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 BRIEFING—INQUIRY INTO THE QUEENSLAND FUTURE FUND BILL 2020

TRANSCRIPT OF PROCEEDINGS

MONDAY, 27 JULY 2020

Brisbane

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The committee met at 2.35 pm.

CHAIR: Good afternoon. I declare this public briefing open. Today's proceedings are being conducted using videoconference and teleconference facilities so I ask all participants and anyone watching the live broadcast to please bear with us if we encounter any technical issues. I begin the proceedings 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, the member for Logan and chair of the committee. The other members of the committee are: Ray Stevens MP, the member for Mermaid Beach and deputy chair, who is joining us via teleconference; Lance McCallum MP, the member for Bundamba; Sam O'Connor MP, the member for Bonney; Kim Richards MP, the member for Redlands; and Trevor Watts MP, the member for Toowoomba North.

The purpose of today's briefing is to assist the committee with its examination of the Queensland Future Fund Bill 2020. The briefing is a proceeding of the Queensland parliament and subject to the standing rules and orders of the parliament. It is being recorded and broadcast live on the parliament's website. I remind committee members that officers appearing today are to provide factual or technical information. Any questions about government or indeed opposition policy should be directed to the responsible minister or shadow minister or left to debate on the floor of the House. I remind all those present to please turn off their mobile phones or switch them to silent.

ALLEN, Mr Leon, Deputy Under Treasurer, Queensland Treasury (via videoconference)

CANNON, Mr Wayne, State Actuary, Queensland Treasury (via videoconference)

CHRISTENSEN, Ms Cecelia, General Counsel, Queensland Treasury (via videoconference)

MILLER, Mr Glenn, Head of Fiscal, Queensland Treasury (via videoconference)

CHAIR: I now welcome representatives from Queensland Treasury. Thank you for the written briefing that Queensland Treasury provided to the committee. That briefing has been published on the committee inquiry webpage. I ask that when you address the committee today you identify yourself by name when speaking, particularly when speaking for the first time or when speaking other than in response to a direct question. Committee members will also be endeavouring to ensure they clearly identify themselves when asking questions to minimise any confusion for yourselves and for members of the public who are watching the broadcast, as well as to assist Hansard and the deputy chair, who is participating via teleconference. I invite you to make an opening statement, after which committee members will have some questions for you.

Mr Allen: Thank you very much, Chair, for that introduction. On behalf of Queensland Treasury, thank you for the opportunity to make an opening statement and to discuss the Queensland Future Fund Bill 2020. As you have alluded to, Chair, we refer the committee to the Queensland Treasury briefing note that we provided for today's public briefing.

In the 2019-20 Mid Year Fiscal and Economic Review, commonly known as MYFER, the government announced that it would be establishing the Queensland Future Fund to support its fiscal and economic plans. The Queensland Future Fund Bill implements that commitment. Similar to the New South Wales government's generations fund legislation of 2018, the Queensland Future Fund Bill will allow individual funds to be established, with the first fund to be the Debt Retirement Fund. As noted in the explanatory notes to the bill and policy objectives, the value of investments in the Debt Retirement Fund will be netted off against the debt of the state and operate as an offset to the state's debt for the purposes of credit rating assessments and credit metrics.

A range of investments are contemplated for contribution to the fund. If assets are used for the purpose of investing in the Queensland Future Fund and the Debt Retirement Fund in particular then the government has the ability to prescribe any of these assets as state assets which must be held by the state entity in perpetuity. This means the assets must remain government owned either by a government entity under the Public Service Act 2008 or by a government owned corporation.

The bill includes a range of accountability measures around the Debt Retirement Fund which will be administered by the Treasurer. All investment earnings will be returned to the fund and withdrawals can only be made for one of two purposes: to pay down state debt or to cover administrative fees or expenses of the fund. To make this work as intended, the bill makes consequential amendments to the Financial Accountability Act 2009, in particular to introduce the concept of a special purpose account which ring-fences the funding from the Consolidated Fund and departmental accounts. A Queensland Future Fund Debt Retirement Fund is to be kept as a special purpose account and the Financial Accountability Act will prescribe how these accounts are to be administered, reported on and audited.

Finally, the bill makes an amendment to the Superannuation (State Public Sector) Act 1990 to give effect to another government commitment in the 2019-20 MYFER—that is, to provide a 100 per cent guarantee of the funding of the state's future defined benefit liabilities. This has been achieved through the addition of a section which will require the state to hold assets at least equal in value for the state's accrued defined benefit liabilities. This is to be actuarially measured at least every three years as part of the State Actuary's existing process for investigating and reporting on the QSuper scheme.

Again, I would like to thank the committee for the opportunity to discuss the Queensland Future Fund Bill 2020 with you and welcome questions you may have for the Queensland Treasury team.

CHAIR: Thank you very much. Would the State Actuary, Mr Cannon, like to make any comments at this time?

Mr Cannon: No, thank you, Chair. I do not have anything to add as any opening statements. I am happy to leave Leon's comments stand as they are but I of course welcome any questions.

CHAIR: Thank you very much. Deputy Chair, do you have a question?

Mr STEVENS: Thank you, Mr Chair. I have a question to the State Actuary. At 30 June 2019 the surplus relating to the defined benefit scheme was just under $5 billion. Given the fact that the coronavirus has shattered world property prices and world share prices, which the scheme has obviously invested in, can the State Actuary give me the updated actuarial surplus or deficit position for the scheme as at 30 June 2020?

Mr Cannon: I will start answering that question in a couple of ways. Firstly, it is going to be a little time before the actual surplus position is known for the scheme. There is a lot of information still to come in, including information about the memberships of the scheme, some of the final asset figures and a number of other matters. To get the final position will still take a little time.

I can report—as I did to this committee just a few weeks ago in another context—that I maintain a projection model. We consider it as an interim view or a preliminary view, if you like, of the position of the scheme. At the previous hearing I suggested that I expected the vested benefits index—and I will quickly talk about that in a moment—to be around 110 per cent. As it has turned out these last few weeks—and some early indications of the final investment returns for 2019-20 have come through—it suggests it is probably more like 108 per cent. That is the vested benefits index. As I have said, that is under the current funding regime and current management process. That is a ratio of the assets to the total vested benefits of the scheme—the benefits that would be payable if everybody left immediately.

The bill takes us back to the future, if you like, and gets us to concentrate on the present value of accrued liabilities, which is the measure of the funding position that was used for QSuper from inception up until 2016, when there was a change in the approach towards more focus on the vested benefits index. I have calculated both those measures and a couple of others as well since day dot, so to speak. We calculate all of those various funding measures because they are used in different contexts and have different interpretations. For the purposes of the bill and the surplus position that you asked about, my preliminary estimate at this stage is a surplus of around $3½ billion on the funding basis. As at 30 June 2020 that is our current best estimate—about $3½ billion. I hope that answers the question directly as well as gives some context.

Mr STEVENS: Just to be clear, an eight per cent surplus is what the Actuary is advising?

Mr Cannon: No, my apologies. That eight per cent is that vested benefits index, so assets are eight per cent higher than the vested benefits but the bill actually concentrates on the funding basis accrued liability position. It is a slightly different measure. I would be happy to talk about those if you would like, but you can think of them as a present value of the liabilities that are going to emerge in future if we stopped service as at that calculation date. That is one way of thinking about it. It is the more common measure, I would say, and certainly has been for QSuper since its inception, and that one there is that assets are greater than liabilities by $3½ billion. I will be able to get the number for you as a percentage, if you like, in a moment and come back to the committee.

CHAIR: Thanks, Mr Cannon.

Mr Cannon: You would like that as a percentage; yes?

CHAIR: Not surprisingly, it is the same answer you gave us two weeks ago, so I am going to ask you a question that may be a surprise for you. How many other states and territories or the Commonwealth have a fully funded defined benefit scheme similar to the Queensland scheme? It is a similar question that I asked two weeks ago as well.

Mr Cannon: Yes, indeed it is a similar question to our previous discussion. I will say again that to the best of my knowledge Queensland is the only state that has such a position. New South Wales and Victoria and the Commonwealth all have announced plans that they have been in now for some time moving towards full funding. My vague recollection is that New South Wales and Victoria are targeting full funding somewhere in the 2030s, so still quite a way to go, and I do not believe there are any other things in the other states. As you are probably aware, Queensland has had this policy in place now for many years. I am going to say since at least 1988 but almost certainly prior to that, although it is a little before my time.

CHAIR: This is a question we did not ask two weeks ago. The Treasurer has already announced that they are taking around $1 billion towards the Queensland Future Fund. Seeing as you said there is a surplus of $3 billion, there would still be a clear surplus for the defined benefit fund even if at this point money was put into the Queensland Future Fund?

Mr Cannon: Yes, indeed. That $3½ billion that I mentioned is my best estimate as we speak here today of the surplus position, so that is the excess of assets over and above the amount necessary to meet the projected liabilities of the scheme as at 30 June 2020. To the extent that $1 billion is less than $3½ billion then, yes, indeed that margin will still exist once that transfer occurs.

CHAIR: Certainly $1 billion is less than $3 billion.

Mr WATTS: With the extra $1 billion coming out of that surplus, in a 12-month period we would have halved the surplus; would that be correct—a $2½ billion movement in the surplus?

Mr Cannon: No, it would not be a $2½ billion movement. With regard to the surplus—let me just reiterate that that is a preliminary estimate; the final figures will come out later this year—based on that preliminary estimate, it is $3½ billion at the moment. If you take out $1 billion—that is, a $1 billion reduction—it takes you down to $2½ billion. It is that $1 billion out of $3½ billion reduction in the surplus position—

Mr WATTS: Sorry, but just to clarify it, at 30 June 2019 I have a $4.976 billion surplus, so by my reckoning—and it is only a guesstimate—$2½ billion is half of the surplus we had in—

Mr Cannon: Yes, you are comparing to last year; I am sorry.

Mr WATTS: So from 12 months ago we will have halved it in a 12-month period?

Mr Cannon: Yes, that is indeed true. In fact, my recollection is that the accrued surplus position was more like around $7 billion and, yes, indeed it has fallen, and that is substantially due to the investment returns that were earned over 2019-20 as was referred to by the deputy chair earlier. The preliminary returns for 2019-20 to date are around minus five per cent. I will be able to check and get that exact number for you, but it is around minus five per cent, which is substantially less than the assumed levels, and that has reduced that surplus position. That is the main cause for the reduction in surplus from where we were at in 2019.

Ms RICHARDS: So it is more market conditions that have seen the drop than anything in terms of that movement?

Mr Cannon: Yes, exactly. As I said, when I get my final numbers in I will be able to do a detailed breakdown of all of the various effects on the way the surplus has moved, but, indeed, as you have asserted, the vast bulk of that will be because of the investment returns earned over the year, which at around minus five per cent obviously have not been particularly robust. It is a very difficult time, as was mentioned earlier.

Ms RICHARDS: Difficult time globally.

Mr McCALLUM: My question is around how the Queensland Future Fund will be taken into consideration by ratings agencies. I understand that Moody's has issued advice that it will have a material impact on debt levels. Could you please elaborate on that?

Mr Allen: I will refer to some commentary that we have collected from ratings agencies which have been consulted in the preparation of the bill. We have discussed, as I said, on a confidential basis with all three ratings agencies that rate Queensland and they have provided in-principle support that the value of the Debt Retirement Fund will be deducted from the state's debt for the purposes of credit rating assessments and metrics, and we will continue to consult with ratings agencies on the Debt Retirement Fund to ensure it achieves its purpose. The ratings agencies have also noted the importance of this initiative given the fiscal impact of the COVID-19 pandemic. For example, in its credit report on Queensland of 22 April 2020 Moody's rating agency noted that the Queensland Future Fund will play a material role in the state's management of its debt.

Mr STEVENS: Mr Allen, last week the Treasurer announced the Titles Registry would be included within the fund with a value of at least $4 billion. How is the Titles Registry valued and what is the asset's annual return to come up with a value of $4 billion?

Mr Allen: As you have noted, the Treasurer has announced the government is considering infrastructure and commercial property assets for the Debt Retirement Fund, including the Titles Registry office at the estimated $4 billion and the Cross River Rail precincts estimated at about $160 billion. These assets are still subject to comprehensive due diligence and the final decision as to which assets to transfer will be considered by the government prior to full details being made available in the COVID fiscal and economic review that is planned for September.

Mr STEVENS: So it is not being sold as a commercial operation?

Mr Allen: All assets that are contemplated for the Debt Retirement Fund will be transferred, so they are not sold, but they are undergoing at the moment due diligence to establish their commercial value.

Ms RICHARDS: Mr Allen, using that example of the Titles Registry moving into the Future Fund, what sort of protection will entities like this be provided from privatisation in the future?

Mr Allen: Part of the bill includes a clause that relates to the creation of particular state assets in clause 8. The purpose of the clause in the bill is to enable the state to prescribe that certain state assets that have been invested for the purposes of the Queensland Future Fund must remain publicly owned and cannot be privatised. A regulation may be made under clause 8 of the bill to describe a state asset as an asset that must be held in perpetuity by a state entity, so it is through the effect of that clause.

Mr O'CONNOR: Proposed new section 29A(1) talks about the annual actuarial review being every three years. My understanding is that it used to be annually. I just want to know whether that is a formal change across government or what the reasoning was for it to be every three years instead of every year.

Mr Allen: I will in response point out that the bill inserts a new section 29A into the Superannuation (State Public Sector) Act 1990. Given the high level of technicality and complexity that surrounds superannuation and actuarial investigation, the new section has been drafted in close consultation with the Actuary and QSuper to ensure that the government's commitment around fully funding future defined benefit liabilities is achieved, and there are two points in particular to make. Firstly, the 100 per cent guaranteed commitment to full funding is met by the requirement for the state to hold assets of at least equal value to the state's accrued defined benefit liabilities and, secondly, the new section provides that measurement is to occur at least every three years, and this aligns with the preparation of triennial actuarial investigation prepared by the State Actuary as required by section 19 of the Superannuation (State Public Sector) Deed 1990. The State Actuary has spoken before about the funding basis to which that is defined and the use of interim reporting as well to have a ready reference to the position of the fund. Is there anything you would like to add to that, Wayne?

Mr Cannon: Yes, I would not mind making a couple of quick points and referring to a comment that I made earlier in that the triennial cycle is one that was the common cycle in place for QSuper up until 2016. It is the cycle that is required, as Mr Allen mentioned, under the relevant act, the State Public Sector Superannuation Act. It is also the cycle that is used for actuarial investigations for APRA's requirements, so it is a very common time frame. It tries to seek a balance between having enough information available and statistical credibility, so to speak, but still keeping a reasonably close eye on the scheme. It is kind of like returning it from the annual to the triennial, which was the standard approach previously.

Mr O'CONNOR: If the due diligence has not been undertaken yet into the assets to be included, like the land Titles Registry that the deputy chair mentioned, where did the $4 billion figure come from that the Treasurer quoted last week?

Mr Allen: The estimation that is provided there—and it is an estimate—reflects an understanding of some market relativities, given similar assets have been transacted in other jurisdictions. An assumption has been provided there on an indicative basis, as you correctly note, subject to full due diligence.

CHAIR: I want to follow up on the question of the member for Toowoomba North about our defined benefit scheme. He pointed out that it is fully funded but also has a surplus of $2.5 billion. I think that is the figure we were given by the Actuary. Deputy Under Treasurer, Victoria has a deficit of around $28 billion. At what point do we expect them to catch up to be fully funded much less have a surplus of $2.5 billion?

Mr Allen: I would not want to speculate on the time frame involved. I know that all jurisdictions are looking to provide sufficient funding of their liabilities. As we note ourselves over the last 12 months, movements in the market can either support or detract from the progress of that objective of fully funding their liabilities. I do not have details about when Victoria is looking to achieve that and what measures it has in place to reach that point. As per the objectives of this bill and the inclusion of relevant clauses, it is the government's intention to ensure that from a Queensland perspective it retains full funding of its defined benefit liabilities.

CHAIR: Deputy Under Treasurer, my point is that, because the defined benefit schemes have been closed for some decades in most states, they are never going to reach significant savings on their defined benefit fund and are actually waiting for their liabilities to reduce before they can claim to be fully funded.

Mr Allen: Yes, that would be correct.

Mr Cannon: My understanding is that both New South Wales and Victoria are targeting, from memory, around 2036—so around mid-2030s is their target. They are substantially relying on investment returns. Whether that is relying on the scheme declining or not is a moot point, I guess. As you say, all of the state schemes are closed to new entrants, including Queensland's. The target is via investment returns, I understand, in those other states. It will be difficult. There is no doubt about that. As Mr Allen pointed out, years like this make it even more difficult.

Mr WATTS: My question is to the State Actuary. Investigations of QSuper on 30 June 2019 found there was a 53 per cent risk of the fund going into deficit under the former treasurer's proposed raid of $3 billion. Given the market downturn and the changes, can you advise what the updated risk is now with COVID-19 factored in and also the billion dollar raid on the fund?

CHAIR: Just to give some general advice—and this is to all members including new members—when we are asking questions we do not use terms that advance argument. I know that it has been part of the politics to try to undermine the nature of our fully funded defined benefit scheme by using these types of words, but it is unfair to ask questions of public servants in that way. I will allow the question to stand but note that in no way would any of the public servants be endorsing the language that the member for Toowoomba North used. Would that be acceptable, member for Toowoomba North?

Mr WATTS: Yes, it certainly would.

CHAIR: Rather than having to restate the question?

Mr WATTS: I am happy to restate as well, Chair.

Mr O'CONNOR: Which language in particular?

CHAIR: When the defined benefit scheme is well into surplus and that money will be transferred for the benefit of Queenslanders, we cannot define that as a raid. To do so is obviously a political agenda which is frankly not standing with the facts. I will put the question to the panel.

Mr Allen: I will make an opening remark in relation to that question, because I know it is of a technical nature, in keeping with the State Actuary's technical knowledge. He has provided responses and I have provided responses in relation to the nominated transfer of funds by the Treasury into the Debt Retirement Fund of the Queensland Future Fund. I am asking the chair in relation to this bill: is that question in line with matters that could be considered with the bill itself?

CHAIR: Strictly speaking, previous transfers are not in line with the bill. We have considered that it is reasonable to consider whether the defined benefit fund would be fully funded after this bill is enacted. I understand where you are coming from. At the broadest reading of the bill, we are still examining whether, after the transfer of funds to the Future Fund for future savings, the defined benefit fund would still be in surplus—that is, fully funded and with a surplus. We have accepted those questions before. I think it is the same style of question.

Mr STEVENS: I think—

CHAIR: Do you have a point of order, Deputy Chair?

Mr STEVENS: No. There is no point of order. When that question is finalised, I have a question.

CHAIR: Sorry. I would say that that question is in order. It is not to dwell on previous things but to look at what is happening with the creation of the Future Fund.

Mr WATTS: Let me restate the question, if I may, Chair, very briefly.

CHAIR: Member for Toowoomba North, I have accepted the question as being in order, so we will move on to the answer, if that is all right.

Mr WATTS: No, but there has been a question put in relation to whether it is relevant. I have spoken about the 53 per cent risk that was there previously.

CHAIR: Order, member for Toowoomba North! I have ruled the question in order. The question can now be answered, rather than being restated.

Mr WATTS: Thank you.

Mr Allen: Thank you, Chair. It was not my intention to create confusion, but I appreciate the clarification. I will ask the State Actuary if he could provide a response.

Mr Cannon: I will just go back to the point that was raised by the member from my 2019 valuation report. The 53 per cent probability there was in relation to the Vested Benefits Index falling below 100 per cent. As I said, that was a different measure than is now being contemplated under the bill. I also point out that 53 per cent was the chance of falling below 100 per cent if an additional $3 billion, over and above the $2 billion that was already planned from the 2016 budget—that would have been in total a $5 billion reduction. That suggested that there was about a 53 per cent. There was about an even chance over the four-year period post 2019 to remain funded on the Vested Benefit Index if $5 billion was removed at that time.

What is happening now, as the Treasurer announced last week, is that $1 billion is coming out. We are in a new starting position as well, if you like. As at 30 June 2020—as I said, numbers are still to be finalised but on the preliminary basis that I have—there is a $3½ billion surplus. That is less, as you say, than the $7.3 billion accrued surplus that was indicated in 2019. It is certainly lower, but the models that it needed to calibrate those risk probabilities are simply not available yet. I am not able to give an exact percentage, but I will make a couple of comments.

Firstly, it is a much lower number than the $5 billion. We are using a different measure of liability as well, so that will also be relevant. The other thing to take into account is that we have just had quite a difficult investment year, as has been referred to earlier. In many of the models that are going to be used to calibrate these probabilities going forward, the probability of another very difficult year will probably be a little less. I do not want to take that too far because it is difficult to try to calibrate those things in real time while we speak here today.

In summary, I do not have the corresponding number available. It will not be available for some time. I wanted to give that context and make it comparable to the figure that was referenced by the member in the question.

Mr STEVENS: I am a little confused with reference to clause 24 and the guarantee of the state's future defined benefit liabilities and also the fact that it will only be measured once in every three years. What is the notification process in the event that the defined benefit falls below 100 per cent? Will there be a public notification of the fact that it has fallen into deficit, below 100 per cent?

Mr Allen: I will ask the State Actuary to confirm where that is reported as part of our obligation.

Mr Cannon: The process that is going to be undertaken is that the formal actuarial reviews, which as we have already discussed will be reverting to a triennial cycle, will continue to be published in the usual way. The way that works right now is that they are required to be provided to the QSuper board within six months of the valuation date. That is a requirement under the relevant APRA prudential standards. From the date that QSuper receives that document, it has 20 business days to publish that document on its website. That is the current process. That has been in place now for a number of years. That will continue. Occasionally in past valuations a treasurer at the time may have made a comment in parliament or there may have been a press release, but it has been just an occasional thing. That is the standard process of the public disclosure of the position. That is how it will be published.

Mr Allen: If I could add to the State Actuary's response, with reference to the deputy chair's question around the relevant clause, the intention of the section of the bill is to codify that longstanding commitment of successive governments to fully fund employee superannuation liabilities for defined benefit members. The triennial actuarial investigation, as has been noted, will report the fund position in the usual way, as the State Actuary has alluded to, which by the way is also publicly available on the QSuper website. The government will then respond to that report, ensuring that the guarantee of full funding is practically achieved.

CHAIR: It is good to legislate to check on it. The original discussion was on the Vested Benefits Index. We do not know the future. We do not whether there will be a difficult event in the future. We also do not know whether there will or will not be strong growth in our investments in the future. On that basis, it is also possible that those events could trigger the fund to be 99 per cent funded, which would still be funded far more than all of the other states. We would have some 20 or 30 years in order to make up that one per cent of defined benefit fund liability. Would that be a fair statement?

Mr Cannon: You could put it that way, but the purpose of the bill is for that not to happen, for it to take that period of time, unless you are referring to the Vested Benefits Index versus the funding liabilities. Is that what you are referring to, Chair, just to be clear?

CHAIR: I was referencing what the member for Toowoomba North was trying to suggest—that we would somehow be exposed to a significant liability, when in fact the liability is fully funded and this bill reinforces the fact that the liability is to be fully funded.

Mr Cannon: Indeed. The purpose of this component of the bill is that 'should that event occur'. If a triennial valuation is undertaken and I report on the liability and asset position and the assets are 99 per cent of the liabilities, as Mr Allen just said, the government will then respond to that. The intent of the bill is to codify the longstanding commitment from many governments to fully fund these liabilities. The idea would be that the government would then respond to that position at that time. They would not just allow it to happen over a 30-year period. I would expect some action.

CHAIR: I understand that they certainly would not, and that is the intent of this bill. There being no further questions, thank you very much for your participation. Matching what New South Wales has done is about creating something that can be recognised as planning for the future. There were no questions taken on notice. Thank you for the information you have provided today. Thank you to the Hansard reporters. I declare this briefing closed.

The committee adjourned at 3.15 pm.