

HOUSE OF ASSEMBLY

Wednesday 21 June 1995

ESTIMATES COMMITTEE A**Chairman:**

The Hon. H. Allison

Members:

Mr R.P. Bass
 The Hon. Frank Blevins
 Mr M.R. Buckby
 Mr K.O. Foley
 Mr J.A. Quirke
 Mr G. Scalzi

The Committee met at 11 a.m.

The CHAIRMAN: The procedure is fairly informal, but I point out to members that parliamentary Standing Orders prevail. We had some discussion in the Estimates Committee yesterday as to the nature of questions which might be submitted for consideration. It was put to me by the Leader of the Opposition that questions on all lines considered in the course of the day could appropriately be put some time between 9.30 p.m. and 10 p.m. for answer by the Minister—in the case of yesterday, the Premier—and the Chair ruled that there had been ample time during the day for consideration of each of the lines as they came up.

Although there might have been some misunderstanding on that point, I remained quite firm that the only questions which I would accept were those in respect of the last line of the day. The alternative, which of course is open to all members at all times, is that any questions to any Minister can be put on notice on the usual daily Notice Paper. That was accepted quite graciously by the Deputy Leader last night.

The correct procedure would be to follow that practice again. Should members wish any questions to the Minister to be placed on notice in the course of consideration of any lines, they would most appropriately be put before that line was closed, in which case members would have to leave sufficient time to allow the reading in of questions during that sitting. That should clear up that point. That is the procedure I intend to follow for the rest of the sittings of this Estimates Committee.

Treasury and Finance, \$19 841 000
 Deputy Premier and Treasurer—Other Payments,
 \$1 151 924 000

Witness:

The Hon. S.J. Baker, Deputy Premier, Treasurer.

Departmental Advisers:

Dr P. Boxall, Under Treasurer.
 Mr A. Tregilgas, Deputy Under Treasurer (Finance).
 Mr J. Hill, Deputy Under Treasurer (Economic).

Mr M. Walker, Commissioner, State Taxation.
 Mr R. Schwarz, Assistant Under Treasurer (Economic).
 Mr P. O'Neill, Acting Assistant Under Treasurer (Budget).
 Mr S. Archer, Manager, Financial Services.
 Dr R. Sexton, Chairman, Asset Management Task Force.
 Mr M. Pierce, Manager, Corporate Services, Asset Management Task Force.
 Mr G. De Gennaro, Assistant Under Treasurer (Bank SA Sale Task Force).

The CHAIRMAN: Does the Deputy Premier wish to make an opening statement?

The Hon. S.J. Baker: Yes, Mr Chairman, in terms of opening statements, I do not wish to take up the time of the Committee, but I will make two comments. First, the budget outcome that we have seen for 1994-95 and our projected outcome for 1995-96 puts the State's finances on a very strong and professional basis. The outcomes both for 1994-95 and for 1995-96 are consistent with the debt and financing strategy that we outlined in the May economic statement and in the follow up of June last year. Secondly, as a Government we are dedicated to transparency in our dealings in Government, and we have reviewed the various documents available to other jurisdictions. We have, by far, the most information available to any Parliament in Australia, which I guess everybody here would appreciate. During the budget lockup members of the national press said that this was probably the best effort they had ever seen of producing papers, which made explicit exactly what the Government's intentions were and the underlying assumptions and figures associated with the budget.

The CHAIRMAN: Does the member for Playford wish to make an opening statement?

Mr QUIRKE: I will make just a short opening statement. I take this opportunity, when we are examining Treasury and the various payments that come under that line, formally to say that the Opposition finds it very difficult to go through this exercise given that we do not have the Auditor-General's Report. I know this topic was canvassed yesterday but it is appropriate that it be canvassed today as well. Hopefully, some arrangements can be made next year in relation to that. The Estimates Committees procedure is obviously determined by both the Government and the Opposition to be an important parliamentary exercise. If that is the case, we are now doing it with at least one hand tied behind our back.

Whilst I am aware that the Auditor-General is responsible to the Parliament rather than to the Government, arrangements need to be made to address this issue if we are to have the budget brought down in the first half of the year. Quite frankly, the rumour that I have heard—that we have a special day of parliamentary debate when the Auditor-General's Report comes down—would not enable the same detailed examination of the financial accounts which the Estimates Committees procedure is meant to provide. It may well be that, even though the budget comes down in the earlier part of the year, we actually go through the Estimates Committees at a later stage.

My first question relates to the provision for refunds and remissions. We do not necessarily want to take a lot of time on this, but we would like some answers. We note that the provision for refunds and remissions for 1994-95 was \$29 675 000, which was underspent by \$10 million, to provide refunds and remissions worth \$19.166 million at the end of the day. Can the Treasurer explain why the initial and

revised estimates for revenue forgone through refunds and remissions were underspent by 33 per cent?

The Hon. S.J. Baker: The issue is one of timing. As the member for Playford will understand, remissions of stamp duty are given for specific reasons. The larger items comprise stamp duty transactions where there is restructuring. There has been a consistent recognition that, where there is no change in the operation but simply a change in the holding of that entity, we do not charge stamp duty on the potential change of ownership.

We also provide relief in other circumstances. A number of corporate restructurings did not come about. The largest one, which might have been on the Treasurer's desk previously—there are others, but I do not need to go through them—was the stamp duty relief on Normandy Poseidon. I understand that has been in the process of restructuring for about three or four years, and certainly since I have been Treasurer. We made provision for that restructuring in the relief, which is \$4.7 million, so half the amount is in that item alone. There are a number of other smaller amounts which add up to the \$10 million difference that we are talking about. Pay-roll tax incentives have not reached the estimate, and there is \$4 million involved there. Between those two items we are talking about \$9 million alone. There are many add-ons and take-offs in the process. People ask for relief, which we give, and we have not estimated that for the current year. We grant it if it is a *bona fide* case. Basically, they are the two largest items.

Mr QUIRKE: Will the Treasurer provide a detailed breakdown of the recipients of these refunds and remissions and the value of the refunds and remissions to each company?

The Hon. S.J. Baker: I do not believe that that has been the situation we have faced in the past. I think the member for Playford would clearly recognise where companies have been provided with this relief, and I have some details here. Perhaps I will read out the ones we actually processed during 1994-95. Coles-Myer was one that was in the system for a long time, \$4.91 million; Sedgwicks, \$500 000; SAFA, \$100 000; Raptis group, \$507 000; Anti-cancer Council, \$67 000; Jennings group, \$472 000; general stamp duty remissions \$500 000; payroll tax rebate schemes, \$11 million; special incentive scheme for Australis, \$630 000; and some *ex-gratia* relief from land tax, \$50 000. There were a number of other smaller items, but those I have detailed are basically the corporate ones we have been discussing.

Mr QUIRKE: Apparently the Electricity Sector Reform Unit involves the expenditure of \$1.6 million. What is included under this line and what is the function of this unit?

The Hon. S.J. Baker: The Electricity Sector Reform Unit, as the honourable member would recognise, has been set up to assist South Australia in its transition process from its domestic responsibilities into the national grid, so it is a very vital part of planning for the future electricity supplies of South Australia. In April 1995 Cabinet established the ESRU to oversee and coordinate electricity reform, its roles and responsibilities.

Its terms of reference include: identifying, resolving and making recommendations on issues relating to both the design of and participation in the national electricity market, which is of particular significance for South Australia; recommending the most appropriate electricity supply industry structure for this State; ensuring that South Australia's entitlements under the interconnection operating agreement are maintained; recommending future customer franchise limits and the associated provisions for initial

vesting contracts; ensuring that necessary and appropriate legislative and regulatory requirements for the South Australian electricity supply industry are actioned; recommending arrangements needed to ensure reliable electricity supplies in South Australia; and coordinating South Australia's representation on relevant State and national bodies relating to the South Australian electricity supply industry.

A coordinating committee has been established comprising the Chief Executive Officers of Premier and Cabinet, Treasury and Finance, Mines and Energy, and ETSA to direct the work of the reform unit. We have made available initial funding of \$600 000 to establish the unit, and an amount of up to \$1.4 million in consultancies may be used in the process. The member for Playford would clearly understand that not only must South Australia be very competitive in its own electricity production but it must face the issues of interstate competition. Therefore, we have expertise brought on board for that process which is absolutely vital to this State.

Mr BUCKBY: What progress has been made by the Asset Management Task Force in preparing SGIC for sale, and will the Treasurer explain the role of the Motor Accidents Commission and say what areas of business it would administer?

Mr QUIRKE: Before we proceed, we are interested in those things, too. We have kept strictly to what our interpretation of the timetable will be. I would suggest that that question is outside what has always been the custom and practice of examining other payments. If that is not the case, I will have to revise what I said a moment ago about this being the end of our questioning.

The CHAIRMAN: If the member for Playford recalls, the Chair did say during the opening remarks that the payments opened were 'Deputy Premier and Treasurer—Other payments' and 'Treasury and Finance', involving \$1 151.924 million and \$19.841 million respectively; so, those two lines are open. I did say that I proposed to close them at the end of the examination, so the debate can be fairly wide ranging until we decide to dispose of these two lines, and we can resume the consideration later under Department for State Services and Office of Information Technology. Members really have a fairly wide ranging debate, in which case the honourable member's concerns are unfounded.

Mr QUIRKE: Mr Chairman, that may be the way you have handled the matter from the Chair, and I make no comment about that, but there is an understanding about how we deal with this portfolio, and we have been very cooperative on this question. If we are to be faced with Government members coming in with questions which are clearly from a later topic, as agreed informally between the two sides, then at 11.26 this morning I assure you that the arrangements have broken down and we will be dealing with any and all questions; indeed, it will be a wide ranging debate. We said that the Opposition was satisfied with this arrangement. It was the result of some detailed negotiations where we indicated that we would deal with the matter under the heading in question. Now that this question has come up, what the Opposition really wanted—but we left this in a spirit of cooperation and hoping today's proceedings would go smoothly—was to examine the Office of Information Technology this morning. Frankly, if the debate is to be wide open to this extent, that is where we will be proceeding.

The Hon. S.J. Baker: There may have been some misunderstanding; I am very flexible about how we organise

the Committee. The 'other payments' section did cover the Asset Management Task Force. We had not supplied that on the list that the honourable member has before him. It did not feature on any other list—

Mr Quirke interjecting:

The Hon. S.J. Baker: No, they are two separate entities but, again, I am more than happy to cooperate. The 'other payments' line obviously includes the Asset Management Task Force, so I take it that the questions have not finished on 'other payments'. If the Chairman is happy we will proceed. I will answer the question from the member for Light and we will continue until the matter is exhausted; I am more than happy with that. The Committee is in your hands and we will do whatever is necessary to make sure that the questions are answered in the most expeditious fashion. I do not think there is any conflict.

The CHAIRMAN: The Chair understood that the arrangements currently in operation were to the advantage of the Opposition, and I have an assurance from members of the Government that they have minimal questions, so I do not think the member for Playford's fears are really justified. If there are any problems the Chair is also willing to open a further line without closing the two lines under consideration. The Chair will facilitate any agreements already arrived at. I do not want any misunderstanding: the Chair is not dictating terms, but simply following the procedures which have already been indicated to it. If there are any other agreements, the Chair is quite happy to comply. We are in the hands of the Committee; all I do is the umpiring.

The Hon. S.J. Baker: The legislation enabling the sale of SGIC to proceed was passed by the State Parliament earlier this month. It provides for the corporatisation of SGIC, with the transfer of the commission's three major businesses—general insurance, health insurance and life insurance and superannuation—into the new corporate structure. The legislation also provides for the retention of compulsory third party insurance underwriting by the Government. We have already notified that the CTP will be in the hands of the Government for at least the next three years in the old SGIC, which will be renamed the Motor Accident Commission.

A review of the CTP market will be conducted during this period to determine whether it should be deregulated, and that will be canvassed at the appropriate time. The Motor Accident Commission will also retain financial risk business, an area that I would like to inform the Committee of in further detail. SGIC suffered considerable damage in the late 1980s and early 1990s as a result of one particular transaction, that of 333 Collins Street. Other matters came to the attention of the public, including the reinsurance business, which cost us tens of millions of dollars as a result of SGIC's involving itself in reinsurance, which in hindsight was unwise business.

In relation to areas that we will be excising from the sales process, the Committee should be aware that SGIC carried out financial risk business and that two areas of this business were securitisation and residual value insurance. These are no longer conducted and will be left with the new Motor Accident Commission to work out; they will not be part of the SGIC business offered for sale. Both these types of insurance were offered by the previous Government but have not been pursued since we have been in office. It is also worthy of note that SGIC and the board of management stopped some of these transactions in 1992. Looking at the securitisation area, there are six main transactions but only one where substantial risk appears evident and where losses

may arise. This transaction, which terminates in June 2000, relates to a United States deal backed by the income from 70 commercial properties. Total exposure on this transaction is about \$US41 million, and there has been a recommendation that provision of around \$4 million be made for any possible losses.

The more disturbing area is this residual value insurance. For a premium, SGIC would guarantee to pay out a pre-determined sum for an asset sale at some time in the future. These types of transactions are similar in end result to the put option that was taken on the Melbourne office building at 333 Collins Street, which has cost South Australian taxpayers hundreds of millions of dollars. Residual value insurance provides a minimum value for an asset at the end of a lease agreement. If at the end of the lease the asset is worth less than the insured value by SGIC, the asset would effectively be sold to SGIC at that value, which was the case with 333 Collins Street, where the agreed price was \$465 million. It was inappropriate that, at a time when the previous Government was forced to bail out SGIC to the tune of \$350 million, largely because of the 333 Collins Street fiasco, SGIC was back into the market in a business in which it lacked expertise or a clear understanding.

As a result, SGIC wrote residual value insurance contracts on all manner of items from aeroplanes to trains, trucks, even a ship and, of all things, cherry pickers. While these policies will run off in time, with most having now been assessed as having a negligible risk of claim, a number are concerning. This concern relates particularly to the residual value contracts involving commercial passenger jet aeroplanes. One major transaction in this area relates to a DC10 aeroplane that had been leased from an intermediary to an international airline. This two year contract was written in late 1992 and was due to expire in November 1994. SGIC had a half share of this deal, in which it had been agreed that the return price of the DC10 would be \$A33.1 million. SGIC insured half the risk, which was equal to \$16.6 million. Of course, the market value of those planes declined dramatically and SGIC faced considerable loss.

At my instruction, the matter was pursued to ensure that there was compliance by those who had been involved in the residual insurance. After two inspections it was obvious that there was a disagreement over the condition of the aircraft, and SGIC arranged for a third inspection. We found that the aircraft was not suitable for flying, which broke the terms of the contract, and parts of one of the main engines were missing. We can only presume it was cannibalised for other airline services. We found that the airline was not airworthy and therefore did not meet the conditions of the contract. Whilst there was provision of \$9.1 million for possible loss, fortunately under the conditions of the contract that loss has not arisen, but it could well have done so if circumstances had been different.

We have two further aircraft, two Lockheed 1011 or 1011 Tristar passenger jets, operated by another international airline. There is a residual value contract which does not expire until next year. Conceivably there is some loss to a lesser extent, perhaps \$1 million that could eventuate, but we really do not know what the international market will do. I make the point that these contracts were written at a time when it was obvious to most people that the resale market for these types of ageing wide-bodied jets was declining, and it will continue to do so, as operators move to new Boeing and Airbus models.

As to other areas where residual value contracts have been written, I refer to assets such as a liquefied gas carrying ship, locomotives and rolling stock in other States, buses, trucks and prime movers and 17 cherry pickers. A full review of all these contracts has been carried out and, while most are unlikely to result in a claim, provision has been made where appropriate. This is not the business that the State Government's insurer should ever have been involved in, particularly given the outcome in respect of 333 Collins Street. I stress that we are no longer operating in those areas, but lessons are still to be learnt from some of the mistakes in the past.

Mr QUIRKE: I refer to departmental operations in the broader sphere, and I will ask questions about asset management under that heading as well given the flexibility of the headings. I refer to paper No. 2 (page 15) where we see a dramatic reduction in the amount of revenue expected from tobacco tax in South Australia. What impact will the current tobacco price war have on State taxation? Can the Treasurer give an estimate of what is happening at this stage?

The Hon. S.J. Baker: As the member has rightly pointed out, there is a conceivable loss on the original estimate of \$25 million. That has been of extreme concern to the Government, as the member can appreciate. We have not been able to ascertain which elements have contributed most strongly to that result and, although we suspect there may well have been some decline in consumption over that period, we cannot measure it. Certainly, the price war over the past nine months that is now spreading interstate is causing considerable concern. Two major tobacco wholesalers are involved, and the price war has escalated into Victoria as a spillover of the action taken in South Australia since July 1994. Two major wholesalers are engaged in this gradual price cutting exercise where we have seen the retail price of a carton of cigarettes fall from the normal \$30 to about \$11.

Total licence fees receipts were about \$4 million to \$6 million less than would be expected if it were not for the price war: I suspect that it is probably higher than that. We know that, during the price war, stock rebates ranging up to 74.5 per cent of the value of the purchased product were provided to retailers and that differing stock rebates were offered to various retailers at any one time. There was a belief that that price war would be of limited duration and that it would flush itself out of the system, but that has not been the case: indeed, it has escalated.

We have two concerns: first, the effect on the State's revenue and, secondly, the effect on health. We all recognise that there is some sensitivity to demand with the price being charged, and initial indications at least were that the price of cigarettes was reducing certain people's desire to smoke. There were two issues: first, the overall health issue and, secondly, the demand for the product as a result of the price increase, particularly as we had a 100 per cent tax on cigarettes.

The point of tolerance has now been reached, or my intolerance has reached the point at which we believe that the State must take action. The State Taxation Office, with the support of the Crown Solicitor, is examining whether a reassessment of licence fees in respect of wholesalers involved in the price war should be issued.

As the honourable member will recognise, the issue of reasonable price comes under the Act. We do not believe that a reasonable price is currently being charged, and our revenues are being affected. I suspect that everybody would agree that kids' health is being affected because of the low price of cigarettes. Although the initial price war is a

reflection of a trend towards volatility in the tobacco industry, typified by large wholesalers seeking to improve their market share at the expense of short-term profitability, we do not know whether it will be of short-term or long-term duration. I suspect that the shareholders of the companies concerned would not be too amused by the losses that must be sustained. I am not amused by the loss of revenue to the State, and I do not think that health officials will be particularly amused by the lower cost of cigarettes which, if people are price sensitive—as they are—would mean that consumption could increase as a result of lower prices.

I put on notice that this matter is now one for Government action and that we will use whatever devices are available to us to ensure that some of the problems that have arisen are repaired. Importantly, I also warn the tobacco companies concerned that, if the measures that I am canvassing at the moment are not successful, I will introduce legislation that might have some retrospective element to it in order to ensure that we have some sanity back in the marketplace.

Mr QUIRKE: As a supplementary question, are you going to bring in a Bill to establish a minimum price for a packet of cigarettes? Is that what you are going to do?

The Hon. S.J. Baker: No, we do not have to do that. Under existing legislation—if that is one of the options—we can actually declare a price by brand, cigarette packet or whatever for taxation purposes. If they are having a price war, I am going to have a war on them.

Mr QUIRKE: About 400 000 people will be happy to advise you on that. The other area that we note is down is stamp duty, which indeed is a significant guide to economic activity. From our reading of the documents, it appears that there is a shortfall of about \$18.5 million in anticipated stamp duty collections.

The Hon. S.J. Baker: Yes, there is. That is the other area in which we have had a significant decrease in estimated receipts. As everybody in the Committee will recognise, there was the interest rates issue, and people's desire either to build or to buy a new house was dramatically reduced towards the end of last year, and that flowed into the March quarter. That is reflected in a number of statistics that are now being produced on house building and on the transactions themselves.

We expect that stamp duty receipts will fall short of the 1994 budget estimate by \$18.4 million—that is, conveyances down by \$12.5 million, and mortgages down by \$6.1 million. There has been a dramatic decline as a result.

The issues are quite wide-reaching. We believe that for a segment of the market—namely, the new home building market—much of the demand was more than satisfied during 1993 and the early part of 1994. As the honourable member will recognise, the building industry is subject to considerable fluctuation. There was consistency with the State's home building cycle. The evidence is available if members want to look at the statistics. They will find that there is a cycle of high and low demand. Of course, that cycle peaked towards the end of 1993 and the beginning of 1994.

It is a natural phenomenon. Every five to seven years we have a significant uplift in the market. That took place on time, as expected. That is one part of the issue. The other part is that people feared changing houses and incurring new elements of debt with the uncertainty about interest rates. There is a suggestion at the national level that uncertainty will continue and that there is no guarantee that interest rates will not increase and, therefore, make household budgets doubly difficult to manage.

We have not predicted a bright future in terms of the revenue that we believe will be forthcoming from 1995-96, but certainly the second half of 1994-95 had been quite dramatically affected. We would expect some improvement as interest rates have softened, but certainly not at the level that we expected for 1994-95 at the beginning of that financial year.

Mr QUIRKE: Why are payments to consultants projected to be three times the 1994-95 actual and 12 times the 1994-95 estimate? I refer to the Estimates of Receipts and Payments, page 46, payments to consultants? We do not mind if you want to take the question on notice.

The Hon. S.J. Baker: I have the detail of all consultancies. I will certainly provide the Committee with a copy of all consultancies under my portfolio. I am more than happy to do that. In terms of the numbers, we are dealing with Program 7, Development and Implementation of Accounting Policies and Financial Management Systems. I presume that that is the one to which the honourable member is referring.

The issue is of great importance to the Government. As the honourable member may recall, I observed last year that the previous Government had not grappled with the implementation of professional accounting systems and, more important, had done nothing to advance the cause of having accrual accounting in place by 1996-97.

That meant that the Government had a dramatic need to improve on that situation, and it spent some time reviewing its accounting practices. The Treasury management system had to be upgraded but, more importantly, we had to have accrual accounting on a consistent basis throughout the public sector. We canvassed the market and awarded the software licence to C.A. Masterpiece to provide a consistent method of accounting which would meet national standards as well as our own. That has come at considerable expense, I might add. I do not make any apology for that. We were left holding the baby and we have had to put considerable resources into this project. There was probably four years' warning, but when we came into power virtually no effort had been made.

For the edification of the honourable member, C.A. Masterpiece has a licence fee of \$975 000. We are employing consultants to assist in the implementation. We do not have enough Treasury staff but we believe we should not be putting on staff simply to complete an exercise that has a limited time frame. We have payments to consultants of around \$995 000. There have also been some staff changes in that area in order to meet the deadlines that have been imposed upon us by the Federal Government as well as meeting our own needs.

I make the point also that, in my discussions with a number of agencies in America, New Zealand and other parts of the world, the one comment that keeps emerging is that the only way Government becomes truly accountable is through accrual accounting, where the full costs of service delivery are made explicit. There are some very important reasons not only to comply with national standards but also in order to meet our own demands to spend money efficiently and effectively within government, and we have an accounting system that allows us to do that.

The importance of C.A. Masterpiece, the importance of our meeting the deadlines imposed by the Commonwealth Government, and the need to provide statistics on a common basis to the Australian Bureau of Statistics have all been very compelling reasons. I do not make any excuse; it is a very expensive process. We are trying to get there within the time lines available. If we had had a two year head start, as we

should have had, we would see a much more even distribution of the moneys, but we had no option. In terms of the implementation of C.A. Masterpiece, including the development of documentation, project plans, communication, change in management strategy, and the provision of MP 2000 expertise, there is a cost of about \$410 000. There is a cost for professional services for the appointment of the Assistant Under Treasurer. A number of items are sub-items to that which we spent in 1994-95. Of course, the bills for 1995-96 are far higher because we must meet deadlines.

Mr QUIRKE: I turn now to SGIC and Healthscope. SGIC is cited as the most significant shareholder in Healthscope Ltd, holding 13.7 per cent of the issued ordinary capital as at 30 June 1994. The next largest shareholder has only a 5.6 per cent share as at that date. Is SGIC still a significant shareholder in Healthscope? Does it still have the same share exposure?

The Hon. S.J. Baker: SGIC does have shares. I do not have the details available to me at the moment. I know we made an announcement at the time that a deal had been done with Healthscope to buy the hospitals that were owned by SGIC. I also made reference to the fact that SGIC should never have been in the business of managing and operating a hospital. The buy-out price was a particularly good deal for South Australia and we took up a residual shareholding at the time.

I am advised that the 13.7 per cent shareholding was part of the arrangement; it is held in escrow, and that will be wound down when market opportunities present. That was not a difficulty, as far as the Government was concerned, because the cash it received for the hospitals provided us with quite a positive result on the whole deal. I will ensure that the full details of that transaction are made available to the honourable member.

Mr QUIRKE: Healthscope was the successful tenderer for the Modbury Hospital outsourcing arrangement and, as we understand it, there are suggestions that other such outsourcing arrangements will be made for other hospitals? How does the Deputy Premier propose to deal with conflicts of interest, given that the most significant shareholder of Healthscope is the South Australian Government through SGIC?

The Hon. S.J. Baker: That is a pretty fair question. The figure of 13.7 per cent represents about \$9 million. The honourable member must distinguish between, if you like, the assets of the company, the equity shareholding in the company and the operations of the company. In terms of potential conflicts, I will deal with Modbury, because it is important. I have not spoken to the Minister for Health in terms of what future plans he may have and how they will be addressed. Certainly, the Modbury situation was an open process to the extent that a number of bids were submitted and assessed on the basis of who could deliver the best service at the most appropriate price. That was the key issue in that whole process.

We now have a complementary private hospital associated with the Modbury development. Healthscope won its bid on its merits. I did not have any interest in that matter; I did not care whether it was Healthscope or any other like organisation. Different processes are involved. Obviously, SGIC will be dealt with by the board, by the steering committee and by the Asset Management Task Force, and that will be a process about which I will keep members fully informed. The extent to which the Health Commission should desire to follow up the Modbury example will become clearer as time passes. I

would expect it to follow much the same process: it is an open process. If any company believes that it can meet the Government's needs, it can put forward its best price and it will be assessed accordingly.

Mr QUIRKE: I turn to both sets of ABS figures: the set released by ABS last week and also the figures that were around in the March quarter which indicated that we had a -1 per cent growth year in South Australia at that time. That figure has now come in at -1.5 per cent. What indices does the Treasurer believe make those figures suspect?

The Hon. S.J. Baker: The issue of what figure goes up on the board as the, if you like, prime indicator of the State's performance is a matter that is obviously very dear to my heart at the moment. The matter of how the ABS operates its statistics is one that will be discussed with ABS, as I indicated, at the time. The matter is quite sensitive, because we have one figure (it is a bit like the last goal being scored in a match) that is interpreted by those people who are not aware of the ingredients as being the, if you like, almost sole indicator of the State's performance. It is a figure on which much importance is placed. I do not place the same importance upon it but it is nevertheless significant.

As regards the forecast behind the budget, we believed that GSP growth of 2.25 per cent would be realised during this financial year. That was based on a whole range of information that was made available by ABS on the full areas of operation of the South Australian economy. We can only presume that there may well be a fault somewhere in the system, given that most of the other figures except the rural and building sectors of the economy have been heading quite strongly in a particular direction. I have announced the issue of general employment going up by over 13 000, the very strong growth in business investment, as well as the issues involving retail trade and manufacturing (which is doing better than it has done for years).

In most of the indicators we have seen an uplift, which was very encouraging in all these statistical areas other than gross State product. The employment growth of 2 per cent for 1994-95 was the best result since 1990. Most people, if they looked at the figures, would say that something is inconsistent with the GSP result and the other indicators coming through the system. Quite frankly, we do not know whether the fault is in the base, which means that the 1993-94 figures are incorrect, or whether it is the fault of the various surveys conducted in connection with the GSP figures.

The Hon. Frank Blevins: It might even be your fault.

The Hon. S.J. Baker: We wear the effects of official figures. But getting it back onto a more constructive basis concerning how the information is collected, members need to realise that very limited surveys are carried out to come up with those GSP figures. Some of the detail had not been published so we had no warning of the sort of suspected deterioration, whereas some of the other figures published were very positive. The honourable member may have seen a letter to the editor in the paper today about this matter where the ABS has volunteered to sit down with us and work our way through the various figures to see where there are inconsistencies which might be affected by the method of collection or where some mistakes may have been made in the previous base, which is quite conceivable. I know where it may be inconsistent but I am not aware of whether the fault is in the base or whether it is in the collections that have taken place. I assure the honourable member that we have had some positive outcomes for 1994-95, which most people recognise. The GSP figure was inconsistent with those outcomes.

Mr QUIRKE: What does the Treasurer anticipate as the percentage loss to GSP from the current downsizing of the public sector in South Australia during that financial year?

The Hon. S.J. Baker: Again, we will use the budget estimates as probably the best indicator. We will not deal with whether the quantum is right or wrong, because that is a matter that we will probably know in two or three years when they revise all the estimates (it is a bit late in the series, I might add). We did some estimates whereby excluding public consumption expenditure, which is what the honourable member is referring to, the GSP growth would have been 2.75 per cent for 1994-95 against our best estimate of real GSP growth of 2.25 per cent. So, on those calculations we estimate that the drag, if you like, or the reduction in activity as a result of the exercise of reducing the public sector is of the order of .5 per cent.

Mr QUIRKE: We note that new dwelling approvals are down some 55 per cent since last September. This seems to be one of the worst results that has been recorded even though records have been kept only for some 15 years. Will the Treasurer comment on new dwelling approvals and on where he sees things going in the next 12 months?

The Hon. S.J. Baker: On the issue of private dwellings the honourable member is quite right, and I previously reflected on the possible reasons. One possible reason involves interest rates, particularly now in an election year, where people probably do not want to take any risks and then pay the bills in the following year or years after that. Consumer confidence may not be restored in the way that we would hope in the current environment. As far as the estimates are concerned, we have taken a very conservative view that for 1994-95 there will be an estimated 5 per cent reduction in the growth rate for gross fixed capital expenditure involving private dwellings. We estimate that that will increase to 8 per cent during 1995-96. The 1994-95 growth figure is in fact negative on the 1993-94 outcome where there was very strong building inconsistent with the building cycle. We expect a further deterioration in 1995-96.

If the honourable member had read the *Australian* or the *Financial Review* some questions are being asked about where the home building industry will be going in the short term. There is also a recognition that 173 000 houses, from memory, were built during 1994-95 against a trend line of about 130 000. If I have the figures right (and I think I have them right) there was very strong building activity. We normally get our building activity increasing before that at the national level. In South Australia we are slightly anti-cyclical to the nation. I do not know whether we either lag or set the trend, but our building activity figures are slightly different from the national figure.

We started with strong growth above our trend line during the calendar year 1993 and it went through into early 1994. The national result then started to pick up. There is a suggestion that the very large volume of business that has been done recently will mean that, having peaked, it will trough. Our estimates take that into account.

Mr QUIRKE: Jobs growth under the Liberal Government has been half the national average. Between the time of the election in 1993 and May 1995, the last month for which we have figures, the number of persons in employment grew nationally by 5.2 per cent from 7.78 million to 8.21 million, an increase of roughly 428 000 jobs nationally. In South Australia over the same period the number of persons in employment grew by 2.4 per cent from approximately 640 000 to 656 000, a rise of 16 000 jobs. This growth was

due almost entirely to a rise of 12 500 during April and May, which we hope is not just a statistical aberration. To keep pace with the national rate of job creation in South Australia, with 8.3 per cent of the national population, we have to create 33 300 jobs, not 16 000, during that period. Does the Treasurer agree with the Premier's statement to the House on 8 March this year that South Australia is performing ahead of the national average; and, if so, how does he explain that our job growth is at best less than half of what is happening nationally?

The Hon. S.J. Baker: Taking the last statement first—and I guess we had a statement rather than a question—during that period our job growth, if we can believe monthly figures, was better than the national average. That was a statement of fact. I would warn everybody that these statistics jump around for some unknown reasons, and the volatility of those figures concerns me. From a political point of view, it is great to put up your hand when the figures coincide with your desire to improve the jobs of South Australians, but then you have to take the flak when the employment series takes a turn for the worse.

As a former statistician I can say that it is about statistics, and we need to address the extent to which single month or quarterly survey figures are used as prime indicators. Looking at the labour force survey results, some inexplicable changes come from those figures. It is a matter that I would not mind discussing again with the Australian Bureau of Statistics. There are some very important issues associated with those figures, such as the reliance one can place on them and whether there is a better headline to give to the monthly series than is given at the moment. As I said, people put up their hands when the figures are good and obviously want to repudiate them if the figures look bad. However, if you take the good with the bad and look at the trend series you get close to the truth.

We made quite clear that South Australian employment growth would be lower than the national average. If the Government is in the process of reconstructing its finances and reducing its size, there will be a fiscal drag on the system, and we have estimated the impact of that. I point out also that the figures are net. Therefore, if we add the number of people who are no longer with the Government, the figures are even more impressive than the figures quoted by the honourable member.

In budgetary terms, we have positioned ourselves at a lower growth rate than the nation. We do not believe that the State's economy will turn around in five minutes. South Australia's economy has been neglected now for over 30 years, and there is a lot of hard work to be done to repair that neglect. The issue of employment is absolutely vital to South Australians. Looking at the period of the previous Labor Government, the total number of persons employed in 1991 was minus .6 per cent; in 1991-92 it was minus 1.9 per cent; and in 1992-93 we had no improvement.

We have come out of a very poor period, and I believe we are now on a constructive path: we are getting into the positive. Therefore, my view is that the trend is right. The outcomes will ultimately depend on the fiscal management or mismanagement of the Federal Government. We can be pleased with some of the improvements that have taken place but, until we get some of the formula right for this economy and focus it on jobs, getting industries to settle here, providing employment opportunities and getting some movement in the population growth figures, we will not necessarily

equal the national average, although on occasions, due to cycles, we will beat the national average.

Going back over the past 30 or 40 years, South Australia's performance has far outshone the national economy because our economic cycle has been stronger than the national cycle. Going back to the 1950s, with the Playford policies, there was some very strong employment growth that was not met by other States.

In summary, the issue is of prime importance to the Government. We have taken a number of initiatives, on which members can reflect, to address the underlying deficiencies in the economy, such as reliance on the rural and manufacturing areas. However, constructive change is taking place and we believe that will provide us with a better future than we have had previously.

Mr QUIRKE: Does the Treasurer acknowledge that the inflation of retail sales figures has been greatly helped by the introduction of pokies last year?

The Hon. S.J. Baker: I do not have the full description, but the retail figures within their full ambit extend not only to delis, shopping centres and supermarkets, but to hotels. Because of that definition we will see that element of the retail market extending into the hotels area, which has provided some boost to the figures. I do not have detailed assessments of how they translate. We have a breakdown by sectors provided by the ABS, and I can provide those details to the member if he wishes. Certainly there has been a positive impact on retail sales. The honourable member will appreciate that our growth has probably been above average in retail sales in the past six to nine months, but I cannot say whether it has been unduly affected by poker machines. Poker machines have been of reasonably recent vintage in Victoria and Queensland as well. Taking the total picture, yes, it has had a positive result on retail figures. However, I am unable to tell the honourable member the extent to which it has affected them.

Mr QUIRKE: Following on from the ABS figures, how do you explain the fact that new motor vehicle registrations are down 12 per cent in the three months to April this year, compared with a national rise of 5.6 per cent? The number of new homes being built in South Australia was mentioned earlier. How do the latest motor vehicle figures square with Treasury's expectations?

The Hon. S.J. Baker: Those figures do not seem to be consistent. I am not sure whether we are comparing like with like. Again, it is the problem of the period you choose for statistics. In South Australia, the percentage changed from the previous period. From December 1994 to March 1995 there was an increase of 8.6 per cent for South Australia, whereas the Australian figure was down by .9 per cent. I cannot comment about one figure. With respect to the quarterly figures, in March 1994 we had 9 724 motor vehicle registrations, and in March 1995 there were 11 042 registrations. That is an increase of approximately 1 300 vehicles over that period. I am unable to reconcile the honourable member's figures. Maybe it was a monthly movement, but the figures so far indicate that South Australia is up with the nation in this area.

Mr QUIRKE: Will the Treasurer give us some advice on bankruptcy figures in South Australia? How are we doing compared with the rest of the country; do the figures—presumably they have been corrected to give a per capita result—indicate that South Australia has a much higher rate of bankruptcy than the other States; and where does the Treasurer think that is going?

The Hon. S.J. Baker: During the late 1980s we were significantly above the national average in terms of bankruptcy. If I remember rightly, South Australia had 12 per cent of the nation's bankruptcies, which was quite extraordinary, and that was when Labor was in government. The figures during that period were horrific. Again, from memory, without trying to put too much reliance on it, personal bankruptcy was a little higher in South Australia on average than it was for the nation.

The last report I saw was that bankruptcies were down by about 12 per cent in South Australia, and there have been some very positive signs with respect to bankruptcies. My memory is that the State level is approximately the same as the national average, but I will obtain the figures for the honourable member. The figures were awful during the late 1980s and early 1990s in South Australia. They seem to be coming back more towards the national average, and the last report I saw showed that the number of bankruptcies in South Australia had dropped dramatically. That is good, positive news, but I will obtain the information for the honourable member.

Mr QUIRKE: We note that the policy statement issued on 28 November 1993 indicated that the Liberal Government's aims for South Australia were as follows: there would be an annual growth rate of at least 4 per cent; there would be annual real growth in export earnings of 15 per cent; and 200 000 jobs would be created over the next 10 years. Will the Treasurer please advise us why, in the first eight months of 1994-95, our export income actually fell by 1.9 per cent, and what impact did the drought have on that drop in export income?

The Hon. S.J. Baker: We would have to look at the series you are dealing with, and I do not have the figures in front of me. The only observation I would make is that the drought hit South Australia particularly hard because we have an over-reliance on two traditional industries—rural and manufacturing. That is why we are making every attempt to address and redress that matter. The issue of minus 1.9 per cent for the eight months to February—

Mr QUIRKE: Page 29, paper number 2.

The Hon. S.J. Baker: Cereals were down by 36.7 per cent; motor vehicles were down by 17.4 per cent; meat was down by 2.7 per cent; and fish was down by 2.7 per cent. On the positive side, wine was up by .9 per cent; petroleum was up by 2.9 per cent; wool was up by 9 per cent; machinery was up by 13.4 per cent; and metals and metal manufacturing were up by 19.6 per cent. The sum total of all that was that, in those areas we could control, we had an excellent result. I cannot segregate the figures in the time available to say where we would have finished without the drought. The major negatives in the overseas export area were rural based, and that is something we had no control over whatsoever. Some of the other results were extremely positive.

In terms of the contribution to the economy, certainly it is an issue that we have recently talked about with regard to the GSP. There has been a drop in the GSP, for example, because a deflator of 4.5 per cent is applied to our performance against the national average of 1.4 per cent. We did get better prices, but that assumes there is either very high inflation in South Australia—which is quite untrue—or we were getting enormously higher prices for the products we were selling overseas. They are some of the issues we have to sort out.

Our outlook for 1995-96 is that the rural sector will be a very strong contributor to the economy, which will be great

for the farming community and great for the general health and well-being of rural areas and, indeed, the whole of the State. At this stage, we are feeling very positive about the contribution of the rural sector. Certainly I would not like to speculate, if we had a reasonable or average year, what jobs would prevail in South Australia. They could be numbered in the thousands. Obviously we have no control over the weather.

Mr QUIRKE: During the eight financial years to 1993-94, South Australian export growth averaged approximately 9 per cent per annum. When do you believe that we will return to those sorts of figures for export growth, and is it your opinion that 15 per cent per annum is a realistic figure at any stage in the future?

The Hon. S.J. Baker: I will not predict what the weather will finally do to us, but certainly if you look at the contribution of the rural sector in historical terms there is no reason to expect that we could not achieve close to 15 per cent in the forthcoming year if the beginning of the season were followed by a good end to the season and some of our export contracts follow through. We have some very positive news in terms of Mitsubishi. We would like to crack the union problem in the United States in terms of the commodore and GM here producing a world class car.

It is a reasonable expectation that, all other things being equal on that front, if the beginning of the season is repaid at the end of the season we will get an enormous boost to our income from that area. Prices for metals such as lead and copper are strong, so at this stage, all other things being equal, I would be very confident of getting an outstanding result for 1995-96. Whether we finish up with 5, 10, 15 or 20 per cent I am not in a position to judge, but it looks pretty positive to me.

Mr QUIRKE: Will the Treasurer confirm that the recent SGIC (Sale) Bill provides for the phasing out of the Government guarantee, even where life insurance policies and related areas are concerned, which have indefinite or long terms? I understand that in such cases the Government will continue the guarantee for five years and then phase it out. Is that the position?

The Hon. S.J. Baker: It is important to address this issue. I would like to go back a little and address the issue of the guarantee in its totality. The issue of the extent to which governments provide guarantees has been canvassed by the Audit Commission and has also been raised at the Federal level. The guarantees can have a long life and may cause governments difficulty in future, because they may not control the agendas and therefore the results that could flow from those guarantees. We saw examples of that during the 1980s, and I do not need to remind members of that time. The issue of the guarantee for SGIC first arose in the public arena prior to the last election when we announced that SGIC was to be sold. At the time, a number of people who were concerned about the issue contacted my office, the Liberal Party and SGIC. As a result of representations made by SGIC at the time, we looked at providing some level of comfort to those people.

SGIC said at the time that people really did not understand that the insurance industry is covered by the ISC, that there was anxiety about the future which was quite misplaced, but that we must be able to provide people with a level of comfort. Its advice was that the guarantees should continue until the end of the term of the policies. On that advice prior to the last election I issued a statement consistent with SGIC's opinion that in such a political environment—an

election environment—it was important for the market to settle itself down so that SGIC's products were not affected. Its suggestion was that the issue of all policies could be affected if any of the purchasing public's anxiety remained. So, something was issued at the time to indicate that the guarantees would continue.

That is despite my belief that the ISC has worked remarkably well since 1987. There has been no loss of insurance companies. They have certainly gone through some very difficult times and managed to survive particularly well. Members would note that in 1987 we had the most dramatic fall-out in the share market since the Great Depression; also, in late 1989 and 1990 we had the most dramatic loss of property value seen in Australia since the Great Depression yet, under the astute guidance of the ISC, the insurance companies had survived and were continuing to operate effectively. So, I have no difficulty with a new company being able to offer comfort to people under those guidelines. However, that was not the issue at the time, and that is a bit hard to explain to people.

Since our coming into Government and focusing on the issue as part of the sale process, we have looked at a number of issues. One is the ongoing nature of the guarantee, and we sought legal advice on the matter. The legal advice suggested that it was inappropriate for the Government to continue to guarantee the product beyond the sale of SGIC. I felt that I had some obligation, given the statements that had been put out previously to provide the comfort that people would look for and, obviously under the circumstances, would be questioning, so a compromise was reached on that whole issue. The compromise was that we would give the five year guarantee on life and term policies, and that would allow people to judge the merits of the new organisation. The Government would have a commitment to ensure that the new organisation was fit, proper and able to operate effectively in this market.

The guarantees are for the normal policies, which normally wind themselves out in a year. If you are dealing with health and paying monthly, obviously the obligation to the policy lasts only as long as the period for which the last premium is paid. General insurance policies are normally for a year and in some cases six months; again, the guarantee would flow into that period to cover the full term of that policy. For the longer policies, such as life insurance and term deposits, we will provide this comfort zone of five years, with a gradual winding down of the guarantee so that at the end of 10 years none will have a guarantee in place. We thank the Opposition for its support for that in the Parliament. It is important to understand that the vast majority of policies will be well out of the system by the end of those 10 years. I think we have a tail of about 10 per cent, but it is simply inappropriate to incur the cost of providing some monitoring system in respect of guarantees for the odd policy that might run for another 20 years.

Mr QUIRKE: Will other contractual obligations, particularly for term insurance, for which the premiums are annually renewable (although they may well be made in monthly instalments), continue into the new entity? In particular, people have informed me that when one buys term insurance and locks into it at a particular age—presumably with a series of health and other checks—a premium is struck and the insurance is accepted, but of course that insurance automatically becomes renewable year by year, albeit at an increased premium. Can we tell all those persons out there, particularly those who have taken term insurance over many

years since SGIC has offered that product, that that arrangement will continue and that those contractual arrangements that were taken out whilst SGIC was in Government hands will continue in NewCo and in particular when NewCo is sold?

The Hon. S.J. Baker: We are guaranteeing the policy as it stands at the point of sale. That means that premiums beyond that point are not under the guarantee. I will obtain details for the honourable member but, basically, if someone has put in money and it was taken out five years ago, obviously that person has full security that the contract provisions for that amount will be met over that time. I would expect them to be met anyway: with the ISC sitting over the whole industry, there is an enormous amount of security. I have answered the issue of where the guarantee stops, and it is everything that has been in the system up until that point. The term policy is not affected. They continue to have that contract and the new owner will take over that contract.

Mr QUIRKE: I note a rise in the total expenditure in the Department of Treasury and Finance for the coming year of about 19 per cent. The cumulative rise in expenditure by the Department of Treasury and Finance since the 1993-94 financial year is of the order of 45 per cent. What are the reasons for the blow-out?

The Hon. S.J. Baker: I talked about one area previously, that is, the issue of accrual accounting. It is very expensive, as was pointed out. Looking at some of the major items, for C.A. Masterpiece the 1995-96 estimate is \$4.5 million. The compliance program, in which there have been some savings and offsets in the system, which I will detail shortly, as a separate entity is costing us \$1.3 million and we expect to net out of that process some \$3.6 million. I hope it will be far greater than that, but we are being fairly conservative about what we can achieve in that area. In implementation of the Treasury management system, \$2 million extra is provided, and for the implementation of the Triple S system, the new superannuation coverage within the Public Service, there is \$1.2 million. All up, those sorts of areas (and there are some savings in the system, which I will detail) are extra requirements that are being met.

As the honourable member would recognise, Treasury has to meet its savings obligations as does any other department, and then the issue is decided as to which responsibilities are placed on an agency over and above what it is normally responsible for and how they can be met. With most of these areas, leaving aside taxation compliance, we are talking almost of a capital injection to get systems under way, given that when we came to power they were in a particularly parlous state. I looked at my figures and thought that perhaps in opposition I would have taken the same view: how can you possibly be asking everyone to save when your own budget is increasing?

There have been some savings as offsets on staff vacancies of about \$348 000; and there have been savings in capital expenditure, perhaps due to the delay to the Treasury management system, of \$750 000. There have been lower costs associated with the establishment in the State Administration Centre and, of course, significant savings on the C.A. Masterpiece licence fee over competing programs. So, there are a number of areas where expenditure this year is higher than you would normally expect, particularly in a period of stringency and constraint. The areas that we have taken on are essential. We have achieved reform in a number of other areas within Treasury and within the Taxation Department as offsets, but there is a quantum increase. That was clearly

understood by Cabinet at the time. I expect that when this settles down we will find that the Treasury lines, provided nothing untoward happens, will actually decrease to a more normal level.

For example, we expect that by 1998-99, or perhaps earlier, expenditure will be down to \$32.4 million. That is our forward estimate. We are really putting an enormous amount of effort into the system to get it to work in the way it should, and then we will be withdrawing from a number of those areas, simply because the system will be working and we will not need that impetus that we had to provide, given the lack of effort in the past.

Mr QUIRKE: Are there any performance bonus obligations to people who work in the Department of Treasury and Finance?

The Hon. S.J. Baker: The Premier actually gave details of that last night. If there is any variation to what he reported (and there was some note made in the *Advertiser* today), I will provide the details to the honourable member.

The CHAIRMAN: The parliamentary papers are available for checking. The matter can be resolved over lunchtime.

The Hon. S.J. Baker: At this stage no performance bonus has been paid, but they are forthcoming if members' performances are judged to be as good as we would expect.

Mr QUIRKE: I will have a close look at the answer from last night and, if there are any follow up issues, such as what constitutes a performance bonus, the amount of money and how it is determined, we can pursue those matters after lunch. Will the Deputy Premier provide to the Committee the salaries paid to officers of the South Australian Asset Management Corporation (SAAMC) and indicate whether there are any variations in those salaries from those which the Economic and Finance Committee reported on some 2½ years ago?

The Hon. S.J. Baker: I will get details for the honourable member. If there was a report 2½ years ago, I am not sure that there would not be variations today. I do not think there is anything of note in there, but I will look at the positions and salary ranges which, as the honourable member will appreciate, is appropriate. An annual report will be produced by SAAMC, which presumably will be available in September and, if there are any outstanding issues, he can follow them up. The honourable member should appreciate that SAAMC is an organisation which changes in terms of personnel. A number of people have left the organisation and some have been brought in to meet special tasks and sometimes comparisons are a bit difficult. I will see what we can provide at this stage to meet the honourable members' requirements.

Mr QUIRKE: Can the Treasurer provide us with detail on the number and remuneration of persons within the Department of Treasury and Finance employed at the level of EL1 and above, and the same data for the year ended 30 June 1994? We are happy for that to be taken on notice.

The Hon. S.J. Baker: I will get that detail for the honourable member.

Mr QUIRKE: As to debt and debt reduction policies followed by your Government, can the Treasurer explain why the 1995-96 estimate for net interest payments falls by 3.2 per cent in real terms? This seems surprising, given asset sales of about \$1.3 billion are planned for the next two years, 1994-95 and 1995-96. Some of those moneys may not yet be in your hands but, based on press reports, we expect that the

bulk of those sales will be paid into accounts before much longer.

The Hon. S.J. Baker: It is a good question. I will work the Committee through some of the assumptions. We have an increase in other payments in terms of interest costs from \$753.6 million in 1994-95 to \$756.1 million in 1995-96. That gives the best overview of the non-commercial sector. Above that you have the commercial sector which has significant borrowings and interest responsibilities. The Bill is about \$900 million in net terms for both. The 1994-95 net outcome was estimated to be \$907 million for the total public sector, and for 1995-96 the estimated outcome is \$925 million. I will work the member through those figures. The outcome for the non-commercial sector, which is the important point here, is \$716 million in 1994-95 and for 1995-96 the sum of \$716 million has been provided.

There are two issues. The interest cost of \$716 million for 1995-96 reflects an average increase of .4 per cent to 10.8 per cent, adding about \$30 million to the interest bill. We have a conservative assumption about the volatility of interest rates and, rather than reflecting the first half of the 1994-95 year, we believe they will be more reflective of the second half of the 1994-95 year. So, the average cost of the 1994-95 debt is assumed to be higher in 1995-96. Members will recall that in July 1994 interest rates were on the move upwards but were relatively low in a historical sense.

As to that change, we must talk about averages rather than taking an interest rate at a point in time, and it reflects the volatility and cost of interest rates and offsets the stock changes. There is a positive impact with the sale of PASA, BankSA, SGIC, Forwood Products and the return of capital from SAAMC, but they offset the additional costs we have estimated for 1995-96. The member is right: there is the issue of timing, as to when we actually get money for things, how it is handled at the time and what other changes are taking place. We have lengthened our borrowing profile to provide us with a great deal of comfort so that we are not as affected by the volatility of interest rates, but that of course is at a cost. We have taken a conservative point of view on interest rates.

Mr QUIRKE: What has been the cost to date of the targeted or voluntary separation packages and what will be the total cost of those packages during the next financial year?

The Hon. S.J. Baker: The targeted voluntary separation packages are set out in tables for 1993-94, 1994-95 and 1995-96. I refer to 6.4 of the financial statements, which indicates 5 060 full-time equivalent employee separations at a cost of \$377 million in 1993-94 compared with an estimated 5 300 full-time employee separations in 1994-95 costing \$255 million. Interestingly, the cost of separation has actually decreased on average and I think from memory we are providing \$180 million in 1995-96 for the majority of the final separations. A cost has been associated with that.

As to the savings to the budget from the normal repayment period, in terms of a decrease in recurrent costs, because that cost is no longer being borne, the pay-back period is about 12 to 15 months on average. There have been some add-backs because of particular issues and imperatives that have to be met. If they were being met on top of what we were providing, we could say that the savings associated with this level of expenditure normally winds itself back within a short space of time and, as the member would recognise, our overall target of over \$300 million reduction in the non-commercial sector is dependent on our reducing the recurrent

cost. So, we find the one-off payment involved here is very cost effective, although on initial examination the figure is considerable. It should also be pointed out that much of the process and the payment from the State Bank was agreed by the previous Government: the \$600 million which became in nominal terms \$650 million has provided us with a major capacity to achieve the reductions that we laid down originally.

[Sitting suspended from 1 to 2 p.m.]

The CHAIRMAN: The table clerks have pointed out that a possible response to a question which was asked earlier and to which the Deputy Premier alluded was the user performance pay provisions and bonuses response. The question appears at the top of the second column on page 32 of House of Assembly Estimates Committee A *Hansard* of 20 June 1995. The member for Playford might wish to look at that question to determine whether his question was answered or whether he wishes to put a question to the Deputy Premier on that matter.

Mr QUIRKE: We will sort that out as we proceed this afternoon, thank you, Mr Chairman.

Mr SCALZI: My question to the Treasurer is on administration and enforcement of State taxation legislation. What incentives is the Government giving to provide residential living in the city square mile? Will the Government consider extending the concession to the greater metropolitan area?

The Hon. S.J. Baker: That benefit has certainly been receiving a little publicity, but some interest is coming in from other areas. The Government has decided to target and concentrate effort in virtually the CBD or the centre of Adelaide because it believes that the heart of the city is vital to the whole city.

We have already announced a \$1.5 million contribution towards an upgrading of the mall. In more recent times, the Government announced that, for medium-density strata title dwellings, it would give some incentive for more activity to take place in the CBD. The issue of what should happen in the CBD is key to the future of the whole city of Adelaide in its widest context, rather than just the corporation.

We all would recognise that the infrastructure is under-utilised in the city of Adelaide compared with its potential. We suggest that there are significant savings to Government the more concentrated we can make populations in areas such as the city, and that adds a new dimension to activities and life in the city. We announced a scheme that is to apply from 28 May 1995 until 27 May 1998.

The Government said that it would give a maximum rebate of \$1 500 on stamp duty on the purchase of new dwellings. The quantum will change according to what rebates people such as new home owners can already access. The benefit of being free of stamp duty is wound down after about \$80 000. For a first home buyer whose dwelling is more expensive than \$80 000, the \$1 500 rebate can be applied and offset against the stamp duty obligation. For second home buyers or for second purchasers who have already bought a home, the \$1 500 will apply off the total cost of the stamp duty. That, in conjunction with the special incentives now being announced by the city of Adelaide, will have a significant impact on the city of Adelaide. That is our intention.

As for whether the scheme should spread to other areas, we would like to look at it, see how well it works, whether our designs are successful, whether some changes are required, whether they can be measured and whether they add

to the quality of life in the city. We can then judge the merits of the scheme. If it has application in other areas, we can certainly look at that, but that will not be until we have had a chance to view the success or otherwise of the scheme.

The Hon. Frank Blevins interjecting:

The Hon. S.J. Baker: That is not true. The Labor Government's proposal went just about everywhere, and it was going to cost the Government \$20 million in revenue.

The Hon. Frank Blevins interjecting:

The CHAIRMAN: Does the member for Giles wish to ask a question?

The Hon. Frank Blevins: No.

The CHAIRMAN: I shall keep the honourable member in mind. The honourable member for Hartley has another two questions.

Mr SCALZI: Work is proceeding with a number of States to rewrite the stamp duty and administration legislation. What is South Australia's involvement in that project?

The Hon. S.J. Baker: South Australia has been an active participant in a scheme involving a number of jurisdictions. Obviously, the key to the process is New South Wales and Victoria; they are part of the process. A working party, which involves our taxation officers, has been set up. We are in the process of rewriting the legislation to make it easier to administer and more transparent and to reduce the element of compliance which naturally associates with all forms of taxation. There is not total commitment to that process. As we know, Queensland did its own thing with stamp duty on share transactions. Of course, it is not involved in this process, nor is Western Australia or the Northern Territory. We will monitor progress.

We are looking for greater consistency across jurisdictions. It makes it easier for people travelling from one State to another or for somebody in South Australia or New South Wales operating in other jurisdictions. We want a legislative framework that reflects modern business practice, and we want a reduction in administration costs for taxpayers and Government. Work is progressing reasonably well.

We have a push by the major States to change the stamp duty laws to suit themselves. Our cooperation in the venture is to make it easier and more effective. We would not suggest that our cooperation in any way signals a compliance in allowing the means by which stamp duty is applied to change, namely, to the jurisdiction to which the transaction relates in terms of the company or organisation involved.

We are participating in a cooperative fashion. We believe that we should be getting better and smarter at what we do. We want to reduce the cost of administration of the Act from our point of view. Of course we want taxpayers to have the benefit of a more easily understood system that is more easily complied with, as well as have some consistency across jurisdictions. There is a note of warning on the system, of course. We have already seen Queensland do its own thing with stamp duties on share transactions. There is also a desire on the part of New South Wales and Victoria to change the rules, but at this stage we are cooperating, and I believe that the outcome of at least that segment will be to the benefit of people operating in South Australia as well as those who have jurisdiction beyond our borders.

Mr SCALZI: What action is the State Taxation Office taking to make it easier for its clients to remit stamp duty payments?

The Hon. S.J. Baker: Our Taxation Office has been active, and I would like to give it some credit. It is looking at ways to make life easier for everyone concerned, including

the Government, with reduced costs, and it is using the latest technology to bring about those sorts of outcomes. Since 1986 the State Taxation Office has been collecting mortgage duty by way of return, and this has resulted in a significant decrease in the volume of mortgage documents lodged for assessment. The return system was converted to a new computer software developed by the State Taxation Office in January 1993.

The computerised return system provides a standard, legible, verified report of instruments endorsed in a respective period. The system verifies the information as it is entered, calculates the duty payable (if any), down loads to a floppy diskette and produces a one-page return for lodgement with the disk to the State Taxation Office together with any duty payable. So, the whole transaction is encapsulated within this process. Discussions with the industry are taking place so that the system can be further expanded to include other classes of instrument and to allow authorised legal and conveyancing firms to stamp instruments, such as conveyances, by way of return.

This is preferable to wandering into the office, standing at the counter and waiting to lodge your return for assessment and then paying your money, or dropping your return in the box and waiting for it to come back. The potential also exists for the system to be modified to collect Land Titles Office (LTO) fees, and this option is also actively being pursued. The planned extension to legal and conveyancing firms raises the issue of improved security for stampings so that properties do not automatically transfer to someone they should not. There is an issue of tight security regarding this process. The State Taxation Office is examining the matter in conjunction with the stakeholders to determine workable solutions. Some issues are still to be resolved but we believe the outcome will be very positive.

Mr QUIRKE: I refer to page 32 of yesterday's *Hansard* of this Committee, to which the Deputy Premier referred when answering questions relating to performance bonuses. I have read page 32 and the follow up on page 33, and I am certainly none the wiser as to whether the question has been answered. As a consequence, I will ask a few questions to clarify the whole procedure, which I understand may well be taken on notice by the department. I can do that now or at the end of this session; I am in your hands, Mr Chairman, and that of the rest of the Committee and the Minister as to when that should be done.

The Hon. S.J. Baker: We are aware of where the question takes us in terms of Treasury information and we will provide the information to the honourable member. I have looked at the *Hansard* report; I am not sure that we can comment on previous debates, but there are some rather extraordinary references from one of the honourable member's colleagues that probably do not bear reflection.

Mr QUIRKE: Which colleague is that?

The Hon. S.J. Baker: I am talking about the Deputy Leader.

Mr QUIRKE: The Deputy Premier knows how to get me upset. For the edification of this Committee, I put the following questions on notice for a response either later today or at some future date. My questions are: within the Minister's portfolio area, can he tell us if performance bonuses are to be paid in this coming financial year or were paid in the last financial year? Can he also tell us the extent of these bonuses, what are the goal posts, and what are the performance criteria before these bonuses are to be paid? As

I have said, I am quite happy for those questions to be taken on notice.

The Hon. S.J. Baker: We will take those questions on notice.

Mr QUIRKE: In previous questions I asked the Deputy Premier about the extent of debt and interest repayments in the normal course of budgetary measures. Can the Deputy Premier tell the Committee what he believes will be the nominal figure to which debt will rise before we will see a surplus on the recurrent account in the budget, which we are told will be in the year 1997-98?

The Hon. S.J. Baker: That information is in the Financial Statement. These are our forward estimates. Obviously we have removed the issue of asset sales from the budget in the non-commercial sector. The only impact asset sales have on the non-commercial sector relates to the dividends forgone and the interest saved. That is the only way they hit the non-commercial sector directly. The detail appears at page 2.3 of the Financial Statement. If we had gone back to where we started we could have used 1994 prices or the prices at the end of 1993, but we are using the 1995 prices as our benchmark. They look more impressive if we go back a year.

At the end of 1997-98 we say the real public sector debt will be of the order of \$7 146 million, which will represent 19.2 per cent of the GDP. Remembering that the relevant percentage in 1992 was 28 per cent, there is a significant improvement in the State's debt situation.

Mr QUIRKE: Can the Treasurer provide us with a detailed break down of all the legal work generated by the operations of the South Australian Asset Management Task Force and the legal firms and the amount paid to these firms to which contracts have been awarded? Again, I understand there have been a number of contracts and probably a number of services, and if that is taken on notice it will not worry me in the slightest.

The Hon. S.J. Baker: Certainly the issue of the participants and the legal work is not a problem. I am not sure of the actual price paid for each because each has been subject to a process of elimination. It would be inappropriate to publish the exact figure but we can certainly supply the honourable member with information on the costs of the legal services and the participants. I warn the honourable member that it is not quite as clear as one would suspect. We have legal work done on specific issues. When we have consultants whose services include some legal advice the figures would not necessarily be explicit, and we would not have any capacity to disentangle them. It may well be that the legal services in quantum may be understated.

Of course, legal services are regularly supplied by the Crown Solicitor's office. We often get legal advice from outside, draw up documents and then throw them over for further scrutiny or, depending on the circumstances, we might use the Crown Solicitor's office as the major provider of legal services. We virtually have at least one person, if not more, full-time. Roger Sexton might be able to clarify that issue so that we are sure about what we are providing.

Dr Sexton: We can provide a detailed breakdown by firm, project and amount. It is provided to the board of the task force and the Auditor-General. We are happy to make that available.

The CHAIRMAN: Would the member for Playford like the information read out?

Mr QUIRKE: Yes, I would be quite happy to have it read out. It saves the drama of pulling it all out later.

The CHAIRMAN: Dr Sexton, is the information purely statistical? Is it in a form that can be inserted in *Hansard* or is it extensive and of another nature?

The Hon. S.J. Baker: With respect to the contracts and what price was paid in a situation where we were getting the best price possible, it may not be appropriate to quantify each individual contract. I have a table that contains that information, but I am not sure that it is appropriate to provide that in a public forum. I undertake to modify the table and to make sure that the honourable member gets some idea of the total costs and the ballpark figure in respect of each of these contracts.

The CHAIRMAN: Would the member for Playford prefer that that be handed to him in written form later in a slightly modified form from the documents before Dr Sexton?

Mr QUIRKE: We have no problem with that. There are a couple of issues associated with it. One is the quantum of work in dollars. That is an issue, but it is something that I can sort out with the Treasurer. The other issue is that I am trawling to find out whether the old Adelaide companies that used to do very well out of this system have managed to get back into the system. One company I can think of, which is very famous around these traps, has managed to get back into the system. I want to know whether it is back on the tip.

The Hon. S.J. Baker: Under Roger's guidance the AMTF (Asset Management Task Force) has a large number of people who have submitted their names and expertise to the AMTF for potential consultancies. As you can imagine, there is a large number of participants in that. The AMTF has an enormous amount of expertise on file which it can draw upon to short list or canvass the market place. We have been inclined, except with general consultancies, to look for the person with the expertise. On occasions we have engaged someone from a particular firm which may have a record similar to that mentioned by the honourable member but who is engaged for their specialist expertise. We do not engage the firm directly as such, even though the bills go to the firm. We look for the best individuals so that we can obtain the best results. We look at their expertise, and sometimes they are in areas to which the member alludes; but not a great deal.

The CHAIRMAN: It is understood that any documents provided to an individual member will automatically be provided to all members of the Committee.

The Hon. S.J. Baker: I will make sure that whatever we provide is given to all members of the Committee.

Mr BUCKBY: I refer to page 46 of the Estimates of Receipts and Payments. This morning the Treasurer spoke about program 7 and the development and implementation of accounting policies and financial management systems and the payments to consultants in relation to that. Will the Treasurer provide a little more detail on the payments to consultants, both past and current?

The Hon. S.J. Baker: The issue of consultants is important, because there is some suggestion that enormous amounts of money are being spent on consultants when it could be used better elsewhere. As a Government we do not use consultants to determine what position we should take: we use consultants to drive the process. That is different to the history. I was pleased to recall the analysis by the Economic and Finance Committee in its seventh report under the stewardship of the member for Playford. The then Presiding Member's foreword states:

During the five year period considered by this inquiry, July 1987 to June 1992, an amount of \$146 million was spent on consultancies by Government departments and statutory authorities in South

Australia. There can be little doubt that some of this was effectively spent on purchasing services not readily available in the public sector. Likewise, from the evidence, there is little doubt that a vast amount of money was expended without a thorough analysis of the available services within the public sector—

there are some good references in there—

The Committee is concerned that some agencies consider it necessary to employ external consultants to make important and often controversial decisions. This is an abrogation of responsibility. . .

That was the situation in the past, and I am delighted that the member for Playford was an active participant in bringing this to the attention of the public. We use consultants for three main reasons: if we need expertise outside Government (which is quite often the case, and particularly when we are in the process of selling assets); when the time frame in which we are operating requires a bringing together of expertise in a particular fashion to fulfil those time frames; and we use consultants when perhaps we could use public servants if we had time on our hands. For example, in our accrual accounting we bring in consultants to get the process moving to train the people within the various departments so that the system can work as quickly as possible. The alternative would be to train everybody internally and then hope that it flows through on a consistent basis throughout the Public Service. We use consultants in a cost-effective fashion. I have no knowledge of ever using a consultant to help me make a decision.

Additional Departmental Advisers:

Mr Wayne Horne, Chief Executive Officer, SAAMC.

Mr Andrew Anastasiades, Head of the Department of Finance, SAAMC.

The Hon. S.J. Baker: The honourable member previously asked a question about salaries within SAAMC. Of those earning over \$100 000, at 30 June 1993 we had 77, at 30 June 1994 we had 63 and at 30 June 1995 we had 21. We had no-one earning in excess of \$270 000. Some of these figures include unusuals like pay-outs. There has been a significant downsizing in the upper levels of the South Australian Asset Management Corporation. I can provide the member with this detail.

Mr QUIRKE: I should like to deal now with 333 Collins Street. What is the current income stream from that property; what is the anticipated sale price of that property—I appreciate that the Treasurer will necessarily be vague about that—and when is the sale likely to be completed?

The Hon. S.J. Baker: The current valuation of 333 Collins Street is \$204 million. We are currently 65 per cent leased. We would probably have done better than that if Mr Kennett had not stopped Gas and Fuel from taking up a tenancy in that building. I shall have to seek professional advice on these issues, because we want to maximise the potential return to SAAMC, but the process of looking at how we market the property has already begun. The best guess is later this year or early next year. I will ask Mr Horne to give the Committee some further information.

Mr Horne: All the assets within SAAMC, including the major ones, are looked at at least twice a year. The next review of 333 Collins Street will be at the next SAAMC board meeting, which is scheduled for 28 June. At that time we shall look at the option of bringing the sale forward. However, that has to be looked at in the context of selling the property, which is less than optimally leased at this time. The current strategy, as agreed by the board, is for the property

to be leased up to between 70 per cent and 80 per cent before going to the market to maximise the value. However, every six months we look at the option of bringing that forward, given the market conditions.

The Hon. S.J. Baker: We must remember that in the period following its completion, when it was taken out of SGIC and placed with the South Australian Asset Management Corporation, there were a number of inducements to fill that building, as was the case in Melbourne where there were over 20 per cent vacancies, and all new tenancies were fixed on that basis. The revenue stream for this financial year will be about \$6.8 million. With some of those early inducements we would expect to see a significant improvement in that revenue stream from the existing tenants.

Mr QUIRKE: If the income stream from the building is up to about \$7 million with 65 per cent of the property leased, one would presume that the income stream would be no more than \$10 million if it were to be fully leased. Is that what we are being told?

The Hon. S.J. Baker: In the medium term we expect the revenue from leasing arrangements to amount to over \$20 million net. The issue that I addressed in the previous answer was that, in this period of gross excess, when there was an enormous amount of activity in Melbourne, as there was in Adelaide, and a surplus of commercial accommodation in the marketplace—this happened in Adelaide and most capital cities—inducements were offered to entice people who had finished their leases to go into new accommodation. For example, someone in existing accommodation might say, 'The marketplace is offering me rent-free accommodation for three, four or five years, and I expect the same from you.'

In that period an enormous deal was done that made accommodation very cheap. We were not immune to that process. We had an empty building, and the only way to sell it was to get tenants. As was explained to Parliament on the two previous occasions, we have looked at this issue. The move, with which I agree, was instigated under the former Labor Government. In fact, we said, 'We cannot sell the building unless we have tenants. The marketplace is offering free tenancies or other inducements to get tenants, with a pay-off in the longer term.' The front end of such a contract is either negligible or zero, but there are obligations to continue with the leasing arrangement once the discounts and free accommodation are at an end. In normal circumstances we would expect those tenancies to produce reasonable market rents. In the medium term we would expect the building to realise revenue of well over \$20 million, and in the current term we have some of those leasing arrangements sorting themselves out.

Mr QUIRKE: If the building were 70 per cent or 80 per cent leased, presumably 70 per cent to 80 per cent of that projected income stream would be available at the time of sale?

The Hon. S.J. Baker: No. Anybody can decide what a building is worth. We are in the process of selling the Myer Centre, the Grand has been sold and the Terrace, under SGIC, is under contract. Potential purchasers look at the current and future performance of a particular entity, so they would say, 'If I am 65 per cent leased, what is the future revenue stream?' They might then apply a net present value to that and take account of a wind down of any discounts in the short term and look at their potential to lease the building fully in the medium term. It is not a straight equation. If we used a straight equation, we would say that the building is worth no more than \$68 million, but that is absolutely ridiculous. We

could say that the future streams, even on the 65 per cent occupancy, will be at least \$15 million. Mr Horne may be able to give some further details.

Mr Horne: The Treasurer is right when he says that we are not seeing the nominal rents flowing today because there are still unexpired lease incentives which, a few years ago, were much bigger than they are today; nevertheless, incentives are still given today to equate to the market. The \$204 million valuation was arrived at by looking at a sort of 10-year investment horizon, and the sorts of things looked at are the lease incentives required to fill the vacant space, the rental growth rates for the remaining 10-year period for those new leases, plus the leases which have been entered into to date, which is the 65 per cent, plus a discount factor for cash flow over that period and what we estimate the capitalisation rate to be on a residual value calculation at the end of that period.

With all those things added together, the net present value would give a value of \$204 million. Going forward, those figures may change subject to changing market conditions, but they are based on best estimates of all those conditions as we know them today. In 10 years, you will probably have a cash flow sustainable with a cap rate today of somewhere between 7 to 10 per cent, depending on what interest rates are on that day. That is how you arrive at that number. You cannot take today's generated cash flow and simply capitalise that, because there are unexpired rental holidays in there, as well as fit out arrangements, which are commonplace. Once those expire, you have a pure cash flow which you can look at on its own as opposed to all those other conflicting issues.

Mr QUIRKE: I understand all about the sweetheart deals. I am alluding to the point that there seems to be a headlong rush into the sale of that particular building, and Mr Horne said a minute ago there would be a meeting soon to even advance the sale of that building. The Opposition has supported the sale of the bank. We are happy to be rid of it. In fact, at one stage I made the comment, 'Buy one, get one free. You could have SGIC as well.' There are a number of other facilities. The Deputy Premier knows my view on that. At the end of the day, the problem is that what you are selling are such intangibles as the goodwill or otherwise of an enterprise and other things. We are looking here at a couple of fairly decent pieces of real estate. I will be asking questions in a moment about the Myer-Remm site.

Although that has been valued down accordingly in a similar process, at the end of the day I would have thought that the position with 333 Collins Street and the Myer-Remm site was that we could anticipate a much faster than inflation rate increase in the sale price of those real estate assets over the next few years. By the time you wind out all the sweetheart deals for tenancies and all the rest of it, the income stream must be getting fairly close to the amount of money that would be forgone in terms of interest that would have to be paid if these assets were sold at their current valuations. If that is wrong, there are a number of people out there who have interesting real estate portfolios. There are a number of people out there who have been collecting real estate for a number of years and who also will be bitten. The Opposition can understand the sale of certain assets, but I would have thought that, with those two in particular, we would see a fairly substantial rebound in the price as the current oversupply of commercial real estate, particularly in Victoria and here in South Australia, tends to wind down over the next couple of years.

The Hon. S.J. Baker: I think the honourable member is setting himself up as a market analyst without saying that the people who will be involved will be doing the same analysis. If the punters or the marketplace believe that the property values will increase, we will see that reflected in a competitive sale. Just remember, from a holding point of view, we have actually held 333 Collins Street for quite a while. I keep asking, 'What is happening with 333?' There has not been a mad headlong rush: we have just been waiting for appropriate conditions to prevail, and that is subject to continual review.

I simply make the point that, if the honourable member is right, and I am not saying he is wrong, we would expect in a competitive process there would be a premium put on that property for that very reason. That means the risk of getting the price wrong is in the hands of those putting their bids forward, and we would expect some part of that element to come through in the sale process. So, they give value to future capital gains on the property. If the honourable member is wrong and if we hold the property for, say, eight years at a normal interest rate of, say, 10 per cent—whether you are using opportunity costs as your measure or the cost of borrowing funds, which may be higher than that, but just say 10 per cent for example—and if you have a \$16 million a year bill in the process, because we have not realised \$160 million on the building, in 10 years your property value would be well over \$200 million more than it is today.

There are some swings and roundabouts—it is a fairly simplistic explanation—but I am not sure I could guarantee that the price would be commensurate with that. There are a number of issues that are looked at in the process. I would think that, with the current rah rah that is going on in Melbourne, we might actually get a good price sooner or later. I also remind the member that, if the rah rah dies down, we could get a lesser price, given there are still very significant vacancies in Melbourne. I do not know whether the market is right, quite frankly. We get a lot of advice. Wayne is a great performer in this area. He has a great understanding, gets this advice, sifts it and refers it to the board. They make decisions on the basis of what they believe is the best way to get a good price for the building. I guess the light is on amber at the moment: it may well go to green very shortly. From my point of view, that would be my preference, but I will be awaiting professional advice.

Mr QUIRKE: Returning to a piece of real estate a little closer to home, the Myer-Remm site, similarly as with your answers to questions on 333 Collins Street, could you tell us the same things, namely, the income stream from the building at this stage and the value of that building? I understand that you have progressed well on the way to the sale of that asset?

The Hon. S.J. Baker: The current income from the whole centre is about \$12.5 million. The sales process is under way. It is being actively marketed at the moment. We would expect a conclusion to that process by the end of July. I used \$160 million in the previous example, but I probably should have used \$200 million and said, 'If we waited 10 years and looked at capitalising on interest rate, you would have to say in 10 years, if the nominal value is there, the building would have to be worth more than \$450 million.' The current valuation of the Myer-Remm Centre is \$155 million. We would expect to get more than that.

Mr BASS: The member for Playford has referred to a couple of assets that are being looked at by the South Australian Asset Management Corporation. Will the Treasurer provide a run down of the assets controlled by the South

Australian Asset Management Corporation during 1994-95, including those assets held internationally?

The Hon. S.J. Baker: Yes, I would be pleased to do that. On 1 July 1994 the South Australian Asset Management Corporation was given the responsibility to realise or otherwise deal with the residual State Bank assets. Previously, we had the Government Asset Management Division in place to handle the non-performing loans. The residual of the State Bank was \$8.4 billion, which was made up of a mixture of assets unsuitable for the Bank of South Australia. A large share of that was financial assets or borrowings taken out overseas under the State Government guarantee, and they were placed in the hands of the South Australian Asset Management Corporation.

Under its own board and work force, which started with 228 people, SAAMC was given until December 1996 to realise assets, pay out the liabilities and funding costs, be self sufficient in its operations and return to the Government a surplus target of \$215 million. The first year of operations ends on 30 June 1995. The current indications are that from that \$8.4 billion start at 1 July the amount has been reduced by more than \$3.5 billion, and in so doing SAAMC reduced its obligation by the same amount. It also generated a surplus during this last year. It has had a very successful year. It has exceeded our expectations, and I pay credit to Wayne and his team and the management board in place. It has been a very successful year to the extent that, instead of further calling on the indemnity, we will be able to return \$65 million to the budget as a result of the operations, something we were not sure of when we first entered government.

As members know, there were some question marks about the extent to which we would have to dip further into the existing indemnity. A large number of organisations have been wound down in the process. We should remember that some of the loans that were under management by the South Australian Asset Management Corporation were there because of their size or questions about their asset backing. Some of them were performing loans, so we had to get them to organise other forms of finance to replace the former State Bank financing, and SAAMC had to take an active role in winding down others. Since 1 July 1994, SAAMC has recovered approximately \$2 billion. Treasury assets are excluded from these wind down operations, so it has been quite an exceptional, exciting and successful period for the operations, and it is a credit to the personnel involved.

Mr BASS: I refer to Financial Paper No.1, page 514, which mentions a \$65 million payment by the South Australian Asset Management Corporation into a special deposit account. What does that represent?

The Hon. S.J. Baker: As I mentioned, we had had a very good year—better than expected—with the operations of the South Australian Asset Management Corporation. A payment of \$65 million will be made to the Government: on 26 June we will have a cheque for \$65 million, which will represent a fair estimate of the surplus that has been generated over and above the costs associated with managing those assets. At the commencement of operations in July 1994, a total of \$215 million was estimated to be retrievable from SAAMC, and the \$65 million is the first down payment on that amount to be retrieved. For budgetary purposes, it is excluded from the calculations of underlying deficits, but as a revenue source it is more than welcome.

Mr QUIRKE: What is the intention of the Government with respect to the sale or retention of the Adelaide Casino and the larger ASER site?

The Hon. S.J. Baker: That is a very good question; if I had the answer, I would probably think about it. In all seriousness, the position of the Casino is tied up with the management of the whole ASER site. As the honourable member would appreciate, ASER was actually built on the returns estimated by the Casino, and we have this extraordinarily complex—

The Hon. Frank Blevins interjecting:

The Hon. S.J. Baker: Of course it is true. We have this extraordinarily complex relationship, which is in the process of being sorted out. I will send the honourable member a copy of the legal bill; perhaps we will send it to members of the former Government who put it all together. A complex relationship is in place, which is being examined at the moment with the intention of making it much simpler. At the moment I believe that the most compelling issues concerning whether or not we sell are not only to wind down the structure but also to replace the capital that has been provided by Westpac: some \$200 million of loan moneys are in place. They must be rolled over or replaced by 6 October this year, so some effort is being put in right at this moment on the issue of supportive loans. In the longer term we will be looking at a number of options.

The honourable member would appreciate that there are two major shareholders and one minor shareholder. One of the major shareholders is the South Australian Superannuation Fund Investment Trust, to be renamed the Superannuation Funds Management Corporation, and the other is Kumagai Gumi. The minor shareholding is now held as a residual shareholding by the South Australian Asset Management Corporation as a result of changes with Southern Cross, which changes I previously announced to the House. The desire of the shareholders in relation to their holding, plus the refinancing of that property, will be addressed by the Government over the forthcoming months. Our major imperatives as far as the Casino is concerned are, first, to get it operating effectively and efficiently and returning a lot more cash than it does today; secondly, to collapse the structures into something that is far simpler, better and more flexible for any change in relationships; and, thirdly, to get the refinancing in place at the least cost. They are the three imperatives.

Mr QUIRKE: How are you getting on with Genting these days, and is it part of this review?

The Hon. S.J. Baker: As far as Genting's relationship with the Casino is concerned, its advisory capacity within the Casino is a matter that is subject to the board. I will be looking forward to the board's providing me with a status report on that and a number of other issues. As the honourable member can appreciate, a lot of work is being done right at this moment, looking at the future of the Casino and what shape and form it should take, what sort of activities it should provide, what should be its gaming totality, how it is marketed, how we can get more people through the door and the issue of junkets. So, the operational efficiency, effectiveness and marketing of the Casino is under scrutiny at the moment, as is the role played by the technical adviser in the form of Genting. We are looking at the totality of that Casino operation and getting some external advice on how we can best meet the undoubted potential of the Casino to be a far more vibrant and income earning establishment than it is today.

Mr QUIRKE: What does you intend doing about SAGRIC? Are you going to flog it off?

The Hon. S.J. Baker: I have no intention of flogging SAGRIC off. I would ask for something a bit more explicit from the honourable member than whether I am going to do that. I do not know whether I should be using a whip or putting it into the marketplace. The only general comment I make is that the performance of all Government entities is being reviewed and we are looking at a number of entities according to their potential to provide a better service, to return more income to the Government, if that is appropriate—and it is always appropriate, in my view—and just looking to see whether they can perform better. In a wider sense, SAGRIC is one of those. Any specific questions should be conveyed to the appropriate Minister.

But let us be quite candid: a number of State entities have been in place for many years and have not met their charters. They have often been a drag on the finances and have had to be propped up because they have not performed. I am not suggesting that SAGRIC belongs in that category, simply observing that its performance, like that of every other organisation that has a place in the open market, should be under intense scrutiny. I can assure the honourable member that is the situation. Whether it stays in its current form, changes its mode of operations or is marketed I cannot judge at this stage. All I am saying is that every organisation is being looked at and SAGRIC is no different.

Mr QUIRKE: I understand that SAGRIC has two shares, which are held by two Ministers of the Crown, although I am not sure who they currently are. Is the Minister one of those shareholders?

The Hon. S.J. Baker: I believe I am, but I will have it checked. It is not something to which I have paid much attention in recent times, particularly since we have been in government, because the ministerial responsibility belongs with the Minister for Industry, Manufacturing, Small Business and Regional Development. I think it is the case that I have a shareholding. With some of the other instrumentalities under my control, three or four other Ministers are shareholders in those. Three other Ministers were shareholders of the bank, which we were advised by the Crown was the appropriate arrangement. The fact that I am a shareholder of SAGRIC does not put me in any special position, except that as Treasurer I have an interest in all of them.

Mr QUIRKE: The Minister's being a shareholder makes my next question relevant. I would like to know the composition of the SAGRIC board and, in particular, the amount of remuneration the non-executive Chairman of that board receives.

The Hon. S.J. Baker: What line of the budget does this actually come under? As I see it, shareholding can be a sort of nominal or active arrangement; in my case it is a nominal arrangement. The appropriate Minister can answer all these questions and I do not want to be rushing bits and pieces across his desk if it would be appropriate for him to answer the questions. I just do not know that there is any line in the budget that is covered by these questions and it would be better for all concerned if the questions, which I am sure the Minister could answer more than adequately, were asked in the Minister's Committee.

Mr QUIRKE: I know there is no line in the budget: I have been trying to find one for the past three years. I have been trying to ascertain the answer to the last question since the former CEO of that organisation rang me up anonymously asking why I wanted to know the answer to the question. I understand that as a shareholder the Minister may wish to take a bit of an interest in the composition of the board. If not,

we will pursue the matter with other agencies. I think I am on the Committee when the Minister is here next week.

The Hon. S.J. Baker: I seek the indulgence of the honourable member. I do not have any special knowledge of the board or its operations. I occasionally have a look at its performance, and as Treasurer I am not totally satisfied that its performance is as good as it should be. However, if the honourable member can put the question on notice or he can get his colleague to ask the specific questions to the responsible Minister, that is the way it should go.

Mr QUIRKE: Will the Treasurer tell the Committee the winding up operations of SAAMC and how they will unfold over the next two financial years in which it still has to operate?

The Hon. S.J. Baker: The life of SAAMC is until 31 December 1996; it extends over two financial years. The tail of the financial assets that involve the former treasury of the bank in borrowings and derivatives will be wound back into SAFA probably early next year. SAFA will then have to juggle its finances accordingly, but at least we have some good lead time there. We expect most of the assets will have been sold or the loans refinanced and that the Government, in the form of SAAMC, will have no further interest in these operations. We believe that most of them will be out of the system by the wind-up date of 31 December, and if there is a residual, which we presume there will be, at this stage our plans are to absorb that within Treasury. But we would not expect a large number of accounts to flow back into the system that way.

Mr QUIRKE: What happens to staff currently working for SAAMC? I understand they came straight from the old State Bank entity when it was split: are these people to be redeployed into other arms of the State Public Service when SAAMC is wound up?

The Hon. S.J. Baker: The answer is 'No.' There are some on loan from the bank to the management corporation. A number have already left of their own volition. We have not looked at this issue because it is too far down the track, but before we get to 1996 we will be putting in much effort to see how we manage those staff issues. If staff are to come within the public sector, it would only be on the basis that they have specialised expertise relevant to the wind-out of the other assets or if they have some skills that would be of vital interest to Treasury or other departments. Some will flow over to SAFA, the funds management now. There is a relationship with the bank and SAFA but the majority of staff will be leaving during that period. A number of them have already received offers from other areas and we would like to believe that there would be a smooth transition.

Additional Departmental Adviser:

Mr Malcolm Jones, Managing Director, SGIC.

Mr QUIRKE: I have a couple of questions associated with the sale of SGIC to private hands. We canvassed this morning the question of Government guarantees but, as to some of the other functions in which the commission is involved, what is the future of the helicopter rescue service?

The Hon. S.J. Baker: In a number of areas SGIC has been a good corporate citizen in the past and we hope that some of those arrangements will continue in the future irrespective of who owns the entity. We cannot guarantee that at this stage. Certainly, with the information memorandum we send out, we will be ensuring that everyone is aware of the functions performed. For example, the honourable

member would recognise that the CTP fund has been the source of advertising to promote safe driving and bring about a reduction in drink driving. That has been an important activity under the previous Government and has continued under this Government, using that source to encourage better driving habits among South Australians.

A number of areas have sponsorship where SGIC has been involved historically and that has been important. Such issues will be made explicit to any potential purchaser and we have had a positive response from the bank and from Tenneco; from Advance Bank in terms of its desire to be a good corporate citizen in relation to the pageant, and from Tenneco there have been positive responses in terms of the role it wishes to play in the South Australian community. We hope that in the process of the sale of SGIC the same will prevail. As the CTP fund will then be under the Motor Accident Commission, we have a greater capacity to effect that result than if we had sold off the CTP with the general sale.

Mr QUIRKE: What does the Treasurer envisage the staffing will be in the Motor Accident Insurance Commission?

The Hon. S.J. Baker: The commission will be almost like a holding company. It is there for the Government's purposes and is not a body in its own right to administer. The administration of the premiums and claims will be sold off or imparted when SGIC is sold so that the commission will act as the shareholders' representative to ensure that the new managers operate in a manner that is effective, that keeps premiums low and operates in the best interests of all South Australians. It will be an overseeing body. There may be some small secretarial service attached to it.

Mr QUIRKE: While the SGIC Manager is here, and I anticipate he will not be back next year because the commission will be in different hands by then, I thank him and the commission for the cooperation they have given to this side of politics over the years. I wish him and his enterprise all the best in the future. We do not have any more questions.

The Hon. S.J. Baker: I thank the member for Playford for his comments. Changing from the public to the private sector is a big move for a number of people. It involves a change in one's way of life and a change in thinking. For some people it can be a traumatic process. Malcolm and his team have cooperated with the Government in terms of meeting its desire to sell SGIC, and at the same time they have ensured that the quality of the asset is not diminished as a result of problems arising from staff who are concerned about their future. He has kept the team together particularly well, and the board certainly played a role as well.

The CHAIRMAN: Mr Jones has been a very good public servant. In fact, I have experienced his services when he has been an important witness at a number of meetings.

Additional Departmental Adviser:

Mr Rick Harper, General Manager, SAFA.

The CHAIRMAN: I would ask the member for Playford to limit his questions to lotteries, the Casino and gaming. Questions relevant to all sections up to lotteries, the Casino and gaming should be read in before we close the current two lines, and anything for State Services should be read in before we close that line. The responses will be subject to the 7 July deadline.

Mr QUIRKE: How often and to what degree of detail does the Treasurer monitor and assess the debt management performance of SAFA?

The Hon. S.J. Baker: I receive regular reports. In fact, every month I receive a bulletin on the market operations. I think that we changed the amount. If we are talking about big market operations and we are going to the international market for a very large sum of money, which we do on occasions, the Treasurer is required to sign the authority. That applies to operations involving more than \$300 million. That might sound like an enormous amount. In terms of market operations, with our assets, it is about \$18 billion.

There is a regular turnover of loans that have to be refinanced, roll-overs, new financing arrangements, and Government authorities wanting money for certain needs. The \$300 million is not significant in those terms, given that it is simply a matter of ensuring that the documentation is appropriate and that we keep the funds rolling smoothly. I receive regular reports from Mr Harper on the operations. In fact, we have probably been involved in a great deal of correspondence in recent times in respect of where we should position SAFA, issues of domestic versus international borrowing, and what sort of spread we should have with our borrowings. Matters regularly come to my attention, as well as updates from the board on any resolutions at board level. It is a matter of consistent interest.

The important issue with SAFA is that we are reducing our market operations. Our funding needs, because of our debt management strategy, are reducing. Therefore, a different strategy has to be put in place in that environment, compared with the situation that prevailed when the State Bank was going through its bail-out period. As the member will remember, the former Government, if it did one thing well, it made sure that the finance requirements of the State Bank in meeting the losses associated with the State Bank did not cause us enormous difficulty because of the way in which SAFA had a positive—

The Hon. Frank Blevins interjecting:

The Hon. S.J. Baker: I did, actually.

The Hon. Frank Blevins interjecting:

The Hon. S.J. Baker: No, I did not say that. We are talking about two different issues. If the member for Giles had been present at the beginning he would understand a little more. It is hearing-aid time for the member for Giles. The Committee was running smoothly until the member for Giles came back. At that time, we raised about \$5 billion in a reasonably short period and made sure that we were not subject to the vagaries of the market and that we raised the finance at competitive prices to meet the needs of the time. It was a credit to SAFA the way it raised the finance without any ripples. As everybody would—

The Hon. Frank Blevins interjecting:

The Hon. S.J. Baker: If the member for Giles had been present and not been a late entry into the system, he would have heard me pay credit to SAFA for managing to organise the finance for the bank bail-out in a way that did not leave us exposed or did not cause us to pay premium prices for the money we were raising. That was a credit to SAFA at that time. The nature and role of SAFA are changing. It is truly a financing authority. It is not a place to hide various assets and the various operations of past governments. It has been cleansed. It has been reduced, and it has now taken on a different role than it had previously.

Mr QUIRKE: What information can the Treasurer provide concerning the anticipated performance in this area for both this and next financial year?

The Hon. S.J. Baker: I ask the honourable member to be more specific.

Mr QUIRKE: What are the likely SAFA dividends for the next 12 months and what were they over the past 12 months?

The Hon. S.J. Baker: It is important to put this in context, given that we are winding out SAFA's capital. We believe that SAFA's operating surplus of \$120 million, which is the target for 1994-95, will be met. This compares to \$246 million in 1993-94. The difference in performance relates to a reduction in the capital contribution from the Government. The honourable member may well remember that the Audit Commission cast its eye over SAFA and said that it had far too much capital associated with its operations. It probably made the observation on the basis that, if you have assets which you are applying in the marketplace and you are getting a certain rate of return from your lendings and you are paying a higher rate of return to those lending you money, it is a misuse of resources.

The Audit Commission suggested that we should reduce our capital in SAFA to about \$150 million. We did not believe we should do that overnight because it had the potential to send all the wrong signals to the marketplace. We also did not agree on the quantum of the wind out; we still thought we needed a little more capital backing, so we have reduced the amount of capital within SAFA. The reduction of \$721 million from \$1 864 million meant that, in June 1994, the capital was reduced to \$1 143 million, with a further reduction of \$962 million in December 1994. We are dealing with a very different organisation.

I draw the analogy that, if you have \$100 000 in cash and you owe \$100 000 on your dwelling—you do not have a tax break or any other incentive in the system—and you are paying 11 per cent on your loan and receiving 8 per cent on what you are lending to other people, you are not doing yourself any great favour. We have taken out the guarantees which used to be paid into SAFA and which also played a part, so that the general revenue that used to flow into and then back out of SAFA has been dramatically reduced for those two major reasons, as well as a number of others. We would estimate the 1995-96 operating surplus to be \$100 million; in 1996-97, \$75 million; and a similar sum thereafter. The SAFA operation is totally different to what it was five years ago.

Mr QUIRKE: Could the Treasurer tell the Committee whether he makes the key decisions in this area, or does he delegate to SAFA or the Under Treasurer to make some of the other key decisions he mentioned a moment ago? I am not necessarily talking about just the raising of money on the international money market, which was done last year. My impression is that the Treasurer has taken a more hands-on approach with respect to SAFA; is that correct?

The Hon. S.J. Baker: Yes, to the extent that I believe that whatever part of the organisation is under my control or under the control of Government should operate to its maximum efficiency and effectiveness. There has been a dramatic change in the role and emphasis of SAFA over the period in which I have taken an active interest, which has meant considerable discussion and dialogue has taken place about some of the changes occurring. It is a hands-on approach. I suggest that it will become less hands on, and I compliment the Under Treasurer for his leadership in this area, as well as Mr Harper for his more recent contributions.

Now that the entity has changed, the level of dialogue and my interest will not be as strong next year as it is this year. Next year I expect that I will receive only a briefing in respect of the changes taking place. Providing that the briefing is

satisfactory, and remembering that the Under Treasurer has a more intimate interest in the operations of SAFA, my working relationship with the organisation will not be as strong as it has been in the recent past.

Mr QUIRKE: Without going into precise details which, for all sorts of reasons, the Treasurer would be quite nervous about in terms of dollar values, what progress is being made in respect of winding down the Government guarantee in general and, in particular, with respect to the exposure to vast amounts of money?

The Hon. S.J. Baker: We are putting a lot of effort into understanding what is under Government guarantee. The Audit Commission report was critical of the fact that the Government had no concept of what its potential future liabilities would be in a normal situation let alone a disaster situation. Treasury has been trying to get a handle on these contingent liabilities so that the Government is quite clear about what the quantum could be under particular circumstances. Table 7.4 of the Financial Statement, at page 7.7, is probably the best statement we have ever had in Government of what comprises contingent liabilities and what potential exposures prevail.

That table details the operating leases, the liabilities of State-owned financial institutions, and the off balance sheet exposures with the various entities as at 30 June 1994. We will be providing a final result of the budget for 1994-95, which will be available when Parliament resumes in late September, and we will have an update on that table, presumably, for 30 June 1995. If one looks at the table, the two major areas of exposure are the liabilities of State-owned financial institutions: the State Bank of South Australia, \$10.951 billion; and SGIC, \$1.535 billion. They are really the largest amounts which appear on the contingent liability table.

Mr QUIRKE: What progress are we making toward the reduction of Government guarantees and other contingent liabilities?

The Hon. S.J. Baker: Where we face potential exposures we would obviously like to reduce the capacity for those exposures to visit Treasury or the taxpayers of South Australia. We look at all those areas to see whether there is any risk associated with them. We are into risk avoidance and will be looking at a number of those items. We are already taking action in some areas where I believe guarantees are inappropriate, and we are changing some of those and some that are subject to yearly review. I will not outline that to the Committee today, but the whole issue is to reduce exposures of Government and to reduce the capacity for Government to be visited by big bills which occurred with both State Bank and SGIC.

Additional Departmental Advisers:

Mr Ross Christie, Assistant Under Treasurer, Insurance and Superannuation.

Mr John Beare, Chief Executive, SASFIT.

Mr QUIRKE: Will the Treasurer inform the Committee of the approximate value of the investments under management by the trust at the most recent assessment?

The Hon. S.J. Baker: I mentioned previously that SASFIT, which will become the Superannuation Funds Management Corporation, represents \$1.73 billion as at 30 June 1995. That amount will increase considerably, as the honourable member would understand, given that we now have a plan in place to fund superannuation liabilities over the

next 30 years. The honourable member would reflect on the provisions made in this budget and the extent to which that commitment is already being met, at least right now, with the aim that, at least by the year 2024, the State will have assets which will equal liabilities in the superannuation area.

Mr QUIRKE: How much does the ASER investment represent as a percentage of that figure?

The Hon. S.J. Baker: It is not a great deal. The exposure is about 4.5 per cent. I will provide the honourable member with information which may help him in terms of the ASER project. SASFIT's ASER investment takes two forms. One is an inflation indexed loan secured under Government leases of the Convention Centre, car parks and share of common areas. This is equivalent to a Government security and is treated in that way by SASFIT. In other words, it is valued by reference to similar instruments included in the inflation linked investment fund. Its market value as at 30 June 1994 was \$97.2 million and that is related to that part of the ASER development. There is obviously an equity interest in the commercial elements of the project, namely, the Adelaide Casino, the Hyatt Hotel and the Riverside office building. This interest will be valued independently at the end of the year.

We had this inevitable dispute, when I was in opposition, about what it was all worth. The then Treasurer explained that we could not take the valuations of the building: we could look only at the income streams and form an opinion accordingly. So, I will not pretend to argue with that logic, although there was some discussion at the time as to what those assets were worth. SASFIT and Kumagai Gumi are equal shareholders and hold a landlord's interest in the hotel and the Casino business, whilst SAAMC has a minority interest. ASER is SASFIT's single largest investment. SASFIT invested cash in the project over the period 1983 to 1992 peaking at \$92 million in 1987. Most of that cash was returned after Westpac refinanced in 1989.

Members of the Committee would recall that I said we now have a refinancing issue on our plate as far as the Westpac loan is concerned. So, it got most of its money back. In the 1992 to 1994 financial years, further cash returns remain such that there has now been a net inflow to SASFIT of several million dollars, and the cash return to SASFIT in 1993-94 was \$7.5 million. Cash returns this year have been minimal. SASFIT also provides a guarantee to Westpac in terms of the loan—the \$100 million which is its half share of the Westpac loan. The interest has been guaranteed by SASFIT.

SASFIT's overall return on ASER since commencement in 1984 is estimated to lie, depending on current market values, between 14 and 16 per cent per annum, which I mentioned previously. The Casino is not performing as well as it did during 1993-94 due to the influx of poker machines and competition. I mentioned the sorts of changes taking place at the Casino. The estimate of the equity holding at current market value is about \$75 million. Regarding the cash that has come back, all that equity has been repaid.

Mr QUIRKE: How is the Hyatt going?

The Hon. S.J. Baker: I am informed that the Hyatt, in terms of return, will have its best year since it was built. I have an estimate of what it will return but have not seen that on paper and have not discussed that matter with anyone. I am informed—rather than being a drag or being negative—that probably over \$4 million will come back this year: that is about the best estimate I can give. More than \$4 million will come back, and that will feed into the trust.

Mr QUIRKE: There is still considerable loss associated with that: it failed to reach anticipated returns?

The Hon. S.J. Baker: The honourable member is probably correct. If we look at the cost of building the ASER complex and then at the returns from each of the entities involved in ASER, we see that, apart from Riverside and the Convention Centre, the two profitable areas have been the car park and the Casino. The honourable member's judgment would be quite right. If we borrowed money to build each of the component parts of the ASER development, there would be only two profitable parts: the Casino and the car park.

Mr QUIRKE: Can the Treasurer tell the Committee what the rate of return on funds under investment by the trust was at the latest reporting time, which I presume would be December 1994—in other words, the first six months of the financial year? I doubt whether you could have any figures more up to date than that.

The Hon. S.J. Baker: I might get Mr Beare, who has figures in front of him, to respond. We should reflect that all superannuation companies suffered dramatic falls in their performance levels as a result of two major items, one of which was the equities market. From 30 June to 31 December there was a significant loss on a market to market basis on equity investments and securities. If those companies had locked substantial investments in fixed securities earlier in 1994—again, they would have varied market to market—there would have been a significant write down of those assets. We have seen most insurance companies' super funds, at least for those six months, take a significant fall in performance. Our super fund was no different. We expect the year end result to be somewhat better. I will ask Mr Beare to give more concrete detail if he can.

Mr Beare: The estimated return on the funds to May is 5.5 per cent. The return for June is likely to be fairly neutral because of the way that the markets have gone, but a year end position of 5.5 per cent is likely.

Mr QUIRKE: At the very beginning, the Treasurer said that he was in the process of creating the Superannuation Funds Management Corporation. Have the members of the board of that enterprise been put in place yet and, if so, who are they?

The Hon. S.J. Baker: That will be announced very shortly.

Mr QUIRKE: Given that the new board and the corporation are to commence operations from 1 July 1995, when will you make the announcement about the board and the new members?

The Hon. S.J. Baker: Very shortly.

Mr QUIRKE: Before 1 July?

The Hon. S.J. Baker: Obviously before 30 June, yes.

Mr QUIRKE: Presumably the Government has a desire to achieve a better return on the superannuation funds invested by the new corporation than was previously achieved by SASFIT. What will the Government do if the average rate of return under the new corporation is not improved?

The Hon. S.J. Baker: The importance of the return is highlighted when we look at what we have done under the Triple S scheme, where we have said, 'Not only will your contribution from Government increase over time but, importantly, for the money that you are investing, 4 per cent has to be the bottom line and we have to achieve that.' That is 4 per cent above inflation, which is a real rate of return. If inflation is at 3 per cent, we have to achieve a 7 per cent return in a medium term aggregate sense. Some of the fund performances have been quite spectacular. In other years they

have dipped dramatically, depending on where the market was at the beginning and end of the year.

Mr Beare may be able to highlight some of the very good performances of SASFIT and leave some of the poorer performances out of it. I know that the year 1993-94 did not meet our expectations. The first six months of 1994-95 was also poor but, with the change in market conditions, some of that reduced performance has been clawed back. Considering where we have come from, I think that a year end result of 5.5 per cent in the circumstances can probably be regarded as pretty healthy. When looking at returns and what the Government should or should not guarantee in the process, it is important to note that we have sustained a real 4 per cent. Perhaps Mr Beare would care to comment.

Mr Beare: Over the 10 years to June 1994, SASFIT returned 12.8 per cent against inflation over that period of 5.5 per cent. These are annualised figures. Over that period the return was more than 7 per cent above inflation. Looking forward, I do not think we should expect continued performance at that level to be assured. That period was particularly favourable for investment. Going forward, I expect conditions to be much tougher. The 4 per cent is not an easy target, but we expect the corporation to adopt the approach of having a diversified asset base with an emphasis on growth investment which should create that necessary return.

The Hon. S.J. Baker: Importantly, the corporation has to present its plan to the Treasurer and continually update. It must be clear in its directions and performance targets, so that they are not too low or too high to increase risk but are reasonable in comparison with prevailing market circumstances. We are taking a hands on approach. Mr Beare has mentioned that the market place, at least for the next few years, does not have the potential to give some of the returns that we might have experienced over the past 10 years. Also, we might not see some of the extreme risks that have been present in the market place over the past 10 years. Therefore, we expect that the capacity to earn super profits or returns will be reduced. Obviously, from the taxpayers' point of view, it is important that we get a solid return to meet our commitment to the superannuants and ensure that there are no increased exposures for taxpayers.

Mr QUIRKE: Will you rule out the contracting out of some or all the Superannuation Funds Management Corporation's roles to private sector management or the sell-off of investment assets?

The Hon. S.J. Baker: I have not considered this matter in any detail. The issue has been raised on odd occasions, but I have expressed no particular interest in taking that path. Getting professional management in place was far more compelling. As the member will recognise, there are certain challenges in government. We try to devote our energies to the essential items, in the first place, and then pick up on the others which are less compelling further down the track. I am not saying that I would pick up on this issue. My first duty in this regard is to put in place a body which is capable of professionally managing the not inconsiderable funds which are currently under management and which will expand in future.

The fruition of that is not far away. We would then be assessing the performance of the new arrangements. So, that is the general role of the Superannuation Funds Management Corporation. If I had a belief that I should externalise all that management, I would not have bothered to set up a new Superannuation Funds Management Corporation, quite frankly. As to the issue of external management, 36 per cent

is currently managed externally anyway, so there is already external management of funds as part of the professional management of the overall superannuation funds.

Mr QUIRKE: With respect to the two closed schemes—the defined benefit superannuation scheme (or the old scheme) and the lump sum scheme—will you rule out whether or not there will be any changes, either to the rate of contributions to these schemes or any decrease in the benefit?

The Hon. S.J. Baker: I do not know what has motivated the honourable member's question. My response was that we made the changes that the Audit Commission had recommended in relation to the closure of the schemes. The other schemes will remain in place and untouched. I do not see any reason why I should be involved in any further changes in that area. I know that the commission also reflected on the higher cost or high and unsustainable costs associated with the continuance of those schemes. The Government decided not to interfere with the benefits relating to those schemes, but simply said that, in order to reduce our future liabilities and our superannuation contributions, we should close those schemes. That was a matter that was attended to very quickly after the Audit Commission report was brought down, so we did not have a large number of people suddenly entering the schemes.

We indicated at the time that we had taken a decision to get those \$4 billion worth of liabilities under control. We have in place a management plan to finance those superannuation liabilities over the next 30 years. It is consistent with the provisions in the budget today, so we see no reason whatsoever to interfere with those schemes.

The Hon. Frank Blevins interjecting:

The CHAIRMAN: The member for Giles is attempting to question by way of interjection. I do not think he has put a question all day. If the honourable member wishes to ask a question as a member of the Committee, he is perfectly at liberty to do so.

The Hon. Frank Blevins interjecting:

The CHAIRMAN: The Chair would have to rule that question out of order on two counts. It either implies impropriety or, alternatively, it is one of the more frivolous questions. I will attribute frivolity to the honourable member to save any embarrassment.

Mr QUIRKE: At least I am happy with the response. When we are debating another superannuation issue in the near future, it will provide at least adequate cover for what will be taking place under that scheme, and I think the Deputy Premier knows what I am talking about. Is it the Government's intention to broadly advertise the SSS scheme among those public servants who have not taken on superannuation to date?

The Hon. S.J. Baker: There is a requirement on the board to ensure that new entrants are aware of the availability of that scheme. I do not actually know what happens physically under those circumstances, but I presume that all those who are currently in the Public Service, given the publicity this issue received, are well aware of the existence of the SSS scheme. Given that the scheme comes into effect on 1 July, I think a number of people have already signed up and are in the SSBS scheme as a temporary holding measure. I think approximately 250 have already seen fit to declare their intention to join the SSS scheme.

If you look at existing employees, there is no lack of awareness about the SSS scheme. New employees are required to be informed of the scheme and the associated benefit levels. I would not have thought it was appropriate to

waste money actually advertising the scheme, because every member should be aware of it, either if they are there already or if they join the Public Service, when they are provided with information.

Mr QUIRKE: Will the Treasurer provide the figures, not necessarily today, of members who are still in the two closed schemes, and also of the current membership of the SSS scheme? There would be a number of applicants waiting for the start of that scheme on 1 July, but I would be quite interested to know the number of members in the two closed schemes.

The Hon. S.J. Baker: We will obtain for the honourable member some better information, but our best estimate is about 11 000 in the closed scheme, and about 250 have submitted their applications to join the SSS scheme when it commences on 1 July. We think about 11 000 current employees are in the scheme. There are a large number of others who are receiving pensions from the scheme, so I will obtain that figure as well. In the SSBS or superannuation guarantee scheme, I think there are probably close to 100 000, but I will provide the information for the honourable member in a more exact form.

Mr QUIRKE: What happened to those persons who made a rush of applications on the last day or so to join the lump sum scheme which, as I understood, the last time I asked him, were being held up? I think the effective dates were approximately this time last year. As I understood it, a number of these were likely to be accepted and others were likely to be rejected.

The Hon. S.J. Baker: I will get a report on that. I know that a number of members of Parliament have written to me concerning this issue. We have found that in certain circumstances people fully intended to join the scheme but either through sickness or some difficulty with the mailing system or whatever they were not able to reinforce their desire to join the lump sum scheme and, therefore, their applications were not in train by that date. We have actually allowed a number of those into the lump sum scheme. As far as I am aware, we generally gave a little leeway at the end of that time, but I will get some details about how many people expressed last minute interest in joining the scheme.

Mr QUIRKE: It did an awful lot for Channel 10's ratings for that week.

The Hon. S.J. Baker: Yes, the faxes went mad that day. I would say that a large number of people who had no intention of joining the scheme put in their applications on the basis that they may have some interest, and I suspect that a number of them did so at the behest of the Public Service Association. One suspects that a number of people who expressed a keen desire to be part of the lump sum scheme did so as a result of the last minute publicity that was given to its closure.

The CHAIRMAN: We are now examining lotteries and gaming. This represents the second of the two lines currently under examination.

Additional Departmental Advisers:

Mr Doug Kitchin, Manager, Lotteries and Gaming.

Ms June Roache, General Manager, Lotteries Commission.

Mr Tony Mudge, Finance Manager, Lotteries Commission.

Mr Peter Kurko, Acting Chief Government Casino Inspector.

Mr Darryl Hassan, Manager, Gaming Administration.

The Hon. S.J. Baker: Mr Kitchin is the officer in charge of all gambling and charities. He does a number of things; he is the Manager of Lotteries and Gaming within the Treasury, so he has a wide knowledge in most of these areas. I also have with me June Roache from the Lotteries Commission and a number of other people who can assist me with questions on gaming.

Mr QUIRKE: What happened to Laurie? Has he gone now?

The Hon. S.J. Baker: Mr Fioravanti has retired from the commission.

Mr QUIRKE: We wish him well. Did Mr Fioravanti take a package?

The Hon. S.J. Baker: The answer to that is definitely 'Yes'.

Mr QUIRKE: I return to one of my favourite hobby horses, which we examine at this time every year, namely, the servicing and installation contracts for gaming machines. This time last year I thought we had reached an arrangement where a Bill would be introduced and the Treasurer would happily support the position I have always adopted, which is that after September 1996 no monopoly ought to exist on the installation and servicing of gaming machines.

None of the hotels in my electorate is complaining about Bull Australia; in fact, a large number of them say that they have no argument with that company's technical expertise at all, but the problem is that service contracts are very steep. In those areas where there is no natural reason for a monopoly we ought to introduce at least three or four servicers or installers so that a person, club or hotel can have a choice as to who will install and service these machines. This can be done in a number of ways. An easy way would be for the relevant authorities simply to declare that there will be three or four servicers and that they will hold the licence and guarantee that, but it appears that the State Supply Board is particularly reluctant to do this and has the usual Public Service attitude to these sorts of things.

The Hon. S.J. Baker: We did consider this question last year, when I expressed a great deal of sympathy for the argument put forward by the member for Playford. I happen to agree with those sentiments. I may have said at the time that I had to check the record, but the outcome was that Bull had an ironclad, three year contract from 1994 to 1997. Its speed and efficiency of installation have been enormously successful and, given the successful introduction of poker machines in South Australia, there is no doubt that Bull can take a lot of the credit for a range of items. Not only did it install the machines very effectively but it also found many of the faults with the machines.

The great benefit of having Bull there was that it was accredited and had experience in this area. It really did assist us in getting over some problems that were created at the time when everybody wanted machines, there were not enough coming through the door and a lot of the machines we were receiving were rubbish. It helped to sort out some of the rubbish, so it deserves considerable credit for its efforts. All I have heard from hoteliers is complimentary remarks about the role played by Bull.

The one that wanted a more open market situation was Wang, which had also tendered for the contract and which was unsuccessful. As the honourable member would recognise, Wang has bought out Bull, so I think it still leaves us with an ironclad contract, which now resides with Wang, so we can reflect on the changes that have taken place. There is no doubt that, once a person is accredited to install and

maintain that part of the machinery and associated equipment, they should be able to participate in the marketplace. We will certainly be looking at that aspect, for two reasons: one is that we can probably get a better regional spread of talent for the contract and the other is that we can make the market competitive. I assure the honourable member that the matter will be looked at well prior to the end of the contract, with a view to increasing competition.

Mr QUIRKE: A number of the hotels and users of these machines would also like to see that monopoly broken. They have fears about the costs associated with the servicing contracts—all of which I am quite happy to put before other forums of the House. My understanding of the contract is that it was for three years, and that it was signed in 1993. If it was signed in 1994, it was signed about two months after the machines started up, in which case the contract will expire in September 1996.

The Hon. S.J. Baker: My advice is to the contrary. It is a three year contract which commenced with the first requirement for installation. I believe that the official start-up was in July 1994, although I could be corrected on that. It is possible that they were active in about June 1994. We will certainly check that out and provide the honourable member with a written response. Normally, when you write a two or three year contract it commences at the start and not at the potential start.

Mr BUCKBY: I refer to the rehabilitation fund for those who have become hooked on poker machines. What action has been taken to address the concerns raised by charitable organisations about the effect of gaming machine operations on their fundraising capabilities, and does the Government intend to amend the lottery and gaming regulations to assist these organisations?

The Hon. S.J. Baker: A number of important issues have been raised about gaming machines and their impact on other forms of activity. It should be clearly recognised that the Government was proactive in determining that certain moneys should be set aside to cover those circumstances in which people have become addicted to poker machines to the extent that their addiction is affecting their lives and those of their families. Unlike other jurisdictions, rather than just using some of the gaming revenue as a money pot we have put in place a surcharge to specifically address the issue of gambling and the effects of gambling on individuals and their families. A quantum of money has been made available. The first amount is \$1 million from the IGC. The hotel and hospitality industry has been very forthcoming in this area and very responsive to some of the pleas that were made when poker machines were introduced.

We also provide a surcharge on the gaming machines in the Casino, which will release a further \$500 000 for 1994-95. The amount available from the IGC, from the industry itself, will be increased to \$1.5 million for 1995-96. We believe that we can do a lot of good work with that money. Hopefully, as a result of that process fewer people who are addicted to gambling will need to approach welfare agencies for food parcels after spending their wages on these machines. In terms of the organisations, a number of representations have been made to the Government, to the Premier, to the Treasurer and to officers of my department from charitable organisations concerning the loss of revenue from traditional fundraising activities such as the sale of instant money tickets, the conduct of raffles, donations and appeals.

Charities believe that the introduction of poker machines has reduced the amount of money that would naturally flow to them had they not been introduced. Obviously, it causes concern when you have fundamentally volunteer-type organisations with a paid secretariat whose capacity to perform their well recognised good works is reduced because they do not have the natural fundraising capacity they had in the past. Three areas of activity have been identified by the charities as areas in which they have suffered a significant loss of income. One is the proliferation of promotional activity that now surrounds gaming machines, much of which involves some form of lottery and some cost to the participants. These promotional lotteries compete directly with the non-profit sector for the disposable dollar.

Associated with that and almost in a category of its own is the eyes down bingo. A number of hotels have had free bingo in the past to get people into hotels. They use eyes down bingo as a form of attraction, which means that the traditional areas of fundraising, where bingo has been a mainstream income supply function for some of the major charities, has diminished dramatically when people can go along to a hotel and play bingo free and receive a prize commensurate with what they would have had at one of these games. A further area is that the prize limits that currently exist for the conduct of fundraising lotteries by the non-profit sector are considered to be so low as to be uncompetitive. People do not have the same incentive to put dollars into them.

We have had discussions with a number of representative organisations, and these matters have been canvassed. Already, all hotels and clubs with gaming machine licences have been advised in writing of the need to observe the trade promotional lotteries regulations. Key to these regulations is the requirement that access to such lotteries must not involve any cost to the participants. We are saying that, in terms of trade promotion, changes have been put in place to stop what is active encouragement. The second area in which we have had discussions with the IGC and the hotel and hospital participants is the eyes down bingo. We intend to prohibit the conduct of free eyes down bingo by the holders of gaming machine licences as a condition of the licence. Ultimately, it is proposed to amend the Lottery and Gaming Act and/or the trade promotional lotteries regulations to ensure that eyes down bingo does not become a trade promotional tool to the detriment of eyes down bingo conducted by the non-profit sector as a key source of fundraising.

We are looking at the issue of prize levels and whether they are competitive between the profit making sector and the non-profit making sector (in the form of charities). They are the key areas we are addressing. Returns are being provided to Government so we can clearly understand where the difficulties are arising. If some assistance can be provided by reducing the influence of gaming machines on those forms of revenue raising, or whatever other position we can take to assist, then we will do so.

Some of the issues are quite complex, and when there are larger prizes it may assist only the larger charities rather than the smaller charities. We have to be careful about what we do in some of these areas. As to the issues now being canvassed, we are taking action on those fronts that have been identified. Some action is by discussion and some is by regulatory change.

Mr FOLEY: I refer to the Lotteries Commission's potential involvement in the EDS contract, which I am sure is causing the Minister some concern. Has the commission

been instructed through ministerial direction to make its information technology requirements available to EDS?

The Hon. S.J. Baker: In answering the question I would make a number of points. First, the EDS contract was always meant to be a whole of Government contract. That was the situation from the very beginning, when it was announced that we would not have bits of Government that were not involved. We believed that, if savings and technology improvements could be achieved through that contract, no part of Government should be left out of the process. Initially we identified the major elements in the Government sector. They were all actively involved in the process and, although three areas were not actively canvassed at the time, they were always going to be in the contract, and I refer to the Lotteries Commission, WorkCover and the TAB. The matter has been discussed with the General Manager of the Lotteries Commission, and there have been discussions with the Office of Information Technology and the Lotteries Commission. We believe it is the right way to go and that it will happen.

Mr FOLEY: I seek further clarification. Has there been ministerial direction in accordance with the Lotteries Commission Act for the commission to make its IT services available to Government? Has it been through ministerial direction or board decision?

The Hon. S.J. Baker: We have had the benefit of discussions with the commission and meetings with the Office of Information Technology, and I am not aware that the commission has any distinct reservation about that process. There is a letter, which I do not think it has received yet, which talks about the process of including it in the contract. It is a simple matter of partnership rather than direction but, if the Lotteries Commission should say to me, 'We feel uncomfortable about participation without ministerial direction to do so', it will be ministerial direction. We have not had a problem. I am just saying that we have talked about it in an active sense, and it makes sense.

In the near future it will be necessary to upgrade the commission's equipment, and if we have major processing work that can be done more cost effectively on another main frame or on a wide area network—particularly a main frame in this situation—it makes a lot of sense to utilise the larger machinery and get the economies that prevail when we do not have to buy new machinery. There is some good sense to it but, if the commission requires it, I will be more than happy to provide a ministerial direction.

Mr FOLEY: Are you saying that, first, an internal assessment within the commission has demonstrated that there are cost savings and, secondly, it is totally compatible with the nature of the commission's activities?

The Hon. S.J. Baker: I am saying that the assessment of the benefits that flow from the EDS contract have not been done with the commission. There have been conversations and discussions, but at this stage we do not have all the material relative to what was required of all other Government entities. As the member may appreciate, when we started the due diligence process an enormous amount of work was done with all agencies to provide information on all key issues or numbers involved with those various organisations, and that information ran into many pages. We did an enormous amount of work.

At this stage we have some broad details from the commission. We now have to go back to the commission and obtain details similar to those already provided by other agencies. That process will be pursued. The commission will be included within the EDS contract. There will be savings,

because I am aware of the current situation in regard to the commission's equipment. The detail of what quantum of work is applicable for the EDS contract and how it will be handled is a matter of further discussion and the due diligence process that I have spoken about.

Mr FOLEY: Is the Chairman of the Lotteries Commission present now?

The Hon. S.J. Baker: No, Trevor Barr is not here.

Mr FOLEY: I am interested in the Government's decision to tell agencies, such as the TAB and the commission, that they are in the EDS deal and, if needs be, a ministerial direction will be given if they are not forthcoming and keen themselves. How do we sit with the fiduciary duty of board members in respect of the operations of the agency for which they are board members? What if doing business with EDS has an adverse impact on the organisation's financial or operational performance, because this must call into question the fiduciary duty of board members? What is the Government's view on compromising the fiduciary duty of board members?

The Hon. S.J. Baker: First, I do not believe that that is an issue because we do not expect an outcome such as this to be negative. Secondly, in the first round, which gathered up 95 per cent of the Government's computer processing, it was a decision of Cabinet that those agencies would participate. Cabinet made that decision, and you could ask about the ETSA board and numerous other boards. We have about 140 separate entities which under that decision were told that it had been decided for them that they would be participants in the outsourcing contract. Three other agencies were not included at the time for what were conceived to be good reasons, even though it was always intended that they would be included. However, we did not wish to advance to that position before the main contract was sorted out. Obviously, you may question whether that was appropriate. It was a decision that was made at the time, and we have pursued that decision.

Mr FOLEY: I will question that later. A document on the evaluation of tenders for the outsourcing of information technology prepared for the Department of Treasury and Finance, with which I am sure you are familiar—a very interesting read, at best—states that under the proposal for the outsourcing there were 144 Government agencies, administrative units, statutory bodies etc. It says that all Government agencies are covered by the proposal except for BankSA, WorkCover, TAB, SGIC, Lotteries Commission and PASA. Clearly, it would be fair to say that you have brought in the TAB and the Lotteries Commission because you are unable at this stage to meet the \$700 million nominated figure. Would that be a fair question?

The Hon. S.J. Baker: The member is making observations that he has made publicly. I hope that he will listen, because we will have a very dreary night tonight, saying, 'That has already been answered.' The principle is that we decide what would have coverage initially within the EDS contract. Obviously, we drew some boundary lines and we made some decisions on those boundary lines.

If we look back, on the one hand we would have believed that the main part of the contract would be wrapped up by now. If you looked at our expectations, which we have reflected upon, it could be wrapped up by now and we would have been having discussions earlier with Lotteries, TAB and WorkCover. On the other hand, obviously, a student of computer processing around the world would say that we were pretty optimistic about the time-frame that we have set

and that therefore the issue of Lotteries, TAB and WorkCover would have had to be addressed a little further down the track. It really depends on your stance.

All that I am saying to the member is that they are on the second list, not on the first list. We took that decision explicitly. They were always going to be on the list. The only ones that were ultimately going to be excluded were SGIC and BankSA, and PASA. I am sorry, PASA was the other one. They were for sale. There was no reason why we should have had them in there anyway.

Mr QUIRKE: Are you presently considering the establishment of a comprehensive gaming commission which will cover TAB, Lotteries, gaming machines—the whole thing?

The Hon. S.J. Baker: I reflected earlier on how much energy you need to make the important changes. The most important change is the gaming authority, which we are putting in place. That does not include TAB or Lotteries. Our major effort on that front is in the poker machines-Casino operations area, and I have not even looked at the potential to take it any further than that.

There is a gaming authority in Victoria. I think that there is one of some sort in Queensland, but with different roles and responsibilities. With the Victorian operations, the influence of Tattersalls is quite different from the arrangements in place here. While those entities belong in government, I am reasonably comfortable about the control arrangements, although there are some inefficiencies. The obverse of the coin is that, if you brought them all under one authority, what authority would it exercise given that you have competing interests, with each of them trying to grab the same discretionary gambling dollar? Obviously, at this stage, that issue is in the too-hard basket, I assure the member. My interest is to get some clarity in that area of gaming.

There have been suggestions, for example, that race clubs should be brought under a general gaming authority or that we should have a general race authority that brings in dogs, horses, horses with jockeys, and horses with gigs. Various suggestions have been floated over a long period. Quite frankly, I am more than satisfied with getting the gaming authority in place. I will then, in a proactive sense, look at various other administrative arrangements in other jurisdictions which have some merit for South Australia. If something makes sense and we are not doing it, we should be doing it, and I will keep those issues up front. If arrangements can improve returns or performance, we will pursue them.

Mr QUIRKE: Are you looking at the sale of TAB or 5AA?

The Hon. S.J. Baker: I am not looking at the sale of TAB or 5AA. The member mentioned SAGRIC, for example. We are assessing all our assets at the moment. Again, I make no bones about it. We are looking at all aspects of Government activity and whether there is a revenue stream associated with that activity. There are other aspects of Government where we have assets which are under-performing, so we shall pursue asset sales or the enhancement of those assets.

We have a long list of items under review to determine whether the Government is getting value for money out of its investment, whether it is optimising its returns, and whether there is a better way of operating. From that point of view, a long list of Government entities is being assessed in that process.

Mr QUIRKE: One of the obvious statements is that the Government has done pretty well out of the introduction of gaming machines, in terms of the dollars going to the

Treasury. What is your estimated return in a full year—in other words, in the financial year 1995-96—from gaming machines?

The Hon. S.J. Baker: It is \$70 million-odd. I will get the exact figure.

Mr QUIRKE: How many machines is that figure based on?

The Hon. S.J. Baker: We estimate \$53.2 million for the outcome for 1994-95 and \$76.2 million for 1995-96. There are 7 200 machines currently operating in South Australia. The best estimate that we have been provided with—it is feedback from the industry itself—is that, by 30 June 1996, 10 000 machines will be operating. The official estimate is 1 500 extra machines, and the industry is talking about an increase of 2 800 on the present figure. You can take whichever estimate suits your purposes. Our estimate comes from Government sources. Industry sources have a higher figure.

Mr QUIRKE: Will the Treasurer advise the Committee what measures have been taken to stop persons under the age of 16 getting access to various gaming products? I am sure he well remembers the debate, how it unfolded in this House and the will of the Parliament in bringing in that much needed social reform.

The Hon. S.J. Baker: Gaming machines can be operated only under certain conditions. People under 18 are not allowed to participate—

Mr QUIRKE: I was talking about the scratchies.

The Hon. S.J. Baker: With the greatest of wisdom, the Parliament decided there should be a penalty and that the retailer would bear that penalty. Obviously, I will not have inspectors creeping around asking people their age, and that is not my responsibility anyway. The issue of whether these gaming or lotteries products are being sold to minors is one which will probably be enforced best by observation, when a complaint has been lodged by someone who visits a lotteries agency and finds little kids trying to get over the counter to buy a scratchie ticket, or when the mums and dads find that their child's pocket money has been blown on scratchies and the till at home has also been touched.

I am being a little facetious, but our survey showed that, prior to the event, there was not an enormous incidence. There is a requirement on the retailer to ensure that the person is of majority age; therefore, we would hope for a little more activity in terms of surveillance than prevails under the current cigarette laws, but we do not expect it to be policed on a daily basis. As the honourable member would appreciate, Government in these areas should intervene only where it can find good examples of offences being committed. Having provisions in place to actively keep an eye on this area is just a huge waste of resources, quite frankly. If the honourable member knows of any under-age boy or girl who has been spending their pocket money on scratchies, and he knows the venue, I will ensure that we take some action.

Mr QUIRKE: I am a bit put out that the Deputy Premier treats this and the will of the Parliament so flippantly. I understand that the machines which dispensed scratchie tickets have now been disposed of. I also understand that these sorts of measures will not be introduced in the future and that all agencies for lotteries and other gaming products have been advised that penalties apply to the sale to minors.

The Hon. S.J. Baker: All those things have happened. We have not actually disposed of the vending machines we have just put them in secure places. I will ask June Roache, General Manager, Lotteries Commission, to comment on

those vending machines. The honourable member quite rightly pointed out that, if they are situated in a petrol station, a supermarket or a general access area, there is little capacity, if any, to control who puts the coin into those machines. We have trialled the machines in what we would class secure and appropriate environments, and I will ask Ms Roache to comment on that.

Ms Roache: We have been trialing, for approximately three months, the instant ticket vending machines on licensed premises, initially in the gaming rooms which are restricted to minors. For a period we also moved them into the front bar of those licensed premises, and they have been reasonably successful. Of late we have learnt of remote control devices that one can attach to these machines. The commission, at its meeting next Tuesday, will consider a report on the evaluation of the trial, which will then go to the Minister.

The CHAIRMAN: Is the member satisfied that this is not a minor issue?

Mr QUIRKE: I am happy, and I still have not put two bob into any of these machines. I am quite happy; we have exhausted this particular line. On notice, can the Treasurer advise the Committee which staff of his office, and in all the departments under his portfolio, have the use of Government-funded credit cards and what conditions are attached to the use of these credit cards? Can the Deputy Premier advise which of the staff of his office, and in the departments under his portfolio, have Government-funded mobile phones and what conditions are attached to the use of these mobile phones? Can the Deputy Premier also advise which of the staff in his office, and in the departments under his portfolio, have use of Government-funded cars, and what conditions are attached to these cars? I will have more to say about cars in a moment.

The Hon. S.J. Baker: I will take those questions on notice. I assure the honourable member that we are pretty lean and mean in Treasury as well as in relation to my other departmental responsibilities.

Mr QUIRKE: You do have that reputation, Treasurer.

The Hon. S.J. Baker: I know.

Mr QUIRKE: For what boards, committees and councils does the Deputy Premier have responsibility within his department or agency? What are the functions of these boards and committees? Who are the members of each of these committees, boards or councils? When does the term of office of each member expire? What is the remuneration of members, and has this changed since June 1994? Who appoints the members and on whose recommendation or nomination is the appointment made? What is the role and function of each committee, board or council?

The Hon. S.J. Baker: We are building up a file on all those matters so that we can automatically respond to requests. That is quite a legitimate request, as everyone would recognise. It could involve an enormous amount of paper. We can satisfy most of those requests and, if not, I will notify the honourable member accordingly on those issues that will take longer than the allotted time frame. Some of the questions about committees might be a little more difficult than the question about boards, which have been clearly established and about which information is readily available. The honourable member will be absolutely delighted to know that we reduced the number of committees after the government-by-committees regime we experienced prior to the change of Government.

Mr QUIRKE: We have been getting on quite nicely; do not start. Have any fees and charges levied by the Minister's

department increased since June 1994? Were these increases subject to public notification by advertisement or public statement; and, if not, why not? Will the Minister provide details of all increases since June 1994? What are the names, classifications, salaries and titles of all staff employed in the Minister's office? How many officers in the Minister's department are now on contract of service rather than permanent employment, and at what levels are they serving; that is, at EL1, EL2, and so on? Which, if any, of these officers are subject to performance reviews? How is performance measured? Who measures it? Who reviews it? What are the consequences of failure to perform? Are any performance bonuses paid and, if so, what are they and how are they measured?

The Hon. S.J. Baker: I will grab a couple of those questions on the way through. As far as my staff is concerned, there are four support staff in total supplied to the Minister's office. As far as their performance is concerned, I judge their performances and have been more than satisfied with them. Most people would judge that the quality of response for all members of Parliament from my office is excellent, and that is a credit to the staff I have there. We attempt to ensure that all questions are answered as speedily as possible. Quite frankly, in terms of performance they are worth a lot more money than what they receive. There are no EL1s or EL2s within my support areas. I will look at the question from the honourable member, but I do not have any difficulty in answering those issues. The staff are all under limited contract and, obviously, if I chose badly they would no longer be under contract.

Mr QUIRKE: What functions have been outsourced since July 1994? What savings, if any, in 1995-96 will arise from any of this outsourcing? Has the Minister's department been complying with the commitment given in last year's June financial statement (page 30) to market test the contracting out of functions that are more efficiently conducted in the open market? Who is undertaking this market testing and how is it being done? Has the department changed any accommodation arrangements since June 1994 by taking any additional rental space or by moving to other premises? What are the details of these changes? Why were they made and what were the costs involving fit out and rental? How many motor vehicles are maintained by the department? What will be the cost of operating these vehicles during 1995-96? How many vehicles are subject to home garaging arrangements and how many carry private number plates? Have any significant changes been made to the fleet since January 1994 and, if so, what are the details?

The Hon. S.J. Baker: I undertake to provide details on all those requests; most of them can be managed reasonably expeditiously. If there are some that take a little longer I undertake to give the honourable member a time frame. I do not think any of the requests are unreasonable. We will attempt to respond and get that detail back to members of the Committee and for *Hansard* purposes prior to the due date. If that is the last question relating to the Treasurer's line I would like to express my thanks to my long suffering officers who work extraordinary hours, particularly during budget time. They have excelled themselves in the past 18 months, and I defy anyone to look at the changes that have taken place over that 18 months and see the performance of Treasury duplicated anywhere else in Australia. We have a special team of people in South Australia, but having said that I ask that they not stop now. There are further challenges to occupy their attention as this next financial year unfolds.

In terms of further scrutiny of the material that will come out, I know that the question was asked of the Premier. I have not tick-tacked with the Premier to determine what is an appropriate form of scrutiny. The only jurisdiction which pursues further scrutiny of the budget estimates is Western Australia, which does not actually scrutinise the budget when it is introduced; they leave the scrutiny until later. We have a scrutiny in the Senate, as the honourable member would appreciate. Perhaps we can leave the scrutiny to the Upper House and see how it gets on. Most other Parliaments scrutinise the budget when it is presented, and time is set aside for that. When Auditor-General's reports and annual reports are brought forward they are then subject to questions in Parliament at that time.

I will look at the issue in terms of what we can do to accommodate that issue of accountability. We may well set aside a day, an hour after Question Time or two hours during the week when the Auditor-General's report and all the other annual reports are made available. That can be a matter for further discussion. I make quite clear that I do not want another Estimates Committee: quite frankly, I do not think anybody in the Parliament wants another Estimates Committee. We will look at something which is expeditious but which allows for those elements of scrutiny that must take place.

The CHAIRMAN: There being no further questions, I declare the votes on 'Treasury and Finance' and 'Deputy Premier and Treasurer—other payments' closed.

State Services, \$8 642 000

Departmental Advisers:

Malcolm Jones, Acting Chief Executive Officer, State Services.

Andrew Secker, Director, State Print.

David Suter, General Manager, Central Linen.

Evan Miller, Director, State Records.

William Tillstone, Director, State Forensic Services.

Peter Grenville, Director, State Fleet.

John Staker, Acting Director, State Supply.

The CHAIRMAN: I declare this line open for examination.

Mr QUIRKE: My first question relates to the closure of State Print by the end of June—next week. Will the Treasurer confirm that he has written to all CEOs directing them to refer all printing work to State Print, which would then produce the work itself or subcontract it to private sector printers?

The Hon. S.J. Baker: The direction was a reaffirmation of an existing direction by the previous Government that printing work had to go through State Print. We had a practical problem, to which I am sure the honourable member can readily relate, in that when we announced the sale of State Print all the work suddenly disappeared, as would be expected with that announcement. People thought it was announced one day and gone the next. The work that should and could still have been satisfied through State Print disappeared almost overnight.

We are putting in train a management process for printing in Government to ensure that there is scrutiny, getting the best price in the marketplace and ensuring that the printing

money is spent wisely. We did not want the vacuum created by the sale of State Print equipment to lead to a break-out or rash of decisions being taken which were not in the best interests of the Government. I make no apology for the fact that that happened. We are putting together a set of instructions for the handling of printing services. Some of the larger departments have a strong management team and are more than adept at getting the best value for printing in the marketplace because they know which printers to contact for particular purposes. Others are not in that fortunate position and will make the wrong decisions if they are not assisted in the process. Therefore, there are some matters of detail on the management of the Government's printing business which have to be addressed.

The closure of the large format offset Netley printing plant is part of the total operation of State Print, and a number of other aspects of State Print will remain in place. The remainder of State Print should be able to produce adequate profits and return on assets. State Print will still carry out the printing and distribution of parliamentary products: the Government *Gazette*, budget papers and other documents which, for security and policy reasons, should be produced within Government. It will also continue to provide competitive laser printing, photocopying and electronic publishing services for public sector agencies; about 110 employees will be retained for these processes; and there will be a potential revenue stream of about \$12 million.

The Office for Public Sector Management has examined the need for a whole of Government approach to print procurement in in-house printeries. The Government takes the view that outside State Print printing is not a core function of public sector agencies, so for the in-house printing they are already on notice to assess their appropriateness to remain within Government. Much of the printing that is done in Government can be more than adequately satisfied by the large-scale photocopying facilities. The large-scale photocopying facilities will continue to be managed through State Print because they can be bought at the right price.

The issue as to whether we should have a centralised print procurement body for public sector agencies is still being examined. We have seen certain advantages, for example, from the initiatives taken by the former Government in the multi-media agency and the multi-travel agency arrangements, which have certainly imparted solid benefits. Whether we wish to follow the same line with printing is being assessed, but we did not want to create a vacuum and have some of the bad habits of the past surface with people taking decisions and assuming that there is nothing to assist them in the process. What was required under the former Government is still required under this Government.

Mr QUIRKE: Are you saying that CEOs were directed, when they needed to get printing done, not to get three quotes but to go to State Print?

The Hon. S.J. Baker: Mr Secker, the Manager, can provide further information. There was a standing arrangement between various departments, according to the size and volume of business, to notify State Print of the requirements. I will get Mr Secker to explain in practical terms how it worked and why we will not be able to satisfy that part of the market which has been dealt with by offset printing. Mr Secker can talk about the practicalities of what has happened in the past and how it will change.

Mr Secker: In the past State Print had a large plant which included a very large offset printing capability as well as an emerging and increasing photocopying and laser printing

capability. Over the past five years, through changes in technology and the needs of customers within the public sector, the offset technology is becoming less able to meet those needs in a competitive and price effective manner. As a result, the decision was taken to close the offset part of the organisation, but at the same time a large part of printing generated by the public sector is best done on offset printing. State Print is still able to deal with agencies, to get the specifications for that printing, and then to take those specifications to the private sector and get as many quotes as are necessary.

The reason for doing it in that way is that printing is not one thing; there are many different types of printing. Unless somebody is experienced in that area, knows the print industry and how to form specifications properly, people can get their fingers burnt. State Print feels that it has the expertise to go to those parts of the industry which are best suited to produce the job which is needed and get the best price for it on the day rather than have it dealt with through officers in a department who might be dealing with printing only on an *ad hoc* or temporary basis and who will not have the necessary information. Through that scheme, the overall cost of printing to the public sector will be minimised by getting the best deal on the best day for that particular type of printing without necessarily having it produced within Government.

Mr QUIRKE: I understand that Gerard Industries has acquired Wallis Print. Can the Treasurer advise what proportion of Government printing work has been given to Wallis Print since his advice to the CEOs, and what quantities have been awarded to other companies?

The Hon. S.J. Baker: I am not aware of anyone who has given work to Wallis Print. Obviously, if they are in the printing game, they would have got some work from Government if they were reasonably competitive. I do not know that we can supply those figures. It is not a matter of not wanting to; I just do not think we can. I will check with Mr Secker. He might be aware of the details, if any, that are available on that issue. As I said, I am not aware of anyone, and I do not ask anyone where they print. Mr Secker can probably answer it.

Mr Secker: I understand from public announcements that Gerard Industries and Wallis Print are merging. I am not exactly sure of the nature of that merger in corporate terms. Over the years Wallis Print has certainly done a large amount of work for Government agencies, and I assume it has won that work on its merits in each case. It is a good printing operation—I have no qualms about saying that. There has been no change in policy as to how and when they obtain Government work.

The Hon. S.J. Baker: I do not know whether that marriage between Gerard Industries and Wallis Print has taken place. It may have, but I am not aware of it, so I do not know that it is an issue.

Mr Secker: Certainly there has been no arrangement or agreement or anything of that nature to channel work towards that firm. The only time it would win work is exactly the same as previously: if it is the best person on the day, it will get the job.

Mr QUIRKE: Can the Treasurer outline in detail the Government's plans for telecommunications?

The Hon. S.J. Baker: Do you want to handle this under State Services or IT? This probably relates more to the IT bundle, so you can possibly leave it to your colleague. That would be easier, I think.

Mr QUIRKE: I note the Government's decision to allow one in two Government vehicle auctions to be exclusively for the used car sales industry. Will the Treasurer advise what has been the impact of this changed arrangement on the average price of secondhand vehicles through the Government auctions?

The Hon. S.J. Baker: There has been some publicity about the arrangements in place for the disposal of used Government motor vehicles, either those that have done two years with a Government driver at the wheel or 40 000 kilometres, or those specialised vehicles that have been in the system a lot longer. Generally the Government's policy has been to dispose of vehicles when it is perceived that maximum benefit will be derived from the sale, and the costs are amortised to the most effective extent over the period within which a vehicle is in service. So, light motor vehicles are sold after they have done 40 000 kilometres or at the end of two years. I think the police use up their 40 000 kilometres in about eight months, while other departments take two years to cover 10 000 kilometres, so we are trying to sort that out.

At the end of the 'use by' date of those cars there are a number of ways in which they have been disposed of. One has been the public auction at Seaton; another has been a trade tender or trade auction; and some vehicles occasionally are sent to the Department of Administrative Services and Midcity Motor Auctions, so we could get somebody else to do the work for us.

Trade sale by tender commenced in April 1991 following State Supply Board approval. An estimated 4 000 vehicles were sold to dealers on the basis of an order for a new vehicle to those who were successful. So, there was some incentive in the system: if you buy one of the Government's vehicles and we get a good price for it, we will buy a new vehicle from you. That was the arrangement put in place in April 1991. Trade sale by tender operated on a weekly basis at Netley with 30 vehicles, and the tender with the highest acceptable value for a vehicle was selected. Very few vehicles were passed in.

The process involved lining up 30 vehicles, a tender was put in by the various vehicle dealers in the trade, and the best tender price was accepted on the understanding that a vehicle would be bought off them in return, so there was a significant incentive to maximise the price. Catalogues were faxed to approximately 120 dealers in Adelaide, and the country areas of Victoria, New South Wales and Western Australia. This ceased in May 1995 because of some skewing of the fleet and the disposal of some of the vehicles. There was a downturn in the market price for one particular vehicle and there were some difficulties selling it. The other issue was that we found some anomalies in the system. A person in the trade could go to these auctions and buy a used vehicle from the Government and, irrespective of where that person was based, they would then have the right to sell a vehicle to the Government. We had the bizarre situation where vehicles were purchased in one part of South Australia and then had to be carted to another part of South Australia to fulfil the contractual obligations.

With respect to the sort of scrutiny that took place, the sale values achieved at Netley were compared with those realised at the Seaton public auction. The last comparison was undertaken for the period January to April 1995. After comparing similar odometer readings, the result was that for 15 makes of vehicles financial advantage was achieved for each of these makes at the Netley trade sale. Most people would understand that, if you had the opportunity to not only

buy a car but also sell one back, there would be some level of optimisation, and it is likely that a higher price would prevail, given that you should be dealing with vehicles of similar quality, but that is another issue.

Following discussions with the Director of the Fleet Management Task Force, the first auction for dealers only was held on Friday 9 June with 59 vehicles and approximately two tender trade sale vehicles. This auction did not include a reciprocal order for a new vehicle. The issue for Government was: we may well be getting a good price for our secondhand motor vehicles, but are we getting a good price on the purchase of new vehicles? The State Supply Board approved a trial run, to be managed by Midcity Motor Auctions. Three different auctioneers will be involved in the round of auctions.

An analysis of the values of the trade auction held on 9 June compared with the values received at Seaton from the public auctions held on 24 May and 7 June 1995 demonstrated that Netley was achieving improved values, although the average kilometres travelled for vehicles sold at Netley was 39 000 compared with 46 000 at Seaton. Therefore, we were not really comparing similar vehicles, and it is an issue that we will address so that we are able to compare like with like.

Midcity, which was the auctioneer chosen for this purpose, proposed that an incentive be offered to interstate dealers. To encourage competition an agreement was reached between Midcity and State Fleet on a maximum of \$900 being made available for two major Victorian dealers to come to the auction. The amount claimed for this auction by the two dealers was \$600, which was an enticement to get them across the border. They spent \$140 000 and purchased eight vehicles, so we could say that the \$600 was well spent. Based on the success of the first trade auction it is proposed to hold another on Wednesday 5 July 1995, with 60 vehicles. The Government will offer no travel reimbursement incentives; the auction will not be advertised in the press; and dealers will be circularised by fax.

We are comparing price outcomes from the three different means of disposing of Government vehicles: open public auction; the tender system which existed previously; and now we are looking at trade auction. We are comparing prices. We cannot put them all out to public auction; we simply will not get the price, and the dealers will not get involved. We are trying to maximise price and ensure that there is comparability between the various vehicles to achieve the best return to Government. It is an experiment; we will evaluate it and determine whether we have a good or bad result out of the process.

The Hon. FRANK BLEVINS: It is more like a bribe to the MTA. My question relates to the former State Clothing Corporation in Whyalla, which corporation the Government has closed. Whilst everybody who lives in the country would deplore that decision, I am certainly not crying that the Minister is in any way singling out Whyalla or the State Clothing Corporation. That is not the case.

Members interjecting:

The Hon. FRANK BLEVINS: Well, you will find out if you are patient. The Minister and the Government are equally vicious with all country areas. What particularly concerned me was that the Minister put out a press release which stated that former employees of the State Clothing Corporation did not want to work for and would not accept work from the new owner. This information was quite wrong, and I have advised the Minister of this. Has the Minister bothered to check the information he was given and will he

correct his previous statement? For it to be all over the newspapers in a provincial city such as Whyalla that these former employees did not want to work and would not accept employment with the new employer was very hurtful to them, because it was not the case. Will the Minister give some solace to these women whose reputations he severely damaged? I am sure it was only because he was misinformed.

The Hon. S.J. Baker: That matter has been raised with me. I checked on the detail that had been provided to me on this matter and the information was largely as previously reported. Specifically, Dixons and State Apparel made offers: out of the 15 State clothing employees who were available for offers, 11 were offered positions, seven at Ridleyton and four at Whyalla; and four employees were not offered positions, two at Ridleyton and two at Whyalla. I did not say that everyone had been offered positions but that offers of positions had been made. Only two employees at Ridleyton and none at Whyalla accepted the new owner's offer. That was the position that was advised to me.

I reported that position because I was somewhat distressed, given the enormous amount of effort and commitment that I had made as a Minister to determine whether we could do something special for Whyalla and given my understanding of the difficult job situation in Whyalla and the need to preserve whatever employment exists there. It has a high level of unemployment and probably will never recover from the closure of ship building and other important activities there.

When I went back to the source I was informed that the terms and conditions of the sale were that as a minimum the purchaser would offer jobs to five employees at Ridleyton and three at Whyalla. That was a minimum prescription under which the contract was written. So, not only did we say that it was important that there be employment retention but the contract was signed in those terms. As I previously advised, four offers were made. I have received correspondence on one person who was not one of the four who was offered a job, so her comments could be deemed to be consistent with the statement that I made, in that four were offered employment and four refused.

From an outsider's point of view and my personal point of view of wanting a successful outcome for Whyalla rather than closing the door and saying that is another loss for Whyalla, I was highly disappointed, as the honourable member can clearly understand. I do not know whether I can add to what has already been communicated. If the member for Giles had been the Minister at the time I think he would have been saddened by the news I was given that, when it got right down to the line and the sale was completed, none of the people at Whyalla who were offered employment accepted it, while two were picked up at Ridleyton. I found it very disappointing.

The Hon. FRANK BLEVINS: To give some further clarification on this, the clear implication in the Minister's press conference was that all these employees in Whyalla—and there were about a dozen of them—were offered work in Whyalla and refused. If the Minister goes back and reads his press release he will find that that was the statement and the implication. Is the Minister now saying that the facts are that only three jobs were available in Whyalla and that he made an offer to seven women to shift from Whyalla to Adelaide? If that is the case—and I think that is what the Minister said—how is that helping Whyalla? It is not helping one little bit. That is impractical for people with homes and children who live 400 kilometres away. They do not live in Mitcham;

they live out in the country. It seems to me outrageous for the Minister to put out a press release stating that these people refused work and implying that the work was in Whyalla when that was certainly not the case. The Minister hurt those women and I think he owes them an apology. I am not saying he did it deliberately: I am saying he was misinformed.

The Hon. S.J. Baker: I know that this matter is of some importance to the member for the area.

The Hon. FRANK BLEVINS: It is more important to the women.

The Hon. S.J. Baker: I had contact from another source who also expressed some disappointment; I will not take the Committee through that, because it is irrelevant to the issue that we are talking about. I did not mean to give the impression that everyone had been offered a job. I said 'employees'; I did not say 'all employees'. Four women at Whyalla were offered jobs, and it was important for its future health and prosperity in the Whyalla area for Dixons to get at least one to four of those people on board. That was the position. There was enough work to keep that number gainfully occupied, and the company would not take the total on board when there was work for only three people; it would have gone broke overnight. The contract stipulated that the company must guarantee at least three positions, because that was what was worked out after we had done due diligence on how much could be used as core activity to maintain presence in Whyalla. Four positions were offered, and those positions were refused. That is the detail with which I was provided, and I can say I was not happy about that.

[Sitting suspended from 6.2 to 7.30 p.m.]

The Hon. FRANK BLEVINS: I was hoping that the Deputy Premier would continue his answer with something along the lines that, if he inadvertently hurt the feelings of these former employees, he would regret that; that it was certainly not intentional and he was only trying to do the best for Whyalla.

The CHAIRMAN: That is an unusual question.

The Hon. S.J. Baker: I know. 'Can you please make a statement that the member for Giles has passionately put the case and, in response, the Treasurer has put the sackcloth on and said it was all a mistake.' I have already told the member for Giles two important things that he seems to have missed. We put in an enormous amount of effort, rather than simply closing doors, to get something that had the potential to take Whyalla further. If you look at some of the activities that are taking place in regional Victoria and regional New South Wales, you see that the capacity within Whyalla is considerable and has never been met, and I am hoping that the new arrangement will meet that capacity. I was simply expressing the point of view that, having made that a prime consideration of the sale of State Clothing, I was personally disappointed when four employees were offered positions but none took them up. I felt that that effort had not been repaid in kind.

I cannot interpret whether that caused difficulty for any individuals or whether one person who might not have had an offer felt he had been included in that rejection of offer about which I expressed disappointment. If there were people who felt they had been drawn into the rejection of offer situation when they did not have an offer in the first place, which must have happened to two or three people there, it was certainly not my intention to be inclusive to the extent that their desire for employment was reflected upon in my

statement. However, my statement does stand: the outcome was not as I would have wished.

The Hon. FRANK BLEVINS: Clearly, the Deputy Premier is not going to be gracious about this, so I am not sure what you can do with that type of behaviour. That is a great pity, and the fact remains that people's reputations in Whyalla were unnecessarily damaged, I am sure inadvertently, by the Deputy Premier. It is a great pity that he could not express some regret about that.

The Hon. S.J. Baker: I cannot ask the member for Giles whether four people who rejected the offers felt that—

The Hon. Frank Blevins interjecting:

The Hon. S.J. Baker: I have been provided with information that four employees of State Clothing at Whyalla were offered employment by Dixon and those offers were rejected. If I have been misinformed, I will certainly apologise. I do not happen to believe that that was the case.

The Hon. Frank Blevins interjecting:

The Hon. S.J. Baker: I do not think you are, but it is not of great moment.

The Hon. FRANK BLEVINS: Obviously, that is about the best we will get, inadequate though it is.

The Hon. S.J. Baker: You've done very well.

Mr QUIRKE: Will the Treasurer assure us that the direct sale of State Fleet motor vehicles to the public will continue with at least the present frequency?

The Hon. S.J. Baker: The public auction is not affected by the experimentation that we are going through at the moment to determine how we can get the best price for the sale of our secondhand motor vehicles. The information with which I have been provided is that every two weeks there is a public auction at Seaton that can comprise somewhere between 60 and 120 cars, and I suspect that will continue well into the future. I will ask Mr Grenville (whose responsibility is State Fleet) to tell me whether I am right or wrong about that in terms of the number of cars made available. If the cars are available, we will hold the auctions. Mr Grenville can probably give the Committee a better idea of the flow through of cars at the moment.

Mr Grenville: Certainly, the auction at Seaton will continue. Selling vehicles in the public arena is a very important part of helping to get the very best value for vehicles. At the moment the number of vehicles being sold there varies between about 120 and 140 per auction, but that depends upon how many vehicles are being replaced that are coming through. It really is a very important part of making sure we get the best price, and in the longer term, if the numbers support it, I would like to see that auction becoming a regular weekly feature. That is an opinion that has been discussed within not only State Fleet but also State Supply, and time will tell whether we will be able to achieve that.

Mr QUIRKE: I have been reading about the 25 per cent reduction in Government cars. How is the Treasurer going to do that and how will it be sorted out who will get which car afterwards?

The Hon. S.J. Baker: I will give the honourable member the details of what has been achieved to date. The benchmark was July 1993, and we said that from July 1993 through to virtually June 1996 there had to be a 25 per cent reduction. Remembering that we are still winding back the external fleets into State Fleet, of the light vehicle fleet there were 9 791 in July 1993 and 8 770 at 21 April 1995. That is an over 10 per cent reduction in motor vehicles. Whilst that achievement is significant, there is still a fair way to go, as everyone will understand.

As to the amount shown as capital receipts in the budget, there is an increase in the sale of plant and equipment and motor vehicles from \$52.5 million in 1994-95 to \$78 million in 1995-96. There have been other achievements in the reduction of motor vehicle purchase prices as well, but there is still a long way to go to achieve the target. We would all reflect on the use of Government motor vehicles, which has been institutionalised within the system. If we took benchmarks from Queensland or Western Australia, from where I have seen more recent figures, it would show our Government motor vehicle usage well above average.

We believe that, with proper accounting and full charge outs for these vehicles, departments will find that they are not using their resources to the best of their ability. The target is still 25 per cent. We are well over 10 per cent and fleets are being wound back in. We are having the police and ETSA fleets being absorbed in State Fleet from 1 July. We have found the most significant part of the exercise is that that change itself brings a rationalisation. Significant numbers are still to be wound out of agencies, for example, State Transport.

My diagnosis at this stage is that 15 per cent will be readily achievable but the extra 10 per cent will require somewhat more work. So, 25 per cent was the benchmark set and I believe that by 1996 we will achieve better than 15 per cent. We might hit the 25 per cent but there are one or two things that will impede that progress, but we will keep that target up front and make sure that departments properly account for the utilisation of that resource. It may take longer to get to the 25 per cent.

Mr QUIRKE: Can the Treasurer assure the Committee that he will not fall for the business of giving private plates to Government cars any more than is already the case?

The Hon. S.J. Baker: We have a clear point of view on the utilisation of motor vehicles. We know that the cost to Government to go from blue plates to black plates is considerable. We then get into the issue of fringe benefits tax in a much larger fashion. One issue being canvassed is salary sacrifice for motor vehicles with private use. I have not looked at that issue in any detail but there would have to be compelling reasons for that to take place. If it did occur, it could involve a change from blue plates to black plates. I am simply telling the member that I am not favourably disposed towards that change.

There are clear sets of instructions about who can and who cannot have access to a black plated (ordinary plated) car. There are instructions on use and availability to members of departments when people are at work. There is still a lot of effort to be made in this area in getting the most efficient and effective use of the car fleet. I know that Mr Grenville has been working hard on that issue and that Mr Newman, in terms of the fleet management task force, has been operating on a number of fronts. They are looking at everything that involves the use of a car from the garage to the petrol, replacement of tyres, on site petrol supplies, maintenance and a whole range of issues.

We are looking at every one of them in this period to make sure that we get the best operational price out of every vehicle, and we can then institute changes within the thinking of management of some departments to ensure that they get the best operational use out of the vehicle. My direction in terms of motor vehicles and those arrangements now in place is that there is a clear direction about who is and who is not entitled to black plates, and who can use blue plates and under what conditions shall prevail in the immediate future.

We have more important things to sort out and they will be sorted out.

Mr QUIRKE: How many plain plated Government vehicles and how many blue plated vehicles are in the Government's service?

The Hon. S.J. Baker: I could take a guess and get close, but I will take the question on notice and provide an answer for the member.

The CHAIRMAN: As there are no further questions, I declare the examination completed.

Information Technology, \$6 933 000

Departmental Advisers:

Mr Ray Dundon, Chief Executive Officer, Office of Information Technology.

Mr Philip Higgs, Manager, Financial Services.

Ms Lena Grant, Legal Officer, Crown Solicitor's Office.

Mr Peter Bridge, General Manager, Contracts, Office of Information Technology.

Mr FOLEY: I begin with a couple of issues not relating to EDS. I suspect that we will have an absolutely torrid time during the EDS discussion, so I will throw down a couple of—

The Hon. S.J. Baker: I remember what the Premier said yesterday.

Mr FOLEY: I suspect that you will not; that will be the challenge. You just see how clever I am in extracting something different from you. I will throw you down a couple of warm-up deliveries. I refer to the Government's contract to outsource telecommunications in respect of Optus and Telecom. I take full advantage of the fact that Ray Dundon is with you tonight. A number of years ago, the former Government developed the internal telephone system, with which Ray is more familiar; it was his job to implement it. At that time, capital expenditure to purchase a number of PABXs was fairly significant.

I do not have the exact figure; it was certainly many millions. Savings to Government were projected at about \$20 million over five or six years. Now that you are moving to Telecom and/or Optus, does it mean that the expenditure that was incurred four or five years ago is now redundant and has been superseded? If so, does that represent a capital loss to the Government?

The Hon. S.J. Baker: I will ask Ray Dundon to look back in history. I am aware that he might not have knowledge going back to when the Government information exchange—the PABX system—was installed. There were significant savings as a result of that move, and there might have been an appropriate pay-back from that investment. Obviously, it is a lot cheaper to run your own telephone system, compared with what prevailed previously for most departments, than to allow all calls to go through the normal Telecom network in respect of which you are charged whatever the fee is. Perhaps we could take that question on notice, but Ray joined the team and was instrumental in setting up the Office of Information Technology in more recent times, particularly when we came to government.

Mr Dundon: As the honourable member will know, I was involved with the re-equipment of the Government's telecommunications network, which started in 1988. That was

the year of the big investment in the CBD PABX installation. That technology is coming up for seven years old, and it has been upgraded and modified since that time, but the technology which was being used—PABX—is now close to being obsolete.

I am advised that South Australia is the only State Government that has PABXs as its major internal telecommunications network. That is because the telecommunications technology provided by carriers such as Telecom and Optus has much more intelligence in the carrier exchanges and it is possible to have installations such as virtual private networks that will render the PABX private networks obsolete. Most State Governments have tended to go that way. It is now time to move to the next step in technology and gain further efficiencies from that step into the new technological arena.

Mr FOLEY: That shows how quickly technology moves. It seems only yesterday that the arguments to do your own internal telephone system were so compelling that we moved towards it at great expense, obviously. That is only a matter of half a dozen years ago or less, and it is already redundant technology.

I now throw down another loosener, although I am not noted for too many loose deliveries. On the Government PC contract you are yet to announce exactly how you will conduct that process. A number of small to medium-sized PC companies in Adelaide and Australia are sweating off on what the Government intends to do. Will you clarify your intentions with regard to the PC contract, given the enormity of the contract, and indicate whether there will be an opportunity for local business to get a slice of the pie?

The Hon. S.J. Baker: I have not had an update on the outcome, but we started with the intention to have a standard desk-top environment. As the honourable member will recognise, we have bits and pieces everywhere across the public sector. The excuse for some pieces is that they are dedicated to the use of one member, that they are useful only for a certain purpose and that they do not need to communicate with any other machinery in the rest of the public sector.

We do not accept that. We determined—it might have resulted from previous discussions before the Government came to power—that it was imperative to have a standard desk-top environment in which to operate. It was the Government's determination to establish a two-year contract of supplies. The areas that obviously were of greatest interest to the Government were desk-top and notebook personal computers, the issue of Microsoft (which has already been mandated), having one consistent software package, and Intel or Intel-compatible processing units. The provision of lifetime warranty was an issue—a maximum of five years and the three standard desk-top configuration and a range of configurations for the notebooks.

It was determined that tenders should be sought only from the manufacturers and primary importers rather than from the various agencies. There was approval for an exemption process for highly specialised technical areas where they had some specialised equipment that was essential to that process and was of a different type and a different configuration than was going to apply across the public sector. There was a procedure in place to have specific exemptions.

The tender has been called, and it closed on 16 May. Responses thereto have been received; there is great interest. We did not believe at the outset that there was a capacity on the part of any one manufacturer to fulfil the contract, so we saw great capacity for a number of people, in concert as well as separately, to put a proposition to the Government. The

outcome that we expect is to reduce the purchase cost of hardware through the use of larger-scale contracts rather than just using a general supply contract. If we have a given volume of business in government, we can get the economies associated with the larger scale in the same way as Woolworths and Coles can. We can reduce the upgrade training support costs through the use of larger-scale contracts. We can certainly increase office staff productivity by having a standard environment and common-user interfaces. We would increase support staff productivity through reductions in the number of products and versions used. I am sure that the honourable member is well aware of the issues involved.

There is greater organisational flexibility and staff mobility; they are not tied to certain machinery. A certain standard operates, so that anyone can go to any department and immediately start work without having to be trained on a certain machine. There are reduced equipment repair and maintenance costs. It would also simplify the selection, purchase, installation and support of desk-top hardware for Government agencies.

They were the reasons for the action that has been taken. We have found, because of the Microsoft environment, a need to install about 9 000 new machines within a very short space of time, simply because the existing machinery is either too old or incompatible. There is a significant contract to be met in the short term.

The Hon. Frank BLEVINS: How much will that cost?

The Hon. S.J. Baker: Provision has been made for upgrade of the machinery and for the Microsoft. The pay-backs, we believe, will be very significant, otherwise we would not be involved in this process, quite frankly. For those who have tendered there is a significant contract to be met. Not only did we receive a lot of local interest but we would expect there would be capacity to perform at the local level. I cannot comment on the outcomes. The department is currently evaluating those various tenders. I cannot give the honourable member a time frame when that process will be completed, but I would not expect it to be a great deal longer.

I am advised now that, given the diagnostics we prescribed in the first place about how this machinery must perform in order to have a standard desk-top environment, the best estimate for determination of the successful tenderers would be the end of July.

Mr FOLEY: I do not expect a finite figure but what is the estimated range of the value of this, and where is that accounted for in the forward estimates?

The Hon. S.J. Baker: I will not comment on the price, but looking at the conceivable average of machinery, we would expect the contract to be worth at least \$10 million. We have about 28 000 operational PCs within Government, and a lot more in schools and various other nooks and crannies. Given that this machinery generally reaches their use-by date over a five-year period and, using a five-year period in normal circumstances, we would expect to turn over 5 000 to 6 000 machines in any one year anyway, and that has already been taken into account as some support for the additional number of machines which will be necessary to get the system up and running.

In one instance a department—and I will not name the department—had an effective internal network working on different machinery. We were told, 'It's working fine.' I said, 'All right, that is good. That department has no money set aside; we will delay the installation of new machines and we will provide for that later rather than sooner.' There is no mad

rush to install 9 000 machines overnight. The normal order would be around 5 000 to 6 000 machines. The dollars are in the agency budgets, and the agencies have already been notified of the changes. We would expect the agencies to be able to meet those requirements.

We have sat down and worked through the issue with those agencies that have not been able to meet their requirements. In one specific case we decided the agency could wait a little while because money was not available for that sort of upgrade. The system is manageable. We have a three-year contract with Microsoft and that contract operates on 18 000 machines, so we will be able to more than meet that sort of minimum requirement. The minimum requirement is 18 000 machines, plus or minus 10 per cent.

Mr FOLEY: If you are replacing 9 000 computers, given that they have essentially paid for themselves and their useful life in terms of value is over, would you consider providing those computers to Government schools?

The Hon. S.J. Baker: I have a note on that because I know the issue was raised by the Hon. Carolyn Pickles. I asked State Supply to advise me what was happening at the moment. State Supply sells those machines that have reached their use-by date. The average achievable price for those machines is around \$421 per machine. We have a standing order with the Education Department. We notify the Education Department that machines will be available. The better machines are worth significantly more than the average and, of course, have a lot longer life.

We said to the Minister for Education, 'If schools want a functional machine which can do the things that kids want it to do and get some practice, then the better machines are available for about \$500.' Some of the machines are really not much good for anything and others are quite suitable. For example, we can get a pretty reasonable return on some of the Apple computers. Quite frankly, some of the original 286 computers and some of the very old machines I would not buy on principle. So, an arrangement is in place and I will ask State Supply whether workable machines that are not particularly useful for other purposes can be utilised for schools.

Mr FOLEY: I do not want to labour the point, and I appreciate your comments, but I sit on a few school councils in my electorate and, by way of example, the newest computer at Taperoo High School is about a 1985-86 model. I am quite happy to say in this place that I put some pressure on the Australian Submarine Corporation within my electorate to provide some of its computers which it was in the process of replacing. The Submarine Corporation provided a number of new computers to that school *gratis* as a community obligation because the school had no new computers.

I would say that even if these computers are worth only \$200 or, in technical language, not worth much because they are obsolete, I suspect that any computers that are only four or five years old are probably state-of-the-art to a lot of our schools. The Minister and the Government could go a long way towards helping out our schools if he would give some of those magnificent powers and ministerial direction he likes to use occasionally to State Supply, make a good fellow of himself and deliver some of those computers to schools. It is certainly worth exploring, given the lack of technology we have been able to supply to our schools.

The Hon. S.J. Baker: I appreciate the honourable member's comments. I am happy to take up that matter in terms of handling this small surge through the system as a result of the replacement of these machines. The note I

received said that some of them are quite unsuitable for schools because the various connections are not compatible. If they have been used in a network situation quite often they need to be re-engineered, or whatever, to fit in with the—

The Hon. Frank BLEVINS: They are useless.

The Hon. S.J. Baker: They are useless, as the member for Giles said. There might be a need for some culling and for someone to look them over in a reasonably professional sense to see whether the schools can use them, whether there should be a nominal price and whether many of them will be useful for that purpose. As the honourable member said, some schools have some pretty old machinery, and some of the machines that will be turned over as a result of this exercise will look thoroughly modern compared to what they are dealing with at the moment.

Mr FOLEY: I turn to EDS and refer to the evaluation of tenders for outsourcing information technology dated August 1994. It is marked 'strictly confidential' and was prepared for the Department of Treasury and Finance by the South Australian Centre for Economic Studies. Despite its strictly confidential nature, it was tabled by the Opposition in Parliament some time ago as it was made available to us by concerned senior public servants. As the Premier acknowledged in Parliament, this report was made at the request of the Department of Treasury and Finance.

The Hon. S.J. Baker: It was made at my request.

Mr FOLEY: It was made at your request; that makes it even better.

The Hon. S.J. Baker: I requested the department to look at the components of the contract, to see what was being provided by EDS and to look at it from an independent view. The diagnostic that came back was exactly the same as what was arrived at internally, whereby the deal being offered was not sustainable and could not be accepted. Anyway, I do not have a problem with that. I said, 'I want an independent assessment of the EDS offer.' I inform the honourable member that it coincided more or less exactly with the assessment done by the Office of Information Technology at the time. What is the honourable member's question?

Mr FOLEY: How about you ask the questions and I will give the answers. I appreciate this new and stunning revelation to the Parliament that this was requested by the Deputy Premier. The Deputy Premier would remember at the time how the Premier made the statement in this Parliament that he deliberately excluded Treasury from the whole process because, to paraphrase the Premier, he could not trust the Treasury in this process because of its somewhat narrow approach to all of this.

The Hon. S.J. Baker interjecting:

Mr FOLEY: No, that was the Premier—not you. You would not have been so forthright in expressing an opinion in respect of your own officers.

The Hon. S.J. Baker: Is this a question or a statement?

Mr FOLEY: Given that the Deputy Premier has now given this document even greater credence, I will discuss it differently. When it was first raised in Parliament we tended to focus on aspects of the report in relation to whether an EDS deal or an IBM deal was a good or bad thing. The response from the Premier was that you moved on from that report in terms of the quality of the EDS bid. You took this report as the beginning of the process, the benchmark, or whatever you want to call it, and then you either ratcheted it down or ratcheted it up. I can never quite understand what the Premier means by that.

The Hon. S.J. Baker: You ratchet the price down and the offer up.

Mr FOLEY: Thank you. I want to approach this report from a different angle, and I refer to the section that talks about the quality of the information on which EDS and the Government were basing their assumptions. It is no secret—even though the Premier and the Minister may choose to deny it—that the Government is having all sorts of strife in coming up with \$700 million as the nominated dollar value. I turn to the section of the report that deals with the quality of the advice provided to both the Government and the tendering agencies. I refer to the section headed 'Accuracy of Estimates' on page 8. In reference to the quality of data from the agencies, the report states:

The response time for agencies was two weeks.

The report then states:

... it is generally understood that information in agency costing systems on IT activities is not well developed.

Will the Treasurer comment on the opening comments of this report that the time given to OIT to develop the value of work within Government was critical? What about the comment that agencies themselves had very poor costings in respect of their IT expenditure? How could the Minister have arrived at a figure of \$700 million given these comments?

The Hon. S.J. Baker: In terms of the report, I asked Treasury to provide an independent analysis. The issue of whether Treasury should be involved from the very beginning was canvassed to the extent that the technical issues were of prime importance. The contracting details were handled by external consultants. It was always my intention to have a mark off when the final figures, the semi-final or the first throw of those figures became available and to have an independent check rather than have resources tied up through the process, because to me that seemed pretty important. In fact, I asked Treasury to do it. Treasury could not undertake the process because, as the honourable member would appreciate, it was deep in budgets. That is how it was contracted out by Treasury to the Centre for Economic Studies; that is the background there. Treasury made the judgment that it did not have the resources available, because all its financial fire-power was tied up doing budgets.

In terms of the contents of the report, the figure analysis that came back through that independent assessment was consistent with the conclusion that we reached ourselves. In a sense, the timing was a little bit bizarre in that it had taken too long to deliver the report, even though Treasury set a fairly tight time frame. It did not appear at the same time as our own analysis came to fruition. We worked on our own analysis, and this report came along later. As the honourable member would understand, because Treasury could not complete the work internally by contract time, by the time this report came out we were about two weeks from when I would have expected the assessment to be made. By the time the report was printed we had already reached a conclusion that the offer was not appropriate. The report confirmed our own suspicions.

We attempted to get over the issue of timing and the inadequacy of the past in documenting the costs associated with IT by having external advisers. We put a lot of effort in at that time to get an indicative figure on where the contract would be in approximate terms. We took prime agencies rather than doing a survey of all agencies. We drew some general conclusions to simply get an indicative figure, and that was only to reach a point of understanding. The contract

had to be signed off when all the figures were confirmed or amended through the due diligence process.

We went through an indicative process to get some idea of the ballpark in which we were operating. It was never the intention that those figures would ultimately play a part in the final contract, except as indicative understandings of that relationship. The \$700 million was an indicative estimate subject to due diligence and contract negotiations. We made no representations to EDS about the size of the contract.

Mr FOLEY: I must admit that I found some of those comments interesting. I want to pursue this issue, because of the picture that I am trying to paint of this Government. This is putting the merits of what it was doing as a policy initiative aside, because the Opposition has already said that it cautiously supports an approach that leads to the development of a new industry. The point that I am homing in on is how the Government went about it.

The picture painted to me is that the Government went ahead at a million miles an hour without properly assessing what it was putting on offer. The report talks about the way that the Office of Information Technology arrived at the figure of \$700 million, and it refers to missing and hidden costs. The Centre for Economic Studies stated:

In response to the difficulties encountered by agencies in estimating the cost of IT functions identified for outsourcing, the Office of Information Technology increased the total core costs submitted by agencies. The estimates of total core costs for Government operations were increased from \$77 million per annum to \$84 million per annum to compensate for incomplete data. The inclusion of missing costs adds a further \$42.5 million in present value terms to the cost of operating the Government's functions over nine years. In addition to this, missing costs totalling some \$14 million were then added again to cover hidden costs which were not usually identified in financial statements, such as end user costs and overheads.

Not only was the quality of data provided by agencies of questionable value, according to the Centre for Economic Studies, but the Government then made a further allowance—a guesstimate—as to what premiums it should put on top of that to arrive at this notional figure of \$700 million. It seems that very little work was done and that there was a very sloppy approach to trying to assess what was being offered to EDS, which has now been borne out through the obvious difficulties that the Government is having in the diligence process to identify these figures. What this report talked about in August 1994 as being inadequate work by the Government is now coming to fruition because it was spot on.

The Hon. S.J. Baker: What is the question? You have just made a statement, and I want to know what the question is.

Mr FOLEY: I want to know why the Government chose to go into this process with incomplete data, without properly working out the value of the work, and why you simply added on figures for missing and hidden costs as you came up with a guesstimation that is now causing all sorts of problems. Why did you adopt that process; why did you not take it slower and do all this sort of work before bringing EDS and IBM into the picture?

The Hon. S.J. Baker: You can form an opinion as to the appropriate process. I repeat: we were looking at this very intensive work, which involved a solid team led by Ray Dundon, with some guidance from external consultants, to give us a general idea of what the IT contract was worth. I recall, looking back at information produced by the former Government, that it said we were doing \$300 million of business a year. That was a guesstimate and estimate given

by the previous Government. If we had segmented the various component parts on the basis of information previously provided, we would probably have come up with \$150 million for computer processing. That is obviously a ridiculous figure, but I am informing the Committee of the data previously put forward by the then Labor Government, to which the member for Hart was an adviser.

We had to decide whether we could get a reasonably adequate understanding of what the contract was worth in approximate terms and then go through the process of due diligence once we had reached some understandings with the most successful tenderer, bearing in mind that that was not the contract figure in any shape or form. The alternative was to carry out a full due diligence at the start, go into a contract and then carry out another full due diligence to satisfy the buyer that the figures that we were presenting were accurate. It is a matter of judgment which path one follows. The Government chose to take the path which I believe will undoubtedly be successful. That is my belief, and I make no apology for the process that was undertaken at the time.

Going back in time, there had been a number of approaches to the former Government on this issue. I understand that at least within some areas of Government—indeed, the member for Hart may have been a strong and active protagonist for an outsourcing arrangement, whether with EDS or IBM—the issue of outsourcing would have been raised. It certainly was when IBM came through our door. We said that it was a very good idea; we believed that we had to consolidate Government computer processes; so the idea of an outsourcing arrangement was consistent with the direction in which the Government was moving. For example, it was also consistent with some of the stuff that I wrote for the IT policy in 1989, which was upgraded before the 1993 election. The proposal was totally consistent with the direction in which we are heading.

Having made an announcement about a possible partnership with IBM, the issue then was: do you leave IBM and everybody else on the boondocks and say that is fine but the Government is not interested in having any serious negotiations for another 12 months? We decided that, having raised expectations, we could not leave the computer industry for another 12 or 18 months whilst we went through the full exercise of pulling all the figures apart and understanding the full manpower and other personnel requirements. That was the decision, the indicative figures were reached, and there was a general understanding between EDS (which provided a better solution than IBM) and the Government.

The contract was always going to be subject to the process of negotiation. You can reflect all you like whether you thought it was adequate, but the fact is that that understanding had no legal standing, as everybody here would recognise. We were simply saying, 'This is our ballpark figure and this is where we believe we can do business.' It was always going to be subject to a due diligence process. You can make all the claims in the world that you like, but the Government actually did it right.

Mr FOLEY: I appreciate that the Treasurer is doing the hard part of this, but I want to come back to my picture of a Government which, on this issue, may border on being negligent. We had a situation where the Premier, through pre-election commitments and post-election excitement, had committed his Party, his Government, to a course of action. Regardless of what information was provided, the Premier wanted this vision of his committed. As we know, in Victoria—and the Premier himself referred to this—it has

taken Jeff Kennett 18 months to outsource one Government agency, because Jeff Kennett wanted to—

The Hon. S.J. Baker interjecting:

Mr FOLEY: You are telling me now that Jeff Kennett made a mess of one agency in 18 months. That again adds weight to my argument. We have a report dated August 1994 which was provided to the Government before the Government committed itself to this deal with EDS. Let us further look at some of the comments in this report, which you had in your possession before you committed yourself to EDS. It stated:

The scale of the project is too broad and this has resulted in low quality information and doubtful economics. Related to the above point, the administrative and operational complexity of outsourcing all agencies would be staggering, and the likelihood of achieving the task in two years seems low.

The report has conclusions, such as the following:

Estimates of costs for the Government are unreliable because—

1. There is poor quality data submitted by agencies on the cost of current Government operations;
2. There are major gaps in data on the expected cost of Government operations.

It goes on to state:

There are significant risks associated with the proposal, the most significant being that the scale of outsourcing would be very difficult to manage.

It further states:

A more detailed study would identify specific agencies and IT functions more suited to outsourcing.

It states on the conclusion page:

Estimates of costs for all options are unreliable. The outcomes are sensitive to several of the key assumptions and project risks.

At the end of the day, this was an independent report commissioned by you and delivered to you on the eve of committing yourself to this contract. It is a litany of woe when it talks about the quality of the Government's own costings and information, yet you proceeded to commit the Government to \$700 million of expenditure over nine years with EDS. If that is not bordering on negligence, I would like to know what is?

The Hon. S.J. Baker: I think the member is hard of hearing, so I will take him through it once again. Whether in fact the issue of being too broad or too narrow was a judgment that was made by the writer, we would suggest that that is not an issue. There are a number of other statements in that document which were not issues. The only issue which I guess the honourable member is taking as a major point in this proposition is that the figures were unreliable and, as he previously mentioned, the writer also found that, even though the figures were unreliable, the deal was not going to be good for the Government.

Let me say two things to the honourable member. First, the unreliability of data was a matter that obviously was of importance; secondly, the issue of whether the contract was going to be good, bad or indifferent was determined by the committee saying unequivocally that the offer was unacceptable, so we discard one issue. One issue is whether the deal was any good as it was put forward. The answer from both our internal resources and the report was, 'No, it is not a good deal.' The figures that came out were about the same. The second issue related to where the bidders were on the basis of the information that we had available, and you should be aware that this was indicative only. I could have said, 'The contract is worth \$30 million, \$50 million or \$150 million.

This is the scope. What is your best bid on that basis?' You would have said, 'That was negligent.'

I am saying that we determined a ball park in which we were operating. Various assumptions were made. The ultimate contract had to be through the due diligence process. I will keep saying it: the ultimate contract had to be through due diligence. It is a bit like saying, 'I think that car is worth \$5 000.' Until I drive the damn thing, I don't know whether it is worth \$5 000, \$6 000 or \$4 000. We did not sign a contract.

The Hon. Frank Blevins interjecting:

The Hon. S.J. Baker: We did not sign a contract. There seems to be a misconception about what the Government was involved in. We were involved in a very intense piece of work, so we could get a response from those people who were asked to come and give us their best offer in terms of the contract that we had available. We said that the contract was described by these boundary lines. The actual quantum was determined in broad terms by this very intense process, and that is fine. We were getting a ball park—

Mr FOLEY: Maybe you should have announced it, not the Premier. You might have made a few qualifiers.

The Hon. S.J. Baker: I am just saying an announcement was made and it was appropriate for an announcement to be made, because we then had a preferred supplier.

The Hon. Frank Blevins interjecting:

The Hon. S.J. Baker: Of course. What if I had said it was worth \$1 million? We had to have a figure on it.

The Hon. Frank Blevins interjecting:

The Hon. S.J. Baker: But that is not the point. The member for Giles can ask a question if he likes, otherwise I will not respond to any more interjections.

Mr FOLEY: You cannot help yourself.

The Hon. S.J. Baker: I will put a gag on him shortly. I am simply saying that we went through this process with our eyes open and said, 'What is a reasonable figure upon which to operate? We will then elicit a response that will have general directions on the final contract terms.' The final contract had to be determined after due diligence, and I keep saying that. As I said, it is a bit like saying, after seeing a car, 'I reckon that is what it is worth.' But it could be worth a lot more or a lot less. I am simply saying that that provided the benchmark, but the actual figures had to be put through the test, and that was the process that followed.

Mr BUCKBY: Naturally a contract of this type involves change with employees within the Government department. Will the Deputy Premier outline what communication there has been with Government IT people about contracting out projects?

The Hon. S.J. Baker: Yes, we have been cognisant of the demands being placed on employees in this period. I guess that, if we had followed the recipe of the member for Hart, we would have had the employees in the system for a lot longer than we are now facing in going through the processes that, to a large extent, have been satisfied by this time. The issue of employees is something that I have been concerned about, but not from the point of view of IT management but simply because they are in a process of not knowing what the future holds. I pay special tribute to Ray and his team: the level of communication with employees has been quite extraordinary.

The Hon. Frank Blevins interjecting:

The Hon. S.J. Baker: No, it has. It has really been quite extraordinary. I do not know whether you have been sent bulletins, but there were some real innovations and great

thinking behind the issue of how you keep people informed during what for them is a very difficult process and for some can be quite traumatic.

We had a regular newsletter to all Government IT people which, warts and all, included all the fears and unknowns that people were expressing. They were in the IT newsletters for everyone to look at and understand that other people were feeling the same way and were concerned about where this new direction was taking them. All those issues were up front and, to Ray's credit, he put them up there, warts and all. I can remember some of them; I said, 'That is a pretty strong statement, but let's keep it going; let's get people to express their feelings about those things and we might understand and know where potential problems could erupt.'

The talking point topics also gave bulletins to all Government IT people on the critical decisions that had been taken. We had briefings with agencies at the critical points and decisions. There was a help desk and a talk-back to the CEO through the Office of Information Technology. I sent out a personal letter to the people involved in this area and there was the other innovation of the 'Let's Talk' sessions held regularly for IT employees. It is planned to hold these for telecommunications when we get involved with the telecommunications outsourcing.

I found that a refreshing amount of honesty came out. People would tell it as they saw it rather than massage it and change it to suit other people in the system, and it has been a very healthy process. Remember, this has been an ongoing program for some considerable time now and it is a great credit to Ray and his team that they have kept members informed. It has been warts and all and it has been a highly participatory sort of process.

I always like to go over the decisions that have been taken and the processes that have been followed and assess where we can do better and where we should change, because if you do not learn from what you have done in the past you will not necessarily make the best decisions in the future. Looking back, I would say that one of the highlights of the whole process has been the level of understanding exercised by Ray as manager of the process, and that has translated itself into these various initiatives during the process.

Mr BUCKBY: What support is the Government giving to people likely to be affected in IT and telecommunications contracting out?

The Hon. S.J. Baker: Again, we learnt a lot from this new experience in the EDS contracting process and the outsourcing of computer processing, but we are building on what has obviously been successful. Contracting out experiences seminars were held last year for people who may be involved and during the IT outsourcing there were guest speakers. People were invited to address employees on the changes that occur in the move from the public to the private sector and to convey their experiences and emotions. In the same way, the experiences seminar was held last year and these seminars offer the opportunity to share information with people who have been through the process in other States in both private and public sector organisations. There is the OCAR service, which provides independent, non-judgmental and confidential counselling services for those involved in the contracting out of IT.

There are managing change workshops and redeployment and retraining; special workshops are held periodically to provide agencies with support and the opportunity to address questions; managers and people likely to be affected by telecommunications contracting will have access to managing

change workshops to be held later this year. Many measures were put in place which we found very successful in terms of getting people to focus and change their mind on the issue of whether these services should be provided from within or outside the public sector. A number of those processes have been brought along and will be enhanced during the telecommunications contracting out process.

The Hon. FRANK BLEVINS: I would join the Treasurer in relation to the amount of work that has been done. I am just concerned that he might be set up as a sacrificial lamb when this shemuzzle falls over, but I certainly hope that is not the case.

The Hon. S.J. Baker: You are making a number of assumptions, but will you get on with the question?

The Hon. FRANK BLEVINS: I thought it was appropriate to put that on the record, because the history of all these projects is not good. If you go by history, you are down the gurgler already. I have never believed any of the stories about cost savings and all this stuff. The fact that some of it does it better is true—there is no doubt about that—but it is hard to identify the savings and even harder to deliver them: I have never seen it yet. Anyway, we live in hope.

I want some confirmation of these figures. After listening to the Minister's answer to the last four questions, I do not know the status of the figures that have been announced but, given that the Premier put these figures to the public of South Australia, I would assume that they would have some status. The figure I have heard the Premier give is savings of about \$140 million over nine or 10 years, of the order of, at best, \$10 million or \$12 million a year.

Will the Minister confirm that because, given the complexity of this proposal, the prospect of failure would have to be extremely high. It seems to me that the Centre for Economic Studies may have a point when it states that it is really not worth it. If you are short of \$10 million a year, I would have thought there were easier ways of getting it than going through this extremely complex exercise which, if history is any guide, is doomed to fail and which looks as if it is failing now. Was the Premier telling us the truth when he said it was \$140 million over 10 years or \$120 million over nine years, or something of that scale?

The Hon. S.J. Baker: The comments of the Premier are on the record and have been quoted on a number of occasions. I know that at one stage the Opposition suggested that there was a \$1.2 billion or \$1 billion figure there. To my knowledge, that has never been a serious assessment by anyone of the potential in this area; I certainly have not said that.

In terms of the ball park that we are talking about—the indicative figures—they were the figures that were conceived to be possible at the time until the contract signing, and the honourable member will have to wait on the final outcome. But there will be savings. It is appropriate to take up a couple of points. The university report confirmed that the original offer was not right, which I hope we can all agree on now. If members can trust what I am saying about the timing, that the matter of the savings or lack of savings in the original offer was well and truly satisfied before that report actually arrived, then that is one issue we can discard.

The other issue is the extent of reliability of the figures and, from that viewpoint, the contractual arrangement had still to be satisfied. What we had were general directions, if you like, which would be followed if contractual arrangements could finally be reached between the two parties. I do not have a problem with that, although the honourable

member might have. I find that a reasonably healthy sort of process.

The Hon. FRANK BLEVINS: Do I take it from the Treasurer's answer that the savings over 10 years of \$120 million or \$140 million, whatever the Premier said, could be less?

The Hon. S.J. Baker: The honourable member will need to wait until the final results are provided to the public.

The Hon. FRANK BLEVINS: Is it applicable to think that that will be the case? I am not saying that the Premier is misleading us, but it seems to me that the project is getting smaller and smaller all the time. If that is the case, then the savings would, I assume, go down proportionately.

The Hon. S.J. Baker: There have been various claims already on that front, and all I am saying is that we are in the process of contract negotiation. It is a very intense process, as I am sure Ray Dundon and the team will tell the honourable member. We would never expect it to be any different. We are dealing with a contract that we believe will give significant savings and bring new investment, new economic development opportunities and new information technology opportunities to South Australia that we would not have otherwise. When the contract is finally signed I am sure that the member for Giles and the member for Hart will be some of the first to know about the final details of that contract. I assure the honourable member that the Premier has stated that the deal has to be right; it has to be good for South Australia. All I can say is that that will be the case: end of story.

The Hon. FRANK BLEVINS: How will the Treasurer measure these savings of \$140 million over 10 years, or whatever it turns out to be? How will he actually measure that?

The Hon. S.J. Baker: I think that the honourable member would recognise that there are already, through the due diligence process, measurements of what it is costing the Government now for the provision of services in main frame, wide area network and local area networks. We have now got through that very long process of going through every agency's records and going through this long due diligence process. We have a more than adequate handle on what it is costing us now.

The Hon. Frank Blevins interjecting:

The Hon. S.J. Baker: The honourable member will find that the figures on the costs and the savings in the total deal will be announced at the time. The Auditor-General and the international consultants will be peeling over the figures. If the honourable member has any reservation at the time of the announcements, he is quite entitled to express those reservations. From a Treasurer's point of view, I am not about to do anything that does not improve my budget situation, quite frankly.

The Hon. FRANK BLEVINS: We all realise that, but your Premier has opened his mouth and you have to try to deliver for him. It is a lot of rubbish. There are a lot of snake oil salesmen in this area promising the world.

The Hon. S.J. Baker: The Premier has consistently said that the deal has to be right, and he has not moved away from that.

The Hon. FRANK BLEVINS: He has committed you, and you have to try to get him out of the hole, as long as you do not make the Public Service the sacrificial lamb.

Mr FOLEY: The Deputy Premier said earlier that he is going into this process with his eyes open, and thank goodness that he is, because if he had not commissioned this report I hate to think where we might be. I state that by way

of compliment to the Deputy Premier, that thank goodness someone has his eyes open.

The Hon. S.J. Baker: I do not accept that: the honourable member is not going to get away with that. The fact is that there is a Cabinet IT subcommittee, it is a team approach and we all make a contribution to that process.

Mr FOLEY: When does the Deputy Premier think that the contract will be signed? Can he give me an estimate of time?

The Hon. S.J. Baker: I do not intend to estimate anything at this stage.

Mr FOLEY: Does he believe that the contract will be for a figure of \$700 million as first indicated?

The Hon. S.J. Baker: I am not making any comment about the contract until it is finalised.

Mr FOLEY: Is the Deputy Premier considering the possible reopening and reissuing of tenders?

The Hon. S.J. Baker: I will not comment about the contract, which is still under negotiation.

Mr FOLEY: Would discussions with senior people of IBM last week indicate that discussions are occurring between the Government and IBM about IBM's possible involvement in this?

The Hon. S.J. Baker: We are actively involved in discussions with EDS.

Mr FOLEY: IBM?

The Hon. S.J. Baker: No, there is no discussion with IBM.

The CHAIRMAN: The honourable member seems to be conducting his own Estimates Committee in the form of a yankee court inquisition. Questions are addressed through the Chair to the Deputy Premier; the honourable member needs no reminder of that, of course. This is just an acquired technique for the benefit of Lord knows whom. But the Chair is here to control the Committee, and I ask the honourable member to ask his questions through the Chair.

Mr FOLEY: I apologise. Will the Deputy Premier confirm that there are no discussions with IBM about any possible reinvolvement by IBM?

The Hon. S.J. Baker: I have said that to the Committee already. I have said that we are in contract negotiation with EDS. I have not had nor am I aware that anyone else has had discussions with IBM on this issue going back to when the preferred supplier was established. That was the last time we discussed this issue with IBM.

Mr FOLEY: The independent analysis commissioned by the Deputy Premier for the State Treasury says, under the cost to Government of the due diligence process, etc., that a figure of some \$7.5 million has been incurred to date. Yesterday I asked the Premier to give me a final break down of all costs. Will the Treasurer give a commitment that a full transparent costing at the end of the process will be provided to the Parliament?

The Hon. S.J. Baker: I have details that I can give the honourable member now. The 1994-95 total for contracting out to EDS was \$3.447 million. In 1993-94 we spent \$290 000. In the period 1993-94 to 1995-96, expenditure is expected to total \$5.3 million.

Mr FOLEY: Does that mean to date about \$5.3 million is involved all up?

The Hon. S.J. Baker: No. I will deal with the 1994-95 budget. The total spent on human resources was \$1.523 million; infrastructure, \$1.412 million; contract negotiations, \$512 000, making a combined total of \$3.447 million. That is not the total cost because there is an

element of legal costs in the Attorney-General's budget and the figure is obviously higher than that. We can get any missing information so that the honourable member can have the total picture. From the OIT budget, this is costing out everyone's time, consultancies, and so on.

Mr FOLEY: Clearly, the Treasurer has given an undertaking, as did the Premier, to give us a total figure of expenditure, including the Attorney-General's expenses and associated Government agency expenses, and at this stage it would appear to be under \$5 million. The figure of \$7.5 million seems a little over-inflated.

The Hon. S.J. Baker: I cannot comment. We can add on legal costs and look at it over that time frame, but until all matters are satisfied it would be close to \$6 million. I will get the figures so that we can both know what the ultimate cost is.

Mr FOLEY: If the contract is not signed, we are looking at a potential exposure of at least \$6 million.

The Hon. S.J. Baker: I do not contemplate the issue of the matter not being satisfied. The honourable member is probably not doing justice to himself or the Government in supposing that there is any conceivable loss.

Mr Foley interjecting:

The Hon. S.J. Baker: No; I think the honourable member should understand the dramatic changes that have taken place as part of this process. If the world fell apart tomorrow we would simply get on with the job and do something different or go back and look at what other opportunities are in the marketplace. For the first time we have complete documentation and a very good understanding of what our computer technology is within Government. It is an issue that has been dear to my heart over many years, and the process itself has brought forward a number of benefits. We understand what we have got, who has got it, how it is being used; we understand the efficiencies and inefficiencies of the various parts of the processing network established through the Government; we can see opportunities; and we have seen natural savings take place through this process, anyway, as members would be aware.

There has been considerable change as a result of the Government's reduction of expenditure and IT has not remained unaffected by that process. There have been considerable benefits. Whether the honourable member puts \$6 million or \$7 million on the benefit is up to him to debate. Also, if EDS went broke tomorrow and said it could not perform the contract, with the amount of experience we have now and knowing exactly where we have to take the State, there are other opportunities out there that can be pursued. I do not believe there has been any waste of money: quite the opposite.

Mr FOLEY: Perhaps we will save that for a debate which I hope we never have to have. I want to say on the record, so that there can be no misunderstanding, that from day one the Opposition has been cautiously supportive. We have been

concerned about the size, speed and process of the contract. We have been concerned about the way in which the Government has handled it, and these are all the appropriate concerns for an Opposition to have. For an Opposition not to raise such matters in the way we have would have seen the Opposition being negligent. At the end of the day I hope a contract is signed. I believe a contract will be signed, because the commitment is too large from both sides for a contract not to be signed. I am not wishing that the contract not be signed: I am simply canvassing the broad spectrum of possibilities and the inadequacies of the way the Government has handled the matter.

I do not raise those issues lightly but it is important that they be raised. We will continue to monitor the project. We will continue to probe and air our dissatisfaction about how the Government has handled it, but at the end of the day we hope that the Government and EDS can resolve their differences, which are clearly there, for the betterment of the State. At the end of the day, if a poor contract is written, it will be subjected to ongoing scrutiny—any contract will be—but I hope that a poor contract will not be written, because commitments given by Premiers mean that a contract must be written. The Government is claiming it will not write a bad contract: it would rather write no contract. I will not waste time by debating what will happen if the contract falls through. I hope it does not, but if it does we will have that debate later. I believe we are conducting this matter with a constructive approach. There has been four months delay in signing the contract.

I have not been out on the streets screaming blue murder at the Government over the past four months but giving it what I consider more than adequate time to resolve its differences. I gave the Premier the commitment during the last session that I would refrain from hindering the sensitive negotiations through unwarranted questioning in the Parliament, and that is what I did. But the point has arrived where I cannot sit back any longer. It is in that light that we continue our constructive approach to this matter.

The Hon. S.J. Baker: In response, I have found that the member for Hart has been constructive in this process. I have no difficulties answering any of the questions that I am able to answer so long as they are not subject to the sensitivities of contracts. I appreciate the broader views taken by the honourable member, who understands the importance of the contract for South Australia. I can assure him that this is the right way to go into the future. As the Premier has said time and again, if it is not right, it will not happen in that form, but opportunities other than that arise. We are committed to that process with an intention to see it to fruition.

The CHAIRMAN: There being no further questions, I declare the examination of the vote completed.

ADJOURNMENT

At 9.10 p.m. the Committee adjourned until Thursday 22 June at 11 a.m.