

HOUSE OF ASSEMBLY

Tuesday 30 July 2002

ESTIMATES COMMITTEE A**Chairman:**

The Hon. R.B. Such

Members:

The Hon. I.F. Evans
 Mrs R.K. Geraghty
 Mrs J. Hall
 Mr J.R. Rau
 Mrs I.M. Redmond
 Mr J.J. Snelling

The committee met at 11 a.m.

Department of Treasury and Finance, \$36 292 000
 Administered items for Department of Treasury and
 Finance, \$903 132 000

Witness:

The Hon. K.O. Foley, Deputy Premier, Treasurer, Minister
 for Industry, Investment and Trade.

Departmental Advisers:

Mr J. Hill, Acting Under Treasurer, Department of
 Treasury and Finance.
 Mr R. Schwarz, Assistant Under Treasurer.
 Mr G. DeGennaro, Deputy Under Treasurer.
 Mr D. Imber, General Manager, Finance.
 Mr R. Emery, Director, Financial Services.
 Mr C. Moore, Manager, Communications Services.
 Mr M. Priadico, General Manager, Government Account-
 ing and Reporting.
 Ms K. Moore, Director, Revenue.

The CHAIRMAN: The estimates committees are a relatively informal procedure and as such there is no need to stand to ask or answer questions. The committee will determine an approximate time for consideration of proposed payments to facilitate changeover of departmental advisers. I ask the lead speaker for the opposition if he could indicate whether there is an agreed timetable for today's proceedings.

The Hon. I.F. EVANS: It has not been given to me, but I understand that the shadow treasurer has had some discussions with the Treasurer.

The CHAIRMAN: Changes to committee membership will be notified as they occur. Members should ensure that the chair is provided with a completed 'Request to be discharged' form. If the minister undertakes to supply information at a later date it must be submitted to the Clerk of the House of Assembly by no later than Friday 16 August. I propose to allow the Treasurer and the lead speaker for the opposition to make opening statements of about 10 minutes each. I stress that it is not compulsory to go for the 10 minutes.

There will be a flexible approach to giving the call for asking questions, based on about three questions per member

alternating each side. Supplementary questions will be the exception rather than the rule. A member who is not part of the committee may, at the discretion of the chair, ask a question. Questions must be based on lines of expenditure in the budget papers and must be identifiable or referenced. On that point, unless people stray from the matter under consideration, I am not asking people to read out the particular line, because it wastes a lot of time to do that. Only if people stray will they be required to come back to the specific reference. Members unable to complete their questions during the proceedings may submit them as questions on notice for inclusion in the assembly *Notice Paper*.

There is no formal facility for the tabling of documents before the committee. However, documents can be supplied to the chair for distribution to the committee. The incorporation of material in *Hansard* is permitted on the same basis as applies in the house; that is, that it is purely statistical and limited to one page in length. All questions are to be directed to the minister, not to the minister's advisers. The minister may refer questions to advisers for a response. I also advise that, for the purposes of the committees, there will be some freedom allowed for television coverage by allowing a short period of filming from the northern gallery. I declare the proposed payments open for examination and refer members to appendix D, page 2, in the Budget Statement and part 2, pages 2.1-2.34 Volume 1 of the Portfolio Statements. I now invite the minister to detail his agreed program. Minister, prior to your arriving I asked whether there was an agreed schedule for today.

The Hon. K.O. FOLEY: I assume there is.

The Hon. I.F. EVANS: I understand that you sent one to the Hon. Mr Lucas.

The Hon. K.O. FOLEY: Yes, I have. I apologise for being late; I was just a little nervous. This is a very nerve-racking and exciting time for me. As someone who spent 7½ years sitting behind this table and eight long years sitting over there, this is a unique experience, but in the end I had to pluck up the courage to come forward. I have a brief opening statement. The government's measure to tax the super profits made by the gaming machine operators in South Australia has received wide support within the community. The public supports our determination to put that money into our schools, hospitals and police. It supports our decision to tax those who can most afford to pay while protecting those who cannot. The revenue raising measures in this budget were designed to address the financial black hole left to us by the former Liberal government. Sections of the hotel industry have been understandably opposed to tax rises on net gaming revenue, but we know that the super profits exist. The debate has been about the size of those profits. Our tax proposals will recoup a significant proportion of those profits.

Since the budget, members of the industry have reacted angrily to the government's tax regime. I will not budge on the government's four year budget bottom line and I will not budge on our top tax rate—at 65 per cent the highest tax rate for the gaming industry in Australia—but I am prepared to be fair and to consider alternative methods to meet the government's budget objectives. In a number of meetings over this period I have challenged the industry to produce an alternative model which meets my conditions while addressing industry concerns. Central to the ongoing discussions has been the expected rate of growth in net gaming revenue over the next four years. The hotel industry has told me that the growth forecasts by Treasury were too conservative. They backed that up with data demonstrating that their own

investment decisions were based on much higher assumptions of growth.

I instructed Treasury officials to review the numbers and remodel growth assumptions over the four year period, taking account of the financial revenue figures for 2001-02 and figures provided by the industry. These final figures were not available in the period leading up to the budget and they showed that early projections by Treasury were too conservative. The end result is that Treasury has revised its figures upwards, although not to the level predicted by the industry. Yesterday, in response to my challenge to the hotel industry—a challenge made in a number of meetings both privately and publicly—industry presented government with an alternative proposal. It suggested a revised tax structure which maintained the 65 per cent top marginal tax rate and introduced new rates of 57 per cent and 47.5 per cent over different threshold levels.

As I indicated earlier, the growth assumptions on which the proposals were based were higher than the revised Treasury assumptions. I wish to advise the committee that the government therefore finds the proposal of the hotel industry unacceptable as it stands. I now want to advise the committee that the government has reached a final position. We have maintained our budget line while addressing industry concerns. We will adopt the thresholds and the rates suggested by the industry, but I announce today that we will put in place a further revenue measure. This measure will be designed to maximise taxpayer return from the projected growth in the hotel gaming industry. A new levy on the new sale or transfer of ownership of hotel venues with gaming machines will be introduced by this government. This levy will raise at least \$5 million per year and will be ongoing, year after year. It will be calculated with reference to annual net gaming revenue. The rate at which this new levy will be set will be subject to consultation with the industry over the next two weeks.

These measures are designed to maintain the budget position, address industry concerns and introduce a new revenue measure to deliver on Labor's priorities of more money for our schools, our hospitals and our police. It provides certainty to the industry and its employees. This tax structure, including the new levy, will remain unchanged for the life of this parliament. This is now the government's position. I urge the industry to accept it today without delay. That is my opening statement.

The absence of Mr Jim Wright, the Under Treasurer of South Australia, is noted. Upon coming to office Mr Wright approached me with a dilemma, namely, that his daughter was competing for Australia in the Commonwealth Games this week, and he asked my view on that. I advised Mr Wright that I wished him and his family well and that he should attend the Commonwealth Games with his daughter, and that is the reason for his absence today.

The CHAIRMAN: Does the lead speaker for the opposition wish to make an opening statement?

The Hon. I.F. EVANS: We did not prepare an opening statement as we prefer to take more time to ask questions. As a courtesy to the opposition I would like a copy of the statement in order to ask questions later in estimates. Obviously that statement has been made this morning. The normal procedure is that a copy of ministerial statements are automatically given to the opposition, so we would seek an immediate copy of that statement so we can prepare questions on it.

I think I heard the Treasurer say that the government is introducing yet another new levy, despite an election promise to the contrary, so we register our disappointment that there is another broken promise on behalf of the government so early in its term.

The Hon. K.O. FOLEY: You have been leading the cheer squad for the hotel industry in the past week. I can understand why the chairman of the cheer squad for the hotel industry—

The CHAIRMAN: The Treasurer is getting off to a bad start. The opposition lead speaker has the call.

The Hon. I.F. EVANS: The Treasurer in his usual arrogant manner interjected on the opposition during our opening statement when we did not show that rudeness to him. It is one thing to roll up late to your own estimates committee when you are here to defend your own budget, and to be disrespectful to the committee and the parliament in that regard, but I am happy if we get on and ask some questions.

The CHAIRMAN: Order! I point out to members that it is not helpful to engage in debate. I call the lead speaker for the opposition to ask the first question.

The Hon. I.F. EVANS: Budget Paper 3, page 4.2, states:

Independent advice was obtained from Allen Consulting on appropriate normal rate of return on assets and from a senior interstate club industry executive on operating costs of gaming machine venues (Magee). Evidence from the Magee and Allen reports indicate very large or super profits in excess of a normal level of profits are available to some gambling venues in the state. The super profit amount is estimated at around \$90 million.

The key document is the Magee report, as it claims to look at the operating costs of the gaming machine venues, which then allows an estimation of profitability. The Allen report then uses the Magee report as a basis for its analysis. The opposition has been advised that Mr Magee is no longer employed as the CEO of the Yeronga Services Club. Did the Treasurer ensure that appropriate checks on Mr Magee's background and expertise were undertaken before he appointed him and, if so, who conducted these checks and what did they show? At the time of being employed by the Treasurer as a consultant, was he still employed by the club or had the decision about his leaving already been taken?

The Hon. K.O. FOLEY: At the outset, I apologise for my previous interjection. It was out of order, but old habits die hard. In all my years in parliament, when former ministers have made opening statements, I do not recall their giving me a copy of that statement. I will return to that question in a moment, but I will say that I appreciate that the member has been caught on the hop a little, because he had his strategy and questions ready on Magee and Allen. He might want to put those questions aside and come back to them: that is up to him.

However, I will say that when we sat down and decided to increase taxes in the hotel industry, we were convinced that super profits existed and, as any diligent treasurer should do, I sought some independent advice from a whole range of sources—one was Magee, another was Allen, as well as other areas within government—before we made that decision. While I can understand that the opposition has defended the super profits made in the hotel industry, this Labor government has not, and I am quite comfortable with the decision that I have taken to bring back to the budget as much super profit as I can to fund our schools and hospitals, and I am quite comfortable in the advice I was given. But, the point of the matter is that, when both Magee and Allen were contracted by government to provide advice, my officers sought

advice as to the appropriateness of various consultants, received that advice and made their selections, and that is really all I have to say on the matter.

The Hon. I.F. EVANS: The Magee report, on page 5, claims that operators would require four full-time staff to operate a gaming room, which was estimated to cost \$1 800 per week. A number of accounting firms, including Deloitte Touche Tohmatsu employed by the Australian Hotels Association, have made a number of significant criticisms of the Magee report. The AHA Executive Summary states:

The cost of wages to run a 40 machine gaming room seven days a week have been significantly underestimated, failing to adequately take into account the number of staff needed, award rates, leave entitlements and penalty rates.

I understand that the union leader Mark Butler has also indicated that Magee is wrong, and that AHA members have indicated that South Australian wages costs could be closer to \$2 600 per week. Does the Treasurer now agree that Magee's claims on wage costs are wrong?

The Hon. K.O. FOLEY: As I have said, the Liberal Party of South Australia is the defender of super profits in the hotel industry. Again, I can understand that, having been in opposition for many years, the member has been wrong-footed this morning. The Magee report is of interest and of some value and assisted government. The government has now announced its final position. The Magee report, as I said, is a useful document but is now quite irrelevant to the debate.

The Hon. I.F. EVANS: I am a bit surprised by the Treasurer's saying the Magee report is irrelevant to the debate, given that it was the basis on which the government took its decision.

I have another question about the Magee report. The Magee report, on page 5, claims that payroll tax costs in South Australia are 1.5 per cent of total wage costs. Again, the independent accounting advice given to the AHA states that this claim is incorrect as the payroll tax rate above the threshold in South Australia is 5.67 per cent after 1 July 2002. Does the Treasurer now agree that Magee's claims on payroll tax costs in South Australia are wrong?

The Hon. K.O. FOLEY: Again, the Liberal opposition, the defenders of super profits, keep going in to bat; that is their call. The Magee report, as I said in a press conference about a week ago, is one report amongst a body of advice that has been given to government. I acknowledge publicly that there are elements of that report with which I do not agree. Magee assumed a large figure for promotion costs. From memory, the hotel industry advised me that that figure was too low. I have a view (rightly or wrongly) that we should not have included anywhere near the figure that Magee did in the report, because I would have viewed the promotion costs of one venue cannibalising another as a discretionary expenditure which I do not think was necessarily a legitimate part of the base data.

That was my view, but the industry disagreed with that view and thought that Magee should have produced a bigger figure. I think that, from memory, Magee suggested a capital value of \$3.5 million. We disagreed with that and put in a capital value of \$5 million. The industry disagreed with Magee's figures for wages and insurance. This was all good healthy debate. The industry got a consultant to pick holes in my consultant's advice. Shock, horror, newflash: 'Consultant criticises consultant'! At the end of the day, the Magee report was a useful document, but—

The Hon. I.F. Evans interjecting:

The Hon. K.O. FOLEY: Well, I have already said that there were some assumptions by Magee that I did not agree with.

The Hon. I.F. Evans interjecting:

The CHAIRMAN: Order! We are not having a two-way exchange.

The Hon. K.O. FOLEY: I am not quite sure what the difference is between my saying that I disagree with Magee and what the member is saying but, at the end of the day, I have put my final position on the table today and I will be criticised for it by the hotel industry.

Mrs Hall interjecting:

The Hon. K.O. FOLEY: The member for Morialta says, 'As you should'. I make no apology for wanting to tax the hotel industry at a level which is sustainable but which delivers more money for schools and hospitals in this state. If the Liberal opposition wants to continue to lead the cheer squad—

Mrs Hall interjecting:

The Hon. K.O. FOLEY: The member for Morialta just asked why I did not tell them before the election.

Mrs Hall interjecting:

The Hon. K.O. FOLEY: Sorry?

The CHAIRMAN: Order! This is not a debating session; it is a question and answer session. The Treasurer has the call.

The Hon. K.O. FOLEY: The member for Morialta asked why I did not tell them the truth before the election. Why didn't you tell me the truth about the huge budget deficits that you left for the incoming government? If the Liberal Party wants to talk about truth, maybe it would like to talk about the donation that it received from the hotel industry before the election, and maybe it would like to release today the letter that it wrote to the hotel industry—as I understand; I am only assuming that it did because that is the speculation. Did the Liberal Party send a letter to the hotel industry promising not to increase taxes? How big a donation did the Liberal Party get from the hotel industry?

I accept criticism of the fact that I wrote to the hotel industry before the election and said that we had no plans to increase taxes to balance our budgets. We were working on figures published by the then government which were totally dishonest and inaccurate. We had to deal with that, so I had to put in place revenue measures for which I have been criticised. All hell will break loose today when the industry is notified (as it has been) that I intend to put in place a further tax measure, a further levy on the industry. I make no apology for that, because I am about getting as much money as I can on a sustainable basis and giving the industry certainty over the next four years. Because this will be it: no more tax increases for the life of this parliament.

Mrs Hall interjecting:

The Hon. K.O. FOLEY: Well, I am saying that there will be no more tax increases for the life of this parliament, but I make no apology—

Members interjecting:

The CHAIRMAN: Order! I point out to members—I do not know about them—that I am scheduled to be here until 10 o'clock tonight. This will be a marathon, not a sprint, and if they carry on like this many of us will end up being certified—if we have not been already.

The Hon. K.O. FOLEY: Thank you, Mr Chairman, I take heed of your advice. I stand firm; I do not resile from or apologise for taxing the hotel industry or for putting in place today a new tax/revenue measure to bring in more money for our schools and hospitals.

Mr RAU: Can the Treasurer explain to the committee what the budget position would have been had the numbers published in the former government's mid-year review been able to be taken on face value, as including full funding of all known cost pressures as well as maintaining contingencies?

The Hon. K.O. FOLEY: May I congratulate the member for Enfield on his first question in an estimates committee. The 2002-03 budget process started from the financial position published in the 14 March 2002 budget update. Since the 14 March 2002 budget update, later estimates of revenue arising from current levels of transactions and activity have improved the 'no policy change' starting point in the 2002-03 budget.

It has been suggested that revenue improvements have made the government's task easier. It should be stressed that revenue improvements do not diminish the negative impact of the unfunded cost pressures. If not for the existence of unfunded cost pressures, these revenue improvements would otherwise have led to substantial improvements in the budget bottom line rather than offsetting a deterioration in the budget's bottom line from having to address cost pressures.

The improvement in revenue raises the question of what would have been possible had the numbers published in the mid-year review been able to be taken on face value as including full funding of all known cost pressures as well as maintaining contingencies. That is: what would be the budget outcome had no additional expenditure been required in this budget for cost pressures known prior to the Liberal government's mid-year budget review?

I have a table (which I am happy to table, if that is appropriate) which compares the 2002-03 budget strategy and position with an alternate strategy and position possible without the 14 March 2002 cost pressures. Under this scenario, Treasury advice is that a surplus of \$27 million could have been achieved in 2004-05, with a further \$8 million surplus in 2005-06. Instead, we are faced with a \$65 million deficit in 2004-05 and a \$96 million deficit in 2005-06.

Cost pressures ignored by the former government total \$561 million over the forward estimate period. These include such items as hospital deficits, teachers' EB agreement, user choice funding, bus fleet replacement program and the Metropolitan Fire Service EB. As I have said, I have a table if people would like that to be tabled. If not, I will make it available to members at a later time.

The CHAIRMAN: It can be incorporated provided that it is purely statistical.

The Hon. K.O. FOLEY: I am happy just to distribute it. It might be an easier exercise.

The CHAIRMAN: The rule is that it must be purely statistical; otherwise, the minister can circulate it.

Mr RAU: Can the Treasurer inform the committee of the budget impact of the sale of the TAB?

The Hon. K.O. FOLEY: I tell you what—she was a hoot, the sale of the TAB! If you reckon a government could not have buggered up a sale process bigger than this one, I would be surprised. We should not speak ill of former members of parliament, but I think I would be within some reason in suggesting that the former member for Adelaide, Michael Armitage, really delivered a beauty with this one. The impact of the sale on the budget is now an estimated loss of \$28.6 million over three years, 2002-03 to 2004-05. That is my advice. This loss predominantly comprises a reduction in taxation revenue of \$22.7 million and payment to TAB Queensland Pty Ltd of \$11.6 million for the underwriting

product fee. The \$28.6 million loss is \$4 million greater than the \$24.6 million loss that has been announced by both the Minister for Recreation, Sport and Racing in a media release of 28 April 2002 and by me as reported to the house in *Hansard* on Thursday 16 May 2002. As we get the advice in, these figures start to ratchet up.

The \$28.6 million loss is \$15.4 million greater than the \$13.2 million loss that had been allowed for by the previous government in the forward estimates. In February 2000, the former government announced its intention to sell the South Australian TAB. Legislation enabling the sale, the TAB Disposal Act 2000, and providing for a new regulatory environment for a privately-run SA TAB was passed by this parliament in December 2000. A competitive tender sale process began in January 2001, culminating in the selection of TAB Queensland Pty Ltd as the successful bidder for the SATAB. A business sale agreement was signed with TABQ on 15 August 2001 and settlement was completed on 14 January 2002.

As a result of the sale, total proceeds of \$44.3 million, including \$792 000 received as completion adjustments in February 2002, were deposited into a special deposit account at Treasury and Finance. A number of expenses have or will offset the sale proceeds. These include:

- \$11.2 million—the cost of up-front capital payments to the SA racing industry—that was paid on the sale of SATAB;
- \$3.5 million in payments to the South Australian racing industry with respect to SATAB's trading over the period 1 July 2001 to 13 January 2002 (while still in government ownership) ensuring the South Australian racing industry payments for that period reached the agreed \$42.2 million per annum, pro rata;
- \$15.5 million to fund redundancies and career transition arrangements for SATAB staff;
- \$9.1 million in other sale costs (including administration, consultants, probity and legal expenses);
- \$6.3 million paid as a penalty for terminating SATAB's pooling arrangements with TABCorp ahead of the contracted expiry date. (I am advised that a further \$1.7 million is in dispute);
- a revised estimate of \$11.6 million for the costs of underwriting TABQ's product fee payment to the South Australian racing industry up to June 2004 to the extent that those payments exceed 39 per cent of net wagering revenue;
- the revised estimated costs exceed the total sale proceeds by \$13.7 million. The state government retained \$5.4 million as a result of the sale of the business by way of repatriation of capital funds from SATAB.

The resultant cash impact on the state was a \$8.3 million loss.

That is the updated advice that I have had from my officers, and it clarifies earlier statements made about the likely impacts. These are moving figures—as the figures are known, as calculations are made, as certain points are reached since the sale—that are continually revised. I think I can comfortably say that probably no other sale of an asset by the former government was as poorly handled. In fact, this was the most poorly handled asset sale of the former government, and I believe that the fault lies squarely with the former minister Michael Armitage and his officers who handled the sale. I might add that I am advised that Treasury officers had little or no involvement.

Mr RAU: Can the Treasurer please confirm the existence of an error contained within the appendix to the budget

statement released on 11 July 2002, and can he inform the committee how this error will be corrected?

The Hon. K.O. FOLEY: I advise the committee that there is a statistical error. The member for Enfield was reading the budget late one night. He rang me at home and said, 'Gee, I think there is a statistical error in Budget Paper 3.' I cannot mislead parliament, the truth is that it was not the member for Enfield.

I advise the committee that officers of my department discovered an error in Budget Paper 3, Budget Statement 2002-03, page 6.5, table 6.6. I stress that the resulting correcting adjustments do not affect the key budget aggregates of general government net borrowing, the non-commercial sector cash result or net debt, nor any revenue or expenditure item reflected in the budget. It is a presentation issue. While I am sure the opposition is keen to pounce on me for an error in the Budget Paper, but before they do, I point out that the error was also contained in some of their own numbers when in government.

The error, I am advised, was also present in general government balance sheets published last year by the previous government as table A.4, appendix A of the Budget Statement in 2001-02, and in February this year in table 4, part 3 of the 2001-02 Liberal government's mid-year budget review. So, there is an error in both sets of books from both governments. The error appears in the general government balance sheet, table A.4 of appendix A. The line 'Equity' is overstated. The published numbers have now been adjusted downward to take into account the reduction in the value of investments the government has in its financial corporations, principally the South Australian Asset Management Corporation, SAFA and the Motor Accident Commission as a result of planned distributions of dividends and tax equivalent payments to the budget across the forward estimates.

The error impacts on the general government balance sheet and the non-financial sector balance sheet. In turn, this affects the calculation of general government net worth and general government net financial worth—they are two different measures—and are discussed in chapter 6 of the 2002-03 Budget Statement.

Mr Rau interjecting:

The Hon. K.O. FOLEY: Yes, chapter 6. The effect of the required adjustments on the general government balance sheet is now reflected in each year, and for 2005-06 it is \$390 million, but I am sure the honourable member has already calculated that. Net worth for the general government sector for 2005-06 is now reported as \$14.24 billion, that is, \$14 240 million, rather than the \$14 630 million as published on budget day. The tables from the 2002-03 Budget Statement that are affected are A.4, A.6, 6.1, 6.3, 6.5 and 6.6. Attached to this statement are corrected versions of these tables.

I have arranged for the affected documents I have just mentioned to be distributed to as many known recipients of the budget papers as possible, including the committee members here today. Furthermore, these documents are to be posted on the web site of the Department of Treasury and Finance for all those people who will be extremely interested in the net financial worth of the state. As I said, impacts are nil on the budget. Unfortunately, the error was contained in published documents of the former Liberal government, but I will not be critical of it for that because errors happen.

Mrs HALL: I know that the Treasurer will be very pleased with another question on the Magee report. I am tempted to ask the Treasurer why on earth the hotel industry

should believe this commitment given that it has changed again in less than three weeks. The Treasurer has said on three occasions today, 'This is the firm, certain position for the life of this government, for the life of this parliament and for the next four years.' I do not know why the hotel industry should believe the Treasurer this time. I am sure the Treasurer knows that some independent accounting advice has been provided to the AHA on the Magee report. Some of that advice states:

The methodology of considering a 40 machine gaming room in isolation to the balance of a hotel operation is incorrect. Gaming rooms are not built in isolation and are in fact inextricably tied to the total hotel operation. As such there are costs that are incurred in operating the gaming room that need to be taken into account when determining gaming profit that cannot be fully attributed to the remainder of the hotel's operations. These costs include—

despite what the Treasurer would have us believe—

a portion of management costs, administration costs, rental, council rates, taxes, security costs, telephone repairs and maintenance, printing and stationery. The square metre allowance of the report of 100 square metres for the building of a gaming room is totally inadequate. Competitive, well-designed gaming rooms are in the order of 200 to 300 square metres.

Does the Treasurer now agree that these are further examples of errors in the Magee report which, obviously, now cast total doubt on the validity of the whole report?

The Hon. K.O. FOLEY: I am happy to take that question, Mr Chairman. Clearly, the hotel industry has got good value out of the Liberal Party with their donation. We now have the member for Mordialta leading the cheer squad as well. Keep defending super profits. However, we are going to take that money and put it into our schools and hospitals.

An honourable member interjecting:

The Hon. K.O. FOLEY: Look, I have said that there are things about the Magee report that I did not agree with—so what? I have already heard every single argument that the member for Mordialta has just presented to me. I have read it in the paper. I have heard it publicly, and the hotel industry has told me. You do not need to do the hotel industry's bidding. It is very effective in its discussions and lobbying the government. There is not much new in what you have said to me there, that, from my recollection, I have not heard before. If you feel that you want to give the hotel industry value for its donation, keep doing it. How much did it donate to the Liberal Party?

Mrs HALL: A lot less than to you.

The Hon. K.O. FOLEY: A lot less. I challenge the Liberal Party, and members opposite, to reveal how much the hotel industry donated to it before the election, and to give me, or release publicly, a copy of the letter that the Liberal Party sent the hotel industry if, in fact, that was done. That would be very interesting. I have been criticised because the Labor Party received a donation from the hotel industry, for my writing to the hotel industry, and for the Labor Party raising taxes. If I am to be attacked for that by the Hon. Rob Lucas, in another place, I think it is just quid pro quo that the Liberal Party should tell us how much it received as a donation, and what it wrote in its letter.

In the context of what we are debating today, the Magee report is like a number of other reports. It is of value and interest, but the world has moved on. The opposition may not have, but the world has moved on. We have moved beyond Magee, and I have put in another tax. Well, sorry, but I am not apologising for that.

Mrs HALL: But you promised not to.

The Hon. K.O. FOLEY: The member for Morialta says that I promised not to put in a new tax. Mr Chairman—

Members interjecting:

The CHAIRMAN: Order! We are getting too much running commentary. The member for MacKillop will not speak over the chair because the disciplinary rules apply in the committee as in the house. The Treasurer will finish his remarks.

The Hon. K.O. FOLEY: Thank you, Mr Chairman. I am quite happy to withstand the criticisms of the hotel industry and the Liberal Party for taxing the hotel industry and putting that money into schools and hospitals. I can cop that. But in relation to Mr Magee, I want to say that the member for Davenport and others, both publicly, in this chamber, and certainly privately, have questioned Timothy Magee. I was critical of the last government for hiring consultants. Governments do not always get it right in terms of what they do in office.

I will read a letter from Mr Neil Summerson, the former managing partner of Ernst & Young in Queensland, who I understand was also the President of the Yeronga Services Club Inc. in Queensland. Some of the criticism has been related to our decision to get advice from outside the state. The reasons are pretty obvious. Had we asked people here the cost of operating a hotel venue, I would be fighting this battle before I brought my budget down. I reckon bringing in a new tax, with the industry knowing you are about to do it, would have been pretty difficult exercise.

Members opposite have built budgets and have not gone out and canvassed sectors, industry groups and affected people before bringing down Liberal budgets, and for obvious reasons. We sought the services of somebody outside the state, and not just because we wanted somebody from outside South Australia, but we also had to consider issues of conflict of interest. There are people in this industry in South Australia whom you might want to give advice but, given the nature of the industry here, they would have a real or apparent conflict of interest. As you would well know, Mr Chairman, apparent conflicts of interest and real conflicts of interest are important considerations.

I would like to read this letter about Timothy Magee because, while I am not in the business of defending consultants or of defending reports with which I have disagreements or of which others may be critical, there are some points that Mr Magee deserves to have put on the record. The letter to my office from Mr Neil Summerson who is, as I said, former managing partner of Ernst & Young, a chartered accountant, states:

1. From 1 March 2000 to 24 March 2002, I was the President of the Yeronga Services Club Inc.
2. Prior to that time I had been on the board for 18 years in various positions including Treasurer and Junior Vice President.
3. Mr Tim Magee was the CEO of the club during my term as Junior Vice President and then President. Mr Magee reported directly to me as President and I had almost daily communication with him.
4. At no time during my term as President was I aware of any issue that would require the CEO to be disciplined. In fact, Mr Magee performed his role as a CEO in a most proficient manner.
5. I retired from the board at the annual general meeting on 24 March 2002 and have had no dealings with the club since that time.
6. During my term the club was audited by external auditors and the poker machine revenue was audited by officers of state Treasury. No adverse issue relating to Mr Magee's performance was brought to my attention either in writing or verbally.

7. I am a chartered accountant and have a good understanding of financial matters. Mr Magee—

members must bear in mind that this guy is a former managing partner of Ernst & Young—

- in my opinion, has a good understanding of costs associated with the club industry.
8. I was a former managing partner of Ernst & Young in Queensland, retiring on 30 June 1997.
9. I am a director of several companies in Queensland including the Bank of Queensland Ltd, Leyton Pty Ltd, PQ Lifestyles Ltd, and I also chair the Brisbane Water Advisory Board for the Brisbane City Council.
10. I have no personal business relationship with Mr Magee.
11. Mr Magee indicated to me in November 2001 that should I not seek reappointment he would not continue with the club. I understand he informed the board of his intentions to leave earlier this year. I understand that he is finishing a masters degree in accounting on a full time basis.

Let us be critical of Magee if that is what the opposition parties and the hotel industry want to be. I did not agree with everything Mr Magee said, but let us concentrate on the main game here. The world has moved on, events have moved on. Members may criticise me for my new tax but let me say that, although I think the Magee report is of interest, it is of declining relevance.

Mrs HALL: I know that a number of very angry hotel operators have made contact with opposition and government members since the budget was introduced and, as you well know, Treasurer, we have described that budget as full of broken promises and increased taxes. I would like to refer to the Treasurer a quote from one particular letter, which says:

Our security/borrowing ratio is near the limit of the bank's policy. However, due to the gaming tax increase, our profit will be substantially reduced. Even using the capitalisation rate applied when we conducted an independent valuation, which we doubt this rate could now be substantiated, the values of our hotels will be reduced by more than \$11 500 000. With the current security/borrowing ratio, the bank could be calling for a \$7 000 000 margin call.

Will the Treasurer outline to the committee that he is aware of the impact of this government's broken promise, which could mean, in some cases, up to 70 per cent of the operator's net profit being taken? Has the Treasurer undertaken any form of analysis on how many jobs in this enormously important industry will be lost as a result of his broken promise? I am talking about more than 23 000 jobs in the industry, many permanent and quite a significant number of casual jobs. Given, again, that he seems to be making some of his decisions based on a fairly discredited report, I would be curious to know what his analysis is of the job impact on our state.

The Hon. K.O. FOLEY: There is a fair chance that the Liberal Party of South Australia will get a larger donation than the Labor Party from the Australian Hotels Association at the next election. The member for Morialta is making a sterling effort in defending the super profits of the hotel industry.

Mrs Hall interjecting:

The CHAIRMAN: Order, the member for Morialta!

The Hon. K.O. FOLEY: Sorry, what was that last bit? I have disappointed—

Mrs HALL: You have disappointed—

The CHAIRMAN: Order! The member for Morialta is defying the chair and running the risk of being in serious trouble.

The Hon. K.O. FOLEY: Mr Chairman, I did hear that interjection, and that was that I had disappointed some of my

friends in the hotel industry. And, member for Morialta, you are dead right! That has caused me significant emotional difficulty, serious emotional difficulty, because I had to make a decision that was based on the best public policy outcome for the state, not based on my personal friendships with people in the hotel industry.

By making this decision, I have lost friends. And you are dead right—I have upset, disappointed and hurt personal friends. And if you think it was an easy decision, it was not. But, member for Morialta, what I have demonstrated is that I am not prepared to be compromised in making good public policy by personal friendships or election donations. That may be something that you are not capable of doing. You may be influenced by election donations; you may be influenced by personal friendships, but when it comes to good public policy I will not be influenced by an election donation or by my personal regard for and friendship with people in the hotel industry.

Mrs HALL: What about honesty?

The Hon. K.O. FOLEY: Or honesty—and I know where you are going with this. I have read the letters that have been received by my office, and no doubt you have seen them. I have seriously ruptured friendships with people in the hotel industry; and you know exactly whom I am talking about.

Mrs HALL: Yes, I do.

The Hon. K.O. FOLEY: You do. Exactly. But I have to cop that and live with that.

Mrs HALL: I hope it is uncomfortable.

The Hon. K.O. FOLEY: If you are going to be a good public policy maker—this is something the member for Morialta does not understand—you have to divorce yourself from personal friendships, people with whom you have been associated, and from political donations. You have to divorce yourself from those considerations when making public policy. And the reason the member for Morialta was censured by this parliament and lost her ministry is that she was incapable of separating her personal relationships and considerations from good public policy. Well, I am not like that.

Mrs HALL: And you are two-faced about the truth.

The Hon. K.O. FOLEY: If you want to turn this into a slanging match about the fact that I was prepared to cop a very serious backlash from the industry, then we can debate this until 10 o'clock tonight. I have worn it, I have copped it, it has hurt me but, at the end of the day, that is the lot of a Treasurer.

Mrs HALL: So is truth.

The Hon. K.O. FOLEY: So is truth! I wonder what the Auditor-General would make of the comment then by the member for Morialta, who said, 'So is truth.' This is the person who walked into this place, defamed the Auditor-General of this state, was forced to apologise—in fact from memory it was not an apology—and was forced into copping a censure motion because she walked in here and told enormous untruths about the Auditor-General. She has the audacity to talk to me about telling the truth! I am up front. I wrote a letter to the industry—

Mrs HALL: And they believed you.

The CHAIRMAN: Order! I think the committee is starting to degenerate into an unproductive activity. I bring the Treasurer back to conclude his remarks on the issues and I advise the member for Morialta not to persist in interjecting.

The Hon. K.O. FOLEY: Many of the issues around jobs and investment and the gearing ratios of the industry have

been communicated publicly and privately to the government. We are aware of them.

The Hon. I.F. EVANS: Have you taken advice on them?

The Hon. K.O. FOLEY: I simply say that the events have moved on, and I urge you to consider what I put on the table today.

Mrs HALL: I have a supplementary question. I am curious whether, if the Treasurer says he is taking an advice on job estimates and losses, he will share it with the committee or whether will he keep that to himself and watch it evolve.

The Hon. K.O. FOLEY: I know the member had all her questions written and prepared before 11 o'clock, but what she has to learn is that she has to be a bit quick on her feet. I have made an opening statement. I have put the government's final position on the table. I have urged the industry to accept it. They don't like it, but what I am saying is quite clear: there is no excuse for job losses, there is no excuse for a strike on investment. Get on with business, accept the tax regime, cop the new levy. You have certainty for four years. I think we have put forward a good policy position today.

Mr SNELLING: Will the minister advise the committee of the implications for the state on the recent announcement by NRG Energy of the intended sale of its electricity business in South Australia?

The Hon. K.O. FOLEY: This is a very important question and I would draw members' attention to this answer because this is a very significant announcement, a significant moment, in terms of reporting to the committee some events relating to the electricity companies of South Australia. The opposition may not be interested, but I think that certainly the media which is listening would be particularly interested, as I know my colleagues in government are. In March 2001, the previous Liberal government laid before each house of parliament a copy of the long-term leases of the state's electricity assets, together with a prescribed report for the leases as they related to the disposal of the businesses of Flinders Power Pty Ltd.

Flinders Power was one of the companies created following disaggregation of the state's electricity industry. It conducted the operations at Port Augusta and Leigh Creek prior to the privatisation program implemented by the previous government. The report highlighted principal features of the contractual arrangements entered into by the previous government with the purchaser of the businesses of Flinders Power Pty Ltd. Pertinent to the announced sale by NRG Energy Incorporated, the report highlighted the agreed contractual circumstances in which NRG Energy Incorporated could subsequently sell its operations and transfer its interests in the long-term leases for the state's electricity assets.

Recently, it has been reported in the media in some sections, mainly the financial papers, that NRG Energy Incorporated, a United States based energy company, is proposing to divest itself of its interest in Australia, including those at Port Augusta and Leigh Creek South Australia. This involves their interests in the Northern and Playford power stations at Port Augusta and the Leigh Creek mine and township. The sale by NRG Energy Incorporated could be effected by assignment of the relevant leases or by transfer of shares in the entities owned by NRG Energy Incorporated that conducts the operations at Port Augusta and Leigh Creek.

The state's assets and the operations of NRG Energy Incorporated at Port Augusta and Leigh Creek are important

to the state. I have met with representatives of NRG Energy Incorporated to clarify and to seek more information on the sale process for its operations in South Australia, the impact on the state's assets and the government's position. It is within the constraints of the aforementioned agreed contractual circumstances that the present government must deal with NRG Energy Incorporated and the eventual purchaser from NRG Energy Incorporated to ensure, amongst other matters, that:

- all significant obligations of NRG Energy Incorporated to the state of South Australia are assumed by the new purchaser;
- the purchaser is of the appropriate credit standing; and
- the requirements of the financiers to the purchaser do not prejudice the interests of the state of South Australia.

I have to say that those three points are very important. The arrangements entered into by the former government do give us the ability to ensure that the potential new owner is of a company of appropriate standing and that it is not someone with a very poor credit rating and someone who is not able to provide the financial strength which we as a government can be confident can continue to properly run these assets.

I think that was a good measure put in by the former government and it is one that we will ensure is appropriately adhered to. Clearly, we have to look at what the requirements of the financiers of this transaction are to ensure that any financial arrangement does not in any way prejudice the state in terms of the operation of this particular power station. Let us remember, NRG owns and operates two base load power stations at Port Augusta that are the main base load power generators for this state. They underpin this state's base load electricity requirements. There is also the township of Leigh Creek, the Leigh Creek mine and the rail link between the mine and the power station. This is just not simply selling a power station: this is a fully integrated business that impacts not only on the work force of the power stations and the mines but ultimately impacts on the township of Leigh Creek. As a government, we will do all that we can within the constraints of the contractual obligations to ensure that whoever NRG sells this business to is somebody whom we, as a government, can be confident will continue to operate the business as was intended.

There are also issues about cross-ownership restrictions that were imposed by South Australia under the electricity act. Those restrictions are due to expire in December 2002, after which time the regulatory role will revert solely to the Australian Competition and Consumer Commission, and clearly it will be looking at certain issues if it is post December. However, we do expect the sale to be wrapped up before the end of this year, so we will monitor that as well. We will consult the ACCC and, of course, Mr Lew Owens, the Independent Industry Regulator, soon to be the Central Services Commissioner.

I also put on the record that the potential exists for the state to incur legal costs in considering the sale process. I have indicated to NRG that it was probably 18 months or so ago that the former government incurred substantial costs in the sale of our assets to NRG. I am not interested in having to go through the process again and, whilst I am not in a position to make a definitive comment, the committee should be aware that it is my intention to ensure that we do not pay a second round of legal costs. Discussions have already commenced with NRG, indicating my expectation that those costs would be picked up by NRG, given that it is such a

short time since those costs were incurred by the former government.

Mr SNELLING: I am a big user of public transport, so the next question is of particular interest. Can you please explain what is included in the forward estimates for bus replacement?

The Hon. K.O. FOLEY: That is a good question. I know the member for Playford has some interest in public transport—not as much, of course, as our colleague the Attorney-General, although I do not think that the Attorney-General has been known to get on a bus with his bicycle; I suspect that that would be a tad awkward. He prefers the train, but I am pleased that the member for Playford is using the bus service.

One of the unavoidable cost pressures that the former government should have included in its mid year budget review (which it did not, of course) was the cost of bus replacement. I think, from memory, under law there is a requirement that we replace our buses after a certain period—after a statutory 25-year age limit, and some of our buses hit that in 2004-05. As I said, the former government made no provision in its forward estimates for bus purchases beyond 2002-03, even though some buses reach the statutory 25-year age limit by 2004-05. It just left it out, did not worry about it and there was another big budget deficit that was incurred that we had to uncover and had to deal with.

I can advise the committee that negotiations will be held shortly to extend the current bus supply contract for a short time whilst tenders are called for a new contract. Between 95 and 120 replacement buses, depending on the mix of bus sizes chosen—and, as you will appreciate, there are long ones, short ones and articulated ones—will be purchased between 2003-04 and 2005-06. Should ABM win the contract, it will have sufficient work to stay in business here in Adelaide. In addition to bus purchases, 33 new replacement buses are being leased under contract with Transit Plus as part of the Adelaide Hills bus service contract. This was included in the former government's previous budget.

As you know, the producer of buses, ABM, is at Royal Park, but it is our intention to go to tender. We extended the contract, but a competitive process needs to be put into the marketplace. In terms of the forward estimates for 2002-03, there is a commitment of \$9.67 million; new commitments by the current government of \$13.9 million in 2003-04; \$13.9 million in 2004-05; and \$21 million in 2005-06. That is a substantial commitment by a Labor government that is committed to affordable and good public transport and, again, it shows that we have the right priorities for South Australia.

Mr SNELLING: Will the Treasurer inform the committee of the expenditure review process, why the government initiated this process and what the expected outcomes are?

The Hon. K.O. FOLEY: Expenditure reviews are an extensive review of the budget and forward estimates of a government department. The Expenditure Review and Budget Cabinet Committee (known affectionately in government as the ERBCC) will oversee the conduct of these reviews. The expenditure review team, via the Under Treasurer, will report regularly to the ERBCC. The expenditure reviews have been initiated in order that agencies present to government a clear understanding of their budgets and the resourcing issues confronting those departments. It is planned that, based on the findings of the expenditure review work, cabinet will have a more detailed basis on which it can base future financial decisions in respect of the 2003-04 and 2004-05 budgets.

The 2002-03 budget makes no allowance for any savings that will arise from these expenditure reviews. It is the intention that all major departments of government will be subject to a review of their budgets. Each department's budget is typically developed on an incremental basis each year in response to new or emerging cost pressures. There is typically not significant pressure for departments to regularly review the full range of their existing activities, so there is significant merit in having a comprehensive expenditure review every four or five years to identify sustainable expenditure savings and gain a fuller understanding of departmental functions.

Expenditure reviews are conducted jointly between the Department of Treasury and Finance and officers of the department under review. These reviews are being conducted by analysing in detail the expenditures of key departments at a program and activity level. The government needs to understand where flexibility lies and where it has a capacity to make decisions to change the mix of services that it wishes to provide. As part of this, it also needs to understand clearly the major resourcing cost pressures that are facing departments and what the key drivers for those resourcing cost pressures are. An increased knowledge of the cost drivers and demand factors within the budget and forward estimates, and the trend in these factors in order to improve future development of departmental budgets, ensures that there is stronger debate on key policy matters. This is needed to improve the information set on which cabinet bases its decisions.

The expenditure review process has as one of its outcomes the generation of a well-based set of forward estimates for each department. Linking the future development of the government forward estimates with the expenditure reviews in this manner has the benefit of ensuring that the gains made by the expenditure review will continue to be taken into account in the development of future budgets. The challenge will be to maintain the quality of forward estimates in future years. Clearly, the development of sound forward estimates, based on realistic assumptions and more complete information, will be a good base on which future decisions can be taken and sound financial management and discipline maintained.

The 2002-03 budget makes no allowance for any savings that will arise from these expenditure reviews. As a result of the expenditure review, it is considered that further progress will be made toward eliminating the general government net borrowing requirement by 2005-06. That is a goal: whether or not we can achieve it remains to be seen. The important message we are giving is that, unlike the former government, we have a far more disciplined approach to budget matters and are undertaking a far more thorough exercise in reviewing expenditure requirements and levels within government.

One of the things that shocked me on coming to government was an almost apparent disregard for the cabinet process of involving Treasury and Finance in the preparation of submissions. Ministers had scant regard for cabinet, where decisions were taken to cabinet without even going through a rigorous process. I was advised by some officers—and I am sure the opposition can correct me if I am wrong—that Partnerships 21 did not go to cabinet. The opposition can tell me whether or not that is right or wrong, but I am told Partnerships 21 did not go to cabinet.

The Hon. I.F. EVANS: Crown leases went through a rigorous process.

The Hon. K.O. FOLEY: Well, Partnerships 21 never went to cabinet; a whole lot of things did not go to cabinet.

The member for Morialta would be fully aware that she kept most of Hindmarsh Soccer Stadium if not away from cabinet then with limited information. At the end of the day I am putting in a very rigorous discipline for cabinet. The Premier is very keen to ensure that we observe, wherever we can, the 10-day rule to ensure that submissions go through Treasury when they have financial and major policy implications and that we have a rigorous expenditure review process. We are looking at each department line by line and function by function, and reviewing expenditure to find areas for which we can reprioritise spending from Liberal priorities into Labor priorities. Again, it is good public policy and it is a lot of hard work. I am thankful my officers and colleagues in the Department of Treasury and Finance—

The Hon. I.F. EVANS: Colleagues?

The Hon. K.O. FOLEY: Well, officers. I am happy to be friendly with the people for whom I work. If you were not, that is your call. They know when I am not happy. The point of the exercise is that we are undertaking a lot of hard work to ensure that we get the finances right. I think that is further indication of a government that will be a very good fiscal manager in South Australia.

Mrs REDMOND: I am sure the Treasurer will be pleased to know that, instead of asking a question on the Magee report, I will ask him a question on the Allen report. The Allen report states:

Once the income stream from gaming machines is built in the purchase price of the venue, it will no longer be possible to argue that gaming venues are making supernormal profits.

Did the government ascertain from any sources whether the income from gaming machines is built into the purchase price of South Australian venues? If it did not find that out from any sources, why not? If so, who was contracted to do this work? What was their advice? What are their qualifications and levels of experience in terms of the hotel industry in South Australia?

The Hon. K.O. FOLEY: It is like a broken record. I have made the point and I am happy to repeat it. Treasury had some advice to me; I sought some independent advice; we had other advice internally from within government; we put it into the mix and came up with a decision. That is the process. We brought in Allens to give us further advice. We made a decision. The industry is very angry about it; the Liberal Party is very angry about it. The Liberal Party clearly feels obliged to defend the super profits. It can keep doing that.

I am happy that what we have in this process is a clear difference between the Liberal Party of South Australia and the Labor government. The Labor government is for taxing super profits: the Liberal Party is for defending the hotel industry. That is fine.

The Hon. I.F. Evans interjecting:

The Hon. K.O. FOLEY: You are defending jobs—

Members interjecting:

The CHAIRMAN: Order!

The Hon. K.O. FOLEY: Let's have the public debate. I will tax the industry and I will tax super profits: the Liberal Party can defend the industry. Let's go out and have the debate. It is a good debate. I respect and, in a way, admire the Liberal Party. It has a position which it is arguing. Good luck to the opposition; that is its call. It made a policy decision. It decided super profits in hotels are more important than schools and hospitals, that is fine. It is a courageous decision. I can only admire people who are prepared to take that position if they feel so strongly about it. I just happen to

disagree with it and think that the Liberal Party has all its priorities wrong. If they wonder why they are sitting in opposition and not in government, it is because they had the wrong priorities. They had soccer stadiums, wine centres—

Mrs HALL: Hasn't it got something to do with Peter Lewis?

The Hon. K.O. FOLEY: I wondered when Peter Lewis's name would be mentioned—they are seething as they say that name. They preferred soccer stadiums and wine centres. They preferred all these non-productive assets. We want to take money from super profits on a sustainable basis and put it into our schools and hospitals.

An honourable member: What about the TAB?

The Hon. K.O. FOLEY: Yes, and the TAB. What about the TAB? Honestly, members opposite are like a broken record. The AHA is getting value for money out of the donation that it gave to the Liberal Party. Good luck to you.

Mrs REDMOND: I would like to ask a supplementary question on that, because the Treasurer indicated at the beginning of his answer that he had taken certain advice, and the specific nature of my question was: what was the advice, who was it from and what were their qualifications?

The Hon. K.O. FOLEY: I have answered the question, Mr Chairman.

Mrs REDMOND: In that case, I will go back to the Magee report. The associated costs contained in this report (that is to say, it is in the report) are used as 'a standard across gaming machine operations in Queensland, New South Wales and Victoria'. Was the Treasurer at any time concerned that the Magee cost report was based on Queensland, New South Wales and Victorian figures, given that the regulatory framework and, therefore, associated costs are vastly different in South Australia?

The Hon. K.O. FOLEY: I think I have already said that there were many elements of Magee that I did not agree with. I do not want to appear difficult, because I am still learning as a treasurer, and I appreciate that the member has not had the opportunity to serve in executive government. With respect to the reports from these people, you have to read them, consider them and accept that sometimes you will not agree with everything they say. Some things you will agree with; some things you will not. That is what you do when you receive these reports. And Magee is no different. As I said, Magee recommended, from memory, \$3.5 million. I thought, 'That doesn't seem right; we should go for five.' So, we went for five. I reckon Magee had \$60 000-odd in there for promotion costs. The industry thought that it should have been \$150 000. I would have brought it much further down to zero, quite frankly. But you get that in reports. I do not think it is any earth-shattering news that there are differing opinions and views and criticisms.

An honourable member interjecting:

The Hon. K.O. FOLEY: Yes, the debate has moved on. Magee's report is of declining relevance. I reckon that, by the time we get through today, it will be irrelevant.

Mrs REDMOND: Is the Treasurer prepared to indicate that he has no faith in the reliability of the Magee report and is no longer relying on any part of it?

The Hon. K.O. FOLEY: I think I have indicated that Magee's body of work was of real use and value to the government, as were other reports, and they are all useful.

An honourable member interjecting:

The Hon. K.O. FOLEY: Yes, of historical value. This is not earth-shattering news: shock, horror—industry disagrees

with consultant; shock, horror—government disagrees with consultant. Big deal!

Mrs GERAGHTY: Will the Treasurer explain to the committee what the accrual budget outlook was when this government came to office and what improvement is expected over the next four years as a result of the 2002-03 budget?

The Hon. K.O. FOLEY: I must compliment the member for the question, because what I have tried to do in this budget process is to get a sharper focus on the accrual balance, or the accrual bottom line in government—the net lending requirement. We need to have a sharp focus on what are the outstanding liabilities of the state. I am not overly critical of the last government. I should be careful of what I say here, because I do not want to be too critical of the former treasurer, but he put up that \$2 million phoney cash surplus, and most of his budgets were designed to sort of have a bit of a fictitious cash surplus—and in many years, of course, they were significant cash deficits. And the former government steered everyone away from looking at the budget accrual number.

Mrs Hall interjecting:

The Hon. K.O. FOLEY: You are in a nasty mood today, aren't you, member for Morialta! The accrual deficit was just a huge number—hundreds of millions of dollars. What I am saying is that the cash outcome is very important and that our budget has delivered the largest cash surpluses that this state has seen since before the State Bank crisis. Bearing in mind that budgets today use different measures than those of previous decades, I would argue that if we did the exercise we would find that the healthy cash surpluses delivered by the first Labor budget are outstanding by any measure. We are talking about \$90 million across the forward estimates, with a bit of a dip in 2004-05, but they are pretty healthy cash surpluses. There is still an underlying accrual deficit, but it is substantially declining. We are discovering that, if you have discipline and courage and you are a good government you have a chance for the first time in this state's recent political and financial history to get us to live within our means. That is a goal that this government has set and a challenge that as Treasurer I am prepared to take on.

The 14 March 2002 budget update showed an unsustainable accrual position after taking into account known cost pressures. The accrual budget has benefited from revenue improvements, partially offset by an increase in nominal superannuation interest expenses. The 2002-03 budget has improved the accrual outlook through taxation measures of \$332 million over four years and has improved the budget slightly by savings measures of \$967 million or nearly \$1 billion of savings over four years that are not fully offset by new expenditure measures. In summary, the 2002-03 budget has addressed all the outstanding cost pressures, fully funds our election commitments and new initiatives with savings and uses targeted revenue measures to deliver an improved accrual budget bottom line and underlying cash surpluses.

If we look at those accrual numbers, we are looking at 2002-03, \$75 million; 2003-04, \$88 million, 2004-05, minus \$65 million; and 2005-06, \$96 million. That is a huge turn around. When I look at the 14 March update, the parameter changes and cost pressure updates I see that we were facing deficits closer to \$300 million. That is a huge turn around by this government and with it those very healthy and robust cash surpluses. In 2005-06 the accrual deficits were upwards of \$376 million, and I refer to Budget Paper 1.5, the Recon-

ciliation Statement. The 2002-03 budget delivers underlying cash surpluses for the non-commercial sector and delivers substantial improvements in general government net borrowing requirements compared with the 14 March 2002 budget update figures. Further progress towards eliminating the general government net borrowing requirements will be made during 2002-03, primarily through the expenditure review process that I announced earlier.

On coming to office the government sought an immediate briefing from Treasury and Finance on the state of the budget, including the accrual budget outlook. The briefing revealed that the mid year budget review of the former Treasurer did not take into account a number of known cost pressures. We have had that debate long and hard in this place. The fact is that it is a good, tough budget, putting in place a disciplined approach for the next four years, for once. Probably not since the days of the 1990s—and, dare I say, some of the work done by former treasurer Stephen Baker—have we seen a government that is committed to good fiscal outcomes.

Mrs GERAGHTY: Given that answer, can you please explain the government's priority areas of expenditure and provide details on increases in government spending in these priority areas?

The Hon. K.O. FOLEY: I appreciate the question. The level of expenditure on health and education has been subject to some debate, so I will walk the committee quickly through this. The state government is committed to increased spending in the priority areas of health and education. The 2002-03 budget reflects this commitment by including new initiatives totalling \$411.2 million in health and \$527.2 million in education.

The 2002-03 budget operating expenditure of the Department of Education rose by \$156 million, compared with the 2001-02 budget. This represents a nominal growth of 8.7 per cent and a real growth, I am advised, of 6 per cent. The 2002-03 Department of Education budget is \$20 million higher than the 2001-02 estimated result. This is a 1 per cent growth in nominal terms and a 1 per cent fall or reduction in real terms. However, the 2001-02 operating budget for the Department of Education and Training was \$1.803 billion. Subsequent decisions by the former government added \$4.5 million, bringing the former Liberal government's implied mid year budget review estimate for 2001-02 for the Department of Education and Training to \$1.808 billion.

The 2002-03 budget is \$152 million higher than this figure, representing a nominal growth rate of 8.4 per cent and a real growth rate of 5.8 per cent. The higher estimated result compared with the budget for 2001-02 includes, surprise, surprise, \$42 million of additional expenditure that was approved by the current government and not the last government towards the end of the 2001-02 financial year for a number of cost pressures such as user choice and Partnerships 21. The teachers' EB was in the 2002-03 year.

The point of the exercise is this: when we came to government there were expenditure requirements that simply had not been met by the former government and not included in its mid year budget review. We had to do it. The only reason, when you compare the years and question the rates of growth, is that we are the ones who put in the money. If you compare Rob Lucas's mid year budget review to the position now, there is substantial real growth.

When we come to health and human services, the 2002-03 budget operating expenditure of the Department of Human Services rose by \$160 million compared with the 2001-02 budget. This represents a nominal growth rate of 5.6 per cent

and real growth of 3.1 per cent. The 2002-03 budget is \$107 million higher than the 2001-02 estimated result. This is a 3.7 per cent growth in nominal terms and a 1.2 per cent growth in real terms. The 2001-02 operating budget for the Department of Human Services was \$2.847 billion. Subsequent decisions added \$900 000 to that figure and a net carry over of \$19 million was allowed, bringing the implied mid year review estimate of 2001-02 DHS expenditure to \$2.867 billion.

The 2002-03 budget is \$141 million higher than this figure, representing a nominal growth rate of 4.9 per cent and a real growth rate of 2.3 per cent. The higher estimated result compared with budget for 2001-02 included \$28 million of additional expenditure approved by the current government towards the 2001-02 year for a range of cost pressures. I do not intend to go into those cost pressures as they are long and extensive, but the point of the exercise is that we are putting real growth money into health and education in this budget and across the forward estimates period.

Coming back to education, we came into office and found that a lot of cost pressures were not funded. The impact of those cost pressures on the 2001-02 year required a \$42 million injection by the government, and that is why there is a difference between those figures. It was not the Liberals but us who did it. That money went to fund a number of cost pressures such as user choice and Partnerships 21. The enormous cost of the teachers' enterprise bargaining agreement not provisioned for was effective from 2002-03 onwards and through the forward estimates. We have had much debate about the size of that figure. At the end of the day there was a substantial amount of money in education and health that the former government should have accounted for in the mid year budget review and did not.

Mrs GERAGHTY: Can the Treasurer inform the committee how many freedom of information applications were made to the Department of Treasury and Finance, and what issues were raised in those requests?

The Hon. K.O. FOLEY: I think it would be fair to say that the former treasurer, Rob Lucas, has not taken the loss of office very well. I do not begrudge him that, because it would not be a very pleasant experience and is one that I hope never to face. However, I am a realist and that may happen one day. I am sure that the member for Morialta will do all she can to ensure that it does happen.

I will give some information on FOI applications. Between 1 July 2001 and the date of getting my final brief on this matter, 25 July, the Department of Treasury and Finance had received 35 new freedom of information applications. Of these 35 requests, 10 determinations have been made, one application has gone to external review (referred to the Ombudsman) and 24 applications have been received and acknowledged but are yet to be finalised. From 1 July 2001—these are very interesting figures—until 5 March 2002 the department received two freedom of information applications from opposition members of parliament.

From 6 March to 25 July, the department received 24 freedom of information applications from opposition members of parliament. Of the 35 new applications received from 1 July 2001, opposition members of parliament made 26 applications, one application was made by a journalist and the remaining applications were made by members of the public. For the previous year, 2000-01, I am advised that the department received six FOI applications. Of the 35 new applications, the following went for internal review: an application by Western Mining Corporation, an application

regarding electricity and applications regarding separation packages—which I think require the involvement of the Ombudsman because they deal with individuals.

Mrs Hall interjecting:

The Hon. K.O. FOLEY: Sorry: he does these instead of sleeping?

Mrs HALL: Yes.

The Hon. K.O. FOLEY: That is an odd habit! Anyway, they are in relation to separation packages, so they are internal points. The point I want to make is that former treasurer Lucas is sending in an FOI application per day. That is fine: we will process them. It is up to the department to work that out. I do not need to go into it today, but it is fair to say that the treatment of FOI applications by the former government did not resemble the treatment of FOI applications by this government. There are FOI applications still pending which were made by members of the former opposition to treasurer Lucas, I think dating back two or three years, and to which the former treasurer simply did not respond. He intervened, I understand, and ensured that they were not answered. I know that happens, but I am trying to accommodate the former treasurer, the new shadow treasurer, as best I can. He has been making FOI applications about everything—budget documents, briefings, folders, etc. I think it is a combination of the fact that he cannot get over the fact that he is no longer treasurer and, of course, as we know with treasurer Lucas, he likes to create a bit of mischief. We must always remember that tactic should we find ourselves again in opposition.

The Hon. I.F. EVANS: What was the total cost of the Magee and Allen reports and, importantly, can the Treasurer assure the parliament that the appointment of these interstate consultants complied with all relevant instructions of the Treasurer?

The Hon. K.O. FOLEY: I will give indicative numbers. I will come back with a detailed answer for the member, but we think it was approximately \$6 000 for the Magee report and \$8 000 for the Allen report. I will have those figures confirmed, and I will get an answer as to how they relate to the appropriate Treasurer's instructions.

The Hon. I.F. EVANS: After the hotel operators announced that one of the many impacts of the Treasurer's broken promise on gaming machine taxes might be increased prices for meals and alcohol, the Treasurer indicated that he would take up the matter with the ACCC to try to prevent price increases. For example, an article in the *Advertiser* of 15 July headed, 'Foley: don't dare raise your prices', stated:

'The government will not tolerate any suggestion that hoteliers will pass tax increases on to customers through price rises,' Mr Foley said.

My question is: given that statement, if any business increases the prices of its goods and services because of increases in government charges and stamp duty, will the Treasurer also refer that business to the ACCC and publicly oppose any increase in prices?

The Hon. K.O. FOLEY: Did the AHA donate to your campaign? I will tell you what: you are looking after them today. I was absolutely appalled when I was told that hotels might charge more for beer and meals. I think that is wrong and I thought that, as Treasurer, I should ask for advice from the ACCC as to whether that was fair and just. I think that was a good and appropriate response from the treasurer of the day. I understand that you are happy for those taxes to be passed on by way of higher prices for beer and meals, but I

am looking after the interests of the punter: the person buying the meals and the beer.

Members opposite have the wrong priorities. It has not got through to them that they lost the election because they did not have the right priorities for South Australia. We think that we do, and it would be fair to say that the majority of South Australians appear to think that we have the right priorities for South Australia. I want to defend the drinker and the person buying a meal in a pub from excessive prices. If I can, I will; if I cannot, I will not.

The Hon. I.F. EVANS: I think the Treasurer misunderstood my question, which is: if any business increases the prices of its goods and services because of increases in government charges and stamp duty, will the Treasurer also refer that business to the ACCC and publicly oppose any increase in prices? The point of my question is that the Treasurer has publicly made his point about the hotel industry if it increases prices as a result of tax increases. What about all the other industries out there? Will the Treasurer do the same to those businesses if they increase prices as a result of the increase in government charges?

The Hon. K.O. FOLEY: I understood the question. This is a tax on super profits; it bears no correlation to other tax increases. If the opposition wants to keep defending super profits, it should go right ahead because I am happy to debate the other side of the argument.

The Hon. I.F. EVANS: I hope I will get an answer to one question by lunch. Leaked advice to the opposition from two senior public servants indicates that the Under Treasurer has told his executives that the government would put aside a 4 per cent wage contingency for this year and for each of the forward estimates years. Has this 4 per cent wage contingency been allocated from 1 July this year and from 1 July for each of the forward estimates years? Also, will the Treasurer now answer the question I asked him in the house on 10 July 2002 about the 4 per cent wage contingency? To refresh the Treasurer's memory, the question that I asked on 10 July was:

Has the Treasurer been advised by the Under Treasurer that, for the purpose of budget presentation, the Treasurer could make a decision to allocate all of a 4 per cent wage contingency actually held in Treasury into the education and health budgets, as long as he told the ministers and agencies that the funds were not actually controlled by them, despite these amounts appearing in their budget statements; and, if so, did the Treasurer agree to include this process in the budget papers?

The Hon. K.O. FOLEY: I will do what the former treasurer used to always do, and that is get into a huddle with my Treasury officers. It wasted a bit of time; I think they talked about the footie. I thought it was a pretty silly question at the time, but I will get an answer for the honourable member. One of the tricks of former treasurer Rob Lucas was always to refer to senior public servants, senior Labor sources, senior journalists—he always threw up that he had this great body of sources in his ear all the time. I am sure that he does have some sources but, whenever we heard Rob Lucas talk about what senior government sources said, you knew that he was making it up. Well, that is my view.

The 2002-03 budget and forward estimates provide capacity to support a 3.5 per cent per annum wage outcome for the next round of enterprise bargaining agreements. Funding of 2 per cent is held within agencies and 1.5 per cent within central contingencies. The 2002-03 budget fully funds all enterprise agreements that have been entered into between the South Australian government and public sector employ-

ees. New enterprise bargaining arrangements were established in 2001-02 for the wages parity employment group at a total cost of \$388.9 million over the period 2002-03 to 2005-06 and for teachers, lecturers and other education employees at a cost of \$633.9 million over the period 2002-03 to 2005-06.

These agreements, I am advised, are fully funded in the 2002-03 budget. All completed enterprise agreements are fully funded in the budget. Provisions within the budget for future enterprise agreements, as I have said, amount to 3.5 per cent per annum. Total central provisions amount to \$185.6 million over the period 2002-03 to 2005-06, with agencies holding \$202.6 million over the same period. Overall, I am advised that the budget includes around \$388.2 million for future remuneration outcomes.

Public sector employees whose wage and salary outcomes have already been agreed to as part of an established enterprise agreement are fully funded as part of the 2002-03 budget and pose minimal risk to the fiscal outlook. To the extent that actual remuneration increases exceed the assumptions made for wage and salary increases in the budget—that is the 3.5 per cent per annum—these will pose a risk to the fiscal outlook. For every 1 per cent that actual wage and salary outcomes exceed the 3.5 per cent provision within the 2002-03 budget, this will deteriorate the budget by about \$37 million per annum.

The next round of remuneration increases outside established enterprise agreements are due for the major public sector employment categories as follows: public service executives from 1 July 2002 (that is all you guys, so make sure you give me good advice!); medical officers from 1 January 2003; wages parity from 1 October 2004; police from 1 July 2004; nurses from 1 October 2004; and teachers from 1 October 2004. I do not think any Treasurer has volunteered as much information about wage increases as this Treasurer, but I am part of an open and accountable government.

Mr RAU: Can the Treasurer inform the committee of the measures the government has taken to improve financial responsibility and accountability?

The Hon. K.O. FOLEY: Yes, I can. As you know, and I know that the member for Enfield is somebody who has been very strong on the needs for honesty and accountability, what we have done is set about establishing a new fiscal responsibility framework. I would hope that the house would be delighted that the government has had the courage to put in a new fiscal responsibility framework. I know it has been the topic of much conversation amongst my colleagues.

I can say that the Public Finance and Audit (Honesty and Accountability in Government) Amendment Bill has been prepared to require this and all future governments to publish a Charter of Budget Honesty. The 2002-03 budget outlines the six key fiscal principles for this government. These principles are consistent with those proposed for the Charter of Budget Honesty. Would you like to hear the six?

Mr RAU: I would love to!

The Hon. K.O. FOLEY: Maybe what I will do is give some added commentary and try to pick them up. The new fiscal responsibility framework is being implemented to ensure that the current and any future government manages South Australia's finances with transparency and accountability. It is important to have both. The new fiscal responsibility framework comprises an amended Public Finance and Audit Act, a Charter of Budget Honesty, fiscal principles, reporting requirements of budget papers, a mid-year budget review, outcome report and, importantly, a pre-election

update and agency financial reporting. Never again will an opposition have the lack of information that we had.

The Hon. I.F. Evans interjecting:

The Hon. K.O. FOLEY: Well, we are prepared to be open and allow members opposite to have a good look at the numbers before we go into an election campaign. That is something they never gave this government. The primary objective of the Charter of Budget Honesty is to improve the transparency of the government's fiscal management, thereby improving the accountability of the government to the public and to parliament. The charter will achieve this by detailing the fiscal principles, the primary fiscal target and the reporting requirements for this government's financial plan for 2005-06. The charter requires the government's fiscal objectives to take into account a range of issues including tax policy and the burden risk and service delivery.

Further, these principles ensure that both short-term and long-term objectives are taken into account to ensure equity between present and future generations. There will be a further review of the Public Finance and Audit Act during 2002-03, with further amendments to strengthen financial reporting requirements and disclosures by government agencies. The 2002-03 budget reflects the government's commitment to manage the state's finances responsibly by achieving cash-based surpluses in the budget year in the forward estimates and directing expenditure to priority areas while containing state debt and liabilities. I do not need to go into the fiscal strategy but, for their interest, members can find it in Budget Paper 3, 2.3. It is all there and it is good reading. Members should read it.

Mr RAU: I have it here and I will read it, perhaps, over lunch. Will the Treasurer please inform the committee as to whether the government delivered its election commitments? In addition, do election commitment savings adequately fund election spending commitments?

The Hon. K.O. FOLEY: Again, the interest shown by the member for Enfield in all things fiscal is impressive, for a lawyer. Lawyers can learn numbers, too, I keep getting told. The state government has provided \$256 million of funding for its election commitments over the period 2002-03 and 2005-06. In addition, the O'Halloran Hill Reserve was secured as open space in 2001-02. Election commitment savings of \$428 million fully fund the election spending commitments of \$256 million. In the Labor Party costing documents savings had been estimated at \$290 million.

The government has changed a number of its election commitments in order to direct funding to higher priority areas to maximise commonwealth funding and to implement some initiatives over a different time frame. It was about wanting to maximise the availability of commonwealth money in programs that were part of our broader commitments during the election campaign. We are providing \$9 million in additional funding for a number of election commitments—for example, the Office of Racing and the Office of the Southern Suburbs—that were not contained within Labor's policy costing document. We are now funding that from the budget.

In the area of education we are providing \$123 million in election commitment funding, an increase of \$15 million over the period of 2002-03 to 2005-06 to that outlined in our policy costing document. In the area of health and family community services, the government is providing significant funding, and the story goes on. The bottom line is that we are delivering on our election promises. We are delivering on our

commitment to fund those promises from savings. The reality is—

Mrs Hall interjecting:

The Hon. K.O. FOLEY: No, this is about election promises. You did not leave me any surpluses: you left me big deficits. The minus figures represent a deficit. We are implementing revenue measures to deal with the previous government's mess. Savings pay for our promises but revenue measures will pay for the previous government's mess.

Mr RAU: Will the Treasurer please explain to the committee the government's commitment to accrual fiscal targets?

The Hon. K.O. FOLEY: I am glad we have come back to this fiscal target issue, because my intention of wanting to have a sharper and greater focus on accrual targets clearly is working, otherwise how would I not have been asked another question on it. The long-term fiscal target underlying the 2002-03 budget is to achieve, on average, zero net borrowing in the general government sector. This is an accrual-based target. The government's long-term objective is for the general government operating expenses and investing expenditure to be met entirely by revenues. From the end of the current parliamentary term, the government will target budget outcomes averaging zero net borrowing in the general government sector over any four-year term.

To reflect the shift to accruals and to enable comparisons with the past, the 2002-03 budget presented state finances on both a non-commercial sector cash basis and an accrual GFS basis. South Australia's budget has historically been based on cash outcomes, and since 1994-95 has focussed on the non-commercial sector. These cash outcomes present only a partial picture of the government's finances. The accrual based government financial statistics (GFS) presentation gives a full picture of all the government's transactions and financial relationships by showing the government's operating statement balance sheet and cash flow statement.

Net lending borrowing is calculated as the net operating surplus or deficit of government, including superannuation expenses, less depreciation, plus capital expenditure. It is clearly a better measure than the cash surplus of whether the government is managing its operations and investments within its revenues, because all accruing expenses, not just cash payments, are taken into account. The 2002-03 budget delivers underlying cash surpluses for the non-commercial sector and delivers substantial improvements in general government net borrowing requirements, compared to the 14 March 2002 budget update figures. I have given the committee a lot of information about that. I do not need to go into any further detail. I hope that with that information the member would begin to have a better and broader understanding of the need to focus on the accrual bottom line.

Mrs HALL: My next question to the Treasurer is: in a number of post-budget interviews, the Treasurer has sought—and, I might say, occasionally unsuccessfully—to defend his estimated 25 per cent cut in employment growth and his 26.7 per cent cut in GSP growth. On ABC Radio on 12 July he made the following claim:

I was given advice when I came to office that the former government clearly put into its budget figures inflated numbers that were not sustainable.

Can the Treasurer confirm that the Under Treasurer and senior Treasury officers have denied giving such advice to the Treasurer, and can he indicate who allegedly provided this advice to the Treasurer?

The Hon. K.O. FOLEY: Here we go again. The poor, old former Treasurer—he speculates a bit and hopes that someone will bite. The comments I made were quite clear and were to the effect that what I wanted in my budget were targets that were considered realistic and achievable. I stand by those comments, but I will certainly go on to make a contribution to this very important debate, and I thank the member for her question. Real growth in South Australia, as measured by gross state product, is forecast to be 2.75 per cent in 2002-03, which is a return to more usual levels of growth following the estimated 3.75 per cent in 2001-02.

Mrs HALL: But you said 2.75 per cent was unrealistic.

The CHAIRMAN: Order!

Mrs HALL: It was 1 per cent higher.

The Hon. K.O. FOLEY: That is fine. A re-examination of the economic statistics over the past 10 years indicated that the long-term projections previously employed were overly optimistic. That is my advice. Medium to long-term employment growth projections are reduced to 1 per cent. They were previously 1.5 per cent—I acknowledge that. That is due to a reanalysis of the medium to long-term trends. This is 1 percentage point lower than the commonwealth's long-term growth rate projection of 2 per cent.

The GSP (gross state product) medium-term growth rate has also been revised down, as the member said, to 2.75 per cent. The previous estimate of the former government was 3 per cent. This is approximately three-quarters of a percentage point below the national average. These revised projections are consistent with a population growth rate below the national average, unfortunately: we will have to do something about that. The new parameters are also more consistent with long-term projections for South Australia adopted by independent economic forecasters. This is what I am advised.

The original outyear projection for employment growth between the budget years 1994-95 and 2000-01 was 11 per cent. This is the important point: actual employment growth in South Australia during that period was 7 per cent, implying that the previous outyear projections were overestimated. That is the advice. Those are the statistics. Similarly, the previous gross state product outyear projections between 1994-95 and 2000-01 were 24 per cent higher than the actual GSP growth of 20 per cent over that period, thus confirming the overestimation of the previous outyear GSP projections.

Although South Australia's GSP is consistently lower than the national GDP, reflecting South Australia's lower long-term projections, per capita growth is more comparable. During the period 1994-95 to 2000-2001, national GDP per capita growth was 17.7 per cent, compared to South Australia's GSP per capita growth of 15.8 per cent over the same period: a much closer correlation. The question was whether anyone advised me of this, whether I made it up or whether I had been told by senior Treasury officials that I made up the figure. My answer has demonstrated clearly what the advice was, I am happy to share it with the committee and I believe that it more than answers the question.

Mrs HALL: I would like the Treasurer to confirm that he received advice from Treasury expressing concern at the costs of key elements of the final teachers' enterprise bargaining deal, which shows that it will cost \$354 million over three years. Will he confirm that he did not receive Treasury advice and that Treasury supported the final cost of the deal?

The Hon. K.O. FOLEY: This has been a hotly debated issue in this chamber. The government massively underprepared or simply did not provide for anywhere near the amount of money that was required for the likely outcome of

the teachers' enterprise bargaining agreement. From memory, the likely cost of the outcome as provided to me by the Under Treasurer upon coming into government was a shortfall of around \$130 million. In terms of the final agreement, the former treasurer knows full well that Treasury gives very conservative advice, and that is not unexpected. As I have made public, the Under Treasurer has provided advice to government that the shortfall was \$130 million.

As to the negotiations at the conclusion of the agreement, I do not have the exact figures in front of me, but from memory that \$354 million was in excess of the initial advice from Treasury, but the government chose to bring forward the payment of the teachers' wage to give us \$3.5 million in the last year. As I said in this chamber, that put an additional cost onto the figure, which was more like \$330 million. I will get that information for the honourable member, but there was an extra component and from memory that was around \$24 million. As to Treasury's advice, I think that would be fairly well understood by the former treasurer and the honourable member.

Mrs HALL: Budget Paper 3, page 3.1, claims:

The 14 March 2002 budget update detailed a number of cost pressures that had been identified at the same time as the mid-year budget review but were not reflected in the budget figures presented at the time. . . these cost pressures amount to \$561 million over the period 2002-03 to 2005-06.

Will the Treasurer undertake to table any memo he can find which indicates that the former government was ever advised during the preparation of the mid-year budget review that \$561 million of cost pressures needed to be included in the mid-year budget review? Will the Treasurer also now provide an answer to the question that was asked in June this year by my colleague the member for Davenport (I remember that the Treasurer got a bit excited about it), who asked:

Has the Treasurer been provided with advice by Treasury that, contrary to the Treasurer's claims, most of the hundreds of millions of dollars in cost pressures claimed to constitute the fictional black hole were not advised to the former treasurer prior to the completion of the mid-year budget review?

The CHAIRMAN: Unless this is a very short answer, we have lunch pressures as well as cost pressures to consider.

The Hon. K.O. FOLEY: I will come back to that question after lunch because I know that the former treasurer is so driven by this issue that it requires a bit more of an explanation. He cannot accept the fact that he left the state in a mess and I am cleaning it up, but I will come back to it after lunch and I am happy to go through it all again.

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

The Hon. K.O. FOLEY: Mr Chairman, I thank the member for her question. Since we came to office there has been much debate about what the former Liberal government and the former treasurer, in particular, had done. What is undeniable and beyond any disagreement is that the former treasurer left this state with significant cash and accrual deficits, many of which, as treasurer, he was fully aware of.

The financial problems left by the former treasurer are quite unforgivable—and I think this is an important point and concession for a Labor Treasurer to make: sitting on the benches that members of the opposition now occupy, I (as one does in opposition) was highly critical of former treasurer Stephen Baker. But when I look back now on the work that Stephen Baker had to do with the state's budget, given what he had inherited and what he had to deal with, I think it

should be seen in no small measure as a pretty tough job for any treasurer.

What I face coming into office is a tough job; a similar thing. It would be fair to say that the magnitudes are different, and I accept that; but, nonetheless, a very difficult task. Stephen Baker, as treasurer—and before he was removed from that position in one of the most bizarre political moves of modern SA political history—did a fair amount of fiscal repair. I did not agree with the things he did, and I did not like a lot of what he did, but he did what he had to do, because that is what treasurers have to do.

In the speech I made the morning after the budget, I acknowledged—in fact I apologised to Stephen, who was in the crowd, for all those unfair things that I used to say about him after his first, second and third budgets—that I was a tad unfair on him, because only now can I appreciate how tough a job and how thankless a task it can be. Stephen did a fair amount of fiscal repair: there is no question about that. But what you then saw when the Olsen/Ingerson push took over (and a couple of members here were very much a part of that) was the removal of a treasurer who had done (now, as I look back) a pretty good job. When the treasurer was removed, what then happened was a loosening of the purse strings. The government, overnight, lost any fiscal discipline that it had. In the year leading into the 1997 election, I remember that wages growth was quite extraordinary. After that, with new treasurer Lucas, fiscal discipline was no longer the order of the day.

Whilst the government was selling the electricity assets of our state, it masked what was going on behind the scenes, which was a decay in internal processes within government, a lack of due diligence, a lack of any decent financial standards which saw expenditure grow and grow—ill disciplined expenditure, poorly thought-through expenditure and wrong priorities in expenditure. What we then saw at the end of the second term of the Liberal government was that it had sold the electricity assets of the state, reduced debt—that is obvious—but had not controlled the expenditure side of the business. That meant that the incoming government was faced with a very difficult position. After eight years, with some hard work done post the State Bank, the finances had really been frittered away in the last three or four years; and I think former treasurer Rob Lucas will forever be remembered as a treasurer who simply did not have the toughness to be a good treasurer.

I can understand why he wants to re-create history and try to retrieve some credibility in all this, but there is a limit to my patience in having to deal with that. What I will say is this: the former treasurer left unfunded cost pressures that have more than adequately been explained in this place, in writing, during budget presentations. The member mentioned a figure of \$560-plus million. That, of course, took in the full four-year effect.

I acknowledged in a press conference that, as much as I would like to accuse the former treasurer of all sorts of things, I am not going to accuse him of some cost pressures that were in the fourth year of my forward estimates—which, of course, were not in his forward estimates because he had not as yet done those forward estimates. So, I acknowledged that the former treasurer would not have been aware of some of those cost pressures, and that is why that figure is somewhat larger than the earlier figures I have given to this house.

The reality is that the flow-on effect of some of the cost pressures that he failed to deal with in 2001-02 resulted in those cost pressures flowing through to the fourth year

(2005-06) but, in fairness to Rob Lucas, I am cutting him some slack there, and I said that during my press conference during the budget: that some of those cost pressures were not known to the former government at the time, but some of them were; and I think that more than adequately answers the question.

Mr SNELLING: Treasurer, can you explain why the government brokered an agreement to lease the National Wine Centre to the wine industry?

The Hon. K.O. FOLEY: That is a very good question. The wine centre is a very interesting case in point. We were critical of the latter years of the wine centre because it demonstrated this point that I have been making, that the former government failed to have any real processes internally—proper due diligence, proper processes—to consider these projects. I came into office and took responsibility for the wine centre—it had been, from memory, with the premier—and it was a real problem, because it needed cash almost as soon as I took over; I cannot remember the exact details, but there was certainly an urgent cash requirement. I then asked Treasury to put some officers into the wine centre to give me a decent feel for just how bad the situation was; and I must say—and I will not name the officers, but they know who they are—that they did an excellent job under enormous pressure in the circumstances of having to go into an organisation and do some pretty difficult work in terms of trying to assess exactly what the situation was.

The picture emerged pretty quickly—that this was a centre that was going to cost the taxpayer a lot of money. Again, I do not have the full details here but, from memory, it was looking, under its former operational structure, at losses probably in the order of \$2.5 million (something like that) ongoing. There were various options as to how that might be reduced but, whichever way you looked at it, it was just going to haemorrhage year after year. Even in the best case scenario, by outsourcing some of the catering functions, there were still losses, from memory, of around \$1 million.

So, I made a decision that I had two options: either I had to close it, or I found a way to run it at minimal cost to the taxpayer; and I have to say that some people doubted whether or not I would close the wine centre—it was never not an option. It was an unpalatable one but, as I have demonstrated, we as a government are prepared to make some hard, unpopular decisions and I was prepared to close it. But, at the eleventh hour, commonsense prevailed—and in fairness to the wine industry they probably think there was a dose of that on my side as well—and we agreed to a position; that is, that we would lease the wine centre to the wine industry at \$1 per year for 25 years.

We would provide some additional funding—and that has been documented in this house—which was the lowest cost option for government, and we have now left the business in the hands of the wine industry. We can walk away with no obligation for recurring losses, albeit we have maintenance costs that we have to meet; but whether I closed it or not we had maintenance costs that we would have had to pay.

I am pretty pleased with the outcome. The proof of the pudding will be in the eating, as they say. In 18 months' or two or three years' time we will see whether or not it is a venture that has worked, but it will not be a liability to the state. All in all, I think it is a good outcome. The wine industry was very reluctant to get on board initially, and very reluctant to get on board very late in the piece, but eventually it jumped on board. I congratulate the work of Brian Crozer and Ian Sutton, and my officers from Treasury and the

Department of Industry and Trade (as it was then known), for the work they did in getting an outcome for government that minimised the losses.

I think it has a good chance of success in the future, but that demonstrated a government that is prepared to take action swiftly and also prepared to make a tough decision if it had to. I should also compliment the work of Robert Champion de Crespigny, who helped broker the deal. I did note, and I thank members opposite—I am not sure whether the members here were the ones—because a large number of Liberal members, including the Leader of the Opposition and the member for Bragg, were very complimentary. The member for Schubert, indeed, said 'Well done, Kev.' All were complimentary about what we as a government have done with this except—and you guessed it—except Rob.

Rob was the one in the press the next day having a go at me, saying it was a shocking deal, that the industry had had a lend of me; pity I wasn't as smart as John Olsen, Rob Kerin and himself and it would have been a better deal. Of course, what Rob did not realise is that, the day before, Dean Brown also said that it was a good deal and one that he would like to have done, or words to that effect, when he was premier. Even in the upper house, when the legislation went through this place, Rob still could not help himself: he had to have a good old whinge and a whine and criticise me. But barring the criticisms of Rob Lucas, it has been fairly well received and, at the end of the day, is a good policy outcome.

Mr SNELLING: Will the Treasurer please explain what the government is doing in relation to the creation of a road and community safety fund?

The Hon. K.O. FOLEY: This was a key government election policy commitment. We said that we would establish a fund to receive revenue derived from anti-speeding devices (speed cameras), for those funds to be directed to road safety programs and policing and for appropriate reporting mechanisms to be in place. Moneys directed to the proposed fund will not include the Victims of Crime Levy. The purpose of the road and community safety fund is to introduce transparency and accountability in the collection and expenditure of revenue derived from anti-speeding devices. Families and communities will benefit from focused attention on road safety programs and policing. The government will divert revenue raised from anti-speeding devices from the consolidated account into the road and community safety fund, which will fund road safety programs and policing.

Annual revenue collected by SAPOL from the use of anti-speeding devices (speed cameras, lasers and radars) is estimated at \$39.4 million, excluding reminder and late fees, other collection-related fees and the Victims of Crime Levy. Revenue collected by the Courts Administration Authority (\$9.3 million) is also being examined for possible inclusion. The Minister for Transport recently announced a safety strategy, and the establishment of the road and safety fund will be delivered in this budget. At present, all revenue from all speeding fines and expiation fees is directed into general revenue.

The exception is the Victims of Crime Levy (currently \$7 per expiated offence), which is paid to the Criminal Injuries Compensation Fund and used to compensate persons injured as a result of criminal offending, as per the Criminal Injuries Compensation Act 1978. I could go on, but I think that more than adequately answers the question.

Mr SNELLING: Will the Treasurer inform the committee of the efficiency savings that were allowed for in Labor's election policy costings and funding strategy document, and

how does this compare with the amounts contained within the 2002-03 budget?

The Hon. K.O. FOLEY: As I have said, and this has been a recurring theme, had the books been what the government said they would be, this budget would have been delivered in a canter. It would have been an easy budget. The cuts would have been made, tax measures would have been different, if any, but they were not, because the government left us in such a mess. Labor's policy costings and funding strategy document proposed introducing a 1.75 per cent efficiency dividend across government. The reality is that we had to put in a task that was much larger.

In the lead-up to the budget I had to ask ministers for savings initiatives that would deliver me potential savings increments, the process of developing what we call a menu of savings options—it does not mean that you are going to do them—of 1.75 per cent, 2.5 per cent and 3.25 per cent of operating expenditure across government. In the end, through the ERBCC process, we have identified savings over the four years of \$967 million—just short of \$1 billion of savings. As I said, except probably for harking back to the Stephen Baker days, I would not have thought that sort of level had been achieved for some time. In fact, I am sure it has not, but I am happy to be corrected.

The savings for 2002-03 are \$196 million—quite a sizeable savings initiative. The point of the exercise is that we had hoped to deliver \$1.75 billion but we have had to go much further because of the mess left to us by the former government.

The Hon. I.F. EVANS: In responding to media questions today, the Treasurer's media adviser has advised the media that the new transfer tax will actually return an additional \$20 million to the budget over four years. This media adviser has also indicated that, when the Treasurer referred to 'maintaining the budget bottom line', he was actually referring to increased growth offsetting the reduction in some levy rates. Will the Treasurer please clarify his new tax package, indicating whether his media adviser accurately portrayed the Treasurer's latest policy?

The Hon. K.O. FOLEY: I always say that I am happy to answer questions about what I say. What I have said today and in the statement is that the new structure will enable the budget bottom line to be met. I have said that industry came to government with concerns about growth assumptions put in place by the government in its budget. They had felt that our growth assumptions were far too conservative. When you bear in mind that growth in the four years leading into this budget has averaged around 11 per cent, the growth estimates that we factored in were significantly less than that and tapering down pretty dramatically. The industry said to us, 'We don't think that that is a proper reflection, a correct reflection as to what growth patterns will be.'

I said, 'I'm happy to listen to you.' Industry provided us with some data and my officers spoke to industry, and I have acknowledged and accepted that when you look at the conservative nature of our forward estimates, bearing in mind that only in the last week have we had access to full year data—when the budget is framed, given the timing of the modelling that we had to do, we did not have the full year effect. The modelling was done on eight months because of the timing of preparation for the budget. So, when we had the full year effect, that showed that we had underdone our numbers to an extent and that we should have allowed further growth in those numbers.

What we have also looked at is a couple of other issues about bracket creep that the industry had a view about, about how taxing and consumption patterns would go in terms of bracket creep issues, and we have accepted that there is an argument that we should have slightly higher growth figures on top of that. So, we modelled those numbers, but I have to say that we have not accepted the industry argument. We still have a conservative set of forward estimates, and the forward estimates are a declining set of forward estimates in terms of the growth rates, which the industry has suggested we should not be doing, but I have not accepted that argument because I think ultimately the parliament or something will have to start to see these numbers drop down.

When you revise that number and when you have the rescheduled threshold parameters and the rates, 55 up to 57 and tweaking some of the arrangements, we can arrive at a position that will see us with those growth forecasts revenue neutral across the four years. The tax measure itself is revenue neutral, but when you take in the added growth, the forecast numbers would have us \$18 million to \$20 million ahead over four years, potentially. That also includes my new levy.

The Hon. I.F. EVANS: Just a point of clarification: is the Treasurer confirming that the forward estimates are that the new tax package will increase taxation by \$20 million over and above what was in the forward estimates?

The Hon. K.O. FOLEY: Yes, that includes my new levy on transition payments. That is the benefit of the new growth rates: with the new tax structure, together with my levy, we could be up to \$20 million ahead. But that includes increased growth assumptions.

The Hon. I.F. EVANS: Ahead of what was in the forward estimates?

The Hon. K.O. FOLEY: Yes.

The Hon. I.F. EVANS: Is the Treasurer confirming that?

The Hon. K.O. FOLEY: Yes.

The Hon. I.F. EVANS: Is that a yes?

The Hon. K.O. FOLEY: Yes, it is a yes. What is your point?

Mrs REDMOND: The Treasurer announced in the budget the purchase and refurbishment of the Reserve Bank building in Victoria Square, at an estimated cost of \$17 million. Will he outline his reasons for the purchase and why the total costs are spread over five budget years?

The Hon. K.O. FOLEY: The South Australian government currently leases approximately two-thirds of the building. Most of the rest of the building is vacant. The Reserve Bank is seeking to sell the building. Negotiations for a purchase are to be undertaken. The building is located conveniently close to other major government buildings in the Victoria Square precinct. It is structurally sound and requires only minor upgrade works, but needs significant refurbishment. Several government agencies are seeking to consolidate into this site from their current sites which are leased from the private sector. There is a significant net present value benefit compared to renting comparable office space from the private sector. Estimated total costs of building and refurbishment will be \$20.3 million over five years, commencing with \$3 million in 2002-03. The net present value benefit of purchasing the building is about \$5.4 million. The facade, ground floor banking chamber and parts of level four are heritage listed. It seems, particularly given its location and the need for government office space, to be a sensible decision.

Mrs REDMOND: Given that two of the government's key revenue measures in this budget now have been proven

to be seriously flawed—budget bumbles—with crown lease increases to be the subject of a select committee, and today's backdown on the pokies super tax, does the Treasurer believe that a precedent has now been set whereby budget measures are open to negotiation, and will he offer the same courtesy to other community groups that have been disadvantaged by his broken promises budget?

The Hon. K.O. FOLEY: Members opposite cannot have it both ways. During the two hours preceding the lunch break they had been accusing me of putting an extra tax onto the industry. The member for Davenport has been stunned by the revelation that we expect that, potentially, we could have another \$20 million in pokie tax. What is the message that the member is trying to send across? It is a little confusing for me.

Mrs REDMOND: It is not a message. I am asking a question. Would the Treasurer care to answer it?

The Hon. K.O. FOLEY: I have answered it.

The CHAIRMAN: Before calling the member for Torrens, the chair has a question. Will the Treasurer provide at a later date details of outstanding state government loans, and the expiry date and the interest rate payable on those loans? It is a question that I am often asked in the electorate, and I think it would be useful for members to have that information in a simplified form.

The Hon. K.O. FOLEY: Mr Chairman, I would be more than happy to obtain that information and provide it to you as soon as I can.

Mrs GERAGHTY: Will the Treasurer explain the government's fiscal strategy, including the government's expected achievements, against its four year plan?

The Hon. K.O. FOLEY: This comes back, in part, to the question that the member for Enfield asked earlier—and I could see him hanging off every word of my answer. I have to be honest: the government is committed, as I have said, to the following fiscal principles, which include:

- Fiscal target—which is, on average, balanced budgets in the general government sector.
- Taxation—to ensure that the state has an effective tax regime, having regard to the government's social and economic objectives.
- Services—to provide value for money community services and economic infrastructure within available means.
- Superannuation—to fund accruing superannuation liabilities as they arise and progressively fund past service superannuation liabilities.
- Risks—to ensure that risks to state finances are prudently managed, while maintaining at least a AA+ credit rating.
- And, importantly, PNFCs' borrowing—to ensure that public non-financial corporations will be able to borrow only where they can demonstrate that investment programs are consistent with commercial returns, including budget funding.

These fiscal principles reflect a commitment to containing the public sector's level of liabilities by ensuring no growth in debt from ongoing operations of the general government sector, by eliminating unfunded superannuation liabilities and by requiring all public non-financial corporation borrowing to be fully funded from resultant cash flows. I think that probably answers the question.

Mrs GERAGHTY: Will the Treasurer explain what is the estimated level of commonwealth payments to the state in 2002-03?

The Hon. K.O. FOLEY: One of the first things I had to do when I became a minister was to travel to Canberra and attend a Treasurers' meeting.

An honourable member: That would have been a joy!

The Hon. K.O. FOLEY: Yes, it was a joy. It was an experience, I have to say. I am not sure who a South Australian Treasurer has to be more concerned about: Peter Costello or Michael Egan. I suspect, on balance, probably Michael Egan from New South Wales. I think it is true that state treasurers from South Australia should always try to suck up to a commonwealth treasurer as best they can because, ultimately, he is our only protector from the large states of New South Wales and Victoria, which are embarking upon a spirited campaign to significantly change the horizontal fiscal equalisation.

An honourable member: Destroying federalism.

The Hon. K.O. FOLEY: Exactly—as my colleague said, destroying federalism. They are, in concert with the state of Western Australia, at present wasting the money of taxpayers from New South Wales, Victoria and Western Australia in preparing a very expensive report arguing that horizontal fiscal equalisation unfairly rips money out of the large states, and Western Australia, and puts it into the less well off states. Thankfully, the federal Treasurer sits in on the meeting and, with some joy on his face, allows the states to argue amongst themselves, knowing that the only way, at least at present, he can change the HFE arrangement is by a unanimous decision of the meeting. Whilst there are warring tribes, he is happy for us to go to war. But we have to ensure that commonwealth governments, Labor or Liberal, remain committed to HFE. I know that we are, and all indications are that the federal Liberal government is also.

The general purpose payments to South Australia are estimated to be \$2 978 000 in 2002-03. This represents an increase of \$81 million, or 2.8 per cent, compared to the \$2 897 000 of general purpose payments estimated to be received in 2001-02. Specific purpose payments (SPPs) directly to the South Australian government are estimated to be \$1 302 000 in 2002-03. This represents an increase of \$16 million, or 1.2 per cent, compared to the SPPs estimated to be received in 2001-02. It should be pointed out that, even though I just said that the state government should suck up to the commonwealth government, that did not stop Peter Costello from ripping \$70 million out of this state over the four years when he went back on an earlier commitment not to revisit the intergovernmental agreement on the sharing of GST money. Notwithstanding that point, I will endeavour to have a cordial relationship with Peter Costello, because I have to.

The CHAIRMAN: It is often suggested that the state will receive a GST windfall, which I guess follows on from that question. Would the Treasurer like to enlighten us as to whether or not that will be the case—that the state will enjoy a windfall as a result of GST?

The Hon. K.O. FOLEY: That is a good question, and it is one that is often put to me. The comments that I am going to make are the ramblings of a treasurer, in the sense that we do not know what will happen in future years: it is just my guess based on advice that I have received since I have come into the office, based on evidence that I have seen and based on my gut feeling. So, this is not a definitive position. I suspect that the commonwealth will ensure that any growth dividend we get from the GST is not left to the states for our own discretionary expenditure. Under the changes to the intergovernmental agreement, we now go cash positive in

2006-07. Assuming that we go cash flow positive in 2006-07, what then happens with that money? I have never thought this, and this is not necessarily a view that would be different if there was a Labor federal treasurer. However, for the life of me, I cannot see that a commonwealth government will see its budget position worsen by allowing the states' budgetary position to improve.

Why would a commonwealth treasurer want to see large increases of money to state budgets at the expense of their own? A number of things could happen. First, they will do what they did to me and the other treasurers a few months ago, that is, change the intergovernmental agreement and claw back some of that money. Secondly, they could direct the money into SPPs—that is, the tied grants—and tell us, 'You have X million more, but you will spend it on this program.' Thirdly, what we are starting to see develop—and it has been an ongoing problem (and the former treasurer had to battle with it, but it seems to be opening up a few more fronts)—is the commonwealth offering the states more growth money in various areas, provided we match it.

An example of that was the former Liberal government's decision—and we did not agree with it—involving Senator Vanstone to pass on the concessions for self-funded retirees. That was an example of a commonwealth program, where they said, 'Here's a bucket of money, but you've got to put in some yourself.' We are seeing dollar for dollar matching in a number of government community services areas. It is a way of locking us into their federal policy position and soaking up our precious dollars, which one day might be the growth dollars we get from the GST, so that their political and policy objectives get met. So, from their point of view I can understand why they would do it. Indeed, a combination of all those three things may occur. I would lay a lazy 50 bucks with you, Bob. I just reckon that, at the end of the day, we will not get the real growth from GST that has been promised. I hope I am wrong and, if I am, I will be delighted. However, I suspect we will never see it.

The CHAIRMAN: Treasurer, do you see merit in trying to bring about a fundamental change in the arrangements between federal, state and local government in terms of financial resourcing taxing, and so on? In other words, given that time has moved on, is it a matter of virtually going back to the drawing board and revisiting all these arrangements at the three levels and the interrelationship between them?

The Hon. K.O. FOLEY: We are certainly seeing signs of that debate emerging. We saw the federal minister Wilson Tuckey (and it is pretty hard to keep a straight face when you talk about Wilson Tuckey) make some comments about how he could bypass the states and push funding out to local government. Just how serious Wilson Tuckey is, I suspect, probably the point. I know that in transport areas there seems to be an increasing push for the commonwealth to want to bypass the states. I do not think it can really happen to any great extent. As our government has demonstrated, particularly the Minister for Local Government (Jay Weatherill), governments must work closely with local government. We do not have to like each other but we have to work closely together to deliver programs. However, I do not think there will be any overall or wholesale changes.

I want to come back to this threat of horizontal fiscal equalisation. As clumsy as that expression is, the push by Victoria and New South Wales should not be ignored

completely. In years to come, Michael Egan and John Brumby—whether it is a Liberal treasurer, Allan Stockdale or whatever—will be absolutely driven to overturn the commonwealth/state funding arrangements. It will not happen now, and it might not happen on Peter Costello's or Simon Crean's watch, but at some point the political dynamic in Canberra will shift. Who knows, maybe it will be a political dynamic in either political party—and they are always dominated by New South Wales or Victoria—that will lead to some coinciding of events in either political party nationally that will see this argument about reshaping the way states are financed get some credibility and momentum.

If that happens we are in trouble, because states like ours are given assistance by the larger states, as we should be. By way of example—and this has been said to me often—if we were all one country and not states, a national government would have the responsibility of delivering a similar quality of services in all major regional parts of Australia. HFE just makes sure that happens. It should not be too foreign a concept. I say this to my Liberal colleagues here as well: the passion and enthusiasm of New South Wales and Victoria is just not a political stunt. This is not something they are doing just for a headline. I did say in the treasurers' meeting, when John Brumby got on his platform, going on about cross subsidising the smaller states, 'John, do you really think people walk down Collins Street saying "Let's fix HFE; let's shaft the smaller states?"'

It is not on the radar screen politically for the population but it is on the radar screen of the governments of Victoria, New South Wales and Western Australia. It has been under both parties, and that will continue to be the case. As one of the smaller states, we have a duty to make sure that we are very careful on this. The other person I cuddle up with at these conferences—although 'cuddle' is not the right word—is Terry Mackenroth from Queensland. At present Queensland is also a recipient state, and as long as it is a recipient state there is some safety in numbers. Mackenroth is a big bloke, so he can withstand the pressure like me. The day that Queensland tips over and becomes a donor state is the day the dominoes might start to fall.

Mrs GERAGHTY: Will the Treasurer outline the interest assumptions in the budget, and what will be the impact on the budget if interest rates rise by 1 per cent?

The Hon. K.O. FOLEY: I am both surprised and pleased that the member has an interest in this matter; it is good. It means that there is a growing awareness of the fiscal settings of the state. When one looks at SAFA modelling which summarises the interest rate assumptions underlying the 2002-03 budget, one gets an interesting picture. I am happy to table this information because, Mr Chairman, it might be something in which you will have an interest, given your earlier question. By comparing the current rates with the budget interest rate assumptions for 2002-03, you can conclude that the budget interest rate assumptions allow for an increase in interest rates from current levels of between 1 and 1.5 per cent. An increase in interest rates of 1 per cent per annum over and above the 1 to 1.5 per cent range already allowed for in the forward estimates shown below would result in an increase in net interest expenses for the general government sector of about \$14 million per annum. If I have leave of the committee I am happy to table this information.

The CHAIRMAN: If it is purely statistical the Treasurer can have it incorporated in *Hansard*.

Leave granted.

Table 1—Interest rate assumptions percent

	Current rates	Budget interest rate assumptions			
		2002-03	2003-04	2004-05	2005-06
Refinancing rate	5.4	6.4	6.5	6.7	6.8
Cash	4.8	6.2	6.4	6.9	6.7
90 day	5.1	6.5	6.5	6.7	6.7
1 year	5.4	6.4	6.5	6.7	6.8
5 year	6.1	6.7	6.9	7.1	7.2
CPSIR	6.3	7.5	7.3	7.5	7.4

The Hon. I.F. EVANS: The memo from the Under Treasurer to the new government dated 13 March 2002, which supported the 14 March budget update, made it clear that the Under Treasurer had exercised his and Treasury's judgement as to which cost pressure should be included in the budget update. On page 3 the Under Treasurer states:

We've included cost pressures when, in our view, it would be very difficult to avoid incurring some additional expenditure, either because of the practicabilities of the situation or our perception of what is likely to be politically acceptable.

In a number of cases, the Under Treasurer's judgment of what was politically acceptable was contrary to cabinet or the treasurer's decisions; for example, the former treasurer had explicitly directed the Under Treasurer with the support of cabinet not to forgive agency overspending and directed that any overspending had to be repaid over three to four years. Will the Treasurer allow the Under Treasurer and Treasury to compose this year's mid-year budget review and all future budget reviews in exactly the same way as he allowed them to produce the updated mid-year review on 14 March this year?

The Hon. K.O. FOLEY: This issue has really bugged the former treasurer. I got into office, and I had a choice to make. I could have brought in outside advice to prepare a review of the government's finances for me or I could have—

An honourable member interjecting:

The Hon. K.O. FOLEY: I wish I had, but you would have accused me of getting something written for my own benefit. So, the minute I walked in there I said I would ask Treasury to update me and, without fear or favour, I would release it. It was all there in the incoming budgetary briefs waiting for me. So, the information was there for Rob Lucas had he been re-elected, or for Kevin Foley. Most of these numbers in education and health were there waiting for us.

I then asked him to do the mid-year budget review, but from memory—I am pretty certain of this, but I am happy to check—the major wages pressures (the teachers' EB numbers and the overspend) were in the incoming briefing folder for me. So, it was not something that was prepared for me after that, but I will check that to make certain. There were certainly the cost pressures in health and education, the exact nature of which I will need to confirm. The important point is that this information was sitting there. The issue about not rewarding overspending by DETE was a joke. The former treasurer said, 'I'm not going to reward overspending, so don't include the overspend in the DETE forward estimates.' What a lot of nonsense!

Again, I stand to be corrected if I am wrong but, from memory, the former government, of which you were a part, rewarded DETE just about every year for overspending. The former government continually paid the overspend in DETE. It had done so for the last four years and, all of a sudden, just because it was bringing down its mid-year budget review, the

former treasurer said, 'Let's not put that figure in there because I don't reward overspending.' That was a nonsense—a political stunt by the Treasurer—and he knows it. I had to deal with that, because if I did not I would have had no money with which to fund the education system. I think I have demonstrated my preparedness to make some pretty hard decisions, but I do not think that not paying teachers or having to cut programs without going through a proper diligent budget process would be a smart thing to do.

The Hon. I.F. Evans interjecting:

The Hon. K.O. FOLEY: No. You had a long wind-up into that. What I am doing through the ERBCC process is looking into education, health, environment, transport and every department (the Treasury included) to see where we can reprioritise expenditure. That is a very difficult task, but I am doing it. The Under Treasurer, who has copped some criticism from the former treasurer—I think unfairly—gave me advice that was consistent in large part with the advice that was waiting for me when I got into office. That is my recollection of the advice about what was in the green book waiting for me.

Some further cost pressures that were identified in the interim period were included, much of which the former treasurer was aware of. That is the advice I was given; that is the advice I accepted; and that is the advice I released.

The Hon. I.F. Evans interjecting:

The Hon. K.O. FOLEY: No, this year's mid-year budget review will be done honestly.

The Hon. I.F. EVANS: Will the Treasurer assure the committee that in his handling of the privatisation of the National Wine Centre negotiations he complied with all the requirements of the policy document *Evaluation of Public Sector Initiatives* or the Treasurer's instructions in the Commissioner for Public Employment's guidelines?

The Hon. K.O. FOLEY: Good old Rob Lucas—he now gets the member for Davenport to ask his questions. I am happy to take that question on notice and provide a detailed answer for the honourable member.

The Hon. I.F. EVANS: On 25 June this year, the Premier claimed that the Treasurer's \$1 a year lease deal for the National Wine Centre would prevent taxpayers carrying \$17 million in losses over the next four years. Prior to the final deal being concluded, Bill Mackey indicated that the National Wine Centre had already significantly reduced costs and that, in particular, staffing numbers had been reduced from about 75 to just over 50. Will the Treasurer confirm that he was provided with advice by Treasury that, on the basis of these latest cost figures, the claim that taxpayers would face losses of \$17 million over four years was not accurate?

The Hon. K.O. FOLEY: This is an old question. This is what Rob Lucas raised in debate in the upper house, and I am sure it was answered. I do not know why you are hanging onto all these old mistakes of your government. The way you

are going, the member for Morialta will ask me a question about the Hindmarsh Soccer Stadium. You left us with the wine centre and millions of dollars of losses. I have fixed it; I have got it off the agenda.

The Hon. I.F. Evans interjecting:

The Hon. K.O. FOLEY: I will tell you what was accurate: it was losing millions of dollars a year. As I said in answer to an earlier question, my recollection is that it was a figure of about \$2 million to \$2.5 million a year. It had booked up I think in excess of \$3 million by the beginning of this financial year, and the losses could not be stemmed. If you had massively reduced the work force, would that have reduced the losses? Possibly.

The Hon. I.F. EVANS: Those changes had already been made.

The Hon. K.O. FOLEY: No. I don't know why you want to fight on such pretty weak ground.

The Hon. I.F. EVANS: I am trying to test whether your comments are accurate.

The Hon. K.O. FOLEY: Which comments of mine are you referring to?

The Hon. I.F. Evans interjecting:

The Hon. K.O. FOLEY: Which comments are mine?

The Hon. I.F. EVANS: I mean yours as in the government's, because you represent the government.

The Hon. K.O. FOLEY: They're an ungrateful mob, aren't they? I come into government and I meet disaster after disaster. The Motor Accident Commission, insolvency plummeting—problem fixed; budget deficits—problem fixed; and National Wine Centre—problem fixed. There is a limit to how many things I can fix; I am working as hard as I can.

Mr Rau interjecting:

The Hon. K.O. FOLEY: Exactly. I have been here for 3½ months.

Mr Rau interjecting:

The Hon. K.O. FOLEY: No, I think that answers the question.

Mr RAU: Will the Treasurer provide information about the poor expenditure controls in DETE and DHS and how the government proposes to handle overspending in these agencies in the future?

The Hon. K.O. FOLEY: I am glad the honourable member asked that question. There is no question that the problems confronting the government in DETE and DHS were significant. We made quick decisions upon entering office that the government did not have confidence in the CEOs of both education and health to take the government's agenda forward. These people have abilities—don't get me wrong—and I am sure they would be able to make a worthwhile contribution in other areas of government. However, in terms of managing such a large complex agency, they were faced with significant budgetary problems. I have highlighted the education budgetary problems that were significant, and we had similar ones in health.

Health was a real worry, because it was not just a problem of administering the portfolio. I think it would be fair to say—and this is one of the few times that you will ever find me feeling sympathy for the former treasurer Rob Lucas—that dealing with Dean Brown must have been a nightmare. It would appear that they just did not talk. There was limited communication between the agencies. The health commission seemed to be doing its own thing. Poor old Rob could not instil discipline in the department—and I think that was a real problem because there was clear overspending that should not have been happening.

Unlike the last government, we are not going to reward poor expenditure; we are putting new controls in place. We have the ERBCC process. We have the new CEO of the health commission who, I have to say on early indications, is doing an outstanding job in a very difficult area. We will have a new head of education shortly. Both the Minister for Education and the Minister for Health are doing outstanding work in getting on top of extremely complex and diverse portfolios with enormous competing interests within their portfolio responsibilities. I am confident that, with the new CEOs and ministers together with the new ERBCC process and a more collaborative approach by government, we will rein in what have been difficult areas relating to expenditure in both health and education.

Mr RAU: The Treasurer has explained to us the expenditure of moneys on two minor consultancies, but my question is about consultancies generally. Will the Treasurer explain whether the government has met its commitment to reduce expenditure on consultants?

The Hon. K.O. FOLEY: Labor's budget funding strategy did contain an election commitment to substantially reduce government expenditure on consultants. The government's 2002-03 budget strategy factors in a reduction in expenditure of \$10.6 million per annum. In January 2002, the previous government estimated that total public sector expenditure on consultants was \$39 million for 2001-02. I am advised that this included \$29 million for non-commercial sector entities.

During the election campaign Labor announced its funding strategy which contained an annual consultancy expenditure saving of \$20 million a year to underpin its initiative. This represented a savings target of 50 per cent on the \$39 million figure we were provided with publicly by the former government.

However, information provided by portfolios to the expenditure review and budget committee of cabinet during the 2002-03 budget process identified consultancy expenditure in 2001-02 totalling in fact \$22.3 million. This was revised from the previous estimate of \$29 million. These amounts exclude costs for SA Water and forestry which would be included in the \$39 million figure above. On expenditure of \$22.3 million, the government has targeted savings of \$10.6 million or about 46 per cent.

The lower percentage is a result of not taking savings from the independent industry regulator and the Office of the Commissioner of Public Employment. The reasons for that are fairly obvious. The workloads in the industry regulator in particular with full retail contestability coming upon us and the complexities of administering voluntary separation packages and work force management have meant that we have had to exclude those. For 2002-03 the government will monitor the level of expenditure on consultants to ensure that savings targets are met. This will begin with a refinement of benchmarks based on the 2001-02 actual costs.

The other point I should make is that I have also written to each of my ministerial colleagues who have responsibility for government trading enterprises and asked them to issue, if needed, directions but at least instructions to their agencies to identify and deliver similar savings in the major government trading enterprises.

Mr RAU: Can the Treasurer tell the committee whether South Australia has received all of its national competition policy payments?

The Hon. K.O. FOLEY: On a couple of occasions I met Graeme Samuels from the National Competition Council. He is somebody who has copped a fair bit of stick publicly over

many years in terms of applying NCC policies, and I have probably been one of those who has been critical. I have to say that Graeme's approach to this particular issue is good in the sense that I think the early antagonistic approaches between the competition council and governments, and vice versa, have abated somewhat, and there is a more constructive working relationship on achieving outcomes.

South Australia has received its competition payments in full for 2001-02—that is the third tranche—following a review by the National Competition Council. South Australia's 2001-02 payment amounted to \$56 million. South Australia is not expecting any withholding of NCC payments in 2002-03. Full payment of NCC payments to South Australia has been made since their introduction in 1997-98. The Council of Australian Governments (COAG) has confirmed that annual competition payments are to be ongoing between 2005 and 2006 and there will be an annual assessment of the state's performance in meeting reform obligations following completion of the NCC's third tranche assessments.

In relation to the NCC assessments for the 2002-03 payments, there are some points unresolved in recent discussions with the NCC which will be further discussed over coming months. These include:

- shop trading hours, where the government has recognised that there may be opportunity to provide further flexibility in trading hours after adequate and proper consultation with key stakeholders;
- barley marketing, where the government has undertaken to conduct an independent review of the single export desk restriction to begin in November 2002; and
- water pricing oversight, but no decision has yet been taken by the government as to whether the essential services commission should be given responsibility for the oversight of SA Water pricing, but I will be happy to receive your views, if you have any.

Mr RAU: As a supplementary question, do the previous payments flowing through relate to those matters you just referred to, or to earlier matters such as electricity and so forth?

The Hon. K.O. FOLEY: They were earlier matters. These are the unresolved matters on which we have to be seen to make some progress in future years.

Mrs HALL: Given that you told the committee this morning on a number of occasions that you had some misgivings in relation to a number of the findings of the Magee report—sometimes you were less than flattering and you did say on a couple of occasions that you did not accept his figures—did you advise cabinet of the areas which you considered incorrect in the report prior to the decision to increase gaming taxation rates?

The Hon. K.O. FOLEY: I have kept my cabinet colleagues appropriately aware all the way through what they need to be made aware of.

Mrs HALL: You would not care to define 'appropriate', would you? Will the Treasurer investigate whether any ministers have allowed prepayments of the total costs of some consultancies in June 2002 even though the work was to be substantially completed in 2002-03, and will you provide a report on this issue and state whether or not any ministers have breached the Treasurer's instructions?

The Hon. K.O. FOLEY: I am happy to take that on notice. I am not aware off hand. I cannot recall that. I am happy to take that on notice and come back to you with an answer. If I can just return to the issue of pokies, I want to

make sure that the committee understood the previous answer I gave to the member for Davenport. The taxation measures put in place by the government in this exercise are expected to be revenue neutral on the new growth assumptions, bearing in mind this base is lifting. We are putting in a higher base, and I am advised that with the additional tax I am putting on, if those growth projections and assumptions are correct—and these are always subject to some fluctuation—we could expect a further \$18.5 million approximately over four years.

Mrs HALL: Labor's costing document claims that \$7 million would be taken out of Treasury's cash reserves and diverted to help fund Labor's claimed priorities in education and health. The statement of cash flows for DTF, Budget Paper 4, page 2.17, shows that this promise has not been kept. In fact the small reduction of \$2 million DTF cash reserves has not been spent on education and health, but has actually been spent by the Treasurer on DTF items. Why did the Treasurer not keep this particular promise to cut \$7 million out of Treasury cash reserves and divert \$7 million to be spent on priorities like education and health?

The Hon. K.O. FOLEY: Did Rob Lucas write this question for you?

Mrs HALL: You can refer to it in your own papers; it is very clear.

The Hon. K.O. FOLEY: No, I say that because maybe Rob Lucas did not understand something that I did not understand. But, given that he was Treasurer for four years, he was in a better position to understand this. It would be fair to say that in my pre-election budget positioning on savings, from memory I put in a saving as a reduction in a cash balance of Treasury. That is the import of the question. You are asking why I did not deliver on it?

Mrs HALL: Why did you not spend it on health and education?

The Hon. K.O. FOLEY: Look, I have to confess, and I didn't really want—

Mrs HALL: You didn't tell another porky?

The Hon. K.O. FOLEY: No, you are embarrassing me in front of all my Treasury colleagues. What I try to do as Treasurer is limit my embarrassment to the six or seven people who meet with me once or twice a week, but now the embarrassment will flow out to other people in Treasury. I was told when I came in that reducing a cash balance does not actually help the budget bottom line: it is not actually a saving. I made a mistake, and it was an embarrassing one, but I had to find some more savings to pay for it. I did embarrass myself, didn't I? Did I embarrass myself, guys? I see that my advisers agree with me. Thanks very much! I can deal with that. I tell you who should be more embarrassed—Rob Lucas, if he wrote the question. He should have known that that was the answer.

Mr SNELLING: Will the Treasurer inform the committee of the government's objectives involving the private sector in the development of infrastructure?

The Hon. K.O. FOLEY: This is an important question and one that has been put to me on many occasions. This relates to public-private partnerships. I have been a pretty strong supporter of this policy—I was in opposition, I have made speeches, I think, in the parliament, and certainly publicly on this issue, and I have since. I commend the former government for beginning this process, but it is not a new concept. The involvement of the private sector in delivering public infrastructure has been around for many years in various forms. I recall that the former Labor government—if my memory serves me correctly—was

involved with some schools in the Andrews Farm area—out north.

In one of the Hickinbotham estates a school was built by the private sector. We lease it. I think that the Golden Grove school is another. There are some experiences where the private sector has delivered infrastructure under various arrangements with government. Clearly, the appetite for PPPs, given the state of world financial markets, the ever-increasing demand for long-term investments and the acceptance by investors to invest long term to get lower returns that are secured by government, is increasing. The flexibility of financing products is increasing and there are more innovative ways to use the availability of finance.

Governments will always borrow money more cheaply than the private sector, but there are many other factors that impact on the government's ability to deliver on a particular outcome in terms of the cost of a project. We are saying that, like the former government, we would like a very robust analysis of potential PPPs, and we are fairly open to what they may be. We made it clear that they will not be involving the transfer of government services to the private sector because that would be against our 'no privatisation' policy. However, that does not conflict with the position that says that the private sector could own capital.

There could be some management function but the service must be delivered by the public sector, which is a fair position. We will be releasing soon for the public our guidelines on public private partnerships for the market. I will provide copies for anyone who is interested. They are a very interesting but a very long read. It is an important document that will be made available. We are keeping with most of the former government's projects in terms of assessing them. Some will have different priorities. Some I do not think will work, and that is not a critique of the former government: it was also coming to that conclusion. But some new projects may proceed.

The Hon. I.F. EVANS: The Marion pool?

The Hon. K.O. FOLEY: The Marion pool is problematic. We are doing work on it trying to prove it up.

Mrs HALL: When?

The Hon. K.O. FOLEY: I am not sure when.

Mrs HALL: Months, weeks?

The Hon. K.O. FOLEY: Bear with me. I will do a Rob Lucas: turn around, get into a huddle and get back to you. It is under strategic review. As the honourable member would appreciate, as a former minister, there is a bigger issue. I am talking outside my portfolio now so I will be careful in what I say, lest I get into trouble. We have the issue of North Adelaide and the issue of an aquatic facility for the state.

Mrs Hall interjecting:

The CHAIRMAN: Order!

The Hon. K.O. FOLEY: The reason for the review is because the Department of Recreation and Sport is looking at how Marion fits in with the aquatic needs of the state in general. Quite a lot of work was done by the former government, and a lot of work has been done in the last couple of months. We have a fair idea as to how it sits. We should be in a position to proceed at the appropriate time when consideration is given to these other issues.

Mr SNELLING: Treasurer, can you explain the budgetary implication of the reforms to commonwealth-state financial relations?

The Hon. K.O. FOLEY: That sounds a bit like a question I was asked earlier. I really did answer that question in detail but I can appreciate that the honourable member would like

a little more detail. It was a question asked by the chair. I think that I have made it fairly clear that, in my view, there will not be any windfall gain to the states from GST revenue. We are expecting to get it in the year 2006-07. I was pretty disappointed, as I outlined, when I went to Canberra not that long ago and lost \$70 million. The federal government effectively tore up the intergovernmental agreement. What is the use of signing an intergovernmental agreement with the commonwealth when it changes the rules? It related to the indexation of petrol excise. The commonwealth decided that it would not index it. It decided that it would not honour that commitment to pass that onto us, and that has cost us \$70 million over four years. In my first trip to Canberra I came back \$70 million poorer. The GST revenue issue is a bit of a furphy, but I hope I am wrong. I hope that Peter Costello will surprise me, or whoever is the Treasurer in four or five years. It will not be Peter Costello, I would be pretty confident of that assessment one way or the other. I hope that whoever it is will be generous and allow us to get some money. I just don't think it will happen.

Mr SNELLING: On a matter close to my heart, will the Treasurer inform the committee of the initiatives the department will implement and consider that will impact on women in the department?

The Hon. K.O. FOLEY: I can answer this question because there is an excellent group within Treasury, Women in Treasury, with whom I have met on a couple of occasions and with whom I have participated in some events in terms of the budget process. It is a very good initiative by the department. As at 28 June 2002 there were 41 executives within the Department of Treasury and Finance: 34 male and seven female. The classification breakdown can be provided. As at 28 June 2002 of the non-executive staff employed within the Department of Treasury and Finance there were 265 females and 267 males. The classification breakdown is provided in table 1. Women in Treasury was established as the Women's Development Group in May 2000 under the former treasurer—and I commend him for that—to address the under-representation of women at senior management levels within the Department of Treasury and Finance. Of course, whilst the minister was supportive it was a decision of the Under Treasurer of the day. The group and its program were formally reviewed in November/December and the name subsequently changed to Women in Treasury.

The key objectives for Women in Treasury are: to increase the representation of women in senior forums and the number of women in senior positions in the department; and increase the participation of women at all levels of the agency in decision making and ensuring their capacity will contribute equally. Women in Treasury will actively seek to enhance the recruitment and retention of women by implementing appropriate programs that reduce barriers to the progression of women in the Department of Treasury and Finance. The current work program was developed after the review in November 2001 and focuses upon four key areas: training and development; attraction, retention and recruitment; and flexible work practices and youth. Particular initiatives include:

- undertaking a survey of the department's youth to explore their perception of the Department of Treasury and Finance as an employer and the support they are seeking in their careers;
- conducting research into the key capabilities required of departmental staff to assist in delivering tailored and targeted training and development;

- researching opportunities for the department to implement E-learning programs for staff;
- assessing the effectiveness of flexible work practices policies, particularly the part-time employment policy, and putting strategies in place to improve their effectiveness in practice;
- hosting a series of staff forums for 2002 covering business issues, career planning and skills/knowledge building;
- the Women in Treasury initiative will continue into 2002-03 following its success in the previous two years.

Mrs REDMOND: For each year 2002-03, 2003-04, 2004-05 and 2005-06 what is the share of the total \$967 million saving strategy announced by the government for each portfolio and what is the detail of each saving strategy in each portfolio?

The Hon. K.O. FOLEY: I am happy to answer that in detail. It will take until 4 o'clock tomorrow morning. However, I know that the member has more to her life than sitting here all day, so I will take that one on notice and get back to her with a detailed answer.

Mrs REDMOND: What is the share of the \$322 million underspending in 2001-02 claimed by the government for each portfolio; what is the detail of each proposal and project underspent; and what is the detail of any carryover expenditure to 2002-03 which has been approved by the Department of Treasury and Finance for each portfolio?

The Hon. K.O. FOLEY: Again, I would be more than happy to take that on notice—and I am sure the member would be, too—and provide an answer to her.

Mrs REDMOND: I have a feeling that I know the answer to the third question. Will the Treasurer provide a detailed break-down, by all departments and agencies, of total full-time employee numbers as at 30 June 2002 and expected in 2003?

The Hon. K.O. FOLEY: Yes. I will do that, but, as with the others, I will take it on notice and provide it to the member in written form.

Mrs GERAGHTY: Treasurer, could you outline the steps that the Department of Treasury and Finance has taken to ensure that EDS provides the contracted level of services to the agency?

- The Hon. K.O. FOLEY:** Thank you. I can report that:
- The EDS contract is centrally managed by the Information and Administrative Services section within Corporate Services.
 - Documented processes exist for all issues and problems to be escalated from DTF Business Units through a controlled process to EDS for resolution.
 - DTF undertakes daily follow-up with EDS on all operational services.
 - Monthly reporting provided by DAIS detailing EDS response times to problems are reconciled against the department's internal records, and any discrepancies rectified.
 - The agency account manager for DTF is the Director, Information and Administrative Services.
 - Fortnightly meetings are held with the EDS Client Services Manager to discuss outstanding and emerging issues, and to ensure that the service level provided by EDS is as agreed. Meetings between EDS and business unit representatives are held when required to discuss important projects and requests.
 - As per the ITSSD agreement, a monthly meeting involving EDS, DAIS and agency representatives is held to discuss strategic issues and problems arising.

- The DTF help desk has real-time access to the call management system used by EDS to monitor outstanding requests.

Mrs GERAGHTY: Can the Treasurer please inform the committee what the government has done to implement its election commitments in relation to gambling?

The Hon. K.O. FOLEY: The important point that has been lost in all of the debate about levels of taxation—and I know that members of the opposition do not like me taxing the industry—is that we have been able to provide:

- Additional funding to the Gamblers Rehabilitation Fund (GRF) of \$4 million over four years, to provide programs such as counselling facilities for problem gamblers and to fund awareness campaigns.
- Additional funding to the Independent Gambling Authority (IGA) of \$1.1 million over four years to assist it in performing its functions and increasing its research agenda.

I think that research agenda will only grow as—

Mrs HALL: You didn't put more money in?

The Hon. K.O. FOLEY: No, there is additional funding. Don't be too mean-spirited, member for Morialta. We have put an extra \$1.1 million in over four years. I suspect that its research agenda will grow as MPs find more things to send that way. I continue:

- This also includes the development and promotion of strategies for reducing the incidence of problem gambling and to research the social and economic costs and benefits to the community of gambling and the gambling industry.
- Additional funding to the Department of Education and Training—this is a very important program—to educate young people to stop them becoming gamblers. It involves \$800 000 over four years for an education campaign aimed at warning young persons about the impacts of gambling, including an advertising campaign on the impact of problem gambling.

All these commitments have been fully funded in the 2002-03 budget. I think that is an important message, and all sides would agree that getting the kids to understand the impacts and evils of gambling is an important area. I continue:

- The Minister for Gambling, Mr Hill, has requested that the Independent Gambling Authority review the freeze on gaming machines and the report is to be tabled in parliament, once it is received by the minister. (That will be a hoot of a debate when it comes around.)
- The IGA must identify, within the context of its statutory functions, all practical options for the management of gaming machine numbers after 31 May 2003.
- Funding to GRF in 2001-02 amounted to \$2.3 million. This comprised funding for hotels and clubs of \$1.5 million and a government contribution of \$800 000, up from \$300 000 in 2000-01.
- In 2002-03 funding will be increased by \$1 million to \$3.3 million. The government contribution will increase from \$800 000 to \$1.8 million.

I could go on, but I think that gives an indication that, as a government, we are committed to putting more money into gamblers' rehabilitation.

Mrs GERAGHTY: Treasurer, would you explain the status of the establishment of the Essential Services Commission?

The Hon. K.O. FOLEY: I will answer briefly because I know this is about to be debated in the house. A key promise and commitment of the government at the election was to try to do something about electricity. The member for Enfield

spoke earlier about the number of problems that were left on my plate by the former government. Probably one of the biggest, after the budget, was, of course, the impending issue of full retail contestability. It is a difficult problem. It was a difficult problem for whoever was in government and it will require a lot of clever and tough decision-making and determination. We want to get the governance—in the sense of the regulatory powers—into a structure that can best meet that agenda, and we think the establishment of the Essential Services Commission will deliver on that.

It will also ensure that we have a structure in place that will maximise the opportunity for government to deal with full retail contestability. The Essential Services Commission will be established; legislation will be debated shortly; powers will be improved; and we need to get that done quickly and have it in place, because 1 January, the date of full retail contestability, is bearing down upon us.

The Hon. I.F. EVANS: Labor's costing document stated that a comparison of the mid-year budget review and last year's budget papers showed a \$250 million increase in revenue above budget. The Labor Party claimed:

Revenue is forecast to be \$250 million higher than in the May budget. Labor does not require any of this increased revenue to fund its election promises. This \$250 million will be used as a contingency to fund Liberal budget overruns and to retire debt. It has not been included in Labor's costings but is a key component of the Liberal's funding of their election promises. All of Labor's election commitments will be funded from savings and cutting waste and extravagance under the Liberals.

Does the Treasurer now concede that this statement was wrong and that this budget breaks another Labor promise?

The Hon. K.O. FOLEY: I am here today to answer questions about my first budget. I have been very tolerant in answering questions that related to things I did and said and prepared prior to coming into government. I think I have said enough on that. Pick holes in what I said before the election if you will: you will not be the first and you will not be the last.

The Hon. I.F. EVANS: Treasurer, during the election campaign you were very critical of what you called excessive growth of the number of fat cats in total employment with the Department of Treasury and Finance. In your Labor costing document you attacked the fact that total employment was set to rise to 710 full-time employees this year. You promised to reduce employment numbers. It is interesting to note that the Treasurer is now actually increasing full-time employees from the 774 to 796 full-time employees. Can the Treasurer explain why he has broken another promise and actually increased employment in DTF?

The Hon. K.O. FOLEY: Did I say that about DTF? Whilst in opposition, one sometimes says a lot of things about work force numbers without understanding the full complexities of the work that is required for a job to be done. I am not sure whether you have quoted the exact numbers, and I am not for one moment suggesting that you would not have been. However, I have an explanation for that.

Mrs HALL: I never doubted it.

The Hon. K.O. FOLEY: You never doubted it? The original work force as at 30 June 2002 was 549 FTEs. It is expected to increase by 22 FTEs—a fantastic acronym, that one, it means people—to a revised work force of 571 FTEs. The major variations are a net increase of six staff in Revenue SA, due mainly to the implementation of land tax and local government concession initiatives—that is probably some-

thing that the honourable member's government did and I am having to find staff to do it.

An honourable member interjecting:

The Hon. K.O. FOLEY: No, that's not true. There is an increase of two staff in Super SA to provide an enhanced service to members, and I do not think the member would be too difficult about that. An increase of 11 staff in the finance branch is due to the transfer of the Office of Government Enterprises from DAIS—that happened when you were in government.

When Rob Lucas became the minister for government enterprises, the former government—the member's government—transferred, I am advised, 11 people over to Treasury to do that. When I became a minister, I did not get the government enterprises portfolio but, given that we had just gone through that process of relocating people, you would not want to relocate them again, would you? That would have been too difficult. So, the unit sits in Treasury, it answers to the Minister for Government Enterprises via the Under Treasurer, and because we do not need to have silo mentalities, we all get on. The agencies can report to different ministers under different arrangements.

We have also had an increase of three staff in SAICORP—that is the government insurance corporation—due to the establishment of an internal legal and information unit, and that has helped to lower the cost in claims administration, and that means a lower cost than the private sector legal costs.

We have also, of course, put some money into the budget to expand the PPP Unit. Getting back to a point we discussed earlier, if we are going to be serious about PPPs and if we are going to get good PPPs, not make mistakes, get good budget benefits, get good social outcomes and get good policy outcomes, I want to have some very good people—and there are good people in the unit. However, I want to have more good people to make sure that we have the skills on our side of the bargaining table to deal with the private sector. I do not want us to be at a distinct disadvantage by not having enough resources to do these projects properly and deal with the increasing demand.

If we can get this right (and this policy is a good policy), the demand from other government agencies to use the PPP approach will grow, and I will need to have the resources. So, I think that gives the committee a generally broad explanation as to why there may not have been the reduction to the Department of Treasury and Finance figures as perhaps I foreshadowed in the election campaign.

The Hon. I.F. EVANS: In the budget update of 14 March, issued by the Treasurer, you indicated that the capital contingency line had an allocation of \$95 million in 2003-04 and \$155 million in 2004-05. You also indicated that none of this money could be used for capital works such as the purchase of buses. Can the Treasurer assure the committee that the capital contingency line still includes \$95 million in 2003-04 and \$155 million in 2004-05, and how much is included in this line in the 2005-06 budget year?

The Hon. K.O. FOLEY: The capital contingencies for 2003-04 are \$50 million; 2004-05, \$100 million; and 2005-06, \$110 million. There are variations in the capital contingencies in the 14 March update which were, I am advised, for 2002-03, \$25 million; for 2003-04, \$95 million; and for 2004-05 they were \$155 million. The capital contingencies for 2002-03 are \$10 million; 2003-04, \$50 million; and for 2004-05, \$100 million.

The variation in those figures is because we will have a far more disciplined approach to our budget management. The former government, as you would be aware, had a process where headroom and contingencies would almost be bid against by ministers on a regular basis. We are endeavouring to have a far more disciplined approach to the management of our contingencies and budgets, so I am able to provide for a smaller contingency in capital.

The point that has to be made here is that we do not have much capital contingency this budget year, or next, because the previous government spent it all. One of the things you did in government, particularly in education, was to lock in some three-year rolling programs, and there is not a lot of capacity left within the system for us. However, we must bear in mind that the budget that I brought down also fully funds all the hospital upgrades and the buses.

If you bear in mind that when I came into office, with your capital contingency and all your unfunded cost pressures, you still had not provided for the hospitals. So, you did not have enough in your contingencies to fund the hospitals. I had to fund the hospitals through the budget process and, touch wood, that will not be a call-upon contingency. That is why I am able to operate with a slightly lower contingency than you had. I have my hospitals funded through the budget process. I will have a more disciplined approach, and we think they are reasonable numbers—so I am advised.

[Sitting suspended from 3.30 to 3.50 p.m.]

Mr RAU: Will the Treasurer outline the impact of the commonwealth's proposed choice of fund legislation on the government's superannuation legislation?

The Hon. K.O. FOLEY: Choice of fund legislation has been reintroduced into the federal parliament but is yet to be debated. It has been on the *Notice Paper* over there for many a year. The original intention behind the commonwealth legislation was to provide employees with the choice as to where their accruing retirement benefit money was invested. Since 1997, most major superannuation funds have moved to provide members with an investment choice with accumulation schemes. As members would know, the SSS scheme was modified to provide members with investment choice on 1 July 1999. The proposed commonwealth law would not bind the state government superannuation schemes but would apply to all federal awards and non-award employees.

Passage of the commonwealth legislation still remains questionable, due to the opposition of the Labor Party and the Democrats. If the commonwealth legislation passed, the state government would need to consider whether members of the state schemes should be able to elect to have their superannuation guarantee money paid into a fund of their own choosing. I am not a suspicious person by nature, but I reckon that this briefing note was written to me by a Treasury officer because he knows I used to ask this question every year. When I had to try to ask a question to fill in time, I would ask this question. Now I have given an answer to my colleague the member for Enfield and to myself.

Mr RAU: What will the increase in the level of employer support from 9 per cent to 10 per cent of salary for contributory members cost the government from 1 July 2002?

The Hon. K.O. FOLEY: It is certainly a cost: there is simply no way of avoiding that. I am advised that the cost is an additional \$6 million per annum. The Southern State Superannuation Act of 1994, which establishes the SSS scheme, provides that, where a member personally contri-

butes at least 4.5 per cent of salary to the scheme, the government will pay 10 per cent of salary when the superannuation guarantee is 9 per cent of salary as of 1 July 2002. For members contributing at least 4.5 per cent of salary before 1 July 2002, the legislation provides that 9 per cent of salary is contributed by the government. There are 16 500 contributory members to the SSS scheme and about 15 000, give or take a few, who personally contribute at least 4.5 per cent of salary to the scheme.

Mr RAU: On a slightly different topic, how is the government responding to the indemnity insurance problems in the building industry?

The Hon. K.O. FOLEY: I might just add a supplementary part to my last answer. The additional cost to the state scheme resulting from the July 2002 increase in superannuation guarantee from 8 per cent to 9 per cent of salary is estimated to be \$23 million. The only employees who actually receive this increase in superannuation support are about 69 600 members of the SSS scheme. There is no increase in government costs for members of the defined benefits scheme because the level of support in these schemes already satisfies the superannuation guarantee.

As to the question of indemnity insurance in the building industry, this issue has been confronting government for some time, and I know that many members have an interest in this. Building indemnity insurance is required under the Building Work Contractors Act of South Australia, which is committed to the Attorney-General as Minister for Consumer Affairs and administered by the Commissioner for Consumer and Business Affairs. However, for some reason, I have to fix the problem. In fairness to the Attorney, he has moved swiftly in terms of issues relating to what he has been able to do with waivers, etc. The issue of what we as a government do for the building insurance industry quite rightly sits with the Treasurer.

The housing industry and the master builders had run their own schemes prior to the collapse of HIH. The Master Builders Association scheme was conducted through HIH, whilst the HIA scheme was conducted through Royal & Sun Alliance. Subsequent to the collapse of HIH, as we know, the insurance of MBA members, which had been conducted through Dexta Corporation, was underwritten by Allianz. Dexta withdrew from the market on 10 April, and we were in some trouble. New South Wales and Victoria quickly moved to provide a scheme in partnership with Allianz to put in place the necessary reinsurance that would allow Dexta Corporation to continue in the home loan warranty insurance market.

One of the reasons they did that there and we did not do it here—and I have been criticised for it—was that, from advice I had about the different markets, the market share between the relative schemes in those states was not 50-50 but was two sizeable chunks of the market. In South Australia, we found after the collapse of HIH that, whilst MBA lost its insurer, because of the small nature of our market Royal & Sun Alliance was able quickly to come in and say, 'We have the capacity to cover all builders in this state, provided that they meet a certain level of liquidity, without affecting our national spread of market share.' No insurance company wants to take on all the risk in a market. That would be a pretty dumb thing to do. But you can do that in South Australia and not really alter your national spread of risk.

Of course, that meant that some builders who had insured through HIH, who paid cheap premiums for it—and who, it

would appear, were able to get insurance with lower levels of liquidity than Royal & Sun Alliance would accept—had trouble. That is because HIH had clearly been underpricing and signing up builders without giving due regard to the balance sheet strength of respective builders. That was not always the case as to why some builders could not obtain insurance, but it certainly meant that some who had obtained it before could not get it. There was a backlog, and we put a lot of pressure on Royal & Sun Alliance. Its representatives have written to me, and I have met with them.

They will, and can, cover 100 per cent of the market, provided certain levels of profitability and capital are available with the builders. They have told us what they are, and they do not seem unreasonable to me; they do not seem unreasonable according to other advice that I have had, and they do not seem unreasonable to the Housing Industry Association. I think it has to be said (and I do not want to overplay this, but we cannot avoid it) that there is a blue between HIA and MBA. The schism between those two groups makes some of the respective blues within our own political parties look like a Sunday afternoon picnic. So, there is a problem, and what you are seeing is that some of those tensions have overplayed the issue to some extent.

My colleague the Attorney has put in place a number of measures for exemptions, which are working. I understand that early in July Royal & Sun Alliance provided its product through another six or eight brokers (I cannot remember the exact number), including MBA—I understand that MBA is now able to provide Royal & Sun Alliance Insurance as a broker. There was talk of a small company called Reward (I believe from Western Australia) coming into the market; apparently it has started advertising. But the big press news (and it was not reported in our local papers) was confirmation of what we were told in a meeting; that NRMA is looking at entering this market very soon, certainly in New South Wales—

An honourable member interjecting:

The Hon. K.O. FOLEY: Yes, once it sorts out a chairman, a CEO, a board and whatever else. If it gets down to what it is there to do and provide insurance, one is hopeful that NRMA will enter the eastern states market very soon, and that will obviously mean that it will be available in this market. I have been subject to much criticism. I had a protest outside the office, which was the first time I have had one. It was not a big one; nonetheless, it was a protest. And I have had a number of fiery meetings and been questioned in the parliament and criticised and so on. However, I think that, in the end, our position has been correct—that is, that we want a market-based solution to this issue—and I think that, notwithstanding all the problems, we are heading towards a market-based solution. The great temptation in this, with respect to public liability insurance, is that, if we are not careful, we will find ourselves back in the insurance business, and that is something that I want to resist. The last time we did that as a state there were horrendous consequences, and that is not an option that I want to consider.

The Hon. I.F. EVANS: On 1 June 2001, as the then shadow treasurer, the Treasurer said the following on Radio 5DN:

... what the government's done this year... is taking money from the assets of the old State Bank and it's taken capital from the Government Financing Authority, moved it into the budget to prop up the budget bottom line... really is a trick... a smokescreen...

Given the Treasurer's use of SAAMC and SAFA dividends to produce a surplus this year, does he still believe that such

actions are a trick and a smokescreen? If not, how is it different?

The Hon. K.O. FOLEY: That is a good question. As I said, one says a number of things in opposition that one then considers under advisement in government, and one can form different views—sometimes they are complementary to what one has said, and sometimes there is a slight difference. The point is that the former government (of which the member was a part) used dividends from SAFA and SAAMC to smooth budget outcomes, and we have adopted that as a process that is appropriate in the circumstance—

The Hon. I.F. EVANS: Is it a smokescreen—

The Hon. K.O. FOLEY: The member says those things, and I think—

The Hon. I.F. EVANS: No, I didn't; you did.

The Hon. K.O. FOLEY: That is what I am saying: I said that. And I think Rob Lucas (and do not quote me exactly) said words to the effect that Foley had fiddled the books, and all sorts of things. I have listened to speech after speech in this place where I have been accused of that by members on the other side—and, I suspect, the member who asked this question, but I would have to read *Hansard* and check exactly what he said. I reckon I have known you long enough, Iain, to work out what you would have said. You would have said something like, 'Foley has fiddled the books'. Mate, you say things in opposition. If I can give you any advice for while you are in opposition, be careful what you say as it often comes back. I said things in opposition, you are saying things in opposition, Rob did things in government with dividends. I am assuring a good budget outcome and, at the end of the day, it all comes out in the wash.

The Hon. I.F. EVANS: I thank the minister for his advice, but my advice to the minister is that things ministers say on the record often come back with far more vengeance than things you say in opposition. The budget papers say that within this period annual returns may be volatile: indeed negative returns may be experienced in two years out of eight. I refer to Funds SA. If negative returns are expected two years in eight, why has there been a budget impact this year after one year of negative growth in 2001-02 and is it standard practice for total income of unfunded superannuation liabilities to be adjusted up or down each year as a direct result of each year's above or below average level of performance?

The Hon. K.O. FOLEY: I will obtain an answer on that after I have consulted. My first budget has been one of those eight years. On advice, it would not be standard practice if the variation were of a minor nature, but you have to understand the quantum of this turnaround. I am not critical of your government, as you did the right thing, but you decided, back in the Stephen Baker days, to fully fund liabilities and you built in an expected return every year of 7.5 per cent. So, you factored a return of 7.5 per cent into your forward estimates as what we would achieve.

The advice with which I am provided is that if there had been a small variation, say, 7 per cent instead of 7.5 per cent or 6.5 per cent instead of 7.5 per cent, you may not have made an alteration, but understand the severity of this one: it is minus 4 per cent—an 11.5 per cent turnaround. You have to adjust your numbers. You cannot ignore that and it has had a significant cash impact and a significant accrual impact on the bottom line. Trust me, if I could have avoided it I would have. There is nothing in it for me to put an extra \$20 million or \$30 million to the bottom line as a hit on this, but the advice was that I had to, given the severity of the losses. It is

one year out of eight, but one only has to look at what has happened in the financial markets, particularly in the US, in the months leading into 30 June when it was in free fall. That is reflected in our assessments as to what the impact would be to fully fund the scheme for the next 34 years.

The Hon. I.F. EVANS: Can Funds SA confirm that its current investment strategy does not include direct property investments and was that decision taken because the Funds SA Board and its advisers believe that, in balancing risk and returns in their investment, direct purchase of commercial properties was not appropriate for Funds SA? Will the Treasurer confirm that?

The Hon. K.O. FOLEY: I will get advice on that, but I think you know the answer because it was under both Rob Lucas and Stephen Baker, I assume, that Funds SA divested itself of a lot of lumpy buildings it owned. The advice I am given is that the policy initiated under your government—and has continued without any change by me—is that there is property exposure, but it is through both listed and unlisted property trusts. I am advised that there are no direct property investments. I am advised that Funds SA divested, under the former government, its assets in lumpy and one-off buildings but retains a spread of equities, shares and investments in listed and unlisted property trusts.

The Hon. I.F. EVANS: So the current investment strategy does not include proposals for direct property investments?

The Hon. K.O. FOLEY: I am advised that we do not have direct property interests, except where we have invested through unlisted property trusts where a vehicle may have 10 or 15 buildings, but I am advised that there are none. Certainly I can advise that there had not been a direction or instruction from the government to change Funds SA's policy of investment, but I will certainly take it on notice to ensure that Funds SA provides me with a more detailed answer to your question to ensure there is something in the books somewhere that the honourable member could be referring to, but the advice I have is that that is not the case.

The CHAIRMAN: In relation to vehicles, years ago the government used to purchase and make a profit on sale and I understand that currently vehicles are leased. It has become less profitable since the GST has come in. What is the current situation with government vehicles? Does the government in effect lose on the whole deal or does it break even?

The Hon. K.O. FOLEY: In May 1996 the South Australian Liberal government sold its light vehicle fleet to the Commonwealth Bank of Australia and leased back the fleet under a vehicle lease facility provided by the CBA. The economic benefits of the transaction were based on certain assumptions as to tax treatment and residual values for vehicles remaining the same for the life of the CBA fleet transaction. Certain of these assumptions have changed since commencement of the CBA fleet transaction, impacting on the cost of the transaction. A recent review of the transaction by the South Australian Finance Authority found that the changed assumptions have reduced the initial benefit of the transaction.

A report is currently being prepared for the government as to whether to continue or terminate the CBA fleet transaction. The government treats the CBA fleet transaction as a financial lease. The value of the lease liability recorded in the state's balance sheet is currently in question. The Auditor-General qualified the 2000-01 accounts of the department for administrative services on this point, stating that the department for administrative services had undervalued its liability

with respect to the CBA fleet transaction by approximately \$77 million. According to DAIS (department for administrative services) the transaction will continue to be treated in the same manner as for 2000-01. This may result in the 2001-02 accounts also being qualified. The changing assumptions have been key tax assumptions, including depreciation, the introduction of pay as you go method (the MIRSA method), the introduction of a GST corporate tax rate of 30 per cent, and prepaid expenses deductible on an accrual basis, previously on a cash basis. I hope that gives some answer to you, Mr Chairman.

The CHAIRMAN: The other matter in which I am interested is moneys derived from the sale of land, whether they be from surplus school properties and also open space which is sold for housing. You might need to take that on notice. I am interested in what has happened over recent years and what is happening.

The Hon. K.O. FOLEY: I am happy to get an answer for you, Mr Chairman. I say at the outset that one of the things that I have been coming to grips with in government is that very policy issue of how you treat the sale of land, and, for example, Mr Chairman, as you would know, in your area the government has sold some land. It is for debate between Treasury and SA Water as to how we will bring that into the budget. We will sort out that rather large transaction as to how much will come back to Treasury. It is an issue with schools. We are pondering that issue now. It is something the education minister and I have talked about. How do you treat the sale of surplus land at a school? How do you provide incentives to schools to best use their allocated space? These are very important policy questions for government and, like the previous government, we are grappling with that one as we speak. Mr Chairman, I will be happy to take that on notice and come back to you with a more considered reply.

The CHAIRMAN: I was particularly interested in that, given that SA Water compulsorily acquired that land at Happy Valley many years ago from the Trott family. In recent times, the department said that it needed to sell it to fund some capital works—the upgrade of the bypass drain at Happy Valley reservoir. Now it is saying that it does not need to be upgraded. Presumably, the \$8 million goes into SA Water's fund. I have a particular interest in that matter.

Mr SNELLING: How has the Treasurer and Treasury been involved in the medical indemnity debate?

The Hon. K.O. FOLEY: It seems that, for reasons for which I still do not have an adequate explanation, as the Treasurer of this state I am responsible for every insurance problem. I am sure that was done before I came into government or I had too much on my mind and fell into this. It seems that anything that is an insurance problem now is for the Treasurer to fix—or at least attempt to fix. I went through a fairly lengthy discussion about home builders' warranty insurance. The committee would be aware that in relation to the matter of public liability legislation—which we will have before the house shortly—the government wants to legislate on a number of measures—caucus and cabinet permitting, of course, because we have not gone through the due processes internally and nor have the caucus and shadow cabinet of the opposition.

We will put in place some pretty important measures to address—where we can—the issues of public liability insurance. I say that in the context of the medical indemnity insurance issue, because as a parliament we need to be prepared to address some of these threshold issues. I hope the opposition will back me on this—indeed, I hope my own

party will back me on this, as well, I might add—because ultimately we will have to do some significant law reform. The government is determined to do that, and a process has been under way now for some weeks with my officers and staff to ensure that we consult widely. I know that members of the opposition will debate it internally, but I encourage them to consult widely, as we have done, and we are coming up with a package of reforms. We have consulted the shadow attorney, and I understand that the shadow cabinet will look at the matter soon. We hope to get that legislation through the lower house in the first week after our return, and it can then be dealt with in the upper house. We must do something quickly: there is no option to do nothing.

So, where do we go with medical indemnity? Some of the things we are doing in regard to public liability will have some impact—although I have to say that it will be limited impact. Following the National Medical Indemnity Forum held on 23 April 2002, health ministers issued a communiqué in which they agreed to work with the Standing Committee of Attorneys-General and the heads of Treasury to find some solutions to the problem of rapidly rising premiums for medical indemnity insurance.

The general damages reforms contained in three draft bills released for public comment will help tackle rising premiums. They are the sorts of measures that are contained within the draft legislation that we have put out for consultation. However, there are more significant issues that the AMA wants governments to consider. I do not have a position on that and, at this point, the government does not have a position on that. I understand that the next meeting of state treasurers, which I think is in early September, will discuss the issue of medical indemnity.

Senator Helen Coonan has, to date, done a very good job. Working with Helen has been a good process, but I suspect that the relationships between the states and the commonwealth, whilst they have been reasonably collegiate to this point, will be strained when we get to some of the harder issues because, ultimately, I think the commonwealth government will have to bear a bigger burden. I think what it has done in relation to public liability is minimalist, and it has put a lot of responsibility on state law. However, I suspect that in regard to some of the health issues there must be a more significant contribution from the commonwealth in any resolution. So I will keep parliament informed as matters progress on that issue. I really cannot offer much more comment at this point.

Mr SNELLING: Can the Treasurer inform the committee how SAICORP has assisted and been involved in the improvement of risk management standards and practices in government agencies during the last year?

The Hon. K.O. FOLEY: Risk management in government agencies is a problem. What are we doing about it? Over the last year, SAICORP's risk management coordinator has continued to coordinate regular meetings of a network of officers associated with risk management activities in government agencies; arrange government risk management forum meetings to discuss current risk management topics in general and particular initiatives being introduced by agencies; publish regular issues of a SAICORP newsletter within government (copies of which are readily available to members); promote to agencies the benefits of ARIMA Ltd (the Association for Risk Managers); and act as a member of the state executive of ARIMA and a member of the organising committee for the Risk Odyssey 2002 conference run by

the SA Chapter of ARIMA. I opened that conference, I might add: I was there.

The Risk Management Coordinator also coordinated a breakfast seminar and a series of half-day workshop seminars in association with ARIMA on the theme of 'Achieving Sound Corporate Governance'. This involved both government agencies and local councils. The Chief Executive of the Department of Premier and Cabinet (Mr Warren McCann) was the host of the breakfast seminar.

The Risk Management Coordinator was also a member of the committee established by the Office for Volunteers to evaluate the responses received to a request for a proposal for a risk management education program for non-profit organisations. I am advised that a strategic planning group has been appointed to develop and deliver the program which will include the provision of appropriate tools to enable volunteer groups to assess their level of risk and design their own risk management plans and the provision of information and advice as to how to manage and minimise these risks.

Mr SNELLING: Will the Treasurer explain how Funds SA's investment strategy compares with that of other funds?

The Hon. K.O. FOLEY: The strategic asset allocation of Funds SA's balanced fund is available for perusal compared to the average recorded by the 30-plus funds in the Mercer Pooled Superannuation Trust survey as at 31 May 2002. Funds SA's strategy differs mildly from the Mercer average for the following reasons. Funds SA's higher weighting to international equities is 33 per cent versus 24.1 per cent. That has provided greater investment diversification than is available internationally. Of course, international markets comprise over 7 200 stocks in more than 22 countries compared with only 300 stocks in the single market place of Australia. However, Funds SA hedges the currency exposure of one-third of the allocation to international equities to control the level of currency impact on the overall portfolio. The trend, nevertheless, is for funds generally to increase their level of overseas equity holdings for the diversification reasons stated above.

Higher weighting to inflation linked bonds compared with Mercer is 12 per cent versus 1.5 per cent. This reflects the value of removing the inflation risk from a portion of the portfolio and a higher weighting to international fixed interest (8 per cent versus 6.3 per cent) at the expense of Australian fixed interest, and this again reflects the greater investment opportunity available internationally. Australia comprises less than 1 per cent of the stock of bonds on issue globally.

I think the important point is that there is a higher weighting to international equities. It has served the fund well for a number of years and, given what is happening on the global markets now, it is partly the reason why we are seeing negative returns. As we all know, when you are a long-term investor it is the average not the one on-year impact. Nonetheless, when you have an unfunded liability that you have to fund, as I said earlier, you have to take account of the budget impact of a negative year. I think all members of government superannuation funds can be very confident that the performance of Funds SA is strong and will continue to be strong. As we know, you invest for the long term not for the short term, and current gyrations in the markets should in large part be ignored if you are an investor.

Mrs HALL: Can Funds SA indicate how its performance over one, three and five years now ranks with the other super funds; over the past year has Funds SA exceeded its own

benchmark; and what is Funds SA's performance this year from 1 March to 30 July?

The Hon. K.O. FOLEY: I can only talk about the defined benefits scheme or the balanced fund because the growth fund has been in operation for only a couple of years and no serious comparison can be made. For the defined benefit fund, the eight year nominal return was 8.2 per cent per annum; seven years, 8.7 per cent; five years, 7.8 per cent; three years, 5.6 per cent; one year, minus 5.4 per cent. That is the year that we are in. That is why budgetary account must be taken of that. As I said, a negative return may be recorded in two out of eight years. The minimum investment period that is recommended by Funds SA is eight years. Over eight years, the actual real rate of return was 5.4 per cent, so when taken over the eight years it has given a pretty sizeable real rate of return.

For the SSS scheme, the balanced fund, seven years is 9.2 per cent; five years, 7.5 per cent; three years, 5 per cent; and the one year result, minus 3.7 per cent. For the defined benefit fund, the five year result was second out of 29 funds and the three year result was fifth out of 34 funds. That is what I have been advised.

Mrs HALL: Budget Paper 3, page 1.9, states that a number of other factors have also impacted on the level of superannuation liabilities. Would the Treasurer inform the committee what the other factors are?

The Hon. K.O. FOLEY: I will take that on notice because I would like to give the member a more complete answer. Preliminary advice is that actuarial assessments are a factor, and one of the other factors is that people are living longer. The mortality rates have changed which I think members would admit is a good thing, but that increases liability. Factors include salary growth, pension increase and, as so eloquently put in the budget, membership mortality rates. We will take that question on notice and get a more considered answer.

Mrs HALL: The Treasurer has announced that one of his priorities in this budget is the purchase and refurbishment of the Reserve Bank building at a cost of about \$17 million. Can the CEO of MAC confirm that he and the former chairman of MAC, Dr Roger Sexton, met with the former treasurer prior to the election and that Dr Sexton told him that MAC had been asked by Treasury to look at purchasing the Reserve Bank building and that MAC had strongly rejected the project as it was not financially viable? Also, there were significant refurbishment costs and the purchase did not meet the investment criteria of MAC.

The Hon. K.O. FOLEY: I am not sure what the purpose of the question is, but if that meeting occurred obviously the former treasurer can give the answer. I am glad that the Motor Accident Commission would take a view about buying a building in the CBD of Adelaide for its investment portfolio. This is for a different purpose. This is an accommodation need of government, as I explained earlier, and the government would assess it under a different set of criteria.

If the MAC board was of the view that the Reserve Bank building was not an investment which they wanted to add to its portfolio, that was a decision for the board. What government is faced with is an accommodation shortage, and with the physical location of the Reserve Bank building, as you know next to the State Administration Centre building, it is looked at from a different perspective. We are aware that there are refurbishment costs associated with the building, including asbestos issues, and they have been taken into

account. I will just ask if my officers want me to add anything more.

I think the answer is adequate. There is no question that a meeting occurred. I assume that the former treasurer seemed to be relaxed about it—maybe he was, maybe he was not, I don't know. The sound opinion about it as an investment opportunity for the Motor Accident Commission, that has a set of returns it needs to achieve to properly manage its investment portfolio, did not see the building as an attractive investment option for the Motor Accident Commission. That gives me comfort that the Motor Accident Commission has sound judgment on investment opportunities, but that is a distinctly different issue from whether or not the government should acquire the building for its accommodation needs. The government is not looking at it as an investment: it is looking at it to address its accommodation needs.

We will do a full analysis of the benefits to government, taking into account refurbishment costs as compared with other accommodation options. I can assure members that this issue was raised with me early in government and I asked a number of questions of government officers before both I and the Minister for Administrative Services, I think it was, were prepared to go ahead with it. It was two different criteria by which one measured and decided whether or not it was an appropriate acquisition.

Mrs GERAGHTY: Can the Treasurer outline what activities the Motor Accident Commission plans to implement as part of its ongoing campaign to combat fraudulent claims?

The Hon. K.O. FOLEY: The claims manager for compulsory third party (CTP) insurance, SGIC, has a fraud investigation unit. This unit is assisted by members of the general public who inform the unit of claimants who may be defrauding the Motor Accident Commission. It has been estimated by the insurance industry that approximately 5 per cent of claim payments are paid in fraudulent claims. This represents a cost to the CTP fund in the vicinity of \$10 million per annum, a contributing factor to CTP premium increases.

In 1995, 1997 and 2000 the Motor Accident Commission and the SGIC conducted a highly successful advertising campaign that generated a significant number of calls from the public. This has resulted in savings to the Motor Accident Commission's CTP fund of at least \$2 million. It is expected that more savings will accrue as a number of matters are still being determined by the courts. The 2000 antifraud campaign cost approximately \$115 000, so not a bad bang for your buck in terms of return. In addition to the direct savings, unquantifiable benefits are obtained through fraudulent claims being voluntarily withdrawn and through those who might otherwise be tempted to lodge false claims being warned off.

The Motor Accident Commission has emphasised the link between fraudulent claims and higher premium levels and the public has responded accordingly, as these statistics that I can give you indicate. The number of calls in 1995 were 176; 1997, 220 (an increase of 25 per cent); and 2000, 287 (a 30 per cent increase). It should be noted that during all three campaigns, other non-CTP, fraud activities were reported and passed on to appropriate authorities.

Mrs GERAGHTY: Treasurer, you may have answered this question but I think it is important to raise it, anyway. What assurances does the government have that the significant increase in expenditure on the road safety advertising campaign in the mass media (about which we spoke) by MAC is an appropriate utilisation of your funds?

The Hon. K.O. FOLEY: I think I have answered that in part. It is a good return for the Motor Accident Commission. I am satisfied and I think—

Mrs GERAGHTY: That's okay, if you're satisfied.

The Hon. K.O. FOLEY: Yes, we get a good bang for our buck. Given that we are running out of time, I am happy to take some more questions from the opposition.

Mrs REDMOND: The first of my questions is very similar in its format to one already asked regarding Funds SA and it is as follows. Can the MAC indicate how its funds management performance over one, three and five years compares with any other comparable funds management index? Over the last year, has MAC's funds management performance exceeded its own benchmark? What has been MAC's performance from 1 March to 31 July this year?

The Hon. K.O. FOLEY: Bearing in mind, of course, that the Motor Accident Commission would have a different investment criteria from Funds SA, given the different types of their businesses, I am happy to give the member a run-down of the asset allocation of the strategy adopted by MAC: Australian equities, 18 per cent; international equities, 12 per cent; listed property, 2.5 per cent; direct property, 7.5 per cent; index bonds, 5 per cent; fixed interest—very high weighting—50 per cent; and cash, 5 per cent. All those asset classes are within the approved ranges around those targets.

The asset allocation is weighted towards the fixed interest sector to ensure preservation of capital and the matching of assets with MAC's interest rate, sensitivity, liability profile. The year to date performance of 30 June 2002 for the MAC fund was 1.3 per cent compared with 2 per cent for the year to date benchmark. I will give the member a quick run-down. In 1997, the fund performed at 13.7; 1998, 8.2; 1999, 7.9; 2000, 8.9; 2001, 8.1; 2002, 1.3. That takes into account the negative performance in the equities markets, particularly international. However, bear in mind that that structure, in terms of investments, is totally different to that of Funds SA. It has a different motivation for the structure of its funds. It is heavily weighted towards fixed interest.

Mrs REDMOND: Treasurer, you have raised public liability issues in answer to previous questions from the member for Playford. Have you or your officers made any arrangement for government funding to be made available to the Pichi Richi railway to offset or provide financial support for indemnity insurance costs?

The Hon. K.O. FOLEY: To the best of my knowledge that did not occur, but I am happy to take that question on notice and provide the honourable member with a written response—but not that I am aware of.

Mrs REDMOND: Treasurer, are you or any of your advisers aware of any meeting at which, or arrangement whereby, any minister for the crown or officer may have made available funding intended for the Pichi Richi railway to meet indemnity insurance costs through another agency or third party?

The Hon. K.O. FOLEY: I will take that question on notice.

The Hon. I.F. EVANS: Are the minister or his officers aware of any arrangement by any government minister to make government funding available to the Pichi Richi railway to meet the costs of indemnity insurance, either directly or indirectly?

The Hon. K.O. FOLEY: That is the same question. As I said, I am happy to take that question on notice and provide a considered reply. I am happy to do that.

The CHAIRMAN: Before I close off those payment lines, Treasurer, can you indicate how you and the other minister intend to handle the overlapping portfolio responsibilities from 5 p.m. to 10 p.m.? Will you be here for part of the time?

The Hon. K.O. FOLEY: No. I understand that the energy minister will be arriving at 5 p.m. He will handle matters relating to SA Water, Land Management Corporation and SA Lotteries this afternoon and this evening. I want to clarify the issue of closing off the lines. I assume that we cannot close off the lines because government enterprises and SA Water are considered in the Treasury lines. Whilst they report to a separate minister, the agency—

The CHAIRMAN: The Treasurer is correct. We will not close off the line. We will suspend until 5 p.m., until the minister responsible for government enterprises and energy arrives. We will not close off any lines relating to Treasury at this point.

[Sitting suspended from 4.50 to 5 p.m.]

Additional Witness:

The Hon. P.F. Conlon, Minister for Energy.

Departmental Advisers:

Ms V. Pring, Director, Infrastructure, Department of Treasury and Finance.

Mr J. Robinson, General Manager, Microeconomic Reform and Infrastructure.

Membership:

Mr Scalzi substituted for Mr Evans.

The Hon. W.A. Matthew substituted for Mrs Redmond.

The CHAIRMAN: Welcome minister. We now continue under the same Treasury line and focus on energy until 6 p.m. According to my schedule, the break is 6 p.m. until 7.30 p.m.; energy and electricity until 8 p.m. and then we switch to SA Water until 8.45 p.m. From 8.45 to 9.30 p.m. Land Management Corporation, Forestry SA, Industrial and Commercial Premises Corporation; from 9.30 to 10 p.m., SA Lotteries, OGE Assets Sales, Ports Corp, SA TAB, to finish no later than 10 p.m. Minister, did you wish to make any statement?

The Hon. P.F. CONLON: No. I indicated earlier to the Deputy Leader of the Opposition that I prefer that only the lead minister of each day make a statement, in order to reserve as much time as possible for the opposition to examine the budget.

The CHAIRMAN: Will the minister indicate whether there has been a change in advisers and provide the names of his advisers?

The Hon. P.F. CONLON: I am not too sure who was here before but I have John Robinson on my left, and Vivienne Pring on my far left—I mean that purely geographically—and on my right—and I mean that more than geographically—is Gino DeGennaro from Treasury.

The CHAIRMAN: Does the lead speaker for the opposition wish to make a brief statement?

The Hon. W.A. MATTHEW: A very brief opening statement, Mr Chairman, yes. Few issues during my 13 years in parliament have been as controversial, as hotly debated or as mischievously manipulated as matters pertaining to electricity. In the lead-up to the last election many reckless statements were made by the then Labor opposition. Now

those reckless statements have come home to roost as the Lewis/Labor government must continue the program that was commenced by the Liberal government. Labor must now recognise that the program being progressed by the Liberal government was a correct one and that the decisions made were appropriate.

Notably, Labor in its post-election action, as distinct from its pre-election rhetoric, has followed the path that was established, albeit with significantly less pace. It is imperative that legislative and regulatory change, and other systems, are put in place rapidly, as the time clock is ticking, and 1 January 2003—when South Australian householders enter the contestable market—approaches. There are signs that Labor is struggling to make that time line.

Certainly one company, the existing electricity retailer AGL, will be ready on 1 January 2003. Origin Energy and TXU have publicly flagged their interest in entering the market, but the questions remain: will government be ready to accept them by 1 January 2003, and will government have provided sufficient information to enable companies to prepare themselves to actually enter the market by 1 January 2003?

Certainly, too, AGL, Origin Energy and TXU have previously indicated to the Liberal government their desire to enter into the contestable market. We are concerned that with the amount of information presently available to companies, they may not be ready by 1 January 2003. Now that Labor, together with the member for Hammond, has the responsibility of government it must not only continue with the work of preparing South Australian households for deregulation but, importantly, it must continue with the work of ensuring that there are adequate electricity supplies to meet demand.

Labor should now at least admit that its rhetoric in relation to electricity supplies was that of political opportunism, and was mischievous and wrong. I ask the minister to reflect on this fact but, should he choose not to do so, he of course provides the Liberal Party with the same opportunity to indulge in the same mischief. In my view that achieves nothing in the state's best interest. I present to the committee the following facts:

South Australia has seen a staggering increase in its consumption from approximately 9 500 gigawatt hours in 1997 to 11 260 gigawatt hours in 2002—an increase of 18.5 per cent in just five years. This was the demand that the Liberal government had to accommodate. The huge growth in demand for electricity came about for two main reasons: growth in industry as a consequence of the robust growth in our economy, and growth in household demand principally as a result of increased air-conditioning ownership.

Examining electricity usage in South Australia over just the past three years: in 1999 in South Australia it was 10 456 gigawatts; in 2001, 11 570 gigawatts; and, as I indicated, in 2002, 11 260 gigawatts. The drop from 2001 to 2002 is principally due to the cool summer and I am sure the government appreciates that it should not assume that the growth in this peakiness has now levelled off: indeed, far from it.

Projections prepared by respected consultancy, National Economics, suggest that, based on a 3 per cent growth rate in the economy, 14 600 gigawatts will be required by 2010—9 800 for business and 4 800 for residential use. In 2002, the expectation is that business usage will be 7 250 gigawatts and residential usage 4 000 gigawatts. This is an overall 29.7 per cent increase in the consumption, projected over the next

eight years. Industry consumption will increase by 26 per cent and residential consumption by 20 per cent, with the larger industry consumption factor leading to the overall 29.7 per cent increase.

To be able to meet demand, Labor cannot rely on its pre-election rhetoric. Interconnectors with other states in themselves will not be enough to meet this demand. New power generation capacity will need to be built in South Australia and will inevitably be built by the private sector. Of critical importance will be the state's gas supply. The progress of the SEAGAS project and, equally, of the Duke Energy/GPU project, both desiring the opportunity to bring gas into South Australia from Victoria, will be crucial. However, this must not be seen as the solution to meet our long-term need for more gas to fuel electricity generators. This is simply an interim measure as the resources in this part of Australia are not sufficient to meet our state's long-term needs, 20 years hence.

Therefore, of crucial importance will be the construction of the pipeline from the Timor Sea via Darwin into South Australia. It remains to be seen whether Labor has the vision and the ability to continue with the ground work that has already been started by the former Liberal government to ensure that these things become a reality. I would hope that today's estimates hearing takes us beyond the rhetoric of Labor's pre-election mutterings, and beyond their pre-election fiction, to a factual approach. Only time will tell. Does the minister agree that 'consumer understanding of the electricity supply industry is woeful', and does he accept partial responsibility for this, in view of his statements made in opposition? I wish to make a brief explanation in accord with this question. In a briefing headed, 'Electricity: Consumer Protection Issues', prepared during the caretaker period by the cabinet office, and dated 8 February 2002, the cabinet office advised the minister:

Consumer understanding of the electricity supply industry is woeful. The message needs to be communicated that South Australia has the peakiest demand in the national electricity market, largely due to temperature-sensitive air-conditioning use, and this peakiness is a major cause of the supply and price problems in South Australia.

The Hon. P.F. CONLON: If I understand the question correctly, it is that consumers do not know a lot about the electricity market, and that it is all my fault because of statements I made in opposition. I find the question a little puzzling, as I was not actually the shadow minister for energy or electricity in opposition; I must have been traversing a range of issues, as, of course, is quite likely. I have always considered myself somewhat of a renaissance man.

An honourable member interjecting:

The Hon. P.F. CONLON: The rinascimento, for my friend over there. I will make some comments on the question and the rather extraordinary statement of the member for Bright in his opening. I must say that I am glad to see that, in opposition, he has learnt something about electricity which he never appeared to know when he was in government—it is nice for him to be able to recite all those gigawatts for us.

The proposition that the new government is continuing what was done by the former Liberal government, and continuing in the same vein, is the most preposterous nonsense that I have ever heard. Let me make it absolutely plain: the previous government was absolutely and thoroughly asleep at the wheel on our energy requirements!

I will bring the former minister up to date on one thing: I do not think the Duke Group has a proposal for a pipeline

anymore. If you check the papers from a few days ago, I think you will find that their intellectual property was sold to TXU, which is now looking at whether it will be doing that.

But let me make plain the fundamental difference between the two approaches: one approach was that the former Liberal government believed that all it had to do was privatise all the electricity assets and the world would cure itself. I ask you to contrast the preparation for the previous rounds, the last tranche of contestability for 160 megawatt plus customers, where in the month prior to full retail contestability for those customers the previous Liberal government was still telling businesses that prices would go down with contestability.

The former minister has managed to read out all the problems that they faced—and I suspect that he has learnt them very recently—but what he cannot explain is why his former government was explaining to people, only the month before, that prices would go down with retail contestability: they all had to run out and try to find contracts, in which they suffered an average 35 per cent increase in electricity bills, with some ranging up to 100 per cent.

I can absolutely assure the member for Bright that that is not the approach we have taken. Since being elected in March, we have commenced to do work that should have been done a long time ago, and I would urge the member for Bright not to go too far down this path, because as far as we can ascertain from our records—and I have sitting on my left the most important bureaucrat, John Robinson, with whom, since coming to government, I have met on a more than weekly basis—the former minister met with him once.

That is not the approach we are taking, and I will outline the approach we are taking. We have already, in the parliament, introduced the essential services commission legislation. I am astonished to find that that is the same as the approach of the previous government because if it was their idea, it never mentioned it; and we have introduced amendments to the Electricity Act. I can take comfort from the comments from the member for Bright which mean that they are finally seeing the light and will be supporting our pieces of legislation. But I can indicate to the member for Bright that we will be holding them to their word; we will be marking the essential services commission as a bill of special importance. So, if the member for Bright is brave enough, he can encourage his party to support it or oppose it—whatever the consequences are.

But let me say this: there has been an enormous amount of work. The timetable for full retail contestability was not assisted by the previous government's clinging on for so long after it plainly had lost the confidence of the parliament and waiting for a vote in parliament before accepting the obvious. That was of no assistance to us in preparing for full retail contestability, and it was no assistance to the businesses about which the former minister now claims he is concerned.

I can also say that not a lot of ground work was done when we took over. I will concede that some work was done on metrology procedures, but I can tell you that a great deal more than that was necessary for full retail contestability. We have commenced that work. We are not telling people that their prices will go down with full retail contestability, as the previous mob did, because we know that is not the case and, if the former minister had thought about some of the figures which he quoted there at some length, he would have realised the cost pressures and the sort of pressures that people would face when they became contestable.

We will be establishing the Essential Services Commission, and it will do all that it can to make sure that retail

prices after 1 January are at least justifiable and fair. What we cannot do is prevent the wash-through of very bad policy and planning by the previous government, and it is likely that there will be significant increases; and we cannot artificially depress those increases because at this point we cannot control the wholesale price and we cannot make retailers sell electricity more cheaply than they buy it.

There are a number of issues about the wholesale price that we have been addressing. I can indicate that the national electricity ministers' conference has made some progress in reinserting some policy drive into the national market, but I understand that the wholesale price is beyond any one state's control. However, a number of factors that might have been addressed by the previous government in relation to wholesale price never were. In particular, immediately prior to deciding to sell the electricity assets, it had been a supporter of the SNI then Riverlink interconnector. Once deciding to sell the assets, it turned its back on that and in fact began to oppose the Riverlink interconnector. To this point the Riverlink interconnector has not been built.

We are fighting hard in the National Electricity Tribunal in regard to that, but let us be absolutely plain: bearing in mind the cost pressures on the wholesale price, driven, as the former minister says, largely by the very peaky demand shape in South Australia, we would have been in a much better position to address those cost pressures through peaky demand if we had access to interconnector electricity from New South Wales. We do not have that because all the previous government was interested in and was obsessed with was increasing the price of the electricity assets and privatisation.

So, do I admit that the consumers have a low level of knowledge of it? Well, I would, but I certainly do not blame the consumers for that. The previous government had done nothing to prepare people for FRC at any stage, at any tranche. We could not find anything in the budget bilateral set aside for education at FRC, and I am sure it would have occurred—

Member interjecting:

The Hon. P.F. CONLON: Well, if we had found the money we would have been using it, but there was nothing set aside in the bilaterals for FRC. There was a proposal that had never been agreed, as I understand it. Be that as it may, what I can guarantee is that until 9 March this year the people of South Australia had no idea that the government was in the least bit interested in their concerns about electricity, was in the least bit interested in the price that they paid, was in the least bit interested in preparing them for full retail contestability, because the only thing the previous government was interested in was selling their assets—something that the public did not want them to do. I say this to the former minister: we urged the previous government, when it was selling the electricity assets, to mark that bill as a bill of special importance, to front the people on it and see what people thought of that.

They would not do that, but I can tell the former minister that this time round, when we are fixing the problems that they have created, fixing the mess that we have left from them, we will be marking our bills as bills of special importance, and I look forward to the attitude he has then.

The Hon. W.A. MATTHEW: Amongst that incredible rewriting of history, probably the only question that the minister did answer was the one in which I said that only time will tell. They are intent on continuing with their pre-election

fiction. There is no point in my trying to respond to the many areas of fiction that have just been put forward—

The CHAIRMAN: Order!

The Hon. W.A. MATTHEW: —in the minister's statement, but—

The CHAIRMAN: Order! The member for Bright does not speak over the chair. It is not up to the member for Bright to respond: the role of the estimates committee is for members to ask questions of the minister. The member for Bright.

The Hon. W.A. MATTHEW: With your indulgence, sir, in endeavouring to get an answer for my first question I would like to ask a supplementary of the minister. Does the minister now agree with the advice from his advisers that peakiness is the major cause of supply and pricing problems in South Australia?

The Hon. P.F. CONLON: I can assure the former minister that if he bothered reading the Economic and Finance Committee's review on electricity he would find that the committee did a better job of identifying the issues facing South Australia than he did as a minister. I simply refer him to that. The former minister is just being a little nasty here, but I must say that it may not be his fault. We are not actually sure if he wrote the questions himself. With your indulgence, I have a copy of a letter from the Member for Bright, the shadow Minister for Energy, Minerals and Petroleum Resources, to an unnamed business. I have blotted out the name of the business for the sake of its interests and confidentiality. The letter states:

Re state parliamentary budget estimates.

The budget estimates committee of state parliament will question the Minister for Energy at the budget estimates hearing on Tuesday 30 July 2002. Should you or any other member of your company wish to provide me in strict confidence with any questions that you would like asked of the government, I would be happy to discuss this matter with you. Please note that you are the only member of your company to whom I have sent this correspondence.

I am not sure it was the only company, though. It continues:

Please feel free to show it to anyone else in your company whom you deem appropriate. I am contactable via my electorate office. I look forward to hearing from you in the near future.

So, while the questions may seem a little silly and a little nasty, the only defence I can offer for the member for Bright is that perhaps he did not write them himself.

The Hon. W.A. MATTHEW: Does the minister now admit that his claim in parliament that 'electricity will go up in price for South Australian consumers by between 30 and 90 per cent' in his address in response to the budget for 2001 was irresponsible, inflammatory and inaccurate and has contributed to consumer confusion?

The Hon. P.F. CONLON: I really think we should extend the time here, because these questions do deserve a lot of exploration. The proposition of the former minister is that I was irresponsible for suggesting that prices might go up by between 30 and 90 per cent. What is more irresponsible to the people of South Australia is a government that actually allowed prices to go up between 30 and 90 per cent for the last tranche of contestability. The simple fact is that businesses in this state now, if they rely on electricity, are less competitive than they were in the past, because the previous government allowed an increase of 35 per cent on average at the last tranche of contestability and allowed increases beyond those that I suggested up to 100 per cent.

Let me tell you what the previous government was doing before that happened and why many people were so unpre-

pared at the last tranche of contestability. It was because the previous government, right up until the date, was telling them that prices would go down. They were not out there trying to hunt up contracts, they were not out there trying to look after themselves, to prepare themselves: what they were doing was waiting for all the cheap prices that the government had promised them and, instead, the price went up on average by 35 per cent. If the former minister suggests that I am being irresponsible by suggesting to people that it is not how the previous government told you, that we actually face difficulties with full retail contestability, I am afraid I cannot agree.

The Hon. W.A. MATTHEW: How much funding has been allocated to facilitate the implementation of full retail contestability and what ongoing funding is being provided beyond 2003-04 in addition to that?

The Hon. P.F. CONLON: Could the member indicate what aspect of full retail contestability he means? Does he mean the education campaign, the whole parcel?

The Hon. W.A. MATTHEW: As the minister would expect, the question is all encompassing. He has indicated that work is being done towards the implementation of full retail contestability. He has indicated that money has been allocated for an advertising campaign. I think it is appropriate that the full details of those moneys be advised to the committee, as they are not separately identified in any of the budget papers.

The Hon. P.F. CONLON: They are not separately identified because there are different agencies within government doing it. For the education campaign for full retail contestability we have allocated out of the Energy SA budget, which is not in this line, about \$380 000, and we are looking for a contribution from licence holders of a similar amount, up to \$400 000. I will have to get back to the member on other costs because, frankly, we draw on resources from Treasury and Finance. I must say that the Treasurer has been most helpful in providing resources, which were not there when we came to government. The level of resources we inherited to deal with these issues were not what I would have thought a prudent government would have allowed, but I am grateful to the Treasurer that he has provided a great deal of assistance out of Treasury. I will have to talk to him and get back to the member for Bright on just what is coming out of there.

The Hon. W.A. MATTHEW: Mr Chairman, on a point of clarification—and I appreciate that the minister may also have to take this on notice—the minister indicated that there is about \$400 000 from licence holders. Is that happening through existing licence fees, increases to those, or a new licence fee?

The Hon. P.F. CONLON: As I understand it, we are proposing a modest increase in licence fees to cover FRC. In the circumstances, that is only reasonable. The government is making a contribution out of consolidated revenue. We no longer own the assets or have an income stream from them and we are asking licence holders to make a contribution for the cost of FRC because, ultimately, the benefits of FRC should be not only to the customer some time down the track, we hope, when we can get some level of competition in, but to the industry. I make no apology for that.

Mr RAU: I refer to Budget Paper 4, volume 1, pages 2.5 and 2.7. What will the government do to protect consumers when retail electricity becomes contestable in January 2003?

The Hon. P.F. CONLON: As I noted earlier, we are taking a range of steps to protect customers after 1 January. The first step we are taking, of course, is to accept responsi-

bility as a government for addressing the needs of consumers. It is plain, in my view, that the previous government entirely forgot the interests of consumers in its approach to electricity. We face very considerable difficulties. We have been ill-prepared for retail contestability. The government's obsessive preoccupation with selling the electricity assets to the exclusion of other areas of policy has left us in a very poor position. The indication from the last tranche of contestability is, of course, of concern—the average increases of 35 per cent. We are confident that we will not see those sorts of increases for ordinary consumers. They were contract prices set after a hot summer, which we think had some influence on the contract price for the retailers. We are putting in place the good policy and good planning that is necessary to address the long-term issues with respect to wholesale prices. Unfortunately, those things take some considerable time to flow through.

We believe that a strong level of interconnection is a very important issue for South Australia, and we are pursuing that vigorously. As I said, we have become a party to the National Electricity Tribunal's hearings on the SNI interconnector. In particular, to protect consumers from unjustifiable increases, we will be establishing the Essential Services Commission, in order that the regulator will have the full powers to investigate what are the proper boundaries for retail price increases and to ensure that any increase sought by retailers is justifiable. We are in a difficult position. Very little preparation was done, and there is very little retail competition. A number of factors have to come into play before there will be good retail competition. One of the things that, unfortunately, we cannot do is to artificially set a low retail price for electricity because, as I said before, we certainly cannot expect retailers to sell electricity cheaper than they buy it. We have to be able to allow a price that lets people compete; that is, to get new competition.

It is also essential that we get better gas supplies into South Australia. I was quite astonished to hear the views of the former minister about all the good stuff that the previous government had been doing in terms of gas. I look forward to hearing more about what its initiative was regarding the Timor Sea gas, because we had no evidence of it. The only people I know who talked about it was us, and Clare Martin in recent times.

The Hon. W.A. MATTHEW: There was plenty of dialogue between me and Daryl Menzies, and you know it.

The Hon. P.F. CONLON: If we were relying on the former government's getting us gas from the Timor Sea, we would be in a parlous state here. The former government did mandate the SEA Gas pipeline, and we are grateful for that pipeline. But I have made no secret of the fact that, in my view, that was a flawed approach. We have two competing proposals. It was formerly Duke, and now, I think, TXU and SEA Gas to build pipelines from the same place and bring them, essentially, to the same place. The former government should have mandated an approach that required a bigger pipeline and more participants. I would be interested to hear the former minister's views on why that would not have been a wiser approach. We have now encouraged those people to talk together. We are still hopeful that they will see reason, because the situation in which we now find ourselves is that we have SEA Gas starting to build a pipeline and TXU proposing to build a pipeline. I can assure people that, at the end of the day, if that is how we get gas, the cost of two pipelines will be borne by the consumer. These people are

here to make money. The cost of having two pipelines instead of one will be borne by the consumer.

The essential importance of gas is that, if we are to get competition in retail in South Australia, dual fuel is one of the major factors, of course, in allowing retail competition. But at the moment we have a monopoly electricity retailer, and we have one gas retailer. Until such time as we have more participants, more gas, more competition in gas and more competition in electricity retailing, we face a difficult situation. But we are putting in place the planning and policy that is necessary. It is 10 years overdue. I will honestly say that no-one has done proper planning and policy in this area in the past. Unfortunately, we cannot tell people that there is a quick fix for them, because there is not, and it would be irresponsible to try to find one. But we believe that the approach of the current government is the correct one.

Mr SNELLING: Can the minister explain what profiling is and how it will be used when full retail competition occurs?

The Hon. P.F. CONLON: The member for Bright raised the problems about the level of knowledge among ordinary South Australians regarding electricity, and this is one of the areas where there have been frequent misunderstandings. Let me first explain what profiling is not. Profiling is not a proposal whereby people will pay for electricity that they do not use. It is not about determining the average amount of electricity used and charging people, regardless of the electricity they use. In fact, profiling should make no difference at all to the ordinary electricity user. What low profiling does do is allow in a system whereby people do not have interval meters, a method for people to change among retailers. I will go back, because this is a complex issue.

The retailers are charged on the wholesale market for the electricity that their customers use. When a customer changes from one retailer to another, it is necessary to determine not only how much electricity the customer used but also at what time of day they are likely to have used it, because the price of electricity is, of course, set on the spot market. What it does is estimate the low profile, that is, of the consumers, when they use electricity and at what price they were likely to have used it, and come up with a profile for them. It does not mean that people purchasing electricity will really see any difference at all. It is a method of settling the retail market. So, it is a complex issue. Perhaps it is best to say what it is not. I have to stress this point: it is not a system whereby people pay for electricity that they do not use. It is not a system that ordinary consumers will ever notice at all, in my view. I just asked Mr Robinson whether he wants to explain it more clearly, and he shook his head quickly, and that is for good reason.

This raises the issue about an education program, which will be very necessary. One of the things that I think is essential in the education program for consumers at full retail contestability is that we set their mind at ease about what is changing. What is changing is the price of electricity, and that is an unfortunate consequence of the flow through of bad policy. But very little else will change for the ordinary consumer. It is important, when we come up to full retail contestability, to get that message out there. There is not a necessity for people to do anything in particular to deal with full retail contestability. In the fullness of time, we hope that there will be retail competition and that they can have a choice of retailer, and that is something that we are working towards. But it is important to understand that an education campaign is necessary, not simply to inform people of the

workings of the national electricity market but also to assure people that, apart from the price pressures, very little will change.

Mrs GERAGHTY: Can the minister advise whether electricity customers will be required to purchase new meters with the introduction of full retail competition?

The Hon. P.F. CONLON: This issue is related to the previous question about load profiling. The logic of the national electricity market is that it sets the price on the basis of the cost of making electricity at that time and passing it on to consumers. The ideal situation would be for people to have electricity meters in their home that reflect the tariff at that time. These are called interval meters. At present, people have simple accumulation meters that show the amount of electricity used but not at any particular time. Ideally, you would want every home to have an interval meter so that they can choose how much electricity to use, depending on when it is expensive or when it is cheap. Unfortunately, the cost of replacing accumulation meters with interval meters is very expensive. At present, our best estimate is that they would be some \$400 or \$500 per meter at the cheapest.

It is no use providing people with a meter that would allow them to save money when electricity is expensive if it costs them \$400 or \$500 because it will take them 10 years to pay it off before they even achieve any savings. We will allow people to keep their old accumulation meters, and the system of profiling which I spoke about before exists to allow retailers to settle in the wholesale market. The fact that people do not have accumulation meters requires us to establish a load profile for them—that is, a snapshot of how people would use electricity normally—so that, if there is a change of retailer, even though people do not have interval meters, they can still change retailers and the retailers can settle among themselves in terms of the wholesale market. It is not the perfect solution, but it is the optimal one in the light of the cost of meters. Again, I stress our approach has been to have in mind ordinary consumers when it comes to full retail contestability and cushioning them as much as possible from the shocks of full retail contestability.

Mrs HALL: A little earlier the minister made a reference to Energy SA, so this is an information seeking question. The budget papers list the energy minister's responsibilities as being within two agencies: treasury and finance, and primary industries and resources. As Energy SA is similarly listed in both agencies, in which agency is Energy SA actually located?

The Hon. P.F. CONLON: Energy SA is in primary industries at present. I will do another hour of energy next week, reflecting its budget lines. It is not a happy situation to have the responsibility for energy allocated in that fashion. It is the one we have inherited. The former minister shakes his head.

The Hon. W.A. MATTHEW: You transferred it back. I transferred it out four months before the election. It's rot.

The CHAIRMAN: The Chairman will transfer someone out of here shortly. The minister is responding to a question; we do not have debate.

The Hon. P.F. CONLON: It is not a happy situation. We will be reviewing how—

An honourable member interjecting:

The Hon. P.F. CONLON: No, you transferred some people out. It was hopeless, and you know it was hopeless, Wayne. You might actually start taking a sense of responsibility for the bloody disastrous situation we inherited, too, instead of posturing and all the rest of the nonsense.

An honourable member interjecting:

The Hon. P.F. CONLON: This is a bloke who finds his estimates questions from businesses around Australia, thinking that—and, of course, one of Wayne's problems is that—

Members interjecting:

The CHAIRMAN: Order! The committee will not degenerate into personal abuse. The minister should be responding to the budget line.

The Hon. P.F. CONLON: I will, sir. I take the question seriously, because it is a good question. We are reviewing the structure of electricity and energy at present. Whatever the former minister says (and I am prepared to concede that he may have sought some changes in very recent months—but it has certainly been haphazard over the past few years), it is an essentially important issue for South Australia. We believe it needs to be better organised, and we are looking at it at present. Our first priority has been to bed down and budget, and to get to full retail contestability with all the things we need in place. I assure the member that we will have a serious look at how we organise this important area in future. I indicate that we see South Australia's energy requirements as being absolutely essential to our industrial development, not just ordinary consumers. The new government has set up a number of very fine councils on economic development. We are in the process of formalising the energy consumers council with Dick Blandey at present, and we will fit the government department into that overall structure as soon as we can.

Mrs HALL: As a supplementary question (and I would not presume to answer any of the questions or interpret any of the answers that the minister may have given), given the minister's response, what roles are undertaken by Energy SA in each of the two agencies so far? What is the budget allocation for Energy SA in each agency, and how many staff does Energy SA have in each agency?

The Hon. P.F. CONLON: I do not necessarily have the Energy SA budget lines with me, because I was going to deal with that matter next week. From memory, it is a quite small budget by overall government standards. It was \$18.8 million in 2001-02. I will have to get the details, because some of that is off budget and reflects various licence fees. The office of the Technical Regulator is there. In terms of Treasury, I will have to get back to the honourable member, because, to a significant degree, we have been borrowing Treasury resources to this point. We would like to have a lot more money to spend on it, but we do not. I foreshadow—and I will get the details next week—that we have made efficiency savings in Energy SA as well. So, that small budget has still been the subject of savings, because it has been a discipline across government. There have been some unfortunate driven costs there. The cost of our contribution to Warwick Parer's COAG review on energy markets has to come from there, as does our contribution to the national energy ministers' working groups. If there is anything more that the honourable member needs to know about this matter, I will have to give her the detail on Energy SA next week.

Mrs HALL: I look forward to that, minister. How much does the government expect will be allocated by ETSA Utilities in 2002-03 financial year for Powerline Environmental Committee projects in accordance with regulation 8 of the electricity general regulations of 1997? By way of background, the work of that committee has been important to a number of communities around the state, and it never has enough money. I am quite sure that, as minister, you will

always be trying to find more money for a whole range of projects. However, this committee has done some fantastic work over many years.

The amount allocated in 2001-02 was \$4.5 million, and 16 projects were approved for that financial year. In addition, on 24 December 2001, the previous Minister for Minerals and Energy approved six projects for the July to December 2002 construction period: the City of Unley—Unley Road Stage 2; the Rural City of Murray Bridge; the City of Adelaide—Pulteney Street; the City of Onkaparinga; Alexandrina Council—the main street of Mount Compass; and the City of Victor Harbor—Franklin Parade, Victor Harbor, stage 2.

The Hon. P.F. CONLON: We expect the total expenditure for 2002-03 to be \$4 881 211, which is a little more than last year.

Mrs HALL: Can't you be more persuasive?

The Hon. P.F. CONLON: Is that not enough?

Mrs HALL: It's never enough.

The Hon. P.F. CONLON: I understand the member's point of view. There is no doubt that people would love to have all lines underground, but we have to bear in mind that, ultimately, the cost to ETSA Utilities is borne by electricity consumers. It is always a balancing act, and it seems to be well balanced at present.

Mrs HALL: My last question relates to outages in South Australia. The minister may need to take part of this question on notice. Over the years we have seen headlines about disasters with outages and the damage they cause. Reasons for outages range from possums to rats and a whole range of other unmentionable causes. Can the minister provide the committee with a state-by-state comparison over 10 years to give us some indication of South Australia's rating in respect of this very vexed question of outages and the damage that they cause?

The Hon. P.F. CONLON: To answer that question we would have to break it up a lot. As the member would know, outages are caused by a large number of different reasons and are attributable to different sections of the industry. They include failure in the distribution system, sometimes failure in the transmission system, and insufficient power. I will have to take that question on notice to provide proper details of a 10 year comparison. I have some details on the performance of ETSA Utilities, but certainly not over 10 years—only over a year. If the honourable member is looking for that sort of a comparison, I will get it for her. It will take some digging to get that information, but I understand that there have been some changes lately in the way that ETSA views some of these things that have occurred. So, it might be a little more complex than we think, but we will make every effort, and most of that effort will come from private sector utilities.

Mr SCALZI: I refer to Portfolio Statements 2002-03 (Budget Paper 4, volume 1). How much funding has been allocated in this financial year to create the Essential Services Commission and the Essential Services Ombudsman, and how much funding has been allocated for 2003-04 and beyond for their maintenance?

The Hon. P.F. CONLON: As is the case with the present Industry Regulator, the intention is for it to be essentially self-funded. The current South Australian Industry Regulator, Lew Owens, will be the first chair of the new Essential Services Commission. At present, the South Australian Industry Regulator is self-funded through licence contributions, and that is the intention with regard to the new agencies as well. As I understand it, the current Electricity Ombudsman is funded through industry, and that is the intention for

the future as well. Over time, we think efficiencies will be arrived at by rolling all the regulators into one. In due course, the Essential Services Commission will be responsible for gas regulation, which at present is split up in a number of places. PortsCorp, one of the rail links (the name of which I cannot bring to mind immediately) and the service regulation for water—all those issues—should, over time, be incorporated in a more efficient one-stop regulatory system which we hope will reduce the burden across industry.

Mr SCALZI: You say that in the long run it should not cost more, but in the short term how much higher will this figure be than if the existing Industry Regulator and the Electricity Ombudsman were utilised, and what revenue raising measures will be utilised to obtain the funding for these positions?

The Hon. P.F. CONLON: I again indicate that the answers to those questions should be none and none. The Industry Regulator is funded by industry through licence fees, and the Essential Services Commission will be funded by industry through licence fees. If there was to be a complaint, it would come not from the taxpayers or Consolidated Revenue but from the industry, and I indicate that that has not been the case so far.

Mr SCALZI: How many staff will be employed in each of the Essential Services Commission offices and by the Essential Services Ombudsman; how many of these will be additional to the staff already employed by the Independent Industry Regulator and Electricity Ombudsman; and when will these additional appointments be made?

The Hon. P.F. CONLON: Initially, the staff of the Essential Services Commission are likely to be the staff of the Industry Regulator. The Industry Regulator—I hate to use this word—uses consultants a great deal for a lot of its responsibilities because they involve very specialised areas of expertise. The Industry Regulator has not been particularly the responsibility of the government to date. The independence of the regulator will not change. At present, Lew Owens makes his own decisions about staff within the confines of the budget and reports to Treasury each year. We are interested in how much industry pays, but we are not proposing to undermine the independence of the regulator by starting to second-guess him on whom he needs and when he needs them.

Mr SCALZI: Will the government meet its timetable to achieve all necessary implementation steps to enable full retail contestability to commence from 1 January 2003?

The Hon. P.F. CONLON: The honourable member asks whether everyone will be ready to start full retail contestability on 1 January. We have had some complaints and we have put on a lot of pressure, and our best advice at present is that, whilst not all systems will be in place, enough will be in order to allow retail contestability to start on 1 January. I met with ETSA Utilities only a few days ago to make sure that this process was on track. I understand that, whilst all the systems they would like will not be in place on 1 January, sufficient of those systems will be in place to allow full retail contestability to start on the proposed date. I have not had any indication to the contrary from anyone.

[Sitting suspended from 6 to 7.30 p.m.]

Mr RAU: I refer to Budget Paper 4, volume 1, pages 2.5 and 2.7. Can the minister advise what progress was made at the recent NEM ministers' forum?

The Hon. P.F. CONLON: It is an important question. I am happy to say that some considerable progress was made at the last NEM ministers' meeting, and that was very encouraging. I can say that some of us were concerned about the rate of progress, and I was very pleased. There were two important issues for South Australia. One is that we did gain the support of all ministers to deal more seriously with issues of generators gaining the spot price, including a call for bigger penalties and a changed approach. That will be very useful.

As many of you would know, we have notified a pre-determination conference with the ACCC as a result of its draft determination on the NECA recommendations concerning rebidding. That was an encouraging sign, but even more encouraging I thought was the decision of the national electricity ministers to fill the policy vacuum which all commentators agree has existed at the national level. It includes initiatives to direct NECA on certain matters within the national electricity code; an ability also to require NECA to undertake certain inquiries; a commitment to undertake hopefully within 12 months a review of transmission policy; and, very importantly, an undertaking to review the possibility of instituting a single national regulator.

Anyone who knows about regulation and the national electricity market would see positive aspects of that. There may be constitutional difficulties, and there are always difficulties dealing with the ACCC, but it is important that I do not venture into that area. I can indicate that I think we made some genuine progress at the last National Electricity Ministers' forum and that we are very keen to push that along.

Mr RAU: As a supplementary question, I am interested in the answer to that question and some of the questions that have been raised earlier. It seems that you were basically left to have to sort out all these things in circumstances where the previous government made a lot of decisions that you are now having to work through. I was particularly interested in the comments you made before about education, and so forth. Given the complexity of this, how will it be possible to explain these things in a way that the public, not to mention people like humble members who sit further back than you, can understand, so that when these changes occur people at least understand why and do not assume, for example, that it is unilaterally affecting their energy costs?

The Hon. P.F. CONLON: That is a very good question. The answer is a very difficult one to give. I think it is important at a basic level to communicate to people what they need to know in the first instance. What we set out to do in the education campaign for full retail contestability in the first instance was inform people that there is much less to panic about than they might think. While it is a very complex system and there are very serious issues to address, it does not impose a particular burden on people to do anything in particular on 1 January.

I think we have to address the fact that our approach to the national electricity market and electricity is very disconnected from the public understanding, and as a result of that people have quite legitimate reasons to think they are being taken for a ride in another process of deregulation and privatisation. How you get a message across on matters that are very difficult to explain in length to a parliamentary committee is a very complex issue, but it is one we face and one we have to work through.

The Hon. W.A. MATTHEW: I wish to follow up on the answer you gave to a question earlier today by the member

for Hartley, who asked a question in relation to the government's state of readiness to enable companies to be able to enter the market for domestic consumers from 1 January 2003. Forgive me if my accuracy is not as concise as that which *Hansard* will no doubt show of your answer before, but my recollection is that you said something like 'Not all systems will be in place, but sufficient will be in place to allow the commencement of the market.' Are you able to share with the committee what systems will not be in place and what effect, if any, there will be from those systems not being ready by 1 January next year?

The Hon. P.F. CONLON: I am happy to, but I will have to take the bulk of that question on notice. I have had initial advice from ETSA Utilities that they will have sufficient of their systems in place. ETSA Utilities will be the monopoly meterer for retail contestability, and they say they will have the remaining systems in place within six months. I have asked them to meet with our officials to go through that, but they are no longer a government-owned asset, so I will have to get that more detailed information and bring it back to you.

The Hon. W.A. MATTHEW: As a supplementary to obtain further clarification, will the state of readiness of systems in any way affect the entry of other companies such as TXU or Origin into the market who presently are not electricity retailers?

The Hon. P.F. CONLON: That was not the indication to me when I met with ETSA Utilities just a few days ago, but as I understand it—and I am not a technician on these things—the systems that will not be in place are ones that deal with automatic transfers. However, I am advised there will be an ability manually to transfer customers—whether or not manually is the right term, I am not sure—to transfer customers if necessary after 1 January. So there should not be an impediment to others entering the market. As I said, I will bring back the detail.

To put it in context, I referred to a number of structural issues about promoting retail competition, particularly the two fuel issue, and to be frank I do not expect that we will be overloaded by people changing retailer after 1 January. I do not think ETSA Utilities will be overloaded with people changing retailer after 1 January, but the capacity as I understand it for them to enter the market will be there.

The Hon. W.A. MATTHEW: How many staff are presently employed in the Microeconomic Reform and Infrastructure Unit within the Department of Treasury and Finance, and of these staff how many are actually working on electricity-related issues, and for what period of their time? In other words, are they full time on those issues or do they have other duties?

The Hon. P.F. CONLON: You have to understand that I do not actually check up on them on a daily basis. I will see if I can get some information from the manager. We will get back to you shortly instead of taking it on notice.

The Hon. W.A. MATTHEW: While that is being determined, similarly the budget for the Microeconomic Reform Unit is detailed as \$1 947 000. The minister can take this on notice, but could he provide the proportion of that budget that would actually be for electricity-related purposes and the portion that would not?

The Hon. P.F. CONLON: I can certainly do that. As I say, I would have to check with Treasury but I understand that we have probably borrowed a few of its resources in recent times in relation to electricity, but I would have to check that detail. That budget may not reflect all of the expense out of the Department of Treasury and Finance on

full retail contestability and associated matters. In fact, Gino DeGennaro, who is here with me today, is no longer attached to the Microeconomic Reform Unit, but he has happily come along.

The Hon. W.A. MATTHEW: I understand the minister's frustration with the Microeconomic Reform Unit's being in Treasury and Energy SA being in primary industries. When I became electricity minister four months before the election I had the same problem. In fact, staff were physically transferred from the Microeconomic Reform Unit into PIRSA. I find it curious that they are now back in Treasury. To whom does this unit report? Does it report to you, as minister? Does it report to the Treasurer? Does it report to both? How does this reporting arrangement work?

The Hon. P.F. CONLON: I assume that it does some reporting to the Treasurer on some matters. I can assure the honourable member that, in recent months, officers of that unit would not have had a lot of time left on their hands after the requirements we have put on them. I might put on the record the appreciation I have for the work that has been done, particularly in preparing the Essential Services Commission legislation and other amendments to key acts. We put a very hard ask on them and they have been working extremely hard. I must say that I am very pleased with what has been done for us. However, whether they report to the Treasurer, I assume they keep in touch. Apparently they talk to the Treasurer from time to time. I know that the Hon. Mr Foley is very interested in electricity.

Mr RAU: In terms of the electricity market, what role, if any, does the minister see for alternative energy and the new energy sources we have read about in the paper, such as wind generation and so forth? What role does the minister see alternative energy playing in dealing with the supply side of the equation over the next few years?

The Hon. P.F. CONLON: Obviously, we take very seriously the role of renewables in our electricity provision. There are a few difficulties in South Australia and we have faced up to them as well as we can. We did move recently to convert a major contract we had with AGL for electricity with respect to its taking 6 per cent of our needs through renewables, which has been a boost for the Tarong wind farm. As the honourable member would know, the Tarong wind farm at the bottom of the Fleurieu Peninsula will be the biggest in South Australia yet.

We have received many applications for wind farms and a number of serious issues are related to those, one of which is the current structure of the national transmission regulations which, I think, punishes those trying to establish wind farms in that there is a very high cost to connect to the transmission system. Another aspect of wind generation we simply must face up to and be honest about is the very peaking nature of South Australia's demand. The fact that wind farms work at somewhere between 35 and 40 per cent capacity does not make them ideally suited as an addition to our base load.

I have said before that if we could guarantee that the wind would blow on hot days they would be very good. The truth is that wind is not likely to blow on hot days and my experience is that that is one of the things that makes the weather hot. While we have given every encouragement, there are difficulties with that. It is also true that we need, I think, changes in the national regulation, particularly in relation to the method by which extensions to the transmission system to connect wind farms are dealt with. The ability now for ministers to have a long, hard look at transmission planning

and policy in South Australia is an issue we can feed in, but I would point out that the Premier of South Australia takes renewable energy very seriously.

The Premier has converted his home with photovoltaic cells. He has fixed up the museum and he is looking at doing a bit more. It is a serious issue with us. We have made a submission to COAG (the Parer review) on energy markets. We have said that we believe the commonwealth needs to sign up to the Kyoto Protocol and it needs to lead the way in developing proper national policy on greenhouse emissions. I think we are fettered in our approach in South Australia until the commonwealth starts living up to its responsibilities, but we do take it seriously.

In answer to the member for Bright's previous question, we have nine staff at the Microeconomic Reform Unit. We will try to work out a break-up of what they do. I guarantee that they have been very busy for the last few months on electricity-related issues.

The Hon. W.A. MATTHEW: I agree that they would have been very busy, and that is why I draw the minister's attention to page 213 of the Portfolio Statements 2002-03, Budget Paper 4, which provides a breakdown for the Department of Treasury and Finance in the 'Outputs and Net Expenditure Summary'. That page shows the figure to which I referred earlier under 'Output class 1 item 1.3—microeconomic reform'. There is a budget allocation of \$1 947 000, which is reduced from the \$2 266 000 that was there in the previous year. I was somewhat surprised to see that reduction in view of the fact that, clearly, more staff need to be working in the agency on electricity matters. I acknowledge that page 230 of the same budget papers provides the reason for that decrease: an expected reduction in the level of consultancy costs. That aside, minister, I find it surprising that, at a time of intense expenditure in attempting to get this job done by 1 January, the budget has been reduced by some \$300 000.

The Hon. P.F. CONLON: I can indicate to the member for Bright that that is a reduction in consultancy. We came, we promised, we cut expenditure on consultants and we have done it. I can indicate that I think the people at the Microeconomic Reform Unit have done an excellent job on everything I have asked them to do so far. They have worked very hard under pressure, and I am fairly happy with that. However, I indicate that, as I said earlier, while we have reduced expenditure on consultants we have been borrowing a few people from Treasury to do a bit of work.

I am sure that the Hon. Kevin Foley is a nice guy and he will not send me a bill for that but, as I say, I have on my right Gino DeGennaro, who is not with the Microeconomic Reform Unit. We are a new government and we get the job done with the resources we have at hand.

The Hon. W.A. MATTHEW: Minister, you told me previously that resources were so short. There is at least \$300 000 that could go a long way towards some of the money you claim was not there.

The Hon. P.F. CONLON: We have faith in our bureaucrats. We have cut the consultants. We have faith in our bureaucrats and we have faith in their ability to get the job done with the resources we have and, I have got to say, I think we are going all right.

The Hon. W.A. MATTHEW: Has the government given consideration to supporting low income and vulnerable consumers in transition to full retail contestability for electricity? The reason for my question is that recently the Independent Industry Regulator hosted and, indeed, funded a conference that was addressed by Mr Callum McCarthy,

Chief Executive Officer of the United Kingdom Office of Gas and Electricity Markets Authority. Mr McCarthy expressed a view at that conference that South Australia should certainly consider assisting those people who were in what he termed 'field poverty', that is, those people who needed to spend 10 per cent or more of their disposable income on fuel, in this case, electricity.

The Hon. P.F. CONLON: I understand the question. In fact, I met with Callum McCarthy when he was in South Australia, and I hope to see him in London some time this year. There is no doubt that we have concerns about the impact of price increases on those least able to afford them. The options that we have to deal with that, within our budget, are limited. We came to this election with some very clear commitments, one of which was to balance the budget and, I have to say, I think the new Treasurer has done an outstanding job in difficult circumstances in that regard. There is no doubt that if we had more resources we would like to address them towards assisting those who are suffering, in particular, from electricity increases that are, I have to say, the result of poor policy in the past. It is the wash-through from the failure to address these issues earlier. We hope to have an indication on the retail cost of electricity very soon. I would urge you to support the passage of the Essential Services Commission legislation and amendments to the electricity act because the sooner we do that the sooner we can start the process of determining a justifiable tariff for electricity. It will put us in a position to know just what people are facing.

The Hon. W.A. MATTHEW: You concede, though, minister, that the increase is not going to be in the order of 30 to 90 per cent, as you claimed at this time last year in the house. With regard to consumers, 90 per cent has never been a realistic expectation of increase, and I would hope is not an expectation of increase under your ministry.

The Hon. P.F. CONLON: I can give the member for Bright this guarantee: the increase will not be as big as it would have been if you mob had been left in government because, frankly, the difference in approach is startling. The former government sat back, sold the assets, and did as little as possible in some sort of vague hope that the marketplace would sort things out. I refer again to the attitude—and I do not blame the member Bright for this. It was largely driven by the former treasurer, despite advice from bureaucrats, I might say. His agents were still telling people that prices were going to go down at the last tranche of contestability. So, I am certainly prepared to concede that, as a result of the installation of a Labor government, price increases for consumers will not be as high as they would have been if government had not changed hands.

The Hon. W.A. MATTHEW: How very noble of you, minister. Perhaps that is the closest we get to you saying that is not going to be as bad as you made out it would be.

The Hon. P.F. CONLON: No, it is not. As I say, the bureaucrats have been working, I have been working, and we have been doing everything we can to put in place protections for consumers that did not exist before. The new Essential Services Commission will have powers to protect consumers that do not exist under the current industry regulator. As was pointed out to the member for Hartley, that is being done at no impost to the consumer because industry will be playing for the regulator. I will say this: at 1 January people will—unfortunately, in my view—pay increases in electricity which are unfortunate and will be very hurtful to ordinary South Australians. I regret that and, whether it is political point scoring or not, I am going to do everything in my power to

keep that as low as possible. That is the program we have and I think that for the first time in eight years people are remembering the consumers in this argument.

The Hon. W.A. MATTHEW: Minister, do you expect those electricity price increases for domestic consumers to be any larger than those experienced in New South Wales and Victoria, which entered the contestable market for householders from January of this year?

The Hon. P.F. CONLON: Unfortunately, I expect them in the impact to be, certainly. As I understand, the Victorians had a very high level of subsidy against the effect of full retail contestability. New South Wales has the benefit of owning its own assets, and has some off-market vesting arrangements in place. South Australians will suffer more at full retail contestability in the effect upon them than New South Wales or Victorian consumers.

The Hon. W.A. MATTHEW: Have you a feel yet, minister, for how much more they will suffer? Are you at this stage prepared to place a likely percentage increase, or is that something you would rather wait and see?

The Hon. P.F. CONLON: We have put in place—and I attended the initial meetings—a system for dialogue between AGL and the industry regulator, who will be the chair of the Essential Services Commission. One of the things that made it very wise for us to ensure that Lew Owens was the chair of the Essential Services Commission was that it allowed us to start the process of dialogue under the industry regulator. It is an ongoing process. It has commenced. I think both sides have frightened each other with numbers. I will not give you a number now, but I will say that if we can get legislation through parliament by the end of August then we will be in a position to have a firm idea about retail prices by September/October. That will at least allow people to know what they face. It will also allow those seeking to enter the market to know what sort prices they will be able to compete around. I do not think it would be wise for me to stick a figure on now. As you know, and I am sure you would complain if we had not done it this way, we have given a degree of independence to the chair of the Essential Services Commission in the operation of the commission. It will be the role of the commission to determine that.

The Hon. W.A. MATTHEW: What action do you plan to take to ensure that the issues of potential overlap between various utility regulators are reduced and/or eliminated following the establishment of the Essential Services Commission that you are proposing? Despite the intended establishment of the Essential Services Commission I understand that entities such as the Office of the Technical Regulator, the Electricity Supply Industry Planning Council, the Office of Business and Consumer Affairs and your proposed Essential Services Ombudsman will all have ongoing roles in the industry. If that is to occur, under the existing regime, with the South Australian independent industry regulator, there are a number of coordinated activities that actually occur to try to minimise the regulatory burden on industry, and to promote a coordinated approach. For example, there is a memoranda of understanding between different entities such as the regulator and industry ombudsman, to ensure that they eliminate their overlap or duplication, and there is also an Electricity Planning Regulators Coordination Group, that has within it someone from the industry regulator, the Office of the Technical Regulator and someone from the Electricity Supply Planning Council. It has been a fairly cumbersome mechanism and, as I understand it, all of that will continue.

The Hon. P.F. CONLON: I can guarantee you that it is our fond ambition to create as much as possible a one-stop shop for regulation. The problem that we have at present is that, while that is our ambition, we have some pressing needs to deal with in terms of the Essential Services Commission, and that is, of course, to deal with the changes we need to make for retail contestability in electricity. I have already indicated that we hope to get gas into the Essential Services Commission at an early date, and, I must say also, dispense with the system of the minister setting the price for gas, which I find quite an extraordinary system, given our preoccupation with industry regulators in other areas.

The Hon. W.A. MATTHEW: There was an advantage.

The Hon. P.F. CONLON: There certainly was an advantage for you just before the last election. It certainly did not do me any good this year, though. I think it is perhaps better that gas prices are away from the political process and the political cycle in that regard.

The Hon. W.A. MATTHEW: That is not the advantage that I was talking about: I think you know that.

The Hon. P.F. CONLON: Once we deal with the pressing issues of full retail contestability, we will be rolling at least some of the regulatory bodies that you refer to into the ESC—SAEPA in particular. As we can deal with it on an ongoing basis, it is our ambition to create as much as possible a one-stop regulatory shop for essential services. That is, I think, a good approach, and it mirrors the approach that we have suggested at a national level about exploring a single regulator for the national electricity market. I do not know if it is a good idea but, having dealt with the current system, one wonders whether almost anything is not a better idea. The difficulty in going from identifying the problem to finding a solution is extraordinary.

We have a very clear ambition, that is, that regulation should be certain, should be clear and should not be a major cost, or any greater cost, to business than it has to be because, at the end of the day, in the private sector energy industry the costs will be passed on to the consumers, and people will make their returns. So, we hope to get there and, as I said, we will roll in SAEPA. We are trying to bring some regulation, at least for services of water, into that and, over time, we hope to create as much as possible a one-stop regulator that will serve industry and consumers better than the current system does.

The Hon. W.A. MATTHEW: Further to that, minister, I wish to focus briefly on the transfer of gas regulation and, incidentally, so that I am not misunderstood, I should add that I fully support the transfer of gas regulation to Lew Owens. It is something that I discussed with him in his role as independent industry regulator, and he knew that had the Liberal government continued he would have had that responsibility.

But, that aside, I mention to you that there have been advantages in having the minister exert some price control. Those advantages to which I allude and which form part of the question are that we have effectively a deregulated gas market for household consumers, and that occurred from the middle of last year. The advantage that I indicated was that the power that is there enabled me, as minister, to ensure that South Australian householders were not exposed to a deregulated gas market without there being competition. So, minister, I seek your assurance, that any transfer of pricing responsibility will still ensure that South Australians are protected from gas price increases in a deregulated market

prior to there being any competition retailer in the market—which, of course, at the moment there is not.

The Hon. P.F. CONLON: It is certainly our desire to protect the consumer, and it is something that we do not believe has been prominent in the previous government's mind at any point. What is essential in protection of consumers in a private sector market (and I have made this point over and over; it is no secret) is that they are protected from predatory pricing in an anti-competitive environment. It is also essential that they are protected from business failure in the private sector, in terms of energy, as we saw in California.

All that I have said about gas—and I say it about electricity—is that in these large businesses it is imperative that people are protected from flaws in the market or market position, but it is also important that businesses are able to make a reasonable return on their investment. My difficulty with the minister offering that protection is that the motivation is not always the one that it should be.

It is no protection for people to see what we saw in the last two years, that is, the minister in an election year screw down the increase and, if you do work on the basis that people are allowed to make a margin, meaning that you have to allow a larger increase somewhere down the track, it becomes a greater price shock. I think it has obviously been illogical in terms of regulating prices to remove it from the temptations of the political process, and I think it is a very good idea on this occasion. But the central point is that, whether it is the minister or someone else, it must be done on the basis of identifying those two things: that people are protected from predatory pricing, and that businesses are able to make a reasonable return on their investment. Consumers must be protected from predatory pricing, but they also have to be protected from the failure of market participants which can have, as we have seen, catastrophic outcomes. So, I do not apologise for the approach we take. We believe that the expertise better resides with the regulator who does this thing on an ongoing basis, rather than a generalist minister trying to poke his or her way through.

The Hon. W.A. MATTHEW: I do not disagree with the logic behind the minister's desire to transfer these powers to the commission, but what I do ask the minister to take on notice is the following question. Can the minister provide to the committee a copy of the documentation that came across to the former minister for minerals and energy for approval for the last gas price increase? My reason for asking that is that I know that documentation will show that the price increase was exactly as recommended by the department, after careful consultation and negotiation between them and Origin.

The Hon. P.F. CONLON: We also know how to get recommendations from departments. We can do that, but I am not sure what it will prove. What I am saying to the honourable member is that we also know how you get recommendations from departments. I am not exactly overwhelmed by that logic. Of course, it would not happen with my department; it would not happen with his fellow, I can tell you.

The Hon. W.A. MATTHEW: What system has the government put in place to establish default retailers for South Australian householders on entering the consumer market in January 2003?

The Hon. P.F. CONLON: Is the honourable member talking about a retailer of last resort?

The Hon. W.A. MATTHEW: Effectively, a default retailer if people do nothing. To explain it further, there is essentially a variety of schools of thought on this. One school

of thought is that AGL, which is the current retailer, ought to be the default retailer. Another school of thought is that if that were to occur that actually works against competition and the default retailer ought to be divided in some way between every player in the market.

The Hon. P.F. CONLON: I will indicate now that over the next two weeks we will be offering you a briefing on the two bills, and I think John Robinson and Mark Hancock from my office will be contacting you to see if you would like that. As you would probably suspect, the arrangement that you are talking about will fall to AGL for 2½ years; and that is on the simple logic of the capacity actually to meet those sorts of customers, and that, I think, probably only resides with AGL at present; that is our reasoning on it.

The Hon. W.A. MATTHEW: Are you satisfied that that approach will not jeopardise the potential to increase competition?

The Hon. P.F. CONLON: I am satisfied that it is not perfect, but I am also satisfied that, having puzzled through it, that is the best approach in a less than ideal situation.

The CHAIRMAN: Does the member for Bright wish to read his omnibus question?

The Hon. W.A. MATTHEW: I have one more, potentially supplementary, question and, depending on how that is answered, Mr Chairman, I will have some omnibus questions. My last question relates to the National Electricity Ministers Forum meeting that was held on 19 July. As I understand it, you were party to a commitment by all state governments that would establish a review to determine a number of matters in relation to electricity. I understand that those matters are also potentially being considered by work undertaken through the review of COAG and, indeed, you mentioned that particular review earlier when you talked about the need to fund the review chaired by Warwick Parer. Minister, are you concerned about the potential for duplication of effort between the new NEM ministers review, instigated on 19 July, and the COAG review that has been under way and, if so, how will that duplication be avoided?

The Hon. P.F. CONLON: I think that the member is labouring under a misapprehension. I do not believe that it is a duplication. The Parer review is there to identify issues for the future of energy markets. What the NEM ministers have been struggling with is identifying a method of implementing policy. I am sure that some of the things that the NEM ministers will identify will be the same as matters that are identified by Warwick Parer. The problem we have at present is that people have been identifying issues and problems with the national electricity market for years but no-one has identified a way of getting solutions for the problems.

That is what the national electricity ministers are seeking to put into place: an ability to direct NECA on policy, to direct certain inquiries and perhaps an ability to create a single regulator and then, if there are good findings in the Parer review, we can have some system of implementation of them. That is why I do not believe that it is duplication. I am actually a little enthusiastic about the approach of the electricity ministers, because it appears that at last we are contemplating a system whereby we might actually be able to get a result in the national electricity market some time short of three years.

The Hon. W.A. MATTHEW: I welcome that enthusiasm, but the things you have described are some of the objectives of the Parer review. The communique that was released from COAG on 8 June 2001 said that COAG agreed to an independent review to identify the strategic issues for

Australian energy markets and policies required from commonwealth, state and territory governments. They had agreed terms of reference, and those terms of reference covered many of the issues to which the minister has referred.

That review is supposed to be now reporting by February of next year. I recall that that review should already have reported, so I do not apologise for sounding somewhat cynical. Over the last number of years I have seen many reviews instigated that do not report on time, and we now have another one about to duplicate it before the first one reports.

The Hon. P.F. CONLON: I know it is getting late at night, but I am not sure that the honourable member is listening. It is not about identifying issues: it is about implementing some solutions. Some of the issues we have identified for a very long time and it is not simply about a further review. The first two matters I talked about were decisions that will be implemented as soon as we can put it together, particularly the decision to put in place the ability for ministers to direct NECA on policy issues. The first step in that is getting together to consider the legislation for putting into national electricity law the national electricity code, thereby making sure that the policy directions of the ministers are within the terms of the code.

This is about implementing things that we have identified as important policy issues. It is not anything that we have had before. What is Warwick Parer going to do to implement any policies that are identified by the review? The simple truth is that the legislation is not the commonwealth's: it is owned by the state ministers who make up the national electricity ministers, the ones who are now deciding to direct policy. It is the reinsertion of the jurisdictions back into running a matter of keen importance to them. I think that the commonwealth has a useful role to play, but thinking that the commonwealth will be able to implement those issues for you is foolish.

First, it does not have the capacity and, secondly, it does not have the motivation. It is those state ministers who suffer for flaws in the market. We are the ones who get our butts kicked when it does not work, not the commonwealth. We are the ones who are going to attempt to fix the issues. That is why they are two very different things. I look forward to seeing the outcome of Warwick Parer's review, although I make plain that I have had reservations about the make-up of that committee of review. I find it extraordinary that the chair is a person who has major coal mining interests: I would have thought that that was somewhat an error of judgment. Be that as it may, we look forward to the outcome of the review. In the meantime, we will implement those policy matters that we believe are essential to improve the regulation of the national electricity market, thereby tackling the issue of the wholesale price of electricity and thereby relieving the consumers in South Australia.

The Hon. W.A. MATTHEW: Finally, as indicated, I have some omnibus questions, as follows. Will the minister advise the committee how many reviews have been undertaken or scheduled to take place within the portfolio since the government was elected? To which matters do these reviews pertain, which consultant or consultancy organisation has been hired to undertake this work and what is the total cost of these contracts?

Will the minister advise the committee how many of the 600 jobs to be cut from the Public Service will be lost from within the portfolio? Will the minister advise the committee of the number of positions attracting a total employment cost

of \$100 000 within all departments and agencies reporting to the minister as at 30 June 2002, and estimates for 30 June 2003? For each of the years 2002-03, 2003-04, 2004-05 and 2005-06 and from all departments and agencies reporting to the minister, what is the share of the total \$967 million saving strategy announced by the government and what is the detail of each saving strategy?

For all departments and agencies reporting to the minister, what is the share of the \$322 million underspending in 2001-02 claimed by the government, what is the detail of each proposal and project underspent, and what is the detail of any carry-on expenditure to 2002-03 which has been approved?

Membership:

The Hon. D.C. Kotz substituted for the Hon. W.A. Matthew.

Mr Brindal substituted for Mr Scalzi.

Minister for Government Enterprises—Other Items,
\$28 155 000

Additional Witness:

The Hon. J.W. Weatherill, Minister Assisting in Government Enterprises.

Departmental Advisers:

Ms A. Howe, Chief Executive Officer, SA Water.

Mr G. Haberfeld, Chief Financial Officer.

Mr J. Randell, Head of Economic Development and Procurement.

Mr J. Williams, General Manager, Infrastructure.

Mr R. Perry, General Manager, Operations.

The CHAIRMAN: Does the minister wish to make a brief statement?

The Hon. P.F. CONLON: No, sir.

The CHAIRMAN: Does the lead for the opposition want to make any statement?

The Hon. D.C. KOTZ: No, we are quite happy just to go into questions. In a statement to the House of Assembly, the minister said that SA Water has a chronic problem in terms of its work force. The minister's words were:

The average age of its work force is too old, and we have agreed on a program to replace some older workers with younger workers.

Is it true that the minister has agreed to a program that will reduce the overall work force of SA Water by 40 full-time workers and replace a further 50 workers over an agreed period of time, and will the minister confirm whether the numbers being reduced in SA Water are part of the 600 jobs to be cut by government, or are these cuts over and above the designated 600?

The Hon. P.F. CONLON: We have taken the omnibus question on notice about the 600 jobs, and I will not attempt to answer on behalf of any other agencies or departments. I will say, however, that there are two issues, one of which is the work force program. I would like to take the opportunity to expand on the previous answer, because I do not want to make any suggestion or give any indication that we do not believe that older workers are worthwhile. In fact, one of the problems we have is that, with so many older workers going together, we lose valuable expertise and experience. What we

would like to do is get some younger people, plus some of the older workers, trained, especially in areas where they have particular expertise and knowledge. Also, as I understand it, in certain categories people are struggling. I understand that the program has been discussed with the industrial representatives, and I think they see merit in what is being proposed.

With respect to the question about other job losses, we did not shy away from that fact before the election and nor have we done so since. We campaigned on the fact that we had some priorities in government which we believed were the priorities that people wanted us to put in place—in particular, health and education and the quarantine of the police force—and we also undertook that we would balance the budget. It is a very simple equation. Health and education, as the member well knows, are such large parts of the budget, and so are the police, that if we are to put some extra priorities there and balance the budget we have to make savings elsewhere. The unfortunate truth is that some of those savings will come from government employees—in this case, maybe SA Water employees. We do that having told people, in the first instance, what our priorities are. In the second instance, we are not shedding workers in the public sector at anywhere near the rate that the previous government did over its eight years. None of us enjoys having to balance a budget or make hard decisions. We have made some hard decisions, we have told people what our priorities were and what we would do, and we will live up to that.

The Hon. D.C. KOTZ: On a point of clarification (that did not answer my question), does that mean that the numbers with which I presented the minister—which, overall, are some 90 people in SA Water—mean that that statement was correct; there is an agreed program?

The Hon. P.F. CONLON: Can the member repeat that question? I can barely hear.

The Hon. D.C. KOTZ: The figures that I gave regarding the number of workers that we were talking about with respect to the suggested agreed program totals some 90 workers in SA Water. Do I take it from the minister's answer that that program has been agreed to, and that that is the number of workers that the government is looking at replacing over time and in the immediate future?

The Hon. P.F. CONLON: My understanding is as follows. There are the two separate programs. The need to save the skills of the older workers by having some young people come through will be a one for one replacement program. I will not shy away from the fact that, in addition to this, there will be savings in about 40 positions in SA Water over this financial year. As I said, we are taking on notice the question about the 600 jobs. It is not my responsibility in my ministerial portfolio to add up the numbers. My understanding is that these are part of the 600 jobs identified in the budget. We have taken the omnibus question on notice, and I will take that one also and make sure that that is the case. But I cannot imagine why it would be otherwise.

The Hon. D.C. KOTZ: I would like to ask the minister a question, acknowledging that, in my humble opinion, he showed a complete disregard for workers aged 45 years and over with his statements in the house. Is the minister aware that, in this state, it is against the law to discriminate against any person on the basis of age, and is the minister also aware that he could be exposing the state to claims under the Equal Opportunity Act?

The Hon. P.F. CONLON: I thank the learned member for Newland for her advice. We are aware of that. It is an entirely voluntary scheme. I had not understood that volun-

teers could be discriminated against. The truth is this—and let me go back: the member wants to play politics in this respect about comments in the house. I have made it very plain that all sectors support it; the unions support this approach. Part of it is that skills that might be lost to SA Water through people of a certain age all retiring together will not be lost, because young people who have been trained by those people will be coming through. It will also mean that some people who are, as I understand it, quite keen to get out of the position they are in will be able to take packages to facilitate that. It is an entirely voluntary thing. We are keenly aware of our obligations not to discriminate against older workers. I remind the member for Newland that it has been the Labor Party that has for years so keenly sought the protection of workers against discrimination, usually in spite of the opposition from Liberals. We are very keenly aware of our obligations, and we are very keen to ensure that the program does not offend anyone's sensitivities or the law.

The Hon. D.C. KOTZ: I can assure the minister that playing politics with his statement was not the intention. He is the minister, he makes the decisions and he did make the statement. Has consultation been undertaken by this government with the employees of SA Water, what TVSPs have been offered to date and how will this affect the current work force numbers across the state, particularly in rural areas?

The Hon. P.F. CONLON: I have to give the member for Newland credit: that is a fair whack of questions all in one go. There has been a very extensive consultation process with the employees and their union, as I understand it. While no-one enjoys TVSPs, there is a high level of support for the intent of the program. With respect to the number of TVSPs offered, I will ask Ms Howe whether she has any details about that.

Ms HOWE: Not yet. We have not started offering opportunities to our employees. We are still talking to the employees and the unions and ensuring that all the relevant information is available to them so that they can make a proper decision for themselves.

The Hon. P.F. CONLON: The third question was how it will affect country areas. Again, I separate the two issues. The program that we have talked about replaces workers who leave. As we have said, there will be 40 positions surplus to requirements. Some of those are in the country, some are not. From memory, about 14 out of the 40 were rural and regional, and I have provided some information previously in the house about that. When we talk about 40 positions being surplus and being a saving, I ask you to compare that with the roughly 3 000 jobs lost out of the old Engineering and Water Supply Department since the previous government took office in late 1993. It sits ill in the mouth of the opposition to cry crocodile tears for 14 rural workers when it got rid of 3 000.

The Hon. D.C. KOTZ: I hear the minister's statements and I believe now that we have established that the numbers I mentioned earlier are correct. I also remind the minister that we are talking about current times, with the current government making current decisions. In that regard, had a regional impact statement been undertaken to advise the minister on the broader implications of these decisions before his decisions were taken?

The Hon. P.F. CONLON: With regard to the regional impact statement with a loss of 14 positions, can we get a little real here? As I understand it, we are talking about, for example, one position in Mount Gambier and one position in the Riverland.

The Hon. D.C. KOTZ: We are talking about families.

The Hon. P.F. CONLON: We are. We are the current government, and we have a responsibility to the people of South Australia. I have outlined that to you. We told people what our priorities were, and they supported us on that basis. We have put priorities in health and education, and we promised people that we would balance the budget. We are doing that in the best way we can. It is impossible to make savings in a way that everyone enjoys and that does not cause some difficulty somewhere. I stress that we remain committed to no enforced redundancies, so these are voluntary separations; for example, to compare the shock and horror of losing one person in Mount Gambier with the 3 000 shed out of EWS was a bit rich.

The CHAIRMAN: In relation to the planned works on the Happy Valley reservoir, one of the longstanding residents who would be well in excess of 70 years of age, Mr Dud Nicolle, wrote to me recently. He indicated that he believes it is unnecessary to spend the money—\$21 million—on upgrading that wall if SA Water simply lowered the water level further than the minister has already announced and upgraded the bypass drain. He said that the earthquake of 1954 did not have any impact on the wall. He believes it is unnecessary to be spending that sort of money. I guess you had substantial advice, both from within SA Water and outside. Was the proposition considered of lowering the water level significantly below what you planned?

The Hon. P.F. CONLON: Mr Chairman, you might be aware that dam engineering is not one of my long suits, so I will not be able to answer that off the top of my head. I understand the proposition that you are putting. I will see whether we have someone from the right background here to answer the question, although we may have to take the question on notice. I would like not to have to spend the \$21 million on the dam, because I am sure we could find somewhere else useful in the capital program to put that money. I am sure the decision has not been taken lightly.

The CHAIRMAN: Was lowering the water level significantly plus upgrading the bypass drain considered? My constituent argues from his local knowledge that the threat comes from flash flooding coming down the slopes because it is a natural catchment area. He says that, if you upgrade the bypass drain and lower the water level, you minimise the risk to the wall. I am not an expert, either. I am just putting to the committee that which someone who has lived in the area for over 70 years has put to me.

Mr WILLIAMS: That option was looked at. A number of issues with the Happy Valley upgrade are being addressed, one of which relates to the volume of water from stormwater and how you deal with it. That option works out to be more expensive, because to lower the water level to that extent you also would need to upgrade the pumping station that pumps water through the Happy Valley treatment works when you take into account the total cost. The other work relates to putting drainage on the downstream side of the dam, and that work would be required, anyway. So, when you put the package of the works together, the current program is the cheapest way of doing the work.

Mr BRINDAL: I want to go back to the matter of the TVSPs. You mentioned in your comments the actions of the previous government. I do not think that anyone on this side of the house will pretend that every action we took was equally successful. Perhaps TVSPs are something we could teach you something about. As a government elected to govern in the best interests of South Australia, how will you

ensure that those packages do not go to people who are about to retire and see them as a getaway bonus, because that has happened in the past? Secondly, how will you ensure that the people we desperately need to keep are not ones who get packages? I will explain carefully. When SA Water was corporatised, the River Murray was not high on its core list. According to Don Blackmore and everyone else in Australia, South Australia was the best in the nation in all matters connected with the river. However, virtually the entire staff connected with the River Murray took TVSPs, and Don Blackmore and the commission say that has put us back 20 years.

I freely admit that some of what we did in government has not been in the best interests of this state. I ask you, just as my colleague asked you, what you will do to ensure that, where we might have made mistakes, you learn from them and do not make the same mistakes. Believe me, we will certainly come after you if you make the same mistakes.

The Hon. P.F. CONLON: I find myself in the totally dreadful position of having to agree with the member for Unley. We are well aware of the matter and have discussed it at length, as have most people who have held ministerial responsibility. I am sure, though, that you are not suggesting that we should forgo the policy of no forced redundancies and seek to select people which, of course, would be the way to avoid the difficulties the honourable member suggested but which may find us in other difficulties. I can rely only on the management of SA Water to conduct the program properly. However, by comparison these are a reasonably small number of events of the past, and it will allow the job to be done in a more selective fashion. I cannot but agree with some of the points the honourable member made.

Mr BRINDAL: I refer to the Capital Investment Statement under the heading 'Heathfield Waste Water Treatment—Environmental Improvement Program'. The minister will see clearly that last year the program was scheduled for completion in 2003. According to this year's budget papers, it will not be completed until 2004. Last year the program was costed at \$8.5 million; this year the program is costed at \$8.9 million. Last year \$5.4 million of expenditure was proposed; this year \$6.3 million of expenditure is proposed. Those figures simply do not add up. If we add last year's budgeted expenditure figures to this year's allocation, we have a proposed expenditure of \$11.7 million on a project scheduled to cost (even on the minister's figures) only \$8.9 million. I therefore ask how much money was actually spent last year and how much of the \$6.3 million budgeted this year can be attributed to money previously committed by the Liberal government?

The Hon. P.F. CONLON: I wish the honourable member would ask slightly shorter questions.

Mr BRINDAL: It's quite easy: add the two figures together and tell me how you can spend \$2 million more on a project than it actually cost.

The Hon. P.F. CONLON: If I understand the honourable member's question, it is that \$6.3 million remains to be spent in 2003-04. The current forecast is \$8.9 million: \$2.6 million has been spent already, and a further \$6.3 million will be spent in 2002-03. That adds up to \$8.9 million.

Mr BRINDAL: Perhaps your advisers can confirm that that means they are holding \$2.8 million which was allocated in last year's budget and putting it down as expenditure against this year's budget. In other words, there has been \$2.8 million worth of slippage which now appears as expenditure against this year's budget. Perhaps the minister

might wish to take this question on notice, because I have exactly the same question for just about every other sewage treatment works in the South Australian metropolitan area.

The Hon. P.F. CONLON: I will take that question on notice, but I have to say that slippage on capital works programs is hardly a new event around here if that is the case. You people were masters of the art; you announced the same capital works program every year for about six years straight, especially in hospitals.

Mr BRINDAL: I would not be at all surprised, but the point is that, if you take off what was budgeted last year, we might see what you are actually committing this year, and it might be a largely different figure from what the budget papers suggest you are committing this year.

The Hon. P.F. CONLON: The Chief Executive is better informed on these matters than I.

Ms HOWE: We will get back to you with the details, but my understanding is that the original budget is still the forecast, that some of it was spent in the last financial year, the bulk of it will be spent in this financial year, and there may be some carryover into the next financial year, but right now our project managers are forecasting completion of the project by mid-2003.

Mr BRINDAL: In deference to the head of your department, minister, the budget papers show 2004. I do not know who prepared these papers, but if your departmental head is now saying—

Ms HOWE: On the cusp of the following financial year.

The CHAIRMAN: Order! Questioning of an adviser is not allowed. The minister must be questioned directly.

The Hon. P.F. CONLON: I do not have a difficulty. The chief executive is very competent. I assume that is there because it may well be just at the start of 2003-04. So we may actually have been better off if we had fudged it a little and called it 2002-03, but we are a new, open, honest and accountable government.

Mr BRINDAL: In terms of your being open, honest and accountable, I ask what is the nature of the work completed at this time at the Heathfield Waste Water Treatment Plant? Will the minister agree that the closure of the Patawalonga Basin on 12 separate occasions since its opening earlier this year has less to do with the engineering of the Barcoo Outlet system than it does with the discharge of human effluent from the Heathfield Waste Water Treatment Plant, and what steps will the minister take and how will he guarantee to this committee that this disgraceful and unacceptable risk to human health will be minimised with the greatest possible expediency?

The Hon. P.F. CONLON: I am trying to remember whether you asked the Minister for Government Enterprises this question last year, or is this a new-found concern?

Mr BRINDAL: I am concerned about the fact that we put \$5.4 million in there and it is not fixed.

The Hon. P.F. CONLON: All I can indicate is that we hope to use the money that we saved on cancelling the tunnel under Goodwood Road to address some of these capital works programs a bit faster. We will get the details. I understand your concern. We would all like these programs to proceed at pace. I point out that most of the shortcomings at which you are pointing are those of the previous government.

Mr BRINDAL: Which the previous government would have corrected were it now in office if we had—

The Hon. P.F. CONLON: After nine years they've finally learnt their lesson!

The CHAIRMAN: Order! The member for Unley and the minister are straying outside the rules. According to my schedule, the time allocated for SA Water has expired. Unless someone has a burning question—

Mr BRINDAL: Can I put in some omnibus questions?

The Hon. P.F. CONLON: I am happy for the opposition to dispose of the time in whatever way they see fit. If they would like to ask more questions on this than on other areas, I am happy. We are an open, accountable, transparent and very good government.

Mr BRINDAL: Well, open, accountable and transparent!

The CHAIRMAN: Are there any more questions on SA Water?

The Hon. D.C. KOTZ: Yes, and on the budget itself. I refer you to Portfolio Statements, Budget Paper 4, volume 1, page 2.28. Under 'Minister for Government Enterprises—Other Items, Statement of cash flows', it shows an increase in the budget allocation of some \$3.274 million, from \$24.953 million last year to \$28.227 this year. Will the minister explain this huge increase and the government's intention for this allocation?

The Hon. P.F. CONLON: It might be best if I take that on notice.

The Hon. D.C. KOTZ: Last year's budget papers identified under an output class (which was identified in those papers at 3.2) 'Government Enterprises, policy and advice'. That had a budget of \$2.752 million. I may have missed the output in these current budget papers, but could the minister please advise whether this output class is still current? If not, can he advise the committee where we can find the \$2.752 million, if there was an allocation and if this is still a current item?

The Hon. P.F. CONLON: We will take that question on notice. We think we know where most of it is. There has been some shifting of responsibilities between Government Enterprises and Treasury. I think that is where you will find that the output line has gone.

The Hon. D.C. KOTZ: It definitely seems to have disappeared from last year. I do not know where it has gone this year.

The Hon. P.F. CONLON: I think about \$1 million was shifting OGE to Treasury, but we will ascertain that.

The Hon. D.C. KOTZ: I also do not seem to be able to locate a project of environmental significance that was previously identified as a major priority, namely, the proposed acceleration of the Adelaide Hills sewer scheme. I still presume it is within the minister's realm. The Adelaide Hills and its environs, as the minister would know, provide a major water supply to South Australians. However, it is an area of water catchment that is non-discreet as it shares agricultural and residential uses within its environs. Previous studies have shown that aged and dilapidated sewerage systems cause contamination of water systems through what is a very important catchment system to South Australia. What is the government's plan to deal with the containment of these ageing sewerage systems and improve the water quality in the significant water catchment area, or has the Adelaide Hills sewer scheme been put on hold?

The Hon. P.F. CONLON: Not only has it not been put on hold but my advice is that SA Water has increased funding from \$500 000 to \$1 million a year for the backlog sewerage construction program in the Stirling, Aldgate and Bridgewater areas. The advice I have is that it will result in completion 15 years from now. I am not sure why it is difficult to find the output—it may be a presentational matter.

The Hon. D.C. KOTZ: I could not find any costings in relation to it, so it was difficult to know.

The Hon. P.F. CONLON: I have the joy of blaming someone else for that. I can safely say, on behalf of the Treasurer, that we will be seeking to present the budget in a different format next year because we had to compress a budget process and do it under the existing layout. We believe we would like to lay it out more clearly, given our commitment to open, honest and transparent government. The funding has increased from \$500 000 to \$1 million per year, which should set the honourable member's mind at ease in that regard.

The Hon. D.C. KOTZ: Because I could not come to terms with the dollars, as I could not find them, is this what has been talked about as accelerating the actual sewer system? You are talking about it being over 15 years at \$1 million a year. Is this the program of acceleration, or is it going back to what the program started out to be?

The Hon. P.F. CONLON: It is not the accelerated program set out in a previous government report. That would have required costing from \$2 million to \$3 million a year, and I am advised that there were physical difficulties and restrictions in being able to do that in terms of availability of local contractors, consultants and construction restrictions due to inclement weather. You are correct in saying that it is not the program identified in the previous government's report, but that is not entirely because it would have cost \$2 million to \$3 million per year, which was not budgeted for.

Mr BRINDAL: Referring to the dam safety program, will the emergency response plan for any dam failure now being developed include a warning system and, if not, why not? Evidence presented before the Public Works Committee clearly shows that a complete failure of the dam wall because of piping would take as little as some two hours in some situations. Evidence presented by SA Water also says that in such an eventuality it is estimated that 500 people or more could lose their lives in respect of the Happy Valley reservoir. This risk of failure will increase during the construction phase.

The chief executive will know this and, minister, I can assure you that as per the committee minutes it is all a matter of fact. Is not public safety and public education, followed by the installation of a warning system, clearly within the duty of care owed by the government and owed by a corporation owned by the government to the people of South Australia? Minister, will you also give an undertaking that any similar projects in the future automatically include consultation, education and increased public safety? I think that members on both sides of the house were somewhat shocked to hear that there had been no public consultation.

The reason given by SA Water is that, while there was not a high risk, there was some risk and it did not want to alarm people. The evidence presented was that there would not be a warning system because, while there might be some danger, it is not a high degree of danger and therefore it is better not to scare people and put in an alarm system. I do not know about you, minister, but I believe that if there is any danger at all our first duty is to let people know and to install something that gives them a chance if something goes wrong.

The Hon. P.F. CONLON: I will come back to the honourable member with more detail but, as I understand it, we are talking about a one in 1 000 risk. I am not going to give an answer here but I will check the detail for the honourable member. However, I would say that there is

probably some cogency in the argument that, in those circumstances, perhaps we should not be alarming people. I am not telling the honourable member that that is the answer: I am prepared to take on board what the honourable member has put to me. I would not like to have people, such as the member for Fisher, in fear of imminent inundation when we are talking about, as I understand it, a one in 1 000 risk.

Mr BRINDAL: Minister, you are correct in terms of after the construction phase, but the evidence led indicates that while the construction is occurring the risk does increase, which is why a new wall is being built eight metres in front of the old wall. There is an increased risk and no-one quantified the risk; therefore, during the construction phase at least, there is a higher degree of danger and people have a right to be protected. I will go onto the next question.

The Hon. P.F. CONLON: I will treat the honourable member's question seriously. We will look at the Public Works Committee report and the honourable member's comments and bring back a response.

The CHAIRMAN: As the local member for that area, I point out that the residents are well aware of what is proposed. I have had only two inquiries and one was from someone who lives on the eastern side of the reservoir. I think that people have been comforted by the information provided. The member for Unley.

Mr BRINDAL: As the minister accompanying you, minister, seems to think he is going to get off easily, I will ask him a question. As the minister responsible for the STED scheme in this state—perhaps the minister could corroborate with me because I could not find it in the budget.

The Hon. P.F. CONLON: To be fair, I am not sure that this line is under local government. At present the STED scheme comes under SA Water.

Mr BRINDAL: I will ask you then, minister, whether you are the minister responsible for STEDs.

The Hon. P.F. CONLON: In fact, the honourable member is not asking anyone here because I do not think there is anything under this line for STED schemes.

Mr BRINDAL: I will ask the minister tomorrow.

The Hon. P.F. CONLON: The minister can answer the question if he wants but it is not the appropriate budget line: that is the short answer.

Mr BRINDAL: Fair enough. I will ask him tomorrow. I thought that he was here to help you and I thought it might have been over STEDs.

The Hon. P.F. CONLON: The honourable member might want to ask the minister about some PAR in Gawler, too, but I would probably suggest that that is not appropriate.

Mr BRINDAL: Minister, you will probably need to take this question on notice. It is just a simple question. In respect of the metropolitan system, how much water by volume is purchased by consumers, and how much is supplied free of charge to the corporations of the City of Adelaide and Port Adelaide Enfield and to any other entities that might be entitled to free water usage?

The Hon. P.F. CONLON: The honourable member is right: I will take that question on notice. It will depend on how hot it is, I imagine.

Mr BRINDAL: You would have a yearly figure, and I am sure it would not vary that much. In respect of the Streaky Bay water quality and systems improvement program (which is mentioned in the capital investments statement on page 17 and which is scheduled for completion in 2002-03) and the Eyre Peninsula water supply program to augment the water supplies of the Eyre Peninsula region (which is due to be

completed in 2004-05), does the minister understand the consequences of the extra stress placed on the already fragile resources of the basins in the Port Lincoln area? Can the minister therefore expedite the augmentation program? If not, what contingency plans, if any, and what responsibility, if any, will this government take if serious environmental degradation of the natural resources occurs as a consequence of this timetable?

The Hon. P.F. CONLON: If I understand the question correctly, the member started by asking about Streaky Bay. He then got on to the entirety of the Eyre Peninsula, and that is a very big subject. With regard to Streaky Bay, we are continuing the program of the previous government in terms of a pipeline to Streaky Bay to relieve what are very serious water problems. We hope that it will be completed by December this year. It is a serious issue and some water carting will be required this year.

In relation to the entirety of the Eyre Peninsula—that is a very big issue. The member would be aware that a master plan has been prepared and is in draft form, and we are in the process of releasing a precis for public consultation. However, do not underestimate the size of the issues and the enormity of the problem. From memory, the replacement cost of the existing infrastructure on the Eyre Peninsula is \$550 million. That has to fit within a capital program. We have already been asked about an accelerated system in the Adelaide Hills, and we have a limited ability to run major capital programs.

Following the sale of the electricity assets, the government is smaller than it used to be: it has fewer revenue streams and does not have the ability to run the capital programs we would like. It is a matter of keen interest to me. I understand that, despite the need to conserve and use water wisely, it is absolutely clear that water unlocks wealth on the Eyre Peninsula like nowhere else. There is a great amount of wealth there to be unlocked, and we would love to be able to do that within the constraints. The issue of water on the Eyre Peninsula has been a problem since Flinders met Baudin. We are looking at innovative ways to accelerate the infrastructure provision on the Eyre Peninsula.

I seriously believe that the provision of water will unlock wealth. However, there is a limited ability for capital programs and a limited tolerance for debt creation. This government is attempting to make better use of public/private partnerships. If the member is serious about this issue, it is important that the opposition does not do too much political point scoring in relation to our plans to find a greater role for PPPs. Issues where we have such large infrastructure needs are obviously going to be very important. I will get the detail to answer the member's questions.

I am well aware of the size of the problem on the Eyre Peninsula, the pressures on the very marginal water supplies in some areas and the very fragile water systems. I know roughly the difference between a lens and an aquifer so I am aware of the sorts of difficulties we face over there. I believe that the water solution in the future on the Eyre Peninsula will require very substantial infrastructure investment. So, I am aware of all the issues. As I have said, water has been a problem since Matthew Flinders sailed into the place. If there were an easy solution, someone would have thought of it by now.

Mr BRINDAL: I will not ask a supplementary question. Rather, I think I heard the minister say he would examine the detail of the question and answer the bits he has not answered. Will the minister provide those answers?

The Hon. P.F. CONLON: Yes, I will, because I take it very seriously.

Mr BRINDAL: As does the opposition. We could play politics like the government plays politics, but not over a good solution.

The Hon. K.O. FOLEY: We play politics better than you do.

Mr BRINDAL: I absolutely assure the Treasurer that you actually do.

The CHAIRMAN: Order! The member for Unley will restrain himself.

Mr BRINDAL: To find a good innovative solution, I am quite prepared to share with the minister some of the stuff I found out while I was minister that might be of assistance out there, because there are some opportunities. One of the difficulties, of course, is going to be new creative arrangements with entities such as SA Water, because if you get a private firm that is a water supplier you again rewrite the paradigm of water supply and delivery, and who is responsible for what. I can absolutely assure you that we are as anxious as you are to develop the wealth of that region. It actually happens to be a region that votes fairly strongly for us I note, minister.

The Hon. P.F. CONLON: There is no political advantage in my doing what I suggested over there, but I do believe that, in the interest of South Australia, there is a lot of wealth to unlock there. I think the willingness of the various communities on the Eyre Peninsula to play their role in approaching this is a valuable asset over there. I have high praise for the willingness of the people on Eyre Peninsula to get together, through their local councils and regional development bodies, and attempt to find a solution and make a contribution. If everyone in South Australia put in like that we would probably find solutions a lot easier.

The Hon. D.C. KOTZ: Minister, I would assure you that we in opposition will strive to be as good in opposition as you were and keep up the standards that you showed to government during that period of time. I know that will make you feel much better.

The Hon. P.F. CONLON: Come on, Dorothy; you know I hate a fight.

The Hon. D.C. KOTZ: The question that I want to ask the minister relates to the budget statement on page 7.5. SA Water's planned capital investment for the year 2002-03 totals some \$127.7 million. A list of priorities is identified on page 7.5. Will the minister say whether carryover under-expenditure funds are included in the \$127.7 million capital investment showing for this year? Will the minister also advise whether the priorities listed on page 7.5 will be completed this year at a total cost of \$127.7 million, or has recurrent funding been applied to the outyears of this government's term of office and, if so, can he identify what funding will be carried over into forward estimates?

The Hon. P.F. CONLON: I will take that on notice if the honourable member does not mind. We barely heard most of it. It will be better that way: we will get it all. I must say that I do not know whether I am suffering from an unusual deafness, but I am finding it very hard to hear the questions over there today. Hansard got it, so we will take it on notice and get back to you.

The Hon. D.C. KOTZ: I have a question to ask on behalf of one of my colleagues. As you know, the member for Hartley has been extremely interested in the area of Lochiel Park. I believe that the Premier gave a commitment to look at a 100 per cent commitment of retaining open space. The

member for Hartley would like to know whether the government will honour that election promise to save 100 per cent of Lochiel Park for open space, and not merely its pledge to consult with the community.

The Hon. P.F. CONLON: It comes under the Land Management Corporation. I assume that we are almost winding up, so I am happy to do this off the bat. I must say that I am not surprised that the member for Hartley is very interested in Lochiel Park. He has demonstrated his interest by having a number of positions in relation to it. The previous government, of course, put in place a plan for the subdivision and development of Lochiel Park, and he was a member of the previous government. I find that now, since he has been in opposition, he has become a champion for the preservation of it. Let me make this plain: the undertakings that were given included one that there would be a moratorium for a year and public consultation. That has been done, and I point out for the benefit of the member for Hartley, who is not here, that it is a far superior position for the people of Hartley who wish to keep that as open space than was the previous government's position. The notion that you want me to declare that it will be 100 per cent open space now would seem to render pointless the exercise of putting a moratorium on for a year, and engaging in a lengthy consultation process. It is plain that all views have to be taken into account at Lochiel Park. That is what is being done. We are living by a commitment that was given before the election. It is a vastly superior position for those who want to keep Lochiel Park as open space than that offered by the previous government. I would have thought that at some point the member for Hartley has to explain just what his position is and whether that is another temporary one.

The Hon. D.C. KOTZ: I have four questions left in the area of forestry and the Ports Corp. Other than that, there are a few omnibus questions that I would like to put on record. Do you want to take them on notice?

The Hon. P.F. CONLON: I may have to take the question on Ports Corp on notice because it is an area of diverse responsibility.

The Hon. D.C. KOTZ: I think you were the chairman of the committee, and the question I want to ask is—

The CHAIRMAN: Order! The member for Newland should direct remarks through the chair.

The Hon. P.F. CONLON: Ask me the Ports Corp questions and I will see whether I can deal with them.

The Hon. D.C. KOTZ: It is only one question, minister. Will the minister inform the committee when the government will make a major announcement on the development of a deep sea port at Outer Harbor and the subsequent infrastructure? I believe that particular committee is considering this very significant proposal, and I believe you chair that committee.

The Hon. P.F. CONLON: I will not give you a definite date, but we are addressing the matter very urgently. There are difficulties, the first being that the original arrangement for the deep sea port and other matters was, in my humble opinion, cobbled together in a hurried fashion during the attempt to pass the sale bill on the ports. It has led to a number of difficulties, one of which concerns the very seriously conflicting views within the grain industry itself about what should occur. We believe that it is only reasonable that we take into account all of those views. We have protected everyone's interests in delaying a final decision but, in fairness, I think we accept the view from sections of the industry that the process was cobbled together in a rush

without a sufficient degree of thought. We have taken on board a number of submissions from the industry, and I can say that there has been a significant level of conflict in its opinion about these matters. We hope to finalise a position on it very soon, but it will involve the various players in the grain industry coming to some sort of, if not consensus, then at least being considerably closer than they are now. Very soon I hope we will have a position to report and I will let the parliament know as soon as we can do that.

Additional Departmental Adviser:

Mr B. Harper, Chief Executive, Land Management Corporation.

Mr I. Millard, Chief Executive, Forestry SA.

Mr P. Johnston, Acting Manager, Business Support, Forestry SA.

The CHAIRMAN: Minister, in relation to the Land Management Corporation, particularly regarding Mawson Lakes and Golden Grove, what is the net return per block to the government in those developments, either expressed in absolute terms or as a percentage return on investment? I can appreciate there is some sensitivity in some aspects, but it has been put to me that the arrangements in some of these developments are very much one sided in favour of the private developer vis-a-vis a return to government.

The Hon. P.F. CONLON: I am not sure we can express returns on a per block basis, but I will see whether we can answer you now. We may need to give some regard to any obligations we have—

The CHAIRMAN: I appreciate that there will be some sensitivity to some aspects of it, and I am happy if you take it on notice.

The Hon. P.F. CONLON: I will allow Bruce Harper, the Chief Executive of the Land Management Corporation, to answer and see whether that is sufficient for you.

The CHAIRMAN: In general terms what I am wanting to know is: do those projects provide a good return to the community, the taxpayer, or are they a de facto subsidy to the private developer?

The Hon. P.F. CONLON: The indication I have is that, at present, the Land Management Corporation makes quite healthy returns to the government, and it does seem to be engaged in some quite worthwhile projects—but perhaps Mr Harper could speak.

Mr HARPER: The Mawson Lakes project intends to return some \$35.7 million to the state for its investment. The joint venture is structured in such a way that the state receives a payment of its land component separate to its investment in dollar terms—its equity investment in the joint venture. That calculation was done to receive at least the Valuer General's value back from the land. It is locked in as a percentage of gross retail sales of the site and, therefore, any escalation in the sale price of land at Mawson Lakes will increase the returns to the state. There is no advantage to the private sector. In fact, the advantage lies with the government because, as land increases in value and allotments are sold at a higher value, the state's percentage is greater.

The CHAIRMAN: Was that a similar arrangement in Golden Grove?

Mr HARPER: No, the Golden Grove arrangement, which was back in 1983-84, was a fixed land price per allotment. Since then the joint venture arrangements at Regent Gardens, at Seaford and at Mawson Lakes have worked on a percentage basis, so the government's interest has been protected in

terms of the land value component and the return back on a percentage basis of gross retail sales.

The Hon. P.F. CONLON: I would just like to correct an earlier answer when I said that I had no responsibility for the STED scheme. I had no responsibility under SA Water for the STED scheme, but I am, for some reason, a funding conduit amounting to some \$4 million a year going from the government to STED, although as I understand it the scheme is managed by the Local Government Association.

Mr BRINDAL: Does that mean that I should put the STED scheme question on notice to you, or can I ask minister Weatherill tomorrow?

The Hon. P.F. CONLON: I think it would be best to deal with minister Weatherill, frankly, because it is a major local government responsibility.

The Hon. D.C. KOTZ: Are these questions related to forestry?

The CHAIRMAN: Yes.

The Hon. D.C. KOTZ: I think the minister would be aware that Forestry SA supports a fleet of fire trucks. The trucks form an integral part of the Forestry SA risk management strategy in regard to Forestry SA forest fire protection and response capability. The specialised fire truck fleet supports the fire protection and response strategies and are also an important consideration of the underwriters to the insurance for standing timber. The previous government signed off on a replacement program for Forestry SA's current fleet of aging trucks, and I am told that delivery of the new trucks is expected to begin during the 2002-03 financial year. Is the minister committed to progressing the replacement program of fire trucks, and will he give an assurance that no alterations to the previous commitment will, or has, taken place?

The Hon. P.F. CONLON: We are committed to the fire truck replacement program. There have been some delays with contract negotiations, which are almost finalised. I do not believe there is any change in the program, but we have suffered some delays in finalising the contract. Most issues have been resolved, with the exception of an agreed payment schedule and evidence of guaranteed product support, which is a condition required by the State Supply Board. It has not been a lack of commitment to the program but, rather, contractual difficulties.

The Hon. D.C. KOTZ: Forestry SA put forward a proposal to increase the production cut of sawlog. The proposal seeks for additional sawlog to be cut from its green triangle plantations for some five to 10 years without a detrimental effect to the long-term sustainability of forests. However, reliable estimates of impact were to be analysed to determine decision making options and their outcomes. That analysis was due for completion, I believe, in December 2001. Has the minister perused the documented analysis and does it alleviate any concerns relating to the long-term sustainability of the forests?

The Hon. P.F. CONLON: I ask the honourable member to repeat that question. I am trying to ascertain what I should have perused.

The Hon. D.C. KOTZ: Forestry SA has proposed to increase the sawlog cut.

The Hon. P.F. CONLON: We know that bit. There is money in that; we know all about that.

The Hon. D.C. KOTZ: Apparently, the department undertook to look at reliable estimates of the impact of that cut, and that was to be analysed to determine decisions and outcomes. I believe the analysis was due for completion in

December last. This was to look at whether there was a detrimental effect on the long-term sustainability of the forests.

The Hon. P.F. CONLON: The analysis was made and completed in December, and it was the basis on which the board made its decision to increase the cut.

The Hon. D.C. KOTZ: I have not seen the analysis, so I do not know.

The Hon. P.F. CONLON: I assume the analysis was made available to the board. I was not around at the time. I myself have not seen it. I will bring back an answer if there is anything more to add to it. My understanding is that it was as a result of the analysis that the saw cut was increased.

The Hon. D.C. KOTZ: Very often when they say something will be ready in December it could well be January, February or March. I have not seen it, so I do not know.

The Hon. P.F. CONLON: We will have a look.

The Hon. D.C. KOTZ: The last question on forestry is longwinded in the background, but I will try to cut it as short as I can. In April 2001, the Australian Greenhouse Office called for applications of the second round greenhouse gas abatement program funding. Forestry SA lodged a joint application with the Western Australian Forest Products Commission. The South Australian component of the application was to establish plantations in two mid-rainfall areas of the state affected by dry land salinity, that is, the Upper South-East and the eastern side of Kangaroo Island. The funds would subsidise private investment in the plantations. The initiative was looking at providing greenhouse gas abatement benefits, dry land salinity amelioration, and industry and regional development benefits.

The applications closed in July and shortlisted applicants, which included Forestry SA and the Forest Products Commission, were advised in September, before the federal government election. The remainder of the projects, including Forestry SA, were held over for the consideration of the incoming federal government. Advice was not expected until December or early this year. Has the minister received advice on these projects? If the advice was positive in favour of the South Australian bid—

The Hon. P.F. CONLON: The federal government has not yet made a decision.

The Hon. D.C. KOTZ: Is the South Australian government still committed to funding those proposals if that proposal is accepted?

The Hon. P.F. CONLON: That is a matter for further consideration.

The Hon. D.C. KOTZ: Is it in abeyance?

The Hon. P.F. CONLON: It is a matter for further consideration. We will leave it at that for the present. Let us just see what comes from the feds, first.

The Hon. D.C. KOTZ: You are actually aware of the project, though?

The Hon. P.F. CONLON: I am now.

The Hon. D.C. KOTZ: So, you were not before. Can I leave that as a question on notice to you, minister, just so that you do get the correct information on the project and see whether there is funding commitment by this government?

The Hon. P.F. CONLON: I think Hansard got it all. As I said, we are an open, honest, transparent, accountable and good government. If there is anything we need to tell you, we will let you know.

The Hon. D.C. KOTZ: We can but hope.

Mr BRINDAL: I will quickly read these questions. I would appreciate it if the minister could answer them at his leisure. In and around May and June 2002, carting of water from the Middle River water supply to the desalination plant at Penneshaw on Kangaroo Island was recommenced. For how many days was water cartage undertaken? What was the cost? What was the problem and has it been rectified? In respect of the works in progress detailed on pages 16 and 17 of the capital investment program, will the minister outline how much of the proposed expenditure allocated in the 2001-02 financial year was actually expended?

In respect of the proposed expenditure of 2002-03 carry-over sums what, if any, form part of the budget allocations? Where projects now appear to have a later completion date than was anticipated last year, what are the reasons for the delay? Where project costs have increased, what are the reasons for the increases? Finally, in respect of the Victor Harbor waste treatment plant (page 18 of the capital investment program), what proportion of the \$3 million allocated last year was spent? In respect of the purchase of the land site, has a deal been finalised and, if not, when can we expect it to be finalised?

The Hon. P.F. CONLON: On notice.

Mr BRINDAL: Yes, I understand. I will read the omnibus questions now. Will the minister advise the committee which initiatives contained within the government's compact with the member for Hammond have been allocated to this portfolio? How much will they each cost, and will these costs be met by new or existing funding? Will the minister identify, with respect to his portfolio, which outputs and measures have been merged or redefined, and the dollar value of those changes? Will the minister advise the committee how many of the 600 jobs to be cut from the Public Service will be lost from within the government enterprises portfolio?

Will the minister advise the committee how many reviews have been undertaken or scheduled to take place within the portfolio since the government was elected? Which matters do these reviews pertain to? Additionally, which consultant or consultancy organisations have been hired to undertake this work? What is the total cost of these contracts?

For all departments and agencies reporting to the minister, what is the share of the \$322 million underspending in 2001-02 claimed by the government? Additionally, what are the details of each proposal and project underspent and the details of any carry-over expenditure to 2002-03 which have been approved? Will the minister advise the committee of the number of positions attracting a total employment cost of \$100 000 or more within all departments and agencies reporting to the minister as at 30 June 2002, and estimates of those figures for 30 June 2003?

The CHAIRMAN: I declare the examination of the votes completed.

ADJOURNMENT

At 9.44 p.m. the committee adjourned until Wednesday 31 July at 11 a.m.