mr Ronsisvalle a straightforward question—a factual question. What would be the equivalent of removing stamp duty, as articulated in the budget papers, of \$5.2 billion? If we remove stamp duty what would be the equivalent increase in the GST?

**Mr MIKE BAIRD:** You have not listened to what I have said. We are not arguing an increased rate; we are quarantining the Federal tax base.

**The Hon. WALT SECORD:** I am asking Mr Ronsisvalle a factual question. The Premier said he would like to increase the GST. I am trying to get an indication of what would occur. You said stamp duty is inefficient and payroll tax is inefficient. So if we remove them what would the GST become? I am asking a factual question; I am not asking for an opinion.

**Mr MIKE BAIRD:** It is not factual; it is something you can talk to the Premier about this afternoon. But from my point of view it is very simple. What the Premier is arguing and what I am arguing is in lockstep, and that is that we need to move from an inefficient tax base to an efficient tax base and you can do that and address vertical fiscal imbalance by not putting the rates up.

**CHAIR:** We will now have questions from Dr John Kaye.

**Dr JOHN KAYE:** Treasurer, before morning tea we spoke about the \$300 million in Cobbara's operational subsidies and the possible billions of dollars—and you are going to get us more information on that. I would now like to turn to the other part of the transaction, which relates to the gentraders themselves. As you know, an inquiry of this committee earlier this year exposed hundreds of millions of dollars in the transactions relating to the gentraders, particularly the availability of liquidated damages and the fixed maintenance contracts. I would like to ask what advice you are getting from your department in respect of that part of the transaction.

**Mr MIKE BAIRD:** As you see in the budget papers, the liquidated damages have increased and there is an expectation that they are going to be higher. That predominately relates to the stranded costs. I am happy to provide more details on those to you, and we can provide some of the breakdown. But the principal view is that what was underestimated at the transaction sale was the level of stranded costs. The stranded costs are higher, and that is what is being worked through at the moment.

**Dr JOHN KAYE:** Do you have a figure on that? Do we know how much the transaction will end up losing for the people of New South Wales?

**Mr MIKE BAIRD:** As you have rightly articulated, under the jurisdiction of the former Government until now that meter is still clicking. From my point of view it is the reason I was so strong in my comments previously: it is a horrible transaction, and we have not got to the bottom of it. Whether it be things like the stranded costs or whether it be something like covering the cost of production, even if you exclude this subsidy issue we have spoken about—however you define it—this thing has cost the State a bucketload. Will we get to the bottom of it? Yes, we will, but we are still working on that, and obviously the Tamberlin inquiry will provide some detail.

**Dr JOHN KAYE:** The Tamberlin inquiry report goes to the Government next week. Will you be releasing that shortly afterwards?

**Mr MIKE BAIRD:** The timetable is to be determined, but obviously that will become a public document. There is nothing to hide in relation to this. Mr Tamberlin has run a very exhaustive, comprehensive and very confidential inquiry. I am looking forward to his report, as I am sure all other members of this place are.

**Dr JOHN KAYE:** Submissions to the Tamberlin inquiry have not been released to the public, so we do not know what the Government's submission to the inquiry was. Would you agree that there is an intrinsic problem with the current structure of the gentraders?

**Mr MIKE BAIRD:** No question.

**Dr JOHN KAYE:** You agree with that. So to go forward from here what was in your submission? What were you putting to the Tamberlin inquiry in terms of where to from here?

**Mr MIKE BAIRD:** I have not put in a submission nor has Treasury, and nor should we. One thing we argued in opposition was that it is time to let independent experts determine what we need to do with this sector, not politicians. I think that is an important premise, which is the reason why I am very much looking forward to the report. They will have recommendations on how to deal with what you rightly describe as a problem in the sector that the gentraders are an incredible weight in terms of inefficiency in that sector, and I look forward to proposals on how to deal with that.

**Dr JOHN KAYE:** The gentrader structure came out of a 2004 paper by Treasury. The issue is: Is Treasury now looking at a way forward? Is Treasury exploring options for how we go forward from here?

**Mr MIKE BAIRD:** We are waiting for the inquiry's report, and that is exactly the way it should be.

**Dr JOHN KAYE:** Is there a concern that the longer we wait the more entrenched the private sector gentraders will be, and a greater concern that if we wish to move forward—if the Government decides it wants to restructure ownership within the electricity industry—apart from privatisation of the power stations, anything else will be very expensive and it will get more expensive?

**Mr MIKE BAIRD:** We were very explicit in the lead-up to the election that this is what we were doing. We said we will set up the inquiry and we will ask them to look at both the transaction that unfolded in all its gory detail together with what is the best way forward for the industry and the sector—and the people of New South Wales as part of that. We make no apologies for waiting for that report to see the expert opinion on how to take it forward. As you rightly say, it will be available next week and that will be the opportunity for the Government to consider what its action should be in relation to that report and what processes we should implement.

**Dr JOHN KAYE:** Do you regret the fact that Treasury came up with that model originally?

**Mr MIKE BAIRD:** I do not know the history.

**Dr JOHN KAYE:** I will provide you with the 2004 paper under the name of the former Secretary of Treasury who floated the idea of the gentrader. I can also provide you with papers written by a number of people at the time that foretold exactly what happened, that the risk interface would be almost impossible to work out because of the shared nature of the impacts of risks and because a lot of the risks would be attributable to the operation of the power station, and separating operation from trading would inevitably create a risk profile that would require some degree of compensation, which would inevitably be at the expense of the State of New South Wales.

**Mr MIKE BAIRD:** Ultimately, the decision to proceed with the model and transaction in its shape and form was the former Government's—I do not think anyone could dispute that. How they took that forward remains beyond me. It is completely inefficient. There is almost no basis in terms of economic argument you can mount as to why you proceed when the execution of a transaction—and this is the most frightening thing—of such complexity at a time of global uncertainty and fragility in capital markets meant that there were almost no bidders for the assets, which we have seen, so there was no competition. We have already articulated and started to talk about what Cobbora did to the overall price. As we examine every single part of the transaction the true light of day is starting to show that it was terrible. I am not going to defend it.

**Dr JOHN KAYE:** Why did Treasury not know that at the time? I asked people present at this table at the time—or not at the time but prospectively in the 2008, 2009 and 2010 budget estimates hearings—whether they had warned the Treasurer. The constant answer was no, as far as I could get through the then Treasurer. Do you have in your documents now advice from Treasury to the then Treasurer that says this was a bad deal, or was Treasury saying it was okay? That is unknown in the outside world. You now have access to those documents. What really went on?

**Mr MIKE BAIRD:** I think the main point is that Treasury, and indeed the whole public service, executed the policy of the government of the day. I do not think we can hold them to account—certainly not for the private discussions that they might have had with the Treasurer, his team or other members of the Government. What is clear is that a transaction was executed that was a dud. I am interested in getting to the details as you have gone through them and finding out what the bottom line impact is for us. But I also think it is a reality we have to deal with and it is about time we marched forward and determined what we are going to do to fix the problem.

**Dr JOHN KAYE:** Marching forward is about having quality advice and having quality interaction between the Treasurer and Treasury. Clearly something went wrong one way or another in 2008, 2009 and 2010. The people of New South Wales do not know what that was. Was it bad advice from Treasury or was it a Treasurer and a Government that were hell-bent on doing this despite the advice they got from Treasury? It is a relevant and germane matter to know what the truth is. Was the Treasurer warned? When people pay for their bureaucracy they expect that bureaucracy to stand up to government and say, "If you do this the inevitable will happen." The question I am asking is: Did that happen? What happened in that process?

**Mr MIKE BAIRD:** Again, I think we are straying from the question of estimates. There is nothing in the forward estimates in relation to this transaction. But I will answer your question in this way: If you look back at the transaction I think there was a very unusual structure that was put together that included not Treasury running the transaction but Col Gellatly. So there was a transaction structure that, in essence, circumvented the usual process for those sorts of transactions. I have not asked for explicit advice on that but I think it speaks volumes.

**Dr JOHN KAYE:** I want to go somewhere else for a minute. Can we consider in globo four separate programs that have been introduced by the O'Farrell Government: the Jobs Action Plan, the empty-nesters stamp duty exemption, the regional relocation grants, and the abolition of the ad valorem component of the Torrens assurance levy? Each of these cost a substantial amount of money to Treasury's bottom line. For example, for the Jobs Action Plan you estimated \$330 million over the next two to three years in parallel tax rebates. The empty-nesters stamp duty exemption is \$20 million. The Regional Relocation Grant Scheme is \$280 million over the next four years. The abolition of the ad valorem component of the Torrens assurance levy is something like \$429 million over four years. Also, the clubs poker machine tax break is \$285 million. We do not need to add those up. Substantial amounts of money have gone in tax rebates and tax cuts to people who were not struggling in the first place.

At the same time that is happening we have heard this morning of 5,000 public sector workers being offered voluntary redundancies. You described that as tough, which I think is an understatement. You called it voluntary. I think I agree with the Opposition here that in my understanding of voluntary redundancies these are not really voluntary; they are being squeezed out of the public sector. Also, it will probably be a lot more than 5,000 workers when you take attrition into account. Treasurer, how do you make those decisions? How do you make a decision that you going to give the clubs, with their turnover of \$4.2 billion a year, a \$285 million tax break? How do you make a decision about the regional relocation of \$280 million over the next four years without being able to say how many people it will cause to move or what the economic benefit will be when at the same time you are squeezing down on the public sector in an exceptionally hard way?

**Mr MIKE BAIRD:** I think you need to go back to the beginning, particularly in relation to the jobs issue you are talking about. What we inherited was a mess. If you read through the budget papers, you can pull the reports out:

The budget position structure deteriorated especially over the past five years.

If left unaddressed these trends would put the State on an unsustainable fiscal trajectory.

State finances have eroded over the last decade and the State economy has been weaker.

On coming to office the Government was confronted by an unsustainable outlook.

It goes on and on. We inherited a critical financial mess. As part of that we have addressed some incentives across key sectors. We have gone through payroll tax to look at how we can stimulate and provide an incentive to business to employ. I think that is an incredibly important measure. It will be an absolute kickstart to the economy if we can secure those 100,000 new jobs that were not here before. If we can achieve 100,000 new jobs in the economy during this term of government it will be a huge positive. I do not think anyone would argue against that.

In terms of things such as the empty-nesters, we need to increase supply in housing. We have introduced a range of measures on that including new dwellings and obviously the 10,000 new lots. What is one of the deterrents to empty-nesters' downsizing and providing more stock? Obviously stamp duty is one. In discussions that policy was used. We have gone through the regional relocation grant. It is part of an overarching strategy of something we want to see: decentralisation. The abolition of the ad valorem component of the Torrens assurance levy was effectively a \$400 million hit that was brought in disingenuously on Melbourne Cup Day at 3 o'clock in the afternoon as an ad valorem measure—"By the way, this is another tax." But the Hon. Walt Secord probably engineered that one.

**The Hon. GREG DONNELLY:** Point of order—

**Mr MIKE BAIRD:** It was not the Hon. Walt Secord. Was it the Hon. Greg Donnelly? He is owning up to it. But that eroded confidence in a key sector. The last thing we want to do is make housing more costly. We make no apologies for taking that cost out of housing, particularly considering the way it was introduced. All of these measures are part of the package to help get the economy moving. One of the fundamental drivers is new dwellings. New dwellings and new jobs are key measures that we can actually start to—

**Dr JOHN KAYE:** With respect, Treasurer, and with respect to your individual economic capacities, these are all issues that you raised in your election platform. They were never looked at by Treasury. You came to government with a piece of paper with promises that was called something like an action plan for New South Wales. Every political party has them. We had them as well.

**Mr MIKE BAIRD:** What was yours called?

**Dr JOHN KAYE:** We do not need to go there, Treasurer. Ours was great—it was far better than yours. New South Wales would look very different right now if that had been the case. But these were not things had been costed by Treasury. They were not things that had been, to use the vernacular, vomited on by the trolls. They had not been looked at and subjected to the rigour of independent debate.

**The Hon. JENNIFER GARDINER:** They were subjected to the rigour of a general election though.

**Dr JOHN KAYE:** Certainly that is true, but there are two kinds of rigour here. I acknowledge that interjection; I think it is absolutely true. But we will get to that in a minute—hold that thought. My point is that you come in and do these things without any analysis as to their economic benefits. You say you were confronted with a shocking situation regarding your budget bottom line and the only way you could fix it was to squeeze down on the public sector. But there are other ways to fix that. There are revenue measures, although I accept the State has difficulty with revenue. But surely implementing plans that are untested—you do not know what their long-term economic benefit will be and you have no independent cost benefit analysis of them—at the same time as you taking the capacity out of the public sector is very dangerous for New South Wales. Would you not agree?

**Mr MIKE BAIRD:** No, I would not agree. As the Hon. Jenny Gardiner articulated, we put together a strategy and a plan in consultation with external experts, economists and some of the brightest minds in the State to help us with our election policies. Just as importantly, in relation to their costing we engaged a former Auditor-General, Bob Sendt, who used to work in the fine institution that is New South Wales Treasury and oversee election costings. We had this unprecedented rigour attached to the costings. He went through every single policy and got our commitments document, which was released at the time of the election. On top of that—

**Dr JOHN KAYE:** That is costing. There is something more important than that, which is its cost-benefit analysis, which Bob Sendt, with all due respect to him, is not qualified to do.

**Mr MIKE BAIRD:** You do not know. He might have done that in Treasury. The point is we went through it, as any Opposition would do, with significant rigour, with external think tanks, external analysis, internal review and ultimately external review of the costing process. We went to the election with those policies and we are very happy with them. We have said that as part of government we will look on an ongoing basis at the effectiveness of every program this Government runs. We should look at the effectiveness of every program and the impact it is having. Getting jobs into the economy is of critical importance to us. Increasing new dwellings is critical to this State. I am open to new policies that help to facilitate both of those drivers.

**Dr JOHN KAYE:** You are talking about costings of policies that you put to the election, as the Hon. Jenny Gardiner said. What about the \$2 billion in your budget that you are going to achieve through the legislated version of the Government's wages policy? That was not in the document you referred to before. That was not in your suite of things that you promised the people of New South Wales. How do you on the one hand justify these other activities, the empty nesters and so on, on the basis that you put them to the people yet you go ahead with a \$2 billion saving from public sector wages that was never tested by the people of New South Wales?

**Mr MIKE BAIRD:** In the lead-up to the election we supported the wages policy of the former Government. It is in *Hansard* and it is public. It is a 2.5 per cent wages policy with any payments above that to be covered by savings. What we did not know before the election was that only about half the savings that were paid in increased wages came back. That was new. Obviously we have changed the policy because we want to see the savings before they are paid out in wages. That is just a sensible prudent decision that we have taken.

**The Hon. GREG DONNELLY:** Returning to the issue of the Tamberlin inquiry and report, are you expecting that later in the year?

**Mr MIKE BAIRD:** The Tamberlin report is due at the end of this month.

**The Hon. GREG DONNELLY:** Did I hear correctly that Treasury is not making a submission or contribution to that inquiry?

**Mr MIKE BAIRD:** Yes.

**The Hon. GREG DONNELLY:** Neither the Premier nor Minister for Finance and Services is making any contribution?

**Mr MIKE BAIRD:** Yes.

**The Hon. GREG DONNELLY:** You have not made any contact at all with those involved with the inquiry?

**Mr MIKE BAIRD:** No.

**The Hon. GREG DONNELLY:** No-one from Treasury has made any contact with those conducting the inquiry?

**Mr MIKE BAIRD:** The inquiry has asked people to appear and obviously people that were involved in the former transaction have been asked to appear.

**The Hon. GREG DONNELLY:** But you are making no submission at all in terms of position?

**Mr MIKE BAIRD:** No.

**The Hon. GREG DONNELLY:** Is the intention to receive the inquiry report by the end of the month and reflect on it?

**Mr MIKE BAIRD:** Yes.

**The Hon. GREG DONNELLY:** What would your position be if that report suggests that the poles and wires in New South Wales be sold as a way of dealing with the industry?

**Mr MIKE BAIRD:** The position would be to consider that as part of the Cabinet process.

**The Hon. GREG DONNELLY:** To give it consideration as a possibility?

**Mr MIKE BAIRD:** We have said all along we are not ruling anything in or out. We are waiting for the inquiry and that will be the position.

**The Hon. GREG DONNELLY:** When you were shadow Treasurer it was pretty well known from numerous sources that you strongly advocated for the sale of the generators. That was something people pretty much understood was your position. Is that the case—are you a person who advocated for the sale of the generators in New South Wales?

**Mr MIKE BAIRD:** What I advocated for was to have the most efficient electricity sector we can that puts maximum downward pressure on electricity prices.

**The Hon. GREG DONNELLY:** That involved the selling of the generators. That is what you often put to people when you were out there consulting and talking and discussing propositions. You advocated very strongly for the sale of the generators, did you not?

**Mr MIKE BAIRD:** You need to go back and look at the record.

**The Hon. GREG DONNELLY:** You did not advocate?

**Mr MIKE BAIRD:** I am not going to reflect on personal private discussions with whomever. You are not even telling me who the people are that I am having these personal private discussions with.

**The Hon. GREG DONNELLY:** No, but you were the shadow—

**CHAIR:** Order! I remind the Hon. Greg Donnelly that the budget estimates hearings are to look at the 2011-12 budget papers and not back into history.

**The Hon. GREG DONNELLY:** This is very apposite. I do not think the Treasurer needs protection.

**CHAIR:** It needs to be done in the context of the budget papers.

**The Hon. GREG DONNELLY:** As all my questions have been. The position is that you were a strong advocate for the sale of the generators.

**Mr MIKE BAIRD:** Those are your words.

**The Hon. GREG DONNELLY:** I think that is the understanding in the community.

**Mr MIKE BAIRD:** The nameless people.

**The Hon. GREG DONNELLY:** I think people generally understand that is your position. I do not think you have really denied that. Why does it not logically follow that if you advocate so strongly for the sale of the generators you would be pretty fulsome when it comes to the Cabinet process of considering the proposal if the Tamberlin inquiry recommends the sale of poles and wires? That would not be inconsistent with your past position, would it?

**Mr MIKE BAIRD:** I think you will be disappointed to hear this, but before the election I said in hundreds of discussions about this particular issue that it was about time we let the experts determine what we should do with this sector. The Premier agreed with that obviously and we collectively put forward this inquiry proposal, which we are sticking to. I know it is unusual that we said before the election that we were going to have the inquiry and ask for a review of the sector and the transaction that took place. Recommendations will come out of that. That is what we are doing and that is what we will be sticking to. Obviously we will wait for the report. I know we would love to roll forward what may happen after that report but let us wait for the report and we will deal with it.

**The Hon. GREG DONNELLY:** What would your position be if the report recommended against the sale of the poles and wires?

**Mr MIKE BAIRD:** You are picking hypothetical scenarios that require hypothetical answers.

**The Hon. GREG DONNELLY:** It is a key issue.

**Mr MIKE BAIRD:** No, it is not. I am not going to indulge by responding to a report that has yet to be generated and what may or may not be in it. I do not think that is a reasonable request. I am very happy to answer fully when the opportunity arises in Parliament and say what the response might be when the details emerge. At the moment the report does not exist. I do not think it is reasonable to ask me to respond one way or another about any hypothetical scenario you put forward.

**The Hon. GREG DONNELLY:** I refer now to the roughly \$200 million surpluses in the second, third and fourth years of the forward estimates. They are very much underpinned by being able to secure the \$8 billion in savings. Is that the key to being able to achieve those surpluses?

**Mr MIKE BAIRD:** Yes. We have to control expenditure growth. Unless we control it we are not going to be able to deliver those surpluses. That is something that needs to be held to account. It is something that both the Premier and I are determined to deliver.

**The Hon. GREG DONNELLY:** So you are quite confident you will be able to make \$8 billion in savings?

**Mr MIKE BAIRD:** I am.

**The Hon. GREG DONNELLY:** In the economic environment that is being commented upon and reflected upon for the forthcoming period?

**Mr MIKE BAIRD:** I am. I think it is worth articulating some of the changes we have made to ensure we deliver those savings. For the first time, every chief executive officer, director general and Minister has a letter from the Premier and Expenditure Review Committee members saying they will be held account for their budget allocation. One would normally think that would be a 101 issue, but apparently that has not happened previously; agencies' chief executive officers, directors general and Ministers have not been held to account on the management of their budgets. That has changed; that framework is in place. So, whether it be the chief executive officer, the director general or the Minister, everyone who is part of that chain is responsible for the budget allocated to them. That gives us a lot of confidence that, for the first time, the culture of each agency is: We had better pay attention to delivery of these budget measures.

**The Hon. GREG DONNELLY:** Linking the two together, you are very sure you will be able to guarantee those surpluses in the second, third and fourth year of the estimates?

**Mr MIKE BAIRD:** You are asking two questions. The first question is: Am I confident that we can deliver our savings? I am confident that we can, and—

**The Hon. GREG DONNELLY:** It relates back to the question of being able to guarantee those surpluses.

**Mr MIKE BAIRD:** Yes. Your other question is—and I am not using your words, but I am assuming it is what you are asking: Do I think that revenues may come under further pressure because of global economic events? Well, they may well do so. So I am confident—

**The Hon. GREG DONNELLY:** Under further pressures, will you be able to deliver these surpluses?

**Mr MIKE BAIRD:** I am saying that I am committed to delivering the financial results that we have articulated in our budget. I am committed to delivering the expenditure savings. We believe that we have estimated the revenue in an appropriate way. But am I ruling out global economic events having a further impact on revenues? Absolutely not—because we do not know; it is uncertain where we will get to globally in the next six to 12 months.

**The Hon. GREG DONNELLY:** I return to the question of electricity. As I understand it, the Premier has made some public comments in the past making it pretty clear that he was ruling out the sale of the poles and wires. If I understand what you are saying, that now changes with the Tamberlin report; and in fact, subject to what is in the report, the poles and wires may come into play as a possibility. Is that what you are saying?

**Mr MIKE BAIRD:** No, I am not. As I said previously, you can keep trying, but I am not going to say anything. We have said we are waiting for the inquiry's findings. The report will be published and we look forward to that report. The Government will be responding to that report in due course.

**The Hon. GREG DONNELLY:** Will it be part of the process that Cabinet will determine the response to the inquiry report?

**Mr MIKE BAIRD:** As any normal government would, yes. I mean, policy decisions would have to be vetted, discussed and run through at Cabinet. That is what would happen.

**The Hon. GREG DONNELLY:** Notwithstanding comments that the Premier has made in the past on this issue of not selling the poles and wires, that now becomes something that will be subject to a Cabinet process associated with looking at the inquiry report. Is that what has changed?

**Mr MIKE BAIRD:** Nothing has changed.

**The Hon. GREG DONNELLY:** Nothing has changed?

**Mr MIKE BAIRD:** I am not sure how you are verballing the Premier. The truth is that the Premier and I, together with the entire Ministry, are committed to an external review of transactions undertaken and steps forward for the industry: how do we clean up the mess, what do we do for the sector going forward? That is what we are committed to. In a matter of days we will receive that report, and having considered it the Government will then map a response.

**The Hon. GREG DONNELLY:** Which may include the sale of the poles and wires?

**Mr MIKE BAIRD:** I am not going to respond to a hypothetical, but you can keep trying.

**The Hon. WALT SECORD:** Treasurer, maintenance of the Parliamentary Budget Office is an important institutional development for promoting confidence. In this regard, we note that at page 1-3 of Budget Paper No. 4 the Parliamentary Budget Office is mentioned as a recent achievement in 2010-11. When will you announce renewed funding and continuation of the Parliamentary Budget Office?

**Mr MIKE BAIRD:** It is in the budget, you spent money on it. It is worth talking about the whole saga of our position. I argued about 18 months before the election that there should be independent election costings. I think that is a fundamental responsibility of government. When one side or the other is making announcements leading up to an election, the community needs to know that promises and commitments have been costed, and that the promises will be delivered on. I use my—

**The Hon. WALT SECORD:** So you support the Parliamentary Budget Office?

**Mr MIKE BAIRD:** I use my electorate as an example of that. Before the 2007 election there were promises to widen the Spit Bridge, at a cost that was said to be \$59 million. Three or four weeks after the



election when he became Roads Minister—he was later Treasurer—he announced that he was scrapping it because it cost too much, \$115 million. That example has been repeated. So my argument was that Government and Opposition should be accountable for this, and I absolutely sign up for it. It is a reason that I put through a bill, which was not supported by Government at the time, and it was—

**The Hon. WALT SECORD:** So, in short, you support the concept of the Parliamentary Budget Office?

**Mr MIKE BAIRD:** What we have said in relation to the Parliamentary Budget Office is that an independent parliamentary committee will review that, and it is reviewing that. It is running through submissions and it is expected to make recommendations. Now—

**The Hon. WALT SECORD:** Treasurer, are you aware that every single submission, including oral evidence, supports the concept and development of the Parliamentary Budget Office, and the continuation of it?

**Mr MIKE BAIRD:** There are various views in those submissions and I do not—

**The Hon. WALT SECORD:** Every single submission, from overseas or locally, everywhere, supports it.

**Mr MIKE BAIRD:** We have said we are open to the committee making recommendations. The fundamental, for me, is that we argued consistently for about 18 months—indeed the Premier agreed to do it at the time, to have the Auditor-General oversee independent costings—whatever way, shape or form we come up with, independent election costings that I am personally committed to and will deliver. I look forward to the recommendations of the committee, because we certainly need independent election costings.

**The Hon. WALT SECORD:** How do you feel about the proposal that some of the conservative members of the committee actually recommended user pays and charging parliamentarians to actually use the service?

**Dr JOHN KAYE:** I would not have raised that with the Treasurer; he will like it.

**Mr MIKE BAIRD:** I am not aware of it. But that might be a revenue measure we could think about.

**Dr JOHN KAYE:** There you go.

**Mr MIKE BAIRD:** Have you got any other revenue ideas?

**The Hon. WALT SECORD:** No.

**The Hon. GREG DONNELLY:** Just so that the Committee is aware that I am not verballing the Premier—

**CHAIR:** Or the Treasurer.

**The Hon. GREG DONNELLY:** I would never do that. Earlier this year in the *Lithgow Mercury* Barry O'Farrell was reported as saying, "We have absolutely no plans to privatise either the generators or the poles and wires." It is not a fiction of our minds, or something we are making up; this is the position of Barry O'Farrell announced earlier this year.

**Mr MIKE BAIRD:** It is absolutely right: we do have no plans. We have said it is up to the inquiry to have a look at the issue, and to work out the way forward. I know that is unusual, but that was our election commitment, and that is what we are sticking to. I think it is about time that we had experts determine what we need to do.

**The Hon. GREG DONNELLY:** On the issue of public sector employee wage increases, the increases are effectively capped at 2.5 per cent—

**Mr MIKE BAIRD:** No, they are not.

**The Hon. GREG DONNELLY:** I had not completed the question.

**Mr MIKE BAIRD:** You said they were effectively capped at 2.5 per cent, and they are not. I said they are not because they are not.

**The Hon. GREG DONNELLY:** The automatic increase is 2.5 per cent, with potential increases up to a maximum of 4 per cent, I understand, subject to productivity trade-offs. That additional 1.5 per cent is payable on and from when the New South Wales Industrial Relations Commission registers, presumably, an agreement of sorts that these increases have been achieved. So that will be at a date beyond the payment of the 2.5 per cent, will it not? The 2.5 per cent has been paid, I understand.

**Mr MIKE BAIRD:** Yes.

**The Hon. GREG DONNELLY:** Time is ticking now for various parts of the public service to negotiate an additional increase of up to 1.5 per cent.

**Mr MIKE BAIRD:** But it could be more than 1.5 per cent. I mean, if more savings were generated, we are happy to consider that.

**The Hon. GREG DONNELLY:** The settlement and registration of those agreements in the Industrial Relations Commission could be many months after the first payment of the 2.5 per cent, could it not? From memory, the 2.5 per cent was paid about three or four months ago, is that right?

**Mr MIKE BAIRD:** As I understand. If you are going to go into the details of the industrial relations instruments, you should go to the Minister.

**The Hon. GREG DONNELLY:** I am not going through each individual instrument. I am just getting the principle clear. The 2.5 per cent was paid about three or four months ago. I do not have the exact date. The months now are rolling over. It could be many months before agreements are actually reached and registered before the additional 1.5 per cent is payable, would that not be the case?

**Mr MIKE BAIRD:** We are open to the agreements being negotiated as soon as possible and various Ministers are undertaking that as we speak. The time frames are to be determined. If we are going to pay more than the 2.5 per cent, which we have argued for, we want to see the savings upfront.

**The Hon. GREG DONNELLY:** Those achievable increases in productivity can apply to current award entitlements?

**Mr MIKE BAIRD:** I am not going to get into the details.

**The Hon. GREG DONNELLY:** Is that where an increase in productivity could come from?

**Mr MIKE BAIRD:** It is open to the agencies and the employees to put that forward. But the important point on this, which is—

**The Hon. GREG DONNELLY:** So it could come out of an award provision?

**Mr MIKE BAIRD:** Can I just finish this point because it is important. Despite the scare campaign that the O'Farrell Government is going to be taking away awards and conditions, there will be no changes in conditions unless it is agreed to by employees. That is stipulated in the regulation and that is the fact of the matter.

**The Hon. GREG DONNELLY:** But there is no 1.5 per cent wage increase payable until an agreement is reached.

**Mr MIKE BAIRD:** Sure, until an agreement is reached and, ultimately, there are two parties to that. We are negotiating in good faith as we speak. Equally important is that the savings have to be achieved.

**The Hon. GREG DONNELLY:** But if the employer puts on the table changes to award conditions, would you not agree that that may lead to a significant delay in reaching agreement?

**Mr MIKE BAIRD:** The point is that unless we are talking about a specific example, it is difficult to refer to the detail. The Government is determined to negotiate in good faith. We have put the 2.5 per cent wages policy forward, which was the former Government's policy before the election. It is aligned with just about every jurisdiction in this country, except Tasmania, which has 2 per cent. We are happy to pay wages above the 2.5 per cent if we see the savings delivered.

**The Hon. GREG DONNELLY:** If award conditions are put on the table?

**Mr MIKE BAIRD:** We think that is a fair and reasonable position and it is one that we are going to stick to.

**The Hon. GREG DONNELLY:** Putting award conditions on the table is fair and reasonable?

**Mr MIKE BAIRD:** I have already answered that.

**Dr JOHN KAYE:** I return to changes of ownership within the power industry in New South Wales. In 2008 I introduced legislation to make sure that any such change would come before Parliament. Three months later your Deputy Leader, Andrew Stoner, introduced word-for-word identical legislation in the lower House. Recently, on behalf of the Leader of the Opposition, John Robertson, legislation with similar intent—not identical as it contained differing dollar amounts—was introduced in the upper House. Will you make a commitment that any change in ownership will come before both Houses of Parliament and will not proceed unless it has the approval of both Houses of Parliament? Or is that something you do in Opposition and when you get into Government you forget about it?

**Mr MIKE BAIRD:** No. The fact of the matter is that we need to get through this inquiry. We will wait for the inquiry to conclude and then we will charter a way forward. What you say about the gentrader issue was a model primarily designed to get around Parliament and we saw the outcome. My expectation would be that whatever policy comes forward is something for which we will be held to accountable by the Parliament and by the people of New South Wales. Let us wait for the report and see the way forward.

**Dr JOHN KAYE:** I appreciate you saying to wait for the report, but is it not more sensible in the abstract—not knowing what the report will do and not knowing where you are going—to make an in-principle commitment that this will not go ahead without the approval of both Houses of Parliament? You seemed to have that commitment when in Opposition, or at least attempted to legislate it. If it is no longer the Coalition's commitment, what changed between Andrew Stoner introducing it into the lower House and now?

**Mr MIKE BAIRD:** Nothing has changed.

**Dr JOHN KAYE:** Nothing has changed?

**Mr MIKE BAIRD:** The point of the matter is that you are presupposing what the inquiry may come up with.

**Dr JOHN KAYE:** No, not at all. I do not agree with that at all. I am saying, regardless of the outcome—I am not presupposing anything; I remain wildly hopeful, possibly falsely so, that this inquiry will see sense—behind the absolute veil of ignorance, not knowing what will happen, as a matter of principle, for which you voted in 2008 in the lower House and for which your representatives voted when trying to get my bill debated in the upper House, will you commit to making sure that nothing goes ahead without the approval of both Houses of Parliament as, indeed, former Treasurer Costa did in a moment of delusion in the upper House?

**Mr MIKE BAIRD:** I do not think he followed through with that, did he?

**Dr JOHN KAYE:** He did. That is how it all came to an end. He brought his transaction to the upper House where it faced defeat and he stormed out never to be seen again.

**Mr MIKE BAIRD:** Again, I am not presupposing anything from the inquiry. I understand your point and have some sympathy for it because the electricity transaction was a clear example of a process designed to circumnavigate Parliament. That is appalling. I can give you an assurance that I would never, ever have signed up to that in any way, shape or form. The Parliament has before it a bill regarding the desalination plant. We are

trying in everything to be transparent, clear and open with the people of New South Wales. I am happy to take the question on notice, but we need to wait for the result of the inquiry. We cannot presuppose it in any way, shape or form.

**Dr JOHN KAYE:** Regarding the sale of the wires and poles, if you try to sell off TransGrid, Ausgrid, Endeavour and the other company as corporations because they are State owned under the Energy Act, you will not be able to do so without the approval of both Houses of Parliament. But there are clear and obvious ways around that. When Michael Egan introduced that legislation he left some huge loopholes—quite deliberately I presume. Are you giving us an undertaking that you will not use any of those loopholes?

**Mr MIKE BAIRD:** I can tell you this, and this is the good news for you: I have not looked at the legislative requirements for that particular scenario you are talking about. Nor have I taken actions to consider it. That gives you a true sense of the position.

**Dr JOHN KAYE:** So no commitment. You said, "It's time this matter is determined by experts." We do not know a lot about the Tamberlin inquiry as it was conducted largely behind closed doors. One thing we know is that one of the experts consulted was Tony Owen, whom you will remember, I presume, wrote the 2007 so-called Owen report that kick-started the rounds.

**Mr MIKE BAIRD:** It was the Owen report, was it not?

**Dr JOHN KAYE:** It had a more complex name I have forgotten. The report purportedly written by Tony Owen was the expert report that caused the first round, the second round and finally the third round of privatisation that led to the catastrophe. Does that not say to you that there are experts and there are experts?

**Mr MIKE BAIRD:** All I am responding to is what you are responding to, and that is media reports on who actually has attended. I am not aware of the full list of people who have attended. I cannot comment on what experts they have engaged. I know they have engaged experts; that was part of the terms of reference. From our point of view we will have to wait and see.

**Dr JOHN KAYE:** Do not you think your faith in experts, as touching as it, is not a little naive? You are presuming some kind of neutrality amongst experts. Have you genuinely met an expert in this area that is genuinely neutral? Can you name one?

**Mr MIKE BAIRD:** That requires a glass of red wine and a long afternoon lunch to go through. My point on that is simple: whether it is this transaction or previous issues I think that it is time we got the politicians out of the way. Sure, the decisions need to be made by Government but as to the argument on the experts, I think what you saw in the previous electricity transaction is politics. I am still not sure on the motives. I am sure the former Government could explain why and how it proceeded with such a blindingly oblivious approach despite every single expert and others telling the former Government it should not have done it.

**Dr JOHN KAYE:** Mr Costa and Mr Ronsisvalle could probably throw some light on that.

**Mr MIKE BAIRD:** I think what the community wants is an independent appraisal of what is the best way forward, taking out the political element, and then a Government can make a judgement and the community can make a judgement on what the experts say. You can take a view on some of those experts; there will be others that take a view on other experts. The truth of the matter is that they have engaged some of the best minds in the field that can give a basis for Government, Opposition and crossbenchers to make a decision on the best way forward.

**Dr JOHN KAYE:** You are saying the Tamberlin inquiry has engaged some of the best minds in the field?

**Mr MIKE BAIRD:** That would be my expectation.

**Dr JOHN KAYE:** Given the one person we do know is Professor Tony Owen, who is a long way from the best mind in almost any field, how would you know that is the case?

**Mr MIKE BAIRD:** I am not casting aspersions on Mr Owen. It is in the terms of reference. That is what Government asked them to do. My assumption is that is what they have done. I am happy to be proven incorrect if that is not the case.

**Dr JOHN KAYE:** We will have to wait and see. Can we go to a practical matter? The budget papers, particularly Budget Paper No. 3, or what is now known as volume three of the budget papers, if you go back historically, 10 or 15 years, and you look at them there was far more detail in the budget papers then than there is now. There has been a slow decline in the quality of those papers in terms of detail provided on Government spending. To give you one example, retained revenue of Technical and Further Education New South Wales, which is dollars and fees and charges in TAFE, it is disappointing to see in this budget there was no data on retained revenue. Almost every budget up to this date has told the public how much money has been collected in fees and charges. This year no information was available at all and the data set was designed so you could not, by working your way backwards through the data, get to that number. Why is it that this Government has in its first budget continued the appalling tradition of its predecessors of keeping the people of New South Wales in the dark about where the money is going and where it has gone?

**Mr MIKE BAIRD:** That is a bit harsh. In discussions I have had with the rating agencies they have applauded our increase in transparency. It is exactly the opposite. What we did for the first time in this budget was highlight what the true underlying position of the budget was. Interestingly we have not heard anything about the black hole from Opposition members here today. They are running a million miles from it because they know it was factual. They have been caught out on that. What the budget papers did, if you took away the Federal stimulus money—which comes in the form of a grant for housing, a grant for education—makes it look like it is revenue. But if you pull it out you know in terms of operating performance it is not. The rating agency has given us a tick for being much more transparent.

**Dr JOHN KAYE:** You know that is a deceptive answer because you know the rating agencies are only interested in the macro-economic settings. They would not even bother picking up volume three of the budget papers.

**Mr MIKE BAIRD:** They do.

**Dr JOHN KAYE:** And look at fees and charges in TAFE, and how much money is spent on equity programs in New South Wales public schools? They are not interested in that, but that is the thing that the people of New South Wales are interested in and that is the data that is being denied them.

**Mr MIKE BAIRD:** I am happy for Mr Ronsisvalle to say something on this. I have said I want the accounts to be more transparent and Mr Gaetjens has come in and that is one of the projects that he is pushing while drawing on the Canberra experience in particular. The Federal Government's budget papers are actually pretty good. The Government wants to be in a position that it has market leading, in terms of our peer group, and Government leading, presentation of financials that are transparent and hold us to account. If you continually move leaders, as we have seen in years gone past, it is hard to be held to account to the financial metrics you are putting forward because if you change a leader you change a presentation, you are not comparing like with like. I am happy to be held to account because it is about time Government had that. Part of our process is to go through each budget paper to look at the information and see how we can improve it. I am happy for you to be engaged as part of that process. I anticipate that we may well engage the Parliament and crossbenchers, in particular, on the sort of information we might put in.

**Mr RONISVALLE:** I am aware of the issues you have raised. We took out the retained revenue line because with the amalgamation of the agencies and principal departments now funding the other Government agencies their retained revenue became, in some cases, very large and the net cost of services line became nonsensical. For example, in the case of the Roads and Traffic Authority the retained revenue was bigger than its expenses because the transport department was funding its capital expenditure, which is not part of its expenses. We were getting negative net cost of services for lots of agencies and programs. In the case of community policing, which has expenses of \$1.7 billion, the actual net cost to services for that service group is only \$54 million because it is funded by Department of Attorney General and Justice, and so we removed that information. We struggle to sometimes know what information people actually want. We can look at that again and come back and, as the Treasurer said, put some information back in.

**Dr JOHN KAYE:** Retained revenue, at least in the departments I have some knowledge of, is about the amount collected in fees and charges.

**Mr RONISVALLE:** Under accounting standards when one Government agency gives a grant to another Government agency that is classified as retained revenue from that agency. All the money that the Department of Transport gives—

**Dr JOHN KAYE:** Fair enough, but surely there are ways of separating that out and making that clear rather than saying it has two components—fees and charges, and grants from other agencies—and we cannot possibly have that, so we will wipe that out entirely. Having provided that information more or less continuously for two decades, to then say it is too difficult does not make sense. Would it not have been more transparent, in the spirit of the new Government, to provide two lines or an explanation, a footnote, as to what it was made up of?

**Mr RONISVALLE:** We are happy to take on board input as to what we put in the budget papers. There was no intention to deliberately deceive people.

**Dr JOHN KAYE:** If you want to take it for what it is worth a lot of people felt deceived, particularly in areas like TAFE where there has been a 10-year debate about how much should be publicly funded and how much should be funded by student contributions. I want to go to Australia's three-tier economy and put a proposition to you, Treasurer. New South Wales has an unemployment rate of around 5.5 per cent. These figures are about a month out of date but they are roughly speaking. Australia has an unemployment rate of about 5.2 per cent and some States operate in the high 4 per cent. Clearly, we are being left behind. At the same time that is happening New South Wales is in the middle of a coal boom. It seems every day a new coalmine comes on stream and you plan for new infrastructure to support it. Do you not think there is a lesson to be learned that going down the commodities route will not resolve New South Wales underlying unemployment?

**Mr MIKE BAIRD:** There is a range of reasons for where we find ourselves. I do not know whether I support your proposition. I certainly think that a diversified economy is best open to deal with broad economic shocks. If a particular sector is under pressure, we have commodities, agriculture, services, education, tourism, whatever the mix is, across New South Wales. We have a reasonably diversified economy. The best strategy is diversifying and focusing on your competitive advantages. That is a basic economic principle that you should be pursuing.

**Dr JOHN KAYE:** Yet the focus still seems to be on coal and now on coal seam gas, which are not great employers. At the same time New South Wales manufacturing sector is withering and dying.

**Mr MIKE BAIRD:** Again, the best approach is to diversify your economy. You do not want to ignore one at the peril of the other.

**Dr JOHN KAYE:** What is the O'Farrell Government doing to diversify the economy?

**Mr MIKE BAIRD:** You just need to look at our approaches to the critical parts of the economy. In terms of the approach we have taken to the services part of the economy, for example, in getting Barangaroo underway and providing a huge increased capacity for not just financial services but the broad services industry within the central business district is an important step. Not only is there the construction benefit that starts to flow through to the economy, it is also a critical part of our intellectual property [IP] in terms of a services economy. So that is helping. The other part is getting dwellings going because housing remains the life blood or certainly a critical part of this economy. We are providing increased supply, which we are doing through Landcom and initiatives such as empty nesters and the First Home Owner Grant where we are saying we want to target incentives into new dwellings. If you get new dwellings, obviously there are the construction jobs that go with them and it starts to help housing affordability, which has an impact across the broader economy. All of those things help us.

**Dr JOHN KAYE:** You talk about diversification of the economy and you mention the housing sector, which is hardly diversifying the economy. That has been a mainstream of New South Wales's economy for a long time. It is good that you do not talk about the coal sector but then you talk about the finance sector—

**Mr MIKE BAIRD:** They are the competitive advantages.

**Dr JOHN KAYE:** —which is one of the most vulnerable sectors in the economy to any global financial change. We are now seeing thick, dark storm clouds. Neither of those would give us any confidence

that there is a vision in the O'Farrell Government for a diversified economy. You do not mention manufacturing at all.

**Mr MIKE BAIRD:** Manufacturing is a part of it, as well as education, which is an unsung hero. We have appointed for the first time a parliamentary secretary for tertiary education. I think the former Government looked at education as a Federal responsibility whereas we see it as an exciting opportunity. If you look at the quality universities we have in New South Wales, they are under-leveraged in terms of what they can do for the State. Certainly as part of the trade delegations that the Premier has led to both China and India and others places, education has been a core component. That is one of the ways where we are making a material difference in terms of diversification.

**CHAIR:** Thank you, Treasurer and Treasury officials. That brings to the end of budget estimates for Treasury for General Purpose Standing Committee No. 1.

**(The witnesses withdrew)**

**The Committee proceeded to deliberate.**

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