FINANCE AND ADMINISTRATION COMMITTEE

Members present:
Mr CW Pitt MP (Acting Chair)
Mrs EA Cunningham MP
Dr B Flegg MP
Mr R Gulley MP
Mrs FK Ostapovitch MP
Mr MA Stewart MP

Staff present:

Ms D Jeffrey (Research Director)
Dr M Lilith (Principal Research Officer)
Ms L Whelan (Executive Assistant)

DEPARTMENTAL BRIEFING—QUEENSLAND TREASURY AND TRADE ANNUAL REPORT AND AUDITOR-GENERAL'S REPORT NO. 9

TRANSCRIPT OF PROCEEDINGS

WEDNESDAY, 19 MARCH 2014

Brisbane

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Committee met at 8.57 am

BEAVERS, Mr Alex, Deputy Under Treasurer, Fiscal Group, Queensland Treasury and Trade

GRAY, Mr Mark, Under Treasurer, Queensland Treasury and Trade

MOLLOY, Mr Dennis, Assistant Under Treasurer, Fiscal Strategy Division, Queensland Treasury and Trade

ACTING CHAIR: Good morning, ladies and gentlemen. I declare this departmental briefing open. My name is Curtis Pitt and I am the deputy chair of the Finance and Administration Committee and the member for Mulgrave. I give apologies from the chair of the committee, Steve Davies, who is unable to be with us today as he is attending to some business in his electorate this morning. The other members of the committee are: Mrs Liz Cunningham, the member for Gladstone; Dr Bruce Flegg, the member for Moggill, who is unable to be with us today; Mr Reg Gulley, the member for Murrumba; Mrs Freya Ostapovitch, the member for Stretton; and Mr Mark Stewart, the member for Sunnybank.

Under the Parliament of Queensland Act, parliamentary committees may perform its role in relation to examination of the public accounts related to its portfolio area. The committee has responsibility to assess the integrity, economy, efficiency and effectiveness of government financial management by examining government financial documents and to consider the annual and other reports of the Auditor-General. The purpose of this briefing is to receive information from Queensland Treasury and Trade on various issues including the Queensland Treasury and Trade annual report and the Auditor-General's report No. 9.

This hearing is a formal proceeding of the parliament and is subject to the Legislative Assembly's standing rules and orders. The committee will not require evidence to be given under oath, but I remind you that intentionally misleading the committee is a serious offence. Thank you for your attendance here today. The committee appreciates your assistance. You have previously been provided with a copy of the instructions for witnesses, so we will take those as read. Hansard will record the proceedings and you will be provided with the transcript. This hearing will also be broadcast. Could I also remind witnesses to speak into the microphones to ensure clarity for Hansard.

I remind all those in attendance at the hearing today that these proceedings are similar to parliament to the extent that the public cannot participate in the proceedings. In this regard I remind members of the public that under the standing orders the public may be admitted to or excluded from the hearing at the discretion of the committee. I also request that mobile phones be turned off or switched to silent mode and remind you that no calls are to be taken inside the hearing room. I invite officers to make a brief opening statement.

Mr Gray: Thanks for the opportunity to appear before this committee today to discuss matters pertaining to the Treasury portfolio. The items that have been identified by the committee for discussion this morning highlight Treasury's dual role: firstly, its role as a department in its own right and the accountabilities that come with that; and, secondly, its role as a central agency responsible for managing the state's finances on behalf of the government.

Turning firstly to the departmental role, as a department, Treasury must comply with the departmental provisions of the Financial Accountability Act, including the preparation of financial statements and an annual report. The 2012-13 controlled financial statements consisted of Treasury, including the Office of State Revenue, and also Trade, which is now a separate statutory body subsequent to the 2012-13 financial year, as well as the controlled entities of Queensland Treasury Holdings Pty Ltd, QTH, and Queensland Trade and Investment Office Pty Ltd.

QTH, Queensland Treasury Holdings, acts as a corporate vehicle through which the Queensland government holds assets of strategic importance. These include the state's residual shareholding in Aurizon Holdings Ltd, formerly QR National Ltd. QTH also holds a controlling interest in entities such as the Cairns and Mackay airports and Queensland Lottery Corporation Pty Ltd. QTT own 60 per cent of the shares in QTH, with QTC holding the other 40 per cent. Queensland Trade and Investment Office Pty Ltd exists to support the activities of the department's Trade and Investment Queensland offices overseas.

Turning to our central agency role, Treasury also administers funds on behalf of the state. In 2012-13, Treasury administered nearly $25 billion in revenue. The largest single source of administered revenue was Commonwealth grants of some $12.7 billion, followed by state taxes, fees, fines and levies of some $9.75 billion. The main component of Commonwealth revenues was Queensland's share of the GST. Other Commonwealth revenue includes funding for National Partnership payments and the NDRRA funding arrangements—that is, the national disaster funding arrangements. In 2012-13, Treasury also administered nearly $8 billion of expenses on behalf of the state. This included administering a number of grant programs such as the Great Start Grant, the First Home Owner Grant, the Queensland Building Boost Grant and grants to the Queensland Reconstruction Authority.

As a central agency, Treasury has a number of additional obligations under the Financial Accountability Act for the operation, management and reporting of the Consolidated Fund and the consolidated state accounts. Under section 23 of the Financial Accountability Act, Treasury prepares the *Consolidated Fund financial report*, CFFR, which is audited by the Auditor-General and tabled in parliament by the Treasurer. This report details the cash flows into and out of the Consolidated Fund, including information about appropriations to departments. The CFFR also provides reasons for appropriation adjustments and explains any variances between the appropriation heading amount in the appropriation acts, adjusted for section 79 transfers—which are machinery-of-government transfers—and the actual appropriation paid.

Under section 25 of the Financial Accountability Act, Treasury prepares financial statements for the whole of government and the general government sector. Again, these are audited by the Auditor-General and tabled in parliament by the Treasurer in the *Report on state finances*. This report also provides high-level information for the general government sector about reasons for significant variances which occurred from the published budget. Information in the *Report on state finances* is presented in accordance with the reporting requirements of the Uniform Presentation Framework, UPF, which is established under Australian Loan Council arrangements and involves all the states and territories as well as the Commonwealth. The latest version of the UPF was prepared by the UPF committee convened by heads of Treasuries for this task. The committee comprised representatives from Australian state and territory Treasuries and the Australian Department of Finance and Deregulation. Consolidated financial statements were also presented in the *Report on state finances* in accordance with Australian accounting standards requirements.

Looking to the future, Treasury has a number of challenges on the horizon, including preparing through the 2014-15 budget for the new Australian accounting standard requirement for general government sector agencies to show their budget versus actual results and providing explanations for significant variances. The second challenge is the ongoing work being undertaken by Projects Queensland on a variety of projects such as the Toowoomba second range crossing and the underground bus and train project for Brisbane. The third challenge is assisting the government with implementing recommendations from the independent Commission of Audit.

Mr Acting Chair, thank you again for the opportunity to speak with the committee about Treasury's role, functions and achievements. I am happy to take questions.

ACTING CHAIR: Thank you very much, Mr Gray. I might start and then offer the opportunity to other committee members subsequent to that, leading from these questions. My first question is to Mr Beavers. Is the cost of hiring a commercial adviser to undertake a scoping study commercial-in-confidence? If so, for what commercial reason? I note that the department has released these costs in response to a question on notice in the past. I am keen to see whether there is a reason there could be a difference there.

Mr Beavers: Acting Chair, if I understand correctly, you are asking if I believe scoping studies are commercial-in-confidence?

ACTING CHAIR: I am not asking if you believe that. In your role as the Deputy Under Treasurer, there have been questions on notice that have been asked in the past related to commercial-in-confidence regarding scoping studies but that information had been released. So I am interested to find out whether it is correct that the most recent scoping studies that are being undertaken are in fact commercial-in-confidence and, if so, for what commercial purpose.

Mr Beavers: The most recent scoping studies that have been undertaken, I am afraid, do not fall under my purview.

Mr Gray: I can answer that. The latest scoping studies have been undertaken by the government through a committee set up for that purpose. The committee is Queensland Capital Project Committee, which is actually a subcommittee of cabinet. So, as a subcommittee of cabinet, all the information relating to that committee is in confidence.

ACTING CHAIR: There is a difference between cabinet-in-confidence and commercial-in- confidence.

Mr Gray: Yes.

ACTING CHAIR: I am interested if you could draw that distinction, because I understand the reason for the information not being provided is that it is commercial-in-confidence.

Mr Gray: Okay. I was not quite sure that that was the reason given. In terms of commercial-in-confidence, I think the judgement there would be that there are a number of scoping studies being undertaken by a number of entities at varying rates and to actually publish those costs would reveal to other competitors what those scoping studies are being pitched at. There was quite a range of costs involved. People took varying attitudes to whether they should position themselves with a low-ball bid or a high-ball bid. Releasing that information, I think, would give competitors insight into bidding strategies and how they price these particular scoping studies.

ACTING CHAIR: Given that that information had been released previously in answer to questions on notice in the past, do you think there is an issue with that?

Mr Gray: I do not think so. When you say in the past—

ACTING CHAIR: Let's talk about what this is. These scoping studies are about the sale of assets in Queensland. Previously when that has taken place, in the last term of government, my understanding is that the information had been released in full to the public.

Mr Gray: I cannot comment on what happened in the past. I was not there and I was not part of those decision-making processes. I think it is entirely appropriate at this point in time for this information to remain commercial-in-confidence because of the scale of the scoping studies. There are a number of them being done. There was quite an evaluation process involving a number of bidders on a number of particular studies. So to reveal that information, I think, would give commercial information to other parties that would probably prejudice the government in terms of getting best possible value for money outcome in the future.

Mr GULLEY: I have a question for Mr Gray. Can you outline to the committee the structural changes that have occurred within the QTT and any impacts of those changes?

Mr Gray: The recent structural changes that I have introduced?

Mr GULLEY: Yes.

Mr Gray: Thank you for the question, Mr Gulley. Yes, I have made some refinements—I call them refinements rather than substantive changes—to the structure of Treasury. They were announced back in February and they are in the process of being implemented. The changes were really to clarify our main areas of responsibility. I felt there were some areas where our accountabilities were not entirely clear. So I have made some adjustments to ensure that we have those fairly clear accountabilities around our core activities—those core activities being our fiscal activity. So all our fiscal activities are being consolidated together.

Our economic functions have also been consolidated together. They were actually distributed around various parts of the department, so I have consolidated those functions to strengthen and consolidate our economic performance and our economic advice. I have also consolidated our commercial activities around Projects Queensland and clarified those responsibilities. I have created a position of chief operating officer to bring together a range of other corporate functions, including corporate services but a range of other activities that do not sit within the core functions of fiscal and economic but are still vitally important such as the superannuation role, the Insurance Commissioner role and things like that. So they are really an attempt to clarify those accountabilities and responsibilities and to ensure that we are working more effectively. In terms of impacts, they will help us to work more efficiently. They do not have any cost impacts.

Mr GULLEY: I have a follow-up question. In regard to the QTT annual report 2012-13, there is an estimate versus an actual result. Under the estimated actual results to 30 June 2013 there was an operating surplus of zero; the actual came in at $1.775 million.

Mr Gray: Perhaps if I could ask you to refer to what page you are on, Mr Gulley, or what document you are in.

Mrs CUNNINGHAM: It is an internal document.

Mr GULLEY: It is the estimated actual for 2012-13 in the budget papers of the QTT.

Mr Beavers: No. You are suggesting there was an actual surplus—

Mr GULLEY: An estimated actual operating surplus/deficit of zero. But the actual result came in as a surplus of $1.775 million.

Mr Beavers: So you are wondering why that might have been the case?

Mr GULLEY: Yes.

Mr Beavers: My suspicion is that it would be relating to employee expenses and the fact that we might have been carrying more vacancies than we had anticipated towards the end of the year from people leaving or going on different types of leave. We prepare the budget estimates for a June budget around March and they represent our best estimate at the time. But Treasury's employee budget is about $100 million. It is generally as a result of vacancies that you find yourself with a surplus.

Mr GULLEY: There is a line there called 'Unearned revenue'. Again, for that the estimate was zero; the actual came in at $1.394 million. What would that unearned revenue be?

Mr Beavers: My suspicion would be—again, I would have to look at the documents—that it is likely to relate to billable work that Projects Queensland does on behalf of other departments. But, again, I would have to take the opportunity to examine the accounts.

ACTING CHAIR: Mr Beavers, are you able to take that on notice and come back to the committee?

Mr Beavers: Sure.

Mr Gray: We are happy to do that. Unearned income basically is an accounting term which means you have the income before you have to account for the expenditure. So it is really an accrual issue.

Mr GULLEY: Yes.

Mr Gray: As I say, it is money received in advance of expenditure occurring.

Mr GULLEY: You are talking to an accountant.

Mr Gray: Sure. Okay.

Mrs OSTAPOVITCH: Could you tell us what have been some of the achievements that are highlighted in the annual report?

Mr Gray: In the 2012 annual report? I must say that I was not there at the time, so they are not my achievements and maybe I will get Alex to talk about them. One of the achievements, I suppose, was the completion of the independent Commission of Audit report and the provision of advice to the government on its response to the Commission of Audit. But I might ask Alex to provide some more details.

Mr Beavers: We have the wrong document in front of us.

Mrs OSTAPOVITCH: They have actually been highlighted in the report.

Mr Beavers: Yes. It is just from which report. Some of our key achievements during the year were obviously delivering the budget and that is a major part of our focus. We also led the government's response to the Commission of Audit. We managed the state government's involvement in intergovernmental reforms and the distribution of GST grants and achieved a good outcome for Queensland. We provided advice on the economic impact on a number of national reforms.

We successfully implemented a number of election and other commitments on behalf of the government. Project Queensland had a number of major achievements in relation to project tasks that they were given on behalf of the budget. We have also been able to complete the review of Trade and Investment Queensland.

They were some of the major achievements for us in 2012-13. I will be happy to take any questions, but they are set out on page 3. I can read them out, if you like.

ACTING CHAIR: That is not necessary. We might move to the next question. Mrs Cunningham?

Mrs CUNNINGHAM: The midyear fiscal and economic review indicated a slight improvement in the size of the deficit. Can you explain the impacts of that forecast deficit and how that achievement was gained?

Mr Molloy: When you say 'improvement' you are talking about in the 2013-14 years specifically?

Mrs CUNNINGHAM: Yes.

Mr Molloy: The best way to pull all of that together is in the midyear review document itself. Page 13 of the midyear review document has what is referred to as a reconciliation table—a reconciliation of net operating and fiscal balance. Again, if we are focused on the 2013-14 year, that goes through the various elements that have contributed to that improvement. Inevitably, in any estimates update there are swings and roundabouts. There are some things that are an improvement and there are some things that are a deterioration. If we were to run through that reconciliation table from the top, our taxation risks for 2013-14 improved a little bit. They were up about—this is the midyear review estimates—$63 million on budget, but we had royalty revenue, primarily because of some weaker coal prices than what we were anticipating at budget time, a negative $97 million. There were some natural disaster revisions in that year, which were a positive $225 million. So that is taking into account expenditure and expenses and revenue. So it is the net of those two. Then we have a net flow from public non-financial corporation entities, which was a negative of $65 million. That refers to the GOC flows net of CSOs. So it is your dividends and tax equivalent payments. You then have to offset that for any change in CSOs. So that was detracting.

Then there were government policy measures. These are decisions taken since the budget in that 2013-14 year, which were a negative $124 million. Then we had the parameter adjustments. There are always other parameters that are moving, be it inflation, population—those types of factors. That was a negative $11 million. So when you add all of those up, the net operating balance in 2013-14 had deteriorated slightly from a deficit of $3.760 billion at budget time to a deficit of $3.769 billion. But then we need to take into account, because of the focus on the fiscal balance, also other capital movements and they were a slight positive.

So if we have a look at the 2013-14 fiscal balance, we see that at budget time—and again this is for the 2013-14 year—we are anticipating a fiscal balance deficit of $7.664 billion and at midyear review the estimate was that that would be slightly better at $7.604 billion.

As I said, that is probably a bit hard for me to capture in words, although I have tried to do so. But if you have a look at the reconciliation table it is on page 13 of the midyear review. That sets that out.

Mrs CUNNINGHAM: Thank you.

ACTING CHAIR: Mr Stewart, do you have any questions at this time?

Mr STEWART: I do. As you would be aware, we have oversight over the Auditor-General's reports and review each of those as they come through. So my next questions are in relation to the Auditor-General's report No. 9. It is in relation to the audit of the energy sector entities. Queensland Treasury and Trade is responsible for managing the government's shareholding relationship with the government owned corporations. By way of introduction, could you please outline to the committee QTT's role and responsibilities with respect to government owned corporations?

Mr Gray: Thank you, Mr Stewart. We have a unit that is now called the Shareholders' Monitoring Unit, which interacts on a regular basis with GOCs. It works with the GOCs in respect of their corporate plans and their statements of corporate intent, which are presented each year to the government as the shareholders and they are negotiated through a fairly extensive process of consultation with the management and the board of the GOCs. That is a major task that is undertaken around this time each year. That sets the overall strategy and direction for the organisations. It presents their five-year budget forecast and financial performance indicators.

During the course of the year that monitoring unit then monitors that performance during each quarter and presents a quarterly report to the Treasurer highlighting the performance estimated actual against budget, or actual year to date compared to budget. We raise any particular issues in consultation with, again, the board and management—the CEO and the CFO—where there are particular issues of concern, particular variations in performance compared to what was expected. So there is an ongoing process of consultation and fairly ongoing engagement with the GOCs during the course of the year.

Mr STEWART: Just a follow-up, if I can?

ACTING CHAIR: Yes.

Mr STEWART: Queensland Treasury and Trade explained in your response to the audit that some of the indicators provided in the report are not included in the statements of corporate intent. Could you please explain the reasoning for this exclusion and whether there is value in including these in the government owned corporations statement of corporate intent?

Mr Gray: There are a number of financial performance measures. The GOCs present their financial statements and financial performance measures based on an agreed set of indicators that have been developed over a period of time. We ensure a consistent set of indicators across the GOCs to the maximum extent possible. The Auditor-General chose to refer to several other performance indicators that are slightly different in nature but they are variations on a theme and really do not add to the store of knowledge beyond the financial indicators that we currently use, which are broadly in line with what credit rating agencies and markets use for their analysis of the performance of companies.

ACTING CHAIR: I might ask a follow-up question, if I can, to Mr Gray and then I have a question for Mr Molloy. We were talking earlier about the scoping studies. Can you confirm whether they have been completed at all?

Mr Gray: They are still in the process of being completed.

ACTING CHAIR: So they are not completed at this point?

Mr Gray: No.

ACTING CHAIR: Mr Molloy, I just wanted to refer to the modelling that was released yesterday by the Treasurer in a report titled *Economic and fiscal challenges* that there is a potential for debt to reach $121 billion by 2023 with no course of action. What is Treasury's level of confidence in this scenario or projection?

Mr Molloy: The scenario that is presented is really our midpoint scenario. Obviously, when you are going out that long there are a lot of assessments that need to be made. There is a possible range. That document also contains what you might call a somewhat more optimistic set of assumptions just to show the variability that does exist. That is produced in that document. If you refer to that, though, you still see that, whilst the increase in debt is less than what our best estimate was, it is still very significant and those deficits are still significant over the forward estimates period. It does not change the essential message that, in a structural sense, the budget has very significant issues going forward, but within that there is a range. The figures that the Treasurer presented are certainly our best estimates based on the data that we have.

ACTING CHAIR: Just to be clear, they are scenarios; they are not forecasts?

Mr Molloy: They are projections. You can get into a very technical debate as to what is an estimate and what is a protection. The document itself refers to them as projections. For example, if we have a look at the 2017-18 year that is published there, it suggests that there will be a deficit. That is based on using a medium-term projection over the entire period. Whether there is a deficit in that year or a surplus, we will not know until we publish the actual budget in June. But what a projection is is having a look at the underlying drivers medium term—for example, on growth; what you expect growth is going to be over that period of time—and you then apply that to each year. You do not try to finesse it too much by saying that it will point two of a per cent higher in this year and point two of a per cent lower in that year. You apply an underlying and medium-term projection over that period and that is what projections are.

ACTING CHAIR: Given that we all agree that even forward estimates can be out, just depending on what the actuals are going to be, 10 years is quite a substantial time to look into the future.

Mr Molloy: It is, but the type of results that we have there are consistent with other types of medium-term modelling exercises that have been done. I think it is the core message there that is important. It is that structural weakness in the budget going forward—substantial deficits, substantial increases in debt. Whether the number is 121 or slightly higher than that or slightly less than that, I do not think that so much is the issue other than the substantial deterioration that we are projecting beyond the forward estimates period and the fact that something has to be done.

Mr Gray: Can I just add to that just to reinforce the comments made by Mr Molloy? The subtle distinction between forecasts and projections, I suppose, is that forecasts are the things that we include in the forward estimates in the budget. So there is a higher degree of precision around them, because we generally go out to agencies and get specific information from our agencies on their commitments over that forward estimates period. For the purposes of these projections, we do not go down to that level of detail. They are based on more broad based assumptions and rules of thumb about likely indicative expenditure trends over that period. So that is the distinction between the projections and the forecasts.

As Mr Molloy and Mr Beavers indicated, the modelling work done here was based on a well-established methodology created initially from the intergenerational reports produced by the Australian government. I think they have produced two or three of those now. That methodology was then adopted by the independent Commission of Audit in Queensland and the work done in this publication that was tabled by the Treasurer yesterday builds on the work on the intergenerational reports and the work of the independent Commission of Audit. It uses a well-established methodology and is intended to provide a broad indication of direction and orders of magnitude rather than being concerned about the actual precision of the figure.

The broad trends that are indicated by that reflect something that I think is widely recognised as being some economic and demographic trends that not only affect Queensland but affect other states and territories, Australia as a whole and probably more other western nations and that is that we have an ageing population that is going to put more pressure on aged care expenditure, healthcare expenditure and the like. At the same time as the ageing of the population we obviously have a smaller proportion of the population in the workforce and, therefore, a narrower tax base and a narrower revenue base. So everyone is getting a squeeze play where expenditure pressures continue to increase and revenue will remain fairly soft. That is not, I think, in a sense a new conclusion, but it is a conclusion that confirms previous analysis that has been done in a number of jurisdictions.

ACTING CHAIR: I will hand over to Dr Flegg in just a moment. I have one last thing while we are still on this report. In the report it projects that the economy will grow by less than three per cent per annum from 2017-18 to 2022-23 after growing at six per cent in 2015-16. For context, during the aftermath of the GFC and the large-scale natural disasters that the state went through, growth averaged 1.9 per cent per annum 2008-09 to 2011-12. Why is economic growth projected to average less than three per cent over this period?

Mr Gray: We are taking a fairly conservative view, and the nature of these exercises is that you are better to take a conservative view of the world than an optimistic view of the world. The main drivers of economic growth can be divided into the three Ps: population growth, participation rates and productivity. That was an analysis that was done in the Independent Commission of Audit Report. When you look at those three components, population growth is not going to give us the stimulus that it has in the past unless there are again very high levels of interstate migration, which are unlikely to continue as they did in the past. Participation rates: the best analysis that we can lay our hands on at the moment indicates that participation is probably topping out after having increased over the last 10 to 20 years—obviously through female participation increasing—but those participation rates are probably topping out. Productivity growth has been very poor over the past 10 years. So taking those three factors together gives a fairly sober view of the future economic growth prospects unless policies are actually undertaken to stimulate higher economic growth, and I suppose the recommendations of the Commission of Audit and the position taken by the government is that it will need to stimulate economic growth through productivity improvements, and that is what a lot of recommendations of Commission of Audit were directed towards achieving, is higher productivity growth and therefore higher economic growth. These projections are obviously done on a no-policy-change basis.

ACTING CHAIR: One quick thing: did the Phillips Group PR consultants have any role to play in the preparation of this report?

Mr Gray: I think they might have had a look over—

Mr Beavers: I think it was minimal. Maybe a cursory look over the charts, but it was not anything I would describe as a significant role at all.

Mr Gray: The great bulk of the work was produced by Mr Molloy's area.

ACTING CHAIR: So it would have been wordsmithing, that sort of thing.

Mr Gray: Wordsmithing and the odd sort of look at a chart, 'Does this chart look right or wrong?'

Mr Molloy: The numbers are the numbers we presented, so we presented the best estimate and we also presented another scenario, so all of the analysis is Treasury analysis.

Dr FLEGG: The audit noted that the Queensland government is currently considering all recommendations of industry reviews conducted over the past 12 months in developing the 30-year electricity strategy. Are you able to 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?

Mr Gray: I am sorry, Dr Flegg, I missed the first part of that question. I only came in about halfway—

Dr FLEGG: I speak a bit too quickly sometimes. I will go back. I might not have the microphone close enough. The audit noted that the Queensland government is currently considering all recommendations of industry reviews conducted over the past 12 months in developing the 30-year electricity strategy.

Mr Gray: Yes.

Dr FLEGG: Are you able to provide the committee with an overview of indicators of financial sustainability to be used in the performance reporting framework as recommended in the audit report?

Mr Beavers: We would have to take that one on notice, Dr Flegg. That is out of the audit report, and we would have to consult with our partners in the Department of Energy and Water Supply to get you an answer to that question.

Mr Gray: They have largely been involved in the preparation of that 30-year strategy. We have provided some input. I would hazard a guess that we would suggest that the performance indicators that we currently use would continue to be applied, but I would need to confirm that.

Dr FLEGG: You can take it on notice.

Mrs OSTAPOVITCH: As a sort of a follow-up to that, the audit report considered that one focus of the future for the GOCs could include how they prepare themselves for changing electricity generation. The audit did cover issues regarding future sustainability of GOCs under changing consumer demand and green energy technologies, so could you please explain QTT's plans to resolve this issue.

Mr Gray: I think it is not totally within our control to resolve that issue. We will continue to work closely with the GOCs on future trends. That is something that comes through in their statements of corporate intent. They are obviously very conscious of industry trends and directions. One of the challenges with our government owned corporations, I suppose, is being nimble and agile and flexible enough to respond to a rapidly changing commercial environment. For the generators at the moment, for example, it is a fairly difficult market. There is excess capacity in the market. There are the implications of various renewable energy targets and the carbon tax and things like that that have all impacted on the viability of our generators, and those factors are being carefully considered both by the GOCs themselves and in their discussions with Treasury on their future prospects and how they address those issues.

Mrs CUNNINGHAM: I have just a general question. You can tell me if it is out of order; that is all right. Over the years the coal royalties have been a major income factor for the state and they have been deteriorating. That is a well-established fact. As you can imagine, in my electorate we have a number of industries coming online that will generate quite significant royalty revenue, the LNG industry, and also as a part of that, growth in the port and the port's activity. To what degree do you see those types of revenue positively influencing the bottom line, and also to what degree have you assessed the increase in activity at the port in terms of their returns as a GOC impacting?

Mr Gray: Thanks for that question, Mrs Cunningham. Certainly your observations are correct. In terms of the LNG royalties, they remain a very prospective source of income. We have taken a view on some of the early increases in LNG royalties and they will flow into the forward estimates, and I might get Mr Molloy to elaborate on that. But certainly I think in 2015-16 and 2016-17 we are starting to see some of the benefits flowing into our royalty revenue and offsetting some of the other declines in the revenue. Certainly LNG exports more generally will provide a significant boost to the economy, and that is reflected in a projected economic growth I think of about six per cent in 2015-16. So there is certainly a very significant boost to economic activity occurring as a result of those industries that you referred to.

In terms of the growth for the port, again that is something that is very real and very prospective and that will be reflected in the port's estimates of its financial performance, its revenue projections going out over its forecast period of five years, and that will eventually flow to the bottom line in terms of increased dividends and tax equivalent payments for the state.

Mr Beavers: Mrs Cunningham, at the back of the midyear review for 2013-14 on page 28 it gives you some sort of indication of the forecast for those royalties that are coming through under the heading of 'Petroleum and Gas'. But one point I would make to the committee—and it is a difficult technical point to get across—is that in Australia as a rule we operate under the system of fiscal equalisation, which basically means that when a state has more capacity than other states to raise a particular type of revenue, it ultimately gets redistributed amongst the states. I guess that is how states like Tasmania and South Australia and so forth can provide the same level of services to their citizens that states like New South Wales, Victoria and Queensland can. So whilst we anticipate growth in LNG royalties and so forth, in the long run a lot of those gains are redistributed to the other states. That is just how the system of the Federation works and that is why we obviously just need to be cautious in how much of that we translate to the bottom line, because it ultimately affects GST distributions and so forth.

Mr Gray: That is one of the reasons why the West Australian government is screaming at the GST distribution at the moment, because they have got these—

ACTING CHAIR: I think that is something that all states and territories would agree there needs to be some discussion on. Dr Flegg, do you have a quick question?

Dr FLEGG: I am just interested that, as we move to sort of export LNG, domestic gas prices, I think on every estimate that I have seen from any side of the argument, you know, look like moving from about \$3 a petajoule to somewhere in the range of \$9 to \$12, and some of the estimates are higher. That obviously has the effect that we have reduced value adding in Australia, particularly in the energy-intensive industries like metals processing, fertilisers, explosives and food processing that all use a lot of gas or energy, and a lot of those things will obviously move offshore. I see Institech have set up their new plant out in Louisiana, and their stated reason is because of the gas market here. What sort of effect going forward do you think that sort of upheaval in gas prices is going to have?

Mr Gray: That is a difficult one off the top of the head. I must admit, I am not an expert in the gas market. These are parts, I suppose, of structural changes that are occurring in the economy all the time and there are swings and roundabouts. So whilst those sorts of things are occurring, there are other structural changes taking place that will provide counters to that. We hear a lot of discussion at the moment—and the Reserve Bank has been at the forefront of discussions—about the move from resources investment and resources activity into the non-resources sector. Whilst there are some difficulties with that adjustment process, it is actually proceeding relatively encouragingly. We are seeing a shift in Queensland out of resources investment into some of the other pillars of activity, so particularly tourism is picking up and showing encouraging signs after a number of years in the doldrums. We are also seeing a pick-up in construction and property activity, again after a number of years post GFC in the doldrums. There will always be activities which, for a variety of reasons, become less viable and more viable depending on economic dynamics. But broadly, there is sufficient diversity in the Queensland economy to cope with those sorts of adjustments.

ACTING CHAIR: I think that pretty much brings us to a close. The time allocated for this briefing has expired. If members require any further information, we will make contact with you to get that information if you are happy to accept some further questions on notice. Thanks for your attendance today and we appreciate your assistance.

Mr Beavers: Mr Pitt, could I have a final attempt to answer Mr Gulley's earlier question about the unearned revenue?

ACTING CHAIR: You will have to be very brief. I will pretend to be the Speaker and say, 'You have one minute.'

Mr Beavers: Thank you very much. Of the \$1.7 million in unearned revenue, \$1.029 million related to Trade and Investment Queensland, specifically a contribution from the Department of Education in 2012-13 for TIQ to undertake activities on its behalf relating to international education and training promotion; \$365,000 related to the Government Statisticians Office for surveys that they undertake on behalf of government departments, for example, health surveys and so forth, that they received in advance in 2012-13 for work that will be undertaken in 2013-14. So that makes up the two largest components of the \$1.7 million.

ACTING CHAIR: I declare this briefing closed.

Committee adjourned at 9.43 am