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THE HOUSE OF ASSEMBLY SELECT COMMITTEE ON THE ROLE AND FUTURE VIABILITY OF TOTE TASMANIA MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART, ON FRIDAY, 24 FEBRUARY 2012.

Mr MICHAEL KENT, CHAIRMAN, AND **Mr CRAIG COLEMAN**, CEO, TOTE TASMANIA, WERE RECALLED AND FURTHER EXAMINED.

CHAIR (Mr Booth) - Thank you for coming in at short notice, Mr Coleman. I understand you were busy but made yourself available, which is appreciated very much by the committee and myself. Mr Kent has come along to assist Mr Coleman. Thank you. It was a decision of the committee to recall you to ask further questions with regard to our terms of reference, particularly in light of events that have occurred since then, so I will hand it over to the committee.

Mr GUTWEIN - I want to start by clarifying the situation in regard to jobs of current TOTE employees and what you understand will be the situation for the company when it ultimately changes hands.

Mr COLEMAN - Sure. Tatts came to Tasmania on Tuesday and gave notice to 129 employees that their contracts of employment would be retrenched.

CHAIR - 129?

Mr COLEMAN - Yes, 109 people will leave on 26-27 March, or thereabouts, and a further 20 will leave sometime after that. Since that time I have been working with those people to try to help them through the change. We are making some progress but it has been a very difficult time.

Mr GUTWEIN - Is that roughly 50 per cent of the total workforce?

Mr COLEMAN - It depends on how you calculate the numbers. You could calculate it in terms of full-time equivalent employees. TOTE employs about 180 full-time equivalent employees and so it represents about 75 per cent.

Mr GUTWEIN - So about 75 per cent of FTEs will go?

Mr COLEMAN - Yes.

Mr GUTWEIN - Did you think that it would be as high as that?

Mr COLEMAN - When you consider that Tatts has many of the same functions that we have - and certainly all the jobs that are going are duplicated within the Tatts' business - it is not surprising to me.

Mr GUTWEIN - Did government ask you the question, as the current CEO, if and when TOTE were to be sold what the expectations might be for the retention of jobs in Tasmania?

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Mr COLEMAN - I had no discussions with the Government on that point.

CHAIR - So the Government didn't ask you at all about job losses?

Mr COLEMAN - No.

Mr GUTWEIN - There was no discussion from anybody at a government level?

Mr COLEMAN - Not with me, no.

Mr GUTWEIN - And obviously not through the board either, Mr Kent?

Mr KENT - No.

CHAIR - What sort of discussions did the Government have with you before they sold TOTE?

Mr COLEMAN - In relation to?

CHAIR - Post the last hearing you attended - in other words, I suppose when they made the decision to sell it.

Mr COLEMAN - A lot has happened in that time.

CHAIR - When they made the decision they were going to sell it to Tatts.

Mr COLEMAN - I found out from reading a media release, which was unfortunate but that's as it was, and I expressed my concerns about that, as you might imagine. The Government has made its decision and it is our job to ensure the best outcomes are achieved for our people, even if it is inside or outside of the organisation, and that we are maximising the return to the Government, and we have been working hard to do both of those things.

In relation to employees, since that first event we have expressed concerns about how employees would be dealt with and the Government has taken that on board and I understand they are going to insist on and seek compensation from Tatts in relation to a proper outplacement process for the employees.

Mr GUTWEIN - Was any of that done through the sales process? I would have thought that those with sorts of things it would be sensible to have had conditions in any sale of a going concern. Do you know if the Government made any attempt to save those jobs at all?

Mr COLEMAN - I am not aware of any discussions the Government had. We weren't involved in any of those discussions.

Mr GUTWEIN - Does it strike you as odd, as the board and the CEO, that through this period the Government has had no discussions with you about the company or its future or the future of its employees, bearing in mind that you, as the CEO, are the steward responsible for those people as it currently stands at the moment?

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Mr COLEMAN - Sure. It is not fair to say that the Government hasn't had any discussions with me about the people post the event. I have expressed my concerns about the number of job losses, and this is after the sale was announced, and we have been working hard to ensure that there were proper processes put in place.

Mr GUTWEIN - When did you find out what the extent of the job losses would be?

Mr COLEMAN - On Tuesday.

Mr GUTWEIN - On Tuesday - so you have had discussions with the Government since then?

Mr COLEMAN - I anticipated that there would be substantial job losses. We were guessing what they might be but I didn't know until Tuesday what they were.

Mr SHELTON - So if the Government had asked you that question prior to the sale, it would have always been your intention that you could have imposed on them that there would have been substantial job losses?

Mr COLEMAN - I would have given that advice, that my anticipation is that job losses would ensue. I cannot speak for the Government; whether they had that in their mind or not, I can't say.

CHAIR - So you found out - which Tuesday? Tuesday this week?

Mr COLEMAN - Three days ago.

CHAIR - Three days ago, about the job losses. You said the Government is now taking action against Tatts to try to require some remuneration.

Mr COLEMAN - No, they are working with Tatts to ensure that there is a proper process in place for outplacement. The board wrote to the Premier on this matter some weeks ago.

CHAIR - About job losses?

Mr COLEMAN - About ensuring that staff who are retrenched are cared for in that process.

CHAIR - Did you indicate the extent of job losses you anticipated?

Mr COLEMAN - I have indicated on a number of occasions since the sale was announced. We had meetings with Treasury and put my view on the extent of the potential job losses and the numbers in relation to those were consistent with what was actually announced.

CHAIR - Do you have letter here?

Mr COLEMAN - No, I don't have that letter here, I'm sorry.

CHAIR - Could we seek that to be provided, please?

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Just to follow up on that, could you restate what it is the Government is now doing for those employees in relation to actions taken about Tatts and when did they decide to do that?

Mr COLEMAN - I received a letter - I think Wednesday - back from the Premier in relation to a letter that the chairman had written to the Premier.

CHAIR - Is that the letter you are going to table or is that a different one?

Mr COLEMAN - That is the letter we are talking about that is going to be tabled. It indicated that the Government would ensure that proper outplacement was provided to employees.

CHAIR - So something beyond their contract of sale then?

Mr COLEMAN - Beyond the contract of sale.

CHAIR - How did they impose conditions post sale?

Mr COLEMAN - I don't know what negotiations they had.

Mr GUTWEIN - It appears to me to be quite extraordinary that as part of the sales process someone in government would not have sought to have had some protections in place for employees, even for an interim period. Is it your view that they thought that whoever picked up TOTE there would be a massive shedding of jobs very quickly regardless?

Mr COLEMAN - I am not sure what was in the minds of the people there. I know these negotiations occurred with Treasury officials, Tatts and their advisers, but what they actually discussed I don't know; I was never advised of any of those discussions.

Mr KENT - It is fair to say that TOTE had nothing to do with the sale process.

Mr SHELTON - I find it astounding that they wouldn't have asked the person with the most experience in the field about the possibility of job losses and what your experiences would have told you, and therefore them, prior to the sale. I find that extraordinary.

Mr COLEMAN - In terms of the negotiations of the sale, we were the asset being sold, the Government was the vendor and the potential purchasers, in this case the eventual purchaser, were Tatts, so the transaction was negotiated between the Government and Tatts and we weren't included in that process.

CHAIR - So, to be clear, nobody from the Government or Treasury at any stage approached you to offer assistance, support or seek advice about the level of job losses directly as a result of the Government selling TOTE?

Mr COLEMAN - Prior to the sale I never had those discussions but since the sale we've had a number of discussions.

Mr GUTWEIN - Initiated by who?

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Mr COLEMAN - I'd say me.

CHAIR - But that is post Tuesday?

Mr COLEMAN - No, since the announcement of the sale.

Mr GUTWEIN - And since you wrote to them recently?

Mr COLEMAN - Yes. It has been over time that we have raised concerns. In fairness, I've not had any push-back from Treasury on these matters. Treasury has been sympathetic to the issues.

Mr GUTWEIN - In regard to clarifying what Mr Booth was asking, there was no contact from Treasury or government to you as CEO as to how to mitigate job losses from TOTE or what the extent of those job losses might be until you initiated the action yourself to inform them that you felt that there would be significant job losses?

Mr COLEMAN - Correct.

Mr GUTWEIN - Regarding the 129 jobs, or full-time equivalent positions, how many people are we talking about there?

Mr COLEMAN - It is 129 jobs in heads; in FTEs it is probably 120, I suppose.

Mr GUTWEIN - Where will most of those jobs be currently?

Mr COLEMAN - In the administration area of the business, the IT area, marketing and sales, some of our customer service staff and our premium client staff.

Mr SHELTON - Can I ask a specific question around TOTE Radio?

Mr COLEMAN - Yes.

Mr SHELTON - They're part of the 129, their jobs have all been lost?

Mr COLEMAN - Yes. Not every employee in Tote Sport Radio will be retrenched. The race callers are being retained and they will call and their signal will be broadcast on the Tote Sport Radio service but it will be a Queensland service.

Mr SHELTON - So that is officially arranged through Queensland?

Mr COLEMAN - The punters in Tasmania will still receive a radio service. Colin McNiff will still call the thoroughbred races, Shane Yates will still call the thoroughbred races and the dog racing in the north, and Matthew will still call the harness races. It is just that it will be broadcast through from the TAB instead.

CHAIR - What about the country races such as Scottsdale, the St Marys Cup, New Norfolk?

Mr COLEMAN - I can't speak for what Tatts's plans are but my understanding is that they will have to be broadcast because there's an obligation under the act, which provided for

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bringing it under the Gaming Control Act which required that 20 meetings had to be covered. What that means in terms of radio broadcasting I'm not sure, but it is very clear that they have to be covered from the TAB perspective.

CHAIR - In real time, though? Do they have to be broadcast live or can they be canned and broadcast at a different time?

Mr COLEMAN - In fairness, with some of the smaller meetings around the country, including some in Tasmania - and from King Island in particular - the radio service is a results service. In other words, the results are read, and I'm assuming that will be a similar service for TAB. My anticipation is that I don't expect there will be any diminution of racing broadcasting on racing product in Tasmania.

CHAIR - Is there any guarantee in the sale contract?

Mr COLEMAN - I'm not privy to the sale and purchase agreement. We haven't been shown that.

CHAIR - So you have no information whatsoever about any guarantee about any continuation or support for the Tasmanian racing industry employees?

Mr COLEMAN - I'm not aware of those details.

Mr GUTWEIN - Of the 120 jobs, how many of those would be racing industry specific where there may no longer be work available to them? What will those people migrate to?

Mr COLEMAN - Very few. It is mostly in our wagering business, which is really a service business. A lot of them are IT jobs, administration, marketing and sales, and those skills are transportable which is going to help people understand how they can transport those skills into other areas. We will work through that through the outplacement process.

CHAIR - You will work through that through the outplacement process so if TOTE is sold when will your role end?

Mr COLEMAN - My last day will be the last day that the business is owned by the Government and I finish on that day and at this stage it is 27 March.

Mr GUTWEIN - As the CEO currently, what is your personal or professional view now that the sale has taken place? Obviously we have received around \$100 million to the Treasury for the sale of TOTE. What is your personal view about what the benefits are for Tasmania of that decision?

Mr COLEMAN - It is difficult for me to comment on the negotiations around the sale price. I wasn't privy to the discussions around those points.

Mr GUTWEIN - Do you think it was a good price or a bad price?

Mr COLEMAN - Bear in mind a sale price number is flexible, it increases or decreases around what the balance sheet is on completion and so the balance sheet that is sold is the

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balance sheet as at 30 June 2011, and my job and the job of our team has been to improve that balance sheet so that the Government maximises its return. We think through our efforts we have been able to increase the return to the Government by about \$16 million.

CHAIR - Do you take any responsibility then for the collapse of the profitability of TOTE in light of what you have just said?

Mr COLEMAN - Let me talk about the history of where these things are because I think there is a lot of confusion around this point. We partly touched it on at the last committee hearing but I would like to go into a bit more detail because I think this is a very important point. In 2010 the turnover in the business was \$756 million. I will give each of the committee members a copy of this document which will make it easier for you to understand where we are taking these numbers from. These are all printed numbers, so published numbers, and this is on page 23 of the annual report.

You can see that for 2010 investments by customers was \$756 million.

CHAIR - Can I just clarify something here, Mr Coleman. Are you saying that the price depended on the annual figures at the end of 2011 or 2012?

Mr COLEMAN - 2011. The balance sheet sold was the company's balance sheet as it was at 30 June 2011 plus or minus any improvements we made to that balance sheet since then.

CHAIR - Since then?

Mr COLEMAN - Yes, so they will add onto that and we think since then that is about \$16 million.

CHAIR - So the sale price might in fact be \$119 million?

Mr COLEMAN - That needs to be worked through. I am not aware of the fine details of what is included in this sale of purchase agreement but since 30 June 2012 we have repaid all our debt.

CHAIR - But it is a sliding scale so it is not a fixed \$103 million, it is \$103 million plus or minus depending on the improvement?

Mr COLEMAN - Correct. Since that time we have repaid all our debt and we are debt free now. We have \$2 million in the bank as of today and there will be more as we progress over the next month, I am sure, so the company is in good shape.

CHAIR - Will you be handing over the bank account with it?

Mr COLEMAN - No, the cash goes to the Government so they get the cash. It is sold cash free/debt free and so we will be able to hand a dividend to the Government on the final day. So \$756 million and the gross wagering income is \$76 million on that. If you come down, the cost of dividends, taxes, rebates and commissions, all of the incentives paid to our clients were taken out in that line so any rebate that is paid, any incentive that is paid, any commission that is paid to a customer, a punter, whether it be a large punter or a small punter - we pay incentives to a whole range of our clients - is taken out in that line.

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CHAIR - That is \$734 million.

Mr COLEMAN - That is \$734 million and including the dividends, and that is what they win or lose on their bets, and that is \$76 million after that. We went from there to \$961 million and we actually increased our gross wagering income so after paying all the commissions and all the incentives and the like to punters we actually increased it by 6 per cent.

CHAIR - For clarification, you are saying the cost of dividends, taxes, rebates and commissions. Is that not winnings then?

Mr COLEMAN - Winnings are part of that but it is also any rebates that we pay to clients and commissions we paid - any of those things are taken out of that number. It's not true to say that there was a deduction in the performance as a result of that.

CHAIR - Can you give us a breakdown of the rebates and commissions. Out of that \$734 million - how much was commission, how much was rebates?

Mr COLEMAN - There was \$65 million rebates, commissions was \$11 million.

CHAIR - Rewards?

Mr COLEMAN - The rewards number is \$600 000.

CHAIR - So what is a reward?

Mr COLEMAN - It's an amount of money either paid in donations to a charity or goods and services and chattels in the same way that anybody who might be a member of a frequent flyer club or the like would get a reward for betting with TOTE.

CHAIR - Like a fridge or something like that?

Mr COLEMAN - Yes. I think the biggest reward we have given somebody is a motor vehicle.

CHAIR - What sort of motor vehicle?

Mr COLEMAN - I couldn't tell you.

CHAIR - Commissions?

Mr COLEMAN - They're paid to people who introduce business to us. They include our retail operators in the network.

CHAIR - So that's a one-off commission or introduction fee or is it a continual?

Mr COLEMAN - No, it's a share of the profits that we make with people who bring business to us.

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Mr GUTWEIN - The percentage of gross wagering income in 2010 as a percentage of revenue, is that around 10 per cent?

Mr COLEMAN - Sure.

Mr GUTWEIN - And that then changes quite dramatically?

Mr COLEMAN - It does. Let me explain that to you - that's where I was going to go. Whilst there has been an overall increase, it fell. There were two main factors in relation to why that number fell. Firstly, it was in relation to the last sale process, which concluded in January 2010. In that sale process - and I talked about this at the last committee hearing - the operations of the company were fully exposed to the market. Our competitors could see exactly what we were doing, could take a view on what our systems and processes were and that market intelligence was used against us in pricing. We had to battle hard to maintain our relationships with those customers and that meant that we had to meet the market and it became a highly competitive time. Since then, pleasingly, our margin has grown back up now to 7.11 per cent. It was down to 5.3 per cent at that time, so it has increased in the first half of this year by 2 per cent.

Mr GUTWEIN - It would appear to me that the difference between 2010 and 2011, if you had roughly the same percentage of revenue appearing as your gross wagering income at roughly 10 per cent, that you have given away - there is approximately \$15 million less.

Mr COLEMAN - I don't know if I would characterise it as giving it away; we had to meet the market. We were up against other TABs who fall into the Supertab pool. Even today TOTE does not pay the highest rebates. It's somewhere below the market. We're able to keep those customers because of systems and processes. We had to meet the market. Everybody got to know what we were doing. They made guesses about who our clients were and they were all contacted. In the last sale we had some of our competitors approaching our clients saying, 'Unless you transfer your business to us now, you won't get a deal'. That was the sort of competitive environment we found ourselves in and we had to match that environment to keep those customers.

Mr GUTWEIN - An article that appeared, I think it was the *Financial Review*, in which the Tatts group Chief Executive, Dick McIlwain, was quoted as saying 'They gave all the profits away. They rebated the backside out of the business until there was nothing left', and that is a direct quote.

Mr COLEMAN - I am not going to comment on Dick McIlwain and what was reported in the *Australian Financial Review*. That is a matter for that journalist and Mr McIlwain to comment on but what I will say is that we still made \$81 million after all those things were paid. The return was still \$81 million in that year so that is not giving all the profits away.

Mr GUTWEIN - What was he informing himself on to come to that judgment?

Mr COLEMAN - I can't say. I understand he is going to appear before this committee so it will be interesting for him to answer that question, I am sure.

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CHAIR - If I can touch on what Peter was saying there, you have said that \$81 million was somehow a good result but if you look down basically to your profit, your total comprehensive income for the entire year on nearly a \$1 billion turnover is \$3 140 000.

Mr COLEMAN - Let me go through those numbers because the real issue is below that top line. As I said to you, the gross wagering income was \$81 million this last financial year and the previous year \$76 million. Below that -

CHAIR - I will just point out there for the record of *Hansard* that the cost of the dividends in that time went up \$200-odd million - \$210 million or something.

Mr COLEMAN - Yes, but you have to remember that the cost of the dividends also includes return to player and it is a statutory return at least on an average of 84 per cent of that value, so that is all of the winnings of all of the customers and that \$200 million has to be paid back to the customers. Let us go down to where the real issues are in that year and bearing in mind, as I said to you, we had a difficult year, we had to rebuild the business and so 2010-11 was all about rebuilding TOTE. In that sale process we lost a number of key staff and I couldn't replace those people during the sale process, no-one wanted to come and work for the TOTE when their job could have been gone inside of a few months and we had to wait until that process was concluded and that wasn't concluded until December/January 2010-11 so bearing in mind it was in that financial year when this all occurred. We lost momentum, we lost personnel and we had to recruit those people to try to fix the business.

If you look at the numbers below that in the next area down, we have wagering and calling fees and race field fees. Race field fees in Tasmania came online in that year and so \$9 million to \$12 million and there was some factor there which was related to an increase in volume, but all of that money is paid to the racing industry so it is a contribution this business makes and it is a factor of turnover that that contribution is made. So the contribution from this business whether it is from larger punters or smaller punters increases and so racing does better.

Mr KENT - That wasn't there previously.

Mr COLEMAN - No, it wasn't there previously and we never paid that in previous years but with that said, it has grown by \$9 million to \$13 million in that year.

CHAIR - I just want to clarify under the expenses line, employee benefits expenses, you said it was impossible to replace employees in 2011 - post the aborted sale process. Why have the employee benefits increased by \$5 million?

Mr COLEMAN - I will come to that one because I am working my way down a list of numbers. The one above that wagering and calling fees again that is a direct correlation to turnover. Of that \$17 million which we paid in 2011, \$4.3 million of that went to the racing industry so the racing industry got about \$17 million directly out of TOTE's turnover.

Coming down to the next line, we talked about expenses and the one you raised just now was employee benefits and expenses. At the last committee hearing I talked about the cost of compliance for TOTE and in that financial year it was about \$12 million and of

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that a large portion of it was in relation to salaries and wages. We had to employ a whole host of people which we didn't have previously just to be compliant with the Gaming Control Act and that included IT people to build new systems and a whole range of other things but just people for regulatory purposes. It is a far more expensive model to run than it was when we were under self regulation.

Mr GUTWEIN - In building those new systems how much of that would have been an investment for the future and how much of it has now been lost because it's not going to be realised?

Mr COLEMAN - Loss to the Government is zero because it still sits in the balance sheet and goes forward. We haven't closed off those transactions. It's a matter then for Tatts to decide what they want to do. The Government won't lose anything out of any transition from investments.

Mr SHELTON - Nevertheless, the extra \$5 million that was spent in that year in selling TOTE when the Government decided to because of that investment and therefore the reduction in your profit line equates to the overall sale price. So in the timing of the sale now this expenditure in this particular year, even though some of it may be one-off, affects the sale price?

Mr COLEMAN - I'm not sure how Tatts came to their view in relation to sale price. They would have taken into account a whole range of factors and I think they probably would have normalised the expenses out of their business when they determined the price. Certainly that's the way I would have approached it if I was looking at it. I would have thought that our labour costs would have been normalised out and they would have put their labour costs in, which is generally the practice you would apply. In any event, we had no choice. If you are a regulated business you have to comply with the regulations and you have to spend the money, so that's where the bulk of that money went to.

In terms of depreciation and amortisation, and I might go on with employee benefits, we fully expected that if we had traded on we would have cut that cost in the 2012-13 financial year by 20 per cent.

CHAIR - Employee benefits expense?

Mr COLEMAN - Yes. We would have reduced the cost of employment in that period of time.

CHAIR - How?

Mr COLEMAN - We had a number of contractors who were in the business that we would not have re-engaged, and the like. They are all paid for in that line. That was the plan for the business in the 2012-13 year. We are seeing an abnormality in this year, the 2011 year, and it would have been in the 2012 year, but in the 2012-13 year you would have seen a reduction of about 20 per cent, if we had traded on.

CHAIR - But the benefits went up from \$12 628 000 in 2010 to \$17 468 000 in 2011, so there was almost a 50 per cent increase in employee benefits. Why is that?

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Mr COLEMAN - These people are a number of lawyers who are employed, highly skilled IT professionals who are employed; they are not people who are, say, selling a few bets over the counter. They are expensive jobs to fill and they were required to be filled if we were to replace our systems and do the things we needed to do.

CHAIR - So that 'employee benefits' refers to the total wage package? It's not something additional?

Mr COLEMAN - No, that's every employee.

The depreciation and amortisation went from \$3.2 million to \$5.4 million. All of the increase was writing off old systems, which we had to write off because they were no longer acceptable under the new regulatory regime under the Gaming Control Act. So we started to write off our old wagering system and introduce a new wagering system.

Mr GUTWEIN - It sounds to me from what you've just explained that in the previous year you were investing to take TOTE forward into the future to put yourselves on a reasonable platform, and obviously the taxpayer of Tasmania has borne the brunt of that through the course of that year through lower dividends, and now I think to a very large degree the Tatts group is going to benefit from this.

Mr COLEMAN - I look at it in terms of what the company will benefit from it, I will wear the corporate hat here, but in terms of the dividends and things that were paid to Tasmania, in 2011 - and on page 12 now of the annual report - the return to the Government was \$15.6 million and in the previous year it was \$16.6 million, so ostensibly the returns to government were maintained regardless of the financial performance of the business.

Mr GUTWEIN - What year is the dividend paid? What year does that relate to? For the 2011 dividend that was paid in that particular year, that's declared from the previous year, isn't it?

Mr COLEMAN - Correct.

Mr GUTWEIN - So the dividend that we could have received out of the 2011 year here, which would have been payable in this current year, had we retained TOTE would have been much less on the basis that you'd made that significant investment through the course of the year into IT and systems.

Mr COLEMAN - It certainly would have impacted. That said, the depreciation and amortisation expense increased by \$2.2 million. That is a one-off, that happened in that year.

Mr GUTWEIN - Can I just go back one step, so that we are clear? The fact that we received a dividend in 2011 - and you pointed us to a page - really has no bearing whatsoever on what occurred in the 2011 year, does it?

Mr COLEMAN - That's correct.

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Mr GUTWEIN - That was paid on the previous year's profits. The expenses we are looking at here were for the 2011 year and they, in effect, have reduced considerably the return to the Tasmanian taxpayer in this current financial year, and we won't get the benefit of that.

Mr COLEMAN - A dividend hasn't been declared by the TOTE board by virtue of the sale and purchase agreement. That said, it would have been a matter for the board to determine what that dividend would have been and what would have been paid. So if I am vague and don't know what the value of the dividend is, none was ever declared. That's why I am being vague on that.

Mr GUTWEIN - Forgive me for being vague as well, but I think it probably would have been substantially less than the dividend that was paid the previous year when you declared over a \$10 million profit compared to a \$1 500 000 profit in the past year.

Mr COLEMAN - I would have thought that was a reasonable assumption. That is a one-off expense in that year and we don't anticipate that that will continue.

The next one is interest and leasing charges. In that year, and at 30 June 2011, we owed \$14 million. We owe nothing today; all that debt has been repaid. That abnormality in terms of interest and leasing charges, that once-a-year position, won't be repeated going forward.

CHAIR - So that's effectively where the additional payment to government will come from, the fact that you have reduced those sorts of costs?

Mr COLEMAN - Yes. In this current financial year, the first-half result in EBITDA terms, our result was \$21.9 million. For the first half our earnings before interest, taxation, depreciation and amortisation was \$21.9 million, so we are having a very good year this year.

CHAIR - So that was for six months, what would it have been over 12 months?

Mr COLEMAN - We are well ahead of where we anticipated being in this current financial year.

Mr GUTWEIN - How would that EBITDA figure for the six months have compared to the previous year's first-half result?

Mr COLEMAN - I don't have those numbers here with me, but if I was to speak in broad terms it is substantially more.

CHAIR - Give us a figure. You must have some ballpark figure that you talk about in the lunch room, surely?

Mr COLEMAN - I would have guessed that the previous first-half EBITDA would have been about \$6 million, and in this instance it is \$21.9 million.

Mr GUTWEIN - So you were powering back.

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Mr COLEMAN - We are doing very well.

CHAIR - What have you anticipated over a 12-month period to be? Give us a guess.

Mr COLEMAN - I don't have those numbers here.

CHAIR - Just an ambit figure - roughly, what do you think the TOTE would have generated in a full 12 months to the end of this financial year?

Mr COLEMAN - In terms of the comprehensive income, and that is after we have paid dividend and taxation, I would have said our number would be about \$16 million.

Mr SHELTON - On top of that, isn't it right that you have just said that your wages bill was \$5 million extra but 20 per cent less this year. So there is \$1 million added to your -

Mr COLEMAN - No, not this year, next year it would be expected to be 20 per cent less. We are still paying wages at that sort of level, at \$17 million, because we are right in the midst of that, although today that is not the case now - on 27 March it might be the case.

Mr SHELTON - So that is \$1 million - and the depreciation and amortisation you have just mentioned was an extra \$2 million up to 2011 and you said that is a one-off, so that also is a benefit to this year's bottom line.

Mr COLEMAN - Yes, it's a non-cash charge. In other words, you write off money you spent on the computer system in previous years, and in this case it is the computer system in previous years, because you're not going to use it going forward. You make a charge to your accounts for that and the value of that charge was increased by more than \$2 million - \$2.2 million in this case.

Mr GUTWEIN - To clarify one point that Mark was making there. The 20 per cent reduction in employee benefits expenses we were speaking about, was that on the full \$17 million?

Mr COLEMAN - Yes.

Mr GUTWEIN - It was not on the \$5 million difference so -

Mr COLEMAN - No. The benchmark that the management agreed with the board was that total employee costs would reduce following 30 June 2012 by 20 per cent.

Mr GUTWEIN - Which would be around \$3.5 million.

Mr COLEMAN - Correct. Then as we move further down, many of the other lines are similar but I am happy to take questions on what constitutes those other lines but that is, if you like, the essence of where this was. We had a year to rebuild the business, to consolidate and that included making sure we were compliant under the Gaming Control Act. I need to be clear on this: I have no concerns or no doubts that we should be governed by and regulated under the Tasmanian Gaming Control Act and under the oversight of the Tasmanian Gaming Commission. I think that is important thing for the credibility and reputation of any business that there is independent oversight but it costs and we have to accept that is the case.

PUBLIC

CHAIR - That will continue in the same oversight with the new owners?

Mr COLEMAN - Correct. Tatts will be subject to the same regulatory control.

CHAIR - I want to go back to the cost of dividends, taxes, rebates and commissions. I would like you to provide to the committee a breakdown of them, detailing effectively where they all went - what the dollar amounts were and where they went. I also want to ask you some questions about the rebates. Who in the organisation knew about the rebates?

Mr COLEMAN - There is no secret that we pay incentives to clients, customers or punters, however you want to describe them. I wouldn't have thought that it's something that most people would know about -

CHAIR - Anybody using the TOTE would be aware that if they wanted to they could discuss with you a situation where they could get a rebate out of the TOTE?

Mr COLEMAN - There were a number of discussions we had with a number of people and certainly we wrote to a number of our clients advising them about our rewards program, just as a matter of course.

CHAIR - Within the organisation itself then are you saying - and remember you are on oath here - that everybody knew and the organisation knew that there were rebate schemes in place?

Mr COLEMAN - I can't be authoritative to say that everybody knew that. I haven't asked that question.

CHAIR - But how would they have known?

Mr COLEMAN - There was no secret of it. The Evolution Rewards Program, which is our baseline incentive program, was widely detailed on the Internet. Our model for premium customers and the premium team sat in the building and there would have been very clear discussions about what they would have been, I would have thought. TOTE is not a large business. It is not a silo business. Things happen across the business.

CHAIR - How were the rebates paid out? In what form did the payments take?

Mr KENT - They vary, don't they?

Mr COLEMAN - I don't know. We need to understand what rebates are, rebates are a reduction in our commission, so we used to take less commission in one level and at another level - the incentive level - people could elect a price to pay money to charity for them, to get a baseball cap or a slab of Bundy and coke, which I think was the most popular reward that people used to get, so there are a number of ways that these incentives could have been paid.

CHAIR - How did you audit those things? Who gave them a slab of Bundy and coke, how did that happen?

PUBLIC

Mr COLEMAN - It was all based on the turnover which was very simple to measure.

Mr KENT - It's the marketing.

Mr COLEMAN - It is a very simple thing to measure. If Kim Booth has an account with a rewards attached to it and he turns over \$10 000 he has 10 000 points and then you go to the register to see what you can buy for 10 000 points. That is just like Frequent Flyer points.

CHAIR - They were paid out by the Finance department, were they?

Mr COLEMAN - There was a group of people who managed that and ultimately all the accounts in the business are paid out by the Finance department.

CHAIR - Was there an audit of these systems?

Mr COLEMAN - All of our processes in the business are subject to audit.

CHAIR - Who audited them then - was it an external auditor or internally?

Mr COLEMAN - It would have been audited by, I assume, the Auditor-General who looked at our systems in relation to that and it would have been looked at by KPMG who are our internal auditors.

Mr GUTWEIN - I want to try to understand what the totality of the impact of the sale has been on the Tasmanian economy - we know that 129 jobs have been lost. Would it be fair to say that if that is two-thirds of the workforce -

Mr KENT - It is 75 per cent.

Mr GUTWEIN - So 75 per cent. Has that roughly taken 75 per cent of the wages as well? If the wages bill, even allowing for your 20 per cent reduction was, let's call it, \$14 million a year, have we lost \$10 million worth of wages into the Tasmanian community as a result?

Mr COLEMAN - I haven't done the calculation on it but it is fair to say that the jobs that were lost were at the professional end and more highly paid in the business - that is all the IT people, people who are graduates, the lawyers and all those sorts of people who are working inside the business - all of those people are gone - and the jobs that are retained are sales people.

Mr GUTWEIN - To be fair, rather than working off a \$17 million wages bill if we worked off a \$14 million wages bill, 75 per cent of that has now been lost.

Mr KENT - Yes, from that perspective but I think there is a broader issue there, there was about \$40 million a year being circulated in the Tasmanian community.

Mr GUTWEIN - That was my next question, what else has been lost?

PUBLIC

Mr KENT - It's all the downstreaming, the people you use, the promotional activity, all those sorts of things, and including the wages, so it is my understanding it is about \$40 million a year.

Mr COLEMAN - As you might recall at the last committee hearing I provided a document which showed the multiplier effect of what it was, or the time effect of what our contribution was, and it was \$41.1 million in that financial year. So the profit, whilst it is \$3.14 million, the actual contributions to Tasmania was \$41.1 million.

Mr GUTWEIN - So that's wages, the flow-on effect from those wages with the multiplier effect.

Mr COLEMAN - Contribution to the racing industry, contribution to the Government of \$15 million.

Mr KENT - Which is a valid point, we don't know how much is going to go back into the racing industry.

Mr GUTWEIN - That's the question, what guarantees are there and what arrangements have been made with the purchase in regard to what is going to happen, moving forward?

Mr COLEMAN - We are not aware of any, we don't know those details.

Mr GUTWEIN - Are there any arrangements that you currently have with the racing industry that you would have thought should have been continued and that you would expect that the new purchaser or government would come to you and provide either introductions or assistance to enable the new purchaser to take those functions on?

Mr COLEMAN - Most of the support we give the racing industry now is statutory in the sense that we pay race field fees and the other and so regardless of whether it is TOTE Tasmania owned by the Government or whether it is TOTE Tasmania owned by Tatts, they have to be paid.

Mr GUTWEIN - But the race field fees would still be paid?

Mr COLEMAN - Yes, they would still be paid. Outside of that I think we contribute a further \$2 million in commissions and other payments to the racing industry in Tasmania. I would have thought the bulk of that would still be paid. Race callers are paid for by TOTE Tasmania and I understand Tatts are going to continue to pay for race callers. I am not across the issues but I don't see that there is any indication that there is going to be a substantial variation to what's there now.

Mr GUTWEIN - So apart from the loss of direct wages into the community.

Mr COLEMAN - And whatever contribution is made in dividends and the like to the Government.

CHAIR - Tell us about the minimum dividends scheme.

Mr COLEMAN - I'm not sure what you mean.

PUBLIC

CHAIR - It has been asserted that in fact there is a system where you can get a minimum dividend payment. In other words, if you invest a \$1 they'll pay you \$1.04, for example.

Mr COLEMAN - Under the governing regulations and the rules which govern TABs in Australia contained within the Gaming Control Act, the minimum repayment to a winning bet is \$1.04. So if we take a bet from a punter and they bet \$1 and that bet wins - and everybody in Tasmania bets on that one selection and it wins - we are obliged to return \$1.04 for every \$1 that is taken on those bets.

CHAIR - Which means that technically if you are running a system where you are on a rebate -

Mr COLEMAN - But we don't pay rebates on minimum dividends.

CHAIR - You pay rebates on losing bets, don't you, I think that took place -

Mr COLEMAN - No, that's a misnomer.

CHAIR - What about that Black Caviar scam that was paid out through TOTE, I understand, a \$14 000 rebate effectively, 7 per cent, on a \$200 000 bet to run a place?

Mr COLEMAN - I can tell you there was no bet process through TOTE Tasmania for a \$200 000 bet to run a place on Black Caviar. It never happened.

CHAIR - That is a false report, is it?

Mr COLEMAN - A false report and at the time I actually issued a media statement to that effect.

CHAIR - Could you tell us about what high-roller support you have operated within in TOTE?

Mr COLEMAN - We provide a number of support services to our customers, whether they are high rollers or not, and the key support we provide to them is the form service. Our position is that our form, in our view, is the best available to punters in Australia.

CHAIR - Every single punter of TOTE has access to that then?

Mr COLEMAN - Correct. We don't make any distinction in relation to that. Having said that, though, there are certain customers who value that form more highly than others and use it more wisely and not everybody does but that is a matter for the punter.

CHAIR - Travel, incentives, on-track refreshments - are there any?

Mr COLEMAN - Yes, certainly we provide those to certain of our customers.

CHAIR - How do you determine what level of gifts and high-roller support is there?

PUBLIC

Mr COLEMAN - With people who return us substantial amounts of profit we ensure that those people want to continue to do business with TOTE. It is about profit that we make from those customers and we assess all of our customer relationships based on profit.

CHAIR - Do you have a permanent table in an exotic club in Melbourne where you have a table booked out full time?

Mr COLEMAN - By 'exotic club', I am assuming you are meaning something untoward and the answer is no. We have no table at any exotic club in Melbourne whatsoever.

CHAIR - Do you have a booking at a table anywhere where high rollers are able to go and get a free feed?

Mr COLEMAN - I am a member of the Chairman's Club which is at Flemington Racecourse.

CHAIR - That is not an exotic club?

Mr COLEMAN - 'Exotic club' meaning -

Mr KENT - It is still a reward, whichever way you look at.

Mr COLEMAN - But 'exotic club', if you are meaning lap dancing and that sort of thing -

Mr GUTWEIN - I was wondering if we could get a definition of an exotic club.

Mr KENT - Chair, I would like to make a comment that the business and the people within the business have been acting very much globally in the past few years and that in itself tells you we were a \$375 million turnover business two or three years ago and right now we are up to \$1 billion. That additional money does not necessarily come within the Commonwealth of Australia; we have people - and that is putting that money back into the Australian market.

CHAIR - Who has access to that Chairman's Club table?

Mr KENT - Whoever we decide that we would like to take to the Flemington races or if somebody wants to go to the tennis and they are a substantial client and we can see that as a reward, and it is all about based on, in simple terms - there is nothing new in all this - volume.

CHAIR - Has ex-Premier Lennon been a constant grazer?

Mr COLEMAN - No, not that I am aware of.

CHAIR - He never went there?

Mr COLEMAN - He would have gone there, I am sure, but to call somebody 'a constant grazer', I can't give you a list of names of people who have gone there.

CHAIR - You can't?

PUBLIC

Mr COLEMAN - Sitting here now.

CHAIR - But you could if we asked for it?

Mr COLEMAN - We could find out.

CHAIR - There would be some sort of audit trail, I presume, would there?

Mr COLEMAN - Yes. In relation to this matter, in relation to my membership of the Chairman's Club I have been a member of that club for about five years and they race there 32 times a year times five and that would be 160 meetings. There is a table of six and there would have been any number of people who would have been there over that time and I can tell you Paul Lennon is not a regular diner there.

Mr STURGES - Coming back to the line of services provided by TOTE - and it has been a while since I have had a look at your annual report - you have talked about providing slabs of Bundy and coke and baseball caps and other incentives to clients. What percentage of revenue does TOTE put aside to assist problem gamblers? Do you have a program?

Mr COLEMAN - Yes, it is a statutory requirement that we contribute.

Mr STURGES - I understand what is required by the regulations. Is there anything over and above?

Mr COLEMAN - We pay \$6.5 million a year in an annual licence fee which goes to the Government.

Mr STURGES - I understand that but aside from the Chairman's Club and the other benefits that clients get, apart from meeting the regulatory requirements, is there a program or process in place by TOTE out of the revenue to provide assistance to problem gamblers?

Mr COLEMAN - We meet our obligations in relation to that. We don't have any specific programs outside of what we have agreed with the Gaming Commission and what we have agreed with the gaming industry group, which we are a member of, and those arrangements are delivered by that group and we contribute to that.

Mr STURGES - So just the regulatory requirements?

Mr COLEMAN - Correct.

Mr GUTWEIN - I want to get an update from you on where matters are with Bet Worldwide and SportsAlive.

Mr COLEMAN - Nothing more other than what we reported at the last committee hearing. We are waiting to provide information to an open inquiry, the regulatory litigator, and we will be looking to assist the litigator in finding what the matters are in relation to that transaction but nothing more has transpired since the last committee hearing.

PUBLIC

Mr GUTWEIN - There were certainly some claims made by a previous director that some of TOTE's commitments weren't carried through at that particular time. I can't think of the director's name at the moment but there were promises made in respect of what TOTE would be doing and the positioning of the business. Is there any further liability that you would expect that TOTE may have and who would be responsible for that with the sale?

Mr COLEMAN - In terms of liabilities in around SportsAlive, or indeed any liabilities for the committee, TOTE itself has insurance for that. I would anticipate that any costs associated with it would be covered by the insurance, if there were any. That said, I am very confident about the position of TOTE Tasmania and I am very confident about my position and I don't anticipate that there could possibly be any liability.

Mr GUTWEIN - We received some information from you that was in confidence at the last committee hearing. It is a matter I intend to raise with the committee at the conclusion of today's hearing but I think the first step would be that we would need to write to you to outline what the committee's deliberations arrived at.

Mr COLEMAN - Sure.

Mr GUTWEIN - As a lot of the information we received seemed to be either linked to the sale or commercial-in-confidence in respect of where TOTE's business sat at that particular time, now that the sale has proceeded do you still share the same concerns in respect to all of that information?

Mr COLEMAN - To be candid, I can't recall all the things that I said in confidence but I could look at the information I provided and give you advice as to what I now consider not to be commercial-in-confidence.

CHAIR - I think you were talking more of the documentation rather than the actual cross-examination - you provided documentation.

Mr GUTWEIN - It was Deloitte, I think, that did the valuation of TOTE.

CHAIR - Yes, Deloitte and Investec as well, I think.

Mr COLEMAN - I don't recall those documents specifically now but if you can confirm with me what those documents are -

Mr GUTWEIN - One of them was principally in regards to a valuation that was sought by the board in respect of TOTE's value as a going concern. Now the business has been sold is there a lot of that that you would consider to be in confidence still?

Mr COLEMAN - I would need to understand it and take it on advice.

CHAIR - The committee will write to you subsequent to our meeting.

Mr COLEMAN - Please be assured that I will give it my very prompt attention.

CHAIR - Thank you very much for coming along today. We will probably need to call you again but we will advise you of that and try to give you a little more warning if we can.

PUBLIC

Mr COLEMAN - thank you.

THE WITNESSES WITHDREW.

Mr MARTIN WALLACE, SECRETARY, AND **Mr DEREK INGLIS**, DIRECTOR, PROPERTY PROJECTS, DEPARTMENT OF TREASURY AND FINANCE, WERE RECALLED AND FURTHER EXAMINED.

CHAIR - Thank you very much for attending at such short notice. I understand, Mr Wallace, that you were initially unable to come so we appreciate that you have obviously made other arrangements and that you appreciate the urgency of this hearing and also the difficulty of assembling Hansard, secretaries, members of parliament and so forth. You are already sworn in and you are fully aware of the issues surrounding privilege and so forth so I will hand over to members to ask questions.

Mr WALLACE - Am I able to make a brief opening statement?

CHAIR - Certainly. It would be appreciated.

Mr WALLACE - With me I have Derek Inglis who is the project manager for the sale. I will call upon him to explain where the sale process is at. A sale of purchase agreement with Tatts with executed on 1 December 2011 and we expect the sale to be completed near the end of March 2012. A number of matters still need to be concluded to complete the sale so it is very important that the State respects the confidentiality and commercial sensitivity of information about the TOTE operations and the sale both before and potentially after the sale is completed.

I have previously explained to the committee the reasons for seeking to sell TOTE and I don't intend to reiterate that again as it is all on the public record. I want to very briefly explain the main benefits of the sale. The letter I received about coming here was in relation to the terms of reference on the potential impact should TOTE Tasmania be sold. Very quickly, firstly in Treasury's view the net sale proceeds of around \$103 million represents an excellent result. As previously explained, the sale was conducted under a competitive tender process with expert legal and probity advice. As such the sale proceeds represent the best possible market valuation of the TOTE business. It was the highest price that potential payers were willing to pay. It is important, however, to note that the Auditor-General will comment on whether this was a fair and reasonable price in due course.

CHAIR - Sorry to interrupt, has he been provided with a reference?

Mr WALLACE - Yes, and under the act he has an obligation to report within 120 days -

Mr INGLIS - of sale completion so he hasn't started his work yet.

CHAIR - But he has the reference to start, through the act.

Mr INGLIS - Yes.

CHAIR - Okay.

Mr WALLACE - I think an important benefit of the sale was to remove taxpayers' exposure to a significant increasing risk of owning a betting agency. The Treasury has previously

provided information to the committee on the rationale for divesting TOTE, including the risk to Tasmanian taxpayers from being directly exposed to the commercial risks of the gambling industry. I think it is important also to recognise that the Tatts Group is in a much stronger position financially than TOTE and is better placed to provide ongoing employment to staff compared to the situation if TOTE had remained in State ownership.

While job losses are very regrettable the outcome, the majority of employees retaining their jobs, needs to be compared with the situation that might have been if the Government had not been able to sell TOTE. It is important for the committee to understand -

CHAIR - Sorry, did you say 'with the majority of the people retaining their jobs'?

Mr WALLACE - Yes, that is my understanding.

Mr GUTWEIN - We have just heard today directly that 75 per cent of the employees will lose their jobs.

Mr WALLACE - I will come back to that point in a minute, if I could. I have only a couple more points here.

CHAIR - Sure, but it just seemed a bit counterintuitive to what we have just heard, that is all.

Mr WALLACE - The advice we have is that the majority of employees will retain their jobs.

CHAIR - Sorry, you have advice that the majority had retained or will retain their positions?

Mr WALLACE - Yes, but I will come to that in a minute. I think, importantly, if TOTE wasn't sold the State would continue to be the operator of a betting agency in competition with much larger private sector players and this would have put taxpayers' dollars at serious risk. Indeed, Treasury had been becoming increasingly concerned about the deterioration in TOTE's operating position and the increasingly aggressive competitive market in which TOTE was operating. This is no reflection on TOTE, it is just the nature of the market and the changes in the market that have occurred over the last several years. It's our view that taxpayers' dollars should not be put at further risk, given the clear trends in the industry. Those trends include the increasing competition for the betting dollar from other wagering organisations and corporate bookmakers. As well as that, there has been the shift away from parimutuel wagering towards inherently more-risky fixed-odds betting. To survive in this highly-competitive market TOTE would need to engage in new strategies which are inherently more risky than the traditional business model. The underlying trends in TOTE's probabilities suggest that we would have needed increasingly levels of shareholder support in the future. It was not generating sufficient cash to support the investments it needed to make and would need to have to recourse to higher levels of debt. That is, it would not have been possible for TOTE to engage in the strategies it needed to undertake with its current balance sheet structure and operating position and therefore to support new strategies it would have been necessary for TOTE to continue to significantly increase its borrowings thereby increasing the Government's exposure and/or the Government being required to provide additional equity to TOTE. If the profitability trends had continued, inevitably it would have

required a cash injection from the Budget at the cost of funding for services such as health and education.

In summary, if TOTE were not sold, the Government would have been faced with the prospect of its internal cash position not improving and it going further and further into debt and being faced with the prospect of putting cash into TOTE from the Budget. Ultimately government would have been faced with the prospect of having to wind up TOTE, with the loss of all jobs, and having to use taxpayers' dollars from the Consolidated Fund to repay TOTE's debts. In summary, the sale, if and when it is completed, has protected jobs as far as is reasonably possible. It has enabled TOTE's debts to be repaid and will deliver net proceeds of approximately \$100 million to the benefit of the Budget and then ultimately to the benefit of government services.

Mr GUTWEIN - I feel like we're in a parallel universe here.

Mr WALLACE - I want to point out a couple of things about that, and the statistics bear it out. The headline numbers are: TOTE's wagering profit was \$37 million in 2008-09, \$15 million in 2009-10, \$1.7 million in 2010-11. In those three years its debt was zero in 2008-09, \$10 million in 2009-10 and \$14 million in 2010-11 - and I think it is around \$16 million now. The trends to this were very obvious and the issue that arose was the importance of not exposing the Government to the increasing difficulty of owning a betting agency competing in a highly-competitive and increasingly-risky market.

Mr STURGES - So you sat in the room and listened to -

Mr WALLACE - No, I only heard it in the last -

Mr STURGES - If I could succinctly summarise the message I received from the representatives of TOTE - the CEO and the chair - it was their business was trending up, that they had rebuilt the business and were debt free.

Mr WALLACE - It is in the annual report. The repayment of debt is from the proceeds and the first \$15 million received from the GST funds. In the first six months of this financial year TOTE did improve its revenue by \$1 million and did better on its expenditure by \$1.7 million. In the total scheme of things it is quite an insignificant amount. The fundamental problem is that it had a number of major investments to make. It needed to invest \$15 million in a new wagering system. It doesn't have the capacity to borrow that money, so where was that money going to come from? Its debt was already increasing. I think the facts are clear in terms of the trend. I am not making any reflection about management, I am reflecting on the fact that this world in which TOTES operate has turned from a traditional monopoly model of State TABs having a captive market in their own States through to aggressive competition with large, private players and corporate bookmakers. The advent of the Internet has made that happen. This is a very, very competitive market.

Mr GUTWEIN - I feel that we are in a parallel of the universe here based on what we have just heard. I want to come to the thing that I think is most important for ordinary Tasmanians, especially working Tasmanians. Mr Coleman indicated that 75 per cent of current TOTE employees were told on Tuesday that they wouldn't have a job, that there would be 129 out of roughly 175-180 employees who would lose their jobs.

Mr WALLACE - Have been told that they will.

Mr GUTWEIN - They have been told - 129 of 184 employees were told on Tuesday that they would lose their jobs. You have indicated in your opening remarks that the majority of employees would retain their work -

Mr WALLACE - The advice I received was the same day as Tatts made their announcements to staff, and that was that two-thirds of the individuals employed in TOTE were to retain their jobs and one-third were not to retain their jobs.

Mr GUTWEIN - Would you have formal advice on that? You will be very popular if that is the case but certainly from what Mr Coleman and Mr Kent said, very clearly they were told -

Mr WALLACE - All I can say is the information that I was given. I also need to explain what happens -

CHAIR - Mr Wallace, for the record of *Hansard*, where did that advice come from?

Mr WALLACE - The advice was the same as what was reported on Tuesday in the paper, I presume it came from Tatts.

CHAIR - So you got advice - formal advice, phone call, letter?

Mr WALLACE - No, the situation is that Tatts, after the sale - and it would have happened with any purchaser - basically would have looked at what roles they already have -

CHAIR - We're only after the advice.

Mr WALLACE - Can I finish please?

CHAIR - If you answer the question, I'll let you.

Mr WALLACE - What's the question again?

CHAIR - I asked you when you got the advice and who gave it to you.

Mr WALLACE - It is not something that we have been involved in the detail of.

CHAIR - So did you read it in the paper, or what, how did you get the advice?

Mr WALLACE - I got it from a briefing note in Treasury.

CHAIR - Thank you.

Mr GUTWEIN - For that briefing note, who provided the numbers because there is a vast difference between your testimony right now -

Mr WALLACE - Sorry, I'm not giving any testimony on terms of numbers, I am talking about percentages. I was being advised in relation to this -

Mr GUTWEIN - You said the majority of jobs would be retained, and forgive me for cutting in on you, but we have just had the CEO and Chairman of TOTE who have informed us that on Tuesday they were told, and they informed employees, that 129 jobs out of 184 would go. That doesn't sound to me like the majority of jobs. Have you received incorrect advice?

Mr WALLACE - No. From the information I remember, and I'll check it, is that the number of people employed by TOTE is over 300, so I am not sure where the 185 comes from.

Mr GUTWEIN - That's full-time equivalents?

Mr WALLACE - We are talking about individuals, we are not talking about percentages of jobs.

CHAIR - Let's talk about full-time equivalents, what's your advice on full-time equivalents?

Mr WALLACE - I told you what my advice was. I have been told that two-thirds would retain their jobs and one-third would go.

CHAIR - So you weren't given advice on full-time equivalents?

Mr WALLACE - I have not received any advice on that.

CHAIR - Would you not be somewhat disturbed if you asked somebody how many people were going to lose their jobs and they pumped the numbers up with people who might be on the payroll for an hour a week or something to create a massive amount of people and then sack all the full-time equivalents.

Mr WALLACE - I can't comment on this. I think it is important if I explain what I tried to explain about the process here. When a business is sold - and it wouldn't matter who bought the business - the prospective owner would determine what roles they already have because you can't have two people doing one job. Nobody knows what that's going to be at the point of sale, it is not known until they look thoroughly at each of the roles they need to run the business. The first I was advised about what the size of this redundancy would be was earlier this week, and I was advised that two-thirds would stay and one-third would go. Unfortunately that is all the information I know.

Mr GUTWEIN - Are you surprised that of the 184 FTEs that there are 129 positions to go?

Mr WALLACE - I wouldn't make any comment on my emotions about it. As I said before, I find any job losses are regrettable, but it was obvious that there would be job losses from any sale because some of these roles would be already in place by the buyer.

CHAIR - I still need to clarify this because you have been given advice by Treasury that there was something like 300-odd -

Mr WALLACE - No, what I was saying is - and I could check the figures - my understanding was that there were around or more than 300 people working for TOTE. I don't know what their FTE number is, and I want to make that clear. I presume those numbers are headcount.

CHAIR - But, Mr Wallace, you're before a parliamentary inquiry that has just received evidence that 75 per cent of the employees of TOTE effectively are losing their jobs - 129 full-time employees.

Mr WALLACE - Whatever TOTE said would be the number. It's not for me to know what these numbers are.

CHAIR - As Secretary to Treasury you're receiving advice as secretary with regard to job loss numbers and you have been given, apparently, a meaningless figure.

Mr WALLACE - I can't comment. All I can tell you is the information I was given. I know it was the same information that was reported in the media.

Mr GUTWEIN - It was reported in the media, I think, because the Premier said it, didn't she?

Mr WALLACE - I don't know.

Mr GUTWEIN - I think that was the case.

CHAIR - Hang on, aren't you alarmed that you have now come before a committee hearing with information that is misleading?

Mr WALLACE - Okay, so you've made a statement -

CHAIR - No, I am asking a question. Are you or aren't you alarmed that you have been provided with what is effectively misleading information?

Mr WALLACE - There is an expectation here that Treasury would know exactly all those jobs that Tatts have that are duplicated in TOTE. That is something that TOTE and Tatts have been working through; it's not something that we can be across.

Mr SHELTON - My question goes to your expectations when dealing with the sale process. Surely Treasury had an expectation that there would be job losses and made an estimate of how many that would incur. As part of the price and understanding the value of TOTE and what Tasmania gets for it, there has to be the negative side about the number of job losses and surely there was an evaluation done of that through the process. Do these numbers that we have heard today reflect your thoughts through the sale process?

Mr WALLACE - I have been involved in several of these sales processes and you can't do that estimate at the beginning. What it requires is that you get certain undertakings, and that is what we got. In relation to Tatts's intention around the call centre, the broadcasting service, the support for the local racing product, it is after the sale that they worked out and put to us and we agreed and TOTE agreed that it would be good if they were to advise employees of what the likely outcome was as soon as possible. As I

understand it, they have worked through what roles would be duplicated, and this result comes out of that.

CHAIR - Were they commitments that were made in terms of commitment from Tatts to effectively Treasury or to government with regard to the retention of jobs?

Mr WALLACE - There were various intentions, undertakings or obligations. As I said before, they relate to the call centre, support for local racing product, the number of non-guide channel events, the broadcasting service and entitlements of employees.

CHAIR - Can you table for us exactly what those undertakings were with regard to what would be done to the industry as a result of the sale?

Mr WALLACE - Yes, we can provide the information on that. As well as that, we also have done a number of things in relation to reviewing the long service leave entitlements and the superannuation entitlements and had Tatts and TOTE agree in relation to the commitment of funds, effectively from TOTE in the sale process, for the support for employees. We are waiting on TOTE to give us information about that and that will relate to how many numbers are affected.

Mr GUTWEIN - When you went into this sales process did Treasury understand how many full-time equivalent positions were actually employed by TOTE?

Mr WALLACE - Obviously we did. People in Treasury would have known - that is, from the corporate plans and the annual reports and any other information provided by TOTE.

Mr GUTWEIN - When you say that there were undertakings given in regard to the call centre and other roles, did Treasury ever at any stage as part of this sales process or in discussions with the Treasurer or with the Racing minister have the very frank discussion on the basis that we have 180 full-time positions here and if this sale goes ahead, we want to retain at least 60 per cent or 70 per cent or a majority of those positions for a period of time and that is one of the conditions that we would put on the sale?

Mr WALLACE - I think I have effectively already answered that.

Mr GUTWEIN - I don't think you have.

Mr WALLACE - Okay, I am happy to answer it again.

Mr GUTWEIN - Because -

Mr WALLACE - Sorry, am I allowed to answer it?

Mr GUTWEIN - You are, yes, but please just don't go back over what you said a moment ago because that doesn't answer it.

Mr WALLACE - I think I did answer it because what happens is, as I said before, you don't know what the end outcome of this will be until the assessment is done of the duplicated roles because it is impossible to get a guarantee, and I have been there before, in relation to maintenance of employment that is not necessary because the role already exists in the

organisation and even if you did get that guarantee you can't sustain it, you can't maintain it or ensure it happens because it is an impossible situation for the purchaser to manage.

Mr GUTWEIN - But that is their problem to manage, though, isn't it, and they have to make a decision on the basis -

Mr WALLACE - At the end of the day you have to basically recognise the commercial reality of it and, as I said before, in my mind there is absolutely no doubt that the situation is better than what would inevitably have been the case if the current trends had continued and if it stayed in government hands.

CHAIR - We could drill back into that given that the information that had been provided on the job numbers is just so appallingly inaccurate, or incomplete at least. I wonder to what extent you actually trawled through the balance sheets and the business plan of TOTE to understand why they had this turnaround. It seems to be indicated that it was because they got into risky betting procedures that their turnover went up and their profitability dropped and you saw the deterioration in the balance sheet. Did Treasury at any stage try to manage TOTE, intervene in TOTE to make sure that they weren't embarking on the rebating?

Mr WALLACE - First of all, the issue about employees was dealt with. It is a different issue when it comes to understanding of the financial position but, importantly, Treasury's role is to provide advice to the shareholders. We set up State-owned companies, like TOTE, working under Corporations Law. We have properly formed boards that have clear responsibilities under Corporations Law in relation to running a business so we can't second-guess how to run a business. We can't have operational control over what they do -

CHAIR - You can recommend to the Government that they sack them.

Mr WALLACE - I haven't finished answering the question. Essentially, we, like any other business, having put in place these government structures rely on information largely that the business has provided us and it is only in exceptional circumstances that we conduct independent, strategic reviews of some businesses like the one we have at the moment for another business. But it was quite clear to us and confirmed by the advice that I provided to you at the last meeting, including the advice of the independent experts about TOTE's position and the nature of the market, that it was an increasingly competitive market that it was trying to compete in; TOTE is relatively small in this market and, as I say, it is not a reflection on management because it doesn't matter how good the management is, when you are very small and you are trying to compete with competitors with very deep pockets it is very, very difficult.

Mr GUTWEIN - Does it surprise you then if you heard the testimony from the chairman and CEO of TOTE? What we were informed of only half an hour ago was that their six-month result was far better than the previous year, in fact I think EBITDA was around \$21 million which they said was a significant increase on the previous year.

Mr WALLACE - But that includes a number of abnormals. Can I -

CHAIR - Just let Mr Gutwein finish.

Mr GUTWEIN - The other point that they made very clearly was that in regard to the \$5 million worth of increase in employee expenses the previous year, which showed in the annual report, they were largely about an investment in new IT platforms and consultants and that they were expecting that \$17 million in wages to be reduced by around 20 per cent. They also informed us that as at 1 July they were expecting to be debt free.

Mr WALLACE - I have a comment on those, if I can comment on each of those things. The reason they would be debt free is that the national proceeds that came from the GST credits of the \$15 million was used to all but eliminate the debt they still have, a couple of million, as I understand, of debt left. I explained the debt numbers -

Mr GUTWEIN - But that's a business transaction, isn't it; that is something that was factored into their business model?

Mr WALLACE - No, it's a function of the process.

CHAIR - Of the sale process?

Mr WALLACE - Yes, effectively, because the sale proceeds are the \$103 million, the initial GST credits of \$15.3 million and the trading in GST receipts of up to \$42 million.

Mr GUTWEIN - But we were informed at the last hearing by TOTE that they were expecting that GST credit then. Are you saying that that has arrived as a process of the sale?

Mr WALLACE - No.

Mr GUTWEIN - No, it hasn't, has it, they were expecting that regardless?

Mr WALLACE - Well, it depended on a court case.

Mr GUTWEIN - Which they were very confident of.

Mr WALLACE - The sorts of capital expenditures that they would have had to make, they haven't had to make. I did explain at previous meetings that they had to report the new call wagering system. I understand that cost was around the \$15 million to \$16 million mark. As a result of the sale they haven't had to spend that. So to say that the debt number has gone up from zero to 10 to 14 and suddenly gone down to zero, that's not a reflection of the true situation because the sale process has actually precluded the need to spend significant investment in the business.

Mr GUTWEIN - But the point you have also been making, and you have made it again today, is that they didn't have the capacity to finance that investment. If they carry zero debt, my understanding is they have a Tascorp facility for \$18 million.

Mr WALLACE - The Tascorp facility can't be sustained by them. If you look at their internal cash generation over the last couple of years, this was going to be one -

Mr SHELTON - We have been through the GFC over the last couple of years.

Mr WALLACE - The GFC was 2007-08, I'm talking about the last two years - 2009-10 and 2010-11.

Mr GUTWEIN - It hasn't stopped the Premier from talking about it whenever she can.

Their financial position, certainly from what we heard today, was improving quite robustly over the last six months.

Mr WALLACE - No, I can give you the numbers on this one.

Mr GUTWEIN - I think we've got them on *Hansard*.

Mr WALLACE - Okay. The underlying profit before tax to 2011 was only \$4.2 million.

Mr GUTWEIN - For what period?

Mr WALLACE - The underlying profit before tax to December 2011 was only \$4.2 million. Their revenue was \$1 million higher than they expected and their underlying operating expenditure was favourable to budget by \$1.7 million.

CHAIR - What do you have to say in terms of oversight? I will just get back to the point you made before that under the GBE act you don't interfere in businesses and you looked at their balance sheet and decided that it was perilous and so the decision was made to sell it. Why don't you apply the same judgment on Forestry?

Mr WALLACE - They're your words, they're not actually the words I used.

CHAIR - I don't want to put words in your mouth but that's the impression I got from you, that basically you have a hands-off approach. You just looked at the figures that were presented by TOTE, you didn't look at the business model, you didn't look at the underlying problems that might have caused this increase in turnover of profits going in a direction.

Mr WALLACE - Can I just explain - again, none of those things are correct, and I did explain this at the first hearing. One of the obligations of State-owned companies is to alert us, as shareholder advisers, to material changes in circumstances and I think it was on 12 August - and this is all in the first transcript - TOTE wrote to Treasury effectively under that requirement to say that it had taken advice on the business and would provide a copy of that advice. You have that advice, and that includes the Investec advice. That highlighted the very significant risks that the taxpayer would face under the trends in the industry.

CHAIR - Thank you for that clarification. The point I am now making is that then you didn't go through the China wall and look at their business plan or the underlying reasons -

Mr WALLACE - Yes, we did. You said we didn't, but I said before that we did. I said that when it comes to the financials we do look at it. My comment about the governance is

that they have a board and a management team that is responsible for managing their business on a day-to-day basis.

CHAIR - So you took it on face value then that they were managing it best?

Mr WALLACE - Of course we look at their financials.

CHAIR - Okay, this is really interesting. What management did you do of TOTE after August when they advised you whatever it was they advised you? Did you prepare to sell it or did you go in there and say, 'Why are you losing money? Where are your underlying problems? Where aren't you performing? Is it because of the stories that were about at that point in time?'

Mr WALLACE - You are just going over old ground of the last two hearings. What I explained was Treasury's advice to the shareholder. From our perspective it was totally inappropriate for the Government to be owner of a betting agency involved in a highly competitive, risky market. At the end of the day we have no hope of competing with the other big players. This is the second time that Treasury had recommended the sale and it is the second sale process. The reasons for the first sale process are exactly the same as for the second one. The Government regulates private sector gambling activity; on the other hand, we own a betting agency which competes against these. The Government should be the regulator of these activities -

CHAIR - The Government does the same thing with forestry, with respect, Mr Wallace.

Mr WALLACE - We are talking about TOTE. I am trying to explain because it is clear that all the committee members don't necessarily understand what the role of Treasury is, what the role of the Government is and what the role of State-owned companies is. From our perspective, it was totally inappropriate to be operating with taxpayers' dollars at risk.

CHAIR - Mr Wallace, I am going to ask you to be quiet now, please. You have answered the question to the satisfaction of the committee. What I want to know is: do you go into the business and have a look at their business plan, the way it operates, or do you simply have a hands-off approach? I don't want to hear about whether it is appropriate or otherwise to be in a betting agency -

Mr WALLACE - Of course we do. The answer is yes, and I think I said that before.

CHAIR - Well, I am asking you what you did then. When you went in and looked at the business case, what did you find?

Mr WALLACE - We have looked closely at all the State-owned businesses and we have -

CHAIR - Did you have a look within TOTE as to why their turnover had increased by nearly \$1 billion and yet their profitability had fallen to one point whatever million dollars? Did you look at the information? Did you groundproof it? Tatts is now saying that basically TOTE had just given away the margins, they had taken the pants out of the business by handing back rebates to the high rollers who are sucking all the money out of the business?

Mr WALLACE - They are allegations that were made in a newspaper article.

CHAIR - Well, did you look at it?

Mr WALLACE - I presume that you asked the CEO of TOTE to explain that - and the CEO of TOTE is the best person to explain it.

CHAIR - Yes, but I am asking you in terms of analysing the business model did you look at those issues?

Mr WALLACE - Let me answer the question.

CHAIR - You're not answering the question.

Mr WALLACE - I can't answer the question without giving you the context to the answer. We were concerned at looking at the trends and the profitability of the business, the increase in the turnover and the progressive, in fact dramatic, reduction in profitability. That is why TOTE themselves and Treasury sought financial advice on what was happening in TOTE. At the end of the day the reason for sale is that operating a betting agency was a serious risk to taxpayers' money.

Mr GUTWEIN - We heard from the CEO again today that one of the largest increases in expenditure was the employee expenses and there was an extra \$5 million spent in the previous financial year or roughly \$5 million but, as that was explained to us today, that was really about setting up a new IT platform, there were consultancy costs associated with that, much of which would wash through this next year and it wouldn't need to be repeated. In fact, regarding the profitability of TOTE, certainly the impression that I received from the CEO and the chairman only an hour ago now was that that was improving and that was looking much better than it had in the past. Were those sorts of things taken into account as part of your deliberations?

Mr WALLACE - The financial position of TOTE was clearly taken into account. The underlying trends - and I think it is the 'underlying' that is important here - were very clear. I am not privy to what the CEO says. I don't know if what you are saying is your interpretation of what he said. I can't comment on that. I have commented on the numbers, they are clear in the annual report and we have given the committee a large volume of independent advice about TOTE. I think that answers these questions. I am not quite sure why we are proceeding down this line when all these things have been covered in detail before.

Mr STURGES - Chair, just to put this in perspective to Mr Wallace, given the previous evidence that we have received and the figures that I have been provided with - and I will be careful not to be provocative with the words I use - I was a little surprised at the picture that was painted by the CEO of TOTE an hour ago. It certainly didn't reflect my understanding of the state of the business hence my first question to you when you came to the table today in relation to the performance of the business, the business model and the risk to the Tasmanian taxpayer, which again you have reinforced. But certainly I did receive - and I do have a bit of a problem with hearing from time to time - a different message coming from -

Mr WALLACE - I can't comment on that because I didn't hear what he said.

Mr STURGES - Yes, I understand that but that is why I just sought from you - and you might think that we are going over old ground again - to reaffirm the position that you have previously stated.

Mr WALLACE - Even the annual report confirms what I have just been saying. In the annual report the chief executive says, 'TOTE Tasmania is facing a period of some uncertainty because of a number of factors including future parimutuel pooling and fixed-odds betting arrangements and IT's ability in an increasingly competitive marketplace'. All those factors have been analysed and the cost of dealing with that and the risk of dealing with that in the future is very clear, and their underlying profit results and their underlying debt position confirms that. And they needed to invest at least \$15 million dollars in a new call wagering system which is internal cash that they didn't have.

Mr GUTWEIN - But they have the borrowing capacity to do so, don't they?

Mr WALLACE - No, their borrowing capacity is a function of their ability to generate free cash flow and effectively they didn't have the borrowing capacity.

Mr GUTWEIN - What we were told today was that their EPITDA had increased, they had a better six-month outcome than they had the previous year and they would have ended up at the end of the financial year with zero debt.

Mr WALLACE - Yes, and they would have had to incur another \$15 million straightaway for a new call wagering system.

Mr GUTWEIN - They certainly had the capacity to do it based on what we heard this afternoon.

Mr WALLACE - All I can say is that if you look at their balance sheet and you calculate the ratios that any banker would calculate - and I am not going to debate your view about these things or my view about things -

CHAIR - Let me Mr Gutwein finish.

Mr WALLACE - As they would have gone forward in this market competing with big private players as a small business they would have needed to make significant investment either getting into increasingly risky fixed-odds betting products and, to me, it is just self-evident where this would have ended up.

Mr SHELTON - I would like to go back to the staffing issue. I am still having difficulty. You're Treasury and you look at the numbers but I can't understand why or how there hasn't been an assessment of the job losses through the process. We know the sale price is \$103 million or thereabouts depending on where the bottom line comes in but surely there was an assessment done. This is \$103 million - if Tatts had said, 'I don't want to take any of your employees', so there is 100 per cent loss, would Treasury have recommended to the Government the sale price and, if the answer to that is no, what percentage of loss were you prepared to have?

Mr WALLACE - I think I answered that in the opening statement. The main purpose of that statement was to explain what would have happened if TOTE was not sold. You can only compare this situation -

Mr GUTWEIN - In your opinion. Seriously, you are putting an Armageddon view to us in regard to what would happen with this business. The CEO and the chairman of TOTE have a quite different view. We can only comment on the evidence that we are receiving.

Mr WALLACE - Fine, and I am telling you that I think the best way of doing this comparison is against what would have happened if TOTE hadn't been sold. Employment issues are very important and it is why there are certain areas that are effectively protected. There were a whole number of factors taken into account here. There was support for the local racing product, so those commitments were secured. There was the broadcasting service, certain categories of employees -

CHAIR - Excuse me, you're going to provide them to the committee later. We have already asked about those things.

Mr WALLACE - Yes, but I think that is a valid answer to the question. There are a whole range of things that need to be taken in account. It would not have been sold if it were a lump of money and certain obligations couldn't have been guaranteed, particularly around the local racing industry. The important thing is you cannot know until the assessment is done what the duplicate jobs are and therefore how many people will go. You can't do that because the effective purchaser needs to do it.

Mr SHELTON - And I accept that but you don't have to be Einstein to work out that the numbers we were looking at there were only going to be three or four buyers. It was either going to be Tatts, Tabcorp, New South Wales TAB or possibly Western Australia. The reality is that there were only a few, and they have the back room staff in order to run their own businesses. As Mr Coleman has stated today, the 75 per cent of their staff they have lost hasn't been from the service delivery, it has been from their IT and back room staff. You didn't have to be Einstein through the sale process to work out that there were going to be significant job losses. It appears to me that that has not been part of the calculation.

Mr GUTWEIN - It hasn't been factored in at all.

Mr WALLACE - At the last meeting I explained the criteria under which we would compare offers, and one of those was the things I have just listed. I would still say it is impossible under any process to get a deal done where the purchaser has to guarantee that they are going to have more than one person in a particular role.

Mr GUTWEIN - The thing that astounds me - and I take on board what you are saying, that ultimately there will be the purchaser looking at its operation and where there are crossovers with the purchaser of this business - I do not know whether you were hands-on at this -

Mr WALLACE - No, I wasn't.

Mr GUTWEIN - Well, who in the organisation understood how many FTEs there were in TOTE?

Mr WALLACE - In the branch in Treasury that manages the relationship and monitoring of government businesses -

Mr GUTWEIN - What advice have you or Mr Inglis received in regard to working through the sale? Who has provided the advice to the Treasurer, or the Racing minister as the other shareholder minister, that if we proceed down this path 75 per cent of the full-time equivalent positions -

Mr WALLACE - I have already answered that. I don't know where the percentage came from.

Mr GUTWEIN - The percentage came from TOTE this morning.

CHAIR - We got those figures directly from TOTE.

Mr WALLACE - There is no way of knowing how many people are affected until the assessment is done by the purchaser, in this case Tatts. This was our greatest concern in any sale process.

CHAIR - How did you express that?

Mr WALLACE - We felt that there may not have been another opportunity to sell TOTE and that the consequences of not selling it were as I explained. We were very keen for Tatts to complete its assessment and to advise employees so that the employees knew what they were doing and whether they needed to find another job or whether they had a job at the end of the process. That assessment, as I understood it, was completed at the end of the last week or early this week and the staff were told on Tuesday and we would have found out on Friday or probably Monday in Treasury what these numbers were and it was explained to me that it was two thirds who were staying and one third were going.

Mr GUTWEIN - We were also informed earlier today that there was no discussion between Treasury and the CEO of TOTE in regard to jobs until just recently, in fact it was on his initiative where he wrote to Treasury in regard to concerns that he had highlighting the number of jobs that might be lost. Forgive me, but it just seems to me from a Treasury point of view in looking to sell this asset and understanding the importance of jobs to our economy that surely one of the first things that Treasury would have done would have been to ask the CEO of the organisation to make an assessment as to how many jobs would potentially be lost if the TOTE were to be sold? Surely, that would have a sensible thing -

Mr WALLACE - I am not aware of the things that the CEO said but TOTE and Tatts, as I understood it, worked together to do the assessment so I am not quite sure what he is saying about Treasury's role. I don't understand what he said or what he's saying.

Mr GUTWEIN - He was asked a question as to whether or not anybody from Treasury contacted him in regard to what was going to occur with the jobs in the organisation and he said no, that he actually wrote to Treasury.

Mr WALLACE - I didn't hear what he had to say and I would need to read the transcript to see what he said.

Mr GUTWEIN - Did Treasury contact TOTE management and have a discussion about the number of jobs that may go or may stay?

Mr WALLACE - I have been over this before but -

Mr GUTWEIN - No, you haven't, not this particular point, sorry.

Mr WALLACE - It is Tatts that were doing the assessment of what jobs were duplicate jobs and therefore what jobs that they didn't need and my understanding - and I could be wrong, you would have to check - was that that was finished late last week as I became aware of the information.

CHAIR - They wrote to you a couple of weeks ago, they said?

Mr WALLACE - Who did?

CHAIR - TOTE expressing concern about the job losses and you've replied apparently - according to TOTE.

Mr WALLACE - Wrote to Treasury?

CHAIR - That is what they said.

Mr GUTWEIN - They wrote to Treasury to highlight these issues.

Mr WALLACE - I am not aware of the letter, but are you?

Mr INGLIS - Yes. There was a letter recently about the provision of outplacement services.

Mr WALLACE - We are working with TOTE in relation to the outplacement services and one of the things we are doing is allocating money for the provision of those services and we have been waiting on advice from TOTE about the numbers and the people actually affected before those services are put in place.

Mr GUTWEIN - Why wasn't any of this looked at or understood through the process? It just appears to me -

Mr WALLACE - I thought I had already answered that.

Mr GUTWEIN - No, you haven't.

Mr WALLACE - I answered to the best of my ability.

Mr GUTWEIN - In establishing the price or accepting a price for TOTE surely one of the assessments that you would have done in regard to this government business that you were selling was to try to understand just what loss there was going to be in direct wages to the Tasmanian economy if the business was sold and you haven't done that.

Mr WALLACE - I think it is important, though, to note -

Mr GUTWEIN - Is it true that you haven't done it?

Mr WALLACE - I will answer the question. It is important to note that government businesses put on staff and they reduce staff and they go through significant periods of doing that. That is why we set them up as government businesses and you will be aware of the fact that, for example, during the 1990s the Hydro shed lots of jobs. In the last 12 months some other businesses have, such as Aurora. These are things where we can't tell the prospective purchaser or the current employer how to run their business in relation to these jobs.

Mr GUTWEIN - I am not suggesting that you do that, Mr Wallace. What I am suggesting, it appears to me, that it would have made good commonsense prior to actually accepting a price for TOTE to have approached TOTE management and asked them the question: out of the 180 FTEs that you have, how many of those -

Mr WALLACE - Sorry, if I gave you the impression that we hadn't had discussions with them about employment - this is what led to, if we agree that you are the purchaser, what areas of jobs can you protect.

Mr GUTWEIN - You have that discussion with Tatts?

Mr WALLACE - Yes.

Mr GUTWEIN - Did you have the discussion with TOTE to ask them what was their assessment prior to actually signing on the dotted line?

Mr WALLACE - I can find out that information, but I suspect we did.

Mr GUTWEIN - From what we heard today, you didn't.

CHAIR - You suspect that you did talk to TOTE about it?

Mr WALLACE - I don't know the answer to that. I would have to take it on notice.

CHAIR - Specifically, we might get that question on notice to you now. What discussion did you have with either TOTE or Tatts with regard to job losses as a result of the sale and retention of jobs as a result of the sale? The reason I am asking that is because your evidence is quite inconsistent with what we've been told by TOTE.

Mr WALLACE - I did make it clear that I am not across the actual numbers; I haven't been told what the actual numbers are. I don't think anybody would know the actual numbers because my understanding is that all they have done so far is an assessment of the duplicate roles and then there may be potential for other job offers at some stage to be

made if they have vacancies in those business areas in other States. I don't know what the net impact is.

CHAIR - There is 129 in this State.

Mr WALLACE - It shouldn't be seen as inconsistent, it should be seen as TOTE and Tatts knowing the details. I personally don't.

CHAIR - No, but you have said that you had discussions with Tatts and TOTE about job losses and how to mitigate them and you are going to provide that information. We will then be able to determine the -

Mr WALLACE - I take on notice the extent to which we had discussions with TOTE. Obviously in the sale negotiations Tatts made clear certain intentions in relation to those things they were sure of. They needed the retail outlets, the call centre and those sorts of things and that is why those intentions were put in. The bits where they would not provide guarantees were in the general areas that they considered are likely to have duplicate roles. The numbers that are just coming out are numbers that have only been determined, I presume, in the last few days.

CHAIR - Yes, but you will be providing that detail to the committee so we'll be able to look at it.

Mr GUTWEIN - In regard to the discussions with Tatts, once they had indicated that those were the areas they would be retaining jobs, I would like to know from Treasury whether or not, once you became aware of those areas that Tatts felt that it would retain jobs, whether or not you went to TOTE and asked them the question, 'How many other jobs are going to be lost?' To me, that seems a fairly commonsense thing to have asked.

Mr WALLACE - Okay, I'll take that on notice. I don't personally know the answer.

CHAIR - I want to ask you a question, to get back to a issue we were discussing before about oversight of GBEs but not specifically this particular GBE. You have basically looked at it and said it is inappropriate to have a gaming agency and that in any event - and I don't think this is putting words in your mouth - that this thing was on a slide to nowhere, it was going to go broke anyway in a couple of years. Was that a reasonable -

Mr WALLACE - What I was saying is that if these trends in the market were they to continue - and there is no sign they are not going to continue - then a series of things would happen, including their debt position, the need for equity injection from the budget reducing therefore funds available to other government services, and inevitably the Government having to make a decision that it does not have the financial capacity to be giving support to TOTE. So, inevitably, the Government would face the decision to close it down. At that time it would have to use taxpayers' funds to repay any debt they have, they wouldn't get anything for the proceeds and everybody would have lost their jobs.

CHAIR - Thanks for that clarification. On that basis you made a decision to sell it but the evidence -

Mr WALLACE - No, made the decision

CHAIR - If what I've said is not right, it may be fair to correct it, but I thought that on those bases is the reason you decided then to sell TOTE, because there was a risk to the Crown and so forth and it was your view that the business would not be successful in the future.

Mr WALLACE - The recommendation from advisers to Treasury and from Treasury to shareholders has been the same as I presume it was in the last sale process about the increasing risk of exposure of taxpayers' dollars to the gambling industry. What I said in that these things were pointing out the counter position here. If it had not been sold, what would have happened? I have made it very clear that any job losses - and these job losses are very regrettable - but the counterfactual is what would have happened if the Government hadn't been able to sell the TOTE. That is the context of my comments.

CHAIR - Yes, and that is where I am getting to because the counterfactual to what you are saying is that TOTE has given evidence that in fact the business was improving and was likely to be profitable. You disagree with that then?

Mr WALLACE - Yes.

CHAIR - So you don't have confidence in the board of TOTE then because that is what they have been telling this committee and that is what they have told you?

Mr WALLACE - I will have to look at the transcript of what they were saying. I wasn't here. I don't know what they said but I do know what their six-month results are. I do know what their financial results have been for the last three years. To me, there are clear underlying trends there that I can't see what on earth could have been done to arrest those trends. It is almost self-evident. If you are in a market where you once had a monopoly and you had a captive customer base and then increasingly through the Internet you are exposed to competition from very big private players, including very well resourced corporate bookmakers and other TOTEs which are now in private ownership, you can't maintain your business profitability; you will be increasingly required to put money into things to try to maintain that customer base that will get increasingly costly and increasingly risky to do.

CHAIR - Certainly. I am happy to hear your views on this but it is just that they are quite different to the views of the TOTE and they are a board that is appointed by the Government, they work for the Crown and it just seems extraordinary then that if you have such disparate views, you could have confidence then in the board of TOTE either in the first place or not have done something about it a couple of years ago.

Mr WALLACE - I am sorry, I can't comment because I don't know the views of this group. I didn't hear what they had to say and I am worried about the fact that they may have said something that has been interpreted in a way that wasn't intended so I can't possibly comment on that, I am sorry.

CHAIR - Do you think their view would be the same as yours then or should be? You would be surprised if it wasn't then?

Mr WALLACE - I would be surprised because their corporate plan and their annual report, as I read out, makes absolutely clear their concerns about the market in which they are operating.

Mr GUTWEIN - When you say 'something that was interpreted as it wasn't intended', we have a cross-party committee here and I think all members heard exactly what was said and certainly I think their intention was to explain to us that over the last six months their financial performance had improved quite dramatically.

Mr WALLACE - I think importantly they commissioned this report into activity. They had a corporate plan which highlighted significant risk. They had an annual report that was showing deteriorating results and some time between February and August they commissioned an independent report into the operations. They thought the report's conclusions were serious enough to write to me and to provide that report reflecting a material change in their circumstances. That report has been made available to the committee. So, again, what I am saying is totally consistent with all of those things and the underlying things in their six-monthly results do not show that this trend has stopped, if anything it has levelled out, and that is because they haven't had to do expenditures they would otherwise have had if they weren't going to be sold. They are the facts.

Mr SHELTON - Talking about the board and therefore talking about facts, is it not true that Treasury and therefore the Government, the Government and therefore Treasury, put TOTE on the market and started this process without actually telling the board that it was officially going to go on the market?

Mr WALLACE - Treasury would have written to the board.

Mr SHELTON - I think we have had some comments previously -

Mr WALLACE - You would have the correspondence. I think it was in the big stack of stuff we gave you last time.

CHAIR - What sort of contact do you have then with the shareholder minister in TOTE and the Treasurer with regard to this process then? Did you only talk between yourselves and TOTE or when you got that independent report that was provided to you?

Mr WALLACE - I think we gave you those. When we did an analysis of the report we looked at the financial results and the things that confirmed what their financial advisers were saying. We put a minute - and I am sure I do have it - to the Treasurer and in the minute - and I did report this, I think, at the first or second hearing - we recommended that the Government take action to initiate a competitive sale process but leave the decision about whether to sell, depending on what sort of binding bids were received.

CHAIR - Does Treasury get involved to the degree of having a look internally at what is for sale and see if there is value beyond what the market might be offering at the moment - Agility, for example, as a separate entity? It has been stated by some that it is worth a considerable amount of money.

Mr WALLACE - We've looked at all the subsidiaries and all the shareholdings in the various companies. We've looked at Agility's cost structures; we have looked at their

investment needs. We have been making assessments as we go through about the value of that. We did an assessment of what we thought the value should be for TOTE when we got the offers. The successful offer was substantially above our estimates of what TOTE and its component parts were worth. That was not only based on our own information but independent expert advice about what it would be worth. We have looked in detail at Agility's costs and the other subsidiaries and investments such as SportsAlive.

CHAIR - How much detail would you go into in terms of this process? Can you give us an indication of the extent of that analysis and the value of the separate parts if you cannibalised the business?

Mr WALLACE - In terms of value, I think that would have to be in camera because it is part of the negotiations.

CHAIR - I'm not asking for the value, just basically the amount of Treasury effort and time. Can you give us an indication of the Treasury effort and time in analysing the value of TOTE?

Mr WALLACE - With our advisers it has been quite substantial.

Mr INGLIS - Basically advisers and two of us within Treasury on it full time, plus a number of others reasonably heavily engaged.

CHAIR - That's the sale process?

Mr INGLIS - Yes, since the beginning of September. That would involve looking at the value of TOTE and running the sale process.

CHAIR - So you did your own separate analysis? You have said already that you felt it was a good price that you were offered at the end of the day but the analysis of the component parts - Agility, for example, and I don't need the dollar value but can you step us through briefly how you would looked at that?

Mr WALLACE - With Agility, because there had been views that there could be significant value and because of our lack of expertise in understanding what the nature of that value was, we sought expert advice on that. We talked to various parties about their interest in it.

Mr GUTWEIN - Is that written expert advice?

Mr WALLACE - Yes, but again, I think that's getting into the in-camera content. Derek, is there anything we can say without getting into the in-camera detail about this? We have looked at this very thoroughly with our financial and legal advisers about the legal issues associated with each of these businesses.

Mr INGLIS - I don't think there is any more, other than Martin's general comments.

Mr GUTWEIN - We have received in camera three pieces of advice. I am not sure if I am breaking any confidences if I mention who that advice is from, am I, Chair? Obviously

regarding Investec we have a copy of that information. There is the other advice that TOTE received before the end of the financial year, which was the valuation, and then there was the other analysis that was done in respect of Agility. We have those three pieces of advice. Is there other advice that you have received?

Mr WALLACE - We've had advice since the sale.

Mr INGLIS - During the sale - those preceded the sale. They were reports to TOTE, which TOTE provided to government.

Mr GUTWEIN - So you have other advice in respect to the value of Agility?

Mr WALLACE - Answering that question would mean that we would have to reveal something that we are bound to under a confidentiality agreement, but we are happy to do it in camera.

CHAIR - I think that would be a reasonable request at this point in time.

Mr WALLACE - Did you have other questions that you wanted, or we could come back.

Evidence taken in camera.