

## HOUSE OF ASSEMBLY

Tuesday 17 September 1991

## ESTIMATES COMMITTEE A

**Chairman:**  
Mr M.J. Evans

**Members:**  
Mr D.S. Baker  
Mr S.J. Baker  
Mr D.M. Ferguson  
Mr P. Holloway  
Mr W.A. Matthew  
The Hon. J.P. Trainer

*The Committee met at 11 a.m.*

**The CHAIRMAN:** I remind members that the proceedings of the Committee will be relatively informal and ask members to address questions to the witness before the Committee who today is the Premier and Treasurer. I point out that the Premier may be assisted by his officers at his discretion. The Committee's proceedings will be in accordance with the Standing Orders of the House, and I ask members to notify the Chair of any substitution or changes in membership. I draw the Premier's attention to the fact that it is desirable that answers, to be incorporated in *Hansard*, be received no later than Friday 4 October. I also remind members of the suspension of Standing Orders, which extends the terms of reference and allows the Committee to ask for explanations on matters relating to the Estimates of Receipts. Does the Premier wish to make an opening statement?

**The Hon. J.C. Bannon:** I do not wish to make an opening statement.

**The CHAIRMAN:** Does the Leader wish to make an opening statement?

**Mr D.S. BAKER:** I wish to say only that our questioning will be short and relevant to the point. We have to cover a very big area and, if we all cooperate in that manner, that will help. I hope that the answers will be given in the same vein. I indicate that the Opposition has no questions with respect to the Legislature.

Legislative Council, \$2 368 000

**Witness:**

The Hon. J.C. Bannon, Premier.

**Advisers:**

Mr G.D. Mitchell, Clerk of the House of Assembly.  
Mr A.M. Schulze, Accounting Officer/Secretary, Joint Parliamentary Service Committee.  
Mr K.R. Simms, Leader, *Hansard*.  
Mr H.F. Coxon, Parliamentary Librarian.

**The CHAIRMAN:** I declare the proposed payments open for examination.

**The Hon. J.P. TRAINER:** I understand that members will wish to proceed with more weighty matters in relation to the overall budget, and I am sure that, collectively, the

Committee will ask a lot fewer questions with respect to the Legislature than would normally be the case. In fact, the Opposition has indicated that it does not intend to ask any questions in that respect. However, I draw attention to a longstanding anomaly and, although it does not have to be addressed urgently, we will have to come back to this matter eventually. It relates to the interrelationship between the Executive and the Legislature, so far as the Legislature's budget is concerned.

Under the Legislature line, the Legislature can examine itself and its three overlapping areas of administration: the House of Assembly, the Legislative Council and the Joint Parliamentary Service Committee. In addition, we have the complication of areas of administration that are jointly shared by the two Presiding Officers, such as the general fabric of the building and, as with other public buildings, areas taken care of by SACON.

Most Parliaments operate on the basis of a single line budget allocation for the Legislature that is controlled by the Presiding Officers. For example, in the House of Commons I understand that the Speaker delivers the budget for the Legislature. In this Parliament, because of the traditional relationship between the Executive and the Legislature throughout South Australian history, a Government Minister has handled the Legislature's budget. I understand that at some time in the future we may move to single line budgeting, but pending that move a problem, to which I referred during the Estimates Committee last year, still exists.

Of course, the Premier cannot be expected to be involved in the day-to-day operations of the Legislature, and in replying to questions he must rely on the advice of the equivalent of the public servants who assist other Ministers; in this case, the Clerk of the House of Assembly and the Secretary of the Joint Parliamentary Service Committee and, if required, representatives of *Hansard*, the Library and catering. However, that places only two of the three main areas of legislative expenditure under proper scrutiny.

The Legislative Council does not provide a public servant or the equivalent of a public servant to assist the Minister responsible for replying to questions. My question is on the basis of whether we can negotiate for that problem to be overcome in the future. It may well be that the Legislative Council could provide someone, such as the Clerk, to answer questions directly before a House of Assembly committee in the same way as Ministers of the Legislative Council are given leave by the Council to answer questions before a House of Assembly committee. Certainly, for the House of Assembly Clerk to continually have to reply to questions on behalf of his opposite number in the Legislative Council could present some problems, as illustrated by a question on pages 2 and 3 of the Estimates Committee of 11 September last year.

Will the Premier advise on the likelihood of a single line budget for the Legislature being implemented in the not too distant future, with Presiding Officers being fully responsible for the Legislature's budget instead of a Minister of the Crown? As an interim measure, can anything be done to remedy the anomaly to which I have referred regarding the advice that is offered to the Premier with respect to questions relating to the Legislative Council line?

**The Hon. J.C. Bannon:** Both of those questions are relevant and deserve consideration. In fact, there has been quite detailed consideration and discussion on the single line concept. In principle, I think it has a lot to commend it. The concept of Parliament having control of its budget means that the overall allocation to Parliament can be made properly in light of other priorities and expenditures necessary for the conduct of Government. However, in terms

of the actual deployment of those funds, greater responsibility could then be given to the Presiding Officers on behalf of Parliament. When one starts to look at it in detail, one notes that a number of practical issues emerge that still have not been fully resolved. That should not dissuade us from continuing to look at the issue, but we should be aware of them.

One aspect is the considerable inflexibility of expenditure in relation to the Legislature. While the total budget of some \$4 million for the House of Assembly and \$2 million for the Legislative Council is quite a large sum that could be allocated throughout the course of the year to various functions, the fact is that that is locked in by issues such as wages and salaries, travel and other aspects that are matters of policy or procedure. For instance—and Mr Speaker has written to me on this very point—it would be a rather anomalous situation for the Speaker to rise in his chair at some stage of the proceedings, as he puts it, during, say, March, and saying, 'Order! The House must adjourn, because the overtime allowance has been expended.' Of course, what the Speaker would be pointing out is that there is no particular control of the sitting hours of the House—it depends on the business, the agreements between the leaders of the House, the course of the debate and whether the Opposition wants to pursue certain matters. So, one cannot predict with any kind of certainty what will be required, yet a financial allocation must be made for it. One has no real way of escaping the implications of that.

That is true of a number of other items of expenditure, which vary from year to year but which vary more in the way in which entitlements are taken up rather than in an actual perceived budgeted approach to it. One points in various directions when one looks at those practical implications and sees that the discretionary element of a single line, once one accounts for all those things, is actually very limited indeed. It might, in fact, cause more rather than fewer problems to the Legislature if we move to that approach. It certainly is a good principle and deserves further exploration.

On the second point made by the honourable member, I agree, it is anomalous that Ministers from the Upper House can be accountable for their programs of expenditure to a House of Assembly committee whilst the administrators of the Legislature in another place cannot similarly be here to assist in the deliberations of our Committee. I do not see it as doing violence to any constitutional or other matter simply to provide that level of assistance to the House if it wants to examine those lines, just as I think it would be unreasonable for the members of the ministry who are drawn from that Chamber to object to an examination in this way. Similarly, it is a bit unreasonable at the administrative level. I am not sure of the extent to which objections have been raised, but it is something that probably ought to be explored. Indeed, I would think that the officers of the Council would probably welcome the opportunity to put some things on the record if the occasion arose.

**Mr FERGUSON:** I note that the amount voted last year for Legislative Council Select Committees, etc. was \$40 000 and \$21 162 was actually spent. Some select committees seem to be taking an extraordinary time to report. The House of Assembly is awaiting some reports from the Legislative Council. From the figures, we can see that the problem is not monetary, because the committees spend only about half the money that is allocated to them. Could we request a report, either from the President or the Clerk of the other place, on why it is taking so long for these select committees to bring down a report, as that delay is holding up legislation in this House.

**The Hon. J.C. Bannon:** I am afraid I cannot answer that question. It is perhaps a legitimate question to ask, but it is not within our jurisdiction to question the time taken over certain inquiries. That would have to be taken up more directly.

**The CHAIRMAN:** The question as to how they expend the money is one thing, but the internal procedures of the other place would be another.

**The Hon. J.C. Bannon:** On the point that the honourable member makes about expenditure in these areas, it is probably worth saying that this is very much an area of notional budgeting. One cannot predict either the number or duration of committees during any year; they arise from time to time. Therefore, figures are put in the Estimates which might not necessarily have any reference to the actual expenditure. One can see for this year where, in the case of the Legislative Council, \$40 000 was provided and only a little over half was spent. We have made provision for \$41 000 this year because a number of committees are in operation and it may be spent. Looking at the select committee line for the Assembly, \$13 000 was provided, but considerably more was spent because a number of committees were operating and reporting in most cases in the House of Assembly. Notional figures based on historical experience are inserted, but it has to be accepted that there will be wide variations from year to year.

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

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House of Assembly, \$4 494 000

**The Hon. J.P. TRAINER:** Following the question by the member for Henley Beach regarding Legislative Council select committees, in which he pointed out that the Legislative Council had expended \$21 000 of the \$40 000 proposed, why is the converse true of the House of Assembly: \$13 000 was asked and \$41 000 was expended?

**The Hon. J.C. Bannon:** That relates to an earlier question in answer to which I pointed out that these amounts are notional. For the purposes of budgeting, amounts need to be put in the Estimates, but they will vary enormously. For the House of Assembly amount, which is very much higher than the budgeted amount last year and very much higher than the amount proposed for this year, an assessment has just been made of those committees which are proposed or which are anticipated to be operating in this financial year. If anything, even at this early stage, I would say that it is an underestimate of expenses, because, for instance, the juvenile justice committee, which was formed only recently, is an example of one that was not anticipated at the time the budget was drawn up. In arriving at a figure, one tries to get an average over time, and \$13 000 still represents a reasonable longer term average although, in the light of experience in the last couple of years, it perhaps calls for revision in future budgets.

**The Hon. J.P. TRAINER:** There is something about the nature of some of the select committees which operated in the last financial year that would make them inherently expensive for some reason or another. Perhaps the Clerk could advise us on that?

**Mr Mitchell:** The reason for the large increase in expenditure was basically because we had more select committees than historically. If that pattern continues, as the Premier said, the notional figure will have to be increased. Given that last year was out of kilter with the last 10 years, there would seem to be no reason to increase it at this stage.

**The Hon. J.P. TRAINER:** When joint select committees operate, how are the costs allocated between the two Houses?

**Mr Mitchell:** On a 50-50 basis.

**Mr FERGUSON:** Mr Chairman, I would repeat the question that I asked earlier.

**The CHAIRMAN:** I ask the honourable member before he repeats it to consider its phrasing carefully, because the matter is still the subject of a Bill before the Legislative Council, and it would not be appropriate to ask policy questions in relation to the matter, if it is actually going to influence debate in another place on a Bill that is still current. I ask the honourable member to take that into account when he phrases his question.

**Mr FERGUSON:** Can we assume, Premier, from the budget figures that we have here now for the various committees, that if there happens to be a change in the future these budget figures will remain the budget figures, no matter what the change might be?

**The Hon. J.C. Bannon:** First, we cannot budget or provide moneys in anticipation of legislative changes, as the honourable member would understand, and this has been pointed out to the honourable member from the Chair, referring to this area. It may be that, following legislation being passed, the Committee structure will change substantially, in which case reallocation will have to be made in terms of the financial support of the new Committee structure. However, for budgeting purposes we have simply assumed that the present system will continue, and that is realistic in any case because the timing of new arrangements is also obviously in the hands of the Parliament.

The only further comment I would make is that I think it has been generally accepted, in looking at restructuring of committees and at new systems, that to the greatest extent possible such changes should be seen as revenue neutral; that we have a certain pattern of expenditure in this area and there is no reason why new arrangements, with certain efficiencies and other benefits, cannot have financial outcomes that are similar to the overall amounts that we currently provide. However, the precise division between the various committees would have to be determined if and when the legislation is passed.

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

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Parliamentary Public Accounts Committee, \$316 000—  
Examination declared completed.

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Parliamentary Standing Committee on Public Works,  
\$171 000—Examination declared completed.

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Joint Parliamentary Service, \$5 333 000

**The CHAIRMAN:** I declare the proposed payments open for examination.

**The Hon. J.P. TRAINER:** I direct a question to the Parliamentary Librarian, through the Premier, which relates to a perennial question as far as I am concerned, because it is a matter that I have raised at almost yearly intervals ever since I entered Parliament in 1979. Can the Librarian advise us whether we are finally making any progress whatsoever towards providing information on news as it appears in the electronic media? This would be on a par with the

excellent service that the Parliamentary Library has provided regarding material that appears in the written media, and I refer to the fact that we alone of all the Parliaments in Australia have for many years been the only one that has not been able to keep members informed on what has been appearing on news broadcasts, current affairs broadcasts, and the like, even though we have excellent information retrieval systems that will find for us an *Advertiser* article, from 1891 if we wish it, within a very short space of time.

**The Hon. J.C. Bannon:** I will ask Mr Coxon to reply.

**Mr Coxon:** I am pleased to answer in a mildly positive vein. There have been two advances in this area in the year. One is that the video cassette recorder which the Library had and which is now 15 years old has been replaced by two modern recorders. The Library now has three recorders and we are approaching the number that we require to enable us to offer a reasonable level of service. The other element is that the two Presiding Officers have approved, and they have already been spent, minor works funds to upgrade a portion of the lower area of the Library to provide a lounge area for viewing the tapes. It will depend on staffing levels to allow a full service to develop.

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

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State Governor's Establishment, \$921 000

**Chairman:**

Mr M.J. Evans

**Members:**

Mr D.S. Baker  
Mr S.J. Baker  
Mr D.M. Ferguson  
Mr P. Holloway  
Mr W.A. Matthew  
Hon. J.P. Trainer

**Witness:**

The Hon. J.C. Bannon, Premier.

**Departmental Advisers:**

Mr B. Guerin, Director, Department of Premier and Cabinet and Chairman, Government Management Board.

Mr J. O'Flaherty, Director, Corporate Services.

Mr T. Kent, Manager, Financial Services, Premier and Cabinet.

Mr J. Shepherd, Director, Government Management, Premier and Cabinet.

Mr E. Kageler, Assistant Director, Corporate Services.

Mr G. Foreman, Director, Cabinet Services.

**Mr D.S. BAKER:** The first question and answer took 11 minutes, which means in the whole day we will get about 50 questions unless we try to speed it up a little. The Program Estimates show \$300 000 capital spending on Government House compared with a budget of \$160 000. Will the Premier explain the nature of the spending and say why the budget estimate was exceeded?

**The Hon. J.C. Bannon:** A number of minor works expenditures were undertaken during the course of the year. They are managed by SACON and are shown. The main item of extra expenditure related to security provisions in Government House. They were in need of considerable overhaul and, particularly with the new Governor taking office, it was thought timely to undertake some major work in that area that had not been budgeted for specifically.

**Mr D.S. BAKER:** What is the reason for the increase from \$84 147 actual spending in 1991 to a budgeted \$228 350 this financial year on administration expenses, minor equipment and sundries?

**The Hon. J.C. Bannon:** These represent transfer of funds from the Department of Housing and Construction for expenses associated with the State Governor's establishment. They normally appeared on the SACON lines, but they have been transferred to more accurately convey expenditure in particular areas. It represented some \$110 000 to \$120 000 or so of expenses, in part relating to electricity, water rates and so on, which had normally been covered under other lines. It does not represent an actual major increase in expenditure.

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

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Premier and Cabinet, \$15 865 000.

**Mr D.S. BAKER:** The Auditor-General's Report reveals payments for consultants of \$338 000 in 1991 exclusive of MFP consultancies: will the Premier provide an itemised list showing for each consultancy the name, the purpose and the fee?

**The Hon. J.C. Bannon:** I can provide the broad headings under this sector: in the social justice area, \$4 973; the Women's Unit, \$883; the Office of Cabinet and Government Management, comprising a series of major consultancies, a total of \$152 892—and I might be able to get a further breakdown for the Leader on that figure; and a major consultancy of \$92 224—again, I will provide the details for the Leader; planning review, \$73 749; equal opportunity for disabled, \$7 000; and local government, \$6 481. Those are the broad headings details, and I will provide further details for the Leader.

**Mr D.S. BAKER:** Under State disaster planning control and relief, the salary allocation indicates that a full-time position is being reduced to a part-time position. Can the Premier explain why?

**Mr O'Flaherty:** The program allows for only one salary, that of Chairman of the State Disaster Committee. Over the course of the year Mr Fairhead has actually been spending some additional time assisting with other intergovernment relations matters, which is the reason why we have more accurately apportioned his time between the two programs. There is still a fairly comprehensive program of State disaster matters under his control, and he will continue that program.

**The Hon. J.P. TRAINER:** I notice the position of Women's Adviser to the Premier was advertised some time ago, and the position called for someone who, among other things, could review the role and function of the Women's Adviser's Office. Can the Premier explain whether this signals a significant change in direction regarding this position and indicate why an appointment has not yet been made?

**The Hon. J.C. Bannon:** True, there has been some considerable delay in filling the position, not through a lack of desire to do so but simply because the procedures have taken some time. It is obviously important to ensure that the most appropriate appointment is made. The position became vacant in January and was advertised prior to that because the previous incumbent, Miss Carol Treloar, gave notice of her move and, therefore, the replacement process was set under way before she left. Initially, it was decided to handle the matter by internal advertisement within the Public Service on the basis of a three-year appointment.

A selection panel was formed and applications received, but the panel was not able to recommend any of those who applied at that stage and suggested that the position be re-examined and recalled on an Australia-wide basis. That occurred in May this year and in so doing the job and person specifications were revised to add emphasis to a role of reviewing services and what should be provided in the current area. We are attempting to ensure efficient delivery of services and look at the women's advisors function in the context of things that happen not just within Government but within the work force, industry and the community.

A liaison role is to be played by the women's adviser, not with the non-Government sector in a fairly narrow definition but with business and broader groupings also. It was felt that if we are to go outside the service and advertise the position, rather than do it on a limited call and definition of role as we have done before, we would try to attract candidates with some background in those broader areas. Clearly with a position such as this the occupant at any time tends to define the way in which it will operate. I am sure that that will be the case in this instance. In fact, the decision to advertise was vindicated in that we received a large number of applications and the selection process has reached a stage where a recommendation is expected shortly. I hope that an appointment will be made well before the end of the year.

**The Hon. J.P. TRAINER:** Page 6 of the Program Estimates dealing with equal opportunity for women mentions that the Women's Information Switchboard was involved in an outreach program for newly-arrived Indo-Chinese women. Will the Premier give further details in respect of this program.

**The Hon. J.C. Bannon:** An Indo-Chinese information officer has been appointed to a permanent position at the switchboard which reflects the increasing number in the community now taking advantage of some of the services provided by both Government and non-Government agencies. They have particular needs in terms of being, in most cases, new arrivals requiring support, advocacy and information. The position has been well received. The important thing is to make clear that services are available; in other words, to spread the message that access is available to this sort of service from qualified people who can communicate with the appropriate linguistic and cultural background with ease. The way to do it is to contact various Indo-Chinese groups and organisations in the community to get them to participate in programs in which the switchboard has a role. It is proposed to have a direct outreach and information service from the Salisbury branch of the Migrant Resource Centre and, in addition, to undertake some country trips to specific areas with a high concentration of Indo-Chinese women. One hopes that by these methods the proper integration and relationship to the community can be greatly enhanced. There has already been evidence of considerable support being provided by these services.

**The Hon. J.P. TRAINER:** My third question also relates to equal opportunity but in this case I refer to the second program under the budget line for the Department of Premier and Cabinet, namely, equal opportunity for people with disabilities. Page 19 indicates that there was considerable under-expenditure in the program during the past financial year. Will the Premier explain why this was the case and whether it means that the Government is taking less interest in matters affecting the disabled, as might be inferred from the fact that, of the \$221 000 voted for 1990-91, only \$147 000 was actually expended?

**The Hon. J.C. Bannon:** One cannot draw that conclusion. We maintain our commitment to people with disabilities and the role of the Disability Adviser in assisting that process. The under expenditure was primarily due to salaries and wages not being called on due to changes in the office. With the retirement of the previous Disability Adviser, Mr Llewellyn, it was decided to reframe the role of the adviser and use the opportunity to look again at the resources necessary and the way in which they were deployed. In consequence, wide consultation took place to ensure that appropriate changes were made. The Disability Adviser to the Premier will now operate on a part-time basis. Professor Ian Cox has been appointed to this role, and his appointment generally has been welcomed. He has a wide range of expertise and has been very much involved in areas such as special education and other aspects of Government and non-Government services to the disabled community.

In fact, currently he is on study leave, in England, Canada and the United States, investigating the delivery of human services to people with disabilities and their families, training of human service providers and collaborative management. I am looking forward to his return as I am sure that he will come back with many new ideas and a great deal of energy to put into this task. He will be assisted by an executive officer in the policy area on a half-time basis and two full-time staff in the form of a senior project officer and a receptionist/clerical officer. The office will be well resourced to assist Professor Cox in his work.

**Mr S.J. BAKER:** I also refer to the same line. Will the Premier explain why the Government has seen fit to reduce resources in this area? Five positions were allocated for 1990-91 and 2.9 positions taken up, as explained by the Premier. However, overall we see a reduction in the level of commitment to the disabled. I refer to the number of proposals placed before the Government and the Opposition and the number of requests and claims about disabled people not being properly represented or receiving proper funding. This week I received a proposition from Mr John Reedman of the funding action group for the disabled on the same principle of the inability of disabled people to obtain appropriate accommodation. Within the context of the many anomalies with which disabled have to deal and the extent to which supporting and caring parents do not have sufficient support within the system, will the Premier explain why resources in this area have been cut radically?

**The Hon. J.C. Bannon:** It is a very marginal cut in the sense that it was under expended last year for the reasons that I have given. The Deputy Leader is making the mistake of equating the effective delivery of services with the amount of money that is allocated to it. These two things do not necessarily go together. As I announced on 2 August, when the appointment of Professor Cox was publicly proclaimed, we are attempting a different way of handling this area of advocacy and coordination of services for the disabled.

Numerous programs and considerable resources are being utilised in this area in various agencies of Government, such as the Health Commission and other departments. One of Professor Cox's appointments—and he will play a direct role in this area—is to the Commonwealth-State Disability Services Advisory Council. So, it is simply the consequence of looking at the role and nature of the functions of the Disability Adviser to the Premier, with respect to only disability services, and at a different way of approaching it, which we believe will be very effective in the current climate and will meet the needs of the community. So, I reject the idea of any diminution of effort. On the contrary, there will be a much wider network and much better coor-

dination and therefore, I suggest, in a sense more resources will be applied rather than less.

**Mr S.J. BAKER:** During 1990-91, the functions of the Cabinet, the Government Management Board and the Department of Personnel and Industrial Relations were consolidated within the Department of the Premier and Cabinet. What is the estimated four-year saving as a result of these changes and how many positions have been reduced as a result?

**Mr Foreman:** The level of savings to which the department is committed as a result of the amalgamation are: for 1990-91, \$135 000, involving four full-time equivalents; for 1991-92, \$613 000, involving 15 full-time equivalents and for the following financial year, \$800 000, involving 19 FTEs.

**Mr S.J. BAKER:** As a supplementary question, I have difficulty in identifying these savings given the explosion in the number of personnel in the Department of the Premier and Cabinet. At his leisure, will the Premier provide the Committee with details of where these savings have taken place?

**Mr FERGUSON:** On a point of order, I want to know where we are going with supplementary questions. I have no objection to supplementary questions provided they are allowed on both sides of the Committee. I understand that the rule is that three questions will be allowed to each member. I have no objection to extending the number of questions each member may ask to, say, six, provided that the rule is applied equally to both sides.

**The CHAIRMAN:** Certainly, the rule applies equally to all members of the Committee, and the Chair is not aware of any infringement of that basic right at this stage. The proceedings are informal. The rule is that a member may ask up to three questions and then the Chair will call a member from the other side. However, the nature of the process is informal and if a supplementary question helps to bring out a point during a line of questioning, the Chair considers it useful to allow that process to occur. That situation will apply to all members.

**The Hon. J.C. Bannon:** The Deputy Leader's question can be answered simply if he compares programs 4 and 5 in which the transfer of salaries takes place. The numbers are very similar. There is a reduction of about \$900 000 under 'Salaries and wages' in program 4 and an increase in budgeted terms in program 5. In fact, there are one or two minor adjustments, but that is the basic difference.

**Mr S.J. BAKER:** In addition to SGIC, how many Government business operations did the Government Management Board review in 1990-91; will the Premier provide the Committee with any reports of the results of these reviews; and which operations will the board review in 1991-92?

**The Hon. J.C. Bannon:** The SGIC report has been completed, and a major examination and a considerably advanced draft report of ETSA is still under consideration. The board is in the process of finalising its review of the Local Government Financing Authority through the sub-board review committee. SAFA will be part of the program in the next few months. WorkCover is on the list but, in view of the fact select committee actuarial assessments and a number of other things are occurring in WorkCover (which place considerable demand on administrative and other information represented), the sub-board has temporarily postponed that exercise until the outcome of the select committee and any possible legislative changes are considered. I hope that will not be too far down the track. In other words, it is felt that it is more appropriate to look at WorkCover as it emerges from that process rather than

having yet another inquiry body in a situation of some confusion.

Over the next two years the GME intends to undertake a number of other reviews. It has looked at departmental and other structures on an *ad hoc* basis and in response to requests over the past few years, but most of the authorities or departments that have some form of business operation will be looked at progressively. No specific timetable has been established in relation to each of them, but as each review is finalised they will move on.

**Mr S.J. BAKER:** Will the reports be published?

**The Hon. J.C. Bannon:** Yes. As with SGIC, I hope that the findings of these reviews will be published.

**Mr FERGUSON:** Under program 4, 'Policy advice and management improvement', we see that last year \$3 712 725 was spent on the multifunction polis, and it is estimated that \$4 300 000 will be spent in the coming financial year. Will the Premier provide the Committee with details of the process of community consultation that was undertaken and say how the recommendations made to the Government affected the final decision?

**The Hon. J.C. Bannon:** It would be most appropriate if I invited Mr Bruce Guerin to respond to this question. Mr Guerin has just been seconded full time to the role of interim CEO of the MFP project through this very important stage. In a sense, he has been carrying out that function for some considerable time, but his position has now been formalised. By relieving him of his other fairly onerous responsibilities, he has been able to clear the way completely over these crucial months to concentrate on the task at hand, and I am sure that he will welcome the opportunity to respond to the honourable member's question.

**Mr Guerin:** An extensive national public consultation program was undertaken by a panel of three members chaired by Mr Robert Landsdowne, formerly a senior Commonwealth public servant and, more recently, the Chairman of Australia Post. The consultation undertaken by that panel was essentially in two parts, the first being in the latter part of 1990 when it took on board views about the MFP project from a wide variety of people in the community and, secondly, in response to the designation of Adelaide as the preferred location for the project. To undertake that consultation, the panel provided information by way of press release and the provision of summary reports and so forth and held public meetings not only in and around the site at Port Adelaide but elsewhere in South Australia and in other States.

It made an interim assessment of the situation. After the management board had published its interim report, which covered work done up to December 1990 but which was actually made public in February 1991, it carried on with the second round, that was more focused on the people who had made major submissions in the past and who wished to have further involvement, plus, of course, further public meetings in South Australia. The results of that process have now been published in a quite lengthy report, with a series of recommendations about public reactions and in relation to dealing with further public consultation and participation programs.

**Mr FERGUSON:** Will the Premier inform the Committee of the next steps involved in the MFP project?

**The Hon. J.C. Bannon:** The draft supplementary development plan is being worked on at the moment. Obviously, when it is prepared, it will be released. Tenders were called for development of the environmental impact statement and, in fact, have been finalised. A tender is being let that will see that work—based, of course, on the fairly intensive study that has already been done—completed in terms of a

formal EIS. An interim MFP board is to be established and discussion is taking place at the moment on the form and nature of that. Obviously, the final board will be affected by the shape of the legislation that emerges from the Parliament. However, it is essential in this interim period to have a group in place to manage the project through this period.

The International Advisory Board meets on 28 October in Adelaide and we hope to have the board in place then so that the two groups can usefully interact at that time. I have already mentioned Mr Guerin's full-time responsibility as interim CEO, which will obviously provide the project with further drive and focus, and some senior positions will be filled in the interim as well. Mr Rod Keller, who has been the project manager to date, has indicated that in October he will return to Santos, the company from which he was seconded for this purpose. Therefore, at least part of the functions that he has been discharging, particularly in relation to the land development aspects, will need to be carried on, and identification of someone appropriate to do that will take place. Mr Guerin and the interim board, when established, will obviously be working on those positions.

Most importantly, both the Federal Government and a number of overseas interests are very keen to see the legislation to establish the MFP Development Corporation accomplished as soon as possible, because that will certainly provide the base for the formal effect of the project. We are looking at a model that will either incorporate, or certainly involve, the Technology Development Corporation, which operates Technology Park Adelaide and the Science Park, as a basis. I hope to be able to introduce legislation before the end of this year. Of course, it will certainly need good consideration and will probably take a little longer than the remaining days of this session. However, that is the general timetable to which we are working at the moment. It is very important that we maintain momentum, because there is still a great deal of interest.

A very successful meeting of the European members of the International Advisory Board was held a month or so ago, at which the Federal Minister Senator Button, amongst others, was present. Considerable desire was expressed to see things moving. One of the IAB members, Dr Cartellieri from Deutschbank, was in Adelaide recently doing further assessment work and offering very good advice on the progress of the project. Certainly, the Japanese parties that have been interested in this project are very keen to see developments taking place. So, the climate is very good indeed, following that national commitment to the project, it is up to us to do our part in getting all the building blocks in place as soon as possible to ensure that the project is tangible, that there is confidence in it and that we can see some progress. That will involve all of the steps to which I have just referred.

**Mr FERGUSON:** Will the interim MFP Board and its successor, the MFP Development Corporation, take over full responsibility for planning in this area, or will the responsibility be left with local councils? As I understand it, at least part of the area is now covered by local council planning regulations.

**The Hon. J.C. Bannon:** Considerable work and consultation has been done on this aspect and no final decisions have been or can be made yet. However, perhaps Mr Guerin might like to bring us up to date on the direction in which those discussions are heading.

**Mr Guerin:** In fact, one of the first formal acts once Adelaide was nominated as the preferred site for the MFP, was the Premier's calling together a meeting between himself, the mayors and the CEOs of the three adjoining local

government areas—Port Adelaide, Enfield and Salisbury. Woodville council later had representatives in that group. That group has been meeting on about a six-weekly basis with me, Rod Keller and other MFP representatives to look at local government arrangements for the urban development site at Gillman and also at planning aspects. To this stage it has been proposed that the councils should form a joint authority under section 200 of the Local Government Act. This is just an initial proposal that is being discussed with councils in a series of meetings, which began last night with the Port Adelaide council. However, there is a large measure of support for this approach. That local government authority would have among its responsibilities the discharge of certain planning powers that would otherwise reside with local governments. In this way, there would be a strong integration, not only with normal planning procedures but also with the local government processes for the neighbouring areas. So, we have a very strong platform for integration with the metropolitan development plan and arrangements.

At this stage it is necessarily a preliminary proposal subject to consultation, and a number of issues will have to be thought through quite thoroughly, for example, the financial responsibilities, the timing of the actual assumption of responsibilities for local government services and, quite significantly when there are residents on the site, the voting rights and rights in the local government context of the residents.

In all this process the constituent local government bodies have taken a very positive and active approach to these questions. They have identified issues that need to be resolved and have taken a very direct and active part in resolving the questions. So, we have a high degree of confidence that we will get an excellent result.

**Mr FERGUSON:** As a supplementary question, will the Premier estimate, following the setting up of the administrative processes, when we might see the first bulldozers on the site?

**The Hon. J.C. Bannon:** That is a difficult question, because so much work is still to be done. Of course, a lot depends on the establishment of the corporation itself and the activity that will follow from that. However, through the EIS, the SDP and other on-going intensive work, we are ensuring that the site will be ready and identified for activity as soon as possible. I am not sure whether Mr Guerin would like to hazard a closer guess on progress in terms of something visible on the site. We may well see some of the companies involved in the MFP establishing in anticipation prior to any actual premises being provided on the site.

**Mr Guerin:** Given the nature of the site, it is possible to start work in several areas with very little further preparation, but the key thing is to make sure that the overall urban plan is in place and the sequence of investments is in order. It would not make sense to proceed with investments in the infrastructure and land development unless we have the other building and operational investments coming along quickly after that. The earliest start for activity on the site on any significant scale, apart from planting trees and other preparations, would be the end of next year. That would be bulldozing and dealing with the land mass. Some areas will need to be excavated, and they will form the waterways, lakes and so forth, and others will need to be built up and consolidated. A major factor in the favourable costing for the preparation of the site is the amount of cut for lake and other purposes which is almost equal to the amount of fill that is needed on the site, so there is no expensive taking away or bringing in of soil. Actual building on those pre-

pared parts of the site would be during 1993 at the earliest for any significant scale of development.

**Mr MATTHEW:** My first question relates to the Government Management Board. I note that in a ministerial statement on 8 August this year the Premier said that the Government Management Board had provided a report to the Government on the practices and policy relating to the operation and use of statutory boards, covering issues such as the duties of directors, the powers and functions of boards, conflict of interests, requirements regarding disclosure and annual reporting and performance. Will the Premier provide the committee with a copy of that report and, if not, why not?

**The Hon. J.C. Bannon:** The report is still undergoing examination. I do not think it would aid the process of developing these accountability procedures for me to release it as a public discussion paper. There will be ample opportunity for that, because we envisage some form of statutory delegation in this area. Looking at the wide variety of statutory authorities, we see that their functions and purposes differ so greatly that it is difficult to have an omnibus public corporations piece of legislation without defining closely who should be brought under it and what its common elements are. The Government Management Board has attempted to identify those common elements or agreed parameters in order to get something codified and made clear. This work is being done in tandem with work being done in the Crown Solicitor's office and by the Treasury relating to different aspects of accountability questions as well. All that needs to be drawn together before we can make any meaningful statements about it. As soon as we are able to do so, obviously we will.

**Mr MATTHEW:** As a supplementary question, I should like to ask whether, as the Government Management Board has already provided the report, it comments on current procedures? If so, does it find them satisfactory, does the Government intend to act on the report's recommendations and, if so, when?

**The Hon. J.C. Bannon:** We are acting on a range of recommendations which are aimed at providing a common framework for statutory authorities to operate under: identifying the role, codifying the legal duties of directors, authorities' operating charters and so on. At this stage there is still a lot of work to be done to draw the various elements into that process, including the legal requirements that the Crown Solicitor has identified. The Auditor-General has also made some useful comments in relation to individual agencies and generally in his report which need to be taken into account as well. When all that is drawn together, we will be in a position to indicate some action. Earlier this year the Crown Solicitor issued a paper, which is referred to in the Auditor-General's Report, on aspects of accountability or responsibility.

**Mr MATTHEW:** The next question refers to the program for policy advice and management improvement. In addition to the position of Director-General, are any other senior positions in the department under review; is any extensive restructuring of the department being considered; why was not the position with the MFP, to which Mr Guerin has been assigned, advertised; and will that position be advertised before it is filled on a permanent basis?

**The Hon. J.C. Bannon:** First, the department has been subjected to a fairly considerable review in the amalgamation with the Office of the Government Management Board. Those structures are still in the process of settling down and establishing their effectiveness. One area which needs addressing and which is being addressed in the context of the planning review is the function of urban planning. Ele-

ments of that are in various areas of Government, including the Premier's Department. The way in which we wish to do that is being looked at. We have sought advice from the planning review on that question. No other wholesale changes are contemplated or desirable at this stage.

In relation to Mr Guerin's position with the MFP, the situation is that he has been centrally involved in all stages of the development. He has effectively had the role of Executive Chairman or CEO of the project as it has gone through, with Mr Keller, and his team, as Project Director. It would make no sense to try to find somebody else when we have the most qualified and knowledgeable person on our doorstep, as it were. It would destroy the aim of maintaining the momentum of the project to do other than to request Mr Guerin to take on that full-time responsibility. That is even more important in view of Mr Keller's return in October. There will probably be an interim period when somebody involved in the urban management area is still being identified. At such time as the corporation is established, obviously one of the duties or powers of the corporation will be to appoint a CEO, establish terms and conditions, and so on. That will occur in due course. In the meantime, it is vital that the work and the impetus be maintained.

**Mr MATTHEW:** My next question relates to the MFP, and I refer in particular to page 166 of the Auditor-General's Report. I note that a number of items there bear closer scrutiny. Some \$1.2 million has been allocated for consultants, \$885 000 for committees and \$525 000 for public relations promotions and advertising for the MFP. Will the Premier provide an itemised list identifying to whom payments for these purposes were made, including, as appropriate, the names of consultants and committees and the amounts of the payments, and will he also advise the committee of the budgeted spending for these purposes in 1991-92?

**The Hon. J.C. Bannon:** I am advised that most of these have already been published in various reports. There are detailed estimates of consultancy. For instance, the major consultants have been on the site study undertaken by Kinhill Delfin. That consultancy was to the value of \$866 000. There was a further ancillary study by Kinhill of \$81 000, and then additional studies were undertaken by those groups, amounting to \$256 000. The printing, general distribution and so on connected with the final report of the study—a very comprehensive and valuable document—represented \$67 000, and some \$448 000 has been spent on overall publicity, seminar organisation and various other aspects of the consultation involved in that report and its dissemination—together with all the other aspects of MFP publicity.

**Mr MATTHEW:** I ask a supplementary question. I appreciate the Premier's laying these things on the table now, but can he provide us with a detailed list?

**The Hon. J.C. Bannon:** If there is any further detail required, I will get it for the honourable member.

**Mr HOLLOWAY:** The Auditor-General's Report devoted a considerable amount of attention to the issue of accountability in relation to boards of statutory authorities. I note that the Premier has touched on the Auditor-General's Report in answer to a question a little while ago. Will the Premier outline any views that he might have on the issues that have been raised and how the Government intends to address those issues?

**The Hon. J.C. Bannon:** As the honourable member mentioned, we covered some of these issues a moment ago. It is certainly an area that has been identified as needing much more systematic attention. What has been revealed has been

the difference of practice as between the various authorities. This in part reflects the different purposes and functions. For instance we might have a State Bank board with its Act and very specific prescriptions about the autonomy with which it carries out its functions. At the other end of the scale we might have a board that has a role in relation to the Art Gallery or the Botanic Gardens, which in themselves are part of Government departments. We can see that the powers and responsibilities of the directors would be vastly different in those cases—and then there is everything else in between. That is what has made it so difficult to get some sort of common practice.

Undoubtedly, there is a number of principles relating to the role and responsibility of directors on those boards, which can and should be codified in some way. That is what is being looked at. I think that probably the practice long term has been to appoint directors or board members with a view to providing an overall balance on a board and to bring in various strands of the community or expertise, but without a conscious attempt to provide each director with a kind of manual of operation, saying that this is the sort of responsibility, liability, and so on in having such a role. That has been left very much to the authorities themselves. The feeling now is that we need to do it much more systematically and overall. I found the Auditor-General's comments in this area very useful and they will be taken up as part of this exercise of examination over the next few months.

**Mr HOLLOWAY:** The Planning Review is referred to in a number of places in the budget papers. I note that the sum of \$200 000 is budgeted for the current financial year. Will the Premier outline exactly what the review has achieved to date and what the next major initiative of the review will be?

**The Hon. J.C. Bannon:** I think there is a general consensus among those who have been involved in or affected by the review—and that is a very large number of people, because the review has been out and about in the community—that it has been a very successful process. The review has been conducted by a group of three, chaired by Mr Brian Hayes QC. That steering committee has a secretariat group working with it, headed by Mr Michael Lennon, and it has called on some high level advisers and, most importantly, has also had a reference group, comprising representatives of community, industry and professional interests, to assist it.

I think one of the singular successes of the review has been the way in which the reference group, which assembled people from very different backgrounds and perspectives, has managed to work on a broad basis of consensus. Obviously, one does not get, nor would one expect to get, from such a group uniform views. However, the comment has been made to me by individuals on those groups, that the process has been very productive indeed. People who normally argued with each other, through the forums of the media or stormy public meetings, or whatever, have actually been sitting down, consistently, week after week and doing some really productive work, and understanding each other's parameters and views very much better. That in itself has set a very good basis for some outcomes from the Planning Review, which will really have this State well ahead of the rest of Australia.

The tangible work of the review has produced its issues report *2020 Vision*, which has been widely circulated and discussed. There has been a lot of community consultation in various centres on that, amongst audiences of various sizes and backgrounds. There have been some recommendations on a number of immediate improvements to the



planning and development control system. Unfortunately, some of these short-term reforms were blocked in another place and cannot be proceeded with. That is a great pity, because they were arrived at by a process of considerable consultation and it was disappointing that the measures that were designed as interim measures to deal with some immediate questions were overturned, and we are really not much further advanced there. However, there is little we can do about it.

On the other hand, the review has had some major inputs into a number of Government initiatives, including the Northfield redevelopment. It has produced a major report 'Ideas for Metropolitan Adelaide' and, again, has had consultation on that report. One or two other documents will be issued by the review over the next few weeks. Most importantly, the group is now in a position to begin to define some very clear recommendations on the shape of our planning laws, and I have asked for and received some advice on the way in which Government can handle some of the urban development questions. So, these are positive outcomes that I hope will be very apparent by the stipulated termination time of the review—which is March next year.

**Mr HOLLOWAY:** I ask a supplementary question. I note that the actual expenditure on the Planning Review last year was considerably in excess of voted expenditure. Can I have an explanation why that is the case?

**Mr O'Flaherty:** The budgeted amounts for the Planning Review are in two places in the Estimates of Payments. There is a salaries component and an operating expenses component. Last year the total budget amount for the Planning Review was \$750 000, split between salaries and operating expenses. This year we have a budgeted amount of \$650 000 for the combined amounts of salaries and operating expenses, because the review is expected to wind up by about March next year. So, in terms of the bottom line, the Director of the Planning Review Unit has to work within that limit of the budget. There was some flexibility to shift money between salaries and operating expenses.

**Mr HOLLOWAY:** My question relates to the Information Utility, which has been the subject of recent publicity. It is referred to at page 10 of the Program Estimates under the program title 'Policy and advice management improvement'. Will the Premier outline exactly what is intended and what, if any, cost savings are likely to occur, and will he provide any additional background as to what the Government's role is with the utility?

**The Hon. J.C. Bannon:** This is one of the very major and potentially extremely exciting exercises going on at present. Of course, the Information Utility is an important building block for the MFP, but it is not dependent on the MFP for its progress or fulfilment. It is a totally new way of looking at the handling of information and communication facilities to the Government, the private sector and the general community. Mr Guerin has been involved centrally in this whole process dealing with some of the big players in the computer and communications world, and some very intensive work has gone on. Perhaps Mr Geurin would be best placed to respond to the honourable member.

**Mr Guerin:** In terms of a brief description, the Information Utility is planned to comprise an integrated voice, that is, a telephone, data and radio communications network that would start by servicing Government requirements but would extend to service business and education interests as well. In addition, the utility would build up large-scale computing facilities and other related services to support systems larger than the normal level of service that a single agency or organisation could provide or have access to itself.

So, it is importantly a systems integration and a network integration function. In addition, the aim is to generate a significant amount of additional economic activity, particularly in the areas of information technology, software development, systems services, communications and so forth, but using that again as a platform on which a variety of other industries can either be established anew or be given a competitive edge.

The whole point is to enable South Australia in its businesses and its Government activities to make best use of information technology, obtaining a cost—and a quickness—advantage so that it can get its products developed and into the market quicker than competing areas.

The prime aims are to provide special services but also to reduce costs and avoid large up-front capital expenditures not only within the Government but within individual organisations. One might use as an example a service station operator who, if he is adventurous, might currently have a personal computer to do accounting or he might get in an accountant to do services of that sort for him, but it does not in fact give him good access and availability to prices of parts and other services that he wants to buy in. It certainly does not give him an opportunity to do forward planning for his business and so forth.

Under the Information Utility it will be possible eventually for such a person to plug into a network and call up services from an oil company, spare parts provider or his list of part-time employees and gain some other computing and accounting services as well. As one goes into more complicated businesses, the range of services would be wider.

From the Government's point of view the idea started with the fact that it was going to be necessary for the State to invest in an integrated communication network anyway. As other Governments and other organisations have done, we have developed a variety of specific communications capacities, with one agency communicating with another, communicating to country areas, to the State system's computing centre and so forth, and we have ended up with a series of duplicated and overlapping services that cost us too much money.

It is not just a matter of dropping out some leased data lines from Telecom: it really needs to be planned on an overall basis. In addition, to take advantage of the advances in technology which have taken place over the 1980s and which are emerging over the 1990s, we need to operate on an open system basis so that we are not locked into one brand of computer for an extended period where one can only communicate with computers of the same kind.

In addition, on radio matters, there is a national Government decision to change the frequency arrangements, and so a number of Government agencies faced a significant need for capital to change their basic infrastructure for radio provision and, unless we are able to rationalise in this or a similar way, we would have to find a great deal of up-front capital expenditure.

The idea is that instead of the Government just doing its own thing—bearing its own costs and getting its own productivity returns from that—there should be a joint venture arrangement with capable and strong private sector organisations so that they would put up the investment on the basis that, as an initial user, the Government would contract to take services at a certain level, quality and price, and that would also give the basis for building up a much larger business involving private sector, interstate and international business.

We have now reached a stage where we are half way through final negotiations on contracts with two significant consortia. The consortium to provide the integrated com-

munications network is made up of the Digital Equipment Corporation of the United States (the parent organisation), OTC Australia and Anderson Consulting Ltd, a large international systems integration organisation.

The group with whom we are negotiating for out-sourced computing services, under which they would provide computing capacity and the actual computing service and which would be brought into the Government on a fee-for-service basis, is headed by IBM Australia Ltd and also involved Telecom Australia and NTT International, the large Japanese telecommunications organisation, and Lane Telecommunications Holdings, the South Australian company which has gained some distinction in the expert area of communications, notably providing the systems integration services for Parliament House, Canberra. We anticipate that we will have final proposals to put to Cabinet and the boards of the various bodies late in the year. We would expect that to occur in November or December so that work on implementation can get under way early in 1992.

**The CHAIRMAN:** Perhaps we might have to keep replies to such general questions a little shorter so we can refine the answer with supplementary questions if necessary. Otherwise, the Committee will run out of time to consider all the matters before it.

**Mr D.S. BAKER:** What is the Premier's estimate of spending on the Multifunction Polis in each of the next two financial years, and how much of that is committed by the Commonwealth?

**Mr O'Flaherty:** At this stage, the budget has been framed for this coming financial year, and \$4.3 million is being provided from State funds.

**Mr D.S. BAKER:** Can you give an estimate for the next two financial years after that?

**Mr O'Flaherty:** I think that Mr Guerin might be able to expand on that, but I think that to estimate for that many years out is a little obscure at this stage.

**Mr Guerin:** At this point the Commonwealth has indicated that it has made available \$5.5 million including, I think, an amount of \$2.4 million for this year. In fact, the balance is to be made available on a reducing basis over the next two years. We have not completed discussions with the Commonwealth about that funding or additional funding that may be available. Members of the Committee may have noted that, in the announcement of the Commonwealth Government commitment to the project, they talked about the sum of, I think, \$12.5 million of which the remaining \$7 million would still be in the hands of the Commonwealth Government. However, an element of that is intended to be used on an agreed program of marketing between the Commonwealth, the State and the Board of the Technology Development Corporation. It may well be that that money will bring up the Commonwealth's effective contribution in subsequent years to about the same as this year, but these discussions have not yet been completed.

**Mr D.S. BAKER:** Has the State not budgeted to spend anything in the next two financial years on the MFP? Has it not been budgeted?

**The Hon. J.C. Bannon:** At this stage we are not in a position to do such budgeting. We will be in a much better position to analyse that when we come to prepare the 1992-93 budget. It will depend on the progress of the project, on the extent of Commonwealth assistance and whether there are revisions in their amount. But our major contribution will, of course, be secured when we establish the corporation. Again, using the Technology Development Corporation as a base and so on, means that it is still not possible to make the budget estimates that we need. Under our capital works programs, we must look at the infrastructure

support costs that may be necessary and the appropriate means of financing them.

**Mr D.S. BAKER:** I understand that the Commonwealth has allocated a fixed figure over three years which it will be put into the MFP. I understand from the answer that you are budgeting on \$4.3 million this year, but you have no idea of what it will cost South Australia in the next two years?

**The Hon. J.C. Bannon:** The Commonwealth figure is related to specific purposes. They are supporting the International Advisory Board, certain marketing facilities and incidentally, as Mr Guerin said, a larger amount is being provided there—which I do not think is included in the declared figure—for the Ditac Unit which is being devoted to the MFP, and that is part of the extra \$7 million that was referred to. That is what they have stipulated in their support.

In addition we are looking, for instance, to the establishment of the Environment Protection Agency as part of the overall MFP activity which, of course, is not included in those figures. It is a separate project coming from a different direction, as I hope there will be a number of similar projects. Therefore, at this stage if one looks at the limited areas in which the Commonwealth is spending, we would expect to be matching that. We have responsibility for administration and so on, but there is no point in budgeting in precise terms for 1992-93, 1993-94, etc., until we get through this initial establishment phase, have in place a corporation, and a firmer idea of exactly what will be necessary in that area.

I refer to the analysis in the Kinhill/Delfin report, which goes into some detail on the infrastructure and other costs in net present value over the course of the project. They are indicative figures that one looks at over the life of the project. The pace and nature of the expenditure will be determined only when we get to this next phase. We are taking it one step at a time, which is the only appropriate way to go.

**Mr D.S. BAKER:** I turn to policy advice and management improvement. The budget allocation for various committees of inquiry show expenses at \$558 400, compared with actual spending of less than \$28 000 last financial year. Will the Treasurer provide an itemised breakdown for proposed spending in 1991-92?

**The Hon. J.C. Bannon:** The State's Statistical Priority Committee has funding of \$200. The economic development strategy has been allocated \$33 800 and the Government agency review group \$397 300 with a balance unallocated at this stage and available for contingencies.

**Mr D.S. BAKER:** What is the figure for contingencies?

**The Hon. J.C. Bannon:** That is the balance after taking out the other three items, namely, \$157 000. Anything that arises unexpectedly in the course of the year is dealt with under that line.

**Mr D.S. BAKER:** Is GARG included for next financial year?

**The Hon. J.C. Bannon:** That is correct.

**Mr D.S. BAKER:** Where was it last financial year?

**The Hon. J.C. Bannon:** It was under Treasury lines. Mr Dundon has been transferred to a full-time executive position in GARG, which takes effect in the 1991-92 financial year and is one of the elements included in that.

**Mr D.S. BAKER:** I refer to intergovernmental relations under program 5. Were any market research or similar projects undertaken last financial year under this program or any other program within the Premier's Department and, if so, will the Premier identify the projects funded and the

cost of each? Are any similar projects to be funded this year and, if so, in which areas?

**The Hon. J.C. Bannon:** No expenditure is allocated under the Government research program and there was no expenditure last year.

**Mr D.S. BAKER:** Is there an allocation for this year?

**The Hon. J.C. Bannon:** No, nothing is provided.

**The Hon. J.P. TRAINER:** I note under Policy Advice and Management Improvement that the social justice allocation has gone from \$30 800 to \$52 800. In light of that, will the Premier describe what is intended for 1991-92 by way of the Government's social justice initiatives in general terms?

**The Hon. J.C. Bannon:** The papers detail some of the areas of expenditure. The breakdown of the \$28.6 million for social justice initiatives shown for 1991-92 include \$14.8 million of new recurrent initiatives comprising \$10 million drawn from agencies reallocated within their budgets; \$3.3 million from the Commonwealth: a balance from savings achieved through better targeting of transport concessions; and \$13.8 million in respect of capital projects. The concept is to identify programs with social justice attributes and direct expenditure into those areas. The bulk of the reallocation of resources is occurring in the Health Commission, Family and Community Services Department, the Education Department and in respect of technical and further education

The main feature of this year's budget is a continued emphasis on families, in particular low income families, and further measures to address outstanding access and equity issues in regard to Aborigines, people with disabilities and locational disadvantage considerations to improve distribution of services and facilities. It is part of a series of pilot and general programs. The Elizabeth/Munno Para Project is now fully operational and reflected in expenditure for this year. It has a series of programs under its overall aegis and a project team managing it.

**The Hon. J.P. TRAINER:** I refer to program 7, 'Overseas Representation'. Will the Premier give more specific information on what activities the Agent-General in London has been carrying out in relation to Government priorities over the financial year 1990-91?

**The Hon. J.C. Bannon:** We received a report from the Agent-General on the major priorities stemming from a number of activities undertaken in the past year. Much of the Agent-General's work has been in terms of the following up to the September/October trade mission to Europe which established a series of key contacts which the Agent-General has been pursuing and which have been very useful not only in the general business development area but also in relation to the MFP. The Agent-General has a major role to play in the European sector. He has established good productive working relations with the four European members of the International Advisory Board and was involved in the recent seminars held in conjunction with the Federal Minister a month or so ago. He is constantly in touch with us on matters arising from such.

He was also invited to be a member of a survey mission led by the Minister for Trade and Overseas Development into Saudi Arabia and Kuwait earlier this year. That drew on previous experience that the Agent-General has had in the Trade Commission in the past in the Middle East area and which has proved very valuable indeed not only to South Australia but also nationally. In fact, my colleague the Minister for Industry, Trade and Technology led a mission to the area in which the Agent-General has been involved. He will be returning to both Dubai and Bahrain in November to attend two major trade exhibitions.

The business migration program has been changed quite drastically, and what was a major role there in a targeted way has moved to more general skilled migration attraction and identification of opportunities. The other key area of the Agent-General's operation is in respect of tourist activities. There is no doubt that we are beginning to show some good results from the various campaigns. For instance, there was a cinema advertising campaign for two weeks at some 50 London cinemas using a 70-second commercial in conjunction with Austravel, which is one of the most important retailers of packages to Australia. A four-week program of colour advertisements in Sunday newspaper supplements generated 8 000 coupon and telephone responses, which translated by the end of August into 2 000 actual bookings, and which was regarded as a pretty good response.

In Europe, efforts have been concentrated in Germany, Scandinavia and Switzerland. A promotional brochure on South Australia and its tourist attractions was produced in the German language and distributed through travel groups and wholesalers, and there is an ongoing program of visits and activities in that area. So, overall, the Agent General, who is moving around those various areas with his staff, is very useful in his role of developing business and economic opportunities for South Australia.

**Mr S.J. BAKER:** In 1991, the cost of inter-agency support amounted to \$1.553 million, which exceeded the budget by \$500 000. The explanation contained in the budget papers does not necessarily cast much light on that extra expenditure; can the Premier do so?

**Mr O'Flaherty:** The main reason for that over expenditure was some work that we did on regrouping our accommodation as a result of the amalgamation of the office of Cabinet with the Government Management Board. A one-off amount of \$450 000 out of savings achieved from the department's other lines has been allocated to that item. So, that item is shown as going over expenditure, but we managed to cover that amount from savings from other lines.

**Mr FERGUSON:** On page 9 of the Program Estimates reference is made to the Glenelg foreshore project. This morning the Premier made an announcement about the preferred developer for that site. Will the Premier outline some of the details of the project and indicate the next stage for bringing this project to fruition, and what will the Government's involvement be?

**The Hon. J.C. Bannon:** The Glenelg proposals have occupied some considerable time. From the Government's point of view, Mr Hugh Davies and the Special Projects Unit have acted in our interests in conjunction with a group from the Glenelg council to assess four major proposals in relation to the development at Glenelg.

The methodology proposed, which I think so far has been very successful, was that, rather than let a proponent or proponents come up with ideas and then test them out in and around the community, particularly environmentally, in view of past experience there should be an environmental impact statement assessment prior to making a decision about the preferred proposal. That process has occurred; there has been 18 months consultation on appropriate projects and a final decision has been made, to support the Glenelg ferry terminal proposal, which was one of the four proposals assessed and put on public display.

I guess it depends what one is looking for from a project such as this. To those concerned with environmental matters, there is no question that the ability to clean up the Patawalonga and associated waterways and the treatment of sand management issues provide the key to a successful project. To those involved in recreational boating and things of that kind, the marina is obviously the thing to look at.

The proposed ferry service to Kangaroo Island will obviously improve access and amenity as far as the island is concerned. Under the scheme, 150 new houses will be constructed at North Glenelg in and around the Patawalonga, and there will be a sea access marina and improved traffic conditions in North Glenelg. So, whether you are a resident, a tourist, a boatee or whatever, there is something in the proposed scheme that can provide benefit for you.

Further down the track there will be a tram link to the ferry terminal, and revitalisation of the area around Collie Reserve and beyond is to be part of the development. The project definition stage is currently looking at cost responsibilities between the developer, the State and local government. It is expected that that stage will take about six months or so, and one hopes that a start will be made on the project sometime next year, all being well. I think that the time is right and that the amount of care and preparation to date that has gone into the assessment gives the project a very good chance of getting off the ground.

**Mr FERGUSON:** My electorate is particularly interested in the cleaning up of the Patawalonga. The Patawalonga, pollutes parts of Henley Beach, West Beach and Grange, particularly when the gates are opened annually to clean out the river. Will the Premier provide more details of the proposed clean up of the Patawalonga in line with this project?

**The Hon. J.C. Bannon:** At the moment, the Patawalonga represents a kind of holding pond, which is very valuable as far as protection of the marine environment is concerned but which is not so good as far as the Patawalonga is concerned. Certainly, when a situation of release arises, as the honourable member has suggested, its impact goes well beyond the immediate vicinity. It is not a new problem; it goes back a long time, has probably got worse over recent years, and needs to be addressed.

The proposal will assist us to undertake a stormwater strategy that will go beyond the Patawalonga basin and what can be done there. In fact, in the broader sense, the use and reuse of stormwater will be one of the big issues over the next few years. There are some very exciting and interesting propositions in that area. However, in relation to the Patawalonga, the proposals that have been looked at should improve water quality to the extent that swimming—I think 'primary contact' is the correct technical term—will be possible. That will certainly improve the quality of water discharged into the marine environment. As the developer's proposal provides for direct discharge of stormwater to the sea, it will need to be cleaned up in a major way before it actually gets there.

An alternative ponding or holding system with respect to the current use of the Patawalonga for that purpose will need to be looked at as an alternative. In our view, it will involve a cost contribution not just from a developer or the Glenelg council undertaking something at the end of the Patawalonga, but all those upstream councils which contribute to the run-off, and, of course, the E&WS will play a role as well. So, that is very much part of the ongoing study with a view to making a very palpable improvement in the water discharge which, in turn, will obviously improve the environment in the honourable member's electorate further to the north.

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

**Mr FERGUSON:** A lot has been said and written about the outcome of the most recent Premiers conference. Will the Premier outline some of the more significant outcomes achieved by the negotiating teams from the States? What is

his prediction for the forthcoming Premiers conference scheduled for November?

**The Hon. J.C. Bannon:** It is very hard to gauge. There is a great deal of speculation surrounding this conference and a huge amount of work has been done in the lead-up to it. Whether it will fulfil these expectations is a matter of some conjecture. Certainly, a lot of resources have been devoted by all Governments, State and Federal, in attempting to advance the process. A series of working parties has been set up—a steering committee, and committees on tax powers, tied grants, regulatory reform, environment and various other areas including non-bank financial institutions, Government trading enterprises and electricity. As well as that, the individual ministerial groups have been considering matters relating to health, housing, and so on, in preparation for this conference. We have had quite considerable input through our Cabinet office, which is supervising this.

The conference in July certainly made some progress, particularly in the area of transport, regulatory reform, electricity generation and so on. However, there are high expectations that the next conference will be dealing with the structural issues of taxation, and the tied grants question will be dealt with more comprehensively than has been the case to date.

Whilst, as I said, there are high hopes and there will certainly be a mass of paperwork available, when we really get down to it, we see that the differences between the Commonwealth and the States as a group, and between the States individually in a number of these areas, make it very hard to arrive at some sort of common outcome. There are no new brilliant ideas in the field of taxation or taxation powers. I reject the concept of having a State income tax foisted on us. I reject strongly the consumption tax concept as a replacement for other taxes and as an added impost, which it would be, yet it is accepted that the current method of distribution of moneys, as between the States and the Commonwealth, is unsatisfactory.

The most important thing for South Australia to watch is the continued erosion of the concept of fiscal equalisation—the ability for the States to get a distribution of moneys raised nationally in accordance with their needs and capacity. That is a fundamental of federalism and it is why the small States joined the federation. Western Australia has been through two or three major secession phases, in part based around its discernment that in the long run it might be better off on its own. What has kept Western Australia in the federation during this period has been to no small extent due to the concept of fiscal equalisation and the way in which national development can be achieved. We have seen a continued erosion, under the special purpose payments, of the advantages we enjoyed because we were fully participating in programs. Those States that chose not to participate are now being rewarded for that with a redistribution of moneys, to our detriment.

Similarly, the Grants Commission is a fundamental component of the distribution of moneys and, if its influence and methodology is watered down, we have major problems in South Australia. We have already lost, in real terms, about \$460 million on an annual basis, if one relates that back to the 1985-86 distribution. So, members will see the massive impact on South Australia of what seemed to be, on a national level, small changes in percentages and allocations. They are the areas that I will be particularly watchful of at this coming Premiers Conference. By all means, let there be trade-offs, but not trade-offs of fundamentals.

**The CHAIRMAN:** I draw the Premier's attention to Program 4 and to all of the Program Estimates in relation to performance indicators. The Premier will be aware of my

long-standing interest in performance indicators as part of the budget process. Most departments make the effort to include some reference to performance indicators in their program performance budget documents. I single out the E&WS Department, which has provided a meaningful performance indicator at page 311 of the Program Estimates. It refers to things such as real operating expenses, time to restore bursts, and percentage of samples of filtered water at customers' tap of acceptable microbiological quality. They may be fairly obscure references but, in fact, they are relevant to the particular service that is being delivered. In fact, they attempt to measure performance and outcome. Many other departments have simply listed the number of applications received in a year or the number of births, deaths and marriages recorded in a year, or something like that, which is not a meaningful performance indicator. Going back to the original Government Management Board report on this subject, the board brought forward a number of useful examples. Will the Premier, over the next 12 months, issue instructions to departments to require the development of effective and meaningful performance indicators that could be included in next year's program performance budget papers?

**The Hon. J.C. Bannon:** Yes. It is certainly an issue that is relevant and well worth pursuing. I agree with you, Mr Chairman, that too often we simply expend moneys and look at the fact that that has been done properly within accounting or other procedures without really looking at the worth or value of a program or, more particularly, its outcome. In the social justice strategy area, I have always been insistent that any programs undertaken must be assessed and evaluated so that we do not fall into this trap of simple incremental additions to what we do.

The Government Agency Review Group process is very much part of evaluation, because some of its work is concentrated very much on outcomes and seeing whether they justify the expenditure at the other side. It needs to be done progressively. It is impossible, in the short term, to have agencies with very different functions and purposes coming up with a standard formula. However, I certainly agree that it is something that is worth doing, and worth doing much more comprehensively than it is currently being done. It is something that the Government Management Board could well look at during this coming year.

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

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Premier and Minister of State Development, Miscellaneous,  
\$1 590 000

**Mr S.J. BAKER:** I refer to page 21 of the Estimates of Payments and page 249 of the Auditor-General's Report. There is provision for abnormal items of \$7 939 000. What does that sum comprise? What was actually brought to account in the 1990 calendar year and what impact did it have on the funds available for the operations of the Grand Prix Board?

**The Hon. J.C. Bannon:** The information I have does not seem to cover that point. I will take the question on notice and provide a response.

**Mr S.J. BAKER:** I refer to Arena Promotional Facilities (Australia) Pty Ltd. Was the board's payment of \$113 550 in the first half of 1990 the total acquisition cost of Arena Promotional Facilities (Australia) Pty Ltd? On what date was that sum paid, if it was paid? Further, on 31 December 1990 the board sold the company's business name and

licence to market the board's pit straight stands and sky boxes. To whom was the licence sold and at what price?

**The Hon. J.C. Bannon:** Again, I will provide a written response to that.

**Mr S.J. BAKER:** My next question relates to the Program Estimates, page 14. There is a note to the effect that the anticipated debt charges for the Entertainment Centre have increased from \$5.1 million to \$7 million. What was the reason for this increase and what is the total debt on which these charges are being incurred?

**The Hon. J.C. Bannon:** This is an instance where we have better information through the Treasury, so I will take that question on notice rather than delay the Committee. I am aware of some figures in this area, but I do not have them in these briefings.

**Mr MATTHEW:** My question relates to page 249 of the Auditor-General's Report. I note that the Grand Prix Board has a 50 per cent shareholding in Goodsports Pty Ltd, which markets Grand Prix licensed clothing and other special event and corporate clothing. What was the trading result of the company in 1990-91, what return did it make to the board, are any directors' fees paid to members of the Grand Prix Board or office in respect of Goodsports Pty Ltd and, if so, how much and to whom?

**The Hon. J.C. Bannon:** This is for 1990-91?

**Mr MATTHEW:** That is right.

**The Hon. J.C. Bannon:** That is not the reporting period of the Grand Prix Board. They report as at 31 December; they do it on a calendar basis. I will examine the question and see whether some information can be provided.

**Mr MATTHEW:** My next question again relates to the Grand Prix Board. I refer to page 168 of the Auditor-General's Report. At the bottom of that page, there is a heading 'Miscellaneous Payments'. Why did the Grand Prix Board require an unbudgeted grant in advance of \$1.5 million for the 1990 deficit, and why does the Chairman's report on the Grand Prix highlight the fact that the 1990 deficit of \$1.92 million was well within the Government's 1985 guidelines when it compares so unfavourably with the profit that it achieved in 1988 and the Chief Executive's repeated public statement that the Grand Prix would take about four years from inception to make a profit?

**The Hon. J.C. Bannon:** It depends how one defines 'profit'. The Grand Prix has never been anticipated to make a profit in terms of its direct accounts. The profit that accrues from the event, which is very large indeed, accrues indirectly. At the time that we secured the event, I stated that between \$2 million and \$2.5 million per annum—this is in 1985 dollars—would be a very good contribution to the underwriting of an event such as the Grand Prix. As it happened, the Grand Prix performed well above that expectation in the early years. The Chairman is right to highlight the fact that such success has been achieved and that the results obtained even last year—a difficult year with all the factors at work there—came within that general ambit that we had already declared as being an appropriate subsidy in terms of public contribution. It is unrealistic to assess the Grand Prix in those terms, as a number of detailed studies have indicated. We are very much in the black in terms of the ongoing costs of the Grand Prix.

**Mr MATTHEW:** I come back to the original question that I asked about Goodsports. I asked what the trading result of the company was. I acknowledge that the trading year is a calendar year, but I would still like that information. Also, have any directors' fees been paid to members of the Grand Prix Board or office with respect to that company and, if so, how much?

**The Hon. J.C. Bannon:** I will obtain that information.

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

Works and Services—Department of Premier and Cabinet,  
\$3 817 000

**Mr S.J. BAKER:** I should like to ask the Premier why certain items do not appear. I note that the urban projects fund is administered by the Premier's Department. The Auditor-General's Report shows that in May 1991 the fund purchased land from the Port Adelaide City Council for \$1.8 million. I would have expected that to appear in the capital as it is a capital item. Will the Premier explain for what purposes land was purchased and whether that land is being put to immediate use?

**The Hon. J.C. Bannon:** The unit is financed through the purchase and sale of land. That has been the principle upon which it has operated. Reference to any of those transactions will be found under the Lands Department, which is responsible for Government land holdings. The Port project has particular responsibilities, and that is how it is accounted for. It is funded through a working account, not through a capital allocation.

**Mr FERGUSON:** I should like to refer to the Entertainment Centre working capital of \$1 307 000. Is that the total per year that the State would expect to spend on the Entertainment Centre, or is this to be offset by possible profits from the Entertainment Centre? I understand that we have to budget for working capital, but what is the guesstimate of the likely result for 12 months?

**The Hon. J.C. Bannon:** There is an estimated operating surplus of just over \$2 million, which is in line with the target surplus that we agreed. The capital was wholly provided by the Government. We would have been delighted if the private sector had come to the party, but it did not, despite statements being made to the effect that this could happen and would be appropriate. It ended up being a Government capital project. We would expect the operations to provide an operating surplus that will at least defray part of that cost. There were additional funds to cover the cost of initial stocks, items of furniture, equipment and so on as part of the commissioning of the centre. The breakdown as between the ongoing liabilities of the centre, now being managed by the Grand Prix Board, and what we would call the initial contribution of the Government has still to be finalised. If that operating surplus is achieved, we will have achieved the sort of budget result that we were seeking. I am told that, on the basis of hirings and attendances at the moment, it looks as if that will be achieved. The forecast presently stands at 93 events and 625 000 attendances. There is no question but that the Entertainment Centre will get a lot of use over the next 12 months.

**Mr D.S. BAKER:** Does that include interest costs on that operating surplus?

**The Hon. J.C. Bannon:** No, it does not.

**Mr D.S. BAKER:** That makes a lot of difference.

**The Hon. J.C. Bannon:** Certainly. We are providing the capital costs of the venue. We have set it up, we are paying for it and we are servicing the capital, as would occur with any other public works. Without that certainly we would not have the Entertainment Centre. The on-going recurrent expenses are expected to operate at a surplus.

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

Treasury, \$16 036 000

**Chairman:**  
Mr M.J. Evans

**Members:**  
Mr D.S. Baker  
Mr S.J. Baker  
Mr D.M. Ferguson  
Mr P. Holloway  
Mr W.A. Matthew  
The Hon. J.P. Trainer

**Witness:**  
The Hon. J.C. Bannon, Premier, Treasurer and Minister of State Development.

**Departmental Advisers:**  
Mr P.J. Emery, Under Treasurer.  
Mr S. Paddison, Chief Operating Officer, State Bank of South Australia.  
Mr A. Anastasiades, Chief Financial Officer, State Bank of South Australia.  
Dr G.C. Bethune, General Manager, South Australian Financing Authority.

**Mr D.S. BAKER:** What portion of the State Bank's current non-performing loans of \$4.2 billion are located in other States of Australia and in other countries?

**The Hon. J.C. Bannon:** I ask Mr Paddison to provide some information on that.

**Mr Paddison:** The geographic location of the State Bank Group non-accruals shows that 38 per cent is in South Australia, 47 per cent is interstate and 15 per cent is overseas.

**Mr D.S. BAKER:** What were the corporate on balance sheet assets and liabilities of the State Bank's New York office as at 30 June 1991 and what were the non-accrual loans from the New York office?

**Mr Paddison:** I am afraid I do not have that information available with me. We will have to take the question on notice.

**The Hon. J.C. Bannon:** I would make the point that obviously we anticipate that there will be some very fine and specific detail requested and therefore, though we do have quite a deal of information here—and there is a deal of information contained in the State Bank's annual accounts that were tabled with the budget—it will not be possible to provide readily all the information requested. I will have to rely on judgment as to whether we feel it is readily obtainable. On some occasions it may indeed be obtainable with some considerable searching, but I think rather than delaying the Committee it would be better in those instances if we could undertake to obtain it, where possible. I also make the point that there are obviously matters relating to State Bank client confidentiality, and so on, which I am sure the Opposition members and other members would wish to respect, and that may necessitate not being able to provide some specific item, where that is involved, because the clients of the State Bank of course need protection and confidence in terms of their dealings. With those provisos, we will certainly attempt to provide the information.

**Mr D.S. BAKER:** What were the corporate on balance sheet assets and liabilities of the State Bank's London office as at 30 June 1991 and what were the non-accrual loans from that London office? In relation to the State Bank's Hong Kong office, when was that closed and at the time of its closure what were the corporate on balance sheet assets and liabilities, and what were the non-accrual loans?

**Mr Paddison:** We do not have those details with us at present. I can inform the Committee that the Hong Kong office was closed at the end of August. The question is taken on notice.

**The Hon. J.P. TRAINER:** Will the Premier advise us what action the Government has taken since February to overview the problems that have been experienced by the bank?

**The Hon. J.C. Bannon:** Some considerable work has been undertaken in this area. Of course, there is a new board in operation at the moment and the board, in turn, at the earliest opportunity considered the overall management. Some changes were made there and the appointment of Mr Ted Johnson as the new Managing Director took place. Mr Johnson, incidentally, is currently unavailable to attend the Committee due to his being on other bank business. However, he has already very actively taken on his role.

The whole financial position of the bank was re-assessed intensively. There has been a number of internal management changes. Redundancies took place. There was a general fining up and reallocation of resources. A very important aspect in dealing with the State Bank now has been the establishment of a group asset management division. That division has a key role to play in managing the assets of the bank, particularly the non-performing loans, and ensuring that a maximum return is gained in that area. The purpose of providing the indemnity is to ensure that there is no fire sale or quitting of assets, that the process is an orderly work-out process which will ensure maximum return and minimisation of loss, where possible. So, that division, in a way, and bearing in mind the problems that the State Bank is grappling with, has a very heavy responsibility and is a key group.

The Chairman has announced the policy of downsizing the bank with, again, an orderly and careful disposal of subsidiaries, where appropriate, and already the trustee company and the real estate operation have quit. Obviously, there is ongoing consideration of other activities as well.

A couple of weeks ago the mission statement of the bank was issued. That would be welcome to all those people interested in the ongoing operations of the State Bank, as it encapsulates the role that the bank sees itself playing in our regional economy and the focus on what one might call the traditional areas of business. I might say in this respect that the State Bank is not so different from a number of other banks, coming out of this era of deregulation and looking at the problems that have emerged, doing the same thing and providing the same sort of focus, and I believe that that will certainly yield some tangible results.

In the more orthodox methods of dealing with difficult financial situations, cost reductions and honing up the efficiencies of the bank, that is very much part of the process and that is going on quite intensively and yielding good results while, at the same time, ensuring that there is no detriment to the service that the State Bank provides.

It is vital that the morale and activities of the ongoing operations of the bank be maintained, and I am confident that that is happening. In fact, since the announcement of the result and the publishing of the annual report one detects a kind of relief in and around the bank and people saying, 'All right, it is all there on the table. Now just let's get on with the job.' That has been well received in the marketplace and there is no question of that. As far as the retail base of the bank is concerned, there is a high degree of confidence maintained in it.

The only other point I would make relates to Reserve Bank supervision. On an informal and voluntary basis the bank has complied with certain Reserve Bank requirements

and consultations, but correspondence has ensued this year between myself and the Governor of the Reserve Bank about placing the bank under formal Reserve Bank supervision requirements—this is done with the full support and endorsement of the State Bank Board itself (and that process has in fact taken place)—and agreement has been reached for that to occur. All of that sees the bank on a new footing and not being immobilised by its problems but getting on with dealing with them in the best interests of the State and community which has supported it.

**The Hon. J.P. TRAINER:** Also in general terms, can the Premier put on the record what impact the problems experienced by the State Bank have had on the State's finances?

**The Hon. J.C. Bannon:** That obviously was the chief issue on which the market in particular and our community could focus. In other words, given this large problem, given that we have to deal with it, how is it going to impact throughout and around the overall areas of State finances? It was for that reason that we presented very comprehensive financial material on budget day, including reports of financial institutions and other matters that would allow a total picture of the State's finances to be presented.

That picture shows the State's finances are still very strong. Indeed, without the need for the bank support package budget borrowing requirement would have been only a bit over \$100 million, a very substantial result, and it shows the strength of the on-budget sector of the Government. We still have the third lowest level of per capita debt. Our net debt in relation to GSP is still below the 1983 level. It was manageable then and it was manageable in far greater degrees in previous years as well.

So, there is no cause for immobility or despair on this matter. On the contrary, if anything, it has starkly demonstrated the fundamental strength that had been developed in the State's finances. Obviously, we must monitor the situation closely and particularly work at getting our budget outcomes, but I think overall anyone viewing the data objectively would see that the problem is manageable and the finances strong.

The most objective outside assessment—objective in the sense that it is something that we cannot really control—is the ratings agencies which re-endorsed our standing. I understand that SAFA paper is trading better over recent weeks as well.

**The Hon. J.P. TRAINER:** Following on from one of the Premier's concluding remarks, I refer to program 3—'Management of State Government borrowing and investment activities.' Can the Premier report on the response of the financial markets, and the rating agencies to which he just referred, to the South Australian budget and the associated announcements dealing with the State's finances?

**The Hon. J.C. Bannon:** They were positive—and they were quickly positive, which I think we were rather gratified about. Moody's, Australian Ratings and Standard and Poors have all reaffirmed our ratings: Moodys, AA1; Australian Ratings, AA+; and Standard and Poors AA; Moody's commented, that although the State's net debt has risen the rating agency believes that the additional funding for SBSA does not significantly weaken the State's debt servicing capacity. Further, despite the increase in the indemnity, Moody's stresses that to a large extent the State should be able to sell existing financial assets to cover its obligations to SBSA, thus somewhat reducing the need to borrow. It looked at that overall asset picture and at what backing there was if further problems were encountered.

Australian Ratings commented that despite the \$220 million additional cost to the 1991-92 budget the State's borrowing requirement for the non-finance activities has

remained relatively stable. Moreover, the liquidity of the South Australian public sector is particularly strong. We have had officers from State Treasury and SAFA talking to financial markets and business leaders making presentations over the past week or so in Sydney and Melbourne and similar presentations are taking place here. They have been well received indeed. As I mentioned a moment ago, SAFA's stock is pricing very well in the market and the release of the budget and accompanying material, far from creating problems, has seen an immediate strengthening in the price of SAFA stock.

The improvements have been up to .13 per cent per annum in our relative borrowing costs over that period. Of course, we have no control or knowledge about how the rating agencies will treat Australian debt generally and that is always under review but we do not see any reason why our position in relation to Australian debt should weaken any more. On the contrary, we believe an argument can still be mounted that we should have a better credit rating than, for instance, Victoria. SAFA's absolute long-term borrowing cost has decreased from 14.1 per cent per annum for 2 000 stock in September 1990 to 11.6 per cent per annum in September 1991. That is also a very encouraging trend.

**Mr S.J. BAKER:** When the losses of the State Bank were first announced on 10 February the Premier also announced the establishment of an advisory group comprising the Chairman, the Chief Executive of the State Bank, the Under Treasurer and the Crown Solicitor. On how many occasions has that group met? Did it provide written reports to the Treasurer and, if it did, how many of those reports will the Premier give to the Committee?

**The Hon. J.C. Bannon:** That group met on a number of occasions in February and early March to deal with that period prior to the appointment of Mr Nobby Clark as Chairman, when the bank's functions were, in fact, taken over by the board. We notionally kept it in place in case of further need for reference or action until June 1991, when it was formally disbanded. Once the new board was established, the need for that particular group was no longer required. Since June the Under Treasurer has been an observer of and adviser to State Bank Board meetings. Obviously, he had no voting rights at those meetings but, on the invitation of the board and certainly with our active agreement and acquiescence, he takes part and provides whatever advice or feedback is necessary at the time.

Since April 1991 there have been formal meetings between Treasury and State Bank officers as and when required, usually at least monthly and sometimes more often, where the Under Treasurer and the General Manager are in attendance. There have also been formal meetings and contact between officers of Treasury, the Crown Law Department and officers of the State Bank Group on a very frequent basis regarding the assessment of the financial position. Therefore, both formal and informal contact is certainly going on.

**Mr S.J. BAKER:** What was the nature of the reports given by this committee to the Treasurer?

**The Hon. J.C. Bannon:** In the aftermath of the announcement made on 10 February, the advisory group's role was to monitor the situation, deal with asset management questions, set up the machinery by which the indemnity could be properly used by the State Bank and, generally, to act as a high-level liaison group. But, this was of course during a period when the old board was being phased out and the new board was coming in. As a formal group, it was no longer necessary once that had occurred.

**Mr S.J. BAKER:** The question was: in what form did it report to you? Was it in writing? Did it actually give formal reports?

**The Hon. J.C. Bannon:** Some were written reports; sometimes there were verbal briefings.

**Mr S.J. BAKER:** Would any of those be available to the Committee?

**The Hon. J.C. Bannon:** No, they are not available for publication.

**Mr S.J. BAKER:** On what date was the Treasurer formally advised that the \$2.5 billion non-accrual loans were likely to blow out beyond that point?

**The Hon. J.C. Bannon:** Formal advice, in the sense of knowing what the precise result was, occurred very close to the time of the budget's presentation. In fact, the bank's accounts were not finally audited and signed off until the day before the budget was presented. Obviously, progress reports were made available through the year leading up to August. Just prior to the end of the financial year it certainly became apparent that further support may be necessary, and agreements and arrangements were set in place to provide that. There were a number of indicative figures but, of course, it would have been totally irresponsible to put such figures on the public record in any way.

As I said in February (when a number of statements were made in which it was indicated that we had not arrived at final figures) it was important to have these figures properly signed off and audited, and to have had a series of weekly or monthly announcements regarding the progress on assessment in the State Bank would have been quite disastrous over the intervening period. In fact, I believe that we have been totally vindicated in our handling of the situation by the market response to the publication of the report and the handling of it. Indeed, if it had been done in any other way—for instance, had there been a series of rumours or half baked announcements—the bank would have been placed in quite severe jeopardy, so the correctness of that particular way of assessing and handling the situation has, I think, been amply demonstrated.

**Mr S.J. BAKER:** When was the Treasurer first advised that the \$2.5 billion provision would be insufficient? I respect what the Treasurer said: that he wanted to tie it all down and make sure that eventually whatever mechanism was put in place would be appropriate for the occasion but, more specifically, when did either the Chairman or this group which was put together advise the Treasurer that the provision of \$990 million may well be quite insufficient to meet the long-term debts of the bank?

**The Hon. J.C. Bannon:** This was in contemplation at the time that the indemnity provision was set up. The optimistic hope was that we had over-provided but, clearly, as market conditions deteriorated over the rest of the year, that was a very vain hope indeed. Progressively, over time, it was indicated to me that, as the assessment was being made, there would be the need for further provision. Therefore, it is an ongoing reporting process.

**Mr S.J. BAKER:** Between 10 February and the presentation of the budget on 29 August how often did the Treasurer receive reports on the State Bank's estimate of its non-accrual loans and losses, and in what form were they?

**The Hon. J.C. Bannon:** The Chairman and I have met, I think, on a monthly basis since his appointment, so it would have started some time towards the end of April, although I do not know the exact date. Obviously, at each of those meetings I was provided with information and assessment from the Chairman.



**Mr FERGUSON:** How did the retail depositors and professional investors react to the news about the bank, released on 29 August 1991?

**The Hon. J.C. Bannon:** I can comment from a distance, as it were, but it might be better if I ask Mr Paddison, who has been on the front line, as to his assessment.

**Mr Paddison:** First, the response from the retail investors in South Australia has been very positive. In our February announcement the bank had a significant outflow of funds, and we had no similar experience after the announcement and publicity relating to our recent earnings. On an international front, the reaction is still expected to be finalised. A number of the large international investors will take some time to review our financial situation and provide a final opinion. But, certainly, in the context of a positive response from the rating agencies, our initial indications are that the response has generally been very positive.

**Mr FERGUSON:** How many off balance sheet companies does the State Bank now have, and what is their purpose?

**The Hon. J.C. Bannon:** I think that Mr Anastasiades is probably the best person to answer that question.

**Mr Anastasiades:** We have 76 off balance sheet companies which the State Bank Group controls. The main purpose of creating those entities was for funding reasons and, effectively, to find the best way of funding various ventures that the bank entered into with a number of other entities.

**Mr FERGUSON:** Are the boards of the off balance sheet companies connected to the State Bank Board itself? In other words, how many members of the bank's board would also be members of the boards of the off balance sheet companies?

**Mr Paddison:** We would have to confirm whether there were any off balance sheet entities in which board members were involved. I am not certain of any instances, so I cannot give a definitive response. A number of off balance sheet companies may have representatives of the board associated with them in some capacity, but we would have to confirm that.

**Mr FERGUSON:** So, you are not sure at this stage whether any board members were appointed to off balance sheet companies?

**Mr Paddison:** No, I am not certain of that.

**Mr MATTHEW:** I wish to follow up a question asked by the Deputy Leader earlier. Did the Premier receive weekly written reports from the bank and, if not, in what form were reports provided to him and by whom?

**The Hon. J.C. Bannon:** No, I did not receive weekly written reports. On regular occasions (and this will be ongoing) I met with the Chairman and written material was provided at and for that meeting on the basis of every month or so.

**Mr MATTHEW:** I refer to a couple of statements made by the Treasurer. At page 12 of his budget statement, the Premier said:

It was forecast by the bank that there would be approximately \$2.5 billion in non-accrual loans at 30 June 1991.

The second statement on the same page by the Premier is as follows:

It was also estimated that the peak level of non-accrual loans would be around \$3.3 billion.

What was the source of each of the Treasurer's statements?

**The Hon. J.C. Bannon:** The information was supplied by the bank which was assisted in the process of analysing its book by J.P. Morgan, particularly in relation to methodology and assessment. As the honourable member would be aware, so much of this is in the area of estimating. It is not a science. One must try to evaluate as best as possible the

exposure of particular loans, the anticipated loss on a loan and, depending on how optimistic or pessimistic one is, the way in which the market is trending and the expected recoveries. There can be wide fluctuations in the figures. I would like to believe that, based on the assessment made and published in the annual report, a conservative view has been taken. Certainly, if one compares the level of provisioning with the industry generally, it is high but, if we look at the book of the bank, it probably should be high.

One has to be very careful, in doing the estimates, not to overkill. On the one hand, if we paint too unrealistically black a picture we turn it into a self-fulfilling prophecy and on the other hand, if we paint too rosy a picture we can get the situation we have had where it looked like a worst case scenario, in February, turned into a much worse case by the time the annual reports were published. In all these cases one can only rely on the information provided. Neither Treasury officials nor I are in a position to go through every loan and exposure. The bank has its staff and methodology for doing that, but at the end of the day estimations and predictions must be made which will always make the figures uncertain.

**Mr MATTHEW:** Why were not the estimates made public prior to the budget?

**The Hon. J.C. Bannon:** To which estimates does the honourable member refer?

**Mr MATTHEW:** I refer to the two estimates in my original question, namely, the \$2.5 billion in non-accrual loans and the \$3.3 billion as the peak level.

**The Hon. J.C. Bannon:** Figures of that nature were certainly being discussed.

**Mr MATTHEW:** But not made public.

**The Hon. J.C. Bannon:** The \$2.5 billion certainly was made public—it was in the statement.

**Mr MATTHEW:** The \$3.3 billion was never canvassed.

**The Hon. J.C. Bannon:** The \$3.3 billion was quoted by one of the rating agencies. It was certainly on the public record. The basis for the use of that figure was fully explained, which is why I am puzzled by the honourable member's question. The figures were certainly there. The bank's press release contained the \$2.5 billion figure.

**Mr MATTHEW:** Which rating agency released the \$3.3 billion figure?

**The Hon. J.C. Bannon:** I cannot remember. However, it received an enormous amount of publicity and statements were made about it. The agency then issued a follow-up statement in which it explained the basis for the use of that figure. It was fully on the record. We think that it was Standard and Poor's.

**Mr MATTHEW:** In the annual report of the State Bank, the new Managing Director, Mr Johnson, has written that the \$4.2 billion estimate for non-accrual accounts 'reflects the worsening national economic recession'. Is this estimate now a worst case scenario or is there potential for a further significant increase in non-accrual loans if a recovery in business and economic conditions does not begin soon?

**The Hon. J.C. Bannon:** The point of the Managing Director's statement was to draw attention to the fact that what we were dealing with as between February and the publication of the annual accounts were not a heap of new exposures just entered into by the bank in the intervening period but rather a more detailed and conservative assessment in the light of the prevailing economic conditions of liabilities or loans already undertaken. It is important for those dealing with the bank and trading within the current circumstances to understand that from a long way back conservative practices had been in operation and new lia-

bilities were not being created. It is an assessment of the old.

As to the honourable member's question, one can only read the economic indicators and make predictions. There is always an element of judgment in deciding the extent to which a non-performing loan will become performing and will be partly or wholly recovered. A conservative approach has been taken, as the Managing Director has suggested. If the economic upturn, of which a number of signs are now emerging, continues to strengthen, I do not see any problem with achieving or improving on the outcomes shown there. That situation will depend very much on the overall state of the economy. If the economy deteriorates markedly over the current year, we will not have a South Australian or State Bank problem but rather a very big national problem indeed.

**Mr MATTHEW:** Is the Premier acknowledging the potential for a further significant increase in non-accrual loans?

**The Hon. J.C. Bannon:** That has been well covered in the press conferences given by the Chairman, Mr Clark, and in statements made by me. Mr Clark explained the basis of the bank's calculations, and that is where that stands. It depends on future economic conditions. If there is an improvement, the actual provisions could be significantly lower. We would be foolish to count on that and we should stick to a most conservative estimate until we have much more positive signs of economic recovery.

**Mr HOLLOWAY:** What impact will recent changes to corporation law have on the treatment of the financial statements of the State Bank and, in particular, on the treatment of subsidiaries in consolidated accounts?

**Mr Anastasiades:** The accounts tabled in Parliament on 29 August took into consideration the AAS24 consolidation. As a matter of fact, no difference will be noted in the financial result when we present the final report.

**The Hon. J.C. Bannon:** I intervene at this point because, as I stated at the time of presentation of the accounts, it was very much mine and the Treasury's desire that the bank accounts be produced on that date and that they not be arranged in AAS24 format. Although they were prepared in that format we felt it was an unreasonable further imposition on the bank which did extremely well to get its accounts together in that time. So, we foreshadowed that there would be a further report which would consolidate all of the subsidiaries as defined by section 46 of the corporations law and which would include those entities in accordance with the standard. I understand that in that respect the State Bank will be ahead of the action as far as other institutions are concerned but, as the Chief Financial Officer has indicated, this will not affect the bottom line or the financial figures.

**Mr HOLLOWAY:** What impact will the bank's new mission statement have on its local branch network?

**The Hon. J.C. Bannon:** I will ask Mr Paddison to comment on that because he has a much better operating view of it. I can comment only from the anecdotal feedback that I have had to the presentation of the mission statement, and that has been very positive. It has been welcomed in the branches because part of the mission statement refers to reinforcing the centrally important role of branch management and staff in presenting the bank to the local community from which the bank must draw its strength. As to how it is perceived internally and what sort of feedback there is within the bank, I will ask Mr Paddison to respond.

**Mr Paddison:** As one would expect, generally the response has been very positive. Branch staff have always had a strong commitment to supporting our retail customers in

South Australia, particularly with regard to the role of the bank in the provision of housing finance. Whilst that has been a critically important part of the retail bank, recent developments in the bank group's growth tend to overshadow that role. The mission statement has been received very positively by both staff and customers because it makes quite clear that the bank is returning to a fundamental focus on its role as a regional bank. Of course, the majority, but by no means the totality, of that role will be taken up by the branch network. The response to that has been a very positive feeling that we are returning to basics and that our retail customers are the main focus of the bank's attention.

**Mr HOLLOWAY:** It was mentioned earlier that the specific provision against the non-accrual loans subject to provisioning amounted to 43 per cent of the loans provisioned. I think the Premier mentioned that the ratio was very high by Australian bank standards. I also note that the general provisions of the State Bank rose by 51 per cent to \$112.2 million, representing .71 per cent of risk weighted assets. How does that figure compare with those of other banks?

**Mr Anastasiades:** On average we have provided .712 per cent, which compares favourably with the banking industry.

**Mr D.S. BAKER:** What was the cost to the State Bank of the J.P. Morgan consultancy; how many J.P. Morgan personnel were involved and how many hours were worked; and how many reports were prepared and will they be made available?

**The Hon. J.C. Bannon:** The question of the fee is a matter of confidentiality between the bank and J.P. Morgan. The fee was negotiated; in fact, it was renegotiated by the Chairman (Mr Clark) at the time the Morgan assignment was completed. J.P. Morgan played an important role in that initial period in looking at, in particular, the methodology that the bank was using to assess its loans and books, and it made a number of suggestions. Initially, because of the time of commissioning and the urgency of it, much of the early work was done verbally; J.P. Morgan simply put in its people who worked with bank officers and progressively made recommendations on a verbal basis with respect to changes and an assessment.

The two principals Mr Sabatini—the head of the team, who is based in the Tokyo office of J.P. Morgan and who has had considerable expertise in this area—and his assistant, the Australian Manager, Mr Odegarde, and one or two other assistants were involved in the process. The engagement consisted of preparing a number of reports, both written and verbal, to the board dealing with questions of restructuring and assessment, were carried out. The reports have not been made public as they were regarded as working documents and internal recommendations for the use of the board and the bank. J.P. Morgan also consulted with and advised Treasury, and, in the initial stages in February, I met with the Morgan representatives on a couple of occasions when the emergency issues were being dealt with. Incidentally, subject to that assignment J.P. Morgan has been retained to advise the bank on the future of the New Zealand operation, with particular emphasis on the United Bank and its operations. It will provide information for the bank board as it looks at the future of wholesale banking operations in New Zealand.

**Mr D.S. BAKER:** As a supplementary question, will the reports be made available?

**The Hon. J.C. Bannon:** As I said, the reports were made to the board of the bank for its use and they will not be made public.

**Mr D.S. BAKER:** Was J.P. Morgan a customer of the bank at the time it conducted its consultancy, if so, was

there potential for any conflict of interest and how was that avoided?

**Mr Paddison:** I do not know that J.P. Morgan could be characterised as a customer of the bank, but it certainly would have been a financial market counterpart and would have been involved in some of our offshore capital market programs. I cannot confirm the exact detail of that involvement, but J.P. Morgan is a very significant participant in international capital markets.

**The Hon. J.C. Bannon:** Of the banks that could do this sort of exercise at that time and in the way required, there would be very few. I suspect that all of them, in some way or other, would have had contact or dealings with the State Bank, but I was not made aware of any conflict of interest situation. On the contrary, some knowledge of the bank was probably a useful background for dealing with the issues concerned. J.P. Morgan has an extremely high reputation in this area and it fulfilled its charter.

**Mr D.S. BAKER:** A previous question referred to the Standard, and Poor's and Moody's ratings. What is the estimate of the extra cost that the bank will pay this year to borrow funds following the credit rating downgrading by those agencies?

**The Hon. J.C. Bannon:** It is a question of bank cost funds.

**Mr Paddison:** I do not believe we have any way of empirically advising that until after the event. It would be a judgment based on movement and pricing that would naturally occur in the Australian markets. That could be assessed only against the relative cost of funds of other financial institutions in Australia, and that is actively moving at the moment as international markets change their perception of Australian credit risk. It is not necessarily solely in response to the credit profile of the particular institution; it is also in regard to the international markets' perception of the riskiness of the total Australian economy. It would be almost impossible to answer that question empirically.

**Mr D.S. BAKER:** As a supplementary question, you do not deny there would be an increase in borrowing costs?

**Mr Paddison:** No, I do not believe that we could be definitive about that. The extent and level of the commitment of the Government to the bank may, in fact, be seen as fairly positive. I believe that only time will lead us to see whether there is a significant increase in our price.

**Mr D.S. BAKER:** So a credit risk downgrading is not a detriment to anyone's trading ability?

**Mr Paddison:** It depends on the circumstances in the market at the time and the perceptions of the financial institutions about the quality of support standing behind that rating. As I said, given that there is a significant change in pricing, both for Australian banks as a general group and in terms of the future prospects of the Australian economy, I do not believe it is possible to say empirically what change in pricing will occur as a result of the alteration in the rating.

**The Hon. J.C. Bannon:** It leads back to the overall rating situation in Australia, which is probably much more important. There have been readjustments and downgradings, both of private financial institutions and Government debt over this period. So, one cannot really segregate a specific loss and pin it down in this area.

**Mr D.S. BAKER:** Do you agree that a downgrading will have an effect?

**The Hon. J.C. Bannon:** There may be a higher cost of borrowing, but these things are relative in terms of what is happening in the market generally. Therefore, it is not nec-

essarily ascribable to the particular events that the Leader is talking about.

**Mr FERGUSON:** Mr Premier, of the 76 off balance sheet companies, how many are making a profit and how many are considered to be part of the core business of the bank? Is there any value to the bank of an off balance sheet company that is not being used? Can it be sold? Will all off balance sheet companies eventually be incorporated in the balance sheet? How will the shareholders know what is the financial situation of the off balance sheet companies?

**The Hon. J.C. Bannon:** Mr Anastasiades may be able to respond to elements of that question.

**Mr Anastasiades:** Yes, the off balance sheet company would be consolidated in the bank's body as a prerequisite of AS24. Giving the results of these companies would be a futile exercise, as they are so complex. In effect, they are subsidiaries within subsidiaries and we would need to spend a lot of time in estimating or reporting each individual result. However, they will be consolidated in the total. In relation to whether they had any value to the bank at the time of the inception of these off balance sheet entities, yes, they did. As I said, under AS24 they will now be consolidated and, wherever off balance sheet companies do not add any value to the bank, they will be wound up or sold.

**Mr FERGUSON:** As a supplementary question, how many of the companies will be sold?

**Mr Anastasiades:** I cannot answer that question until we go through an investigation of the companies one by one. That work is currently under way.

**Mr FERGUSON:** Mr Premier, can you be specific about the core business of the bank?

**The Hon. J.C. Bannon:** In responding to that, I refer to the mission statement of the bank. First, it must be understood that the bank must work within the objectives as set out in the Act itself. I guess it is arguable that within the Act there might have been some contradictions in terms of what was expected of the bank. That is a matter more properly being considered by the royal commission under its terms; and I think that that consideration will be very useful to us. However, in terms of the Act, it provides that the bank will perform in a fashion that measures commercial considerations against social responsibilities to achieve the balanced development of the State's economy to the maximum advantage of the people of South Australia. So, to the extent that the bank operates beyond South Australia, obviously it must be seen to be relating back to an advantage to the local community and, of course, its owner—the local community—through the Government.

The specific mission is to preserve its uniqueness as the only bank specifically created to service the general financial needs of South Australians as individuals, as families, in business at all levels, on farms and as organisations on a basis that emphasises an ongoing rapport with customers. In meeting its various obligations, the bank recognises that its foremost priority is to satisfy the requirement of prudent banking practice.

The core emphasis is that the bank exists as a headquarters regional bank. If the question is asked, 'Well, how does the groups that the bank will service differ, and how does its mission differ, from the groups serviced by and the mission, the branches or agencies of other financial institutions?' It really relates to the fact that the bank is based in South Australia and, therefore, has particular responsibilities and connections with the South Australian community. It does not mean that it will be the exclusive banker for the Australian community, although it has a very high share of business. Where in hindsight, we feel that mistakes have been made, it is still worth putting that in the context

of the very large housing portfolio of the bank, the way in which it has had competitive lending practices and has been able to assist thousands of South Australians to purchase homes where they would not have been able to do so. In terms of business, there are many examples of productive South Australian businesses that could not get through the door of a number of other banks or, if they could get to the sympathetic ears of the branch manager, would find their proposition rejected at the head office somewhere else. In the case of the State Bank, again, that access is provided for business.

Responsibility to the rural community is an important part of the State Bank's portfolio. In that sense, it is fair to say that it sets a standard to which other banks operating in this State are required to work. Again, thousands of South Australians are surviving on farms only because the State Bank is committed by its customer base to the long-term viability of South Australia. Therefore, it must have regard to the long-term effects of its policies, not to an immediate situation. In parts of rural South Australia there are different practices among the banks. For instance, a bank which from head office sees a rural portfolio in South Australia in a time of drought as a loss maker and feels that it must get out quickly, cut its losses, will have devastating consequences on the community as opposed to a bank that recognises there is a longer term commitment. Similarly, organisations can be looked after. The bank, as a corporate citizen of South Australia, has a major role. Based on that mission and set against the requirement of prudent banking practice, I think the bank is in the right mode to fulfil its charter.

**Mr FERGUSON:** We have been told that two major assets, Executor Trustee and Myles Pearce, have been sold. Have any other major assets been sold to date?

**Mr Paddison:** No other major assets have been sold to date, but a significant program is in place to look at winding down a number of corporate lending books which have significant loan assets in them. Also, all aspects of the bank's operations outside what are regarded as its core business are being evaluated to see whether it is commercially reasonable to sell them at this time.

**Mr S.J. BAKER:** What estimate of the State Bank's total non-productive and loss items as at 31 March 1991 was contained in the April reports to the executive committee and board, including the forecast of those items to December 1992?

**The Hon. J.C. Bannon:** I do not have those figures and I do not think they are relevant. I am not in a position to put them on the table, nor do I think it is appropriate to have, as I said earlier, a week by week or month by month report. No other institution does or should do that. It is partly that short-term attitude that causes problems. The annual report has been published, it is properly audited and signed off, and we are working on that basis. Obviously, the bank must now monitor its situation. In the past it has produced a half yearly report, and I understand that it is intended to do so again. I suggest that is the appropriate time at which to look at an assessment on progress.

**Mr S.J. BAKER:** As a supplementary question, will the Premier examine the documents and, perhaps in response to the Parliament or by 4 October, reconsider his position on this matter, because the estimate provided by the bank as to its longer term position is highly pertinent? I should like to go one step back in relation to an earlier answer by the Treasurer. On 4 April, in Parliament, the Premier, in answer to a question, said that \$2.5 billion was the expected level of non-accrual loans over the next three to five years, not, as suggested, by June 1991. When the ratings agency,

Standard and Poor's, mentioned the figure of \$3.3 billion, that was vigorously denied by the Government. Why did the Treasurer refer to the figure of \$2.5 billion by June 1991 and \$3.3 billion in the budget speech as though they had been confirmed publicly by the Treasurer and the bank in February when, indeed, they were vigorously denied?

**The Hon. J.C. Bannon:** I have already explained to another member that this is a repetitious question. The basis of the agency's calculation was made clear. A misapprehension was created in terms of what they were saying by using that figure. That was corrected on the record and the agency confirmed it. The final figures of exposure and so on were not produced until the annual report came down. I made the statement on the basis of information that we believed was correct. There would be no point in attempting to give other than what was seen as the outcome figure. On the contrary, to have had to go through a double hit situation was something that I found extremely difficult and distressing to do. In fact, if other figures should or could have been used on the basis of proper information, they would have been used. I do not understand why there could be any question that those were the figures that had been provided based on that assessment. It was obvious and made clear at the time that they could not be precise, that there may be reductions or, indeed, increases, because so much depended on economic conditions and what happened through the course of the financial year. All those provisos were in place at that time. I assure the Committee that the implications in the Deputy Leader's question are rejected. Far from being pertinent information, as he described it, it is completely unnecessary.

**Mr S.J. BAKER:** I take the point that the Premier is making. I guess there was some conflict about the information that the Premier was providing and his knowledge at the time. My next question relates to the \$2.2 billion estimated loss of the State Bank Group. Was full provision for Adsteam and the Remm Group included in that figure?

**The Hon. J.C. Bannon:** Appropriate provision has been made, because these things are on the books in the case of both Adsteam and Remm. I cannot provide the precise provisioning figure and I am not sure that it is appropriate. Certainly, in the case of Remm it would be singular inappropriate because it is an ongoing transaction and I think that there is litigation relating to some of the contracts connected with that project. Similarly with Adsteam, a trading enterprise, I do not think it is appropriate to have precise details on the record. I think it would be a breach of customer confidentiality. All I can say is that it was on advice. It was not a case of saying that we ignore these and that there is no loss to be taken on them. Of course they have to be taken into account and provision has to be made. The broad figures, in terms of provisioning and the methods of provisioning, have been canvassed.

**Mr S.J. BAKER:** Supplementary to that, the Opposition was asking not for details of the provisions involved in either of those cases but whether full provision had been made. In the earlier estimates of non-accruals we did not have figures for Adsteam and Remm. We are unaware whether full provision has been made in the \$2.2 billion loss that has now been estimated for the State Bank Group. Will the Premier assure us that the total losses from those two entities have been included in the \$2.2 billion?

**The Hon. J.C. Bannon:** I do not know what the honourable member means by the total losses being included. Obviously an assessment has to be made, and has been made, on both of those, which are included in the results that have been published.

**Mr Paddison:** I can certainly confirm that as far as the State Bank Group is concerned any account on which we expect a loss has been considered for full provisioning. Obviously, we have a number of accounts where we have looked at these very carefully. But it would not be normal banking practice to ever disclose a specific provision related to a specific account, for the simple commercial reason that, if one wished to sell the asset and it was known what discount one had already provided against that asset, it would place one in an extremely poor bargaining position. For that reason, if for no other reason, namely, trying to maximise the value of the asset recovery when one is in a sale/negotiation position or a negotiation for restructuring, one would never wish one's position to be disclosed. I think it would be appreciated that that is a matter of common commercial practice and good sense.

**Mr S.J. BAKER:** I specifically said that the Opposition was interested not in the actual provisions but indeed whether full and total provision had been made.

**Mr HOLLOWAY:** There has been much discussion in the financial media recently about the ability of all banks and their managements to cope with the changing environment that was unleashed by the deregulation of the financial industry. What measures has the State Bank taken to improve the training of staff to better deal with these issues?

**The Hon. J.C. Bannon:** I might just refer back to the external forces operating here. I think there is now much greater attention to audit and other requirements. In terms of the State Bank, as I mentioned earlier, we are now in a formal relationship with the Reserve Bank and its prudential requirements. The mission statement we talked about earlier obviously emphasises that sound banking practice. But I take it that the honourable member is particularly interested in the sort of training and other support for staff to ensure that they are able to deal with these areas. I ask Mr Paddison to tell us how that is being handled.

**Mr Paddison:** It is a constant challenge to continue to meet the demands of the deregulated financial environment, particularly in a poor economy. The bank continues to train fairly significantly, particularly in specialist areas, such as credit, where a major training program is currently under way. However, obviously, training is a response to circumstances, which provides benefit over a long period of time. In the short term, the bank needs to supplement its training activities, with both the recruitment of experienced personnel from other financial markets, where we are able to attract them, and in other instances we need to retain the support of experienced external consultants to also assist the bank.

**Mr HOLLOWAY:** Does the State Bank Board intend to establish an audit committee of its directors, as is common with many other corporations?

**The Hon. J.C. Bannon:** I will ask Mr Paddison to comment.

**Mr Paddison:** Yes, a board audit committee was established around mid-1990, and that committee has been operating since then.

**Mr MATTHEW:** Has the Treasurer investigated the circumstances of the existence of a cap on the State Bank's liability to the Remm-Myer project and any assurances given, as he promised my colleague the member for Kavel in Parliament on 13 February?

**The Hon. J.C. Bannon:** Can the honourable member supplement that question with more information?

**Mr MATTHEW:** My colleague asked a question about the Remm-Myer development on 13 February, as follows:

How does the Treasurer explain his last answer to the member for Light in view of information that the Government provided a specific assurance to the Bank of Tokyo before it would partic-

ipate in the Remm-Myer syndicate? The Liberal Party has been informed that in late 1989 the Bank of Tokyo was concerned at the size and commercial prudence of the proposed \$550 million loan facility to finance the Remm-Myer project and therefore sent Mr K. Yoshiaki to Adelaide in the first week of December 1989 to seek an assurance that the Bannon Government would underpin the loan.

Is that sufficient information for the Treasurer?

**The Hon. J.C. Bannon:** That classifies the basis of the question. That is a pre-10 February issue and is now currently being considered by the royal commission. I do not know that it would be appropriate for me to go into those aspects in this committee.

**Mr MATTHEW:** The question was asked of you on 13 February 1991 and you said in your reply that you would have those circumstances more closely investigated.

**The Hon. J.C. Bannon:** That is as may be. I was obviously trying to be helpful in that context. As it happens, the royal commission, which is now operating—it was not as at 13 February, although it was announced that one would be set up—is examining that whole area in considerable detail and that is the appropriate forum in which it should be looked at.

**Mr MATTHEW:** As a further supplementary question, I do not want to appear unduly persistent but I simply asked: have you investigated the circumstances of the existence of a cap?

**The Hon. J.C. Bannon:** The question and answer would have been referred to the Treasury and the bank and some material prepared on it but, as I say, this is one of the matters under consideration by the royal commission and appropriately is being dealt with there.

**Mr MATTHEW:** What was the cost of the State Bank group's external legal services in 1990-91, and what is the expected cost in 1991-92?

**Mr Paddison:** We do not have that information available to us at the moment.

**The Hon. J.C. Bannon:** We will see whether we can ascertain it for the honourable member.

**Mr MATTHEW:** Does the State Bank have any involvement in action currently before the Supreme Court relating to claims by the Remm Group against a number of contractors?

**Mr Paddison:** I do not believe that we are party to that action.

**Mr MATTHEW:** Is the State Bank Group in any way funding Remm's legal costs for that matter?

**The Hon. J.C. Bannon:** I cannot advise on that.

**Mr MATTHEW:** You cannot advise or you do not know the answer?

**The Hon. J.C. Bannon:** I will take the question on notice. I do not know whether it is appropriate information to be provided. If we are talking about current litigation—

**Mr MATTHEW:** Who is paying the bill? If the answer is 'No', it would be fairly easy to say.

**The Hon. J.C. Bannon:** I cannot advise on that but I will take the question on notice.

**The Hon. J.P. TRAINER:** A general perception by the public about the State Bank tends to look at the difficulties encountered as existing in a vacuum. Can Mr Paddison outline whether similar difficulties have been encountered by other banks since deregulation? Without asking for too long a lecture, how have other banks handled their difficulties? I have a Chase AMP Visa card that will lose its validity because two of the biggest institutions in the USA and Australia—Chase Bank and the AMP—have had difficulties with their banking arrangements.

**The Hon. J.C. Bannon:** Before asking Mr Paddison to comment, I accept the point the honourable member is making. We have to look at these issues in context and the

Reserve Bank annual report makes very interesting reading in this context. It shows the great pressure under which all of the banking system is operating to a greater or lesser extent (but usually greater) at the moment. I will ask Mr Paddison to comment.

**Mr Paddison:** I must admit that I feel uncomfortable criticising fellow banking institutions or commenting on their difficulties and I am sure that they would feel the same reticence. However, in general it is fair to say that on a proportionate basis (but not an absolute dollar basis) a number of other banking institutions, particularly those which entered the deregulated corporate lending markets and which had a significant exposure to property lending in particular, have suffered very significant difficulties large non-accrual loan portfolios and significant realised losses. On that level, yes, we are not orphans in the industry.

**The Hon. J.P. TRAINER:** On a different but related matter, I noted in a *Bulletin* article that the total amount of consumer losses through foreign currency loans in Australia was in the range of \$6 billion and I understand that three of the four major banks were mainly involved in that. Did the State Bank have no involvement in those banking arrangements whatsoever?

**Mr Paddison:** The State Bank has had an involvement in foreign currency lending only at an extremely limited level and those foreign currency advances as a product are still available if a client wants them. But we have had nowhere near the involvement the other players in the financial industry have had in foreign currency advances.

**Mr D.S. BAKER:** Returning to the costs of consultancies for J.P. Morgan, I think the Premier stated that the exact amount was confidential. Can he say whether the amount was less or greater than \$1 million?

**The Hon. J.C. Bannon:** I think that the commercial arrangement entered into regarding fees between J.P. Morgan and the State Bank is a matter for them and not for the public domain. All I can say is that it was an appropriate fee that was negotiated and renegotiated.

**Mr D.S. BAKER:** From the point of view of J.P. Morgan or the bank?

**The Hon. J.C. Bannon:** It was renegotiated by the Chairman, Mr Nobby Clark, and I have a great deal of confidence in his knowledge of appropriate fees and costs in the market.

**Mr D.S. BAKER:** Which ex-director of the State Bank earned between \$280 000 and \$289 999 in 1990 and between \$210 000 and \$219 990 in 1991?

**The Hon. J.C. Bannon:** Presumably, that was the Chief Executive Officer, who was also a member of the bank board, as is the current Chief Executive Officer.

**Mr D.S. BAKER:** Which ex-directors of the State Bank earned \$50 000 or more in 1990 or 1991?

**The Hon. J.C. Bannon:** They are details that go beyond the normal reporting requirements.

**Mr D.S. BAKER:** Which former executive of the State Bank earned between \$830 001 and \$840 000 in 1990-91, and did that amount include any fees for serving on the Board of the State Bank Group?

**The Hon. J.C. Bannon:** From the sound of it, that could well have included superannuation and other payments, which I think would result in a finalisation payment. In other words, the way in which the reporting procedures are structured provides for all payments received during that year by directors who either terminate their positions or are ongoing in the course of that year. There is no-one on a salary of that level. I would imagine that it could apply only to the termination payments.

**Mr D.S. BAKER:** As a supplementary question, did that include any fees for serving on the Board of the State Bank Group?

**The Hon. J.C. Bannon:** If it relates to the Chief Executive Officer, the answer is that no fees were paid to him as a director. He was the only person on the board who did not receive director's fees and, as I understand it, that practice continues, and that officer does not receive separate director's fees.

**Mr D.S. BAKER:** As a supplementary question, are you saying that, in relation to the former Chief Executive Officer who earned over \$830 000, nothing in that gross amount included any fees for serving on the board?

**The Hon. J.C. Bannon:** That is correct.

**Mr D.S. BAKER:** Are you saying that nothing in the gross amount included any fees for serving on the boards of any off balance sheet companies or anything like that?

**The Hon. J.C. Bannon:** As far as I am aware, that is correct.

**Mr D.S. BAKER:** Would Mr Paddison be aware of that?

**Mr Paddison:** No, I am not aware of what that individual dollar payment relates to.

**Mr D.S. BAKER:** Are you not aware of what that payment relates to?

**The CHAIRMAN:** Order! The Leader will not direct questions to individual members seated at the table, but will direct questions through the Chair.

**The Hon. J.C. Bannon:** I do not think it is appropriate for Mr Paddison to respond to a question like that, which clearly relates to directors of the board. I think that the Chairman of the board is the appropriate source of that information, and perhaps the Leader should direct his questions to him.

**Mr D.S. BAKER:** Will the questions be referred on to the Chairman?

**The Hon. J.C. Bannon:** I will draw the questions to the Chairman's attention.

**Mr D.S. BAKER:** Which former executive of the State Bank earned between \$630 000 and \$640 000 in 1990-91, and which three former executives earned between \$430 000 to \$480 000?

**The Hon. J.C. Bannon:** These larger figures which are being cited would include payout sums of superannuation entitlements, accrued leave and retirement benefits, so they do not represent annual salaries.

**Mr D.S. BAKER:** May I ask more questions?

**The CHAIRMAN:** The Leader has concluded his three questions, but if he has a supplementary question on that topic, it would be allowed.

**Mr D.S. BAKER:** I have two more supplementary questions on that exact line.

**The CHAIRMAN:** It would be desirable to conclude this line of questioning if the Leader wishes to do so.

**Mr D.S. BAKER:** Which 13 former executives of the State Bank Group shared in the \$3.349 million in accrued leave and retirement benefits during 1990-91 in addition to the \$1.433 million in usual employment remuneration?

**The Hon. J.C. Bannon:** I do not have that information available to me but, again, that is a reference to termination payments, which would be accrued superannuation and other entitlements on separation. It would be the same as sums contributed to the parliamentary superannuation fund by the Leader if he retired from Parliament.

**Mr D.S. BAKER:** Who within the State Bank Group received income and director's fees totalling \$5.174 million in 1989-90 and \$4.496 million in 1990-91?

**The Hon. J.C. Bannon:** Are you referring to all directors? Are you asking how many directors that refers to?

**Mr D.S. BAKER:** Who in the State Bank Group received income and director's fees?

**The Hon. J.C. Bannon:** Presumably directors received those fees.

**Mr D.S. BAKER:** Can you supply a list of names?

**The Hon. J.C. Bannon:** Some of them would include officers who were on the board of subsidiary companies.

**Mr D.S. BAKER:** Can you give me a list of names?

**The Hon. J.C. Bannon:** I will ascertain whether the Chairman believes it appropriate to provide the names.

**Mr FERGUSON:** In relation to New Zealand operations, we have been informed that the United Bank Limited has been restructured. Although it showed a profit, it had abnormal losses of \$7.4 million. Has the restructuring of the United Bank Limited been completed, and do you have any idea of that bank's outlook for the coming year?

**Mr Paddison:** In any major sense, the restructuring of the United Bank Limited has been completed. It is now a very simple consumer banking operation. Any restructuring that might be further seen would simply be an internal restructuring to achieve operating efficiency and reduce operating costs. Its profit outlook forecasts for this year are healthily positive.

**Mr FERGUSON:** Will we continue to have difficulties with different accounting standards between New Zealand and Australia? For example, last year in New Zealand the United Bank Limited reported a net profit of \$16 million to 30 June 1991 but, because of our different accounting standards, a lesser result of \$2.5 million was shown in Australia. Will this continue to be a problem?

**Mr Anastasiades:** We do not anticipate these problems for the 1991-92 financial year. If there are any changes, we will make the necessary notation in respect of the accounts.

**Mr FERGUSON:** Has the restructuring of Beneficial Finance been completed?

**Mr Paddison:** The Beneficial Finance Corporation group of companies is complex and we anticipate further restructuring taking place.

**Mr FERGUSON:** Can you predict the staffing down size?

**Mr Paddison:** It is difficult to do without a detailed program of exactly what the restructuring might involve. The restructuring is closely involved with bringing Beneficial closer to the bank and continuing to work out a number of its subsidiary and off balance sheet companies, many of which are associated with the non-accrual work-out program. Its success will determine the staffing requirements associated with that rationalisation program.

**Mr FERGUSON:** Is it likely that next year's result will be similar to this year's loss of \$37.6 million? Is that situation likely to continue or will it improve? In other words, are you able to predict what the results might be for the coming 12 months?

**Mr Paddison:** I am not sure that we are able to make any predictions with great certainty as significant further restructuring is to take place.

**Mr Anastasiades:** We have just completed some preliminary numbers on the outlook of Beneficial Finance after it transferred non-performing loans to the group asset management division and we are forecasting a profit next year for Beneficial.

**Mr S.J. BAKER:** I have been advised that the Federal banking inquiry will sit in Adelaide on 27 February and that it wishes to question the Managing Director of the State Bank, Mr Johnson. However, the bank is proposing that only Mr Paddison should appear. Why is the bank refusing to cooperate with the inquiry?

**The Hon. J.C. Bannon:** I do not know that the bank is refusing to cooperate with the inquiry. Obviously Mr Pad-

dison has already appeared before the inquiry and can appropriately handle the committee's questions. The bank may feel a little bruised by the inquiry because certain statements were made and a considerable furore generated by one member of the committee, which was rather unfortunate to say the least. If the committee wishes to re-examine some of those matters and put them in context, it would be most appropriate for Mr Paddison to appear as he was the object of those questions. I am sure that he would appreciate the opportunity to correct the record.

**Mr S.J. BAKER:** My question was not about Mr Paddison appearing before the inquiry but rather about the request from the Federal banking inquiry that the Manager of the bank appear before it. Is it appropriate for the Premier to support Mr Johnson's not appearing before the Federal banking inquiry?

**The Hon. J.C. Bannon:** I am neither supporting nor opposing it. It is a matter between the bank, the committee and Mr Johnson. If he has good reasons, they will be put to the committee. The Deputy Leader phrased the question along the lines of why the bank was refusing to cooperate with the committee. To the best of my knowledge the bank is not refusing to cooperate with the committee and, if it is, I deplore such action. It has a responsibility to cooperate with the committee, and my understanding is that it is.

**Mr S.J. BAKER:** So, you support the Federal banking inquiry fully and, if it asks the Managing Director of the State Bank to appear before it, you would support that?

**The Hon. J.C. Bannon:** It depends on whether it is deemed necessary. Mr Johnson's appearance or non-appearance does not mean that the bank is not cooperating. It is pleasing to see the honourable member raising the cudgels of the Federal committee in this way, but surely it is a waste of the time of this Estimates Committee. I do not think that any gross expenditure is involved.

**Mr S.J. BAKER:** I thought it appropriate that the Premier and Treasurer of this State, who has indemnity over the State Bank, should insist that the Managing Director of the State Bank make an appearance if it is the wish of the Federal banking inquiry that he do so. The Premier has already told this Committee that he supports the Federal banking inquiry.

**The Hon. J.C. Bannon:** My wish is that the bank should cooperate.

**The CHAIRMAN:** This is a question and answer process rather than a debate. I ask the Deputy Leader to follow that course.

**Mr S.J. BAKER:** Will the Premier inform the Committee of the date of the revelation of the 76 off balance sheet companies in the State Bank Group? Almost two weeks ago the Chairman announced that he was still not sure of the number of off balance sheet companies. When was the figure of 76 companies arrived at and will the Treasurer provide details of all off balance sheet companies and directors' fees associated with each?

**The Hon. J.C. Bannon:** They are better described as entities rather than companies. That is one reason for the confusion in the first instance. It would help the Committee directly on this matter.

**Mr Anastasiades:** The number is still unaudited, but we expect to arrive at a figure of 76. Once the number is finalised, we will be able to provide statements for each entity. We will be able to provide the names of members of the boards of directors once we finalise the reporting requirements of each entity.

**The Hon. J.C. Bannon:** They will be consolidated in the supplementary report.

**Mr S.J. BAKER:** When can we expect to receive this information?

**Mr Anastasiades:** We expect to finalise the report by the middle of October.

**Mr S.J. BAKER:** That will be after the date for reporting to this Committee. Can I get an undertaking from the Treasurer that the information will be provided to Parliament by 4 October for incorporation in *Hansard*?

**The Hon. J.C. Bannon:** The annual accounts as presented already will be issued in printed form, conforming with that accounting standard about which we have been talking and which consolidates all off balance sheet companies. That exercise is going on currently. It is hoped that it will be available by the middle of October. It will be a public document.

**Mr S.J. BAKER:** That is for the whole of the State Bank Group, including Beneficial Finance and all others?

**The Hon. J.C. Bannon:** Yes.

**Mr HOLLOWAY:** Rather than dealing in the past, I will ask questions relating to the future of the bank and, in particular, its return to core business. The loyalty of the people of South Australia to the State Bank has always been a factor in respect of its large share of the market in this State. One of the ways in which it has built up its market share has been its involvement in school banking, in which it had a monopoly when I was at school. Does the bank believe that school banking still has a part to play in retaining and building South Australia's loyalty towards the bank, and what is the return or loss on that activity?

**The Hon. J.C. Bannon:** I will ask Mr Paddison, who, as well as occupying his present position, has worked as part of the retail banking system, to comment on the school bank.

**Mr Paddison:** The school bank has traditionally been a key area through which young South Australians are introduced to the bank. We no longer have a monopoly in that respect, but we still see it as an ongoing part of the bank's operations. The expectations of children and their parents in respect of how the bank's activities are conducted change and, no doubt, will continue to change in the future. I cannot be definitive about how our product might change, but I can assure the honourable member that any bank is vitally interested in securing its future customers at the earliest possible age and in the most positive circumstances possible.

**Mr HOLLOWAY:** I refer to automatic teller machines and electronic funds transfer. How is the State Bank's performance rated in that sector of the market?

**Mr Paddison:** The State Bank has an extensive automatic teller network and a reasonably significant electronic funds transfer network, which are connected by interchange to a number of major banking institutions, which add their EFTPOS and ATM networks to ours. The majority of the bank's equipment in this area is fairly new and, accordingly, we believe that in a competitive sense it is very reliable, so I rate our service in ATM and EFTPOS as very good.

**Mr HOLLOWAY:** What measures is the bank taking to protect its staff?

**Mr Paddison:** Understandably we are very reticent about revealing publicly any details of security measures. However, I think it is a matter of reasonable public knowledge that the bank has, amongst other things, one of the most extensive networks of fly-up screens in South Australia. That initiative was brought in by the bank some years ago in response to a high level of bank hold-ups. Since then, the number of hold-ups has materially declined, and we believe that that is due to the effectiveness of our security measures. In addition to the fly-up screens, we have a

number of other security measures, but I do not believe that it would be appropriate for me to detail them.

**Mr MATTHEW:** What contact, if any, does Treasury have with the Reserve Bank?

**The Hon. J.C. Bannon:** The answer to that question is 'fairly frequent and quite close', certainly of recent months. I have mentioned already that the bank is now entering a formal relationship with the Reserve Bank and its requirements. Mr Emery might wish to comment on the nature and level of contact.

**Mr Emery:** We were in quite close consultation with the Reserve Bank in February when the initial package was announced; since then, from time to time; and in some detail during the formulation of the package announced by the Premier on budget day. As part of the new arrangements, Treasury will be involved in the meetings between State Bank and Reserve Bank officers, so there will be ongoing participation by Treasury.

**Mr MATTHEW:** As a supplementary question, that does not sound very structured. I heard the words 'frequent', 'in February' and 'from time to time', but has something more structured been put in place?

**Mr Emery:** There is quite a structured arrangement now under the new supervision arrangements to which the Premier has referred. We will be involved in all the regular meetings between the Reserve Bank and the State Bank. There is a structured arrangement, the detail of which has been agreed between the Governor and the Treasurer.

**Mr MATTHEW:** As a further supplementary question, prior to February I gather that the arrangement was not all that structured, that it was a fairly casual type of contact.

**Mr Emery:** Again, that goes back to matters that are or will be before the royal commission.

**The Hon. J.C. Bannon:** That question relates directly to royal commission matters, which have been the subject of inquiry and evidence and which will no doubt be reported upon.

**Mr MATTHEW:** What procedures has the State Bank established to manage its non-performing loans?

**The Hon. J.C. Bannon:** In response to an earlier question from the member for Walsh, I spoke of the creation of the Asset Management Division. I do not know that much needs to be added to that except to say, as I think the Chairman has publicly declared, it is a very high priority area of the bank. It is headed by a senior executive of the bank and a number of key personnel from areas of the bank have been recruited into it. It has also called on some outside expertise in the form of seconded people with particular expertise in computer systems and so on all aimed at making it a primary area of concern.

I understand also that it is the Chairman's intention that at least one board member will be designated to play a particular role and to have a particular interest in the progress of the Asset Management Division. As far as the State Government is concerned, under the indemnity arrangements we also have direct involvement through a delegated officer from the Crown Solicitor's office, who has a role to play in looking at and assisting with the assessment and work-out procedures.

**Mr MATTHEW:** As a supplementary, what action is being initiated to maintain pressure on customers currently in default of their obligations to the bank through non-accrual loans to meet their commitments, and how many staff have been specifically allocated to that sort of work?

**The Hon. J.C. Bannon:** I will ask Mr Paddison to respond to that question. Obviously, the bank is in the business of ensuring that people pay their debts but, in the current climate, it has to do so with some kind of appreciation of



capacity to pay, the implications of winding up and so on. It would require individual judgment in each case and quite a lot of staff effort. I do not know whether precise numbers can be provided.

**Mr Paddison:** With regard to the first question, obviously the pressure that the bank brings to bear on any individual or company that is in default of its obligations is very much a by-product of the seriousness of that default, and normally the action taken varies very much from case to case. In a number of instances a fairly significant legal process sometimes involving the appointment of formal insolvency professionals through either receivership or the appointment of a liquidator is instigated. I do not think one can be specific about how those initiatives are being pursued.

The staff operating within the group and Asset Management Division numbers about 130, ranging from account officers and management through to technical specialists in the area of legal insolvency. As the Premier has commented, a number of seconded external personnel are also assisting the bank. We are in the process of actively recruiting further people with technical experience in the area of loan recovery and insolvency as considered appropriate.

**Mr MATTHEW:** As a further supplementary, will non-performing loans of the State Bank be isolated in a separate 'bad bank' in a similar way to the Bank of New Zealand and, if so, when?

**The Hon. J.C. Bannon:** No decision has been made about that. It has certainly been covered in statements that have been made about the bank. It will depend on what is assessed as the appropriate structure to manage these problems. There are implications in the case of a State-owned bank, involving Federal taxation and other matters, that need to be looked at in terms of the creation of an entity specifically to manage non-performing loans.

Of course, at the end of the day, in any case, the most practical method of handling and managing these assets is, obviously, to use the personnel and the structure of the bank. So, the question of how it is treated in accounts is something that we have time to consider. Obviously, we will be advised by the bank about the possibilities and we will do our own assessment through Treasury as well. That is certainly being looked at, but no decisions have been made at this stage.

**Mr MATTHEW:** There is still one pertinent point that needs to come out of this. Obviously, some analysis has been made of the possibility of setting up a 'bad' bank. Has the Government or the State Bank made any preliminary moves to investigate the privatisation of the bank into either a 'good' bank or a 'bad' bank, or both?

**The Hon. J.C. Bannon:** It would not involve privatisation. What is conceived in this 'A' and 'B' bank proposition—which is a more neutral way of describing it—is that a separate entity, or structure, would deal with all non-performing loans and asset management. The present process has an asset management division. The bank's overall performance is secured by the indemnity, which resides with the bank. Therefore, everything is included in the overall bank results. By separating them into two entities, the indemnity would be transferred to the non-performing loan structure and the rest of the bank's operations would perform independently in accounting terms. That may have some presentational or other advantages. Those are the things being explored. However, there could be a down side as well. Certainly, the advice that has been provided to both the bank and to the Government to date suggests that we should not make a decision at this stage without further exploration.

**Mr MATTHEW:** Given the \$153 million loss last year, why is the State Bank maintaining its holdings in operations in New Zealand?

**The Hon. J.C. Bannon:** The broad answer to that is that, as with any asset, whether they be performing or non-performing, one must manage them in the optimum way. Whilst the bank is in the business of down-sizing and managing its assets, it is not in the business of quitting them in bad circumstances or taking maximum losses. So, the New Zealand assets are being looked at intensively.

As I mentioned earlier, J.P. Morgan has been commissioned by the bank specifically to address the New Zealand operations. Obviously, in the meantime, the management of those operations is taking place. In the case of the United Bank, now scaled into its retail operations, it is performing well. In the case of others, obviously the implications of holding those non-performing areas has to be considered.

**Mr S.J. BAKER:** I note that, according to this year's State Bank report, Beneficial Finance Corporation contributed a \$145 million loss to the group trading result. It has been noted that a number of Beneficial employees are no longer with the company on the basis that they wrote a large number of non-productive loans during the life of the company. Are there still employees of the group, for example, Mr Gary Martin, who have been involved in writing non-productive loans still with the company? What is their remuneration package and why are they still employed?

**The Hon. J.C. Bannon:** That is an omnibus question. In terms of the personnel of the bank—and obviously that is something for which the board has ultimate authority and jurisdiction—there have been changes in staff; there have been separations, redundancies and retirements. However, there has not been some sort of major exercise of purging the corporation of anyone who was employed or involved in it in the period prior to the major problems emerging. That is very much a matter for the bank to deal with through Beneficial's operations. I am certainly not prepared to comment on any individual in this context, and I think it is a bit unfair of the Deputy Leader to raise it in that way. If he would like to take up that matter privately with the Chairman, I am sure that he would receive a response.

**Mr S.J. BAKER:** The Premier would be well aware of the public disquiet when some of the levels of remuneration were revealed in the report. He would also be aware that there is on-going concern on the part of members of the public and, indeed, members of Parliament, in relation to those people who remain within the State Bank Group and who might well have been very much responsible for the large loss which the State has incurred and which ultimately the taxpayers have to bear. As a compromise, will the Premier provide some details of the dimension of the problem of those people still remaining in the group who were responsible as to the level of non-productive loans written by them in the immediate past?

**The Hon. J.C. Bannon:** I am not sure that that would be appropriate or productive. The intensive work that is being done by the Auditor-General and, of course, the work of the royal commission will give a perspective and a picture of what went wrong and why. Before that happens, I think that, other than the normal personnel and management criteria, it is not appropriate to provide lists of names—hit lists of culprits—of the sort the honourable member has in mind. That would be totally counter-productive. In saying that, I am certainly not defending the level of particular salaries, or the employment of particular individuals: I am just saying that it is not appropriate to conduct some sort of exercise through this Committee.

**Mr S.J. BAKER:** In relation to the whole State Bank Group, what does the Premier deem appropriate for those people who have had some direct responsibility in signing up and in accepting non-performing loans that have led to the dramatic position of the State Bank? What does he as Premier and Treasurer in charge of the indemnity document, as the person who has had to find \$2.2 billion out of SAFA and ultimately out of the taxpayers' pockets for the losses, believe is appropriate for those people who are responsible?

**The Hon. J.C. Bannon:** First, the question of responsibility and the nature of it needs to be established. I have just explained that a very large sum—millions of dollars—is being spent doing just that. Until we receive those reports, there is no point in expressing views or opinions.

**Mr S.J. BAKER:** Can the Premier reconcile why some people who were deemed to have some responsibility for this situation are no longer with the bank or with the group while others who, to outsider observers, might have had a great deal of responsibility for it, remain?

**The Hon. J.C. Bannon:** The key is the words 'to outsider observers, might'. It is true that there have been some redundancies in the senior executive level of the bank. Unless the Deputy Leader wants to produce some sort of hit list and mark people's names with ticks and crosses—which I think he is singularly unqualified to do and which I would regard myself as being similarly unqualified—there is no point in our pursuing this. I have confidence in the Chairman, the Managing Director and the board to deal with those issues appropriately. In assessing what happened, why and how, it is only fair to all those involved, at whatever level, that the inquiry that is going on should be completed.

**Mr D.S. BAKER:** Earlier today we were given a figure of \$4.2 billion for the State Bank's non-performing loans, of which 38 per cent were within South Australia. What percentage of those non-performing loans are rural loans?

**The Hon. J.C. Bannon:** I will see whether we can provide some information.

**Mr Paddison:** Of the total South Australian loans in the non-performing category, 7.7 per cent are what we would classify as rural. There may be some loans in the rural sector, such as residential mortgages and so on, that need to be added to that.

**Mr D.S. BAKER:** I presume you are saying that 7.7 per cent of the 38 per cent are rural loans?

**Mr Paddison:** Yes.

**Mr D.S. BAKER:** Between 10 February and 30 June the non-accrual loans or losses of the bank more than doubled. During this whole period month by month reports were provided to the bank's executive committee and the board and those were provided to the Treasurer. It is history now, but that is probably the most dramatic period in the bank's history. Will the Premier release the reports that were provided to him between March and July so that we can ascertain the reason for this terrible blowout in losses?

**The Hon. J.C. Bannon:** The release of those reports will not ascertain the reason. It is set out in the report of the bank. Between February and June, as has been stated on many occasions, a detailed assessment and estimate of the non-performing loans was made in terms of possible return and exposure. That is a long, ongoing and extremely intensive process. It was done in the light of prevailing market and economic conditions, which deteriorated sharply through the first half of this financial year. It was always going to have a major effect on the end result. I do not think that anything will be gained from, nor would it be appropriate to release, an historical bulletin of the weekly position. In

February 1991 the estimated face value of losses on principal was approximately \$1.5 billion. The present net value estimate is \$990 million. Looking at the areas in which the bank's result is canvassed, we can see that it was not new liabilities that were causing this but the deterioration on the assessment of existing liabilities and, in addition, about \$500 million of abnormal items which were identified only quite late in the day.

I disagree with the Leader about that period—February to June or whenever—being the worst period in the bank's history. I suppose in terms of making an assessment of the fundamental problems of the bank, it was certainly the worst but, in terms of those problems or exposures having been created, that happened over a period of years of growth in much better economic conditions. I do not think there is anything to be gained from those reports either now or in the future. I can declare very strongly here and now—and I am sure the Chairman of the bank would support me completely on this—that we will not be making weekly, monthly or whatever assessments or predictions. There is a half-yearly report in process and there will be an annual report. In the current climate, one questions the value of a half-yearly report, particularly when we consider the experience of some half-yearly results and what has happened in the second half of the financial year when they have been properly audited. Be that as it may, it is the bank's intention to do that, and that will be the next opportunity that we have of scrutinising performance.

**Mr S.J. BAKER:** I should like to clarify another point that was made earlier. Questions were raised about salaries and remuneration, and there is still some confusion. One question was: who would have received between \$210 000 and \$219 999 in directors' fees (page 61 of the State Bank report)? We presume that the same person received \$280 000 to \$289 999 as directors' fees in the year ended 30 June 1990. On page 63 of the State Bank report we have, we presume, the executive officer, who has vacated the office, in the \$830 000 to \$840 000 category. Are those figures exclusive or inclusive; in other words, are the directors' fees on page 61 included in the remuneration shown on page 63?

**The Hon. J.C. Bannon:** As I understand it, the Chief Executive Officer, who may be appointed to the board under the Act and in practice has been and is currently appointed to the board as a director, does not receive directors' fees. The Chief Executive Officer receives a salary and remuneration package that is separate from and is not added to by directors' fees as a director of the State Bank Board. Obviously, in a list of directors, in compliance with the corporation reporting procedures, that director and his remuneration would be shown. However, that has no relation to board fees as such.

**Mr S.J. BAKER:** Is the Premier saying that the \$280 000 to \$289 999 does not relate to the CEO?

**The Hon. J.C. Bannon:** In view of the difference in remuneration between all the other directors and those categories, one as at 30 June 1991 and one as at 30 June 1990, I would have to guess, as would you, that it is the Chief Executive. There is no greater significance than that. That is the appropriate way in which it is to be looked at.

**Mr S.J. BAKER:** I thought it would be fairly easy to explain.

**The Hon. J.C. Bannon:** It is total income received or due and receivable by directors, and it would include superannuation payments and things of that kind on separation. I have already covered that point.

**Additional Departmental Advisers:**

Mr J. Hill, Deputy Under Treasurer.

Mr R. Schwarz, Assistant Under Treasurer.

Mr M.M. Jones, General Manager Finance, State Government Insurance Commission.

Mr M.F. O'Brien, Acting General Manager, Investments, State Government Insurance Commission.

**Mr D.S. BAKER:** Has SGIC provided subject guarantees to Financial Security Assurance Incorporated, a New York-based financial guarantee company, and to Australian Mortgage Securities Ltd, an insurer of mortgage-backed securities? What is the value of the guarantees, and has re-insurance been put in place to avoid any calls on the State Government in the event of default?

**The Hon. J.C. Bannon:** This question relates to the general credit risk insurance business, which of course has been examined in some detail by the GMB inquiry. It covers a range of areas of credit risk insurance. Incidentally, it no longer covers property put options, because they are not being offered by SGIC, as has been announced. But it includes things like securitisations, lease residual value insurance and credit enhancements, which are well known in the insurance business.

There is a significant difference between other insurance activities and credit risk insurance. In general insurance, one is involved in what could be called a total loss situation; if a house burns down, then it is paid out. With credit risk insurance almost all obligations are asset backed. If it is called up, SGIC will receive an asset or a claim on another party to offset its obligational payout. So, the gross obligations in credit risk are not related to potential net claims, and obviously have to be looked at in that way. They are not a sort of new type of insurance, in that they have been carried out in Australia, the United Kingdom and the United States of America for some time, and it is regarded as a legitimate and appropriate area of business for SGIC to operate in.

I think it is important to put that into some sort of context, because there has been criticism generally based around the experience of property puts and, in particular, the very high profile and expensive 333 Collins Street. The Leader asks a question in relation to a specific area of credit risk. If detail of that kind is not readily available, we can, as I said in the case of the State Bank, ascertain whether or not we can provide it, and I think that is the case in this instance.

**Mr D.S. BAKER:** Did the Treasurer approve of SGIC guaranteeing 100 per cent of the credit risk of Australian Mortgage Securities Ltd's issue of \$1 billion of mortgage-backed securities over the next three years, 90 per cent of which will be in relation to properties that are outside South Australia?

**The Hon. J.C. Bannon:** We will have to take that question on notice.

**Mr D.S. BAKER:** What is the current valuation of the Centrepoint Building in SGIC's books? How much revenue did SGIC earn from this property in 1990-91? How much is SGIC budgeting to earn from the property in 1991-92?

**The Hon. J.C. Bannon:** The value in the accounts as at 30 June 1991 was \$20.2 million. That is on the basis of a currently vacant building. Previously it was tenanted, until Myer vacated it. As to other treatments, Mr Jones might be able to comment.

**Mr Jones:** In respect of the specific rentals for last year and for this year, I would have to get those numbers, to be precise, and I will take that on notice. The building was tenanted for the full period last year up until virtually the

end of the year, when Myer vacated to move to the Remm premises. This year there is no tenant currently identified, and that has been recognised in the valuation process.

**Mr D.S. BAKER:** I ask a supplementary question. You are going to provide the figures to us? This is the building for which over \$40 million was paid?

**The Hon. J.C. Bannon:** That is correct, and it was tenanted and rent generating, of course, at that stage. I make the point that the value was as at a particular date in a particular state of occupancy. That does not reflect the long-term value of the property.

**Mr FERGUSON:** During the Estimates Committee last year (11 September 1990, *Hansard* page 28) I asked Mr Gerschwitz the following question:

Does SGIC provide any directors to firms in which it has investments?

Mr Gerschwitz replied:

Yes. I am on the board of Bennett and Fisher and was invited there as a separate issue entirely and went there with the approval of the Minister of the day, who I believe was the Hon. David Tonkin. We have members on the board of First Radio Ltd and, off the top of my head, that would be the only board representations that we have.

Is the Premier able to tell me whether in fact that was an accurate answer to my question, in the light of the knowledge that he has now?

**The Hon. J.C. Bannon:** It was not, and it was subsequently corrected on the record. The directorships, under the current reporting procedures, are shown on page 34 of the report for both a number of the Commissioners and persons such as Mr Gerschwitz. Since then a question has been raised by the member for Light in the House who provided the names of the series of other companies, contending that these should have been listed in the annual report.

*Mr S.J. BAKER interjecting:*

**The CHAIRMAN:** Order! The Deputy Leader is not asking or answering this question.

**The Hon. J.C. Bannon:** I have referred those questions to the Crown Solicitor for an interpretation of what is appropriately recorded because, in providing the list this year, SGIC advised me that it took advice on what should or should not be included, and it had a legal opinion about what listings should occur. It is based on that opinion that this list of directorships was provided. As to further directorships, there is now obviously an opinion being sought.

**Mr FERGUSON:** Do directors of SGIC accept payment for positions on boards to which they have been appointed?

**The Hon. J.C. Bannon:** It depends on the nature of the board. If they have taken it on as a separate matter—I suppose Mr Gerschwitz's membership of the Bennett & Fisher board, of which incidentally he is no longer a member, is an example—yes, he would receive some form of fee. In the case of a subsidiary company where it is a directorship of convenience I am not sure of the position. I guess it would vary from case to case depending on the duties involved.

**Mr FERGUSON:** In due course can the Committee receive details of those payments?

**The Hon. J.C. Bannon:** I will ascertain what can be provided in that area.

**Mr FERGUSON:** What is the purpose of putting SGIC directors on boards of such companies?

**The Hon. J.C. Bannon:** That might be something to which Mr Jones can respond. It obviously relates to operational and other matters.

**Mr Jones:** In a typical situation of most institutional investors, where you have a holding investment that normally exceeds 10 per cent, it would be typical to have a

member of the organisation on the board in a monitoring role so that one has awareness of decision-making. It is normally not an active role but a role of monitoring.

**Mr FERGUSON:** Is that a monitoring role for SGIC?

**The Hon. J.C. Bannon:** Yes. SGIC, by and large, is a passive investor, particularly when it comes to securities and so on. If it was operating in the marketplace in the total commercial way of a number of companies it would insist on board positions in order to monitor and protect its investment, particularly where that investment is substantial. By and large it has not done that, but there have been cases where it has.

One of the recommendations of the Government Management Board review was that this question should be looked at and a determination should be made whether SGIC senior executives, for instance, should serve on boards of non-consolidated investee companies, and that is being done at the moment. There is also the question of directorships in companies outside the SGIC group.

It is said in these instances they should account for those directors' fees to SGIC. They are not personal emoluments and the practice of executives retaining those fees should cease. The Government has agreed in principle that that is appropriate and the detailed working of that is being looked at by the working group we have established. Both those matters are being dealt with.

**Mr FERGUSON:** Is not the legal obligation of directors to look after the interests of the company for which they are directors rather than the interest of SGIC?

**The Hon. J.C. Bannon:** That is correct.

**Mr S.J. BAKER:** What is the estimated cost to SGIC in 1991-92 of the ownership of 333 Collins Street, Melbourne? I seek the individual cost of debt servicing of the purchase cost, the stamp duty paid on transfer of the building, the maintenance cost and the cost of management of the building. What is the estimate for 1992-93 for the same building and can the Committee be provided with the levels of revenue that SGIC is budgeting to receive from the leasing of 333 Collins Street this financial year?

**The Hon. J.C. Bannon:** Many assumptions are involved in this area, not the least of which is property values and whether or not the property is disposed of, over what time scale, in what way or whether it is even joint ventured. There are numerous variations on the ways in which the property can be managed now that it has fallen to SGIC.

In terms of the question about subsequent years, I do not think there is any useful information that can be presented. I am advised that in terms of current holding costs we are talking about an amount of the order of \$50 million in 1991-92. That could change considerably in out years by any number of a range of matters, which are actively being pursued now that the property has reverted to SGIC ownership.

**Mr S.J. BAKER:** I asked for a number of details. I asked what was the cost of debt servicing and the Premier said it was about \$50 million. I also asked about the cost of stamp duty on the transfer of the property that had to be paid to the Victorian Government, I assume, and I asked about the cost of building maintenance and management. All up, I would like to know what the total cost of running and holding that building will be in 1991-92 and what is the projection for the forthcoming year. I also asked what is the estimated revenue that can be expected for this financial year from 333 Collins Street. We have heard only about the \$50 million holding cost.

**The Hon. J.C. Bannon:** The stamp duty is \$13 million, a one-off payment. Of course, rental income is expected in this current year and, to the extent that further space is let,

that income will increase and at base, the value of the property, which reflects the general property market value, is fairly crucial. Mr Jones might be able to add some points.

**Mr Jones:** The numbers quoted are based on the facilities we have acquired and on the settlement of the transaction. As far as the opportunities that exist in the current interest rate market are concerned, we would like to think that there are opportunities to reduce that cost in the future. As far as the income streams are concerned, as you are probably aware, in today's market the tenancy situation is extremely tight, so we have looked at only committed tenants, and the numbers have been quoted. I think that future tenants are recorded when they occur.

**Mr S.J. BAKER:** Can I please have an estimate from the Premier as to how much has been received from the maintenance and management of the building in this financial year? I would like to be given a figure. Surely, that must be definitive at this stage. Irrespective of whether you rent or lease more space, what is the expected rental stream from that building in this financial year?

**The Hon. J.C. Bannon:** Because tenancies are being negotiated and the building is up for lease, there is no way that some of those details should be placed on the record, because you are simply inviting prospective tenants to make commercial calculations that put you in a totally non-competitive situation. I am sure that that is not the intention of the Deputy Leader; he has not thought of the implications. I think that we have given the general order of the situation. I think that, in terms of revenue stream, the figure of \$6 million was mentioned at one stage. I do not know whether there is any later information which would revise that figure but, obviously, in the case of tenancy negotiations and so on the actual maintenance costs and all the other fine details in relation to the building are what is packaged in terms of tenancy negotiations, and there is no way that SGIC should expose itself in that area. I ask Mr Jones: is there a modification to the expected rental revenue at this stage?

**Mr Jones:** No, it is over \$6 million, but as to the precise amount, which is based on tenants who are now in the building, I do not think we can say what that is.

**Mr S.J. BAKER:** Surely you must have a budget for maintenance?

**The Hon. J.C. Bannon:** Those are the sorts of figure that I am suggesting. The honourable member is, in fact, providing through this House a means for any prospective tenant—anybody that SGIC is currently negotiating with—to have on record cost assessments which will allow them to know precisely what they are bargaining around. Nobody else leasing property in this country is in that position and, as good South Australians, none of us should be putting SGIC in that position. We want to get the maximum return on this property, and we want to quit the property when it is appropriate to do so, because we should not be owning buildings in Melbourne. We own this building by reason of the exposure of the put option. There is value in the property, and there is no way that the Deputy Leader or anybody should be lending themselves to trying to devalue it. That is the only point I make, and I think that those questions are out of order unless there is some malicious intent behind them. But that could not be so as far as the Deputy Leader is concerned; he is the most mild mannered and pleasant of individuals.

**The CHAIRMAN:** The question being out of order is another matter entirely.

**Mr S.J. BAKER:** I will not pursue the matter any further, because I find that the whole exercise is becoming quite fruitless. But I make the point to the Treasurer that revealing the management and maintenance costs on a particular

building has nothing at all to do with the rental. Indeed, one of the major costs of the building is its holding cost, which is the cost paid back on the loan or the opportunity costs you have because of the money that is being sunk into the building, and which has very little to do with maintenance and management costs. I find that the level of understanding by the Treasurer about financial matters is appalling. What income did SGIC earn in the past financial year from its ownership of the property at 1 Port Wakefield Road?

**The Hon. J.C. Bannon:** I will take that question on notice.

**Mr S.J. BAKER:** I thought that this information would be readily available. I understand that the answer is zero, but for what purpose did SGIC purchase the property, and what is its current value in SGIC's books?

**Mr Jones:** At present, the valuation on the books is \$1.4 million.

**Mr S.J. BAKER:** Why did SGIC purchase the property? Does anybody have a reason? Was there any strategic reason for the purchase?

**The Hon. J.C. Bannon:** I cannot comment on that, because I was not privy to or involved in those decisions, and it is quite appropriate that I was not. SGIC manages a large property portfolio and equity business; some are loss makers and some are profit makers. In the current climate, and with the state of property values, one would be well aware that there are plenty of loss makers around, but for a long-term investor such as SGIC there is a good chance of recouping and recovering those losses, and that is the strategy being undertaken.

**Mr S.J. BAKER:** So, the Premier cannot think of any good reason why SGIC purchased the property?

**The Hon. J.C. Bannon:** It purchased it as part of its investment policies.

**Mr S.J. BAKER:** On a good, sound financial basis, with good reason for so doing?

**The Hon. J.C. Bannon:** Is that a question?

**Mr S.J. BAKER:** Yes.

**The Hon. J.C. Bannon:** The review committee found that the financial management and policies of SGIC were sound. I know that some members of the Committee, with considerable glee, focused great attention on the difficulties experienced in the current climate, but I remind members that that was the conclusion of that committee. If it is the Deputy Leader's job, as he sees it, to denigrate SGIC in the course of these proceedings, there are plenty of targets to choose, but I refer him back to the review whose job it was to go through those issues very closely. It did that and came up with a number of recommendations for improvement. They are being acted upon. It also came to some overall conclusions, which were favourable, in respect of SGIC. It is a pity that the Deputy Leader ignores them.

**Mr HOLLOWAY:** The Government Management Board report recommended that an audit committee of the SGIC Board be established. Has that recommendation been adopted?

**Mr Jones:** Members of the audit committee have been nominated and we are currently developing a charter under which it will operate.

**Mr HOLLOWAY:** The life assurance industry was recently attacked in the *Financial Review* by the Commonwealth Insurance and Superannuation Commissioner for its woeful performance in various areas of expense and control. How did SGIC perform in those areas of its life sector under the Government Management Board review?

**The Hon. J.C. Bannon:** I do not have a full report in front of me. I ask Mr Jones to comment generally.

**Mr Jones:** Our life fund performance has been quite sound and ranks in the top 15 per cent of life assurance companies.

**Mr MATTHEW:** For what return is SGIC budgeting this financial year from the compulsory third party investment fund of \$834 million as at 31 March this year?

**Mr Jones:** It has a number of components to it. The element at which we are looking is in the order of 11 to 12 per cent. With the introduction of the new accounting standard, that requires not only the normal revenue streams and accrued income under ordinary concepts but we must also take into account market value movements. So, there will be an element of volatility subject to various markets. That has to be subject to movements in those markets in line with what we project. We have projected minimal movement in respect of properties, and with equities we believe that fixed interest will come up with the answer.

**Mr MATTHEW:** I refer to the Auditor-General's supplementary report tabled this year. In particular it puts the loss of Bouvet Pty Limited at \$1.282 million for 1989-90. However, I note in the SGIC annual report for 1990-91 that the loss for this group has been put at \$4.83 million. Will the Treasurer explain the discrepancy?

**Mr Jones:** In the Auditor-General's Report last year he used a number of facts and abnormal items before bringing in the appropriated income for the prior year. This year he reflected the interest prior to taxing abnormal items. Further down the page he used income tax implications which one would factor back into the various subsidiaries to arrive at the figure given for last year.

**Mr MATTHEW:** My next question relates to SGIC's investment in the Scrimber project. Before the Government's decision last month not to invest any further funds in the project, did SGIC make any representations to the board of the Timber Corporation about the management of the Scrimber project and, if so, are any of those representations in writing?

**The Hon. J.C. Bannon:** We will have to take that question on notice. I am certainly not aware of any representations being made. SGIC was an investor in Scrimber, so we would have to ascertain any details in respect of its involvement in management.

**Mr MATTHEW:** Assuming the Premier finds that those representations were in writing, will he provide the Committee with a copy?

**The Hon. J.C. Bannon:** It depends on whether or not it is appropriate to do so, commercial and other considerations being taken into account.

**Mr MATTHEW:** I would have thought that it was appropriate, with respect.

**The Hon. J.C. Bannon:** You think that it is appropriate. I will take it on notice and see whether I think it is appropriate.

**Mr MATTHEW:** The company has just gone bankrupt and the taxpayer has to pour more money into it, so I hope it is appropriate.

**Mr FERGUSON:** What was the nature of commissioned Macquarie Bank advice with respect to SGIC's investment strategy?

**The Hon. J.C. Bannon:** I do not believe that it would be appropriate to provide advice that was obviously commercial business advice to the management board, but certainly the general nature of it is relevant as it has been referred to and was adverted to in the Government Management Board report. In general terms it was felt that SGIC's portfolio was somewhat overweighted in property and equities, including unlisted stocks with an over-emphasis on a limited number of equities. Some realignment of SGIC's port-

folios occurred following that assessment by Macquarie Bank, and no doubt that will continue.

The review recommended a separate investment strategy relating to the nature and purpose of each fund, and the Government has certainly agreed to this in principle. The working group is looking at the detail of it and it will be picked up by SGIC when it is concluded. I have already requested that the asset mix for its life fund be heavily weighted to fixed interest or debt investments because of the capital guaranteed investment business run through that fund, and again that reflects the approach suggested by the Macquarie Bank.

**Mr FERGUSON:** Will the Premier disclose the life fund asset mix adopted?

**The Hon. J.C. Bannon:** The guidelines are as follows: equities should be not more than 20 per cent; land and buildings not more than 5 per cent, and fixed interest for the balance of the fund. They are, of course, guidelines; in other words, investment policy should be aimed at achieving that mix, but they vary from time to time. For instance, the value of certain equities may increase greatly or may fall. Similarly, with respect to property which can unbalance the portfolio in a temporal sense, the overall mix and the long-term results are looked at, but that is the sort of proportion that is adopted for a life fund.

**Mr FERGUSON:** Over the past four years, SGIC has used a variety of consultants at a cost of \$4.4 million. Has there been a review of the advice tendered by those consultants and is SGIC satisfied with that advice? I refer specifically to the advice in respect of investment strategy.

**Mr Jones:** The principal sum used for consultants has been broken down into individual areas. Certain aspects of that consultancy were spent on taxation matters and on reviewing our approach in that regard. With that in mind, a reappraisal of our approach and movement internally of a lot of those functions has occurred. With respect to your question on the investment areas with the Macquarie Bank, the future of what was a four stage process has been reassessed in line with the cost to identify the key elements of what we had to achieve and the best way of achieving them. That is currently being discussed with the Macquarie Bank to assess whether that approach is correct.

**Mr D.S. BAKER:** The Government Management Board review of SGIC reported that fees received by SGIC directors on subsidiary company boards often exceeded their fees for being members of SGIC boards and that this was an undesirable situation that falls outside the spirit of the arrangements for setting fees by the Government at SGIC board level. The SGIC annual report shows that almost 80 per cent of income received by commissioners in 1990-91 came from directorships of subsidiaries. When did the Premier become aware of this practice; will he reveal how much Mr Prowse received as Chairman of Bouvet Pty Ltd in 1990-91, and what is his fee for this appointment for 1991-92?

**The Hon. J.C. Bannon:** That passage in the report and the recommendations relating to it have been taken up. As I have already said, in principle I agree with the Government Management Board that that practice needs looking at. The justification for it may lie where one is expecting a particular performance or major commitment of time on the part of a director of a subsidiary company. I could conceive of that being the case with respect to managing the Terrace Hotel, a major investment by SGIC, for which Bouvet is the holding company.

As I say, I would conceive, and I am sure that in business practice the Leader would agree, that these payments are made and are seen as appropriate. I agree that they have to

be handled carefully and, where we have a procedure that fixes directors' fees and sets out certain formulae, it does not make much sense if they are avoided by simply an arbitrary conferring of fees in subsidiary companies. That is not the intention or the spirit and it is the subject of major review. As to the actual fees provided, I do not know whether it is appropriate for them to be on the public record. I will take that question on notice.

**Mr D.S. BAKER:** As a supplementary question: when did the Premier become aware of this practice?

**The Hon. J.C. Bannon:** We were made aware of it through the findings of the GMB report. I am not aware that I was required at any time to approve or endorse such fee arrangements, so I cannot say.

**Mr D.S. BAKER:** Will the Premier take that question on notice?

**The Hon. J.C. Bannon:** I will not go back through minutes, diaries or whatever. All I can say is that the practice having been assessed and commented upon by the review, the Government has taken up the recommendations of that review, and I guess that is the important thing.

**Mr D.S. BAKER:** The total income of commissioners in 1990-91 was \$260 670 compared with \$189 071 in the previous year. What is the reason for that increase of almost 38 per cent?

**The Hon. J.C. Bannon:** I am not aware of the reason for that, but Mr Jones might be able to throw some light on it.

**Mr Jones:** In the 1990 financial figures a number of subsidiaries, such as hospitals, were not incorporated for a full year (the figure represents only part of a year), whereas in 1991 they were incorporated for a full year. I think that Austrust also falls into that category.

**Mr D.S. BAKER:** Two commissioners earned between \$40 000 and \$49 000 in 1990-91. Is one of those commissioners Mr Prowse?

**The Hon. J.C. Bannon:** I cannot say. It is a bit difficult. There are certain requirements in relation to disclosure which I have insisted should be observed, and they are now shown in the accounts, but of course the ante is upped on each occasion and further information is required. I do not know whether it is appropriate to go beyond the statutory requirement in this instance.

**Mr D.S. BAKER:** As a further supplementary: before leaving his position as Under-Treasurer to become an SGIC commissioner from 1 July 1990, did Mr Prowse discuss with the Treasurer the income he would receive as a member of the SGIC board and, if so, what was the outcome of those discussions?

**The Hon. J.C. Bannon:** Mr Prowse did not need to discuss it with me as it is on the public record. An established fee is laid down and reviewed regularly on the recommendation of the Commissioner of Public Employment.

**Mr D.S. BAKER:** Did he discuss the total income that he received from boards, authorities, subsidiaries and things of that kind?

**The Hon. J.C. Bannon:** No. Why would he seek to do so?

**Mr D.S. BAKER:** That is why I am asking you the question.

**The Hon. J.C. Bannon:** He would be well aware of the prevailing rate of board fees and that he was entitled to them.

**Mr HOLLOWAY:** I note in the accounts of SGIC that there has been a considerable increase in the reinsurance costs for the group from \$19.9 million to \$23.4 million. Does this indicate a trend in reinsurance markets and is it likely to increase costs in the coming year?

**Mr Jones:** To try to draw conclusions from some of these things is to over simplify matters. A number of components go into a reinsurance figure that has variations depending upon the period of reinsurance and the nature in which it has been struck. There are things such as excess of loss cover as well as treaty and proportional reinsurance. I think that it would be inappropriate to draw conclusions from the movements that would reflect a change in the manner in which we did business.

**Mr HOLLOWAY:** Perhaps you could comment on the state of the reinsurance market?

**Mr Jones:** The cost of reinsurance is definitely escalating because of the nature of the problems in the insurance market world-wide. The exposures that have been identified by Lloyds since 1988 until this year are astonishing, and they will be reflected in the reinsurance market.

**Mr HOLLOWAY:** In relation to the accounts of investments, I note that there has been a big increase in the liquid assets of SGIC and a commensurate decline in non-current investments. Is that because of the state of the market, or are there other reasons for that?

**Mr Jones:** The movement of investments is typical of today's market. The movement in the past 12 months was to try to become as liquid as one could. Interest rate markets have fallen, and it is now a case of reassessment. It is very difficult to decide the appropriate way to go. Those people who are cashed up at present are having to make a difficult decision as to whether they invest in capital growth assets or maintain the existing situation. I have not heard of too many people who have guessed the markets with any certainty over the past few years. Projecting the future involves a similar concern. It is fair to say that most people project that any recovery we have will be slow and that it will be reflected in the nature of the markets. Typically, one would expect equities to move first and then there would be some sign of property recovery. I think it will be some time before we see the fixed interest market coming back.

**Mr S.J. BAKER:** In relation to the increase in the salary of the Chief Executive Officer, which increased by up between 20 per cent and 30 per cent last financial year, was the Premier advised of that increase prior to its being implemented?

**The Hon. J.C. Bannon:** No, that has always been a matter that the board has determined in negotiation with the Chief Executive Officer. I have not been involved in that level of salary fixation.

**Mr S.J. BAKER:** As a supplementary question, are the salaries of the SGIC executives related in any way to the financial performance of the commission? If not, how are executive salaries determined, and why did the number of executives in the SGIC group earning in excess of \$100 000 increase by 50 per cent in 1991?

**Mr Jones:** A broad range of conclusions can be drawn from this band information in that there is a presumption that seems to have been levelled that this reflects a recent increase. When one considers these numbers—as has been alluded to before—one sees that they include a multiplicity of numbers in that there has been a down-size in SGIC during the year. So, when people have a pay-out, take additional leave or receive some other payment, they may move into these brackets whereas they would not have been in these brackets at other times. There are many permutations in the numbers; in the middle of the first year in which a change occurs, we get only half the effect, but in the subsequent year we get the full year effect. It is too simple an analogy to look only at movements. Really, there has been no increase or movement in incomes in respect of SGIC executives this calendar year that I am aware of.

**Mr S.J. BAKER:** I understand that in the report the pay-out package is included as a remuneration item, so that if people are being paid out for early retirement they are included in the \$100 000-plus category. Is that the rationale? Therefore, the number of executives has not increased.

**Mr Jones:** It is a different question whether the number of executives has increased. I am saying that the amount of remuneration and how it falls into the bands will be influenced by the total amount of remuneration one receives in that year from all sources, be it payment for annual leave, long service leave, redundancy or whatever. Those amounts are then accumulated and we put people into brackets as a result. The total amount paid in respect of those people becomes the amount of fees noted in dollar terms.

**Mr S.J. BAKER:** So, the number of executives at SGIC has gone down. Is that what you are saying?

**Mr Jones:** I did not say the number had gone down. I said that this year's figures indicate that there are people who are no longer at SGIC.

**Mr S.J. BAKER:** With the indulgence of the Chair, I would like to ascertain whether the number of executives at SGIC has remained static, increased or decreased. How do the figures for 30 June 1990 compare with those for 30 June 1991?

**The Hon. J.C. Bannon:** The list is misleading in terms of numbers. If the Deputy Leader is after absolute numbers of executives and so on, we can certainly provide those figures.

**Mr S.J. BAKER:** The Government Management Board review of SGIC recommended that SGIC examine the future of all its non-profit making subsidiaries. Does that mean that, as a result of the massive losses—\$3.45 million in 1990-91 and \$4.83 million in the previous year—and the \$20 million write-down of the value of the Terrace Hotel and, in fact, Bouvet, the SGIC is looking to sell off the Terrace Hotel in keeping with the recommendation of the Government Management Board that its future be reviewed?

**Mr Jones:** I think in relation to all non-performing assets—and that goes continually—we always have to reassess the performance of any asset. If it does not perform, serious consideration should be given as to whether there is an opportunity to dispose of it or whether there is an opportunity to generate income out of it through a reassessment of its progress and the manner in which it operates. It is a bit simplistic to think that just because something does not perform it has no future or that it can be disposed of immediately. In respect of all our assets, be they performing or otherwise today, we have to reassess them and look at where they will be tomorrow.

**Mr S.J. BAKER:** Someone must be in control of SGIC and I would expect that someone must be looking at whether the assets should be sold off.

**The Hon. J.C. Bannon:** I cannot let that pass. It is a gratuitous statement. The Government Management review made certain recommendations and a working party has been established, to which those recommendations have been referred for implementation. Amongst other things, there is a recommendation relating to non-performing assets—the future of subsidiary companies—that is under review. Work is being undertaken on how they should be treated and what sort of policy SGIC should have. Of course, the SGIC is part of that process.

**Mr S.J. BAKER:** I thank the Treasurer for his answer. By the same token, would that also mean that SGIC will be looking at its health insurance area for the same reasons?

**The Hon. J.C. Bannon:** At present, there is no reason for SGIC to contemplate quitting health insurance. However,

as with any of its investments and activities, it will be kept under review.

**Mr S.J. BAKER:** It has not made a profit yet, and it has had interest free loans.

**The Hon. J.C. Bannon:** SGIC Health has been going through an establishment phase during which it was not expected to be profitable. It is expecting to record a profit in 1991-92. It is certainly coming to the end of the growth, expansion and establishment phase. I am already on record as saying that SGIC is under an obligation either to demonstrate that its health fund is a performing asset, a necessary part of its operations and offerings, or to quit it.

That is the basis on which SGIC went into health. It went into health also in part in an environment of competition. Health funds, for instance, were seeking to sell general insurance and get into the general range of business. That is fine; it is their right to do so. However, they should not complain if SGIC in turn gets into the health business. SGIC Health has provided very competitive premiums for many South Australians. At the end of the day, that business must perform profitably. If it does not, it should get out of it. That is the policy.

**Mr S.J. BAKER:** By way of clarification, is the Premier saying that there is a holding operation on SGIC Health and that has to prove itself, but Bouvet is under review?

**The Hon. J.C. Bannon:** Everything is and should be under review; it is as simple as that. I am pointing out the situation in relation to SGIC Health. It is reaching the end of its establishment phase, a phase at which it is reasonable to say, 'Now we should be starting to move into profit and seeing what the long-term future of the fund is.' It is on course at the moment. Therefore, I see no great pressure to sell.

**Mr MATTHEW:** For what purposes did SGIC spend \$3.46 million on property refurbishments in 1990-91 (page 19 of the SGIC annual report)?

**The Hon. J.C. Bannon:** SGIC holds about 50 or 60 properties. I do not know what this item is charged against.

**Mr Jones:** There is some refurbishment in respect of computer equipment that has to be put through part of the building to bring it up to date. That will be a significant amount of money.

**Mr MATTHEW:** As a supplementary question, does the computer equipment make up that property refurbishment?

**Mr Jones:** No. Historically, buildings did not provide for the typical way in which we have cabling for computerisation today. Much of it goes in channels through a building. In certain buildings we have to put a shaft through from the roof to the basement, and that represents a reasonable amount of that sum.

**Mr MATTHEW:** As a further supplementary, was this for a particular building and, if so, which one?

**Mr Jones:** One of the major points of that is for the SGIC head office.

**Mr MATTHEW:** This is a reasonable amount of money and there seems to be some uncertainty about it. Would the Premier care to take it on notice?

**The Hon. J.C. Bannon:** I think the answer has been given.

**Mr MATTHEW:** So it is for a shaft in a building?

**The Hon. J.C. Bannon:** As has been said, it is for a number of items relating to the upgrading or refurbishment of property, but one of the larger elements relates to the work that is to be undertaken in the SGIC headquarters building. It has been up for 10 or 12 years now, and it is not surprising that some refurbishment should be taking place to install modern equipment. That was the answer that was given. I did not have this detail. I heard it and I am simply recounting it. If I am wrong, Mr Jones can shake

his head: if I am right he can nod. That is the answer to the honourable member.

**Mr MATTHEW:** I do not wish to labour this point.

**The Hon. J.C. Bannon:** If the honourable member wants itemised details, I guess that is possible. In an attempt to be helpful, bearing in mind the size of this sum set against the property, Mr Jones pointed out that it is minuscule. He said that this is one of the areas where a substantial amount of that money is to be spent. It is a good answer and I thank Mr Jones.

**Mr MATTHEW:** I appreciate that, but a list of the major items would help so that I would know whether the shaft cost \$3 million or \$1 million.

**The Hon. J.C. Bannon:** I will try to provide more information to the honourable member.

**Mr MATTHEW:** My next question relates to the appointment of Mr Stephen Chapman to fill the vacancy on the board of SGIC. Who recommended that appointment, and what special skills, expertise and background does Mr Chapman have which will be of assistance to SGIC, given its current financial position?

**The Hon. J.C. Bannon:** The recommendation came from a number of quarters. We were looking for somebody who, while familiar with the South Australian investment environment, could not, as is unfortunately the case with so many appointments, be seen to have a conflict of interest in relation to his own business operations. This is always the problem in a small community. People who are most active and successful are involved in a range of matters which can sometimes cause problems or at least perception problems.

I am not sure where Mr Chapman's name came from, but a number of people in Adelaide have known him and his work. He was the manager of his firm here and at the same time undertook further studies in business management at the University of Adelaide. Since leaving South Australia, he has kept in close contact with the South Australian environment and he comes here frequently. His presence in and around town was certainly known. I think that he is eminently qualified to add strength to the board in the investment and general financial assessment area because of his particular skills. He is young and enthusiastic, and I look forward to his contribution.

**Mr MATTHEW:** I refer back to a question that the Treasurer answered in response to the member for Henley Beach this afternoon, when he referred to the fact that Mr Denis Gerschwitz was appointed to Bennett and Fisher in his own right rather than as a representative for SGIC and its large shareholding in Bennett and Fisher. However, in Parliament during the last session the Premier advised that at the Bennett and Fisher annual general meeting last November Mr Gerschwitz was in fact given a proxy to vote for SGIC's big block of shares in favour of Bennett and Fisher buying a building owned by Mrs Christine Summers, wife of Chairman and Managing Director of Bennett and Fisher, Mr Tony Summers.

This building was purchased for \$4.5 million, when the Valuer-General and indeed all valuers concerned in Adelaide at the time placed the value at less than \$2.5 million. Can the Treasurer explain how, on the one hand, Mr Gerschwitz could be an independent director while, on the other hand, he could act on behalf of SGIC and act as its proxy in supporting what has been a controversial and widely criticised property deal?

**The Hon. J.C. Bannon:** It is quite possible, if SGIC had a particular policy in the matter. This matter has been very widely canvassed, debated, the Hon. Mr Davis in another place has made speeches on it, and it has been written up



in the papers. I do not think that there is anything I can add. There are no new facts or matters that have come to light, and it is fairly tedious to raise it again in Committee. From memory, the vote was exercised in that way to preserve the status quo, and it was certainly criticised, and that criticism has been well ventilated. That was the basis on which the vote was exercised. The member for Henley Beach was quoting Mr Gerschwitz's own statements relating to that directorship. But SGIC as a shareholder has a right to vote, and the proxy vote was exercised.

**Mr MATTHEW:** I ask a supplementary question. Does the Treasurer regard this as being a conflict of interest situation?

**The Hon. J.C. Bannon:** I refer the honourable member back to the debates, questions, comments, press reports and so on, that took place. There is nothing more that I can add to the matter.

**Mr D.S. BAKER:** Did the Treasurer or the Treasury receive a copy of a report prepared by consultants, engaged in June 1989, to review the State Government Insurance Commission Investment Division and, if so, when was the report received, and will the Treasurer provide the Committee with a copy of the report?

**The Hon. J.C. Bannon:** That was the Macquarie Bank review. There were four steps in the process. There was a review of procedures and recording accounting processes in 1989-90. Investment strategy was addressed in 1990-91, and I have referred to that and to the overall findings of that report. Also an implementation report is being handled in 1991-92. So, it is part of an ongoing exercise. As I indicated to the honourable member who asked a question about this very much earlier, it is not appropriate for those reports to be put into the public domain, although I outlined the findings of those reports in general terms to the honourable member. So I would refer the Leader to my answer to that question.

**Mr D.S. BAKER:** What is the budgeted pre-tax operating result of the SGIC for this financial year?

**The Hon. J.C. Bannon:** We are not in a position to provide that figure.

**Mr D.S. BAKER:** Is that on notice or a refusal?

**The Hon. J.C. Bannon:** It is normally kept in confidence, I think. It is part of the budgeted outcome.

**Mr D.S. BAKER:** So it is not being taken on notice but is a refusal?

**The Hon. J.C. Bannon:** Yes.

**Mr D.S. BAKER:** The review of SGIC by the Government Management Board recommended the formation of a group to assess the recommendations and to monitor their implementation. Has this group been formed yet? Who are the members? Has the group met yet?

**The Hon. J.C. Bannon:** The answer is, 'Yes.' The group comprises Mr John Heard, Mr John Hill and Mr Malcolm Jones. The group has met. In fact, it met very rapidly, prior to the presentation of the SGIC report, to advise me on matters raised by the Auditor-General in relation to the treatment of inter-fund loans. I remind the Leader that in my report to the House I referred to the group having been established and to its providing me, as an initial matter, with some recommendations on that point. It had already met.

It is now in operation and is assessing that range of recommendations. I hope to receive a progress report fairly soon from the group. It is certainly my intention, in matters of legislation, to have some basis for drafting before the end of the year. I have just been reminded that, in an effort to try to meet a legislative deadline somewhere towards the middle or end of October, I require the legislative recom-

mendations. My intention would be to try to introduce the Bill before the House gets up at the end of the year.

**Mr D.S. BAKER:** In 1990-91 an amount of \$684 000 was spent by the life insurance fund as management expenses for advertising. How much of this was spent with First Radio 5DN?

**The Hon. J.C. Bannon:** It is a pretty detailed question. Mr Jones may be able to provide an answer.

**Mr Jones:** We will take that on notice.

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

#### **Additional Departmental Adviser:**

Mr J. Wright, Assistant General Manager, South Australian Government Financing Authority.

**Mr D.S. BAKER:** The Auditor-General's Report reveals that an audit review was conducted last financial year of documentation of formal agreements between SAFA and the State Bank in respect of \$538.9 million of SAFA capital in the bank. Can the Premier provide the Committee with a copy of the report prepared following the review, which was forwarded to SAFA on 1 July 1991; and, if not, why not?

**The Hon. J.C. Bannon:** There is no problem with that.

**Mr D.S. BAKER:** The Auditor-General's Report in relation to this review states:

In view of the nature and amount of the transactions there was a need for detailed, timely documentation recording all duties, responsibilities and entitlements of the respective parties.

Do these comments indicate that the documentation relating to the \$538.9 million of capital in the bank is unsatisfactory?

**The Hon. J.C. Bannon:** I will ask the Under Treasurer to reply.

**Mr Emery:** The answer is 'No'; there was no such indication or suggestion that it was unsatisfactory. Indeed, the Auditor-General referred to page 339 of his report to the fact that SAFA advised him (which he accepted) that existing documentation, in practice, had worked smoothly since 1987.

There was no suggestion by the Auditor-General that there was anything inappropriate in the arrangements; he just wished to see a more formal set of documentation, which is now being arranged.

**Mr D.S. BAKER:** In light of the comments made, what assurances can the Treasurer give that returns on this capital of \$538.9 million have been properly and adequately managed?

**The Hon. J.C. Bannon:** I do not think the comment of the Auditor-General relates to the funds being properly and adequately managed: it refers to the documentation. While conceding that the arrangements have been satisfactory, it was simply a formalisation of procedures.

**Mr D.S. BAKER:** He made no comment on the adequate return or otherwise of the capital in the bank?

**Mr Emery:** That is correct.

**Dr Bethune:** The existing documentation comprises several exchanges of letters. The exchange of letters has been made and the returns have been managed clearly within the terms and conditions set out in the letters. The Auditor-General was concerned to have a legally drafted document rather than exchanges of letters.

**Mr D.S. BAKER:** How is SAFA's estimated contribution to the Consolidated Account established, and does SAFA produce an annual operating or profit plan? If it does, can the Premier provide the Committee with a copy of that plan? In 1990-91 SAFA borrowings increased from \$10.46

billion to \$13.87 billion. Does the estimated surplus this financial year assume a further increase in borrowings and, if so, to what extent? There are two parts to that question.

**The Hon. J.C. Bannon:** As I understand it, the Leader is asking for the estimates that have been made on the surplus. There is always an element of uncertainty because interest rates and other matters can always affect SAFA's performance. If we look back, SAFA has been reasonably accurate in estimating its results. In only one year since 1985-86 has SAFA over estimated its anticipated profit or surplus. In other years it has under estimated it.

The figures can be readily ascertained from the documentation. In 1991 the estimate of \$280 million became an actual of \$363 million. The reason contributing to this was a result achieved after an allocation of \$100 million to the provision of general contingencies. This is why we are expecting to go from an actual \$363 million to \$400 million.

The 1991 result was achieved after allocation of \$100 million to the provision of general contingencies. Although some additives may be necessary in 1991-92, it is not expected to be as large because of that provision, and there is some discussion on that in the SAFA report. SAFA will bring to account \$21 million, being the distribution of the 1990-91 profit of the State Bank. There was a further \$93 million retained in view of the budgeted take into Consolidated Account of \$270 million.

Certain issues are being examined with the Commonwealth in relation to the settlement of debts that will allow SAFA to bring some benefits to account in 1992 (these are referred to at note 20).

Consistent with recent years there is an additional return on the non-repayable capital payable to ETSA. That is estimated at \$45 million and it is estimated that that will come through the SAFA surplus. Over the period of time, SAFA will also be looking at its liquidity situation, selling a portion of financial assets with some capital gain involved in that. So, it is regarded as being an achievable amount.

**Mr D.S. BAKER:** None of the three questions that I asked has been answered. I asked whether SAFA produces an operating or profit plan. My second question related to SAFA's borrowings having increased from \$10.6 billion to \$13.87 billion in 1991-92; and, thirdly, does the estimated surplus this financial year assume a further increase in borrowings—if so, to what extent?

**The Hon. J.C. Bannon:** SAFA does budget on the basis of an estimated profit and, as I said, has consistently achieved it. As to the estimated surplus, I have explained the components of it. I agree that I have not referred to the middle question and I will ask Dr Bethune to comment.

**Dr Bethune:** As much as anything, SAFA's surplus reflects the level of capital that SAFA has—\$2.8 billion, which comprises the capital provided by the Government, plus retained surpluses and general reserves. In estimating the likely surplus, obviously assumptions have to be made about interest rates and the return on capital. The surplus is not particularly sensitive to the overall size of the SAFA balance sheet or the increase in borrowing. There is some impact there but the more important impact is the overall level of SAFA's capital and some of the items to which the Treasurer has referred. There does not have to be so much of a direct link between the estimated surplus and the increase in borrowing.

**The Hon. J.P. TRAINER:** I direct a question to the Treasurer which relates not just to SAFA but also to the broader issue of the constraints placed upon a Treasurer in responding in Parliament to questions directed to him; constraints as a result of the delicate nature of State and commercial finances. In his reply on the budget, the Deputy

Leader made a number of highly derogatory remarks about SAFA. He referred to the 'highly questionable manipulation of money by its principals'; 'cooking the books'; 'accountability being under question', 'interference in the Electricity Trust', and much more.

I am sure that he is not the first, nor will he be the last member in this House, ever to use pungent phraseology for one reason or another. That sort of phraseology may have often occurred in this Chamber with scant consideration for the actual facts of a situation. However, unlike most members, I would guess that Treasurers must show greater moderation in what they say and would also need a good grasp of the facts, at least so far as the facts are readily available to them.

Can the Treasurer indicate whether the sort of public comments made by the Leader and the Deputy Leader are appropriate for persons aspiring to the Treasury benches, and what restraints are faced by a Treasurer seeking to balance two things: the need to provide comprehensive reports to the Parliament and, at the same time, the need to simultaneously preserve the integrity and viability of our financial institutions?

**The Hon. J.C. Bannon:** That is certainly a matter of judgment. In the case of SAFA, it is extremely transparent in its operations and reporting. Indeed, whilst obviously there are some questions of commercial confidentiality relating to SAFA, because of the nature of SAFA's operations there are probably fewer than in the case of, for instance, a State Bank or SGIC, which operate in a competitive commercial world and in a different way from that of SAFA.

Therefore, it is pretty rough for the Deputy Leader to use those remarks about cooking the books and things like that. It indicates that he is not, in fact, taking advantage of the information that is provided. The annual report is extremely detailed. In fact, it contains information on asset quality which is dealt with at some length in the report, and I refer to page 21. The report is provided with the budget. Briefings are always available to those who request it. Investors receive newsletters about the situation as far as SAFA is concerned. The market was recently briefed on all these matters and, indeed, that also applies to the Adelaide business community. But I can only point to the fact that that reporting is as thorough as it is in refutation of those remarks.

It may be that the size and complexity of SAFA's operations lead one to believe that, if one just takes a very cursory look, it is not all being fully reported but, in fact, a detailed examination will show that that is not the case. Those areas in which commercial sensitivities are involved are, I would suggest, quite few. Certainly, the bottom line and the results achieved are very transparent indeed.

Of course, SAFA is also audited by the Auditor-General; in fact, we have two auditors—Deloitte, the private firm as well—to doubly ensure that there is proper reporting of its activities. It operates on very tight investment guidelines which are under the supervision of the board.

**The Hon. J.P. TRAINER:** The Deputy Leader appeared to be worried that, according to the Auditor-General's report, the Valuer-General valued the Citicentre site at \$21.25 million as at 30 June 1991. Given that the head lease of development on this site was purchased by SAFA for \$35.5 million in December 1990, is this actually a matter for concern?

**The Hon. J.C. Bannon:** The valuation referred to is the site value, and not the improved value including the building. The Deputy Leader is trying to show that the value of the building has fallen. In fact, he is comparing the purchase price of the building with the value of the site, which I

would suggest is a pretty elementary mistake. The purchase price was \$35.5 million, and the site value is \$21.25 million. The property was purchased at a significant discount to the Valuer-General's estimate of the value of the head lease at the time. The acquisition was a one-off property investment for SAFA in the sense that we had already entered into an arrangement which would result in Government ownership of the building in 1994, and I have referred to that in the House. In other words, we are leasing this property and are committed to buying it by that date but, by bringing forward the purchase date, we are able to take advantage of the current depressed state of the property market and get a pretty good deal.

The purchase price is expected to result in a net rental income yielding approximately 10 per cent return on investment, which is an historically high yield for CBD property, reflecting the depressed state of the CBD market throughout Australia. In the six months to June 1991, SAFA received gross rental income of approximately \$2.65 million which, netted out, represented an annual yield of just over 10 per cent and, again, that is not bad in the current trading situation.

It is generally accepted that it is cheaper for Government to own the bulk of their office accommodation than to lease, and we have been doing detailed assessments of that, particularly in the current state of the market. The purchase is in line with this policy, given the fact that we are the major, chief occupants of that particular site. The idea that SAFA would enter into this transaction to enable a repayment of a \$30 million problem loan is really quite ridiculous. The fact is that it is a very small proportion of the State Bank's problem loans and, in any case, the deal we are offered in the circumstances I have just described indicates why it was appropriate to bring forward that purchase.

**The Hon. J.P. TRAINER:** Another matter about which the Opposition has recently been critical relates to SAFA's borrowing money from overseas. Is this something about which we should be concerned, is it just an attempt to appeal to xenophobia or have they just got the wrong end of the stick again?

**The Hon. J.C. Bannion:** Like any other institution the overseas borrowing activities of SAFA are obviously an important part of its operations. In fact, it is often cheaper to borrow from overseas than domestically, and SAFA is obviously looking for the best deal in a portfolio range. If we had a current account surplus instead of a current account deficit in this country, I suppose it would be cheaper to borrow domestically. We would all prefer that to be the case, but it is not the case at the moment, and it is unreasonable to criticise individual institutions which borrow offshore in an attempt to improve or lower the cost of their borrowing.

Indeed, if all borrowing was concentrated here, in those circumstances there would be further pressure on domestic interest rates, which would be forced up and would, of course, have a bad impact on house-owners and others. SAFA borrows from overseas only where it is cheaper to do that than to borrow domestically. It does not run foreign exchange risks in borrowing from overseas and, obviously, it looks for commercially attractive margins. All semi-government borrowers borrow from overseas, and the Commonwealth is re-entering this field. It has not been in the business of borrowing for a couple of years but it is doing so this year because of the Commonwealth deficit.

In terms of the size of those offshore borrowings, I do not think they should be exaggerated. The last three Euro-bond issues raised \$225 million Australian, not \$700 million, as was claimed by the Deputy Leader. That figure is

a face value, and the \$225 million is the proceeds. One issue was a zero coupon.

**Mr S.J. BAKER:** I am delighted that the Premier has a new-found knowledge in his own institution. I refer to a question asked by the Leader. We saw a massive increase in liabilities by SAFA during the past financial year. The Premier would be well aware that liabilities increased from \$13.889 billion to \$17.203 billion. The Leader's question revolved around the borrowings and a \$3.3 billion blow-out by one of our prime institutions. Will there be further borrowings which will increase SAFA's liabilities this financial year, and will those borrowings again relate to topping up for the State Bank crisis or to making money on the margin on overseas markets, or will it be a combination of both?

**The Hon. J.C. Bannion:** It includes an amount earmarked for the bank in February, but not advanced, of \$470 million, which was redeposited with SAFA. A large component of the increase reflected favourable overseas borrowing opportunities of \$1.4 billion. There was an increase in domestic borrowings of \$1.3 billion and an increase in deposits from Treasury and semi-government authorities of \$200 million over and above those associated with the bank's support package. There have also been changes on the assets side. Perhaps Dr Bethune can provide further information.

**Dr Bethune:** The major changes on the assets side have been increased loans to the Government of \$1.4 billion, which is quite clear in the accounts. This is the other side of the increase in borrowings. It is important not to forget the size and rapid growth of the HomeStart scheme, which has added about \$380 million to SAFA's assets, leaving aside the changes as a result of the State Bank package. There have also been investments at a profit in major Australian banks through SAFA of about \$1.4 billion. Much of that represents the State's store of short-term liquidity.

In terms of likely borrowings for 1991-92, by its very essence SAFA is a central borrowing authority. Its role is to undertake borrowings on behalf of the Government and other parts of the public sector family. Obviously that is what it will be doing in 1991-92. In terms of precisely how much that borrowing will be and its major components, that has not been estimated in any detail, and there will be rundowns of investments, as has already been foreshadowed. It is not likely that the overall increase in borrowings will be as great as in 1991-92, but there is not a precise estimate yet.

**Mr S.J. BAKER:** An amount of \$3.3 billion was added to the debt of SAFA which we have now been told is offset by assets, but an increase in the liabilities of that institution is of considerable concern. Dr Bethune has said that about \$1.4 billion represents borrowings to assist in the State Bank bail-out. From that comment I assume that there is still a large component, possibly overseas, in respect of the further bail-out of the State Bank this financial year—is that a reasonable assumption?

**Dr Bethune:** Cash has already been provided to the State Bank as was mentioned in the budget speech and associated releases. That was also met partly by rundowns in investments and partly by other financing means. One cannot extrapolate like that and say that there will be a similar increase in borrowing to fund that in 1991-92. As the Premier said, although the debt to the Government increased by \$1.4 billion, about \$500 million was effectively reinvested by the Treasurer with SAFA. The gross increase in the size of the balance sheet is greater than the net increase, which is about \$3 billion, compared with the \$3.4 billion.

**Mr S.J. BAKER:** I now refer to the borrowing and lending rates of SAFA. Will the Premier supply the borrowing

rates of SAFA, the margins charged out to State Government instrumentalities, and the lending rates of SAFA and the margins charged to institutions for the handling of their money as at, for example, 31 August?

**The Hon. J.C. Bannon:** The common public sector interest rate, which is fixed on a quarterly basis, is done on SAFA's average borrowing cost with a margin to cover the value of the Government guarantee on the borrowings and a small margin to cover SAFA's administration costs. The guarantee element is based on a consideration of how best to distribute the benefits of lower cost borrowings across the public sector. There are those agencies which at any one time might have a large capital works requirement in the nature of things and there are others which are in hiatus or do not have such a requirement. The attempt is to even it out across the public sector—a 'swings and roundabouts' approach.

The basis on which the margin is assessed is referred to in previous annual reports of SAFA. That guarantee element is around .75 per cent per annum. It is not precise. It reflects differentials between the cost of Government borrowings with guarantees and that incurred by prime corporate borrowers. That is about the level, and it has been confirmed as reasonable. The combined effect of the guarantee margin and the margin to cover administration costs and other expenses of borrowing is around one per cent to CPSIR (common public sector interest rate) which currently stands at 14.1 per cent. The average borrowing cost is around 13.35 per cent. One can gauge the difference, which is less than the around one per cent that I mentioned on the present rate.

**Mr S.J. Baker:** I am amazed that there is a one per cent difference, because it raises serious questions. That is probably the highest differential that has existed since SAFA was first established. Will the Premier advise what is the relationship on the lending side when SAFA gathers together the dollops of money that exist within the various arms of Government and lends them on the market? What is the lending fee with SAFA handling, for example, ETSA's money?

**Mr Wright:** In relation to SAFA deposits by semi-government agencies, those authorities which have debt to SAFA at the common public sector rate earn that rate on all deposits with SAFA. The agencies which do not have any debt to SAFA—for example, the South Australian Urban Lands Trust—earn at the choice of the individual agency either the average 30 days bank bill rate or the average of the 90 day bank bill rate, with interest paid monthly in the first instance and quarterly in the second instance. Those rates have been in place for some four or five years.

We have reached the stage where over 95 per cent of the State's semi-government authorities choose to deposit their surplus funds with SAFA. Whilst there is under the South Australian Government Financing Authority Act power for the Treasurer to direct semi-government authorities to lodge their surplus funds with SAFA, no such direction has ever been given. It is left to individual agencies to decide where they will place their surplus funds.

As I mentioned, over 95 per cent of them choose to deposit their funds with SAFA on a daily basis. A number of advantages to that arrangement for individual authorities are set out in SAFA's annual report this year. Not least of these is the fact that, because all funds of semi-government authorities are deposited with SAFA, individual agencies do not have any exposure to financial institutions—no credit risk—apart from SAFA itself, which is Government guaranteed. Therefore, resources in individual agencies are not

required to manage any credit risks, daily settlement, security requirements and so on.

There are also advantages for the public sector as a whole in reducing the net interest cost to the State by having agencies deposit their surplus funds with SAFA. An example of that would be an agency that might invest surplus funds in the money market at, say, 14 per cent for 90 days while on the same day SAFA might borrow funds for 90 days at a cost of 14.1 per cent. By harnessing that cash within SAFA there will obviously be a saving of .1 per cent to the public sector as a whole.

**Mr S.J. Baker:** What is the estimated contribution to SAFA's profits by the usury process in which SAFA involves itself? All up with respect to borrowings and lendings, what would be the amount of profit?

**Mr Wright:** On the deposit side, the contribution would be minimal—probably less than \$1 million. There is no attempt by SAFA to derive profits from its operation, it is merely playing a central role in providing an investment service for all agencies. With respect to SAFA lending to semi-government authorities, as the Premier has mentioned, a margin is added to SAFA's average costed funds. The addition of that margin to the lending rate of SAFA's loans to semi-government agencies adds between \$35 million and \$40 million to SAFA's surplus, all of which is available for distribution to the Consolidated Account.

**Mr Ferguson:** Members of the House have recently referred to SAFA's surplus as a tax on authorities. Is there any justification for this claim?

**The Hon. J.C. Bannon:** Certainly not. That fairly full explanation by Mr Wright showed the basis on which it is done in terms of the deposit facility. It is not done by direction, yet it is taken up very strongly for good reason. Obviously, the reserve power of direction is there and there are very tangible benefits to the public sector as a result of such deposits, but in the case of agencies they recognise the benefit from it.

The interest rate charge to authorities reflects the average borrowing cost and is not a significant addition to the SAFA surplus. It represents broadly the return to the Government from investing the capital amount of \$2.8 billion, the money that is accrued and managed on behalf of the Government by SAFA. I believe that these operations have proved themselves in the way in which the authorities have responded to them. In fact, the present arrangements ensure that agencies can borrow at cheaper rates than would otherwise be possible and can obtain funds precisely when they need them. They need a minimum back-up of administration and other costs that would quite considerably add to overheads of individual agencies because all of that can be handled through SAFA.

It is interesting that we were very much first into this field and that others have followed. I guess that is the best endorsement of the policy. All States have fully centralised borrowing arrangements as in South Australia, with the exception of Victoria, which is moving towards that position. All other States have seen the benefit of what we did in pioneering mode originally and are following.

**Mr Ferguson:** I understand that SAFA increased its provisions for general contingencies by \$100 million in 1990-91, bringing the total provision at 30 June 1991 to \$121 million. What contingency is this amount intended to cover and why was it increased by \$100 million in 1990-91?

**The Hon. J.C. Bannon:** Basically, it is an example of the conservative management of SAFA to ensure no major risk exposures. I mentioned earlier in relation to overseas borrowings that foreign exchange risks are not undertaken.

There are no significant risks of that kind. Borrowings are undertaken in Australian dollars, swapped into Australian dollars or re-invested in the same currency. There is also a range of maturities exposure to changes in interest rates at any one time. Credit risks are low because nearly 80 per cent of SAFA's assets are loans to Government, to its authorities and institutions which operate with the benefit of Government guarantee. In relation to other loans, very conservative credit guidelines apply which mean that the fixed interest investments are all fully performing and that asset quality is covered in the annual report. It does not have significant exposure to equity or property.

One could ask why one needs to provide a sum such as \$100 million. This addition to the provision reflects an assessment of the current status of indemnities given to investors in financing arrangements entered into by statutory authorities. There is considerable volatility in the financial climate in Australia and overseas that suggests that a prudent buffer should be maintained in case of any surprises. The favourable results in 1991, due in part to capital gains realised on financial assets, make it possible to increase that provision while at the same time maintaining surplus. So, that opportunity has obviously been grasped.

Indemnities are usually with respect to the taxation position of third parties involved in the financing of assets utilised by the public sector. SAFA is not liable to pay tax to the Commonwealth, but most institutions from which SAFA borrows are liable for such tax and their returns depend on the way in which the legislation is applied. In a limited number of cases, SAFA has provided indemnities to other parties involved in funding major public sector assets because they have the tax exposure which SAFA does not have. Obviously, this can be done only on the basis of legal advice, favourable rulings by taxation authorities and precedent that is used as a guideline.

There are some examples where there is still some uncertainty in relation to interpretation, for instance, with respect to issues such as that which occurred in 1986 when deferred annuities were the subject of attention by the Federal tax office. In fact, that is still an outstanding issue. SAFA has brought to account the cost of funds on the basis that initial assumptions may not apply, but is nonetheless contesting that, as is the Treasury Corporation of New South Wales in respect of similar transactions.

The Torrens Island power station transaction is subject to negotiations with the ATO, but so far there has been no amendment. However, SAFA always works those into its accounts and tries to ensure that provisions are available in the case of an adverse ruling in these cases.

**Mr FERGUSON:** I understand that SAFA's balance sheet increased from \$16.6 billion at 30 June 1990 to \$20 billion at 30 June 1991. What were the main reasons for this growth?

**The Hon. J.C. Bannon:** That is essentially the question that we finally understood the Deputy Leader was trying to work through. I do not know that there is a great deal to add to the fairly full reply that was given then. In summary, the growth in assets must be set against the growth in borrowings. The major changes relate to things like HomeStart loans, loans to the Government and investment through SAFT. These are short-term liquidity positions that are set off against increases in both overseas and domestic borrowings.

**Mr MATTHEW:** Does SAFA still retain Ayers Finniss as corporate adviser and, if so, what is its annual fee? Further, while it was SAFA's corporate adviser, did Ayers Finniss give any advice about the investment strategy of SGIC?

**The Hon. J.C. Bannon:** Ayers Finniss certainly still does work for SAFA. I do not know whether it is the sole or only corporate adviser.

**Mr Emery:** It is that kind of role, yes.

**The Hon. J.C. Bannon:** I imagine it is a commercial fee.

**Mr Emery:** It is a modest fee, which we have not disclosed. Ayers Finniss has been employed from time to time by the SGIC, but not in connection with SAFA matters. However, SGIC in its own right has employed Ayers Finniss on occasions.

**Mr MATTHEW:** As a supplementary question, did Ayers Finniss advise on investments by other State agencies?

**Mr Emery:** Other than SAFA and SGIC, of course it would have been involved in State Bank matters from time to time. Off-hand, I cannot think of any others.

**Mr MATTHEW:** It has not advised SAFA on other matters like that?

**The Hon. J.C. Bannon:** Perhaps that should have been covered under the State Bank line.

**Mr Emery:** It is possible it has advised other State instrumentalities, but I cannot think of examples. It did do a job for SATCO and for the Woods and Forest Department in relation to eucalyptus plantations.

**Mr MATTHEW:** Perhaps the Premier will take the question on notice?

**The Hon. J.C. Bannon:** What activities of Ayers Finniss is the honourable member interested in? Would he be interested in other merchant banks or similar services?

**Mr MATTHEW:** Other State agencies. As a further supplementary question, I heard it said that the annual fee has not been revealed. We are certainly prepared to hear it now.

**The Hon. J.C. Bannon:** That is a commercial arrangement between SAFA and Ayers Finniss. It is competitive and modest.

**Mr MATTHEW:** I refer to page 47 of the SAFA annual report. I note that the SAFA board is listed and that Mr J.T. Hazel is listed as a financial consultant. Mr Hazel was previously a member of the board in his capacity as an executive of the State Bank. Is it intended to have State Bank representation on the SAFA board in the future? In addition, is Mr Hazel acting as a financial consultant to SAFA and, if so, what fee is he being paid?

**The Hon. J.C. Bannon:** SAFA's operations are very much an adjunct to Treasury operations. There is an interchange of officers and that is a very useful collocation of activity. It is something that I will certainly seek to maintain. However, we have always attempted to have non-Treasury people on the board. Mr Hazel was appointed to the board at quite an early stage. That was thought useful because the State Bank was involved in many of the areas in which SAFA was involved, and we wanted to ensure that there was no duplication or unreasonable competition, or whatever. The expertise that could be brought from the bank's perspective could be useful to the SAFA board, Mr Hazel had considerable experience in capital markets, which was very useful and he was, of course, the founding General Manager of Ayers Finniss.

Incidentally, we have had representation from ETSA—Mr Coleman—and, of course, Mr Messner is from the Housing Trust. So, it is useful to have other agencies involved in the SAFA board operations. However, they are not nominated positions. There is no State Bank position, as such, although the range of expertise offered by Mr Hazel is very useful. When Mr Hazel left the State Bank, he indicated that he was prepared to step down from the SAFA board if that was desired. I took the view that there was no good reason for that. He has been a very diligent and effective member of the board, as I understand it; and simply because

he severed his connection with the State Bank did not seem a good enough reason for him not to stay through a term on the SAFA board. So, he has remained there in that capacity.

There is a reference on page 49 of the report to two members of the SAFA board who receive fees. In other words, like the State Bank and other bodies, a scale of fees is set down. However, because the board is predominantly composed of public servants, no fee applies to those in State employ. In fact, when Mr Hazel was with the State Bank no fee was paid. Since he has ceased to be with the State Bank, it is appropriate that he is paid a fee, and that fee is \$10 000 per annum. I am not aware of his doing any other consultancy work for SAFA. I do not think that that would be appropriate or sought. He simply receives a fee as a board member and continues on as before.

**Mr MATTHEW:** As a further supplementary question, is Mr Hazel doing any other consultancy work for the Government?

**The Hon. J.C. Bannon:** Not that I am aware of.

**Mr MATTHEW:** Finally, I would like the Treasurer to outline an arrangement that SAFA seems to have entered into with Coles-Myer Ltd in August/September 1987, which gave rise to a charge on Coles-Myer accounts in favour of SAFA.

**The Hon. J.C. Bannon:** I will have to take that question on notice.

**Dr Bethune:** Certainly, as far as I am aware, the arrangement did not involve any exposure to Coles-Myer. Effectively, it was a low-cost borrowing for SAFA. We will take the question on notice.

**Mr MATTHEW:** As that question is being taken on notice, perhaps I could ask that a supplementary question be taken on notice also. What is the value of the charge, is it still current and is it the only financial dealing that SAFA has had with Coles-Myer?

**The Hon. J.C. Bannon:** I will check out that information.

**Mr HOLLOWAY:** The liabilities of SAFA are guaranteed by the Government. How can the Government be assured that the quality of SAFA's assets is sufficient to enable it to service those liabilities without recourse to the Government guarantee?

**The Hon. J.C. Bannon:** The subject of asset quality is crucial to SAFA. I have referred a couple of times to the section in the report (I think on page 21) on asset quality. There is a table there which sets out a range of investments—domestic, public sector and related overseas—and which gives an indication of the mix and quality of those investments, which are made under credit limits and credit guidelines. These are approved and recommended by the board to me as Treasurer. The limits have regard to ratings assigned by the credit rating agencies.

The major exposure of 62.7 per cent is the South Australian Government and its agencies. I would argue that is very high quality indeed. Some 13.2 per cent of investments are in securities which carry Government guarantees or which are issued by enterprises under the auspices of the Government. Again, there is a very high quality of asset there. There is some exposure to local government that would also be secured. Investment in banks at 15 per cent is the other significant area of exposure, again in accordance with strict credit guidelines. A further factor that adds strength to the balance sheet is that there is an assessment each year of the risks and an allocation of general provision to cover them. I referred to that a moment ago.

The final element of control is that systems are in place to ensure that there are no departures from approved guidelines. The auditing firm Deloitte, which is SAFA's auditor,

undertook a review of SAFA's systems in 1991 and concluded that the controls were particularly strong because of the control exercised by the officers responsible for managing these exposures. The asset quality is very high. SAFA's annual report shows that it makes loans to any significant extent only to public sector organisations overall. Therefore, there is no problem with SAFA's assets, particularly its loans, as the Deputy Leader has suggested. The fixed interest investments are fully performing.

**Mr HOLLOWAY:** As a supplementary, the member for Coles (who, for some reason is not on the Opposition team for this Estimates Committee) made the following statement in her budget speech:

Yet, everything that SAFA borrows and lends is guaranteed by the Government in the name of the taxpayer. We are entitled to ask, 'Is there to be no limit?', particularly when we look at the statement of accounting policies of Enterprise Investment Trust.

That was duly reported in the *Advertiser*. Will the Premier indicate the size of SAFA's investment in Enterprise Investments and how it relates to the total liabilities of SAFA?

**The Hon. J.C. Bannon:** Enterprise Investments Trust Fund, of which the sole beneficiary is SAFA, was established with initial capital of \$28 million, which is approximately double the size of the former capital provider in Enterprise Investments. The operating profit in 1990-91 was \$2.2 million, slightly down on 1989-90, which reflected the lower level of funds on short term interest-bearing deposits with SAFA as a proportion of total funds invested. That represents the exposure through capital.

I remind the Committee of the purpose of Enterprise Investments. It was not to be some high profit activity of the Government. At a time when venture capital in particular was virtually non-existent in this State, by conscious public policy it was to be an instrument with all the private sector trappings to invest in some of the more risky enterprises where short-term return was not seen as the goal. It was an attempt to make things happen in South Australia. Enterprise Investments performed very well indeed. Subsequently, there was a decision to take it over wholly, through SAFA, and continue to operate it. That is in fact happening. It has some very useful investments in 15 companies, 12 based in South Australia, two in New South Wales and one in Victoria. I think there is reason to be satisfied with its performance to date.

**Mr HOLLOWAY:** During last year's Estimates Committee the Opposition raised questions about an investment by SAFA in the State Bank of Victoria. This was subsequently raised again by the Deputy Leader of the Opposition. Will the Treasurer provide the Committee with an update on this matter?

**The Hon. J.C. Bannon:** This was part of the grand conspiracy theory: that, by direction, I got SAFA to enter into some agreement with the State Bank of Victoria that put funds at risk but helped to prop it up at a critical time. That is nonsense. The transaction was undertaken by SAFA under the credit guidelines. It did not require approval by me. It was referred to me only for information, after the transaction was completed, as part of a monthly report, which has a great list of investments that one could spend hours poring over looking for precise details. It was in the normal area of transactions.

The criticism could be only that it might have some jeopardy attached to it. In fact, at the time it was unconditionally guaranteed by the Government of Victoria. With

the changes that have taken place—the sale of the SBV to the Commonwealth Bank—it now enjoys a Commonwealth Government guarantee. In one sense it could be argued that the value has been upgraded in terms of guarantee just by that transaction alone. However, that is not at issue. It has earned several million dollars profit for this State, so it is a pretty good investment in a fully guaranteed security, totally consistent with credit guidelines and not requiring, nor subject to, the specific approval of the Treasurer.

**Mr HOLLOWAY:** How has the value of SAFA's equity in entities such as SATCO and the Woods and Forests Department been determined for balance sheet purposes?

**The Hon. J.C. Bannon:** The SAFA annual report and the Auditor-General's Report note that adjustments are made in the value of investment in these bodies on the basis of independent valuation. They are not plucked out of the air. One of the advantages to the Government is that, through SAFA, it has a balance sheet prepared in accordance with approved accounting standards, so we are able to get an inventory of our assets and liabilities, and they are all set out and demonstrated in the documents that we produce. They are not listed as assets without real asset backing on an over-valued basis; they are regularly assessed and those assessments are recorded in the reports.

**Mr D.S. BAKER:** Has SAFA borrowed overseas on behalf of or in concert with the State Bank Group and, if so, what are the relevant details as to dates and amounts?

**Mr Wright:** Several years ago, I think maybe five years ago, SAFA borrowed on behalf of the State Bank overseas. The amount involved was, roundly, \$50 million. It was part proceeds of a Euro-sterling issue. The funds were swapped back into Australian dollars and on-lent to the State Bank. The loan has subsequently matured and the full amount has been repaid by the State Bank and, in turn, SAFA has repaid its obligations. That is the only overseas borrowing or, for that matter, the only overseas or domestic borrowing ever raised on behalf of the State Bank. The issue from SAFA's perspective was done at a very attractive price, such that SAFA earned a small margin on its on-lending to the bank; nonetheless, the bank still received the funds slightly cheaper than it could have in raising the funds itself domestically or overseas at the time. It was simply just an opportunity taken four or five years ago.

**Mr D.S. BAKER:** Could we have a list of the current share portfolio of SAFA, details of when the shares or notes were purchased and for how much and their current market value?

**The Hon. J.C. Bannon:** The only shareholdings that I am aware of—subject to correction by my officers here—are the holding that SAFA has in SAGASCO. SAFA is the convenient vehicle to hold the equities in that entity. I think they are fully described in the report. We realised on the bonus and dividend shares in that during the year, very profitably indeed. There is a shareholding in the National Mortgage Corporation, which is a cooperative venture. This is not a publicly listed company but was established in Victoria and Western Australia, in the private sector. But that is a minimal area. I am not aware of any other shareholdings that SAFA has. In the case of both SAGASCO and IE, and the National Mortgage Corporation for that matter, these are all matters of policy. For instance, when SAGASCO was created and SAOG's shares were therefore to be managed, it made a lot of sense simply to place them with SAFA for that management area. So, it is not SAFA's policy to invest in equities at all.

**Mr D.S. BAKER:** I ask a supplementary question. Is the Treasurer prepared to disclose the purchase price and their current market value?

**Dr Bethune:** SAGASCO shares were about \$2.34 yesterday. We have not done a calculation as to what that represents in terms of the SAFA balance sheet. However, as at 30 June I think the annual report discloses what the value was to SAFA then, in terms of its balance sheet. The average price at which they were originally obtained I think was about 54c or 55c.

**Mr D.S. BAKER:** What was the purchase price in relation to the National Mortgage Corporation and the value today?

**Dr Bethune:** That is a very small shareholding. It is a matter of \$100 000 or thereabouts. As the Treasurer has said, it is more for housing policy purposes, rather than anything else. The National Mortgage Market Corporation manages the mortgages under the HomeStart scheme.

**Mr D.S. BAKER:** How many vehicles for investment, similar to off balance sheet companies are being used by SAFA and what are the names of all vehicles, companies or other entities in which SAFA has an interest or has invested, or which it is using for investment or funding purposes?

**The Hon. J.C. Bannon:** That is all detailed at page 26 and on the pages following of the report, which describes affiliated, corporate and trust structures. All those details are recorded there.

**Mr D.S. BAKER:** I ask a supplementary question. There are no other off balance sheet entities used by SAFA?

**The Hon. J.C. Bannon:** No, and those entities are always included in the reports and fully incorporated into the accounts.

**Mr S.J. BAKER:** What are the total assets and liabilities of SAFA's affiliated companies, Jerningham Limited and Riabine Limited, and what directors' fees were paid in 1990-91?

**Dr Bethune:** Riabine is virtually an inactive company, and processes are under way at the moment to actually dispose of it. As to Jerningham Limited, we do not have the numbers with us but certainly they can be made available.

**Mr S.J. BAKER:** I ask a supplementary question. What role does former State Bank Executive Mr T.L. Todd play in SAFA's UK operations?

**Dr Bethune:** Mr Todd was appointed as a director of the United Kingdom companies when he was the manager of the State Bank's UK operations. As a matter of convenience, he has remained on as a director, and subsequent to his leaving the bank, while arrangements are made to replace him.

**Mr S.J. BAKER:** What about Mr Johnson in relation to the Asian operations?

**Dr Bethune:** That is a similar situation. In relation to directors' fees in those cases, there are directors' fees paid, but they are paid to the employer rather than directly to the director. As can be seen, most of the directors are South Australian public sector employees of one kind or another. For example, in the case of the Agent General for South Australia, and the UK companies, SAFA does make a payment to the Agent General's Office; but that is not a direct payment to the Agent General. Similarly, the State Bank has billed SAFA for the amount of time that its employees spend, but, again, they are not direct payments to the directors. In relation to the Hong Kong companies, Mr Brewer is employed by the organisation that provides the accounting and secretarial services for the company and so, again, he does not receive anything direct but, rather, that organisation bills SAFA for providing those services.

**Mr S.J. BAKER:** What are the items—and by items I mean interest rates and conditions—attaching to SAFA's loans to the State Bank Group totalling \$326 million as at

30 June 1991, and is this still the level of the loans outstanding? The reference is page 19 of SAFA's annual report.

**Dr Bethune:** That is an investment of subordinated debt by SAFA affiliates in the State Bank. It has not changed since then and has in fact been at that level for a number of years. In relation to the terms and conditions, I do not think we actually have details of them with us.

**Mr S.J. BAKER:** You will give them to me?

**The Hon. J.C. Bannon:** I think they are commercial operations. It is a commercial arrangement.

**Mr S.J. BAKER:** So it is a roll-through situation; they relate to whatever is prevailing with the rates of interest in the market—is that right?

**The Hon. J.C. Bannon:** That is right, and they have been there for a number of years.

**Mr S.J. BAKER:** What are the terms, including interest rates and any conditions, attaching to SAFA's loan of \$285.3 million to SGIC?

**The Hon. J.C. Bannon:** Mr Wright can answer that.

**Mr Wright:** The amount of \$285.3 million can be split into two components. First, the \$85.3 million represents an overseas borrowing made a number of years ago by SAFA on behalf of SGIC. That amount matures later this financial year and we expect that that will be repaid and be off the books by June 1992. The \$200 million provided by SAFA to SGIC in August, subsequent to the balance date, was used by SGIC in respect of its obligations to purchase the building at 333 Collins Street.

In both cases amounts were provided by SAFA to SGIC at a small commercial margin above SAFA's borrowing costs. From SAFA's perspective, both loans were secured by guarantee of the Treasurer, pursuant to the Public Finance and Audit Act. From the whole of State perspective it was an efficient way of raising funds, in that SGIC managed to borrow funds more cheaply through SAFA's raising them on its behalf. As I understand it, those amounts are the only borrowings outstanding by SGIC: it has no borrowings in its own right.

**Mr MATTHEW:** I refer to page six of SAFA's annual report under the heading 'Fundraising'. What were the global borrowings agreed to by the Australian Loan Council in 1990-91 and 1991-92? What borrowings were actually made by or on behalf of the South Australian Government in 1990-91 and what are planned in 1991-92?

**The Hon. J.C. Bannon:** I refer to page 85 of the Financial Statement (Financial Paper No. 1), which has the table headed 'Commonwealth Payments to South Australia and Global Borrowing Limits of South Australian Authorities for 1992'. For 1990-91 the global borrowing limit was \$243.4 million actual and \$261 million is the 1991-92 access. In terms of our new money borrowing programs and their composition, one can see the same numbers on the table at page 95. As to other borrowings, I ask Mr Emery to comment.

**Mr Emery:** The next question related to the amount to be borrowed by the Government and perhaps the best way to analyse that is to look at page 34 of the SAFA annual report in respect of 1990-91. The figure for increased asset indebtedness of the South Australian Government represents the change in the level of the Government's indebtedness to SAFA, which is a valid representation of the amount borrowed by SAFA for the Government. Similarly in the balance sheet on page 33, one can compare the position between June 1990 and June 1991 in respect of the Government's indebtedness to SAFA.

I think the next question related to the level of lending to the Government in 1991-92. I think that that equates two things. One is the borrowing requirements in respect of

Consolidated Account, estimated at \$330 million. That amount will be borrowed from SAFA and, of course, the increased borrowing with respect to the State Bank funding took place in August, which the Treasurer explained in detail in his budget speech and other documentation. Therefore, I think it is those two things that represent the amount which SAFA will borrow for the Government in 1991-92.

**Dr Bethune:** In comparing the global limits with the amount of borrowings, it is also important to remember that those global limits are under the new money program and are not part of the global limit that also covers the refinancing of existing borrowings, so the total amount that can be borrowed under the global limit is actually much greater than just the new money program.

**Mr MATTHEW:** In respect of the \$538.9 million of SAFA capital in the State Bank as tier one capital, is the agreement to pay interest on the capital at the bank bill swap rate plus .65 per cent still current and, if not, when was it cancelled, and what are the current arrangements regarding this capital?

**Mr Emery:** The arrangement is still in place, as it has been previously, so the second question does not arise. There has been no change in those interest rate arrangements although, as has been reported in detail previously, there are arrangements to relieve the bank of interest obligations if its profit is not sufficient. Of course, that was the case in the year 1990-91, where the bank's profit was not sufficient to fully service the interest otherwise payable on that amount of \$538.9 million.

**Mr MATTHEW:** Referring to page 4 of the SAFA annual report, I note the statement that the financial assets held by the South Australian Finance Trust had been sold during 1990-91 as 'part of a range of measures taken to assist with the funding of the Government's indemnity payments to the State Bank'. What assets were sold, what was the cost of acquiring those assets, and for how much were they sold?

**Dr Bethune:** The assets were a range of high quality other semi-government payments representing other States predominantly, so they were all assets that could be readily sold. I think the net level sold was of the order of about \$1.3 billion and, because of the reduction in interest rates, that realised same capital gains which are reflected in the annual report. The \$1.3 billion includes both SAFT and SAFA, although it was predominantly SAFA.

**Mr MATTHEW:** The \$1.3 billion went on acquiring those assets?

**Dr Bethune:** That was the net value of the assets sold. The cost of acquiring the assets was effectively lower because capital gains were realised on the sales.

**Mr D.S. BAKER:** In 1990-91 SAFA increased by \$100 million the allocation to the provision for general contingencies. SAFA's annual report says that this reflects a number of factors, 'including a review of specific transactions to which SAFA is a party, including indemnities given to investors in financings entered into by State authorities.' What is the value of these indemnities and to whom have they been given?

**The Hon. J.C. Bannon:** This question was raised by the member for Henley Beach earlier today. I covered it fully with the exception of providing details with respect to whom the indemnities related as they are investors who obviously wish to remain commercially confidential in these instances.

**Mr D.S. BAKER:** Page 10 of SAFA's annual report refers to derivative products and states:

SAFA continued to use a range of derivative financial products in 1990-91 to assist its fundraising and debt-managing activities. The South Australian Crown Solicitor has confirmed that there was no doubt whatsoever as to SAFA's legislative powers to enter into transactions of this type but, in recognition of the fact that



the clarification of powers of statutory authorities in these areas has become an Australia-wide issue, SAFA will establish arrangements early in the new financial year to provide further comfort to market participants. Additionally the Government will introduce legislation to clarify the issue with respect to other relevant South Australian authorities.

How many such transactions has SAFA entered into, what is their value and why is it necessary to seek the Crown Solicitor's advice about SAFA's power to enter into them?

**The Hon. J.C. Bannon:** As is stated there, on the international market, a case decided recently in the UK threw some doubt on the powers of statutory authorities unless there was some explicit authorisation. While that has not had general application (and our legal advice remains as it is) all authorities in Australia are looking at this situation to put it beyond doubt—largely to satisfy the overseas markets, which might feel that there could be some doubt about the powers.

Interim arrangements, which I think are proving quite satisfactory, are in place until clarifying legislation is introduced. However, it is onerous in terms of the administrative procedures necessary to simply keep assigning specific authorisation. What is proposed here I understand is also the case with some other authorities where a similar provision will be introduced in other States. So, there is no major issue. As to the number, there are very many as this is the hedging arrangement used to reduce foreign exchange exposure.

I understand that the value of swaps at 30 June was in excess of \$1 billion. That is related, of course, to the overseas holdings and to the need to ensure that there is no foreign exchange risk. So, it is very much a routine operation. Again, that is why we do not want onerous administrative authorisations to be connected with it all the time. That can be readily clarified legislatively, thus making it possible to provide a specific legislative reference rather than having an authorisation on each instrument.

**Mr D.S. BAKER:** Do I understand from that answer that legislation will have to be introduced to give more comfort and, if so, when is that likely to take place?

**The Hon. J.C. Bannon:** It is being prepared at the moment and will be introduced. It is not a matter of overwhelming urgency in the sense that it is needed to quickly fix up the situation, but our intention to do so is flagged in the report. When that legislation is drafted it will be introduced so that the House can consider it.

**Mr D.S. BAKER:** SAFA's annual report shows a reduction of \$8.2 million in the value of land and buildings held as investments by SAFA. Will the Treasurer provide a current itemised list of properties in which SAFA has invested?

**The Hon. J.C. Bannon:** I understand that the Opposition has been provided with a briefing on this matter by SAFA that included those details. I do not know whether there have been any substantial alterations from that time.

**Mr D.S. BAKER:** No detailed list was given to us.

**The Hon. J.C. Bannon:** A list can be provided; in fact, it is referred to in the annual report. One of the large reductions in value relates to the tram barn site in Victoria Square. That valuation was substantially reduced, and the decrease is accounted for through the asset revaluation reserve. Page 24 of the report refers to some of the properties on SAFA's books. The Citicentre building was covered in discussion earlier today.

I am advised that a list of property holdings as at 21 May 1991 with details of valuations was provided for a briefing with the Leader of the Opposition at the end of May. However, as I say, that list can be updated. There has been a significant change in the recorded value of the tram barn

site, so I will have that list updated and provided to the Leader.

**Mr S.J. BAKER:** A figure of \$2.8 billion has been mentioned as the asset backing or the Government's equity in SAFA. Will the Premier provide a detailed breakdown of that asset backing, including loans that have been converted to equity and the organisations involved, those loans that are provided as backing through the State Government and whatever other asset backing may be included in that amount of \$2.8 billion?

**The Hon. J.C. Bannon:** I went through those matters in some detail in response to a question from my colleague the member for Henley Beach earlier today. The details are set out on page 21 under the heading 'Asset Quality'. One can readily gauge from the final column percentages relating to each of the categories and the nature of the securities supporting them.

**Mr S.J. BAKER:** That is not true. That lists the asset quality; it does not relate to the assets that provide the backing for the \$2.8 billion, which is a separate item.

**Mr Emery:** The figure of \$2.8 billion is shown on page 33 of the annual report in the balance sheet. It is described there as the total of capital and reserve, made up of \$2.3 billion capital contribution from the Government, \$128 million general reserve, \$192 million asset revaluation reserve and \$192 million retained surplus. That is the figure of \$2.8 billion to which the Treasurer has referred. Of course, that is part of the liability side of the SAFA balance sheet, which is matched by assets. It is not the case that those particular forms of funds are matched by particular forms of assets. On the one hand, we have a variety of sources of funds of SAFA and, on the other hand, we have a variety of assets. It is not the case that there are particular assets dedicated against that \$2.8 billion. I think that that is the best reply that we can give to the Deputy Leader.

**Mr S.J. BAKER:** Without labouring the point, will the Treasurer provide a breakdown of those items that can be classed as internal loans used as asset backing and those items that are not investment capital out in the marketplace used as backing for the \$2.8 billion? I know that the capital contribution from the State Government was \$2.286 billion. Of course, part of that would be things like the Department of Woods and Forests, SATCO—

**Mr Emery:** I need to repeat what I have said. There is no relationship between particular items on the liability side of the balance sheet and particular assets. There is an aggregate of liabilities that matches the aggregate of assets. It is not the case that we can nominate which exact assets can be ascribed to that \$2.8 billion.

**The Hon. J.C. Bannon:** That is where the table on page 21 comes into play. If one were notionally to acquit the \$2.8 billion, that is readily done just by taking the first category of loans—if one wished to do it that way. However, obviously, as the Under Treasurer has pointed out, one does not pick up a figure under that area and translate it across into a particular asset against which it is secured: it is secured against the overall assets and their quality.

**Mr S.J. BAKER:** I will pursue that matter on notice, because I believe it is important. My second question relates to the fact that certain assets were transferred to SAFA in the form of HOME and HomeStart loans. I think that \$1.1 billion was discounted and it represented \$970 million at a guaranteed rate of return of 13.1 per cent. With interest rates falling—and I note that the Government has now given an undertaking to reduce those concessional loans that are above the market rate—will the Treasurer give some indication of the cost to Government in meeting the guar-

antees it has given to SAFA and, indeed, how this is covered in the budget, because there is no line?

**The Hon. J.C. Bannon:** Consideration certainly has been given to the rate under the old HOME scheme and also in relation to the HomeStart loan situation. I am sorry I do not have the details. They should be fresh in my mind, because they have been considered in the past few days. If interest rates are lowered on these mortgages, SAFA would need to be reimbursed from the budget. I cannot say to what the extent that would be necessary. That is the subject of assessment. I will take the question on notice. The answer may be provided by 4 October, but we need to get a fix on that, and we will provide detailed information.

**Mr S.J. BAKER:** There are no contingencies in the budget to allow for any overruns. This could be quite costly if interest rates fall by 1 or 2 per cent in terms of the Government's meeting its guaranteed 13.1 per cent return.

#### Additional Departmental Advisers:

Mr R. Ruse, Chief Executive, South Australian Superannuation Fund Investment Trust.

Mr J. Hill, Deputy Under Treasurer.

Mr I. Procter, Assistant Under Treasurer.

Mr D. Orchard, Director, Capital Works.

Mr M. Walker, Commissioner of Taxation.

**Mr D.S. BAKER:** SASFIT's annual report, on page 16, refers to advice received from the Australian Taxation Office of a changed view relating to whether SASFIT's income is taxable under the Commonwealth tax or superannuation funds. The matter is currently awaiting judgment in the High Court. What would be the increase in the cost to taxpayers of maintaining the State Government's superannuation schemes if the decision of the High Court does not protect them from Commonwealth tax laws?

**Mr Ruse:** The position with relation to SASFIT's tax liability is complicated. In the previous annual report, SASFIT indicated a contingent liability of about \$5 million to \$6 million. That would have been the case if SASFIT alone was taxed at a 15 per cent tax rate. The way that the Commonwealth attempts to tax superannuation funds relates to superannuation schemes as distinct from individual entities. If the South Australian superannuation scheme were to be taxed, the significant unfunded liabilities of the schemes would be taken into account, and it would be about seven to 10 years before the schemes had to pay any taxes because of concessions or deductions which are offset against the unfunded liabilities.

It depends on the basis upon which the Commonwealth tax would apply to SASFIT—whether it would apply to SASFIT itself or the scheme overall. Obviously, if there were a considerable time lag between the High Court decision and when tax is needed to be paid, it would give SASFIT the opportunity to rearrange its investment strategies to take greater cognisance of the fact that investments in shares with franked dividends could take a greater part of its portfolio than is currently the case.

**Mr D.S. BAKER:** SASFIT's annual report, at page 14, states:

The report of the Public Actuary also contains several other proposals concerning SASFIT which are of a policy nature and which are matters for consideration by the Government.

What are the proposals, will the Treasurer provide the Committee with the latest report by the Public Actuary on the State superannuation scheme, and, if not, why not?

**The Hon. J.C. Bannon:** That report is made public.

**Mr Ruse:** The Public Actuary's Report was dated May 1990 and I assume that that has been tabled in Parliament, as is required under the Superannuation Act.

**Mr D.S. BAKER:** I am referring to page 14 of SASFIT's annual report.

**The Hon. J.C. Bannon:** The report referred to there has been tabled in Parliament I would think.

**Mr Ruse:** The reference on page 14 in SASFIT's annual report refers to the triennial report of the Public Actuary, and as reported on page 13 relates to the period ended 30 June 1989. His next report will relate to the period ended 30 June 1992, and will probably be handed down in Parliament within 12 months after that date. The report referred to here has been handed down in Parliament.

**Mr D.S. BAKER:** So that one relates to the questions that we are asking concerning other proposals relating to SASFIT?

**Mr Ruse:** That is right; it is a public document.

**Mr D.S. BAKER:** Will the Treasurer provide the Treasurer with the latest report by the Public Actuary on the State superannuation scheme?

**Mr Ruse:** This is the latest report. He only reports every three years.

**The Hon. J.C. Bannon:** The next report will be for the period ended 30 June 1992, and it is usual that that report be tabled within 12 months after that date.

**Mr S.J. BAKER:** I have been through all the reports and I cannot find a reference to how much the State Government is actually putting aside for the 3 per cent productivity, which may well become the 6 per cent productivity if the Federal Government has its way, and would be due I think on 1 July 1992. Can the Treasurer detail what is the total liability in relation to the 3 per cent productivity? Secondly, how much have we set aside in the trust fund to meet that liability as at 30 June?

**The Hon. J.C. Bannon:** That is in fact recorded in the Financial Statement.

**Mr Emery:** At page 67 of the Financial Statement that was tabled by the Treasurer, table 4.7 lists both the liabilities and assets with respect to all of the Government superannuation schemes. The figures are there alongside the heading 'Public Sector Employees Superannuation Scheme'. That is what is commonly referred to as the 3 per cent scheme. We can see there liabilities of approximately \$160 million and the assets of approximately \$34 million, and a net liability of approximately \$126 million.

**Mr S.J. BAKER:** As an adjunct to that question: will the Treasurer detail how this \$33.8 million is being held and can he say whether that is available for use elsewhere or whether in fact it has been put in trust not to be touched? How is that money being accumulated? Is there an add-on to the budgets of each of the departments to slowly catch up on the total liability?

**Mr Emery:** That amount is being held in a special deposit account, as is set out in the Treasurer's Financial Statement, and is invested in the same manner as all the other accounts of that nature, namely, pooled with the Treasurer's other funds and invested with SAFA, in the way that Mr Wright outlined earlier. It is also the case that the Government has made a start towards funding a greater proportion of those accruing liabilities. The practice in this State, as is fairly evident from the material on page 67 of the Financial Statement, has been not to fund our superannuation schemes, as a generalisation. But the Government has made a start towards doing so in respect of this scheme. The amount in that regard for 1991-92 is approximately \$25 million, if I recall correctly, which will be added to that amount of \$33 million.

**Mr S.J. BAKER:** What formula is being used as a process of placing a requirement on each of the departments? Is it a given formula or is it an *ad hoc* method?

**Mr Emery:** In each case the departmental allocations include about 3 per cent of the wages and salaries bill. So, the figures one can see in the estimates document for each department reflect 3 per cent of their wages and salaries allocations.

**Mr FERGUSON:** Turning to the State debt, I refer to page 23 of the Estimates of Payments, program 3 'Management of State Government borrowing and investment activities'. There has been much talk about South Australia's debt levels: can the Treasurer provide details of the current level of State debt and indicate how this compares with debt in earlier years and debts in other States?

**The Hon. J.C. Bannon:** The important thing here is that despite the big jump in our debt—that has happened and has been clearly set out—we must retain a perspective on it. By all measures we have had good debt control in recent years and we have reduced our debt level year after year through the '80s. Prior to the State Bank situation we had a level of real net debt per head that was the second lowest of all of the States.

That has increased and the net debt per capita is now \$4 568 at June 1991 compared to \$3 078 in June 1990. That puts us third lowest of all the States. In other words, our debt has not climbed out of the arena of reasonable management significantly by Victoria and Tasmania. It is around the level of Western Australia. Compared with the size of the State economy there has been no major increase of debt over the decade, even taking into account this increase. At 23.3 per cent it is certainly way below the level we have had in previous years, when it was as high as 61 per cent.

When one looks at the figures one realises what a change in attitude there has been to public sector debt, its manageability and its size. At one stage debt levels of that kind were simply shrugged off as sustainable and appropriate. They obviously are not in the current environment—and that is no bad thing, I might add—although the last few years has demonstrated that, despite what was said about major reductions or control of public sector debt having an immediate beneficial effect on the economy, both on the national debt and on overseas borrowings and activity, in retrospect it has proved to be quite wrong.

As regards our balance sheet—and this is an important element when looking at debt—although, admittedly, imperfect, we are continuing to refine the assessment of assets against liabilities, showing net assets in South Australia in excess of \$8 000 per head, and it is always worth reminding people of that if they express concern that they might suddenly receive a bill for \$4 000. Of course, that is just a way of measuring a level of debt: it has no relation to the actual liabilities against which our assets can be judged.

Therefore, obviously, the important thing, even in these difficult times, is to ensure that we can control it. At \$330 million, the budget net financing requirement is below the average net financing requirement for the past eight years. So, again, it is sustainable but, obviously, we must work to get it down, and we must demonstrate that we are doing that. That is one of the budget objectives.

**Mr FERGUSON:** If one looks at the graph of the receipts, we can see from August of last year that there was a very steep plunge, which continued until March. From March to June there was a fairly steep incline, and although we finished below last year's receipts level, we made up a lot of the leeway in the period from March to June. What caused that pattern in the receipts?

**The Hon. J.C. Bannon:** Part of that certainly relates to the timing of payments of receipts. For instance, when land tax accounts go out and are paid there are obviously very different patterns of payment; all is not on an orderly and

sequential basis throughout the year. Of course, that is one reason why the so-called Neimeyer statements tend to be so misleading as they go through month by month, but it is a format which everyone still observes and which we still produce. However, they must always be looked at in a very qualified way. I think that the effect this year would have been exacerbated by the downward impact of the drop in economic activity which, of course, gathered pace during the year, countered by the impact of the tax changes in the 1990 budget.

In other words, a number of new rates came into effect well into the financial year. Payments would only start to flow in the second half of the financial year, and that is shown in the lift-up which worked against the recessionary cycle, which was going down. I suppose it indicates that, when you look at the overall picture, in which I think we had something like \$55 million less collection than estimated in our State taxes sector, if it had not been for putting in place the revenue package of 1990 we would have been in very much greater difficulty. Of course, that effect continues in its full year throughout this financial year. I would hope that we would not see the same sort of severe ups and downs shown in the graph which the honourable member is looking at, but there will always be that sort of impact in any financial year because of the timing of collections.

**Mr FERGUSON:** Page 23 of the Estimates of Payments refers to the provision of budgeting and economic advice. Can the Treasurer outline the nature of this economic advice with particular regard to economic conditions in South Australia during the 1990-91 financial year?

**The Hon. J.C. Bannon:** This is obviously an important part of any kind of planning for a budget and, notionally, we must make estimates in these areas and try to compute tax returns and so on, based around economic activity. We are in receipt of fairly reasonable economic advice. Of course, there is a unit in the Treasury which is constantly monitoring and producing information on ABS and other data that it collects independently. There are various reports such as those from the Centre for Economic Studies, the State Bank, and so on, which can be looked at as national indicators. In relation to 1990-91 the consensus is that we held up very well indeed, particularly throughout the first half of that financial year. That is an encouraging trend, because normally South Australia has been very early in experiencing any recession.

There is no question that, in relation to the general indicators—employment, unemployment and so on—South Australia will feel the full impact of the recession, as has already been evident. Therefore, a conservative approach is taken in looking at the budget. One of the areas that is quite interesting, based again on figures that relate to the March quarter this year (and there has been a decline in the intervening quarters), is our population figures, where net interstate migration was the highest since so many people came from the Northern Territory just after Cyclone Tracey. It is significant that in that net interstate migration figure for the past two quarters there has been higher net migration into South Australia than into Western Australia, which is the only other State apart from Queensland showing a net positive inflow. That is quite an encouraging indication of the way in which our economy has held up.

Our overall population growth is still less than other States because of the age profile here and our lower share of migration from the overall migration program. In that measure of where Australians go to live, South Australia has been showing up very well. In areas such as housing we have also held up. We will not see big jumps in some areas because we have not had a big slump, but the outlook is

tough and I do not think we will have a great deal of good news for a few months yet.

**Mr D.S. BAKER:** Treasury's annual report states:

It is anticipated that credit cards will be introduced in 1991-92.

What is the estimated cost of introducing credit cards throughout all agencies, how many will be issued, what limits will be imposed on the cards and what procedures have been established to ensure that they are not abused?

**The Hon. J.C. Bannon:** This is a timely question in that we have just reached the point of finalising arrangements for the Government credit card which was based on a pilot study in a number of departments to see how effective it could be. Questions such as abuse and aspects of that kind were addressed. Tenders were called from a number of banks to provide a card to Government. We looked at the cost of the card and various other aspects. Indeed, that process is almost complete and I ask Mr Hill to comment.

**Mr Hill:** One of the specific questions asked by the Leader related to the limit to be applied to the card. Initially, the cards will be restricted to purchases up to \$1 000 in value, and in addition we are in the process of preparing a Treasurer's instruction to be issued under the Public Finance and Audit Act. It will set out the terms and conditions under which the credit cards can be used. That answers at least two aspects of the question.

**The Hon. J.C. Bannon:** Considerable administrative savings have been demonstrated by the use of the card for standard purchases, and certainly sufficiently on the pilot studies to encourage its general application.

**Mr D.S. BAKER:** Treasury's annual report shows that three year forward estimates of recurrent receipts were prepared. Why are not these estimates included in the budget papers, and will the Treasurer provide the Committee with the latest estimates prepared by Treasury? What 'continued emphasis' will be placed on the development of forward financial plans during 1991-92?

**The Hon. J.C. Bannon:** They are too unpredictable in the current environment. More than 50 per cent of our revenue comes from the Commonwealth, and that scene is very fluid at the moment with economic activities and so on relating to receipts. In terms of expenditures, there is an ongoing program under the Government agency review, and various other efficiency measures that have been introduced need ongoing assessment. The publication of a series of forward indicators, as is done, for instance, in the Commonwealth, could be confusing and quite misleading. I think they end up not being very productive in terms of outcome, and they can be readily manipulated.

It is true that recently one or two Governments—for instance, Tasmania; and Victoria has attempted to do the same—have begun to issue forward projections as a kind of signal to the markets about the directions in which they are going. However, as has been shown, they can be wildly inaccurate with the best reasons. Whilst one must look ahead, particularly with respect to capital works and other matters, we believe that the annual compilation of some fairly firm estimates is still the appropriate way in which to approach public reference to our budget. For that reason we will not publish forward estimates.

**Mr. D.S. BAKER:** The annual report of Treasury indicates that under this program 'support was provided to the work of the Government Agency Review Group in 1990-91 and staff from other agencies were seconded to Treasury to assist with this task.' How often does GARG meet; how many support staff does it have; what is the cost to Treasury of supporting the GARG exercise; how much in total was

spent on GARG in 1990-91; and what savings did GARG achieve in 1990-91?

**Mr Emery:** GARG meets frequently, but not on a set basis.

**The Hon. J.C. Bannon:** I will refer that question to the Minister of Finance, who will be able to handle this matter.

**Mr HOLLOWAY:** On page 18 of the Estimates of Receipts it will be seen that Commonwealth general purpose grants were below their estimate in the past financial year by about \$21.2 million. Will the Treasurer explain why this shortfall occurred and why such grants are expected to increase significantly in the current financial year?

**The Hon. J.C. Bannon:** In 1990-91, the Commonwealth transferred the debits tax to the States, but unfortunately this was not by way of an incremental grant to us—it was done on the basis of adjusting our general purpose grant by an amount equivalent to the proceeds of the debits tax. So, the general grant was reduced with the debits tax making up the difference. Compared with the original budget estimate, general purpose recurrent funds were adjusted down by 11.5 per cent on account of the debits tax transfer, and there was a further shortfall against the budget of \$9.7 million which reflected lower than expected CPI superannuation contributions and revised population estimates. We will become totally responsible for the debits tax at the end of 1992.

General purpose recurrent funds from the Commonwealth are expected to grow this year by 4.8 per cent, a total of \$68 million, which is above the anticipated inflation rate. The bulk of that is the relativities, which are favourable to South Australia, the Grants Commission recommendations providing some \$48 million benefit. Changes in local road funding arrangements—an offsetting adjustment—involve about \$11 million, reflecting revenue gained from the Commonwealth Government's commitment to a real term maintenance of funding levels. While welcome, I make the point that the largest benefit this year, apart from the maintenance of real grants, which is enjoyed by everyone and obviously was very necessary in terms of our program, came through the Grants Commission recommendations. Of course, that does not occur year by year and, in any case, it is done only on the basis that we have had a very specific disadvantage *vis-a-vis* other States, which is being corrected. So, in a sense, we are not net gainers in that: it simply helps us stay at about the same spot as between the two years.

**Mr HOLLOWAY:** I refer to page 12 of the Estimates of Receipts where there is a single line reference to stamp duties. What amount was provided by way of first home stamp duty concessions in 1990-91?

**The Hon. J.C. Bannon:** It is a substantial concession, one of the most generous to first home buyers in Australia, with no duty is payable on the first \$80 000 value of a new home. In 1990-91, 10 504 concessions were provided, which indicates the number of first home buyers. The concession was valued at \$16.56 million. The average amount of duty per transfer, therefore, was about \$1 600. Per household, that is a pretty substantial benefit and it represents overall quite significant support from the revenue for home ownership.

**Mr HOLLOWAY:** I refer again to page 12 of the Estimates of Receipts. I note that the contribution to the hospital fund from both the Lotteries Commission and the Totalizator Agency Board was below estimate in the past financial year. Why did this shortfall occur and why are revenues expected to increase in 1991-92?

**The Hon. J.C. Bannon:** It is made up of profit from the Lotteries Commission, the TAB and unclaimed dividends

from on course totalisators. The shortfall reflected a lower than anticipated level of gambling turnover—that is just straight turnover. Taxation revenue from lotteries grew by 14.6 per cent and a comparable growth of around 14.8 per cent has been estimated for this financial year. Most of that is attributable to the full year operation of X-Lotto Extra on Monday nights and the effect of higher ticket prices for the Saturday night X-Lotto—which continues to attract strong support—but that had only a part-year effect. Club Keno is also estimated to have a higher return in 1991-92 on the previous year. One half of the balance of TAB funds net of administration and operating costs is available for distribution, and that fell short by about \$2.4 million. The final distribution of profit was paid into Consolidated Account in the first quarter of 1991 and we would expect a higher profit distribution in the first quarter of 1991-92, which helps boost that amount.

**Mr HOLLOWAY:** As a supplementary question, do similar reasons apply for the reduction in the Casino estimates in the past year?

**The Hon. J.C. Bannon:** One reason is that some estimate was made based on the timing of the introduction of the video gaming machines and their return. In fact, there was only 2½ months of return from that source in 1990-91, which was considerably less than expected. They were budgeted to yield about \$2 million and, in the event, yielded \$800 000. Overall, the Casino is performing quite well, but it varies from month to month and it also relates to the level of business that the casino is able to get, particularly the junket gambling trade which is an important aspect of Casino operations. During the year we will have the full effect of the video gaming machines. I would expect a higher return from the Casino this year.

**Mr S.J. BAKER:** With falling property valuations being cited as a reason for large losses and increasing non-performing loans in the corporate sector, what is the rationale behind increasing the marginal rate of land tax from 1.9 per cent to 2.3 per cent where the site value is in excess of \$1 million? How many such properties or how many such ownerships are affected and what is the extra revenue take likely to be as a result of this measure?

**The Hon. J.C. Bannon:** In relation to land tax, when values were going up sharply in recent years the Government took steps to lower the expected revenue from that source. We could have done what other Governments have done and sat back and let the revenue come in. In consequence of our actions—I think there is a reference in the budget speech to the value of it—it is many millions of dollars over the past few years as a result of that adjustment. In the process we have also been reviewing land tax and its incidence. A number of submissions were made to the review last year. The approach is to look at a CPI-related collection. Unfortunately, that cannot necessarily mean a CPI-related rate, nor a uniform rate, because land tax is collected against values, aggregated property and so on.

We would expect to collect about the same amount in money terms this year as we did last year. That is a real reduction in land tax under this new system. We have also said that we will be adjusting at or around the level of the CPI over the next two years so that there can be some certainty in land tax payments. We have concentrated any adjustment to rates necessary to achieve those results in those large or upper property brackets, I think quite reasonably, because it is in those brackets that we have seen the largest reduction in value. In terms of actual impact on

taxpayers, unless there are particular circumstances, such as a property owner aggregating a larger property in a year or a particular reason for a valuation increase, everyone will be the same or better in this coming year.

**Mr S.J. BAKER:** That did not answer the question. That was the rationale, but I asked how many were affected and what was the take as a result of the 1.9 per cent to 2.3 per cent isolator.

**Mr Hill:** Had there been no change in the tax rate, land tax revenues this year would have fallen by about \$8 million. The first part of the question asked how many land-owners will be affected by the change. I shall have to take that question on notice. It is not difficult, but I do not have the number here.

**Mr S.J. BAKER:** As regards stamp duties, the member for Davenport asked the Premier about stolen motor vehicles and the extent to which people who have their vehicles stolen and wrecked pay stamp duty on the replacement which is not recompensed in the insurance payout. Has the Premier paid any further attention to that matter?

**The Hon. J.C. Bannon:** I am aware of it, but I cannot recall having yet responded to it.

**Mr Hill:** The factual situation is that there is a draft response from the Commissioner of State Taxation sitting on my desk at this moment and it has not yet found its way to the Treasurer.

**The Hon. J.C. Bannon:** The Commissioner has indicated that he has done his part in the transaction and it is a matter of processing it further, so I shall be responding to the honourable member shortly.

**Mr Walker:** There are quite a number of categories where people might wish to argue that in fact they should have some stamp duty exemption on motor vehicles—and stolen vehicles relate to just one of those areas. Generally, the Stamp Duties Act is predicated on the basis that stamp duty is payable on each transaction, irrespective of the reason for that transaction taking place. There are several reasons why people have to look at replacement in relation to motor vehicles, and because a vehicle has been stolen is but one of them.

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

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Treasurer, Miscellaneous, \$913 188 000—Examination declared completed.

\_\_\_\_\_  
Works and Services—Treasury Department, \$5 000 000—Examination declared completed.

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**The CHAIRMAN:** That concludes the proceedings of the Committee. I thank the Committee and the Premier and his officers for their cooperation.

#### ADJOURNMENT

At 10.2 p.m. the Committee adjourned until Wednesday 18 September at 11 a.m.