QUEENSLAND
GOVERNMENT

Queensland Treasury and Trade

Our Reference: TRY-06629
Your Reference: D2.14.01

- 1 APR 2014

Mr S Davies MP
Chair
Financial and Administration Committee
Parliament House
George Street
BRISBANE QLD 4000

Dear Mr Davies

Queensland Treasury and Trade departmental oversight hearing

Thank you for your letter dated 19 March 2014 outlining the Question on Notice from the public departmental briefing, as well as additional information sought.

Please find attached responses to the questions provided.

In addition, please find attached small corrections to the draft Transcript of Proceedings accompanying the letter of 25 March 2014 from the Committee's Research Director to the Assistant Under Treasurer, Fiscal Strategy Division.

If you require any further information, please do not hesitate to contact Mr Dennis Molloy, Assistant Under Treasurer, Fiscal Strategy Division on [redacted] or [redacted]

Yours sincerely

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Responses to questions raised by the Finance and Administration Committee at the departmental oversight hearing held on 19 March 2014

Queensland Treasury and Trade (QTT)

Issues

- The Finance and Administration Committee (Committee) conducted a public departmental oversight hearing on 19 March 2014.

- During the hearing it was agreed that QTT officers would provide further information to the Committee in relation to matters relating to Auditor-General Report No. 9: 2013-14 on the energy sector entities. In addition, the Committee indicated it may write to QTT with further questions. A request for further information has been received. QTT's responses to these matters are set out below.

Question on Notice

- **Query 1** – In regard to Auditor-General Report No 9: 2013-14 (Energy sector entities 2012-13), the departmental response stated that the government is currently considering all the recommendations of industry reviews conducted over the past 12 months in developing the 30 year electricity strategy. Could you please provide the Committee with an overview of the indicators of financial sustainability to be used in the performance reporting framework as recommended in the audit report?

  Response – The Auditor-General Report No 9 2013-14 recommended the Department of Energy and Water Supply and QTT use the following indicators in the performance reporting framework – operating surplus ratio, liquidity ratio, capital replacement and growth ratio and debt sustainability ratio.

  The section in QTT responsible for oversight of the energy sector entities, the Shareholders' Monitoring Unit (formerly Commercial Monitoring), already calculates and reviews some of these ratios in the monthly monitoring undertaken on each GOC. Some of these ratios may change very little over time and may not provide any additional insight into the performance and position of the GOCs beyond that already visible in the underlying data.

  However, in line with the commitment provided in QTT's letter responding to the Auditor-General's Report, the Shareholders' Monitoring Unit has commenced a review of the sustainability indicators suggested by the Auditor-General. This review is well progressed and is assessing each ratio on its merits. Furthermore, if warranted, a plan will be developed for adopting any new ratios which provide additional value compared to the indicators already measured and reported. If implemented, the new ratios may be implemented into either the GOCs' Statements of Corporate Intent or the monthly monitoring process (key aspects of the performance reporting framework).

This review is ongoing but it is anticipated that, following consultation with the Department of Energy and Water Supply, a report on the findings of the review will be completed in the coming months. The findings of the review will dictate the next steps, but may include wider formal consultation (including with the GOCs) and/or sectors beyond the energy sector.

The sentence before the question refers to "the government is currently considering all the recommendations of the industry reviews conducted over the past 12 months in developing the 30 year electricity strategy". This answer was not provided by QTT but I understand it was a response provided by the Department of Energy and Water Supply (DEWS). DEWS is responsible for the 30 year electricity strategy and this issue is best addressed to that agency.

Additional Questions

- **Query 1** – Auditor-General Report No 9: 2013-14 – the report highlighted the potential issues arising from out-dated assets and replacement of these assets clearly in a language suitable for a broad range of readers. Could you please outline the department's plans to resolve this issue?

  Response – While replacement of ageing assets is important for the network GOCs (Energex, Ergon and Powerlink), there was no suggestion in the Auditor-General's Report that this was being done incorrectly or poorly at present.

  GOCs have independent boards which have management autonomy and authority to make commercial decisions and decisions relating to asset replacement are heavily influenced by the decisions of the Australian Energy Regulator (AER) which assesses and makes allowances for appropriate capital expenditures including those that relate to the replacement of out-dated assets. Consequently, under the GOC model, the AER and the GOC's board are primarily responsible for ensuring appropriate levels of asset replacement. Government departments such as QTT ensure the GOCs operate appropriately within this regulatory and government framework.

- **Query 2** – Exposure Draft 54 – Reporting Service Performance – the Committee notes that the AASB has issued an alert advising that the IPSASB has issued ED54. Could you please advise what effect this ED will have on the Queensland public sector if adopted and advise whether the department intends to provide comments to the AASB?

  Response – ED 54 will become a Recommended Practice Guideline (RPG). For those jurisdictions that comply with IPSASB pronouncements, the RPG will be applicable to reporting by all public sector entities, other than Government Business Enterprises, to provide guidance on reporting service performance information.

  The Queensland public sector, as with all Australian jurisdictions and the private sector, follows requirements set by the Australian Accounting Standards Board (AASB), not the IPSASB. The AASB closely monitors the IPSASB work program and undertakes its own work on selected topics based on their significance to financial reporting in Australia. The AASB is monitoring the progress of ED 54 to determine whether something similar should be issued in Australia.

QTT co-ordinated the response on the earlier consultation paper on this subject on behalf of HoTARAC (Heads of Treasuries Accounting and Reporting Advisory Committee). HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The committee comprises the senior accounting policy representative from each Australian State, Territory and the Australian Government.

In broad terms, HoTARAC did not have any significant concerns with the proposals in the consultation paper, but suggested that there be further clarification and guidance and removal of duplication and inconsistencies.

QTT will also be co-ordinating the HoTARAC response to ED 54. No significant concerns have been identified in ED 54 based on QTT's review to date. Subject to feedback from other jurisdictions, QTT's views will be reflected in the HoTARAC submission on ED 54. HoTARAC's submission will also be provided to the AASB for its information.

ED 54 notes that, in some jurisdictions, extensive requirements for the preparation and presentation of service performance information are already a legislative or regulatory requirement and exceed the requirements of ED 54 – this is the case with the Queensland public sector. To the extent that any of the content of ED 54 is adopted in Queensland, it is expected that this would be reflected in the Queensland Government Performance Management Framework, maintained by the Department of the Premier and Cabinet.

- **Query 3** – Auditor-General Report 12:2013-14 (Results of audit: Queensland state government financial statements 2012-13) – the Committee notes that the Auditor-General highlighted that the financial reporting matter identified in previous reports about the valuation and disclosure of land under roads remained unresolved at 30 June 2013. Could you please outline for the Committee the history of this issue and what action is being taken to resolve it.

  Response – The existing policies for reporting and valuing land under roads were agreed with the previous Auditor-General to comply with AASB 1051 *Land Under Roads*. The previous Auditor-General endorsed the existing approach to enable first-time adoption of AASB 1051 for the 2008-09 financial year. Subsequent to 2011-12, the current Auditor-General questioned:

  - the practice of all land designated for road purposes under the *Land Act 1994* being recognised as an administered asset by (what is now) the Department of Natural Resources and Mines; and
  - the valuation of such land.

  The Queensland Audit Office (QAO) engaged an external advisor regarding both these issues. QTT understands that, based on the views of the external advisor, QAO is no longer pursuing the first issue described above.

  The valuation of land under roads for Queensland is determined by the State Valuation Service (SVS) using a methodology developed by experienced and qualified valuers.

QTT acknowledges that land under roads is valued differently across jurisdictions. Queensland is happy to adopt a methodology that is consistent with other States/Territories, provided all States/Territories can agree on a consistent approach. This will help to guard against continual revision of the methodology and the introduction of volatility into the financial statements.

Key users of Queensland's whole-of-Government financial statements (such as ratings agencies) have not indicated any particular concerns since this valuation does not feed into any of the key credit metrics.

QAO has requested information from the Department of Natural Resources and Mines (of which SVS is part) that supports the current valuation methodology's compliance with the new accounting standard AASB 13 *Fair Value Measurement*. QAO has now forwarded the information received to the external advisor for their views on this matter. Ultimately, QTT is concerned to ensure that any departure from the existing methodology is conceptually defensible over time, such that future changes based on subjective views are avoided as far as possible.

- **Query 4** – 2013-14 Mid Year Economic and Fiscal Review (page 6) – details that no measurable savings have been delivered so far from 'contestability'. Is it expected that measurable savings from contestability will be detailed in the 2014-15 budget?

  Response – This issue will be considered in the context of the budget for 2014-15 and future years. The 2014-15 Budget is still under development and will be delivered on 3 June 2014. However, as a general point, the Queensland Public Sector is taking a steady and deliberative approach to the introduction of contestability to ensure that decisions taken represent value for money and are in the public interest. This includes intensive early work developing a good suite of information on the current service offering and an understanding of the market.

- **Query 5** – 2013-14 Mid Year Economic and Fiscal Review (page 21) – Can you please provide an explanation for why the superannuation liability for the general government sector is forecast to fall from $26 billion this financial year to $22.2 billion by 2016-17? Does this forecast factor in any additional redundancies in the public sector?

  Response – The superannuation liability for the general government sector is forecast to decline over the forward estimate period largely as a result of actuarial gains due to discount rate assumptions used in valuing the defined benefit superannuation liability.

  The superannuation liability is valued in accordance with AASB 119 *Employee Benefits* which requires the discounting of future superannuation benefit obligations using yield rates on government bonds.

  The defined benefit fund was closed to new entrants from 2009 which also contributes to the decline in superannuation liabilities.

The superannuation liability forecasts do not include any additional redundancies in the public sector beyond the long term average over the past 20 years.

- **Query 6** – 2013-14 Mid Year Economic and Fiscal Review (page 18) – Can you please provide an explanation of why the fiscal deficit this financial year is $3.4 billion larger than projected in the 2011-12 Mid Year Economic and Fiscal Review?

  Response – Every six months, QTT prepares a table which reconciles the net operating balance and the fiscal balance. This table also provides a breakdown of the movements in the balances. The recent tables were included in the 2013-14 Budget Paper 2 Budget Strategy and Outlook (refer Table 1.3) and in the 2013-14 Mid Year Economic and Fiscal Review (MYFER – refer Table 5).

  The change in fiscal balance reflects changes in both the net operating balance and net acquisition of non-financial assets. In summary:

  - The fall in the Net Operating Balance is largely due to savings measures in the 2012-13 Budget being more than offset by taxation and royalties revisions and changes to National Disaster Relief and Recovery Arrangements (NDRRA) revenue and expenditure.

  - An increase in net acquisitions of non-financial assets increases the fiscal deficit. Increases in NDRRA capital expenditure have been the main driver of the deterioration since the 2011-12 MYFER, partly offset by savings measures.

  As the Committee would be aware, the 2013-14 Budget highlighted that flooding caused by ex-Tropical Cyclone Oswald was forecast to cost $2.5 billion. This event occurred in early 2013 and was not foreseen in the 2011-12 MYFER. This event and other revisions to the impact of previous disasters on Queensland were estimated in the 2013-14 Budget to detract almost $2.7 billion from the fiscal balance in 2013-14.

- **Query 7** – Economic and Fiscal Challenges Report (page 2) – Could you please outline what the modelling is behind the assumption of 'lower rates of working age population growth'?

  Response – Population estimates are derived from the Government Statistician's 2013 population projections. The Queensland Government produces projections of the total population by age and sex. The 2013 edition uses a 2011 base population with time horizons to 2061 for Queensland. These projections represent usual resident populations only and exclude visitors and temporary residents. The projections reflect the outcomes of applying a set of assumptions about the future direction of fertility, mortality and migration applied to a base population.

  In the decade to 2011, the Queensland population increased at an average annual rate of 2.3%. This rate is projected to decline slightly to 2.0% in the 2011 to 2021 period.

- **Query 8** – With regard to the government's investigation into private sector infrastructure funding for state-owned electricity transmission and distribution businesses, can you please advise whether this transaction would appear on the balance sheet as 'Net Cash flows from Investments in Financial Assets for Policy Purposes' or under the line of 'Sales of Non-Financial Assets'?

  Response – The government's scoping studies to investigate future options for the electricity transmission and distribution businesses have not been finalised, so no transactions have yet been built into the State's financial statements.

  In general, however, the line 'Net Cash Flows from Investments in Financial Assets for Policy Purposes' in the Cash Flow Statement is used to recognise cash flows from the sale of a business, whereas the 'Sales of Non-Financial Assets' line is used to disclose cash flows from the sale of individual assets.