

**Gold Corporation —**

Mr D.A.E. Scaife, Chair.

Mr W.J. Johnston, Minister for Mines and Petroleum.

Mr R. Hayes, Chief Executive Officer.

Mr J. Sawyer, Acting Chief Financial Officer.

Mrs R. Cochrane, Group Manager, Communications.

Mr R. Sao, Chief of Staff, Minister for Mines and Petroleum.

Mr J. Stephens, Policy Adviser.

[Witnesses introduced.]

**The CHAIR:** This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day. Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is the intention of the chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point.

The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the principal clerk by close of business Friday, 1 October 2021. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice through the online questions system.

Member for Moore.

**Mr R.S. LOVE:** I refer to the very first page of the budget papers for the Gold Corporation, page 189. I refer to the item "National Tax Equivalent Regime—Income Tax" and the figures quoted for the 2019–20 actual, 2020–21 budget, 2020–21 estimated actual and 2021–22 budget estimate. There are wildly fluctuating figures there—\$15 million, \$5 million, \$17 million and \$6 million. I am wondering what the reason is for those disparities.

**Mr W.J. JOHNSTON:** Is the member referring to "National Tax Equivalent Regime—Income Tax"?

**Mr R.S. LOVE:** Yes. The national equivalent regime income tax level, between the actuals and budgets, seems to be quite a great difference.

**Mr W.J. JOHNSTON:** The tax revenue is based on profit, so, obviously, the profit exceeded expectations and so we paid more tax.

**Mr R.S. LOVE:** I am wondering why the budget is so conservative in that case, and going forward.

**Mr W.J. JOHNSTON:** If the member wants, I can invite the CEO or the CFO to comment. I make the point that there was an unexpected spike in the gold price over the last 12 months. Because the profitability of the Gold Corporation is linked to the value of gold, it is not a shock that the profitability went up.

**Mr R.S. LOVE:** I appreciate that; I think everybody knows the price has gone up. The underlying effect seems to be quite dramatic on the tax figure. I am wondering why that is so. Have the profits doubled or tripled in a year? How dramatic is the effect of the price of gold on the profitability of Gold Corp? I would have thought that that was a fair enough question. I understand the underlying nature of the business.

**Mr W.J. JOHNSTON:** Yes, but I said the profitability of Gold Corp is intrinsically linked to the gold price. I said that in my answer a minute ago.

**Mr R.S. LOVE:** Could I have more information about exactly what the ratios are and why that would have such a tremendous effect on the profitability of the business?

**Mr W.J. JOHNSTON:** The business is basically in six parts, but two sections are linked. It is sort of like in four bits. The refining business and the storage business are linked to the gold price. The retail operations are a bit more steady, but like that as well. It is natural that the profit changes from year to year. This is an estimated budget for the next four years. This is not a budget estimate in respect of, say, a government department that says, "These are the inputs; therefore, this is the output." This is a commercial business and it has to deal with customers. Its profitability is intrinsically linked to volume and value. It is like any other business. It is like the member running his farm or whatever, or his bus service. If customers are prepared to pay more, profit goes up. Let us take the member's bus

service as an example. There are a whole series of fixed costs that do not relate to the number of customers. The last customer is always the most valuable customer. It is exactly the same for Gold Corp.

**Mr R.S. LOVE:** I understand that. Within the budget documents, for instance, there is an explanation of the effect of a particular dollar rise in the price of iron ore on royalties. I am trying to get an understanding of the business, which is owned by the state, and how intrinsically linked that is and what sensitivities there are to gold prices and to markets.

[4.00 pm]

**Mr W.J. JOHNSTON:** It is not possible to do that; that is what I was trying to explain before. Let us take the sensitivity of iron ore in the budget papers. The government of Western Australia does not sell any iron ore, so that is about a sensitivity. If X changes because we get 7.5 per cent of the gross value, we multiply that figure by 7.5 to equal that. That is how we can do a budget estimate for the general government sector. But this is not the general government sector—there is no budget approval—so the sensitivity here is similar to a business. There are underlying commercial activities of the business that do not relate in the way that the member is describing because it is much more like a bus company than it is the royalty rates for iron ore. As I said, the royalty rates for iron ore equals the gross value multiplied by 7.5. If the price goes up, it is still multiplied by 7.5. This is a commercial business. Some of the costs are fixed and some are variable. Let us use the classic example of a supermarket that has a profit margin of one per cent of revenue. If that goes up to two per cent, the profit goes up by 100 per cent, not by one per cent. We are in the same position. If the price goes up, the profit jumps enormously because the costs are generally fixed.

**Mr R.S. LOVE:** I turn to page 192, “Asset Investment Program”, and specifically “Computer Software Replacement Program”, which, I think, is also known as the one-future program. Is that correct?

**Mr W.J. JOHNSTON:** The one-future project is about bringing together a whole range of activities of the business.

**The CHAIR:** Can I just clarify, member for Moore, in the table at the bottom of the page there are two line items—one is “Computer Software Replacement Program” and the other is “One-Future Program”. Is the member referring to one or both of those?

**Mr R.S. LOVE:** I am asking what the computer software replacement program has to do with the one-future program. I am asking what these two programs are.

**Mr W.J. JOHNSTON:** The computer software replacement program has nothing to do with the one-future project; it is the usual replacement that any business has of its IT suite.

**Mr R.S. LOVE:** Okay. I turn to the one-future program, which is what I want to talk about. The one-future program is the replacement of the enterprise resource planning system, which is the corporation’s core financial computer system, and the development of a front-end, customer-facing ecommerce platform, which is nearing completion. Was the enterprise resource planning system also a front-end, customer-facing ecommerce platform? What was that system?

**Mr W.J. JOHNSTON:** Sorry; I do not know which system the member is referring to.

**Mr R.S. LOVE:** The enterprise resource planning system that is mentioned in the explanation about the one-future program.

**Mr W.J. JOHNSTON:** Where is that referred to?

**Mr R.S. LOVE:** It is listed on page 192 under “One-Future Program”. I am trying to get an understanding of what the enterprise resource planning system does and what functionalities will be replaced.

**Mr W.J. JOHNSTON:** I will throw to the agency staff in a moment. It is exactly what it says on the page. I thought it was a pretty straightforward explanation. The one-future program is a key initiative designed to transform the corporation’s technology capability to deliver products and services in a diverse and global precious metals market across the entire value chain. Underpinning this initiative is the need for a flexible and scalable integrated digital experience, ecommerce website and a stable and reliable enterprise resource planner. The program’s key justification drivers are to replace the corporation’s current enterprise resource planning solution, which is 15 years old, and its current websites, which are between 12 and 14 years old and subject to, unfortunately, regular outages.

**Mr R.S. LOVE:** As at 30 June this year, had \$42 million been spent on this program?

**Mr W.J. JOHNSTON:** If the member looks at page 192, the table at the bottom has the line item “One-Future Program” and the estimated expenditure to 30 June 2021 is in thousands of dollars and is rendered “42,843”, which is \$42 843 000. That figure in the budget paper is a report of the current expenditure.

**Mr R.S. LOVE:** I take it that this program has been going on for a number of years. When did the program begin?

**Mr W.J. JOHNSTON:** I am advised that the program started in 2015.

**Mr R.S. LOVE:** If it started in 2015, can the minister explain why the enterprise resource planning system that it replaced was not yet complete in 2015? In 2014–15, the budget papers for Gold Corporation listed the enterprise resource replacement program as getting underway in 2013. It then had a budget of \$7 million. It was still being built throughout 2014–15, 2015–16 and 2016–17, at which point it was then worth an estimated \$8 million. By the time we get to 2017–18, it is still listed as being built, with a budget of \$5 million attached to it. In 2018, the enterprise resource replacement program had an estimated total cost of \$19 million. In 2019–20, the one-future program appears in the budget documents with a total budgeted figure of \$31 million. Is the one-future program replacing the aforementioned enterprise resource planning system or has it morphed from the enterprise resource planning system? What is this going to cost because so far, by my calculations, we are up to \$84 million over this length of time for a computer program?

**Mr W.J. JOHNSTON:** What I can say is that in respect of the period that the member talked about when he mentioned the ERP, Hon Colin Barnett was the minister at the time. The member for Moore might seek to speak to him to find out what he was referring to in the budget papers. What I can tell the member is that the budget papers that I present show an estimated total cost in the table on page 192. The line item is “One-Future Program” and the estimated total cost is \$54 437 000. That is the total cost that this government is presenting. The member will have to ask Hon Colin Barnett about what he presented.

**Mr R.S. LOVE:** I stand to be corrected, but in the 2017–18 budget year, the minister was in government and the enterprise resource planning software replacement program was on the books with a \$20 million price tag and a budgeted figure of \$5 million. This has been going on through both governments. I am very concerned that we spent \$2 million in 2014–15 after \$3 million had already been spent. In 2015–16, another \$2.5 million was spent on this program. In 2016–17, another \$2 million was spent on the program and in 2017–18, another \$5 300 000 was spent on the program. In 2018–19, money was still being spent on the enterprise resource program. In 2019–20, we lost the enterprise resource planning software replacement program, which was replacing something, and we moved to the one-future program and \$10 million was spent on that program. There was \$8 million spent in 2020–21. How long is this going to go on for? This is ridiculous.

[4.10 pm]

**Mr W.J. JOHNSTON:** Perhaps the member should read the budget papers. I refer again to the table at the bottom of page 192. It must be fortunate that I am now the minister because the last year of budget estimates for this issue is the current year, 2021–22, and there are dots on the out years. When the member asks when it will be completed, apparently it will be completed this year. I agree that there are issues there for Hon Colin Barnett to explain, but the good news for the member is that the estimated total cost is \$54.437 million. That is in the budget paper right there in front of him, which I have drawn to his attention a number of times. There is a budget estimate of \$11.594 million for the project in the 2021–22 financial year.

**Mr R.S. LOVE:** Can the minister tell me what software platform is being used in the interim? What enterprise resource planning software is being used?

**Mr W.J. JOHNSTON:** I have already answered that question. I read to the member exactly what I said on that topic a minute ago. I am happy to read out the exact same answer to him. I will make it clear: this is exactly what I said a few minutes ago. The one-future program is a key initiative designed to transform the corporation’s technology capability to deliver products and services in a diverse and global precious metals market across the entire value chain. Underpinning this initiative is the need for a flexible and scalable integrated digital experience, ecommerce website and a stable and reliable enterprise resource planner. The program’s key justification drivers are as follows: replacing the corporation’s current ERP solution, which is 15 years old, and replacing the current websites, which are 12 to 14 years old. That is exactly the same answer I gave a few minutes ago.

**Mr R.S. LOVE:** The enterprise resource planning program that it says it is replacing is not 15 years old. It was still being built under the minister’s government, as well as the previous government, as late as 2018–19. Far from being 15 years old, it is a few years old—three or four years old —

**Mr W.J. JOHNSTON:** I am sure that at some point the member is going to ask a question, but that is okay. I just make the point that I have answered his question. He is making an assertion based on no information. You tell me, member, how long has the website been in place?

**Mr R.S. LOVE:** I have no idea.

**Mr W.J. JOHNSTON:** Well, then, do not make an allegation —

**Mr R.S. LOVE:** I am not talking about the website. I am talking about the enterprise resource program that is being replaced.

**Mr W.J. JOHNSTON:** The member’s questions are confusing.

**The CHAIR:** I am just going to call everyone to order. It is obviously up to the committee how it spends its time, but we have a little under 50 minutes remaining for this stage to be put. I am concerned that we may be pursuing

a barren line of questioning here, member for Moore. If you would like to persist, you can, but let us get this back on track.

**Mr R.S. LOVE:** What consultants are being used to support both the enterprise resource planning software program and the one-future program?

**Mr W.J. JOHNSTON:** I do not have that information in front of me. If the member wants to put a question on notice, I would be happy to answer that.

**Mr R.S. LOVE:** Do any of the board or staff have any historical pre-existing professional or personal relationships with any of the firms involved?

**Mr W.J. JOHNSTON:** If the member has a particular allegation that he wants to put, he should put it. If he thinks there is any improper behaviour, the correct authority to deal with it is either the Western Australia Police Force or the Corruption and Crime Commission.

**Mr R.S. LOVE:** I am just trying to get to the bottom of where this money has been going.

**Mr W.J. JOHNSTON:** I am just making a point.

**The CHAIR:** This is obviously an opportunity to ask questions about budget estimates, what has been spent and what is allocated to be spent. I am not going to have any questions or discussions about imputations on anyone. Is there a further question, member for Moore?

**Mr R.S. LOVE:** Yes. Can the minister tell me a little about the base assets that are mentioned in “Non-Current Assets” on page 195? The budgeted amount of non-current assets of property, plant and equipment is \$116 million. Can the minister tell me a couple of things: first, does that include an amount for the silver minting mass production plant; and, if so, how much is that valued at at the moment? That was a matter of some expenditure in past years.

**Mr W.J. JOHNSTON:** I do not have that information in front of me. If the member wants to put a question on notice, he could. Of course, he could also read the annual report, which details the assets of the business. That is usually how he would find that information.

**Mr R.S. LOVE:** Okay, at this point I think I will retire from questions and put some matters on notice to the minister.

**Dr D.J. HONEY:** I refer to page 191 of budget paper No 2, volume 1, under “Outcomes and Key Performance Indicators” and the amount of gold that is processed by the corporation. A while ago, concern was expressed about gold sourced from inappropriate gold providers. I know that the Perth Mint put in procedures to screen out gold that was from inappropriate overseas sources. Have there been any developments or new issues in that area?

**Mr W.J. JOHNSTON:** The Perth Mint is accredited by the London Bullion Market Association, which is considered to be the principal authority globally for these types of businesses to make sure they are operated appropriately. The LBMA continues to authorise the Perth Mint.

**Dr D.J. HONEY:** I believe this is simple information. At the bottom of page 189 under “Financial Changes” is the line item “Trade Update”, which has a significant amount of money. I do not know what that line item refers to.

**Mr W.J. JOHNSTON:** That is just an update of the business’s expectations.

**Dr D.J. HONEY:** In relation to what, minister?

**Mr W.J. JOHNSTON:** It states —

Net operating balance impact of adjustments, other than cashflow timing changes and non-discretionary accounting adjustments, impacting on the GTE’s Income Statement since presentation of the 2020–21 Budget to Parliament on 8 October 2020, are outlined below:

Obviously, when the budget was presented last year, a set of future assumptions was built into those papers. This updates the Parliament on the changed expectations for those matters. For example, in the last financial year, the trading performance of the business was \$10.9 million, in round figures, above what was presented to the Parliament. The budget estimate for the current year indicates there is an expectation of a \$19 million exceedance, and then we see in the three out years what the expectations are compared with the presentation from last year.

**Dr D.J. HONEY:** That comment makes sense up to 2023–24, but there would not have been a number in the budget last year for 2024–25, so I am wondering how a negative can be forecast against expectations.

**Mr W.J. JOHNSTON:** Yes, the member would have to ask Treasury that because these papers are prepared by Treasury. This is the way Treasury presents the papers, so that is what it is intended to do. It is intended to provide an update on the changes since the last presentation.

**The CHAIR:** That concludes the examination of the Gold Corporation.

*Meeting suspended from 4.19 to 4.27 pm*

