

## **Auditor General's Report 10/11/10 - Employment, Forestry, Sale of land assets, Creek pipeline**

### **Remuneration, job losses and TVSPs**

Mr PEDERICK: I will start on some primary industries questions. I refer to Volume 3 of the Auditor-General's Report, page 1016, Remuneration of Employees. The chart at the bottom of the page indicates that employee costs for individuals receiving \$250,000 or more have risen by between \$3.8 million to \$4 million a year. The explanation for the increase from 2009-10 in non-executive staff receiving more than \$100,000 is described on page 1017 as mainly due to the inclusion of 46 employees previously below \$100,000.

However, the chart indicates that by far the greatest proportional increase in staff numbers in wages has occurred in the \$250,000 plus bracket. My initial question is: how does the minister explain or justify this \$4 million increase in the face of significant budget cuts across PIRSA (including the \$80 million over four years and the 180 jobs), miserly cuts to the advisory board and also closing down the night shifts at Ceduna and Yamba inspection stations?

The Hon. M.F. O'BRIEN: That is largely explained by TVSP payments that are bulked onto salaries. I can get the specifics, but a large number of individuals would have taken separation packages, and the value of those separation packages is added on to the salaries. The TVSP payments were to the value of \$1.85 million and associated terminal leave payments of \$0.941 million. These are included in the total remuneration to employees who received remuneration of \$100,000 or more.

Mr PEDERICK: On the same line, I probably need more of an explanation. How many of those positions of the 46 have gone, and how many are at risk of losing their jobs under the planned budget cuts?

The Hon. M.F. O'BRIEN: I have been informed that that particular area was dealt with in estimates, but I will supply the necessary detail sought by the member for Hammond.

Mr PEDERICK: Would you also be able to inform us as to what sections of PIRSA those staff have come from who have taken packages?

The Hon. M.F. O'BRIEN: I can do that, yes.

### **Forestry**

Mr PEDERICK: I go to Volume 3, page 1016, activity 3, where it states:

Support the sustainable development of an internationally competitive forest industry, regional development and the provision of services from state government forest reserves.

How will the proposed sale of up 111 years of timber growth (almost undoubtedly to a foreign company) sustain the development of an internationally competitive forest industry?

The Hon. M.F. O'BRIEN: I think the Treasurer dealt with this issue in some depth. The views being sought are really not of a financial nature; they are more of a policy nature, and I do not think this is the venue. We are actually dealing with the Auditor-General's Report and the audit of the accounts of PIRSA, so I will take that in another venue.

Mr PEDERICK: Minister, you would have to agree that it is in the Auditor-General's Report. It is a statement under Activity 3. Obviously it is a significant issue not just for this state but for the people of the South-East.

The CHAIR: As the Chairman of this committee I must say that I cannot see why that question cannot be asked. I agree with the minister that the Treasurer has already discussed this, but it does seem to relate to a line in the Auditor-General's Report.

The Hon. M.F. O'BRIEN: The Treasurer made the comment that ForestrySA will continue to manage the plantation on behalf of the owner and continue to harvest and contract. Instead of timber plantations appearing on our balance sheet or our books—and I think that is probably relevant within this context—we are transferring the ownership to the private sector for an up-front payment, but ForestrySA will remain the manager of that plantation under the agreement and it will be business as usual. So, in a sense, it is a balance sheet transaction and should not affect the operation of ForestrySA at all.

Mr PEDERICK: Further to that question, minister, and the same line in the Auditor-General's Report, what assurances can the minister give the people of the South-East that the government's intended sale of forward rotations will 'support regional development' and the many thousands of jobs in the South-East that are reliant on this industry?

The Hon. M.F. O'BRIEN: We have given an undertaking and we also have an obligation to prepare a regional impact statement which will give some guidance as to possible economic, social and environmental impacts of a proposed sale of one, two, three rotations, and issues that the member for Hammond has referred to would be taken into account in the preparation of that statement. That statement is to give guidance, and if it becomes obvious that a particular course of action leads to economic consequences that are totally unacceptable both to the parliament and the people of the South-East, then obviously we would heed the recommendations of the regional impact statement.

Mr PEDERICK: Just to get more clarity, if it looks absolutely untenable as a budget line and for the community of Mount Gambier and the South-East, you will rule out the forward sale proposal.

The Hon. M.F. O'BRIEN: No, I did not mean that. I mean that we would look at another proposition. It could come down to an insertion of a particular clause in the sale contract. My view is the regional impact statement, first and foremost, is a guide to what provisions ought to be included in the conditions of sale and I believe that I made that reasonably plain at a meeting of stakeholders in Mount Gambier some three or four weeks ago. We have a situation whereby we have the opportunity for people to make constructive comment and observation, with a view that those comments and observations be taken into account in framing the sale contract.

Mr PEDERICK: In light of that answer, minister, why has that regional impact statement not been conducted in the last two years since the decision by the government to forward sell rotations was made?

The Hon. M.F. O'BRIEN: Basically because a body of work had to be carried out to determine what possibilities could be considered by cabinet. Cabinet has yet to consider those possibilities. Once it has made a decision then we are in a position to do a regional impact statement on the basis of going to the community and saying, 'This is the proposition that is currently being worked up.' So, we have not done a regional impact statement because cabinet has not made a decision. Member for Hammond, a decision has yet to be made on whether there will be one, two or three forward rotations and what the relationship with ForestrySA will be. The Treasurer has made it fairly plain that it is business as usual, but the real issue I think is that of the one, two or three rotations. Once a decision is made on that, we are then in a position to do the regional impact statement.

Mr PEDERICK: On the same line, how does the proposed forward sale support—and I quote from the Attorney-General line—the provision of services from State Government forest reserves?

The Hon. M.F. O'BRIEN: Could you repeat that?

Mr PEDERICK: Volume 3, page 1016, under the statement 'Activity 3' at the top of the page.

The Hon. M.F. O'BRIEN: Which of the three paragraphs?

Mr PEDERICK: The whole line says:

Support the sustainable development of an internationally competitive forest industry, regional development and the provision of services from State Government forest reserves.

I am worried about how the forward sale will impact on the services that are supplied from state government forest reserves.

The Hon. M.F. O'BRIEN: That is quite a good question, member for Hammond. That would also be encompassed in the regional impact statement. One of the options could be that the various services that are provided by ForestrySA in the management of the plantations in the South-East and in the Mount Lofty Ranges could be undertaken by a state government agency, or they could continue to be provided by ForestrySA. That level of detail, I think, would be picked up within the regional impact statement and would ultimately be attached to a contract of sale.

It could well be that it would make more sense on the one hand for it to go across to DENR or, on the other hand, remain with ForestrySA—that is yet to be determined, and it would have some bearing on the sale price.

## **Sale of land – Loxton & Flaxley**

Mr PEDERICK: I go to Volume 3, page 1025, note 1 at the top of the page under the heading 'Reconciliation of non-current assets classified as held for sale'. It refers to the sale of sections 223 and 224 Bookpurnong Road, Loxton, and the proposed sale of section 222. My question is: for the two blocks that have been sold, what was the amount received for the sale of those properties?

The Hon. M.F. O'BRIEN: I have been informed it is the figure of \$345,000.

Mr PEDERICK: Minister, can you explain what is being done with the proceeds of the sale? Have they been reinvested in rural services or facilities or have they been absorbed into general revenue? Also, will the proceeds of section 222 go the same way?

The Hon. M.F. O'BRIEN: I have been informed that, under a Treasurer's Instruction, part is retained by Treasury and part has flowed on to the department and will be employed for changes to the regional network. The amount that comes back to the agency will be employed in the development of the regional hubs. As to the exact breakdown, we do not have it at the moment but, when the figure becomes available, I will make the member aware of it.

Mr PEDERICK: I refer to Volume 3, page 1019. Item 11(5) mentions the closure of the Flaxley Dairy and subsequent sale of the cattle herd for \$1.468 million. At page 1020, item 17(2) appears to contradict this by declaring the sale income to be \$921,000. I guess there is some confusion and there may have been a misprint in the Auditor-General's Report, but can the minister clarify what was actually received for the sale of the Flaxley cattle herd and indicate the net result?

The Hon. M.F. O'BRIEN: There is some confusion and I will have it clarified. The reference on page 1020 to an expensed inventory is the value of stock on hand, if you want to describe it that way, which was not realised in the actual sale of the assets. The actual sale value was \$921,000 but it was on the books at a value of \$1.468 million. That is the explanation that I have been given.

Mr PEDERICK: Can you give me a breakdown of where those funds have gone?

The Hon. M.F. O'BRIEN: We plan to reinvest that within SARDI.

Mr PEDERICK: So, would that be recurrent funding or capital expenditure on SARDI?

The Hon. M.F. O'BRIEN: I have been informed that it was applied to recurrent, and the bulk, if not all, of it has been spent.

## **Langhorne Creek Pipeline**

Mr PEDERICK: I will go to another topic. In Volume 3, page 997, referring to the Jervois to Langhorne Creek pipeline, paragraph 2 describes the payment of moneys for the construction of this pipeline, and I have some questions around the final wash-up of the figures on this project. What was the full cost of construction? Has the state government been paid in full and, if not, what amounts are outstanding, and from whom?

The Hon. M.F. O'BRIEN: I will step through this. There are still outstanding liabilities which are the result of the identification of defects which we have to recompense the contractor for. The total expenditure on the project was around \$90 million. What else, member for Hammond, did you—

Mr PEDERICK: Obviously, there are some issues. You have to pay some defect costs to the contractor, and I would be interested in a full outline of that. As to as the whole contract, what was the state government's contribution?

The Hon. M.F. O'BRIEN: This state government was not a funding partner. It was a partnership between the irrigators and the federal government, but we were the funding mechanism. There are some matters to be resolved, but they will be resolved on the conclusion of the liability period: 12 months from the date of commissioning, and I do not have the date of commissioning before me at the moment but, again, I will get back to you on that.

Mr PEDERICK: Thank you, minister.

Progress reported; committee to sit again.

*[Sitting suspended from 13:07 to 14:00]*