



ECONOMICS AND GOVERNANCE COMMITTEE

Members present:

Mr LP Power MP (Chair)
Mr RA Stevens MP (via teleconference)
Mr ST O'Connor MP
Mr TR Watts MP
Ms KE Richards MP
Mr LR McCallum MP

Staff present:

Ms L Manderson (Committee Secretary)
Mr J Gilchrist (Assistant Committee Secretary)

PUBLIC HEARING—INQUIRY INTO THE QUEENSLAND FUTURE FUND BILL 2020

TRANSCRIPT OF PROCEEDINGS

MONDAY, 27 JULY 2020

Brisbane

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The committee met at 3.16 pm.

CHAIR: Good afternoon. I declare this public hearing open. Today's proceedings are being conducted using videoconference and telephone facilities so please bear with us if there are any technical difficulties. I would like to begin by acknowledging the traditional owners of the land on which we meet and pay my respects to elders both past and present. My name is Linus Power, member for Logan and chair of the committee. The other members are Ray Stevens MP, member for Mermaid Beach and deputy chair; Lance McCallum MP, member for Bundamba; Sam O'Connor MP, member for Bonney; Kim Richards MP, member for Redlands; and Trevor Watts MP, member for Toowoomba North.

The purpose of today's proceedings is to assist the committee in its examination of the Queensland Future Fund Bill 2020. The hearing is a proceeding of the Queensland parliament and is subject to the standing rules and orders of the parliament. It is being recorded and broadcast live on the parliament's website. I remind all those present to please switch mobile phones to silent.

FRAWLEY, Mr Damien, Chief Executive Officer, Queensland Investment Corporation

CHAIR: Thank you for joining us this afternoon. Just prior to these proceedings the committee received a public briefing on the bill from the Queensland Treasury. Mr Frawley, do you have any opening statement or comments to make on the bill before we have some committee questions? If I went too quickly for those listening online, I have gone through that six or seven times today so my apologies. Damien has heard it before too. Mr Frawley?

Mr Frawley: Thank you, Chair. Thanks very much to the committee for the chance to appear today and address the Queensland Future Fund Bill 2020. The QIC, as we all know, was created in 1991 as a government owned corporation by the Queensland government to serve its long-term investment responsibilities. We also provide investment management to non-government investors. We manage over \$78 billion in funds under management, with assets here in Queensland and also around the world. The Queensland Future Fund will be included as part of our function in managing the investment responsibilities for the Queensland government as our client.

As you have already heard from Queensland Treasury, the legislation establishes QIC as the investment manager for any assets that the Queensland government decides to transfer to the Queensland Future Fund. Individual assets that might be considered by the Queensland government are not the subject of the bill which establishes the Future Fund framework. The decisions on what assets will be transferred to the fund are matters for the Queensland government to determine. QIC is not in a position to comment on any individual assets that might be considered by the government, and we are working to provide due diligence advice to the Queensland government for their consideration. QIC will manage those assets to best maximise returns for the Queensland government subject to, firstly, legislative restrictions on the ownership of the assets in the fund and, secondly, conditions placed upon those assets by the Queensland government during the transfer.

QIC also manages the defined benefit fund for the Queensland government. The QFF legislation includes an amendment to the Superannuation (State Public Sector) Act 1990 to require that the defined benefit fund value match the liability for accrued entitlements for the defined benefit superannuation scheme. This provision guarantees the scheme will remain fully funded and QIC will continue to manage the fund to achieve the best risk adjusted return. The Treasurer has announced that \$1 billion from the surplus of the defined benefit fund will be transferred to the Queensland Future Fund. The fund is currently in surplus and will remain in surplus after the proposed transfer. I previously reported a couple of weeks ago to this committee that we expected the financial year return on the DB fund to be negative 6½ per cent for the financial year. I am pleased to advise that the fund recovered somewhat towards the end of the financial year and it is looking highly likely that the return will be closer to minus 5.6 per cent.

Since its inception in 1991, QIC has had a strong track record of investment management of the defined benefit fund, the only fully funded DB scheme in Australia. As the Treasurer has said, this obviously affects the surplus position in the fund; however, even after the transfer of \$1 billion in the fund the DB fund will remain in surplus. They are my opening remarks. I am more than happy to answer any questions.

CHAIR: I believe the deputy chair, member for Mermaid Beach, Ray Stevens, has a question.

Mr STEVENS: And disappointed Rugby fellow, Mr Frawley.

CHAIR: There is a lot of disappointment going on on that front—almost as much as Rugby League.

Mr STEVENS: I am following up on a question I asked the office of the Treasury previously in relation to the Titles Registry, which we understand is going to be included within this fund to a value of \$4 billion. As the chief investor in the Queensland Investment Corporation, is \$4 billion a reasonable asset amount for the particular Titles Registry, what return would QIC require for it to be valued at that and does the QIC ever have any intention of marketing or buying the Titles Registry?

CHAIR: Firstly, Mr Frawley, I rule out the questions on Rugby Union. They are not relevant to the bill before us.

Mr STEVENS: That was a comment, Chair.

CHAIR: I ask you to proceed with answering the other questions about the Future Fund.

Mr Frawley: I thank the deputy chair for the question. The \$4 billion valuation or number that was quoted by the Treasurer last week I think was somewhat instructed by recent past sales of these sorts of businesses in other states. I think they gave a fair indication of the multiple applied to the income stream that is generated by these sorts of assets and I think the \$4 billion number as quoted was a very fair and reasonable number. Clearly, we need to undertake further due diligence. There will be a formal valuation done on the asset at an appropriate time. What largely instructed the Treasurer and also ourselves around that number was, as I said, transactions that have occurred for similar businesses over the last few years. We believe it is a very well run business. We also believe that it generates very good returns for the government and will, in turn, continue to generate good returns to government in the environment of the Future Fund, and the income that is generated from that asset will be churned back into the Future Fund.

Mr WATTS: Thank you for your time today. What is the forecast return for the Future Fund and how long would that take to pay off, as speculated by the Treasurer, the \$100 billion debt?

Mr Frawley: I thank the member for Toowoomba North for the question. We are still working through the modelling around the return expectation for the Future Fund. We still have further work to do on that. I think it would be fair to say that, to make a dent in the \$100 billion debt with a \$4 billion asset and a \$160 million asset as the first assets to be transferred into the Future Fund, they would need to work very, very hard to knock down a \$100 billion debt. The returns that we would like to think are appropriate would be somewhere akin to the DB fund returns over the years. We are obviously building this for the future. This is a fund that will endure and so the return expectation will be thought of in the context of many, many years. Clearly, markets are volatile—markets do not behave the way we want them to behave sometimes—so it is important that we adjudge the performance of the Future Fund at appropriate time sets or with appropriate time sets.

CHAIR: On that basis, the Future Fund provides a mechanism to continue to build and to put funds forward in order to show the strength of the Queensland government's asset base to people who might loan to the Queensland government in the future?

Mr Frawley: Yes. I think this is a way of managing your balance sheet efficiently. I think the ratings agents, as the Deputy Under Treasurer referred to earlier, have deemed this process to be acceptable for them in terms of how they assess the credit rating of the state, so I think it has many advantages.

Mr WATTS: With the transfer of the Titles Registry, at the moment the revenue from that just goes into consolidated revenue. I am interested as to why you would not use that money to retire debt rather than put it into a separate fund.

Mr Frawley: I think with the compounding nature of returns and investments, where debt currently is pitched and trading, it is an environment currently where debt, I have to say, is relatively cheap and you need to make an assessment on the investment returns that are likely to come from the assets of the fund being superior to the current debt levels. In investment speak, there is an arbitrage there to invest money at a higher rate than what you can borrow money, so that is our intention—to reduce the debt with the returns and build a bigger asset base for the Future Fund.

CHAIR: That is a similar decision that the New South Wales government would have made when they created their own future fund. New South Wales in 2018 could have put any future fund funds directly towards reducing debt but instead sought advantages for the state in creating a future fund.

Mr Frawley: Yes. The idea is to grow an asset base that endures and continues to grow through time and the earnings from that and at certain points in time you can retire debt, either through taking principal from the Future Fund or redirecting the earnings from the Future Fund when they get to a significant size to reduce that debt.

Mr McCALLUM: When it comes to what is proposed in this bill and the Queensland Future Fund as compared to New South Wales or elsewhere, are their higher protections for the assets that are held in trust in the fund that will be created as a result of this bill?

Mr Frawley: Yes. All of the assets that are moving into the fund—there are conditions around those assets that are set by the government as to what we as the manager can do with those assets and what we cannot do with those assets. There are conditions attached.

Mr O'CONNOR: To take a step back, what role will QIC actually have in managing these assets? Can you run us through how it will actually look?

Mr Frawley: We will have a very similar role to the one that we have in managing, for example, the Brisbane port or the Brisbane Airport. We are an investment manager. There is an asset management team that manages those assets. We as the investment manager hold the asset manager to account on behalf of our clients, and that is pretty much what we will be doing with the assets of the Future Fund: ensuring they continue to be managed appropriately and positively, looking to increase in value through time, to make sure they run efficiently. It most definitely will be very similar to what we have been doing with many of our direct assets on behalf of both government and non-government clients for many years.

I make a point on the previous question. It is worth reminding people that it is an offset account. It is most definitely a debt offset account. That is the way you would like to think about it. Hopefully that answers your question, member for Bonney.

CHAIR: Thank you very much. We note that there have not been any questions taken on notice. We thank you very much for giving us an overview of what the QIC does and what it will continue to do for the economic strength of Queensland. I thank Hansard and our parliamentary broadcast staff. I note that a transcript of these proceedings will be available on the committee's webpage in due course. I declare this public hearing closed.

The committee adjourned at 3.32 pm.