ECONOMICS AND GOVERNANCE COMMITTEE

Members present:
Mr LP Power MP—Chair
Mr RA Stevens MP (virtual)
Mr MJ Crandon MP (virtual)
Mrs MF McMahon MP
Mr DG Purdie MP
Mr A Tantari MP

Staff present:
Ms L Manderson—Committee Secretary
Ms M Salisbury—Assistant Committee Secretary

PUBLIC BRIEFING—CONSIDERATION OF AUDITOR-GENERAL REPORT 11: 2021-22—ESTABLISHING THE QUEENSLAND FUTURE FUND

TRANSCRIPT OF PROCEEDINGS

Monday, 17 April 2023

Brisbane

MONDAY, 17 APRIL 2023

The committee met at 10.31 am.

CHAIR: Good morning. I declare open this public briefing. I respectfully acknowledge the traditional custodians of the land on which we meet today and pay our respects to elders past and present. We are very fortunate to live in a country with two of the oldest continuing cultures in those of Aboriginal and Torres Strait Islander peoples whose lands, winds and waters we all share.

My name is Linus Power. I am the member for Logan and chair of the committee. Other members of the committee are: Mr Ray Stevens, the member for Mermaid Beach and deputy chair, who is participating via teleconference; Mr Michael Crandon, the member for Coomera, who is also participating via teleconference; Ms Melissa McMahon, the member for Macalister; Mr Adrian Tantari, the member for Hervey Bay; and Mr Dan Purdie, the member for Ninderry.

The purpose of today's briefing is to assist the committee with its consideration of the Auditor-General's report No. 11 of 2021-22, *Establishing the Queensland Future Fund*. The briefing is a procedure of the Queensland parliament and is subject to the standing rules and orders of the parliament. Only the committee and invited witnesses may participate in the proceedings. Witnesses are not required to give evidence under oath or affirmation but I remind witnesses that intentionally misleading the committee is a serious offence. I remind members of the public that they may be excluded from the briefing at the discretion of the committee. I remind committee members that officers are here today to provide factual or technical information. Any questions seeking an opinion about policy should be directed to a minister or left to debate on the floor of the House.

These proceedings are being recorded and broadcast live on the parliament's website. Media may be present and are subject to the committee's media rules and the chair's discretion at all times. You may be filmed or photographed during the proceedings and images may also appear on the parliament's website or social media pages. I remind everyone to please turn all mobile phones to silent mode. I now welcome representatives from the Queensland Audit Office.

FLEMMING, Mr Patrick, Assistant Auditor-General, Queensland Audit Office

REARDON, Ms Michelle, Assistant Auditor-General, Queensland Audit Office

CHRISTENSEN, Mr Paul, Senior Director, Queensland Audit Office

CHAIR: Good morning and thank you for agreeing to brief the committee today. I invite you to make some opening comments after which committee members will have some questions for you.

Mr Flemming: Thank you, Chair, for the opportunity to brief the committee on our report, *Establishing the Queensland Future Fund*, tabled in December 2021. In August 2020, parliament passed the Queensland Future Fund Act which established the Queensland Future Fund structure. Our report outlined the process for establishing the Queensland Future Fund and the key elements of its structure at 30 June 2021. The Debt Retirement Fund was the first fund established under the Queensland Future Fund structure. The government uses the Debt Retirement Fund to offset the state's debt and support the state's credit rating.

To establish the Debt Retirement Fund, government transferred three key investments into it during 2021. This included the Queensland titles registry business, surplus assets held to meet the state's defined benefit liabilities and shares in Aurizon Ltd. The Queensland titles registry business was transferred from the Department of Resources. Queensland Treasury and QIC Ltd undertook a process of valuing the business as part of the transfer. External valuers helped determine the value of the business. The value of the Queensland titles registry business was based on the type of revenues it receives and the time over which it has the right to these revenues. The QAO audited the valuation of the Queensland titles registry business as part of our work on the Debt Retirement Fund. We were satisfied with the valuation and issued an unmodified opinion. We also audited the value of the titles registry as part of our 2022 audits of relevant entities and funds. We issued unmodified opinions on these 2022 financial statements as well.

The act established the concept of prescribed assets, which are assets required to be held by the state that cannot be sold or transferred to private entities. None of the assets transferred into the Debt Retirement Fund were transferred as prescribed assets. After the government transferred the three assets into the Debt Retirement Fund it transferred or sold portions of them to other government entities. This included selling part of the shareholding in Aurizon and transferring some of the investment in the Queensland titles registry business to other government entities.

In auditing the financial statements of the involved entities for 2021 and preparing this report, we identified impacts to several entities across government from establishing the Debt Retirement Fund. Some information was reported in the financial statements of each entity and some additional information on the allocation of assets was included in Queensland Treasury's financial statements. However, at the time we could not clearly identify one complete public source of information on the activities and investments within the Debt Retirement Fund. We recommended in our report for further information to be prepared, audited and made public about these activities and investments. We suggested that this could have been through financial statements for each fund within the Queensland Future Fund structure or an annual report on the Queensland Future Fund. We reiterated this recommendation in our report, *State finances 2021*, which we tabled in April 2022.

To address this issue we worked collaboratively with agencies during the 2022 financial year to identify and implement options to enhance financial statement disclosures on the activities of the Queensland Future Fund. As a result, additional disclosures were included in the financial statements of Queensland Treasury, Queensland Treasury Corporation and the consolidated Queensland government financial statements. Queensland Treasury also included additional information on the Queensland Future Fund in its annual report. We were satisfied that these additional disclosures provided enhanced transparency and accountability for the activities of the fund.

We will continue working with the agencies on enhancing the level of disclosure where we believe this is appropriate. Going forward, we will build on this information with an annual report on managing Queensland's debt and investments. This will replace our state finances reports. It will examine how the government is managing its debt and investments and include insights into what the government has invested in and how the investments are managed. The first report is due to be tabled next month. The committee may benefit from hearing from the agencies directly. We welcome any questions that the committee has on this report.

CHAIR: Thank you very much, Mr Flemming. Deputy Chair, do you have any questions of the Auditor-General's office?

Mr STEVENS: Yes, I have several, Mr Chair, to try to clear my mind on the activities of this transfer, particularly the transfer into the State Investment Advisory Board. As I understand it, they have taken 25 per cent of the ownership of the Queensland titles office. The State Investment Advisory Board is in charge of the defined benefit Public Service superannuation system. On what annual return would they take over a 25 per cent interest in the ownership of the Queensland titles office, if any?

Mr Flemming: I will ask Paul to respond to that.

Mr Christensen: Effectively, when the initial transfer went through, there are a range of different structures where the investments went through so the actual shares in, I think it is called, Queensland Titles Registry Pty Ltd, are now held through—there is actually two funds there. There is, I think it is called, the Registry Hold Trust and the units in that trust are then held by QIC Registry Trust. My understanding is that when all of that flowed through originally, 75 per cent of the investment in that trust was originally held by the Debt Retirement Fund. The other 25 per cent went back to what were traditionally known as the long-term assets, which was held by Queensland Treasury Corporation and the State Investment Advisory Board is the relevant arm or advisory board of QTC that manages that. They got 25 per cent, which was announced in the budget at the time, to help fund initiatives around housing, Path to Treaty, carbon reduction. Those funds sit in the assets that are held by QTC so they actually sit on Queensland Treasury Corporation's books. Queensland Treasury Corporation then has what they call a fixed rate note back with the Consolidated Fund, which obviously sits at the whole-of-government level. That has a 6½ per cent interest that accumulates to that note each year so it is adding to the balance of that original investment that is held there to meet the long-term liabilities of the state: superannuation, the Queensland Government Insurance Fund and those types of liabilities. There is a 6½ per cent return through the accumulation of interest back to the Consolidated Fund for those.

Mr STEVENS: Mr Christensen, you mentioned that $1.8 billion went across from the government to the long-term assets. As I understand from a previous report, there were liquid assets that came back from that fund or some assets from the fund as a swap, if you like, for the titles registry ownership. What liquid assets were swapped by that superannuation fund for the $1.8 billion to the titles office and why would the superannuation fund devolve itself of liquid assets for an asset that it cannot sell?

Mr Christensen: In terms of the investment strategy, that would be something determined by the State Investment Advisory Board in conjunction with QIC as the managers. From our perspective, we are not really privy to the basis of that. That would be a policy consideration for the advisory board. Obviously part of the reason the Debt Retirement Fund, on the other side of things, needed to get the cash assets or more liquid assets is because effectively their main investment was just the titles registry so they needed to diversify that fund as well to balance that portfolio.

Mr STEVENS: Queensland has just had a record real estate boom, which obviously means the titles office has shown record returns to maximise its valuation. What will be the outcome of the Queensland Future Fund in the long-term asset valuation of the public servant superannuation fund when the real estate boom halts?

CHAIR: Obviously, we are not asking for investment advice about us buying real estate or otherwise.

Mr STEVENS: No, but we want to see what happens for that Future Fund in terms of its valuation et cetera when this real estate boom halts.

CHAIR: This might be giving further information on the auditing of the valuation you have undertaken twice.

Mr STEVENS: Mr Flemming could answer that perhaps.

CHAIR: Mr Flemming, who should best answer that?

Mr Flemming: Can we just recap the question?

CHAIR: My understanding of the question is that it is asking this: do temporary movements in the real estate market affect the underlying valuations, or was that taken into account as part of your auditing process evaluation? Is that a fair characterisation of the question, Deputy Chair?

Mr STEVENS: Yes, it captures it pretty well.

Mr Flemming: That is one of the factors that comes into the valuation of the titles registry in the first place. Because it was a 50-year transaction and because the revenue streams that the titles office generates are based on incremental property prices over that time, those were both two things that were factored in—what are the values now and what is the growth rate expected to be over 50 years—to work out what those numbers are and then you discount that back from 50 years. That is all part of that valuation that went through. History would dictate that, yes, there will be times when that cools, retracts a little bit, but ultimately over that 50-year period they have factored in what they think all of those things will mean and what the end result will be on those cash flows for the titles registry business.

CHAIR: I guess were you doing calculations on long-run averages or a short-term bump as part of the process—that was the essence of his question.

Mr Flemming: The valuation takes over that whole period, so the 50 years is where the valuation comes from and that is what we audit. That was the value of the business.

Mr STEVENS: We are of the understanding through the parliamentary processes that the titles office company will not be sold. If that is the case in terms of the ownership of that titles office, then the superannuation fund have an asset that they cannot sell. Is there a sunset clause on that for when it comes back to government ownership? If they cannot sell this asset, as per the government legislation as we understand it, I take it that it cannot forever stay in the superannuation fund's books. It probably will come back to the government at some stage. Is that correct, Mr Flemming?

Mr Flemming: There is probably something to point out. In the legislation itself, it established what is called a prescribed asset, which was an asset that could not be onsold. None of the three investments that went into the fund in the first place—the titles registry, the Aurizon shares or the surplus transferred from the defined benefit—were transferred as prescribed assets, so technically they could be sold to external parties if that was the investment decision that was appropriate at the time. They are not quarantined as such as prescribed assets, so that would be a matter for the decision-makers around those investment strategies.

Mr STEVENS: That would be a matter for the government. In other words, the defined benefit superannuation scheme can sell their 25 per cent of the titles office, the company?

Mr Flemming: Yes. Whatever the percentage is that the long-term assets hold, they can divest from that. Whether that goes to other government entities, that is a decision for others to make.

Mr STEVENS: I understand it is a government decision and those sorts of things, but there still could be a sale of 25 per cent of the titles office asset to the private sector. Can the Debt Retirement Fund, owning 75 per cent, sell its share if the government so wishes to the private sector as well?

Mr Flemming: We mentioned that initially 75 per cent was the Debt Retirement Fund and 25 per cent was for the other three funds. That was the initial set-up. As at 30 June 2021, figure 2E in the report shows that the long-term assets hold 41 per cent of the titles registry, the Debt Retirement Fund holds 22 per cent of the titles registry, and those three other funds we mentioned—the housing fund, the carbon reduction fund and the Path to Treaty—hold 34 per cent, and then there is a small percentage for the National Injury Insurance Scheme. That is figure 2E on page 7 of the report. Those percentages have changed since the first initial investment, and nothing precludes any of those entities from changing their investment in the titles registry should they choose.

Mr STEVENS: So what you are saying is they can sell the titles registry?

Mr Christensen: If I can clarify, what they hold is an investment in a fund established by QIC and they could sell that. They are not effectively owning the shares directly so they are not selling the shares directly, but they could potentially sell that ownership of the investment that they hold. I guess the other aspect of it is what is being transferred into Queensland titles registry proprietary limited is a 50-year right to earn the revenue from operating that business. When that 50 years is up, my understanding is that, subject to a number of things happening, that would then revert to the government, subject to their agreements or things being entered into.

CHAIR: It seems that we are going into a bit of a hypothetical thing about future LNP policy here. Do you have any further questions, Deputy Chair?

Mr STEVENS: I have some later. Someone else can have a go.

CHAIR: The legislation by regulation allows that those assets be prescribed, and it is the stated government intent that these assets be held in public ownership as a directive during the term of this government. Is that fair to say?

Mr Christensen: In terms of policy intent—

CHAIR: I might be straying into asking you about policy, but that is in the statements that have been put forward about the fund.

Mr Christensen: I understand that might be the case. However, they are not specifically prescribed as per the legislation that they cannot be. I guess there is potentially a difference there between what the intent is versus what has happened under the legislation.

Mr PURDIE: I think you mentioned that you first called for an annual report for the Future Fund in 2021. In New South Wales the generational fund, or whatever they call it, does report differently. Treasury has responded to you indicating that the way they are set up is different which is why they report and it is not necessarily that they would have to report similarly here. Can you explain Treasury's response to that?

Mr Flemming: Treasury is right. They are two different constructs. In New South Wales it is a particular individual entity. Here it is a fund that can invest in lots of different things. We were coming from the point of view in that first year that a lot of entities were involved and there were a lot of different transactions. There was no one single place where you could get a snapshot of everything that had happened in that fund yet. You had to go from A to B to C to get that full picture, which is partially what we did in this report to bring all of that together to give that one position.

We have obviously worked with the entities in the last 12 months to try to enhance the disclosures that were being made. This year there has not been the volume of transactions that there was last year. In those years when there are not a lot of things happening, the disclosures are quite adequate the way they have worked on them for 2022. It is hard to say, if there is a whole volume of transactions that happen in multiple different entities in future years, whether that will also need enhanced disclosure. At the moment, we are satisfied with the 2022 disclosures.

Mr PURDIE: You did say that since then there has been more transparency and you have been able to identify those transactions, but are you still calling for an annual report? I know you are going to be doing your own report about the debt and investment report. Are you still calling for the Future Fund to do an annual report, or are you happy now with their reporting that it is transparent?

Mr Flemming: We are satisfied with the disclosures that are being made at the moment. Whether they are made the way they are, whether they are in an individual report, we believe the transactions are appropriately disclosed and they are transparent.

Mr TANTARI: I want to re-emphasise what the member for Ninderry said there in regards to the disclosures and so forth. My question was going to be very similar in regards to the timing of this report. Given consideration to statements you made in your opening address regarding your recommendation, and I know this is probably a bit of crystal ball gazing, but do you see any further recommendations being put forward regarding disclosure and so forth in your next report or afterwards?

CHAIR: The member for Hervey Bay might be anticipating the annual report on managing debt and investments, which we are all excitedly looking forward to. It is like a kid trying to open his presents before Christmas. However, you might give us some forward guidance about the exciting things to come.

Mr Flemming: There are probably only six weeks to wait and you will know the full details. Around the Queensland Future Fund and disclosures, we are not planning to make any recommendations on that in the next version. As I said, it is hard to say what is going to happen in the future. If there are multiple different transactions and multiple different entities, our position may change but at this point in time there are no further recommendations.

Mr CRANDON: I think it was Mr Christensen who mentioned earlier that the return paid to the funds is 6.5 per cent. I am assuming that was established in a low inflation environment and I am assuming it is not tied to inflation—in other words, 6.5 per cent plus inflation or whatever. Given we have a higher inflation forward view, would that mean that the capital value of the funds would reduce? Is that your view, or what would be your perspective there?

Mr Christensen: In terms of the 6½ per cent, that is effectively paid by Queensland Treasury Corporation to the Consolidated Fund representing their investment. My understanding—and this is consistent with the way they have been doing things with the long-term assets over a number of years—is that rate of interest that accrues on that is based on an expectation of the average returns over the longer term views on which those assets are held. In terms of the returns on the fund, they will go up and down as markets move. The 6½ per cent is intended, when you look at it from the perspective of the Consolidated Fund, to minimise those impacts of the ups and downs over the 50 years, in this case, on which those investments might be held.

Mr CRANDON: Are you saying then that a valuation today of the fund would maintain its current value, increase its value or be reduced based on current inflation and that 6.5 per cent? This is in the marketplace and if we were going to sell the asset today.

CHAIR: Just to clarify, in the introduction, Mr Flemming talked about doing the original audit and then a follow-up audit. Is this separate to that statement? I might just put it to Mr Christensen.

Mr Christensen: I guess what I can say is that, when we did the audit at 30 June, the valuation of the funds had maintained their value. There had not been a significant movement at that stage. We will do another audit on 30 June this year to see those values. In terms of the market movements, it really relates to the funds that are managed by QIC, and we will audit those this year and see what the impacts are. Obviously, because those funds reflect investment in a diversified portfolio of assets, they will react differently to the different market movements as well.

Mr CRANDON: I have several questions, Chair; can I keep going?

CHAIR: Certainly.

Mr CRANDON: You mentioned that in figure 2E the breakdown is long-term assets holds 41 per cent, the debt retirement fund holds 22 per cent et cetera. Are you aware of any changes? Have there been any changes to your knowledge in the ownership percentages?

CHAIR: Sorry, maybe it was not clear over the teleconference, but we had had discussion with Mr Flemming about the changes since that date. You might want to give a more fulsome or the same answer for the member for Coomera. I am not certain.

Ms Reardon: There have been some changes, but I would say not significant—moving some investments between government entities. I think we quantified about less than one per cent movement in the last 12 months.

Mr CRANDON: Just going on from this discussion we have already had about whether or not the assets can be sold, correct me if I am wrong, Mr Flemming, but I thought you said in your opening statement that the assets cannot be sold. Of course, we have now had discussions about the capacity for them to be sold. Was that the difference that you were making between the actual asset and the shares in the company structure? Can you elaborate on that? I am sure you said in your opening statement that the assets cannot be sold but, of course, we have discussed that they can indeed be sold.

CHAIR: That might be a mischaracterisation of Mr Flemming's original statement, but you are on the phone.

Mr Flemming: What I believe I said in the opening statement was that the act that was passed allowed things to be transferred into the fund as prescribed assets. If something was transferred as a prescribed asset then it could not be sold. Of the three assets that have gone across so far—one of them being the titles registry and the others being Aurizon shares and the surplus in the defined benefit—none were transferred as prescribed assets, so technically that part of the act does not apply to them. They could be held by external parties.

Mr CRANDON: In relation to the S&P credit rating agency, in a previous report on the Queensland Future Fund they indicated they had concerns with the liquidity of the assets. Are you aware if S&P has maintained its view regarding its liquidity concerns, and is that something you consider when you are doing your review?

Mr Christensen: I can confirm that the Queensland Treasury Corporation annual report for the last financial year noted that the rating agencies had reaffirmed their ratings for the last review that they did at that stage. In terms of specific issues around liquidity, it is not something we specifically look at unless we are looking at something like—for accounting purposes in auditing the financial statements—whether there is a going concern issue in terms of the ability to meet current debt. It is not really something we specifically look at in terms of how a fund is structured. We look more from the perspective that those decisions around liquidity, whether they are looking to invest in growth assets or whatever it is, are a decision made by the State Investment Advisory Board working with QIC. From our perspective, we may look at whether the funds are being invested in a way determined by the State Investment Advisory Board but we would not look behind the decisions that they would necessarily make.

Mr CRANDON: The member for Mermaid Beach asked what liquid assets were swapped out of those entities. I am not sure that you answered that aspect of the question, but I am on the phone. You may have and I may have missed it. Did you indicate what liquid assets came out to be replaced by these assets going in?

Mr Christensen: We do not have those specific details in terms of what went in and what went out. The other aspect of that was trying to distinguish between the fund versus the fixed rate note as well. We do not really have that level of detail.

Mr CRANDON: You do not have them with you or you do not have them within your organisation?

CHAIR: I think he is indicating that that is something that the Audit Office does not necessarily ask for.

Mr Flemming: I might add something to that. The member mentioned liquidity before, but it is also about diversification from not just having everything in one bucket with, say, the titles registry. It was about changing the percentage of ownership of the debt—if you are looking solely at the Debt Retirement Fund—so that it did not have all its eggs in one basket; it diversified and has some equities and other investments in different things. That is where the change is. The titles registry itself is quite a liquid business. While it was not transferred with cash assets, obviously people go and pay cash for the services that it runs. It will build up. It has a high volume of transactions. It builds up its cash reasonably quickly, so it is quite a cash rich business.

Mr STEVENS: My final question is to Mr Flemming. I understand the government's interest in reducing the debt exposure and therefore the possible interest increase that might result to Queensland taxpayers by, say, a ratings downgrade. However, does this movement of assets and creative accounting basically of an unsaleable asset reflect the true position of Queensland's financial position?

Mr Flemming: With all the valuations and everything we have audited, we have audited every transaction as part of this restructure. We have issued unmodified opinions on all of the entities we have audited. You made a comment there, Deputy Chair, that it could not be sold. I think if you put it up for sale there would probably be a few interested parties in a cash-rich business. That is not what I am suggesting you do, but I think there would be a market for a business like this.

CHAIR: The Treasurer set out the objectives for the Future Fund in the 2021-22 state budget. While the fund met the objectives of having assets of $7.7 billion as of 30 June 2021, according to the report, and improving the net debt ratio for the state, can you advise the committee on your understanding of how the objectives will be measured in the medium to long-term? I do note that you have given us the information about the annual report on managing debt and investments.

Ms Reardon: These are things that we will be monitoring through our managing debt and investments report. Each one of them will have specific measures against them. For example, the first objective is in terms of providing for debt reduction. At the moment there has been no withdrawals or pay down of debt from the Future Fund. At the moment this is about holding those assets and growing those assets so they can be offset and maintain that credit rating. In discussions with Treasury and QTC and the information that is available, that is the primary objective at the moment. That is something that we have been measuring through, as was indicated, the QTC annual report and Queensland's credit rating at the moment. That is the one being measured in that way.

CHAIR: There being no further questions, we will bring these proceedings to a close. Thank you for the information you have provided here today and thank you to our Hansard reporters and our broadcast staff for their assistance. A transcript of the proceedings will be available on the committee's webpage in due course. I do not believe there were any questions taken on notice. I declare this public briefing closed. Thank you very much.

The committee adjourned at 11.09 am.