

PORTFOLIO COMMITTEE NO. 1 – PREMIER AND FINANCE

Friday 20 August 2021

Examination of proposed expenditure for the portfolio area

TREASURY

CORRECTED

The Committee met at 9:30

MEMBERS

The Hon. Tara Moriarty (Chair)

The Hon. Robert Borsak (Deputy Chair)

Ms Abigail Boyd

The Hon. Ben Franklin

The Hon. Taylor Martin

The Hon. Peter Poulos

The Hon. Penny Sharpe

The Hon. Mark Latham (Participating)

The Hon. Daniel Mookhey (Participating)

Mr David Shoebridge (Participating)

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**

The CHAIR: Welcome to the virtual hearing of the Committee's inquiry into budget estimates 2021-2022. Before I commence I would like to acknowledge the Gadigal people, who are the traditional custodians of the land on which Parliament sits. I would like to pay respect to the Elders past, present and emerging of the Eora nation and extend that respect to other Aboriginals viewing this broadcast.

Today the Committee will examine the proposed expenditure for the portfolio of Treasury. Today's hearing is being conducted as a fully virtual hearing, which enables the work of the Committee to continue during the COVID-19 pandemic without compromising the health and safety of members, witnesses and staff. As we break new ground with technology, I would ask for everyone's patience through any technical difficulties we may encounter today. If participants lose their internet connection and are disconnected from the virtual hearing, they are asked to rejoin the hearing by using the same link as has been provided by the Committee secretariat.

I would like to make some brief comments about the procedures for today's hearing. There may be some questions that a witness could only answer if they had more time or with certain documents to hand. In these circumstances witnesses are advised that they can take a question on notice and provide the answer within 21 days. All witnesses in budget estimates have a right to procedural fairness in accordance with the procedural fairness resolution adopted by the Legislative Council in 2018. Today's proceedings are being broadcast live from Parliament's YouTube channel and a transcript will be placed on the Committee's website once it becomes available.

Finally, a few notes on virtual hearing etiquette to minimise disruptions and to assist our Hansard reporters. I ask Committee members to clearly identify who questions are directed to and I ask everyone to please state their name when they begin speaking. Could everyone please mute their microphones when they are not speaking. Please remember to turn your microphones back on when you are getting ready to speak. If you start speaking whilst muted, please start your question or answer again so that it can be recorded in the transcript. Members and witnesses should avoid speaking over each other so that we can all be heard clearly. Also to assist Hansard, may I remind members and witnesses to speak directly into the microphone and avoid making comments when your head is turned away.

MICHAEL PRATT, Secretary, NSW Treasury, sworn and examined

JOANN WILKIE, Deputy Secretary, Economic Strategy and Productivity, NSW Treasury, affirmed and examined

SAN MIDHA, Deputy Secretary, Policy and Budget, NSW Treasury, affirmed and examined

PHILIP GARDNER, Deputy Secretary, Commercial and Procurement, NSW Treasury, affirmed and examined

STEPHEN WALTERS, Chief Economist, NSW Treasury, affirmed and examined

PETER ACHTERSTRAAT, NSW Productivity Commissioner, sworn and examined

DAVID DEVERALL, Chief Executive Officer, New South Wales Treasury Corporation, affirmed and examined

The CHAIR: Today's hearing will be conducted from 9.30 a.m. to 11.00 a.m. and then from 11.15 a.m. to 12.45 p.m. with questions from the Opposition and crossbench members only. If required, an additional 15 minutes is allocated at the end of the hearing for Government questions. There is no provision for any witnesses to make an opening statement before the Committee commences questioning, so we will begin with questions from the Opposition.

The Hon. DANIEL MOOKHEY: Good morning, Treasury officials, and good morning to the Productivity Commissioner and the CEO of New South Wales Treasury Corporation [TCorp]. Thank you for joining us this morning. Can I firstly convey on behalf of this Committee, I am sure, our thanks to all the staff at the Treasury and your respective agencies for the work that has been performed during the lockdown. Treasury Secretary, to you and I presume the Chief Economist, I was going to ask you if you could kick off by giving us an update as to how the economy is faring. Specifically, are you in a position to address the size of the contraction of the New South Wales economy this quarter, how much you think we are likely to contract in the next quarter and how many jobs we have lost since lockdown?

Mr PRATT: Thanks, Mr Mookhey. I might get Mr Walters to answer that question and give you the details. Mr Walters, thank you.

Mr WALTERS: Mr Mookhey, we have got various scenarios that attempt to forecast the size of the contraction in the economy this quarter. We do not have a precise number on that because clearly we are in the midst of the quarter still. There are another seven or eight weeks to go before the end of the quarter and we do not have clarity on where the case numbers will go. The outcome for the economy depends very much on where case numbers go and how long the restrictions last. So we do not actually have a forecast of what the contraction will be, but the consensus of private sector economists is that there will be a contraction in both State final demand for New South Wales in the current quarter and probably a decline in national gross domestic product [GDP] in the current quarter. As for Q4, the December quarter, we do not have a forecast for Q4, apart from what was in the budget. But, again, the consensus of private sector economists is that there will be positive growth in the December quarter. As for the number of jobs that have been lost in the lockdown, we saw the July employment numbers were released yesterday and New South Wales lost around 36,000 jobs over the month of July. That is the latest information we have on the impact of the restrictions on the labour market.

The Hon. DANIEL MOOKHEY: Thank you for that update. To follow up on that, can you give us an update as to the contraction of hours worked in the New South Wales economy and how that fared compared to the Victorian lockdown last year? And, equally, can you follow up on the question about the private sector consensus around contraction in this quarter? I understand that consensus is somewhere between a range of 5 per cent to 8 per cent. Is that what you think as well?

Mr WALTERS: In terms of hours worked, we saw—again in the July labour force numbers yesterday—a 7 per cent drop in hours worked across the New South Wales labour force. The contraction in Victoria last year was more than that. I do not have the exact number for Victoria. I can take that on notice and return with that answer, but the contraction in New South Wales last year was more than that in terms of hours worked. But, again, the latest number we have is a 7 per cent contraction in hours worked over the month of July. In terms of the consensus of economists, that is my understanding, that the forecasts change frequently but my understanding of the consensus is that, for New South Wales at least, it is somewhere around the 5 per cent to 8 per cent mark you mentioned. The contraction that those economists expect for the national economy will be smaller than that

because other parts of the economy are not in the same level of restrictions as New South Wales, Victoria or Queensland.

The Hon. DANIEL MOOKHEY: Do you expect New South Wales to enter a recession?

Mr WALTERS: By "recession" I assume you mean consecutive quarters of falling output, in which case—

The Hon. DANIEL MOOKHEY: Yes, the technical definition of "recession".

Mr WALTERS: Yes, that is a widely used definition. It is not one I particularly enjoy using, for all sorts of reasons. The technical problem for a State jurisdiction is we do not get gross State product on a quarterly basis. We only get a State final demand measure on a quarterly basis. So we will never actually know if New South Wales suffers a quarterly decline in gross State product across two quarters in the same way that we did not know that last year, hence my reticence to use that definition. We saw negative quarters of GDP growth consecutively nationally last year, so that was clearly a recession on the definition you are using. I think it is widely accepted that Australia's economy had a recession last year.

Whether New South Wales has back-to-back quarters of declining State final demand will depend very much on where the case numbers go. My expectation is we will probably have a negative quarter of State final demand in the current quarter. I am not forecasting that but that seems to be on the current trajectory where output may go and, again, the consensus of private sector economists tends to suggest the same thing. I still think it is unlikely we will get consecutive quarters of declining State final demand, and that is based on the amount of policy support that is out there—both from the Commonwealth Government and the State Government, and the Reserve Bank—and also experience from last year that when restrictions are eased, we saw that the economy recovered very, very quickly. And, as you know, economists like to deploy letters of the alphabet to describe the shape of the economic recovery. It was very much a V-shaped recovery last year, and we have the same sort of expectation this year.

The Hon. DANIEL MOOKHEY: Can I ask you as my final question on this line of questioning, are you in a position to provide us—and this is either to you, Treasury Secretary, or any of the other officials as well—with any information about where the job loss impact is most concentrated? I am especially interested in how western and south-west Sydney is faring relative to the rest of Sydney and the rest of New South Wales, and whether or not we do have any information about the impact on smaller businesses in those particular geographies as well.

Mr WALTERS: Mr Mookhey, we do not get that sort of granular level of detail unfortunately. What we do get is statewide estimates of employment and, as I have said, there was a decline yesterday through the month of July. We do not get it by geographic area, particularly local government areas, which I think is what you are alluding to. So, unfortunately, we do not have a lot of information on that.

The Hon. DANIEL MOOKHEY: Thank you, Chief Economist. Mr Pratt, can I turn to the support programs, especially in the context that has been described by the Chief Economist? I want to start with both the grants and the JobSaver program. I have been inundated—and I am sure Government members, Opposition members and crossbench members have been inundated—with businesses, small businesses especially, that have been complaining about the inability to access this [inaudible]. It has been described to me as a "debacle". Do you think it has been a debacle in terms of how it has rolled out?

Mr PRATT: I would not use that word, Mr Mookhey. It has certainly been difficult. But maybe to give you some context, a month ago we had no capability to make the payments that we are now making today under the various grants programs. The Customer Service cluster with Service NSW have had to build this capability. Basically, I liken it to they are in the air flying the plane and they are still building the plane in the air. So it has been very challenging for them. They have made real progress in the month. I have got some latest numbers, if you are interested, as of last night which I can give you.

The Hon. DANIEL MOOKHEY: I would absolutely welcome it, but I am aware that those numbers are being published on the website which, I have got to say, is a welcome innovation from last year as well. But if you have got any quick updates, that would be most useful.

Mr PRATT: I will give you the quick updates. The numbers that I look most at, which I think would be the ones that you would be most interested in, is the actual amount that has gone to bank accounts. For the grants, so the business grants—which was the first grant program that we ran—has now had \$992.63 million into bank accounts as of last night. That has actually gone up around \$98 million to the night before. The microbusiness grants, the amount gone to bank accounts is \$60.55 million, and the JobSaver grants, which is the grant that is funded 50-50 with the Commonwealth, is \$702.49 million. So in the space of a few weeks, if you look at what

has gone out, that is around \$1.6 billion. So, yes, it has been challenging, and it remains that way, but what I can say to you is there is a huge commitment within Customer Service to get on top of this and manage the backlog. They have got over 500 staff deployed on this, and there is a very strong commitment understanding that the important thing here is to get this money out of the door and into bank accounts.

The Hon. DANIEL MOOKHEY: Treasury Secretary, is it your view that the Customer Service cluster, and Service NSW in particular, are responsible for the design of the rollout?

Mr PRATT: Largely, yes. The policy positions are from Treasury, and they are agreed at expenditure review committee. It is really the responsibility of Customer Service then to decide the payment framework and then to make those payments.

The Hon. DANIEL MOOKHEY: In respect of the JobSaver program, is it the case that we would have avoided all this trauma with the rollout if we had, in fact, brought back JobKeeper?

Mr PRATT: Our position with the Commonwealth when we entered this second phase of COVID and started to understand the implications was to ask for JobKeeper to be returned. The Treasurer was, I think, quite public on that as well. That was our preference. Yes, to your question. The Commonwealth would not undertake to doing that, so the program that we designed was as much as one can do relative to what JobKeeper did with the JobSaver program. And, as you are probably aware, the JobKeeper program was paid to individuals through companies. The JobSaver program, the one we have now in place with the Commonwealth, is paid to businesses. So there is a difference in the way this is deployed.

The Hon. DANIEL MOOKHEY: Indeed. At any point did the Commonwealth offer to distribute the JobSaver program to small businesses?

Mr PRATT: There was some discussion on that point around who takes responsibility for distribution. The Commonwealth were keen for the State to do that and they recognised that New South Wales, I would think around all the States, probably had the best capability in place to do that. And so it was agreed then that New South Wales would take that responsibility for deployment.

The Hon. DANIEL MOOKHEY: With whom in the Commonwealth were these negotiations had?

Mr PRATT: That would have been Treasurer to Treasurer.

The Hon. DANIEL MOOKHEY: On the rollout of the program specifically, not official to official?

Mr PRATT: And, yes, then from the secretary of Treasury—with myself—in the Commonwealth, and also our various officials. So there were a number of people involved in this.

The Hon. DANIEL MOOKHEY: Treasury Secretary, with respect to the conversations you had with your counterparts at the Commonwealth levels, did the Commonwealth say that they could have done it faster if they were distributing it?

Mr PRATT: Not to my recollection. Not to me, no.

The Hon. DANIEL MOOKHEY: With respect to a media report that has emerged—from the Commonwealth, really—that says they had made an offer to New South Wales for them to distribute this program to the businesses, was that briefing from the Commonwealth wrong?

Mr PRATT: I don't know. I am not party to all discussions, Mr Mookhey, as you would appreciate. But, certainly, this option was discussed between the Commonwealth Treasury Secretary and myself, and I am sure it was discussed with other officials. But, as I have indicated, given the progress of Service NSW and the fact the Commonwealth would have had to have stood up this program themselves, we thought with the need to get money into bank accounts and split into market, this was the best option to take.

The Hon. DANIEL MOOKHEY: Now that we have had all the problems that have emerged since, do you still maintain the view that this was the best option for New South Wales to take?

Mr PRATT: Yes, I do, because as I understand it the Commonwealth do not have that payment framework in place now. I do not know whether they—

The Hon. DANIEL MOOKHEY: At any point did the Treasurer or you ask the Commonwealth to distribute the program or take control of this program?

Mr PRATT: I am sorry, Mr Mookhey, could you repeat that?

The Hon. DANIEL MOOKHEY: At any point did the Treasurer or you ask the Commonwealth to distribute this program in order to facilitate the faster payments to the tens of thousands of small businesses in New South Wales?

Mr PRATT: What I can say is it was part the broader option discussion, yes. Backwards and forwards—we were throwing around what were the best options to get this done as quickly as possible.

The Hon. DANIEL MOOKHEY: Just to be clear, at some point you asked them and they refused?

Mr PRATT: I would not say formally asked them. I would say it was part of a broader discussion that I have indicated about what are the options to get this money paid quickly, and that was one of the options—for the Commonwealth to do it.

The Hon. DANIEL MOOKHEY: Did the NSW Treasury conclude that that was not a preferred option for the reasons that you just stated, that the Commonwealth would have to stand it up in quick order?

Mr PRATT: Yes. It was not only us, though. There were discussions obviously, as I have indicated, with Commonwealth Treasury, and I am sure Treasurer to Treasurer in the Commonwealth as well.

The Hon. DANIEL MOOKHEY: Are there any conversations happening right now with the Commonwealth in order to facilitate any additional Commonwealth assistance for the New South Wales economy?

Mr PRATT: Not that I am aware of, no.

The Hon. DANIEL MOOKHEY: I understand of course the cost of the lockdown stimulus programs that have been announced so far, but do we have a projection as to what the peak weekly cost of JobSaver will be to New South Wales?

Mr PRATT: We do not at this point because that depends a lot on how long this current set of restrictions continue, and the lockdown zones as well as part of that. So at this point, no. At the moment that—

The Hon. DANIEL MOOKHEY: What is the current weekly cost of JobSaver?

Mr PRATT: The provision for the cost is \$500 million and \$250 million of that is from the Commonwealth, so it is a 50-50 share. That is the amount that is provided. The actual amounts I do not have with me, on a weekly basis.

The Hon. DANIEL MOOKHEY: Sorry, when you say \$250 million to New South Wales for a \$500 million program, is that per week or is that across the life of the program?

Mr PRATT: That is per week.

The Hon. DANIEL MOOKHEY: Do we have any indication as to whether or not all \$250 million is being distributed per week, or \$500 million depending on your [inaudible]?

Mr PRATT: I will check with Ms Wilkie. I do not have weekly numbers but if we can get them for you, Mr Mookhey, we will.

Ms WILKIE: The total amount paid, which includes total initial and recurring payments under JobSaver—as Mr Pratt has already said—is in the order of \$700 million. We can make some estimates about the weekly numbers or fortnightly numbers based on the number of companies—

The Hon. DANIEL MOOKHEY: I think the inference is if we budgeted to spend \$500 million per week and we are seven weeks into lockdown and potentially, I think, five weeks since the announcement of the program, having only spent \$700 million, we are well below what we should have been spending on this program, aren't we? Is that an incorrect inference?

Ms WILKIE: No, that is not a correct inference. The program was not announced on 26 June. This program was announced in early July and payments were paid from 18 July and available from a turnover period or a period starting from 18 July. So your inference is not correct.

Mr PRATT: I am happy to take it on notice, Mr Mookhey. I can get weekly numbers for you, if you would like me to do that.

The Hon. DANIEL MOOKHEY: Thank you, that would be most helpful. My colleague the Hon. Penny Sharpe will now ask questions.

The Hon. PENNY SHARPE: I have one particular question, which is about the support for major events. Bluesfest was cancelled on the basis of public health orders earlier this year. There was a commitment in

April from the Treasurer to develop an insurance or support program for the covering of the costs of these events and the losses that are made. My understanding is there has been some discussion with the industry about this but it has not proceeded. Could someone update me on the status of that?

Mr PRATT: Yes. To my knowledge there is the intention to create a support fund. Some work was done on that and, as I understand it, at the moment that is with the Minister for Jobs, Investment, Tourism and Western Sydney.

The Hon. PENNY SHARPE: Would you be able to give the Committee an update on the timing when you expect that to be resolved? Obviously it is a significant issue, with major events being cancelled between now and the end of the year.

Mr PRATT: I am happy to take that on notice. I do not have that with me.

The Hon. PENNY SHARPE: And also, just to be clear, Treasury is not dealing with it now? Is that Minister Ayres?

Mr PRATT: It is with Minister Ayres. Sorry, I am just checking. Ms Wilkie has an update here. Do you want to give that update?

Ms WILKIE: In addition to the assistance that you are talking about—which, as Mr Pratt has just said, is with the Minister for Jobs, Investment, Tourism and Western Sydney—the Government has already announced a live music and performing arts support measure, which is available for performing arts or live music venues, producers and promoters. It is administered by Create NSW, with cash payments for eligible proponents calculated on the basis of a proportion of the likely revenue lost due to a cancelled or a postponed performance. It covers the entire lockdown period and people can apply through Create NSW for that. Applications opened on 23 July.

The Hon. PENNY SHARPE: To be clear, there is still the intention and commitment to put in place an insurance scheme?

Mr PRATT: The issue that I have raised is with the Minister for Jobs, Investment, Tourism and Western Sydney. I am not sure whether we would call that an insurance scheme, Ms Sharpe, but that is work in progress. That is separate from what Ms Wilkie has just given you.

The Hon. PENNY SHARPE: My final question is festivals are ineligible for the funds that you have just outlined, Ms Wilkie, is that right?

Ms WILKIE: I would have to take that on notice and check that with Create NSW.

The Hon. PENNY SHARPE: If you can come back to us, that is great. Thank you.

The CHAIR: The crossbench will now ask questions.

Ms ABIGAIL BOYD: Thank you to all of you for attending this morning. I will start by talking about the Transport Asset Holding Entity [TAHE]. Apologies, there is a little bit of interference. Some people are not on mute. Chair?

The CHAIR: Thank you.

Ms ABIGAIL BOYD: There we go. Sorry, I was having difficulty hearing myself. Let us talk about the Transport Asset Holding Entity first. As you know, it has been in the news. There are some perplexing aspects to this entity. Can I just take us back? In 2015, when TAHE was first set up—and perhaps I will direct this question to you first, Mr Pratt—it was set up at a time when the Premier was Treasurer, correct?

Mr PRATT: I will have to check that date, if it is practical.

Ms ABIGAIL BOYD: I believe it was early July 2015.

Mr PRATT: [Inaudible]. Yes, that is correct then, Ms Boyd.

Ms ABIGAIL BOYD: So that was just after the State election, and just prior to that the Premier was the Minister for Transport, I believe. Had TAHE been floated before that election? When did this idea originate, to put these assets into an off balance sheet entity?

Mr PRATT: Ms Boyd, it might help if I give you an overview of the timing. Would that be helpful?

Ms ABIGAIL BOYD: Thank you.

Mr PRATT: This issue—obviously a number of us were not here at the time—goes back to 2013-14 when the Australian Bureau of Statistics [ABS] did a national review of transport assets. Coming out of that, the Government following that first flagged its intention is to create TAHE in 2013-14 as a response to that ABS

review. In 2015-16 it was announced as part of the 2015-16 budget and was included in that budget. The Audit Office has reviewed the arrangements and there have been unqualified audit reports on the total sector account since that time. In 2015 to 2017, the TAHE project was led by the transport secretary and the transport Minister to develop the legislation for TAHE. Then in 2017 the TAHE legislation was passed in Parliament. In February 2019 and through that period, we worked to then set up TAHE as a State-owned corporation [SOC]. So that is the journey. Then on 1 July 2020, TAHE was formally proclaimed as a State-owned corporation within the Transport cluster and the majority independent board was appointed. That gives you, I hope, a sense of the time line.

Ms ABIGAIL BOYD: That is helpful, thank you. The impact of setting up TAHE was, as I understand it, designed to take those assets off the balance sheet from an accounting perspective. Were rating agencies' methodologies also important in that decision?

Mr PRATT: Rating agencies are one part of that decision, but the primary driver—and I will give you these details of why the Government did this. There was an ABS review which generated this in the first place, as I have mentioned. But in terms of setting up the entity itself—and I will just give you the purpose in the Act, and that is firstly to optimise the existing Transport asset base to enable a more effective, efficient and commercial approach to the management of Transport assets, particularly property, and then also allowing Transport entities to focus on their core functions of operating transport services and delivering improved customer service. This is a consistent view, I guess, across a lot of the State-owned corporations where you get a better focus and stronger focus on efficiency and operations by having State-owned corporations with an independent board and CEO. So TAHE was no different to that.

Ms ABIGAIL BOYD: Is it correct though to say that the effect of this was to effectively boost the operating budget by, it is reported, \$30 billion over the past six years? It made the overall budget for the State look pretty good, didn't it?

Mr PRATT: It improved the budget, yes, but it was subject to all the accounting rules of any other State-owned corporation. So there was no attempt to do anything that was not in accord with the accounting practice and rules.

Ms ABIGAIL BOYD: No. Okay, understood. But then the accounting rules changed in 2018, which left TAHE as an entity that then needed to be adjusted in some way or you would end up with that impact coming back onto the budget. Is that correct?

Mr PRATT: I will get Mr Midha to talk to the 2018—yes.

Ms ABIGAIL BOYD: Thank you.

Mr MIDHA: Thank you, Ms Boyd. All these assets were sitting in RailCorp. So RailCorp already had the existing assets. What the ABS have pointed out was to continue its treatment as a separate entity as a public non-financial corporation [PNFC], it needed to have a separate governance structure and it needed to be commercial. What that meant was the question of TAHE separated the operators, which are Sydney Trains and NSW Trains, out of RailCorp, and those assets were moved out. So the operators are separate to the holding entity. The entity owns the assets, the rail assets, which the operators pay an access fee for. So that has not changed.

There were some conversations on how—we did look at the accounting changes that happened. There were the leasing standards and the service concession standards and how they would apply right across government. We started this work in February 2019. We had one standard that had already changed in 2019 and one that was changing in 2020, and we wanted to know the impact of all assets right across the sector, and that included TAHE. We went into a fair bit of detail to understand whether anything we were doing with TAHE in setting it up would be affected by that. The model that we had started post-legislation to try and implement had not changed. It is exactly the same model, which is it has an independent governance structure and it has a pathway to commercialisation for it to be an independent SOC.

Ms ABIGAIL BOYD: Can we be clear, when we talk about the accounting standards changed so the Government needed to change, what actually happened was that the Government had taken advantage, I guess, of an accounting trick to push assets off the balance sheet in order to make the operating budget look better. You may debate whether that was why it was done but that was the effect. When the accounting standards came in, you did have the choice, didn't you, to bring those assets back on the balance sheet? You did not have to proceed with the potential commercialisation of TAHE.

Mr MIDHA: That had not been legislated in 2017. There was nothing in the accounting standard that stopped that legislation being implemented. All we were doing was proceeding with the implementation of the legislation. To be able bring it back, to take it out of the PNFC and put it back into the government sector, would require new legislation to stop the SOC being created. It was not a Treasury option, Ms Boyd.

Ms ABIGAIL BOYD: When the PwC report recommended that the State's transport networks be basically corporatised, I understand there was another report obtained at that time from KPMG. Is that correct?

Mr MIDHA: They are different things. The PwC report was initiated by Transport for them to also understand the impacts of accounting changes on TAHE. We were doing it for the whole sector. That is what KPMG is for us. We have chosen KPMG as a partner that have a very strong accounting and finance practice that we get advice from on accounting standards. They were providing us with advice on all assets across the sector, and it included TAHE. We started that in about February 2019 with KPMG and that work continued. Then when we were looking at further implementation of TAHE, they continued to provide advice on the structuring of TAHE so it met with the Australian Bureau of Statistics standards and it met with the accounting standards to meet with the auditor requirements. So they were two different pieces of work.

Ms ABIGAIL BOYD: What would be the impact other than an increase in the operating budget if the decision was made—it seems to me that we had the decision of whether to corporatise and we can say, "Well, you know, there was legislation pushing that. That does not mean there are not options to unwind it." If we were to make that decision to not proceed with the independence and corporatisation of TAHE but instead to recognise that it no longer qualifies under the accounting standards, in addition to the operating budget impact, would it also have an impact on the ratings of the State under the rating agency methodology?

Mr MIDHA: Not necessarily. I would have to look at that more closely and come back, but not necessarily.

The Hon. MARK LATHAM: Thanks to the officials who are here today. Could I come back to the points that Mr Mookhey was raising earlier with Mr Walters about economic forecasting and the impact of the current lockdowns? Mr Walters, on page 1-3 of *Budget Paper No. 1* it reads:

The forecast for 2021-22 is for economic growth of 3¼ per cent ...

How does the Treasury arrive at that figure at the time of the budget?

Mr WALTERS: Mr Latham, we go through a fairly detailed forecasting round. We have, as you would understand, quite a few macro economists in our staff. We go through a very detailed bottom-up forecasting process, looking at every aspect of the economy from the biggest sector of the economy—consumers—through the other private parts of the economy like business investment, dwelling investment, and then also public demand. We look at public investment, public consumption, and then the net export sector as well—exports minus imports—and then come up with a forecast on an additive basis of all of those components. That is how we arrive at a forecast of gross State product.

The Hon. MARK LATHAM: Why are you not doing that work now in the middle of this economic crisis, to give the crisis cabinet up-to-date information about the impact of their lockdown policies on the New South Wales economy?

Mr WALTERS: Your suggestion is we are not forecasting the economy. My team forecasts the economy every day. What I was alluding to in my earlier answer is we do not have a formal forecast that is published as against what was in the budget. The budget is the last published forecast, but my team and myself monitor the economy at all times. What we have not been able to do, given the nature of the pandemic and the rapid changes in what is happening in the economy, is formulate that full forecasting round to come up with a final gross State product number. So we are clearly monitoring the economy, but we do not have a full forecast of gross State product because that takes some weeks to formulate, to do it properly. We like to do this properly rather than just take a guess. We do not do that.

The Hon. MARK LATHAM: It takes weeks to do it. We are two months into this lockdown, with huge economic damage right across New South Wales. You say you monitor every day and you forecast every day. What is the daily information you give to the Treasurer to carry to the crisis cabinet so they have got a handle on the vast economic damage that is being caused?

Mr WALTERS: The information I provide to the Treasurer to go to crisis policy committee is Cabinet-in-confidence, so I cannot share that with you now.

The Hon. MARK LATHAM: Do you do that on a daily basis, given you told us that you monitor daily and forecast daily?

Mr WALTERS: We certainly monitor daily and we inform our forecast daily. Whether that information goes to the Treasurer daily, I am not aware. I do not brief the Treasurer every day. Mr Pratt may, and Mr Pratt certainly has access to the information that I provide.

Mr PRATT: Mr Latham, I will add to that. What I get from Mr Walters and the economic team is an update for each crisis cabinet. So I give that to the Treasurer and that is taken into crisis cabinet.

The Hon. MARK LATHAM: But today here at this budget estimates hearing you have no up-to-date forecast information about the impact of this lockdown on economic growth?

Mr PRATT: No, that is not correct. I get regular updates, as Mr Walters indicated, on the cost of restrictions. That is a key area of focus right now, as you would appreciate. I take that information with the Treasurer into crisis cabinet.

The Hon. MARK LATHAM: What are the costs of restrictions?

Mr PRATT: That is Cabinet-in-confidence. I am unable to talk about that.

The Hon. MARK LATHAM: You are unable to tell the people of New South Wales and the many thousands of businesses bleeding to death about the impact of these lockdown policies on their livelihoods, their businesses and on the people of New South Wales our State's economic growth? What is the point in having a Treasury?

Mr PRATT: That is not my decision, Mr Latham. But what I can say is we are incredibly committed to supporting the people of New South Wales. I have just talked earlier about the extensive grant programs that we have put in place. But it is not my decision about what goes public by way of information.

The Hon. MARK LATHAM: When does the Treasury plan to publish an upgraded economic growth forecast?

Mr PRATT: That would be at the half year. There is the formal process that Mr Walters has indicated. That will kick off in the next month and that will be updated in the half-year update.

The Hon. MARK LATHAM: Is the Treasury monitoring levels of business confidence in New South Wales, Mr Walters or Mr Pratt? And what is the impact on business confidence of the bewildering, erratic array of Government announcements about economic freedom in our State related to the vaccination rates? Because people are completely confused. I get contacted daily—as I am sure members of the Committee do—by businesses that have lost confidence in this Government because they cannot understand where the policymakers are headed. Is it 50 per cent vaccination rate? Is it 70 per cent? Is it 80 per cent? Is it 80 per cent plus low COVID numbers? What advice is Treasury giving to the Government about the need to have one stable, reliable plan for opening up the economy at some stage to give business some degree of hope and confidence?

Mr PRATT: I will get Mr Walters to talk to business confidence initially.

Mr WALTERS: Mr Latham, we do monitor business confidence. There are a couple of surveys that we particularly favour. One is published by NAB, the National Australia Bank, and that shows both business confidence and conditions. Business confidence has fallen quite sharply. It is actually at negative net balance now. It is quite comparable to what happened during 2020, although I would say that the fall in confidence so far has been less than half that during 2020, during the initial phase of the pandemic. We are coming off also a record high on that measure just four months ago. So we have had quite a remarkable recovery in business confidence. In fact, as I have said, it has ever been higher in New South Wales until the onset of this new phase of the pandemic in which confidence has fallen very sharply, and that is not a surprise. But it is the main measure of business confidence we follow and it is a negative net balance at the moment.

The Hon. MARK LATHAM: What is the Treasury advice to government about the need for one reliable medium- and long-term plan for reopening the economy that business can look to and think, "That is the plan," rather than the bewildering array of new announcements every other day, including one leaked out in *The Australian* newspaper today, which, quite frankly, if you can understand it, you will need the Rosetta Stone to make out what it means?

Mr PRATT: As you would expect and I think as you have indicated, Mr Latham, Treasury is doing constant work on these issues. This work is supplied to the Treasurer and into crisis cabinet, and crisis cabinet rightly debates both the health and the economic implications.

The Hon. MARK LATHAM: That is not answering my question, Mr Pratt. Have you advised the Government that they need one reliable medium- to long-term plan that the business sector can rely on for the reopening of the economy rather than a bewildering array of erratic announcements every other day?

Mr PRATT: I am unable to talk about that level of detail, Mr Latham.

The Hon. MARK LATHAM: What can you talk about in terms of giving businesses confidence that this Government would have one plan that the business sector—people who work hard and their livelihoods on the line—can rely on to know where the hell this great policy mess is headed?

Mr PRATT: Well, you are asking me questions of policy, which I am unable to comment on. What I can say, as I have indicated earlier, is that Treasury is working very hard to do all they can to support the people and the businesses of New South Wales.

The Hon. MARK LATHAM: Mr Pratt, in your *Budget Paper No. 1* at page 5-1, it states right at the top of the "Expenditure" outline:

Expenses in this Budget continue the State's world-leading response to the pandemic ...

How is that going?

Mr PRATT: Well, I would say last year New South Wales was clearly acknowledged as the leader in both dealing with the pandemic and dealing with the economy. Clearly this latest Delta strain is a very different proposition and this year has been very challenging—but no different to every other State, I would suggest.

The Hon. MARK LATHAM: In the budget paper you have said here, written by the Treasury, we were "world-leading" in our response to the pandemic. Where do you think we rank now?

Mr PRATT: I do not know, Mr Latham. I cannot answer that question.

The Hon. MARK LATHAM: Do you think we are still world-leading?

Mr PRATT: Well, it depends on what measures or set of metrics you might use. I am not prepared to comment on that.

The Hon. MARK LATHAM: It is your statement. You obviously had some metrics in mind. Where do you think we rank now?

Mr PRATT: Well, it was acknowledged, as I said, by all and sundry last year that New South Wales had done quite an exceptional job. I—

The Hon. MARK LATHAM: What about [disorder]?

Mr PRATT: I do not have metrics that I can give you. I mean, clearly we are struggling today, so—

The Hon. MARK LATHAM: [Disorder].

Mr PRATT: No. We are clearly struggling but so is everybody else with this latest Delta strain.

The Hon. MARK LATHAM: Has the Treasury done any work on the extent of the cash economy in the hotspot local government areas in western Sydney?

Mr PRATT: Not that I am aware of, no. No, we have not.

The Hon. MARK LATHAM: Not in the distant past and not in the last two months? What does Treasury think of the idea that there is a substantial cash economy where people are participating in economic activities where they do not QR code and they certainly do not tell the contact tracers where they have been or, indeed, where they are going?

Mr PRATT: That is more likely a question for the Customer Service cluster. That is not something Treasury gets involved in, Mr Latham.

The Hon. MARK LATHAM: Right. Treasury does not look—

The CHAIR: [Disorder].

Mr PRATT: [Disorder].

The CHAIR: Sorry. I will let you finish your answer and then—

Mr PRATT: That is all right. That is fine. Customer Service cluster and the police.

The CHAIR: Thanks. The Opposition.

The Hon. DANIEL MOOKHEY: Thank you, Chair. Mr Secretary, I would like to resume questioning about the Transport Asset Holding Entity. Why has Treasury let a corporation responsible for controlling \$40 billion of public assets go without a permanent CEO for 13 months?

Mr PRATT: Well, that is not a Treasury decision, Mr Mookhey. Once legislation is passed and this is an entity that is in place, that is the responsibility of the State-owned corporation—in this case, TAHE—with an independent board and with a chair. That is for them to do that, not us.

The Hon. DANIEL MOOKHEY: The Treasurer executed a shareholder agreement with the board of TAHE last year, which has been tabled in Parliament, and it says that TAHE is meant to have a permanent CEO in place by the end of 2020-21. Following on from that, that permanent CEO should have already gone through a performance appraisal. Given that that was an agreement executed by the Treasurer and given that that is an agreement that Treasury provided advice to the Treasurer on, how have you let this organisation go without a CEO for 13 months?

Mr PRATT: The Treasurer and the Treasury are not responsible for the appointment of a CEO. That is clearly the responsibility of the SOCs—in this case, TAHE. As I understand it, they had a CEO who was acting and who unfortunately had a serious health issue. During this time they were looking to recruit a permanent CEO, which they have recently announced. Now, we have not been engaged in that process—and rightly, I might say. That is for Transport and the asset entity itself in TAHE.

The Hon. DANIEL MOOKHEY: Mr Pratt, the Treasury is responsible for governance of State-owned corporations. The Act gives you the power to step in and tell the board, particularly when they are in breach of the shareholder agreement. Why didn't Treasury ever tell TAHE's board that it was unacceptable to leave the leadership of a \$40 billion organisation vacant for more than a year?

Mr PRATT: Leadership was not vacant. They did have an acting CEO who came from Transport and therefore had subject matter knowledge. During this time they were running a recruitment process. Now, I am sure they would say, if you asked them, Mr Mookhey, that took longer than they would have liked but they did have a process running.

The Hon. DANIEL MOOKHEY: In respect to that recruitment process, the Treasurer told me this week through a question on notice that the TAHE CEO was recruited from a process whereby an ad was placed on the "I work for NSW" government website and some Transport for NSW internal website, and the position was only advertised from 12 February to 22 February. Why is it acceptable for one of the State-owned corporations, a massive State-owned corporation, to only have a 10-day recruitment process for its CEO?

Mr PRATT: I cannot comment on that specific ad because I am not aware of it, but what I am aware of is that they were running a much more significant process with an independent headhunter, one of the big firms, as you would expect. I think the context of your question is quite right. But that is the process they were doing. So I do not know. I cannot comment on that ad.

The Hon. DANIEL MOOKHEY: Which big firm were they using?

Mr PRATT: You would have to ask them, Mr Mookhey.

The Hon. DANIEL MOOKHEY: But you are aware of it. You just made reference to it, Mr Pratt.

Mr PRATT: Yes, I am aware that they were using a headhunting firm, but I have not been engaged in that process, and neither should I be.

The Hon. DANIEL MOOKHEY: Sure. But did Treasury approve the process that TAHE was embarking upon to select its CEO, like Treasury has done for other State-owned corporations?

Mr PRATT: We do not always get engaged in a process to replace the CEO. That is really the responsibility of the State-owned enterprise.

The Hon. DANIEL MOOKHEY: But I did not ask that. I asked you whether or not this particular process—

Mr PRATT: No, we have not been engaged. I certainly have not. I will check with Mr Midha.

Mr MIDHA: No, we have not been engaged.

Mr PRATT: No.

Mr MIDHA: We have not been consulted on [disorder].

The Hon. DANIEL MOOKHEY: Did the Treasurer approve the selection process that was utilised to select a CEO?

Mr PRATT: I don't know, Mr Mookhey. I can take that on notice, if you would like me to.

The Hon. DANIEL MOOKHEY: But the Treasurer did, as did the finance Minister, approve the CEO's remuneration. That is correct, isn't it?

Mr PRATT: That is correct. That is the requirement, yes.

The Hon. DANIEL MOOKHEY: Mr Gardner, I think it was you who provided the advice or the brief to the Treasurer, did you not?

Mr GARDNER: It would have come through my team to the Treasurer's office. That is correct.

The Hon. DANIEL MOOKHEY: Thank you. What is the CEO's remuneration?

Mr GARDNER: I do not know off the top of my head. I do not—I am happy to take that on—

Mr PRATT: We will take that on notice, Mr Mookhey. We do not have that with us.

The Hon. DANIEL MOOKHEY: If it is possible to get that figure before the hearing, that would be most useful. Is the CEO of TAHE eligible for a bonus?

Mr PRATT: Again, that is an issue for the TAHE board.

The Hon. DANIEL MOOKHEY: Yes, but—

Mr GARDNER: It is Mr Gardner here, Mr Mookhey. Our Commercial Policy Framework enables the board of all our SOCs to determine a variable remuneration component for their CEOs. So the answer to that question is categorically yes. If the board determined that a bonus or a variable remuneration component was warranted, the policy allows that.

The Hon. DANIEL MOOKHEY: Indeed. But has that position been provided to the TAHE CEO and did the Treasurer approve the power to grant a bonus to the CEO of TAHE?

Mr GARDNER: The SOC itself has the power under the legislation to operate in a commercial manner and to determine the remuneration of its staff. So the Treasurer does not specifically have to permission that. It is part of the legislation, part of our Commercial Policy Framework.

The Hon. DANIEL MOOKHEY: I am aware of that, but I am asking specifically: Did the Treasurer? He does not have to, but has he?

Mr GARDNER: I will have to take that on notice and we will try to come back to you during the course of this hearing.

The Hon. DANIEL MOOKHEY: Thank you. Is Treasury aware of how many people applied for the position of TAHE CEO?

Mr GARDNER: I am unaware, Mr Mookhey.

The Hon. DANIEL MOOKHEY: Do we have any awareness as to how many candidates were offered the role?

Mr GARDNER: Similarly, not aware.

The Hon. DANIEL MOOKHEY: Equally, do we have any awareness about whether one candidate accepted the offer but then withdrew after media scrutiny of TAHE?

Mr GARDNER: Not aware of that.

The Hon. DANIEL MOOKHEY: Was any Treasury official approached to fill the job?

Mr GARDNER: I am not aware of that.

The Hon. DANIEL MOOKHEY: Did any Treasury official apply for the job?

Mr GARDNER: I do not know personally.

The Hon. DANIEL MOOKHEY: Just turning to the shareholder agreement which the Treasurer executed with the TAHE board, it says that TAHE is required to increase its earnings from \$48.9 million last financial year to \$779.3 million this coming year. How is TAHE planning to increase its earnings by more than 1,400 per cent in a single year?

Mr PRATT: Mr Midha?

Mr MIDHA: We do not have—so TAHE—can you just repeat the numbers again, please, Mr Mookhey?

The Hon. DANIEL MOOKHEY: I am reading directly from the shareholder agreement. It says that TAHE is required to increase its earnings—to be technical, it is earnings before interest, tax, depreciation and amortisation—from \$48.9 million in financial year 2020-21 to \$779.3 million at the end of 2021-22. To repeat the question, how is TAHE expecting to increase its earnings by 1,400 per cent in a single year?

Mr MIDHA: TAHE's earnings are made up of their access fees that they get from the operators. Those access fees are wrapping up, so that will—in the first year we were creating, we were setting up the TAHE SOC and their access fees started from 2021-22. I will have to take it on notice to come up with exactly the difference but it is made up of both access fees and non-regulated asset opportunities. So they are two major sources of income.

The Hon. DANIEL MOOKHEY: The access fees are paid by people who access TAHE's network, correct?

Mr MIDHA: That is right.

The Hon. DANIEL MOOKHEY: That is Sydney Trains and country trains?

Mr MIDHA: NSW Trains, that is correct.

The Hon. DANIEL MOOKHEY: They are the major users, aren't they?

Mr MIDHA: That is right. That is correct.

The Hon. DANIEL MOOKHEY: Where in the budget papers is it listed how much Sydney Trains and the other train networks will pay TAHE to produce the \$779 million earnings result?

Mr MIDHA: Those numbers are part of the consolidated accounts that are in the budget papers. The details will be provided in the SOC—when TAHE hands its annual reports that are developed for year one in September this year when they are published.

The Hon. DANIEL MOOKHEY: On that, Mr Midha, you mentioned a need for TAHE to have an independent board and CEO to meet accounting standards. Equally, I think KPMG looked at the accounting impact across the entities. Does the level of government control and level of subsidies provided to Sydney Trains impact on this accounting determination, and have the relevant accounting and classification authorities been updated?

Mr MIDHA: I just want to unpack this. There were two questions in there.

The Hon. DANIEL MOOKHEY: Does it impact on independence?

Mr MIDHA: Does the accounting treatment impact on independence?

The Hon. DANIEL MOOKHEY: No. I am talking about the level of government control and subsidy of Sydney Trains and the other users of TAHE's network. Does that impact on the independence of TAHE?

Mr MIDHA: No, it is two different things. The operators are PNFCs and a part of the Transport Cluster and the operators are separate to the TAHE SOC. They need to be independent in the way that they manage their asset portfolio.

The Hon. DANIEL MOOKHEY: You said, Mr Midha, that TAHE will be earning its profit, really, from payments made determined under the access pricing regime. Is the regulated access pricing regime determined by the Independent Pricing and Regulatory Tribunal [IPART] operational?

Mr MIDHA: That is right.

The Hon. DANIEL MOOKHEY: Is it operational right now?

Mr MIDHA: It is determined by IPART. IPART makes a recommendation and then the Government develops the pricing for [disorder].

The Hon. DANIEL MOOKHEY: Has IPART determined the regulated access pricing regime?

Mr MIDHA: IPART do make the recommendations and they have made the recommendations for Transport.

The Hon. DANIEL MOOKHEY: That is not what I am asking.

Mr MIDHA: They do not regulate TAHE. IPART do not regulate TAHE [disorder].

The Hon. DANIEL MOOKHEY: I am aware of that. I am aware that they do not regulate TAHE. I am asking not if they provided advice but if they have actually determined the regulated access pricing regime.

Mr MIDHA: I will take that on notice and I can come back to you later.

The Hon. DANIEL MOOKHEY: Given that the shareholder agreement says that that was meant to be done by 1 July 2021, has TAHE missed its date?

Mr MIDHA: Again, I will take that on notice and check on that.

The Hon. DANIEL MOOKHEY: How is it possible that TAHE knows what to charge Sydney Trains and others if IPART has not yet made a regulated access determination?

Mr MIDHA: I do not believe they have made a determination as yet, but we can check on that.

The Hon. DANIEL MOOKHEY: That is my point, though. How do you know what level of subsidy to provide to Sydney Trains to in turn to pay to TAHE if we do not know what the price of access to TAHE's network is?

Mr MIDHA: We use a methodology, which is a regulated access pricing methodology that is based on IPART, to determine the access price.

The Hon. DANIEL MOOKHEY: Given that apparently, according to the shareholder agreement, TAHE is set to make \$779 million of earnings next year and effectively the same amount of earnings the year after but TAHE is not paying taxpayers a single dividend, why are we not getting any dividends from this profit-making enterprise?

Mr MIDHA: I believe there will be dividend payments but that will be clarified when we have TAHE's annual report that will be released later this year.

The Hon. DANIEL MOOKHEY: Well, you have the annual report right now. Have you, by the way, decided this year's shareholder agreement with TAHE?

Mr MIDHA: I need to check on that.

The Hon. DANIEL MOOKHEY: You do not know whether we have a shareholder agreement for the coming year with TAHE? It was meant to be done by 1 July 2021. Do we not have one in place?

Mr MIDHA: I can check on that. I would assume it is, but I need to check on that and come back to you.

The Hon. DANIEL MOOKHEY: Was there any change in the dividend policy from TAHE in this year's shareholder agreement?

Mr MIDHA: There is a dividend policy. The dividends will—so we have [disorder].

The Hon. DANIEL MOOKHEY: I am reading directly from the shareholder agreement.

Mr MIDHA: Yes.

The Hon. DANIEL MOOKHEY: The last publicly available shareholder agreement shows zero dividends for the next three years. Are we getting zero dividends for the next three years from this profit-making enterprise?

Mr MIDHA: No.

The Hon. DANIEL MOOKHEY: How much dividends are we getting?

Mr MIDHA: I will have to take that on notice, but they will be clarified when—they will be finalised when the annual report is released later this year.

The Hon. DANIEL MOOKHEY: Sure. Turning to the board, why does a corporation that is managing \$40 billion of assets only have three independent directors at a board of four?

Mr MIDHA: That was what the board was set up. They have an opportunity to expand the board if required. That will be determined by the board and the chairman.

The Hon. DANIEL MOOKHEY: Sydney Water manages, I think, a quarter of the assets that TAHE does, yet it has more board directors. Given that this is an organisation that is the size of Telstra, are we confident that we have enough directors overseeing it?

Mr MIDHA: This is the first year of operations, so it is in a startup phase. I expect the board will respond, as required, to its business plan and how it needs to expand its operations.

The Hon. DANIEL MOOKHEY: On that, do we have the 10-year business plan settled?

Mr MIDHA: The business plan is currently being finalised by the board.

The Hon. DANIEL MOOKHEY: How long are the terms of the independent directors?

Mr MIDHA: I can check on that.

Mr GARDNER: They will be three-year terms.

The Hon. DANIEL MOOKHEY: When are they due to expire? Is that three years from last July, Mr Gardner?

Mr GARDNER: Three years from their date of appointment.

The Hon. DANIEL MOOKHEY: How are they selected?

Mr GARDNER: They are selected the same way that the directors of all SOCs are selected.

The Hon. DANIEL MOOKHEY: Does that mean you use a recruitment firm or [disorder] to help you select candidates?

Mr GARDNER: We can determine whether or not we want to use a recruitment firm. That is one avenue for us to cast our net as wide as possible, but if we have known candidates that either come through the recommendation of the business or other stakeholders then we can run a process in line with government practices and [disorder].

The Hon. DANIEL MOOKHEY: Which process did you use for this board, Mr Gardner?

Mr GARDNER: I personally do not know. I was not involved in this particular process.

The Hon. DANIEL MOOKHEY: Who was? This board was appointed last year. Who from Treasury is responsible for recruiting directors?

Mr GARDNER: We have discretion as to who sits on the panel. Mr Midha, do you want to take that question?

Mr MIDHA: There was a panel that had—I was on the panel that included representations from Transport and from Department of Premier and Cabinet [DPC].

The Hon. DANIEL MOOKHEY: Did you use a firm or did you use the known pool or recommendations-from-business method?

Mr MIDHA: We used a firm.

The Hon. DANIEL MOOKHEY: Which firm did you use?

Mr MIDHA: We used Korn Ferry.

The Hon. DANIEL MOOKHEY: Korn Ferry? How much did you pay them?

Mr MIDHA: I will take that on notice.

The Hon. DANIEL MOOKHEY: How many candidates did they recommend or did they offer you?

Mr MIDHA: Again, I am going from memory and we can check on that, but from memory around seven or eight.

The Hon. DANIEL MOOKHEY: Why then was only three selected?

The CHAIR: Sorry. We will have to come back to this line of questioning. It is crossbench time. Ms Boyd.

Ms ABIGAIL BOYD: Thank you, Chair. Just carrying on then from Mr Mookhey's questioning, presumably there needs to be a level of arms-length transactions between TAHE and other government entities, Sydney Trains et cetera, in order to maintain that independence from an accounting perspective. Is there not a risk that this entity that has been established will end up falling foul of those accounting rules despite this [audio malfunction] level of potential corporatisation and the moves you have made so far in relation to TAHE?

Mr MIDHA: The model that has been developed accords with the accounting standards. So we are comfortable that the work we have done in this space and the setting up of TAHE meets with the accounting requirement to meet its independence.

Ms ABIGAIL BOYD: Do you think that this level of risk and complexity in the way that government operations have been structured is appropriate for government?

Mr PRATT: Ms Boyd, this entity, as we said earlier, is set up on the basis of a State-owned corporation. It meets, as Mr Midha said, all the accounting rules. State-owned corporations, I think, have been in New South Wales since about 1989, so this is a well-proven approach. I might also add it mirrors both Queensland Rail in Queensland, who have a similar structure as a State-owned corporation, and VicTrack in Victoria. So we are actually not the first to do this. It is in place in those other two States as well.

Ms ABIGAIL BOYD: I understand that there is a certain amount of scrambling, from my perspective, looking at this. It appears to be that there is a certain amount of scrambling going on from Treasury to make this thing work. Do you regret setting up TAHE in this way?

Mr PRATT: No, not at all because it will provide that additional focus that I talked about earlier that you get from the SOC.

Ms ABIGAIL BOYD: [Disorder].

Mr PRATT: Bearing in mind what we are talking about is to meet the due date there is still a lot of set-up work that had to go on, and a lot of the questions that you and Mr Mookhey are asking are really questions for the entity and for Transport.

Ms ABIGAIL BOYD: Perhaps we could argue about whether in itself it is appropriate for us to have to ask an independent entity about something as vital as the State's transport network. Let us just turn to another issue of risk and complexity, which is the NSW Generations Fund [NGF]. Is it correct that an additional \$10 billion in bonds were issued out of TCorp in order to put into the NSW Generations Fund to then go and invest in other financial assets?

Mr PRATT: Ms Boyd, I will answer the first part of that and I might get Mr Deverall, the CEO of TCorp, to talk about the debt program. Certainly, legislation prevents the Treasurer from borrowing money to put into the fund. He simply cannot do that. So the answer to that is no. I will get Mr Deverall to update you, if you wish, on the borrowing program as it stands at the moment.

Ms ABIGAIL BOYD: Thank you. If you could clarify, because there has been a fair bit of reporting—and I have not seen it officially denied by the Treasurer—that there has been extra money borrowed this year to go into the NSW Generations Fund.

Mr PRATT: As I have said, legislation prevents the Treasurer from doing that.

Ms ABIGAIL BOYD: Okay. Could I have an update then, please, on exactly what is in the NSW Generations Fund and how it is being—I guess, what is in there at the moment and how did it get in there?

Mr PRATT: Good. I will get Mr Deverall to do that. Thank you.

Mr DEVERALL: I can talk to the investment strategy of the fund. The fund is approximately \$15 billion of funds under management at the moment. It is managed according to the risk and return characteristics asked for by the Government. What we do is we put a portfolio together that delivers an overall level of return outcome that sits within the risk tolerance that we have been given. The overall allocation of the moneys into the various underlying asset classes, I won't go into complexities of all those now but it is a level of risk that is less than the typical superannuation fund that you would see that many of us have got our money invested in. That would be a range of asset classes, equities both domestic and international, credit et cetera.

Ms ABIGAIL BOYD: I understand that 5 per cent of the fund is invested in opportunistic investments. Can you tell me what they are?

Mr DEVERALL: What the fund is trying to do from a construction point of view is to be as highly diversified as possible, because with diversification you get the benefits of being able to deliver on the investment objective but at a lower level of risk. So we diversify across geographies; we diversify across asset classes. For example, we invest across the world in equities, and that is approximately 40 per cent, then we invest in asset classes such as credit. Then also what we do is we have an allocation into unlisted equities, which would be unlisted real estate, unlisted infrastructure. One of the other components of unlisted is what we call unlisted opportunistic and they are opportunities that get created when you have dislocations in markets. For example, last year when markets were falling very heavily, there was an opportunity for us to invest in various dislocations in some of the markets that we found. That is what we call by the opportunistic section. It does not mean high risk and all of that sort of stuff. It just means an opportunity presents itself and we can deploy capital quickly.

Ms ABIGAIL BOYD: How much money would the fund lose if there was a significant fall in equity prices, given how high they are historically at the moment?

Mr DEVERALL: What we do is, when we look at the construction of the fund, we try to firstly understand the investment return objective, which in this case is CPI plus 4½. Then we understand the client's risk appetite as to what the tolerance is for losses because when you invest, you have good years and you have not such good years. The client then determines what that level of risk tolerance is and then we construct a portfolio. The portfolio can deliver negative returns, but the vast majority of the time would be expected to deliver positive returns. For example, in 2020, which was a year of very sharp falls in equity markets, the fund delivered an annual return of negative 0.1 per cent, but since the fund's inception, which was I think November 2018, so nearly three years ago, the fund has delivered a return just around about 9.5 per cent per annum.

Ms ABIGAIL BOYD: My apologies, Mr Deverall. I have got limited time. Could I just go back to Mr Pratt. Thank you for that, Mr Deverall. Mr Pratt, when we were talking before about the extra \$10 billion, perhaps I did not phrase that appropriately. Is it the case that that \$10 billion was diverted from other revenue sources and then an extra \$10 billion was borrowed in order to make up that revenue shortfall? Is that what happened?

Mr PRATT: Ms Boyd, you may be referring to the way the fund was seeded. The fund was set up, as Mr Deverall indicated, in November 2018. It was seeded with \$3 billion from balance sheet reserves and then it was principally seeded with \$7 billion from the first tranche of the sale of WestConnex. So that is the \$10 billion I suspect you might be thinking about. That was the way the fund was established, and then growth in the fund, as Mr Deverall has indicated, has come from the performance of the fund. That is where we are at this present time.

Ms ABIGAIL BOYD: Things other than asset sale returns are going into the fund now, correct? Are some of the mining royalties going into the fund?

Mr PRATT: That is correct. That is covered by legislation, so mining royalties, some dividends. The second tranche, if the transaction is successful, of WestConnex also will go into the fund.

Ms ABIGAIL BOYD: Is that amount from mining royalties and other revenue streams discretionary as to whether it goes into the fund or not?

Mr MIDHA: There is a list of sources of fund that are legislated in the NSW Generations Funds Act. Just to reconcile, the fund is about \$15.1 billion in size; \$10 billion was the seed money that went in there. Since that time another \$2.4 billion has gone in there from various dividends and the rest is a return on the fund, about \$2.6 billion or \$2.8 billion. That is the fund. The Treasurer has the discretion to use different sources of revenue into the fund as long as it is legislated in the Act.

The CHAIR: [Disorder].

Ms ABIGAIL BOYD: In conclusion then, we have a situation where the Treasurer has chosen to divert some revenue into the fund instead of using it for other things and we also have extra borrowing through TCorp. Is that correct?

Mr PRATT: At this point in time, Ms Boyd, that is correct, but I would say that the Treasurer obviously has ongoing options about those issues and also about whether future fund moneys could be used directly for debt clearance, which is the purpose of the fund. So those options are before the Treasurer.

Ms ABIGAIL BOYD: Thank you. My time has run out.

The CHAIR: I will call on Mr Latham. I also take the opportunity to ask witnesses, if possible, to just state their name before answering a question. I know it is awkward, but it is just for the record of Hansard, if it is possible. Thank you. Mr Latham.

The Hon. MARK LATHAM: Thank you, Chair. To Mr Midha, in charge of the budget, what were the expenditure cuts in the June budget?

Mr MIDHA: In the 2021-22?

The Hon. MARK LATHAM: The budget that was delivered in June—yes, 2021-22.

Mr MIDHA: San Midha here. If you are referring to efficiency dividends, there are no efficiency dividends that have been put into the budget of 2021-22.

The Hon. MARK LATHAM: In expenditure of over \$100 billion, it was impossible to identify any efficiency savings and make spending reductions?

Mr MIDHA: There have been savings identified that have been incorporated into the budget. They are separate to efficiency dividends. There are savings in procurement that have been put through. There were savings and reduction in some growing expenditure that have also been put through and are incorporated into the budget.

The Hon. MARK LATHAM: Are they incorporated in the *Measures Statement in Budget Paper No. 1, A5-1*?

Mr MIDHA: They are incorporated with an agency, so they would be reflected in the budget result and the budget totals in *Budget Paper No. 1*.

The Hon. MARK LATHAM: Given that they are a budget measure, why are they not listed in the *Measures Statement*?

Mr MIDHA: They are incorporated within each agency's expenditure. So it is already built into different agencies' expenditures, but they were not pulled out as a separate item. Each agency has the discretion on exactly which line item within procurement that it can be met, but there is a specific program of that which has a lot more detail and runs over a few years.

The Hon. MARK LATHAM: What is the saving in procurement, if you were to pull it out?

Mr MIDHA: I can give you that. I can get that for you. I can come back to you on that, Mr Latham.

The Hon. MARK LATHAM: Okay. That is one item, and if you can take that on notice, thank you, Mr Midha. To answer that point as to standard budget practice, governments list measures changes against a "no policy change" basis in their budget. Why aren't any expenditure reductions—you have identified just one that is in this budget. Why is it not listed in the *Measures Statement*?

Mr MIDHA: As I said, there were no direct expenditure cuts. They were done through particular protected savings and certain programs. The procurement saving is about \$3 billion over 10 years, so that is one of the larger ones. We have also looked at savings through—to move funds into the Digital Restart Fund, for example. So we have future savings in there, but that is for agencies to find savings to meet government priorities.

Mr PRATT: Mr Latham, can we take that on notice? Because I would like to come back to you on that. There will be a reason for that. It may not be shown clearly, but there is no intention not to identify savings, as you would appreciate.

The Hon. MARK LATHAM: Okay. Mr Midha, the *Measures Statement* lists 145 items, dot points in the range of cluster portfolios. Is it right that the 145 measures in this budget are all expenditure increases as listed?

Mr MIDHA: Again, I will take that on notice. I have not checked those 145 statements, but I suspect they are all increases.

The Hon. MARK LATHAM: Okay. So it is apparently not Treasury practice to list expenditure savings in the *Measures Statement* and they are buried somewhere in the portfolio data. Why isn't it Treasury practice to list the actual amount of the expenditure increase for each of these 145 dot points?

Mr MIDHA: I do not have an explanation for that. Each measure should have an amount on it. I do not have it in front of me, but I can check on that.

The Hon. MARK LATHAM: Given the paucity of any attempt to make expenditure savings in this budget, Mr Midha, what is the process in your section of the Treasury by which you try to identify expenditure savings and they go up to the Expenditure Review Committee [ERC]?

Mr MIDHA: We do work with each agency to look for efficiency savings across their portfolio. We work closely on a number of different methods. The first one is to look at opportunities on their processes around outcomes. So we look for programs and look for the delivery of metrics against outcomes. So we do work with them. Each agency is responsible for coming up with opportunities to improve their efficiency. We work with them collaboratively and we provide opportunities for savings as part of our fiscal examination of the state of accounts.

The Hon. MARK LATHAM: How many agencies bring forward savings to the ERC?

Mr MIDHA: I do not have that [disorder] process. Agencies did bring forward savings to offset particular policies, but I do not have that at hand.

Mr PRATT: Mr Latham, we can get you details on this if you wish, but there are significant procurement savings in this budget over the period of the next decade, including the budget period and beyond that. The Government also had a wages policy of 30 basis points. As you know, they recently changed that to 2.5 per cent.

But because the base was lower, there were significant savings in this budget on wages as well, and whilst Mr Midha is correct that there was no new efficiency dividend [ED], the 3 per cent that we had in place is still continuing through. So we can sum those numbers for you and get them if you wish, but there are significant savings in the budget.

The Hon. MARK LATHAM: Would I be right in saying that no Minister brought forward savings of their own to the ERC?

Mr MIDHA: That is not correct. There were savings that were brought forward.

The Hon. MARK LATHAM: Okay. You have identified three. You are saying the ED carries on, and I suppose that is true; the wage pause was temporary but had some lingering longer term impact; and you have said procurement. Do you find, as a Treasury, there is an imbalance between a budget with over \$102 billion of spending that there were three cost savings, and one of those is not actually new, and 145 expenditure increases, indicating a government that has lost all fiscal discipline?

Mr MIDHA: There are two types of savings. We have mentioned the three ones that, as Treasury, we support and oversight—for example, as Mr Pratt mentioned, the 0.3 per cent pay increase for a year saved us about \$3.1 billion over five years. That has obviously impacted the budget. Through the budget process, agencies have provided approximately—I will need to check this—about a billion dollars' worth of offsets for new proposals. So there were offsets provided to offset the 145 measures that were in the *Measures Statement*.

The Hon. MARK LATHAM: But they are not counted as measures. On notice, can we get a list of the measures that you are now talking about that were not actually listed in the appropriate part of the budget papers?

Mr MIDHA: That was provided to us via the Cabinet process, so that has not been made public through the budget papers.

The Hon. MARK LATHAM: So there are significant budget measures that do not actually get published in the budget?

Mr PRATT: No, that is not correct. Mr Latham, we will take this on—

The Hon. MARK LATHAM: That is what Mr Midha just said.

Mr PRATT: No. [Disorder.]

The Hon. MARK LATHAM: He just said those measures were provided in the Cabinet process and not published in the budget papers. What sort of fiasco is this?

Mr PRATT: I think Mr Midha is referring to ERC discussions about optionality on cost saves. That is a discussion ongoing, as you would expect. But what I will take on notice for you is to give you a breakdown of the cost saves in this budget [disorder].

The Hon. MARK LATHAM: Okay. And if you can please give an extensive explanation as to—in the measures section of a budget, Federal and State, there are always expenditure increases and decreases listed—why this is not the practice in New South Wales, which just seems absolutely extraordinary. We will check the Hansard transcript of what Mr Midha said earlier, but he did say just moments ago that items go to the Cabinet but they are not published in the budget.

Mr PRATT: If they are approved and they are carried through, they will be in the budget.

The Hon. MARK LATHAM: [Disorder] what has gone on. You have mentioned two new measures, one of them modified. They do not appear—the wages one does in the 145 but not the procurement. But if we can get some clarification as to what has gone on, because it looks like a very poor budget transparency process. Can I further ask Mr Midha—

The CHAIR: [Disorder].

The Hon. MARK LATHAM: —is the Government complying with its own Fiscal Responsibility Act?

Mr MIDHA: Sorry, there was a bit of over-talk and I missed the question.

The Hon. MARK LATHAM: Is the Government—

The Hon. BEN FRANKLIN: Point of order, Madam Chair—

The CHAIR: Yes, Mr Franklin. I am just letting people wrap up. So it is the final question and the final answer, and then it is time for the break.

Mr MIDHA: Can I just clarify the procurement savings? There is a section in the *Measures Statement* for all clusters' savings reform and offset measures which are included, including the procurement savings.

The Hon. MARK LATHAM: Mr Midha, my final question was: Is the Government complying with its own Fiscal Responsibility Act in the last two budgets?

Mr MIDHA: The expenditure, our rate of growth of expenditure, because of the stimulus measures has exceeded the stated long-term revenue measure of 5.6 per cent. So from that perspective, that measure has been exceeded.

The Hon. MARK LATHAM: [Disorder].

The CHAIR: Thank you, everyone. We will now take a 15-minute break. I remind everyone to mute and turn your cameras off because the broadcast will continue. We will return to this at 11.15 a.m.

(Short adjournment)

The CHAIR: Welcome back.

Mr PRATT: I had a couple of points of clarification. Did you want me to mention that first?

The CHAIR: Yes, Mr Pratt.

Mr PRATT: There were two things. There was a question, I think from Mr Mookhey, on JobSaver take-up. I can give you the first fortnight, Mr Mookhey, which was \$378 million. I am endeavouring to get the other numbers for you, but that is the grant program for this fortnight. There was a question, again from Mr Mookhey, on the remuneration of the CEO of TAHE. That issue is being dealt with rightly by the transport Minister, not by the Treasurer. He is writing back to you, Mr Mookhey, on that issue.

Mr MIDHA: Can I clarify too?

Mr PRATT: Sorry. The measures statement was the third one.

Mr MIDHA: Yes, thank you. I just want to clarify Mr Latham's question on the measures statement. I have confirmed that it does contain all measures with a materiality and threshold of over \$20 million, so any items not in there are those worth over \$20 million. But that is containing all measures, including all savings. The other one I do want to confirm is that the Government does comply with the Fiscal Responsibility Act. Section E in appendix C in *Budget Paper No. 1* details the Government's statement on actions taken against the FRA to comply with the Act.

The CHAIR: Thank you for those points of clarification. We will start the questioning now from the Opposition.

The Hon. DANIEL MOOKHEY: Thank you, Chair. Thank you, Treasury secretary, for those clarifications. I have a question about a particular clarification about the TAHE CEO's remuneration. The Treasurer, under the State Owned Corporations Act, has the power and is, in many senses, required to provide his concurrence or his approval to the remuneration, which he did this year after receiving a briefing from Treasury. To the extent to which you say that it is a matter for Transport, how can it be a matter for Transport given the Act says that the Treasurer has to give concurrence and, equally, the Treasurer did give his concurrence?

Mr PRATT: I will get Mr Gardner to comment on the detail. As I understand it, the Treasurer gives his concurrence to a remuneration range, then the actual dollar amount is set within that range by the board of TAHE in conjunction, as I understand it, with the transport Minister.

The Hon. DANIEL MOOKHEY: I appreciate that, Mr Pratt. That does actually clarify it. Therefore, what was the range that the Treasurer gave his concurrence to for the CEO of TAHE?

Mr GARDNER: That will be declared in the annual report for TAHE in the normal way we require SOCs to declare their executive remuneration, Mr Mookhey. Sorry, it is [disorder].

The Hon. DANIEL MOOKHEY: I look forward to reading it in the annual report in December, but I am asking you now at a budget estimates hearing if you can tell us what it is so that we do not have to wait six months.

Mr GARDNER: I will take that on notice.

The Hon. DANIEL MOOKHEY: Okay. I will return to the board issues of TAHE. Mr Midha—with your permission, Mr Pratt—did the panel consider appointing Mr Mike Mrdak to the TAHE board?

Mr MIDHA: From memory, yes.

The Hon. DANIEL MOOKHEY: Mr Mrdak is the former secretary of the Commonwealth transport department. Is that correct?

Mr MIDHA: I believe so.

The Hon. DANIEL MOOKHEY: Did the panel recommend that he be appointed as Chair?

Mr MIDHA: I will have to take that on—I do not believe so, no.

The Hon. DANIEL MOOKHEY: Did the Treasurer overturn the panel's recommendation as to who to appoint to the board?

Mr MIDHA: Sorry, could you repeat that again, please?

The Hon. DANIEL MOOKHEY: Did the Treasurer overturn advice from the panel about who to appoint to the board of TAHE?

Mr MIDHA: No, I think all the board recommendations were accepted.

The Hon. DANIEL MOOKHEY: Therefore, if the panel and Treasury recommended the existing board directors, why did Treasury recommend three board directors, none of whom have rail experience and two of whom are the Chair and member of Sydney Water and the other is a director of WaterNSW?

Mr MIDHA: The panel made the selection. There were criteria that we went through. I will have to take that on notice. That was a while ago.

The Hon. DANIEL MOOKHEY: Given the very serious safety obligations that TAHE has under national rail law, was it a requirement for board directors to have knowledge of those rail laws and experience with rail transport businesses?

Mr MIDHA: I would like to clarify that the safety responsibility lies with the operators and with Transport. It is a national regulation. TAHE ensures that its operators have complied with those regulations and provides an additional layer that was not there before TAHE in terms of safety checks. The licensor—

The Hon. DANIEL MOOKHEY: Sure. That was not my question.

Mr MIDHA: —and operators are dependent on meeting that.

The Hon. DANIEL MOOKHEY: That is helpful context, but my actual question was: Are board directors of TAHE required to have experience in rail safety laws and rail safety?

Mr MIDHA: I can check with that one. I do not believe that was one of the criteria in the selection of the board. I do believe that one of the board directors, Mr Trevor Bourne, came with some experience in safety in transport—this is from memory. I would have to go back and check. But I believe that was the case.

The Hon. DANIEL MOOKHEY: I think you will find that he has experience in air transport, not rail transport. They are very different laws with very different frameworks. Mr Pratt, is it a risk to not have board directors who have safety experience for TAHE?

Mr PRATT: I cannot really comment. I was not involved in the process on the selection of the board. You would expect that they had the right experience and skill base to be appointed to this board. Other than that, I cannot comment specifically.

The Hon. DANIEL MOOKHEY: Mr Pratt, I am going to move on then. Did Treasury hire Ms Heather Watson of KPMG to prepare a report on TAHE?

Mr PRATT: Yes, we did.

The Hon. DANIEL MOOKHEY: When was Ms Watson engaged?

Mr PRATT: I will check with Mr Midha, but from memory it would have been late 2019 to early 2020, I would have thought. Is that correct?

Mr MIDHA: Yes. We started in February 2019 to look at accounting standards. That work was happening in parallel. Then in 2020, Ms Watson was hired to specifically look at TAHE in more detail.

The Hon. DANIEL MOOKHEY: Mr Pratt, did you approve the engagement of Ms Watson?

Mr PRATT: I will have to check on that, Mr Mookhey.

The Hon. DANIEL MOOKHEY: How much has Ms Watson's engagement cost?

Mr PRATT: I will see if we have that available. Mr Midha?

Mr MIDHA: I do not have that number at hand.

The Hon. DANIEL MOOKHEY: Can you take it on notice?

Mr PRATT: I am quite happy to take it on notice, Mr Mookhey, and come back to you.

The Hon. DANIEL MOOKHEY: Thank you, Mr Pratt. I would appreciate that. How was Ms Watson selected?

Mr MIDHA: Sorry, I missed that one.

Mr PRATT: How was she selected?

The Hon. DANIEL MOOKHEY: How was Ms Watson selected?

Mr MIDHA: There is, again, engagement. She is a selected partner because of her technical finance and accounting experience. Also, being an ex-auditor with the Auditor-General's office, we have used Ms Watson extensively in Treasury for accounting advice. Therefore, it was when we were looking for specific accounting advice for TAHE, Ms Watson was asked to continue her work in that space.

The Hon. DANIEL MOOKHEY: So she was hand-picked?

Mr MIDHA: Sorry, you are dropping out.

The Hon. DANIEL MOOKHEY: Was she hand-picked?

Mr MIDHA: Yes.

The Hon. DANIEL MOOKHEY: That did not go to tender, did it?

Mr MIDHA: No. That was the best accounting experience—from the work that Ms Watson had been doing with Treasury, we were comfortable that we had the right experience to guide us through setting up the TAHE SOC.

The Hon. DANIEL MOOKHEY: Has a contract award notice been published about Ms Watson's engagement?

Mr MIDHA: I will have to take that on notice.

The Hon. DANIEL MOOKHEY: I cannot find any. I checked. Was it above the threshold for disclosure?

Mr MIDHA: It could be part of an overarching accounting advice provision as part of the work that we do on the total State sector accounts. This might have been a subset as part of that.

The Hon. DANIEL MOOKHEY: On notice, can you identify how this has been publicly reported in any form?

Mr MIDHA: I will take that on notice.

The Hon. DANIEL MOOKHEY: Thank you. How much has Treasury spent in total on consultancy regarding TAHE?

Mr MIDHA: Again, we will have to take that on notice.

The Hon. DANIEL MOOKHEY: Mr Midha, on notice, do you mind getting us a breakdown by amount by firm?

Mr MIDHA: Sure. Yes.

The Hon. DANIEL MOOKHEY: Across Treasury in total, how much has Treasury spent on consulting with the big four accounting firms—Deloitte, EY, KPMG, PwC—in the last year across all projects?

Mr MIDHA: I will take that on notice.

The Hon. DANIEL MOOKHEY: Can you tell us how many engagements of either of those four firms are below the \$150,000 disclosure threshold?

Mr MIDHA: We will take that on notice.

The Hon. DANIEL MOOKHEY: Can we get a list of all projects and descriptions that are less than \$150,000 and what the purpose of the engagement was?

Mr MIDHA: I will take that on notice.

The Hon. DANIEL MOOKHEY: Thank you. Does Treasury have any firm or consultant on a monthly retainer?

Mr MIDHA: Again, I do not believe so, but I will take that on notice.

The Hon. DANIEL MOOKHEY: Mr Pratt, I have just a few more questions about this. Have you had any meetings with the current transport secretary about TAHE?

Mr PRATT: Not that I can recall directly. It has been probably mentioned in a few conversations, but a specific meeting—not that I can recall, no.

The Hon. DANIEL MOOKHEY: Have you had an exchange of correspondence of any form with the existing transport secretary?

Mr PRATT: Again, I cannot recall, but I am happy to look at that and come back to you. I will take it on notice if that is okay.

The Hon. DANIEL MOOKHEY: Thank you, Mr Pratt. I would appreciate that. In your incidental discussions with the transport secretary, what was discussed?

Mr PRATT: There was nothing of strong recollection other than the process that we have been going through to get this established, so nothing further than that.

The Hon. DANIEL MOOKHEY: Were you in dispute with the previous transport secretary about TAHE?

Mr PRATT: I would not say "dispute". Certainly, we had rigorous debate about the set-up of TAHE and the position going forward, as you would hope that we would.

The Hon. DANIEL MOOKHEY: Did you ever—

Mr PRATT: Sorry, can I just add to that?

The Hon. DANIEL MOOKHEY: Yes, please. Sorry, Mr Pratt. I thought you had. It is delayed.

Mr PRATT: That is alright. This was, as you know, legislated in 2017. It was a requirement of Transport and Treasury to work together on this so that it was a joint responsibility between both secretaries to make sure this was implemented. The transport secretary at the time, Mr Staples, was well aware of that and working towards it.

The Hon. DANIEL MOOKHEY: Did Mr Staples ever tell you that the formation of TAHE poses a risk to the budget or risk to rail safety?

Mr MIDHA: Can I just clarify that TAHE is not an operator. It is not the safety accredited party.

The Hon. DANIEL MOOKHEY: I appreciate the context, Mr Midha. But the question is to the secretary. Did the previous secretary of Transport ever tell you that the formation of TAHE poses a risk to the budget or a risk to rail safety?

Mr PRATT: He raised safety as being a key issue, Mr Mookhey, and Mr Staples had every right to do that. They were charged—as in Transport—through Mr Staples, with addressing safety and operations as part of the TAHE implementation. We were addressed, as you would expect, to look at the fiscal modelling work. When all of this went through and was approved in late 2020, safety and operations was ticked off by Transport as part of that approval process.

The Hon. DANIEL MOOKHEY: Did you meet with the secretary of the Department of the Premier and Cabinet last year with Mr Staples to discuss TAHE?

Mr PRATT: I can recall the three of us meeting on it, yes.

The Hon. DANIEL MOOKHEY: Was that in large part designed to resolve your respective views?

Mr PRATT: That was really to come together and say, "Where are we at and how is it progressing?" That was the purpose of the meeting.

The Hon. DANIEL MOOKHEY: Have you spoken to the Premier directly about TAHE?

Mr PRATT: No. Sorry, let me qualify that, Mr Mookhey. Other than ERC discussions, which are part of the ongoing process, no.

The Hon. DANIEL MOOKHEY: My final question about TAHE is: Is TAHE a sham?

Mr PRATT: Absolutely not, Mr Mookhey. I have given you other examples, both to the north in Queensland Rail and VicTrack in Victoria, of very similar structures. But as you would understand, I am quite offended by those accusations that are being made because Treasury has a rigorous process of assessment and approval internally. We have a second line of defence, if you like, which is what I call the assurance process. We have deputy secretaries who we engage and then, finally, it gets to me before it gets anywhere near the Treasurer. I want to assure you and members that that process holds up on all policy, not just TAHE.

The Hon. DANIEL MOOKHEY: Thank you, Mr Pratt. Can I now turn to the NSW Generations Fund? To pick up the line of questioning asked by my colleague Ms Boyd, can we get the exact current size of the Debt Retirement Fund in the NSW Generations Fund?

Mr MIDHA: Fifteen point—

Mr PRATT: Mr Midha is talking. Go on, Mr Midha.

Mr MIDHA: It is approximately \$15.1 billion.

The Hon. DANIEL MOOKHEY: And how much is in the community fund?

Mr MIDHA: At the moment, there is nothing in the community fund. That has been discontinued. It was discontinued last year when we were looking at making expense savings to fund the stimulus costs that were arising in 2020.

The Hon. DANIEL MOOKHEY: Just to be clear, the Government abolished the community fund that was meant to distribute to community groups half of the investments return earned from the first half of the sale of WestConnex?

Mr MIDHA: Yes, that fund is not utilised anymore. It was about \$25 million. I will have to check again on notice to find out how much was in there.

The Hon. DANIEL MOOKHEY: I think it was 28. But yes, I take your point. In the last annual report about the NGF, its balance was \$11.279 billion, so it has increased by approximately \$4 billion in the intervening period. I would like to know, what was the Government contribution to the DRF, being the Debt Retirement Fund, in the financial year ending 30 June 2021?

Mr MIDHA: It was about \$2 billion.

The Hon. DANIEL MOOKHEY: So there was a \$2 billion inflow from the Government into the NGF last year. Is that fair?

Mr MIDHA: In 2021, that is right.

The Hon. DANIEL MOOKHEY: So at the same time last year that the Government was adding \$2.1 billion to the fund, we had an operating deficit of \$7.8 billion, didn't we?

Mr MIDHA: That was the budget result. What we look at is the cash surplus. We have been in cash surplus. Over the next four years, we are in cash surplus. It is not a cash deficit. The money came from dividends and [inaudible] contribution.

The Hon. DANIEL MOOKHEY: Mr Midha, just on that point about cash surplus, I am reading from this year's budget statement, page A1-9, "General government sector cash flow statement". It shows that there is a cash deficit last year of \$17.3 billion, a cash deficit was revised down to \$16.8 billion, a projected cash deficit this coming year of \$18.6 billion and cash deficits every year over the forward estimates. So when you say that we are putting this money in effectively as a result of a cash surplus, how is that possible given the budget papers themselves show that we are running massive cash deficits for the next four years?

Mr MIDHA: When we say cash surplus, we look at it as per our operating. I think that is—let me just [inaudible] I am not sure that is the correct line, but I will just bring that up [disorder].

The Hon. DANIEL MOOKHEY: Whilst you are looking it up—it is on page A1-9. Is it the last result, so it is the last line. On that point though, in effect, the choice to put \$2 billion into the NGF at the same time that we had an operating deficit of \$7.8 billion means that we have indirectly increased borrowing, haven't we?

Mr MIDHA: The line is the—sorry, I am just trying to look at the cash operating line. So we look at—it is net cash flows from operating activities. That is our cash position.

The Hon. DANIEL MOOKHEY: I see that line. But effectively the choice to not use that cash surplus to reduce debt has resulted in increased borrowing, hasn't it? There are two choices about what to do with the cash surplus: You either use it to reduce your appropriations the following year or you put it into the fund. Basically,

the Government made a policy choice to put the cash surplus into the fund despite running a large operating deficit. Is that true?

Mr MIDHA: The fund has a gross trajectory, and this is in line with that gross trajectory to try and grow the fund. It is in its infancy at the moment—within the first three years. Putting money into the fund was always envisaged.

The Hon. DANIEL MOOKHEY: Yes. And that is a policy choice of Government to divert the cash surplus into the NGF despite running an operating deficit, correct?

Mr MIDHA: Like I said, it was a budget deficit. But from a cash perspective, we are in cash surplus. But I take your point.

The Hon. DANIEL MOOKHEY: Thank you. It took me a while to figure it all out. Can I just ask you, on the NGF, what are the gross borrowings for New South Wales now in the coming year? I saw the announcement from TCorp on budget day that it was \$35 billion, but there is speculation in the bond market that it is now \$50 billion. How much will we be borrowing this year?

Mr MIDHA: Again, the borrowings will depend upon the needs. We announced a much larger borrowing program last year. We borrowed a lot less. We look at projections. Last year we borrowed probably about \$5 billion or \$6 billion less than we were expecting to. Some of those activities moved into this year, particularly our stimulus payments are continuing into this year, so we have large stimulus payments and a lot of capital programs, particularly the infrastructure funds that we have not set up. Those amount to about \$4 billion or \$5 billion. That was added onto this year's. So in total, this year's, when I compare to last year, the actual like-for-like, if you look at the surplus—

The Hon. DANIEL MOOKHEY: No. Mr Midha, I have only got a minute left before I have to pass. It is a really straightforward question. I saw the press release announced from TCorp on 22 or 23 June that said that the borrowing task for New South Wales is \$35 billion. I have two questions. Is it still \$35 billion or has it increased? And has it increased to \$50 billion, which is what we have major banks telling us is how much New South Wales will be borrowing this year?

Mr PRATT: Mr Mookhey, let me clarify. It is \$35.5 billion at this point. It is important to note that \$4.4 billion of that number is maturities this year.

The Hon. DANIEL MOOKHEY: Yes, I saw that.

Mr PRATT: So the net number is \$31.1 billion. We will revise this over the next month to two months. Certainly, we will be publishing in the half year an update. But obviously circumstances have changed even since the budget, as you would appreciate. We will work through this.

The Hon. DANIEL MOOKHEY: It is not a criticism. It really is not because there are obvious reasons why New South Wales would need to borrow more. But what I am trying to appreciate is the size of the task. I think you have done a good job of answering and telling me it is likely to be revised upwards, but can I just ask you to respond to this. The Commonwealth Bank of Australia [CBA] this morning has alerted the fact that New South Wales right now has the most expensive debt of any State government. Our spread, compared to the Commonwealth rate, is at its highest in history. Is it the case that the choice to increase the NGF has effectively increased the cost of our debt?

Mr PRATT: I doubt that is the case, but I will get Mr Deverall to comment in a moment if I could because he is close to markets on a daily basis. But what I would say, Mr Mookhey, is that the Government will have choices to make given where we are at and the issues that you have raised. What should the optimal size of a fund be? When should the Government look at some debt clearance and not borrow against this number more fully? These are issues that we will be looking at over the next few months. But, Mr Deverall, if you want to comment—

The Hon. DANIEL MOOKHEY: My time has expired.

Mr PRATT: I am sorry?

The CHAIR: Yes. You can—

The Hon. DANIEL MOOKHEY: I think my time has expired.

The CHAIR: It has. Mr Deverall, we will let you finish the answer and then it is crossbench time.

The Hon. DANIEL MOOKHEY: You are on mute.

Mr PRATT: You are on mute, Mr Deverall, I think.

Mr DEVERALL: Sorry, I am new to this, apologies. The cost of borrowings for New South Wales TCorp move up and down, as you can imagine, with market movements. The cost of 10-year debt at the moment for New South Wales is about 1.47 per cent per annum, which is lower than what it was a couple of months ago. That is the absolute level. The point that you are making, Mr Mookhey, is the spread relative to the Commonwealth and relative to other semis. The spread relative to Commonwealth in the last two years has traded in a range of between about 20 basis points, which is 0.2 per cent, up to about 70 basis points, which is about 0.7 per cent—that is higher than the Commonwealth. Currently, it is at around about that midpoint. So it has traded in a range and it is currently in that midpoint. Then you have got the spread difference between ourselves and the other semi-governments. We closely track one another. Sometimes one State is higher or lower than the other. At the moment, the cost of New South Wales debt, or the spread for New South Wales debt, is slightly higher than some of the other semis. For example, it is about five basis points, which is 0.5 per cent, higher than Victoria.¹

Ms ABIGAIL BOYD: I will turn to Mr Achterstraat in a minute, but I just wanted to ask one last question of you, Mr Pratt. In relation to the rating agencies, how much does the NSW Treasury pay each of Moody's and S&P each year?

Mr PRATT: Have we got that with us?

Mr MIDHA: Not handy. I can try to get that to you.

Mr PRATT: We will have to take it on notice, I think, Ms Boyd. I am sorry.

Mr GARDNER: It is Mr Gardner here, Ms Boyd. I cannot give you the absolute number, so I will take that on notice. The only thing that I would reference is that payment is linked to the size of our debt program, so as our debt program grows, that [audio malfunction], so it is not a fixed number.

Ms ABIGAIL BOYD: Yes. I would expect that. That would be great if you could give me the information for the last at least five years on how much you have spent on both of those agencies. That would be fantastic.

Mr PRATT: We will do that. Thank you.

Ms ABIGAIL BOYD: Mr Achterstraat, thank you so much for making the time to be with us today. I wanted to ask you a little bit about the recommendation that you made in relation to a road user charge in the Productivity Commission White Paper. There is a statement that you make in there about how replacing stamp duty on vehicles with a road user charge is a little bit similar to replacing stamp duty on houses with the land tax. I absolutely agree that stamp duty is an inefficient tax, but it is at least progressive, being based on the value of the asset. I would put to you that replacing stamp duty on a vehicle with a road user charge is a little bit like replacing stamp duty on a house and charging someone for the amount of time they spend in the house as opposed to it being a real analogy. Did you consider replacing stamp duty on vehicles with an annual tax based on the value of the car rather than heading down this road user charge route?

Mr ACHTERSTRAAT: Thank you very much, Ms Boyd, for that question. We have got two separate recommendations in relation to road user charges. One is not related to this. I will get to your one in a second, Ms Boyd. The first one is in relation to—we believe that you cannot necessarily build your way out of congestion. So we are suggesting that Transport for NSW implement a range of processes to encourage a smoother usage of roads throughout the period of the day with the existing ones. If that does not work within three years, then they would be looking at implementing some form of cordon charging. I will leave that to one side.

The recommendation you are talking about is for certain electric vehicles, abolishing the stamp duty and replacing it with a per kilometre charge. We recommended an amount. I think the Government has taken up something slightly different but in the same spirit. Your specific question is about a lump sum being replaced by a usage one. What our view is, from a productivity point of view, is that a usage is what should be taxed rather than necessarily the fact that you have got the car. So the people who use the roads more should actually pay a user charge higher than the people who have got a car that do not use it. That is why we are suggesting the road user charge.

Ms ABIGAIL BOYD: Was there consideration given to the options that different people have? For instance, people who do not live near public transport or do not have very good public transport options obviously

¹ In [correspondence](#) to the committee, received 20 September 2021, Mr David Deverall, Chief Executive, New South Wales Treasury Corporation (TCorp), requested a correction to his evidence by replacing the number "0.5" with the number "0.05".

need to drive more than others. Was there consideration given to the impact on economic inequality from the proposal?

Mr ACHTERSTRAAT: It is a very good point. At the moment, with the excise tax on petrol and diesel, people do pay more when they live further away. The purpose of the road user charge that we are recommending is similar. It is probably slightly less. I think on average the per kilometre one for an excise is considerably higher than the 1.5 or the 6c we are recommending. If your question is about people who do not live near public transport who have to rely on a motor vehicle, at the moment, if they are relying on a motor vehicle, the petrol that they use has an excise on it and the more kilometres they travel, the more excise duty they will pay. So it is consistent with what we are saying in relation to the road user charge.

Ms ABIGAIL BOYD: But obviously, when you are paying for fuel you can try to reduce how much fuel you use by being more efficient. If you are someone who lives in a place without public transport and you choose an electric vehicle, which, as we know, are coming down in price now to approximate internal combustion engine [ICE] vehicles—if you choose to have an electric vehicle and you choose to charge it with, say, solar panels, that person will then receive no benefit for having gone about their purchase decisions in an efficient way. How does that fit in with the logic of introducing a road user charge?

Mr ACHTERSTRAAT: That is a really good point. I will have to unpack that a little bit. At the moment, if you are using a car, you can choose to use a more efficient fuel car—so instead of it being V8, you would use a little four cylinder so that you pay less excise tax. You can make that strategic decision. If, in relation to the electric car, instead of using one which draws power from the grid, which is generated somewhere else, you choose to generate it yourself, why should—well, someone has still got to pay for the road, I would imagine.

Ms ABIGAIL BOYD: It is a little bit [disorder].

Mr ACHTERSTRAAT: You have still got to pay for the road.

Ms ABIGAIL BOYD: I think we could talk at some length about the lack of some of those logical connections that are being made in relation to road user charge.

Mr ACHTERSTRAAT: It is a very good point you make.

Ms ABIGAIL BOYD: Thank you. I note that you do say that eventually taking the per kilometre charge up to 6c would make sense.

Mr ACHTERSTRAAT: Correct.

Ms ABIGAIL BOYD: When I am looking at a new electric vehicle—I think there is a new MG that is about \$44,000—I would be looking at—

Mr ACHTERSTRAAT: They are coming down in price.

Ms ABIGAIL BOYD: Yes. I would be looking at an initial stamp duty charge of about \$1,300 to \$1,400, I understand. If we had a 6c per kilometre charge, I would be paying about \$1,000 in road user charge every year, which would pretty much negate the savings from no longer having to pay stamp duty. Do you think that really is an incentive for an uptake of electric vehicles [EVs]?

Mr ACHTERSTRAAT: In relation to the user charge, it has got two functions. One would be to counteract the reduction in the stamp duty—the concession. But also, there is a necessity to pay for the roads. There is a necessity to have a substitute for the excise that is collected through petrol. One day, when we all get to electric cars and there is no excise duty coming from petrol and gasoline, someone is going to have pay for the roads.

Ms ABIGAIL BOYD: My apologies for interrupting. You know as well as I do that that Federal excise tax just goes into general revenue and is only notionally there for paying for roads. Some people would argue that perhaps their tax is what should pay for the roads that are an essential part of society. I think I will leave it there because I am almost out of time. Thank you though, Mr Achterstraat. Mr Pratt, if I could just ask you very quickly about the modelling for the EV tax, did you take into account this increase in pricing from the 2.5c per kilometre when working out whether or not it would be revenue neutral and at what point? Was it taken into account in the modelling?

Mr PRATT: There was extensive modelling done on this policy, as you would expect, Ms Boyd. Ms Wilkie led that work. I might get her to talk to the modelling specifically, if that is alright with you.

Ms ABIGAIL BOYD: Thank you.

Ms WILKIE: Yes, Ms Boyd. We did look at a range of different price points. That work is still really under cover of Cabinet in confidence, so we will have to take advice from the Treasurer. I will have to take that on notice in terms of what we might be able to tell you about that modelling.

Ms ABIGAIL BOYD: Thank you. And also whether it is considered that you would also increase that 2.5c rate for time-of-day charging, congestion charging and other types of [inaudible] as has been in other jurisdictions.

Ms WILKIE: We can take that into account. I would note, though, that given that the road user charge at this point, per the proposal in front of Parliament, is not for that to begin until 2027, whether it would increase at a future time is really a matter for a future Government.

Ms ABIGAIL BOYD: Thank you.

The CHAIR: Thank you. Mr Latham—sorry, Mr Latham, I think you are muted.

The Hon. MARK LATHAM: Thank you. Is that better?

The CHAIR: Yes.

The Hon. MARK LATHAM: Okay. Thanks, Chair. If I could come back to Mr Midha with the points of clarification that he made just prior to the morning tea break. He mentioned the change in position as to his assessment of whether the Fiscal Responsibility Act was being breached and referred the Committee to the *Budget Paper No. 1 E-3*—the statement on performance and reporting under the Fiscal Responsibility Act. Mr Midha, doesn't it say, under "Fiscal targets: Annual expense growth kept below long-term average revenue growth (5.6 per cent)", and it states here:

The Budget forecasts for 2020-21 and 2021-22 expense growth to exceed the long-term revenue growth rate.

So there is a breach there, isn't there, for these two years of the current budget and in the immediate past one?

Mr MIDHA: There are two parts to that. Those metrics, as you have mentioned, are more than the long-term revenue growth of 5.6 per cent. However, the Act asks the Government to state its remediation to stay within the Act. It has met that test.

The Hon. MARK LATHAM: So there is a two-year, two-budget breach, but the Treasury takes no action about that because of the promise to do better in the future. Is that how it works?

Mr MIDHA: That is what the Act requires, and the Government has complied with the Act.

The Hon. MARK LATHAM: Does Treasury ever produce an underlying structural position for the New South Wales budget that would give us a better handle on whether this clause in the Act is being complied with?

Mr MIDHA: I do not understand the question. What do you mean by underlying structure, sorry?

The Hon. MARK LATHAM: They do it in the Federal budget, and they have always done it, to factor out variations in annual expenditure increases and revenue changes to look at the longer term structural position of the State budget. But you do not make that analysis.

Mr MIDHA: We do not have a similar [inaudible].

The Hon. MARK LATHAM: Okay. It is all on the bottom line. I suppose you apply the same reasoning to the legislated requirement to align general Government revenue and expense growth—page E-4—where there is a two-year breach by this Government but a promise to do better in the future. It is the same rationale, is it?

Mr MIDHA: That is right.

The Hon. MARK LATHAM: How many budget breaches do you need over a period of time before you decide that the Fiscal Responsibility Act has in fact been breached in substance?

Mr MIDHA: The Fiscal Responsibility Act allows the Government to take remedial action. That is currently being done by the Government, and the Government is still committed to the triple-A rating. Actions have been taken to get the Government back on track to the triple-A rating.

Mr PRATT: Mr Latham, I will just mention, though, that in respect to the expense issue, these have obviously been really challenging times with putting money in to support COVID across Government, so these

are most unusual times for all of us. Therefore, that has led to those expense breaches, as you are well aware [disorder].²

The Hon. MARK LATHAM: Yes. But I have been looking for the extraordinary time clause in the Fiscal Responsibility Act and I cannot find it. It is a legislated law in New South Wales, and you would expect compliance with it. I am just asking—we have two years of breaches. Is it three, four, five, six years where it is determined that the Act has been breached in substance?

Mr PRATT: The Government has committed, as Mr Midha has mentioned, to look at complying with these requirements. That is the intent. We are working to try to do that. But at the moment, the expense issue is a very challenging one.³

The Hon. MARK LATHAM: What of the downgrade by S&P Global of our triple-A credit rating to AA+. Is that a problem in terms of the Fiscal Responsibility Act, that the objective of the Act is not being met with that major credit agency?

Mr MIDHA: We are still triple-A with Moody's. As I said earlier, action is being taken to get back on track with triple-A with S&P. Also, it is not a breach of the Act because these are targets. As I have said, the Act is not breached. The actions taken are remedial actions, as the Government has complied with.

The Hon. MARK LATHAM: So the Act is really a guideline to the Government. It is of no legal substance or consequence in the current circumstances. Is that how Treasury reads it?

Mr MIDHA: The Act is meant to assist the Government in achieving the triple-A rating as a target and the pathway has been stated here in our way to achieve that.

Mr PRATT: Mr Latham, can I just say that I would not want you to take away from this discussion that we are not focused on this. We are. The issue around expense management gets a lot of ongoing focus. As I said, at the extraordinary point we find ourselves, a significant amount of this breach is related to COVID spend. As far as I am aware, the Government is very committed around triple-A. As you know, we have kept one triple-A with Moody's. As far as I am aware, the Government is committed to getting the other triple-A standing back from S&P.⁴

The Hon. MARK LATHAM: Thanks, Mr Pratt. Yes, there is COVID expenditure, but from what I can see in the budget, there is next to no attempt to offset that with any form of substantial structural saving in the budget. Can I come to the second point of Mr Midha's clarifications? That is, where in the 145 measures in the measures statement does it mention procurement?

Mr MIDHA: I will have to take that on notice, but the procurements are efficiency savings that are built into agencies' baseline expense. That has been ongoing to a number of different projects and each agency meets their cost savings in procurement in their own budget.

The Hon. MARK LATHAM: But you did say at the morning tea break that all the expenditures and savings are listed in the measures statement in the whole of Government where you would expect procurement to be, given you have just said it is a whole-of-Government measure—there are seven dot points and none of them mentions procurement. It does not feature. Can you get some clarification on notice, Mr Midha, as to what has gone on there—

Mr MIDHA: Yes.

The Hon. MARK LATHAM: —given that you have given me three different versions now of what the measures statement is supposed to be doing? It does mention the revised wages policy which, against the no policy change basis for the current budget, is actually an expenditure increase. So in 145 items, there is no attempt to bring the budget into any sort of fiscal responsibility. Can I put to you, Mr Pratt, that because of this absence of any form of fiscal restraint and the drying up of the pots of gold of privatisation for this Government, it has forced you into funny money schemes and accounting tricks like TAHE and playing the stock market for the Generations Fund. Isn't that the bottom line of this abysmal state of fiscal management in New South Wales?

² In [correspondence](#) to the committee, received 20 September 2021, Mr Michael Pratt AM, Secretary, NSW Treasury, provided a clarification to his evidence.

³ In [correspondence](#) to the committee, received 20 September 2021, Mr Michael Pratt AM, Secretary, NSW Treasury, provided a clarification to his evidence.

⁴ In [correspondence](#) to the committee, received 20 September 2021, Mr Michael Pratt AM, Secretary, NSW Treasury, provided a clarification to his evidence.

~Break

Mr PRATT: Mr Latham, sadly, they are sensationalist-type comments. I reject all those comments that you have just made; that is not the case. I am more than happy for Mr Gardner, who is leading the procurement work, if you wish, to give you an outline now of those cost saves. They [audio malfunction] significant. We will come back to you and outline this in detail. If you would like me to take that on notice, I am very happy to do that. But as I have indicated earlier, this is not about facades and tricks and other things. All the work we are doing has strong accounting standards around it. We are focused on fiscal repair and I have outlined some of the bigger items to you already. But it is a very strong focus through Treasury around cost management, and I will come back to you on that detail if you would like me to. But I just wanted to clarify.

The Hon. MARK LATHAM: Thank you very much. Which fiscal repair items are you working on now for the next budget?

Mr PRATT: Procurement is ongoing because that is a huge spend across government, as you would appreciate. There is further opportunity in procurement. Secondly, we are doing a major review of clusters, which we have just started recently, and the intent of that is to look at operating efficiencies: How can we better operate across government within clusters of government? There will always be efficiencies in that area given the scale of government that you have mentioned; there will always be cost saves. That is work that we have got underway. The wages saving is still significant despite the recent policy decision. Because we lowered the baseline, there is significant savings over the forwards on wages as well. [Disorder].

The Hon. MARK LATHAM: In terms of your work in reviewing portfolios, I take you to *Budget Paper No. 2, Outcomes Statement*. That is supposed to be a reflection of the introduction of outcome-based budgeting. Where is there any mention of serious policy review in many, many areas of failure? Is this document not simply a list of spending commitments and some propaganda statements about the Government finding this to be challenging times? In *Budget Paper No. 2, Outcomes Statement*, what is of any use to anyone in thinking that what you have just said about ongoing review and fiscal responsibility is in any measure true?

Mr PRATT: The *Outcomes Statement* is really making, in fact, more information available on what the outcomes are of each key part of government around clusters. That is desired to start, for the first time, being much more transparent about those spends. It is still in early days as such, but there is a strong intent to do what I think you are asking for and that is to be much more transparent about that.

The Hon. DANIEL MOOKHEY: Mr Pratt or to whoever you wish to direct, what is the Government contribution to the NSW Generations Fund for the coming year?

Mr PRATT: I will see if we have that available, Mr Mookhey. Mr Midha, do you?

Mr MIDHA: I do not have that number at hand [audio malfunction]. If you give me a minute, I will check that out for you.

Mr PRATT: We will try and get that, Mr Mookhey.

The Hon. DANIEL MOOKHEY: If you could.

Mr PRATT: I mean, that would be—

The Hon. DANIEL MOOKHEY: While you are getting that I will ask you the next question.

Mr PRATT: Yes.

The Hon. DANIEL MOOKHEY: Is the Government policy intention still to deposit proceeds of the WestConnex privatisation into the NGF?

Mr PRATT: Yes. That is legislated that the second tranche will go into the NGF. That is correct.

The Hon. DANIEL MOOKHEY: Given the Government has said in multiple instances that the products of privatisation will be used to build infrastructure, why then is the Government depositing this into the debt retirement fund, which cannot be used to build infrastructure?

Mr PRATT: The intent around the NGF is for future debt retirement across generations. Separate to that is the borrowing program, which is really principally around infrastructure—the \$108 billion program. Having said that, the Government has choices, Mr Mookhey, and when you look at the second tranche of this transaction, it will go into the NGF by legislation but I will be looking at this in terms of recommendations to government about whether it retains all of that in the fund given these unique circumstances, because when we put the budget together, this was not foreseen, as you would appreciate. What we are now seeing with spend, it will be time to

reflect on: What is the optimal size of the fund? Should government actually retire some debt earlier or not? Those are things that I will be looking at.

The Hon. DANIEL MOOKHEY: I appreciate that, Mr Pratt. On the WestConnex privatisation, I see in the Government's announcement of the sale process that we are making a capital commitment fee to bidders, which effectively means we are paying for everyone to bid. How much are we paying the bidders for WestConnex?

Mr PRATT: I will get Mr Gardner to comment on that, Mr Mookhey.

Mr GARDNER: I cannot make any comment specifically on the WestConnex transaction now.

The Hon. DANIEL MOOKHEY: Sure. Is it the case that we are paying bidders 1 per cent of their enterprise value?

Mr GARDNER: One per cent of their enterprise value?

The Hon. DANIEL MOOKHEY: Yes.

Mr GARDNER: There are criteria that need to be met in order for that payment to be made, and one of them is that we have achieved a successful transaction. It is a net outcome; it is not a specific payment the Government is committed to.

The Hon. DANIEL MOOKHEY: Is it the case that we are having to pay people to bid for WestConnex because we have anti-competitive clauses that favoured the incumbents in the first sale process?

Mr GARDNER: I am not aware of any anti-competitive clauses you are referring to, Mr Mookhey.

The Hon. DANIEL MOOKHEY: I am referring to the grant of a right of first bid.

Mr GARDNER: That does not provide the incumbent with any specific advantage against someone who wants to bid in this sale process.

The Hon. DANIEL MOOKHEY: Has any bidder expressed to you a concern that the granting of a first right offer to the incumbent consortium means that they are unlikely to proceed to a bid because they do not think it is a fair and competitive bid?

Mr GARDNER: No-one has conveyed that message to us, Mr Mookhey.

The Hon. DANIEL MOOKHEY: Mr Pratt, to go back to the main line of questioning around the NGF, I welcome your comments around a revision of the policy here. Given that we have a record \$117 billion of gross debt before the effects of the current lockdown, what scale is the Treasury contemplating of using the debt retirement fund for its intended purposes of reducing debt?

Mr PRATT: This is an issue that we will work through. I might say, as you may be aware, Mr Mookhey, we have an Asset and Liability Committee in Treasury. Its purpose is to constantly review the balance sheet. It meets monthly and it makes recommendations to both myself and the Treasurer in conjunction with working with TCorp and Mr Deverall. That is an ongoing process. I will bring some recommendations together for the Treasurer in approximately the next eight weeks.

The Hon. DANIEL MOOKHEY: But it is the case right now that if we were to reduce debt by using the debt retirement fund for its purpose, we would be more likely to get back our AAA credit rating, wouldn't we?

Mr PRATT: I cannot speak for the rating agencies. What I would say is that the NGF gets full debt offset. We are given credit for that fund by both rating agencies today.

The Hon. DANIEL MOOKHEY: Sure. Do we have that figure about the government contribution for the coming year?

Mr PRATT: Let me just check.

Mr MIDHA: No, I have not got it yet. No.

Mr PRATT: We will have to take that on notice.

The Hon. DANIEL MOOKHEY: I am reading the budget papers and I am looking specifically—to be very technical for all my colleagues—at the line item on page A1-9 that says "Cash Flows from Investments in Financial Assets for Liquidity Purposes". It says that we are effectively buying an additional \$7.2 billion of financial assets this year and that is despite only a cash surplus of \$1.8 billion. Can we therefore infer that the Government has made a policy decision to borrow an additional \$4 billion to effectively cycle into the NGF and invest it in a bunch of global markets?

Mr MIDHA: I think we have been clear that the Government cannot borrow money to put directly into the NGF.

The Hon. DANIEL MOOKHEY: I am not suggesting directly, Mr Midha. I am suggesting very strongly that the Government is indirectly doing that.

Mr MIDHA: There are two different time horizons. We are borrowing to meet our capital requirements and the capital program that we have, which is short-term borrowing, while the NGF is being grown for a medium to long term. They are two separate things.

The Hon. DANIEL MOOKHEY: I appreciate that, Mr Midha, but the reason I ask you this question is because I looked at how much financial assets we are buying in net terms this budget and I compared it to the last budget and it shows that in between the two budgets, which is in effect six months, the Government has chosen to buy an additional \$21 billion of financial assets. It is increasing the purchasing in just the past six months. My point is this: Has the Government made a deliberate policy choice to increase the size of our financial asset base by \$21 billion in the past six months?

Mr MIDHA: No. I think you are looking at the cash flow statement when you are coming to those numbers.

The Hon. DANIEL MOOKHEY: Yes.

Mr MIDHA: Yes. The cash flow statement kind of varies on a daily basis as the cash requirements change. It could be proceeds from asset sales. It could be proceeds from dividends going into the fund, so it could be purchase of assets within the funds. This is very hard to come to the kind of conclusion that you have reached that this is specifically going in. This is the operating cash flow statement where funds move in and out to manage the day-to-day cash flow requirement of the Government.

The Hon. DANIEL MOOKHEY: I accept that you might disagree with me on this, but this is what the major rating agencies have published in the past three weeks. This is what major banks have been publishing, including today, saying that the result of the Government's policy decision has been to effectively use debt to increase the size of the NGF. Do you disagree with those agencies and institutions?

Mr MIDHA: Yes, we disagree with that.

The Hon. DANIEL MOOKHEY: Did the Government abolish the NGF advisory board?

Mr PRATT: Yes, it did, Mr Mookhey.

The Hon. DANIEL MOOKHEY: And that was a board chaired by Dr Glenn Stevens. Is that correct?

Mr PRATT: Yes, and then Mr Stevens joined the TCorp board.

The Hon. DANIEL MOOKHEY: Why did the Government abolish the advisory board?

Mr PRATT: The board had two purposes, really. It was really to set up the NGF initially and to work through the strategic asset allocation approach with TCorp and, secondly, it was the administration of the community fund. They were the two purposes.

The Hon. DANIEL MOOKHEY: Why wasn't the abolition of the board chaired by Dr Stevens announced?

Mr MIDHA: I think the closure of the My Community Project was announced in the media.

Mr PRATT: I would have thought there would have been some announcement, Mr Mookhey. I would have to check on that. I cannot recall, sorry.

The Hon. DANIEL MOOKHEY: I cannot find one. It is possible that I am wrong. On notice, can you please provide us precisely where you announced the decision to abolish the board chaired by Dr Glenn Stevens?

Mr PRATT: We will take that on notice. Thank you.

The Hon. DANIEL MOOKHEY: As a result of the choice to abolish that particular board, as you were making reference to before, Mr Pratt, I just assume now that the Asset and Liability Committee [ALCO] of Treasury is responsible for setting the policy and the risk thresholds.

Mr PRATT: That is correct, and then it works with TCorp on those settings, which are finally signed off by the Treasurer.

The Hon. DANIEL MOOKHEY: Is TCorp on the ALCO?

Mr PRATT: Yes, they are.

The Hon. DANIEL MOOKHEY: TCorp is the asset manager. Is that right?

Mr PRATT: That is correct.

The Hon. DANIEL MOOKHEY: Isn't there a pretty obvious conflict of interest that the body that is meant to be overseeing the performance of the fund manager includes the fund manager?

Mr PRATT: Mr Gardner, do you want to comment on that? Mr Gardner chairs the ALCO.

Mr GARDNER: Obviously, TCorp is the execution arm of government. It would be remiss of us not to have its expertise sitting on the ALCO—

The Hon. DANIEL MOOKHEY: Sure, but it is a standing member of the body that is meant to be overseeing its performance. That would not be permitted in any other like organisations as best I can tell.

Mr GARDNER: Mr Pratt and I are both on the board of TCorp. The arrangements between TCorp and Treasury are very close in terms of the need to have TCorp participate in the overall governance. There is a lot of things that we do at the ALCO which are outside of just this investment strategy work and at the end of the day we are taking advice from TCorp and from specialists within Treasury to advise the secretary and the Treasurer. It is entirely warranted from our perspective—

Mr PRATT: Mr Mookhey, it is a good question. Could I just add, if this was a decision-making forum, I would tend to agree with you, but this is an advisory body only and David Deverall's expertise is very helpful in that respect. The actual decisions are made through me to the Treasurer. The ALCO does not make decisions of itself.

The Hon. DANIEL MOOKHEY: Thank you for clarifying that.

Mr GARDNER: Mr Mookhey, could I just clarify that in the Treasurer's message to the last NGF board he did announce that the board was being dissolved. It is in the first page of the last annual report.

The Hon. DANIEL MOOKHEY: I appreciate that, Mr Gardner; that is helpful. I will be sure to read it again. How much in fees did TCorp charge the NGF to manage its investments in the last year?

Mr PRATT: I might get Mr Deverall to answer that, Mr Mookhey.

Mr DEVERALL: It is Mr Deverall here. TCorp plays two roles for the Government. One is we manage the Government's debt raising issues—

The Hon. DANIEL MOOKHEY: Mr Deverall, I do not wish to be rude. I have limited time and it was a very specific question.

Mr DEVERALL: Sorry, okay.

The Hon. DANIEL MOOKHEY: What fees has TCorp charged the NGF to manage its investments?

Mr DEVERALL: TCorp earns a fee of 0.045 per cent, so 4½ basis points. On a balance of about \$15 billion, that equates to roughly \$6 million or \$7 million per annum. That is the fee that we charge for managing the fund.

The Hon. DANIEL MOOKHEY: So 0.45 per cent of—

Mr DEVERALL: So it is 4.5 basis points.

The Hon. DANIEL MOOKHEY: Sure, 4.5 basis points of funds under management. Is that correct?

Mr DEVERALL: That is correct.

The Hon. DANIEL MOOKHEY: If funds under management increases, TCorp earns more fees, doesn't it?

Mr DEVERALL: The revenues of TCorp increase as funds under management grow. That is the same for the NGF. It is the same for all of the 15 portfolios that we manage that total around about \$110 billion on behalf of government clients.

The Hon. DANIEL MOOKHEY: I am not suggesting that it is novel, but thank you for clarifying. Doesn't that therefore provide another conflict of interest in terms of the Government relying on TCorp for advice?

Mr DEVERALL: I am afraid I do not understand. Is the suggestion here that—

The Hon. DANIEL MOOKHEY: Aren't you incentivised to recommend the Government not to clear debt and not to withdraw funds?

Mr DEVERALL: No, I am not at all. Just to help you, the incentive structure that I have is that I have a base salary and then I have an incentive reward component—

The Hon. DANIEL MOOKHEY: Sorry, Mr Deverall, I will get to your incentive structure. I was meaning more your organisation's incentive structure at this point in time. Doesn't TCorp as an organisation have an incentive to advise government not to reduce the amount of funds TCorp is managing as it will result in a reduction of revenue to TCorp?

Mr DEVERALL: No, it does not. That is incorrect.

The Hon. DANIEL MOOKHEY: Okay. Now that you have raised the question around your own KPIs, I do appreciate the Treasurer answering a question about this. I place on the record my thanks to you, Mr Deverall, for being forthcoming in that information as well, which is a pleasant attitude, I have got to say. It was not, for what it is worth, forthcoming about TAHE and it was very forthcoming about TCorp. I do appreciate that.

Mr DEVERALL: Thank you.

The Hon. DANIEL MOOKHEY: As I understand it, you do have a fixed remuneration component—

Mr DEVERALL: Yes.

The Hon. DANIEL MOOKHEY: —and that is publicly available, but you are also entitled to earn bonuses, which are worth 60 per cent of your fixed remuneration. What are the KPIs that you have to meet in order to obtain that?

Mr DEVERALL: Thank you, Mr Mookhey. My remuneration is made up of a fixed component, which in the notice I gave yesterday was \$780,000, and then I have the capacity to earn up to 60 per cent of that—a maximum of 60 per cent. In FY20 that was \$291,000. Those were the numbers that we provided. The basis for determining that incentive reward is based on a balance score card in FY20. The biggest single component of that was investment performance; that is investment performance in percentage terms relative to client investment objectives. There is no incentive for me or the organisation to increase funds under management. It is all based upon the performance of the funds relative to the client's investment objectives measured on a four-year rolling period. That is the first one.

The second most important category is the implementation of strategic initiatives across TCorp, and there are a range of other measures around customer feedback. There was a specific measure also around the reduction of fund manager fees that we get charged for the management of moneys that we look after. All of these add together to end up with an overall score, and for the financial year of FY20 I achieved 62 per cent. There is no relation between the size of the business, either in terms of revenues from the financial markets side of the business or the investment management side of the business—there is no relation between that and my incentive reward.

The Hon. DANIEL MOOKHEY: You do have a profitability KPI, don't you?

Mr DEVERALL: Eight per cent of the score in FY20 was related to profits after tax relative to budget. The budget is set at the beginning of each year with respect to the borrowing forecast and the investment numbers that come out of the budget supplied by Treasury. The extent to which revenues might go up and they are measured in the budget, those are automatically adjusted. Our challenge then is to manage the expenses of the organisation to marry up with those revenues that are expected to come in as per the budget.

The Hon. DANIEL MOOKHEY: Thank you, Mr Deverall. I appreciate the candour and thoroughness of your answer.

Mr DEVERALL: I appreciate it too, Mr Mookhey, because there has been some misinformation about my remuneration structure in the press recently. Thank you for clearing that up.

The Hon. DANIEL MOOKHEY: Sure. Can I ask about the asset allocation of the NGF? I saw that in the last annual report we had approximately 41 per cent in equities. I think it was 14 per cent Australian, 20 per cent international and 6 per cent emerging. What is the existing asset allocation between those equity markets?

Mr DEVERALL: The Australian equity allocation is heading down. We will keep the allocation to equities roughly around about that 40 per cent level for the purposes of diversification because what we are trying to do is meet the client investment objective within their envelope of risk that they have allocated—

The Hon. DANIEL MOOKHEY: I understand, but what is the client strategic asset allocation for international equities, Australian equities and emerging market equities?

Mr DEVERALL: We will be reducing the Australian equities down to about 8 per cent; the remainder will be global equities.

The Hon. DANIEL MOOKHEY: We are halving it, effectively, are we?

Mr DEVERALL: For Australia?

The Hon. DANIEL MOOKHEY: Yes.

Mr DEVERALL: Yes, a significant reduction because you do not get the benefit of diversification by investing in the Australian market that you do with offshore.

The Hon. DANIEL MOOKHEY: I get the benefit. Which emerging markets are we investing in, in both equities and debt? I see that we have 6 per cent of emerging market debt and we had, I think, about the same as emerging market equities. Can you tell us which markets we are going in?

Mr DEVERALL: We have developed markets and we have emerging markets and there are frontier markets. Typically some of the emerging markets might include countries such as Korea—those sorts of emerging markets—but certainly not what you would call frontier markets. If you want me to give you an exact description of exactly the allocations by country, I can do that and I can take that on notice.

The Hon. DANIEL MOOKHEY: I would and I appreciate it, thank you.

Mr DEVERALL: No problems.

Mr DAVID SHOEBRIDGE: I hope I am coming through reasonably clearly; it is a bit patchy at my end.

Mr PRATT: All good.

Mr DAVID SHOEBRIDGE: Mr Pratt, the bulk of my questions will be to you but if you find it necessary to refer it to someone else, that is open to you. We found from the fairly disastrous performance of icare over the past few years that it needs close oversight. Have you been tracking icare's financial performance, particularly in relation to workers compensation, to see what the impact of COVID has been on its financial viability?

Mr PRATT: I appreciate you directing it to me. I will need to get Mr Gardner to talk to that, Mr Shoebridge.

Mr GARDNER: Mr Gardner here. Good afternoon, Mr Shoebridge. One of the recommendations that came out of the McDougall review is that SIRA and Treasury work together to stress test the assumptions in the icare business plan. We are currently putting that process in place. We have been working closely with both SIRA and icare to ensure that we can do that. But you also have to note that the workers compensation scheme and the nominal insurer scheme is not sort of in the direct oversight of Treasury.

Mr DAVID SHOEBRIDGE: [Audio malfunction].

Mr PRATT: We cannot hear you, I am sorry.

Mr DAVID SHOEBRIDGE: [Audio malfunction].

Mr PRATT: That is better [inaudible].

Mr DAVID SHOEBRIDGE: Sorry, it is coming through rather haphazardly at my end. It probably is my connection. Do you know what the current projected deficit or funding ratio is for icare for its workers compensation division?

Mr GARDNER: I am not aware of the Nominal Insurer's funding ratio, no.

Mr DAVID SHOEBRIDGE: Can you provide that on notice and [disorder]?

Mr GARDNER: I just reiterate that that obviously sits outside of our remit and oversight, so we can seek that information from SIRA and icare on notice.

Mr DAVID SHOEBRIDGE: Chair, I might just drop out and take the second half of the crossbench questions and hand this bit to Mr Latham because my connection is quite poor, if that is okay.. I am sorry about that.

The CHAIR: Yes, that is fine. Mr Latham?

The Hon. MARK LATHAM: Thank you. I am at the ready. Coming to you, Mr Pratt. Back on that statement you made earlier that it was early days on outcome-based budgeting in New South Wales, the outcome-based budgeting was announced in the 2019 budget, wasn't it? It is now two budgets ago. Is that right?

Mr PRATT: That is correct. But the reason I made that comment, Mr Latham, is that this has been a massive piece of work. When you cut up a \$92 billion or thereabouts budget into outcomes and you want to report on all those outcomes, you can appreciate that takes some time.

The Hon. MARK LATHAM: We have had two years and the first cab off the rank was the Department of Education. Going to the *Budget Paper No. 2, Outcomes Statement* and looking at the Department of Education in vocational education and training [VET], there are three indicators graphed on pages 2-11 and 2-12 and they are all in decline. Our VET outcomes measured on those pages are all dipping downwards. After two years of outcome-based budget in the Department of Education, what is the intervention that Treasury makes to say, "Your outcomes are negative. These indicators are distressing. The policies must be problematic"? What are the interventions to actually change policy to improve the outcomes?

Mr PRATT: A number of things. Treasury has discussions with its relationship managers with each of the clusters. The Education team in Treasury would be discussing those outcomes with the Education department's responsible people. Secondly, the Secretary of Education would report back on this through the Secretaries Board and progress that they are making. I would imagine there would be other forums within Education itself with the Education Minister—that I am not a party to—where these things would be discussed.

The Hon. MARK LATHAM: Can you take on notice what the results of the discussions might be that change policy direction to improve the outcomes? Can I take you to the Stronger Communities Cluster at page 7-9 of *Budget Paper No. 2*? One of the terrible shames in our State is the large number of children and young people at risk of significant harm. There are tens of thousands of them around the State. Over the past five years the proportion of children and young people re-reported at risk of significant harm within 12 months has not moved; it is still at 40 per cent. What happens there in an absolutely critical area of child welfare—the most important responsibility you can have in the public sector and public life—to try and improve that number to bring down the re-reporting ratio to protect our children so they can sleep safely at night?

Mr PRATT: Obviously I fully agree, Mr Latham, and what I can say is that Michael Coutts-Trotter, the secretary of that cluster, has a laser focus on both the children's issue and domestic violence. There is regular reporting that goes to the Secretaries Board on this and I am happy to come back with those actions through Mr Coutts-Trotter. If you would like me to, I will take it on notice. I just want to reassure you that there is a very strong focus by that cluster on those issues.

The Hon. MARK LATHAM: We hear a lot about the laser-like focus, but it is supposed to result in measured improvements in outcomes—in this case, for vulnerable young children. I hope your reply on notice actually goes to that question of outcomes. I take you to page 7-8 of the same document where, despite enormous effort and expenditure in domestic violence, the number of people charged with a domestic violence assault who had an earlier domestic assault charge in the past 12 months—these are repeat offenders—has anchored over the past five years at 1,800. Why is that?

Mr PRATT: That is really a question for the cluster. But as you would appreciate, these are incredibly complex and difficult issues and you do not turn the dial quickly on this. What I can say is that it is getting the attention that you hope it would. These questions are directly for the clusters. I will take on notice what I can get for you. I really appreciate you asking about outcomes because that is the language we want around government. The more you do that, the better we are going to be, so thank you.

The Hon. MARK LATHAM: In these stubborn failed policy areas, is there a priority in the Treasury's approach to outcome-based budgeting where you take vulnerable children and the domestic violence problem as absolute priorities to drive improved outcomes under output-based budgeting?

Mr PRATT: What I can say is that Education and Stronger Communities have been the two key areas of initial focus and largely for reasons that you have just outlined. They are the clusters that we have been focusing on principally.

The Hon. MARK LATHAM: In terms of transparency and proper budgeting, why is it that in *Budget Paper No. 1* at page 4-6 under table 4.3 "New revenue measures" you list domestic and family violence funding with \$40 million increased outlays for each of the past two years? Why is that regarded as a revenue measure?

Mr PRATT: I would have to get Mr Midha to check that.

Mr MIDHA: I will check that and come back to you. I am sorry, I will need to take that on notice because it is a specific line.

The Hon. MARK LATHAM: Okay. It just seems very curious and unusual to have an expenditure in such an important area as a revenue measure.

Mr MIDHA: Some of this can be Commonwealth funding coming in, so therefore it appears as a revenue line. When Commonwealth funding comes in for those measures, it comes in as a revenue line.

The Hon. MARK LATHAM: Right, okay, thank you. That makes sense. That is not State effort; it is Commonwealth funding to New South Wales. Thank you. For anyone who can answer, why is the current budget forecasting a 22 per cent increase in transfer duty, which is what we used to know as stamp duty on homes?

Mr PRATT: I will get Ms Wilkie to talk to that. Thank you.

Ms WILKIE: The increase in transfer duty in the budget papers is as a result of the previous decline that had been forecast. It is basically because we are forecasting expectations for transactional activities, so additional volume, which has been much stronger in recent months leading up to the budget in comparison to the forecast we did for the half-year review. That is why there is an increase in volume. We saw a decrease in sales and forecast activity in the lead-up to the half-year review, which was then increased prior to the budget.

The Hon. MARK LATHAM: What is the impact of the current lockdown on your revenue forecast for transfer duty and right across the entire budget and flowing onto a bigger budget deficit?

Ms WILKIE: That work is being undertaken at the moment and the formal forecasting round will start in earnest, as Mr Pratt said earlier, for the half-year review over the course of the next month. The revenue forecast depends quite a lot on the economic forecast. As Mr Walters said earlier, the formal forecasting round for economic activity for the half-year review has not yet commenced. While we monitor revenue intake in real time, the forecasts are undertaken more periodically. But given that we have seen a decrease in economic activity, we do expect to see some decreases in revenue. But at this stage we have not done the revenue lines in detail. We will do that for the half-year review.

The Hon. MARK LATHAM: Generally, you are expecting a pretty sharp deterioration in the budget—

Mr DAVID SHOEBRIDGE: I think Mr Latham's time has expired.

Ms WILKIE: Mr Latham, that is not what I said. I did not say what you just said I had said. You have misrepresented my statement.

The Hon. MARK LATHAM: Sorry about that. Are you expecting an improvement in the budgetary position?

Ms WILKIE: Mr Latham, that is not what I said either.

The Hon. MARK LATHAM: No, but that is a question, you see; that is not my statement. I am asking what is your expectation of the budgetary position as a result of the lockdown we have currently got, which looks like it will go to Christmas?

Ms WILKIE: The budget position or the revenue position, Mr Latham?

The Hon. MARK LATHAM: Both. They are related—revenue and budget.

Ms WILKIE: Budget depends on both expenses and revenue. My expectation is that we will see a deterioration in the revenue position.

Mr DAVID SHOEBRIDGE: Mr Pratt, despite the experience we have had over the past few years, do I understand that you are not getting regular reports about the financial position of the Nominal Insurer [NI]?

Mr PRATT: There is work underway. One of the outcomes of the reviews, as you know, is for Treasury to engage itself in a more detailed review of the plan. That work is underway and Mr Gardner is leading that work. But as far as I am aware, there is ongoing reporting coming through to Treasury on the performance of the NI. Let me just check with Mr Gardner on that.

Mr GARDNER: That is right. Sorry, it is Mr Gardner here again. Mr Pratt and I have monthly meetings with the CEO and senior executive of icare. We talk verbally through a lot of the significant issues, including the program of remediation work around NI. We are fully aware of that program of work. There are a lot of those that have a crossover into the Treasury Managed Fund—and so the extent we do there. Then we are sort of working closely with them and SIRA on a number of different issues. We are not parking this off to the side. There is a high degree of attention and focus on this.

Mr PRATT: Mr Shoebridge—

Mr DAVID SHOEBRIDGE: Time is limited, Mr Pratt, so I ask again, what is the current financial status of the Nominal Insurer? What is its funding ratio? But you do not know that.

Mr GARDNER: That is information that icare and SIRA are best positioned to respond to you on, Mr Shoebridge.

Mr DAVID SHOEBRIDGE: Have you sought information about the COVID impact? For example, do you know the number of COVID-related claims that have been met by icare?

Mr GARDNER: I am unaware of that, Mr Shoebridge.

Mr DAVID SHOEBRIDGE: Given there are moves afoot—many of them supported across politics—to require compulsory vaccination for nurses and childcare workers, have you taken steps to ensure that those workers will be protected by workers compensation if they have an adverse reaction to the vaccine that is required for work? Have you taken those steps?

Mr GARDNER: Mr Shoebridge, I am aware of conversations that icare is participating in with the Department of Health and I suggest you direct questions to those parties.

Mr DAVID SHOEBRIDGE: Given Treasury's role in terms of the connection between the Treasurer and icare, can you give any data at all about the number of workers compensation claims related to COVID and, in particular, how many of them have used the deeming provisions that Parliament put in last year?

Mr GARDNER: We will have to take those questions around that sort of granular level of data on notice. The Committee did not request Mr Harding to join us; he would be a far better source of that information.

Mr DAVID SHOEBRIDGE: Mr Pratt, has Treasury looked at what the cost to the New South Wales Treasury would be of providing meaningful stay-at-home payments for people, particularly in western and south-western Sydney, in order to provide the financial security for people to stay at home? Has New South Wales Treasury done any modelling?

Mr PRATT: Not that I am aware, no.

Mr DAVID SHOEBRIDGE: Given that one of the major reasons we are seeing COVID being transmitted, particularly in western and south-western Sydney, is people feeling that they are economically compelled to continue to work even if they would prefer to stay at home, how is it the Treasury has not actually started costing this in order to protect us in this public health crisis?

Mr PRATT: Treasury is rightly largely directed by the health directions, as you would appreciate, in terms of health policy. This is evolving and continues to evolve very quickly. An example of what I am talking about now is we have recently just instigated a vaccine-and-isolate policy, so there is a payment for that, and these are things that we are working closely with Health in. On this specific issue, let me check with Mr Walters, but I am not sure if we have been asked to model any of that at this point.⁵

Mr WALTERS: No, that is right, Mr Pratt. We have not.

Mr PRATT: No, we have not, Mr Shoebridge.

Mr DAVID SHOEBRIDGE: What does the modelling show the take-up will be for the stay-at-home payment and what, if any, testing was done to see if that was anything like adequate to provide the necessary financial security for people to stay at home?

Mr PRATT: Mr Shoebridge, as I indicated earlier, all the modelling work is Cabinet-in-confidence so I am unable to share any of that work.

Ms WILKIE: Mr Shoebridge, the test-and-isolate payment is a health measure so those questions are best directed to the Health department. It is a public health measure.

Mr DAVID SHOEBRIDGE: But surely Treasury has to work out what the predicted uptake will be. Can you tell us what the predicted uptake will be and what it is actually going to cost?

Ms WILKIE: Mr Shoebridge, the predicted uptake is not dependent on a—the sort of modelling that Treasury would undertake in that space is based on economic activity. In this case, the uptake of a test-and-isolate payment is actually dependent on what is happening in the public health aspects in terms of how many cases there

⁵ In [correspondence](#) to the committee, received 20 September 2021, Mr Michael Pratt AM, Secretary, NSW Treasury, provided a clarification to his evidence.

are or people who might have symptoms and need to go and get tested. Again, those are questions that are the purview of the public health team in the Health department and not Treasury.

Mr DAVID SHOEBRIDGE: Mr Pratt, moving to a different matter, the New South Wales Government provided a \$5.5 million grant to the Australian Clay Target Association to provide a conference centre outside Wagga Wagga. What was Treasury's role in approving that and when were decisions made within Treasury to approve that funding?

Mr PRATT: I have to take that on notice, Mr Shoebridge.

Mr DAVID SHOEBRIDGE: When the current Premier was Treasurer, what role did she have in the assessment, the review or the approval of that \$5.5 million grant?

Mr PRATT: Again, I will take that on notice. I am not able to comment on that.

Mr DAVID SHOEBRIDGE: Do you know if Treasury had a role in the initial political approval in 2016 of that \$5.5 million grant and, if so, what role it had?

Mr PRATT: I am not aware, no.

Mr DAVID SHOEBRIDGE: Given the notoriety around this, have you sought a review about the adequacy of Treasury oversight for the handing out of \$5.5 million in this case?

Mr PRATT: No, I have not.

Mr DAVID SHOEBRIDGE: Don't you think that would be prudent given the degree of notoriety around this \$5.5 million grant? Or is a \$5.5 million grant not sufficient to raise those kinds of concerns within Treasury?

Mr PRATT: Many of these grants do not come through Treasury process. They are approved within the particular clusters of government. It would not be unusual, as you would appreciate, for Treasury not to have line of sight of these things.

Mr DAVID SHOEBRIDGE: But I assume in this regard you are speculating, because you say you do not know Treasury's role. Can you give us a detailed chronology of what Treasury's role was and who the decision-makers in Treasury were in relation to this grant?

Mr PRATT: I will certainly commit to giving you what I can, Mr Shoebridge, yes.

The CHAIR: Thank you, everybody. We have finished the hearing today. Thank you very much to all of our officials and witnesses who have joined us today to participate. The secretariat will be in touch with you in relation to the questions that were taken on notice and how you can respond to those and the time line for that. Thank you again for the work that you do.

The Hon. DANIEL MOOKHEY: Chair?

The CHAIR: Yes?

The Hon. DANIEL MOOKHEY: Sorry, I just thought I heard the Treasury officials hint that they might have some additional information.

The CHAIR: Yes. Mr Pratt or any others, did you want to—

Mr PRATT: I think Mr Midha might have had one piece of information.

The CHAIR: Yes, you are welcome to—

Mr MIDHA: I was just going to clarify Mr Latham's question around procurement savings. That policy was in last year's budget, which is why it was not specifically spelt out in this year's budget, but the details are there. Those savings continue into this year. I just wanted to clarify that.

The Hon. MARK LATHAM: It is not a budget measure for the current budget.

Mr MIDHA: No, it is not [disorder].

The Hon. MARK LATHAM: [Disorder] ten years ago, but it is not relevant to say it was in last year's budget. These are measures for this year. It is a \$145 million expenditure and no savings.

Mr MIDHA: [Disorder].

The CHAIR: If you want to clarify anything about that, Treasury officials, you are welcome to but otherwise we will wrap up.

Mr PRATT: We will leave it there, Chair. Thank you.

The CHAIR: Thanks, everybody, for your attendance.

(The witnesses withdrew.)

The Committee concluded at 12:47