HOUSE OF ASSEMBLY

Wednesday 15 September 1993

ESTIMATES COMMITTEE A

Chairman:
The Hon. D.J. Hopgood

Members:
Mr D.S. Baker
Mr S.J. Baker
Mr H. Becker
Mr P. Holloway
Mrs C.M. Hutchison
Mr J.A. Quirke

The Committee met at 11 a.m.

Treasury, $15 786 000
Deputy Premier and Treasurer—Other Payments, $741 374 000

Witness:

The Hon. Frank Blevins, Treasurer.

Departmental Advisers:

Mr J. Hill, Acting Under Treasurer.

Mr I. Proctor, Assistant Under Treasurer (Budgets).

Dr G. Bethune, CEO, Task Force for Corporatisation of the State Bank.

Mr R. Schwarz, Assistant Under Treasurer (Revenue and Economics).

Mr D. Prior, Director, Superannuation.

Mr J. Wright, Assistant General Manager, Cash Debt and Client Management.

Mr B. Daniels, Manager, Actuarial and Insurance Services.

Mr M. Walker, Commissioner of State Taxation.

The CHAIRMAN: I declare the proposed expenditure open for examination. Does the Minister wish to make an opening statement?

The Hon. Frank Blevins: I do have a brief opening statement, Mr Chairman, which in deference to the ruling last year will touch on all matters that are to be dealt with today. I understand there was a ruling last year that opening statements could not be made on each line, just one at portfolio changes, so it will touch on various matters, but in any event we will certainly be brief, consistent with that. The 1993-94 budget is a major step in implementing the Government's plan to contain and then begin to reduce the level of the State's debt. That plan—the debt management strategy—was set out in the economic and financial statements made in April this year, and it will achieve the Government's objectives over a three-year period.

The Government set itself targets of reducing budget outlays, reducing the recurrent deficit in the budget and reducing the level of the State's net debt, both in real terms and as a proportion of gross State product. In the budget, the net State outlays are to be reduced by nearly 3 per cent in real terms. The recurrent deficit is an estimated $24 million compared with last year's recurrent deficit of $169 million. The real level of the State's net debt will be lower at 30 June 1994 than a year earlier, and will have been reduced from 25.7 per cent to 25.1 per cent of GSP. The budget will have a surplus estimated at $120 million in 1993-94.

The 1993-94 budget confirms the decisions made by the Government in its April statements and achieves each of the targets. It is a budget that provides significant real reductions in electricity tariffs, particularly for consumers in the business sector; up to 1 000 work experience and training places for young people aged 17 to 24 in the State public sector; $5 million in payroll tax rebates for employers who maintained or increased their work force during the past year, and extends the program by one more year. It will also provide rebates of FID on export income; an additional $40 million for the economic development program with a minimum of $30 million to be spent in 1993-94; and a total capital works program of $1.187 billion. An additional $58 million will be spent in areas of high social justice priority; and an additional $7 million, including Commonwealth funding, will be provided for additional child care places.

There will be a net addition of 110 dwellings to the public housing stock, an additional 200 houses under the cooperatives program and 100 houses under the Housing Association's program, and it also provides for 6 000 new Housing Trust tenants. There will be an additional $11 million to provide water, power, transport and health concessions to an extra 30 000 South Australians following extensions in eligibility for pensioner health benefit cards. An additional $6 million will be provided for spending on services for people with a disability, and an additional $12 million will go towards the expanded program of maintenance in schools.

Within a budget of restraint, the Government has found the resources to continue and expand where possible its important social and economic programs. As was pointed out in the April statements, the interest burden of high debt levels could result in a debt spiral. I have already noted that the achievement of the targets set in these statements is on track and net debt to GSP was estimated at 25.7 per cent at June 1993 and it is expected to fall to 25.1 per cent by June 1994. By the end of 1996, debt to GSP should be back down to the 22 per cent mark which applied at the beginning of the 1980s and well below the figure in excess of 50 per cent which applied prior to the 1970s.

The State Bank of South Australia, through the support of the Government, has been placed on a sound and profitable footing. For 1992-93 the bank has reported a profit of $108 million with contributions to the 1993-94 budget in the form of income tax equivalent and dividends totalling $107 million. The bank is also in a strong capital position notwithstanding that proposes to return $160 million of capital to the Government in 1993-94.

It is clear that the State Bank is now a profitable and valuable asset of the State. As the Committee is aware, the Government has commenced a process to corporatise the bank by 1 July 1994 with the intention of selling it. Work is progressing and it is expected that legislation to provide for corporatisation will be introduced into Parliament in the Autumn 1994 session.

In previous years the Government has made provision of $3.15 billion to support the State Bank and to fund losses arising from past activities. This provision was made under the indemnity arrangements. GAMD losses for 1992-93 amounted to $287 million, a figure which includes a reduction of $85 million in the value of the Myer Centre. This loss was within expectations, given the change in value of the

Myer Centre and it is covered by the provision made by the Government.

Up to 30 June 1993, $2.95 billion has been paid over to the bank and GAMD and a further $87 million has been committed to GAMD. Over the next two to three years, on present forecasts and estimates, total losses will peak at close to $3.15 billion, before GAMD is in a position to record profits and return funds to the Government. These returns could be as high as $300 million during the latter half of this decade.

SGIC's $23 million loss after tax for 1992-93 was largely due to two areas of insurance—financial risk and overseas inwards reinsurance—which required $54 million in provisions for claims during the year. The provision for claims in inwards reinsurance amounted to $42 million and relates to damage caused by Hurricane Andrew in the US. SGIC is no longer writing new business in these two areas of insurance.

During 1992-93 under a new chairman, a new board and a new managing director SGIC has moved to ensure it adopts a lower risk profile and focuses on its traditional core South Australian insurance business. The results of actions taken can be seen in the 1992-93 second half when SGIC recorded a $9 million profit after tax. This second half profit indicates that SGIC has sound underlying core businesses and gives reasons for optimism about the future.

SAFA has continued to perform impressively, particularly in its core activity of public sector debt management. I commend SAFA's Annual Report to members of the Committee. It contains an unparalleled amount of information about SAFA's activities, including measures of SAFA's debt management performance. A highlight of SAFA's operations in the past year or two is that it has reaped the benefits of liability management strategies designed to ensure that the State was not over-exposed to historically high interest rates at a time when interest rates were falling. It is impossible for a borrower the size of SAFA to shift its whole debt portfolio instantaneously, but the strategies put in place are estimated to have saved the State over $250 million, or 3.5 percentage points, when compared to SAFA's benchmark net debt profile. This has enabled SAFA to reduce the interest costs of the Government and semi-government authorities. The progressive implementation of recommendations made by a GMB Review of SAFA will further improve SAFA's operations.

SASFIT takes the view that superannuation contributors with typically 20 to 40 years to retirement are best served by an investment strategy which focuses on a balanced portfolio of assets intended to provide secure returns over the long term. The long-term investment strategies which have successfully guided decision-making over the past 10 years will continue to underpin the management of SASFIT's assets in the year ahead.

SASFIT earned a pleasing rate of return of 11.7 per cent on all funds under management last year—well in excess of inflation of 1.9 per cent. Over 10 years SASFIT has achieved an annual average return of 13.1 per cent on total funds under management. This represents an average real rate of return of 7 per cent per annum over the decade. The actuarial reviews of the schemes for which SASFIT manages funds assume a real rate of return of 4 per cent per annum, so SASFIT is comfortably meeting this target.

In conclusion, the Government has not pretended to solve all its problems in one year. With this budget, however, it has taken an important first step in implementing the three year plan announced last April to contain debt and to restore the public finances.

The CHAIRMAN: I have been given a schedule which sets out the order in which it is assumed that the lines will be examined and it provides a timetable for the Minister's advisers. We have just three lines: Treasury, Deputy Premier and Treasurer—Other payments and Mines and Energy, and that is the order in which we will be dealing with them. If there is agreement between yourselves on the way in which this is done, then the Chair and the Committee can have no quarrel. In turning to the Deputy Leader of the Opposition and asking him to proceed, I declare open for examination the vote 'Treasury, $15 786 000'. I refer members to pages 31 to 37 in the Estimates of Payments and Receipts and to pages 39 to 52 in the Program Estimates.

Mr S.J. BAKER: First, I would make two points. The Treasurer has already broken the time schedule that we had agreed upon with his very long-winded statement. All the information that the Treasurer provided in his statement was contained within the budget papers and did not need to be repeated. My only comment as an opening statement is that the budget is a fraud. First, in relation to the Treasurer's lines in the Estimates of Payments and Receipts (pages 36 and 37), there is not a lot in this area that I wish to ask questions about. My first question relates to page 36, Interest Recoveries—Interest earnings on investments. The sum shown on page 36 is $100 million as the 1993-94 estimate. Why has there been an increase against the background of decreasing interest rates, and from which accounts have these interest returns been drawn?

The Hon. Frank Blevins: I ask Mr Proctor to provide those details.

Mr Proctor: The answer to that question lies in three areas. The increase in investment earnings is mainly due to the larger balance in the targeted separate payments account; there was $260 million in that account as at 30 June 1993. Secondly, there was a net increase in the level of deposit account balances due to growth in the occupational superannuation account, outweighing the likely reductions in other accounts. Consolidated Account balances will be substantially improved relative to past years, resulting in more funds being available for investment by the Treasurer. It is a combination of those factors.

Mr S.J. BAKER: As a supplementary question, can we be provided, on notice, with the relative contributions to that $100 million? My next question relates to the line dealing with the Local Government Disaster Fund (page 37). The Local Government Disaster Fund assumes that there is going to be a small decrease in the amount of moneys made available through the FID impost. This would assume that the volume of money which is going to be subject to FID will actually decrease. Can the Treasurer explain why there have been last minute changes to the FID and why they have been unsuccessful in stopping the outflow of funds from South Australia?

The Hon. Frank Blevins: The amount of funds leaving South Australia was always a contentious matter. There has been a fair bit of mythology about this, but I am pleased that the Deputy Leader has recognised that the Government made a very significant policy decision to reduce FID by about 30 per cent. That was a significant reduction indeed and one for which I do not think the Government has been given sufficient credit to date. However, I am pleased with the recognition of that by the Deputy Leader. I remember an accountant from Coopers and Lybrand saying on the air not long ago that it probably was not worth people doing it even prior to that significant reduction. If that were the case, I would think it unlikely that many people would be bothered to do so these days. Regarding the reduction that has occurred relatively recently, I would suggest that, other than making an estimate which obviously they would have to do for budget purposes, it is far too early to say what its effect will be. We do not see cash being transferred out of the State as a huge problem.

Mr S.J. BAKER: These figures would suggest that some outflow will continue.

The Hon. Frank Blevins: These things depend very much on economic activity also. The amount of economic activity that takes place will have an impact. By and large our figures are conservative. We try not to overstate or to put any gloss on what our income will be. Essentially we have marked time in this area and we assume that it will be approximately the same as last year.

Mr S.J. BAKER: I note two decreases in payments on page 37: one deals with debt redemption assistance and the other with productivity superannuation benefits. Why have those decreases taken place?

Mr Hill: With respect to the line regarding debt redemption assistance, the June 1990 meeting of the Loan Council agreed to revise arrangements for the redemption of the debt of the States and Territories. In summary, the States and Territories are required to make payments to the National Debt Sinking Fund sufficient to enable all maturing debt incurred by the Commonwealth on behalf of the States to be redeemed. The States' global limits have been adjusted to take account of these additional contributions to the National Debt Sinking Fund. Individual States are able to choose how they raise the funds to finance these redemptions. The Loan Council noted that under these new arrangements the States would be disadvantaged in two ways: greater interest costs as the States borrow at higher rates than the Commonwealth and reduced Commonwealth contributions to the National Debt Sinking Fund stemming from dramatically lower balances of outstanding State debt on which the annual contributions are calculated.

The Commonwealth agreed to pay compensation to the States for these two factors. The Commonwealth makes this payment to South Australia in the form of a specific purpose grant. Several years ago SAFA assumed responsibility for the obligations of the State to the Commonwealth under the financial agreement. This line has been created to pass on the funds provided by the Commonwealth to SAFA. The variations from the estimate for 1992-94 were mainly the result of earlier redemption of Australian savings bonds, and the 1993-94 estimate is a reflection of the lower level of maturing debt this year.

Mr QUIRKE: Will the Treasurer provide an update on the State Bank corporatisation and sale process?

The Hon. Frank Blevins: On 17 February this year the Prime Minister announced that the Commonwealth Government was prepared to provide special financial assistance with a present value of $600 million to South Australia to help the State reduce its current debt burden. In recognition of the Commonwealth's decision the Premier agreed to recommend the sale of the State Bank as quickly as practicable consistent with achieving a fair market price; that the State Bank be brought into the Commonwealth tax net free of tax losses from 1 July 1994 or upon sale, whichever comes first, with the State making no further claims; that all existing tax losses be extinguished; and that the State Bank be brought into the prudential supervision of the RBA by legislation.

In April 1993 the Governments agreed in principle to commence a process to corporatise and sell the State Bank. A steering committee was established, chaired by the Under Treasurer, to oversee this process. It was agreed that the process would be a cooperative one as between the Government and the State Bank, and this is reflected in the membership of the steering committee and in the working arrangements generally. A full-time task force has been established to undertake this work which involves a major reconstruction of the existing State Bank. This process is expected to take much of 1993-94, with a major objective being to bring the bank within the Commonwealth tax net by 1 July 1994. The task force has also given preliminary consideration to matters involved in the sale of the bank, whether by way of trade sale, float or other alternatives. As previously indicated, this is not expected before the 1994-95 financial year.

To facilitate the work involved in the corporatisation process, amendments to the bank's legislation have been required, because the present legislation does not contemplate such a process. These amendments were recently enacted by Parliament. The amendments are aimed purely at facilitating work required in the corporatisation and sale process and do not provide either for corporatisation or for the sale of the State Bank. Legislation to corporatise the State Bank is expected to be introduced into the Parliament in the autumn 1994 session. At this stage, it is not possible to add anything to the Government's earlier statements about the likely sale of the bank, and it is also premature to make any decisions about the likely means of sale, whether by trade sale, a float or some other alternative.

The CHAIRMAN: Order! Before I ask whether there is a second question from the honourable member, I note a look of consternation on the part of a couple of members, although they did not actually make the point. So far as the Chair is concerned, we are dealing with three lines today, and the line we are dealing with now is 'Treasury, $15.786 million.' So, any question that falls within the province of that line can be allowed at this stage. If the honourable member had asked a question about mines and energy, of course, I would have had to rule him out. In so far as it is under the Treasurer line, it is all right; if it is not, I will rule him out.

If there has been some sort of private arrangement between the Treasurer and members on my left and they want to involve members on my right, of course, they had better do some talking quick smart to do that. But the Chair can have nothing to do with that: I merely respond to the Standing Orders and the way in which the Treasury papers are set out. It has been pointed out to me that technically the question that was just asked by the member for Playford is under the second line, 'Deputy Premier and Treasurer—other payments, $741 374 000'; had I realised that, I would not have allowed the question at this stage.

Mr S.J. BAKER: It would have been allowable under 'other payments' because there is a $15 million allocation. But, in agreeing with the Treasurer on certain things, we have tried to work it out in blocks so that we could deal with them accordingly. The matter of the State Bank was supposed to come later, and I had some questions which are further to the ones that the honourable member has raised.

The CHAIRMAN: The point is that the honourable member will still be in order in asking his question; there is no problem about that.

The Hon. Frank Blevins: In my view, both questions are perfectly correct and are appropriate under this line. But if one were to be out of order, then the earlier ones would be, too. I would suggest that neither of them is out of order.

The CHAIRMAN: Order! My procedure will be to allow the question and for members to take the point if they want to; then I will examine the papers and apply the Standing Orders.

Mr QUIRKE: I took the view that under 'other payments' that question would be appropriate. Mr Chairman, I seek your advice—and possibly that of the Treasurer as well—on another matter under 'other payments'. My next two questions involve the overall position of the Government being a self-insurer. Is that appropriate under this line, or should that come further down?

The CHAIRMAN: It is difficult sometimes for the Chair to determine specifically whether it comes under a particular line, except where it is obvious, as is the division between 'mines and energy' and 'Treasury'. How would the Minister see that?

The Hon. Frank Blevins: I have no difficulty with that. I am very relaxed about all these things. The objection was taken by the Deputy Leader against the member for Playford. I thought the member for Playford was quite in order.

The CHAIRMAN: Before I was given the schedule, I was going to suggest that we deal with the two lines as one. Yesterday morning, we dealt with three lines as one and that made it easy for everybody. If there were to be a problem, it would have been only for the Minister and the advisers, but in that case it was the same advisers. Is there any objection to the two lines being dealt with together, notwithstanding the informal arrangement concerning when the various advisers will be at the table? There being no objection, we will proceed.

Mr QUIRKE: My question relates to the cost of the Government being its own self-insurer and whether or not Treasury has had a look at some of the arrangements made in other States where funds are managed either by other Government agencies or private insurance companies on behalf of Treasury to sort out a form of internal discipline, so to speak, within the various Government departments about self-insurance. The insurance needs of some agencies are quite considerable, such as those of the Education Department. I understand that programs are being trialled elsewhere, whereby the funds are managed by an agency on behalf of a department to ensure that insurance needs are met and that there is incentive to minimise the risk to the taxpayer. Is Treasury looking at these sorts of programs and, if so, what progress has been made? If the concept is flawed, could the Minister advise the Committee?

The Hon. Frank Blevins: We believe that we have our insurance arrangements right. I agree that in the past they were somewhat untidy and more expensive than was required. Essentially, the State Government self-insures other than for catastrophes, which in our terms I assume is an earthquake. We believe it is far more cost-effective for us to do it that way. We have taken private sector advice on this from very well known insurance advisers, Sedgwick's, who I believe do us proud. They have assisted us in saving the taxpayers many millions of dollars in our insurance arrangements. I hope that the association continues to be long and profitable. Having dealt with Sedgwick's over the past few months, I can attest to their professionalism.

Mr Becker interjecting:

The CHAIRMAN: Order!

The Hon. Frank Blevins: I am very happy to answer that by way of question, but I know you would be outraged, Mr Chairman, if I replied to interjections.

The CHAIRMAN: Absolutely!

The Hon. Frank Blevins: I will expect that question from the member for Hanson if he is here to ask a question. I will ask Treasury's insurance specialist, Mr Daniels, to comment for the information of the Committee, because it is an important area.

Mr Daniels: Our self insurance arrangements have been set up and are being formalised all the time. They were initially set up in 1988, and we have been formalising them ever since. In the process, we have also spoken to our counterparts in other States. What we are doing is very much in line with what other States are doing, and we believe it is certainly the way to go. There are two arms to it, and the risk management arm of having agencies involved in handling their risks better is a very important part of what we are doing in the process.

Mr QUIRKE: Fleshing that out a bit further: the Government is also a self-insurer for its WorkCover obligations with respect to its employees. Does that get caught in the same net, or are other operations in place to cover that? Is there any benefit to the sorts of arrangements which we have just discussed in terms of general insurance for specific WorkCover matters?

The Hon. Frank Blevins: The member for Playford is quite right in relation to our workers compensation obligations. We meet them ourselves from our budget. We do not see any purpose in having catastrophe insurance for insurance at that level. It is a key area of insurance, but I would not have thought that it is an area where we will receive a claim for, say, $300 million, whereas, I suppose, looking at the worst case scenario with respect to earthquakes, that would be possible. At this stage I see no need to alter the arrangements for funding workers compensation claims.

Mr S.J. BAKER: I would just say from the outset that I am outraged by what is occurring. I make the point that the State has $375 million worth of catastrophe insurance which, according to a number of independent experts, is inadequate on our $26 billion asset base. The Treasury has twisted the arm of ETSA to bring it within the self-insurance network; it has also brought in the Housing Trust with its $2 billion worth of assets; and it has taken in the Theatre Company. There is $375 million worth of coverage. I put it to the Minister that $375 million is hardly adequate if there is a disaster along the North Terrace precinct, where there is over $2 billion worth of State assets.

The Minister and the Treasury are placing this whole State at risk. We have $375 million worth of coverage, which would not even cover one of our major assets if there is a major catastrophe. Who is advising the Minister? Is his adviser the same as the insurance company; is there a conflict; and has a tender been issued on risk insurance?

The Hon. Frank Blevins: That long political statement was put in the mouth of the Deputy Leader by competitors in the field who are not happy that they did not get the Government tender—they did not get the Government business.

Mr S.J. Baker interjecting:

The Hon. Frank Blevins: That is right. I think it is unfortunate that the Deputy Leader comes in here mouthing nonsense that other insurance companies or people purporting to act for insurance companies peddle around the place. I am very happy for our insurance arrangements to be subjected to any scrutiny whatsoever, and competing insurance companies, their agents, advisers or consultants are welcome to be included in the briefing. They do not have to run to the Deputy Leader of the Opposition and ask him to peddle their propaganda. I will embrace these individuals and see that they are properly briefed.

I had the pleasure of talking to underwriters in Europe and North America earlier this year, and I outlined what we required as insurance cover for catastrophes. I can assure the Committee that our presentation was very well received. In fact, one of the most consistent comments by underwriters was that they could not understand why we bothered at all and why we did not save our money, because the risks in this State are so low, so widespread and so manageable. In effect, some underwriters, who were very happy to do business with us, thought that we should reconsider catastrophe insurance. Nevertheless, we are very conservative people, and therefore we will replace this business very shortly. I will ask Treasury's insurance officer, Mr Daniels, to comment on the question rather than the political statement or propaganda from insurance companies, their agents or advisers who apparently did not get the Government's business.

Mr S.J. Baker interjecting:

The CHAIRMAN: Order!

The Hon. Frank Blevins: I am sorry. Obviously I did not satisfy the Deputy Leader. Expressions of interest were called for. Again, from memory, I believe there were about 20 expressions of interest. Four companies were asked to supply additional information and additional programs as to how they thought the Government should conduct its insurance affairs in this area, and one was selected by that process. We started off with 20 and finished up with a victor. I can understand that some insurance companies were not too happy that they missed out, but there we are.

Mr Daniels: The declared value of the assets in our catastrophe insurance program is about $24 billion. After discussions with our insurance advisers and the underwriters who underwrite the Government's program, looking at estimated maximum losses from likely events, they regarded $375 million as a reasonable figure. The program was first placed in 1991 and was renewed in 1992, and we are currently in the process of renewing it again. Prior to 1991 Government did not have any catastrophe insurance programs in place at all.

Mr S.J. BAKER: ETSA has coverage for all its assets and now will be pulled in under the insurance arrangement that we are talking about. It has about $5 billion worth of assets, which are now being added to the existing Government asset self-insurance base. Can that be confirmed? The second item I would like to confirm is: when was the tender issued on the insurance cover, not on the insurance advice?

The Hon. Frank Blevins: I do not even understand the last question. I must have missed one point in the propaganda that was put forward to the Committee by the Deputy Leader. The Deputy Leader stated that we twisted ETSA's arm to bring it into the State Government's insurance program. I am not quite sure how you twist ETSA's arm, even if that were thought to be desirable. ETSA has its own Act and board, and I am quite sure the people on that board—if one were to go down the names—would not be very amenable to having their arms twisted; certainly, not by me—I am not a person who goes around twisting arms in any event. However, there would be no possibility whatsoever of the ETSA board members' having their arms twisted. In fact, I have never had any dealings with them.

If ETSA chooses to come into the Government's program, as it comes into SAFA that is fine—it is purely a voluntary thing; it is entirely up to ETSA. It must see it as a good business proposition and it strikes me as commonsense. There are economies of scale of which I think we should take advantage. However, it is purely up to ETSA. If ETSA chooses to do so then it does; if it chooses not to then I probably would not even know about it let alone be worried about it. The Deputy Leader will have to rephrase his second question, if he can remember it.

Mr S.J. BAKER: I was basically asking when the tender was issued for the insurance business. You did not issue a tender; you have never issued a tender. That is the fact, is it not?

The Hon. Frank Blevins: The date when the expressions of interest were called was, I think—from memory, but I will confirm it for the Committee—back in 1986-87 and the decision to have a catastrophe insurance at all—as I said, prior to this there was none, including the period 1979-82—was made in 1988. As I was not in charge of the area then I have no specific memory of it. However, all that information will be available and will be supplied to the Committee.

Mr S.J. BAKER: I refer to the case of a very large, important and critical asset such as the Royal Adelaide Hospital, and one could also take in the museum and the Art Gallery. Should there be a major catastrophe in that area those establishments collectively would represent very close to $1 billion worth of assets in artworks and in buildings. Obviously the $375 million would be totally inadequate under such circumstances.

The Hon. Frank Blevins: Again, I can only take that as a statement from the honourable member. I am not quite sure if there is a question in there. If the honourable member wants to take up the time of the Committee making statements, that is fine by me; I can make statements of at least equal length with nothing in particular to do with asking questions or giving information. I will just repeat for the benefit of the Committee: there was no catastrophe insurance in this State prior to 1991; there now is.

Our insurance advisers, who would have no axe to grind in this, I would have thought would have been quite happy to advise us that $10 billion was an appropriate figure and run around trying to place that rather than $370 million. I would have thought that everyone should be very pleased about having that catastrophe insurance and at such a reasonable rate—everyone, that is, other than competing firms who were not successful in obtaining the Government's business.

Mr HOLLOWAY: In the Meeting the Challenge statement earlier this year the Premier set the Government a target of reducing net State outlays by 1 per cent for each of the next three years as part of the planned reduction in the real levels of State debt. Has the Government been able to achieve that objective in this current budget?

The Hon. Frank Blevins: I thank the member for Mitchell for his question, because it is one of the cornerstones of the budget which is before us and on which I am sure we will concentrate more as the day goes on. The 1993-94 budget confirms the Government's commitment to begin to make the expenditure reductions required to get the underlying budget position to one that is sustainable. The level of net State outlays from the budget will be reduced in 1993-94 by an estimated 2.8 per cent in real terms, a reduction well in excess of that to which the Government made its commitment.

The forward estimate figure of budget outlays has been reduced by $225 million, again consistent with the target set in the April economic and financial statements. Of the total savings, $165 million is recurrent outlays, as the Government has also committed itself to eliminating the recurrent deficit over the medium term. The Government has assisted agencies in meeting their expenditure reduction targets in two essential ways.

First, it has introduced the targeted separation package scheme under which the first instalment of $263 million in Commonwealth assistance associated with the sale of the State Bank has been set aside to meet the cost of voluntary separations from the public sector work force. Already over 1 000 such voluntary separations have been made and further will occur through 1993-94 as agencies are reorganised and restructured under the public sector reform program, which will provide further possibilities for voluntary work force reductions, particularly in corporate services areas. The achievement of the target of at least 3 000 separations would mean ongoing savings of over $100 million each year.

Secondly, the Government has continued with an approach to enterprise bargaining that will mean that wage increases will not simply be add-ons to agency budgets. The cost will be offset by improvements in productivity and increases in the efficiency of operations of agencies. Clearly, in both cases the Government will not be reducing front-line service standards to achieve its expenditure reduction targets. It will do so by increasing the efficiency and effectiveness of the public sector—an objective that should surely meet with the approval of the Opposition.

Mr HOLLOWAY: I refer to assets sales, because I note that the Leader of the Opposition claimed that the Government asset sales program for the past financial program had missed its target by $50 million. Can the Treasurer comment on the accuracy of that particular claim?

The Hon. Frank Blevins: Various claims have been made by the Opposition from time to time since the budget was brought down—most of them incorrect, or all of them to some extent misleading or just a misunderstanding in the reading of the budget papers. The Leader referred to asset sales in 1992-93 of about $70 million compared with a budget figure of $120 million. That, as one would expect, is only part of story and the figures used exclude some very important items that give a broader picture.

Assets sales in 1992-93 for all categories of receipts, that is, sales of land, property, plant, equipment and motor vehicles, and for the total public sector, not just the budget sector, totalled $158 million compared with a budget of $188 million. So, importantly, on 30 June 1993, a further $20 million of properties were under contract for sale—and that is important to note—but not settled during the 1992-93 financial year. So, in short, timing issues aside as to the state of the sale, the actual program of asset sales was not significantly different from that which was planned at budget time.

Mr HOLLOWAY: My final question relates to page 37 of the Estimates of Payments and Receipts. I noticed that under the heading 'State taxation—refunds and remissions', which in effect is an increased payment, the amount estimated this year has gone up by $7.5 million. Can the Treasurer explain what is behind that increase in remissions of State taxation?

The Hon. Frank Blevins: I thank the member for Mitchell for his question. I shall refer, for the detail of that, to the Assistant Under Treasurer (Budgets), Mr Proctor.

Mr Proctor: For 1993-94 the estimate of $19.5 million in that line includes provision for stamp duty relief for Coles-Myer Limited of $5.8 million; stamp duty relief of SAFA $120 000; stamp duty relief of SATRIC Limited of $330 000; stamp duty relief for the *One and All* of $105 000; general allowance for the corporate restructures and other remissions, an estimated $5 million; payroll tax rebate for private sector employers who maintained and increased their work force levels in 1992-93, $5 million; financial institutions duty rebate on export income $1 million; rebate of liquor licence fees for the July-October 1993 fee instalments following the reduction of the fee from 13 per cent to 11 per cent, $1.9 million; and a partial rebate of the licence fee to SAGASCO in respect of certain new customers, $125 000. That is a complete catalogue of the items under that heading.

Mr S.J. BAKER: I did have a question on the $19.5 million but now that that list has been provided I will read it in the record. Can the Committee be informed as to what special deal relates to Coles-Myer, which is going to cost the taxpayer $5 million?

The Hon. Frank Blevins: There is no special deal. The Act provides for certain *ex gratia* payments or remissions of stamp duty. I can get the precise wording, but, roughly, we believe that generally speaking the internal reconstruction of a company is in the interests of South Australia. If that is the case, and a strong enough case can be made out, then advice will be given to me that it is appropriate for that amount to be forgone. I would hasten to add that I often get representations from members opposite to do this.

An honourable member interjecting:

The Hon. Frank Blevins: We are not necessarily talking about charities. Some succeed, some do not. We are very happy to give any further details of those that the Committee wishes to have.

Mr S.J. BAKER: We still do not know what the $5.7 million is for. I know that Coles-Myer is a very poor company but I would like to know why the taxpayer is going to have to come up with the $5.7 million, because it must be replaced if it is not collected, as we would be well aware and normally I thought that these arrangements were made for encouraging new firms to settle and to assist in employment in South Australia. Perhaps I have got it wrong.

The Hon. Frank Blevins: There is nothing forgone. If the relief is not given then the reconstruction will not go ahead. It is as simple as that.

Members interjecting:

The CHAIRMAN: Order!

The Hon. Frank Blevins: It has nothing to do with being revenue neutral. When a company comes to the South Australian Government—not just Coles-Myer, but other companies, and GMH is another one—and representations are made, and it may be by members opposite who frequently make representations about individuals as well as companies, then we have to make an assessment. In this case, seeing that the Opposition desperately wants to know this, I will be very pleased to lay out as quickly as we can get it, certainly before the Committee gets up, the whole facts on the Coles-Myer matter. But the Committee will find out that there has been nothing forgone, that the reconstruction as regards South Australia would not have taken place had the stamp duty been demanded. There is nothing lost at all. If the Opposition is suggesting that there is anything wrong in this practice then I would suggest that the Opposition cease asking me to do it on behalf of companies that they seem to have some connection with or even with individuals. As I say, they do it constantly, and they win some and they lose some. As it seems to be an important thing for the Deputy Leader then the whole of the Government's business in this area with Coles-Myer will be made available to the Committee before the day is out.

Mr S.J. BAKER: I thank the Treasurer for providing that information. My second question relates to the special deposit accounts and I have had the benefit of a Treasury briefing on a number of the financial details which were not quite apparent in the budget papers and those matters do not need to be canvassed within the Committee. However, it was mentioned in the reconciliation statement that $142 million from special deposit accounts and other areas was being used this year to boost the budget, and I would like a list of the special deposit accounts, from where I think some $117 million of the $142 million is going to be drawn. Also, can the Treasurer explain what happened between 30 June 1992 and 30 June 1993 which allowed the rural finance special deposit account to grow from $24 million to $43 million?

The Hon. Frank Blevins: The Deputy Leader has something of a fixation about special deposit accounts as if somehow they are illegitimate or not subject to Parliamentary scrutiny. They are all there in the budget papers and of course they are subject to Parliamentary scrutiny and we would not want it to be any other way. I take some pride that the South Australian Treasury has pioneered the use of special deposit accounts for Government departments. I am certain that we will see it spread throughout Australia, because it is a particularly useful tool for ensuring that individual departments better manage their resources, which, after all, are resources provided by the taxpayer. It certainly makes them do that and the managers appreciate having to take on that responsibility. It stops what those of us who are a bit long in the tooth would know as the end of June spend up where departments, if they have a few bob left, desperately go around asking members of the department how can they spend it. Do they want new computers, typewriters or whatever just to get rid of it because if not it returns to the Consolidated Account. All that has stopped and we have much better management.

Mr BECKER: Cheques in the drawer.

The Hon. Frank Blevins: Yes, special deposit accounts or cheques in the drawer as the member for Hanson says. As regards these particular specific amounts, I know that by now Mr Ian Proctor has all the figures at his fingertips. We do not want to be accused of not supplying information to the Committee when the information is available. Having been criticised in this regard before, I would prefer to provide that information now rather than put a question on notice.

Mr Proctor: I draw the Committee's attention to page 227 of the second volume of the Auditor-General's Report, which contains a complete account of the Rural Finance Development Fund and provides a line by line explanation as to how we moved from the $24.5 million to a cash position of $43.5 million for 1992-93.

The Hon. Frank Blevins: Would the Deputy Leader like me to read that out?

Mr S.J. BAKER: No; there will be some questions asked on the extent to which the RFDF is actually being milked of funds, but I will leave that until later. There has been a considerable expansion in the rural finance account at the same time as we have had from the rural community the heaviest demands ever on rural finance resources—particularly support resources—some of which are drawn from the Federal Government and some of which have been financed through SAFA. At a time when rural communities are crying out for assistance, we find that money is actually accumulating in the account.

The Hon. Frank Blevins: I do not know whether some pun was intended by the use of the expression 'milked of funds' because this was money to be applied to rural purposes, but it is a term I find offensive, and I think it sits oddly with the fund increasing by such a large amount. Had it decreased by a very large amount, there would have been an explanation for it, but I am sure it would not have been anything to do with the milking of funds. The Committee has been given information already, and there is extensive detail in the Auditor-General's Report. I can assure the Committee that, had the Auditor-General thought there was anything untoward or any milking of this fund, he would not have hesitated to say so. It seems to me that the Committee is not assisted by a comment such as 'milking of funds' being tossed in casually and expected to lie there or form a basis of a press release without a response, and I know the Committee would be disappointed if I did not respond to such comments.

Mr S.J. BAKER: The special deposit accounts in periods of increasing demand should actually fall, because the funds are not held in special deposit accounts. I draw the Treasurer's attention to page 212 of the Estimates of Payments and Receipts, where we see, in relation to primary industries, repayment advances of $19 million. If we look at all the figures put together, we find that the Government is not meeting its rural commitments and is, indeed, milking the funds.

The Hon. Frank Blevins: It seems to me that we have to go into this in great detail because we cannot leave before the Committee an accusation that the Government is milking the funds. As we have a great deal of information, I think it has to be given. I would ask the Assistant Under Treasurer, Budgets (Mr Proctor), to explain how this is not a milking of funds but, in fact, very good management.

Mr Proctor: With reference to page 212 of the Estimates of Payments and Receipts, the figure of $19 million, which is the repayment of advances from the Department of Primary Industries, is overwhelmingly a repayment from the Forestry Division of that department and stems from a restructuring of the debt and equity of that organisation in the last period and partly from an improvement in performance: it is not related in any way to any other areas of operations of the department. In the case of the $142 million rundown in deposit accounts, information on which has been supplied in briefing outside this Committee, that is a reference to the rundown in departmental deposit accounts. Whilst not provided in summary form in the budget papers, in terms of what has happened for each department in the budget this can be obtained by going through the Estimates of Payments and Receipts where there is an account in a summary form for the agency of movements in and out of special deposit accounts.

Mr S.J. BAKER: I appreciate that. The only difficulty is that the accounts themselves do not necessarily line up exactly with the categories shown in Statement F of the Auditor-General's Report, which is how I would like the detail presented.

The CHAIRMAN: I think I am being very generous, but the honourable member can move to his third question.

Mr S.J. BAKER: Again, dealing with special deposit accounts, I refer to the $22 million in the Economic Development Fund. There was no fund shown last year that I could find under Statement F: is that underspent moneys that were provided by the Commonwealth?

The Hon. Frank Blevins: There is no Commonwealth money supplied for the Economic Development Fund. It is not a bad idea, but as it happens there was not.

Mr S.J. BAKER: Why is the special deposit account of some $638 million (presumably under the explanation given in Statement F) earning no interest?

The Hon. Frank Blevins: I will have the question examined, but I think we will find the short answer is that we do not pay ourselves interest. I will advise the Committee if there is anything further to report on that matter.

Mrs HUTCHISON: My first question relates to the Estimates of Payments, program 4 (page 34): what steps has the Government taken to establish its potential commitments under the guarantees given to various bodies?

The Hon. Frank Blevins: This is a matter that has aroused some controversy over the past couple of weeks, and I think it is important that the record be put straight, even if the matter does not get wider publication. In 1992-93 the Government has compiled information on the value of public sector liabilities which are subject to guarantee. That information focuses on the State's financial institutions, because these represent by far the largest components of those liabilities, a fact which was acknowledged by the Auditor-General. As part of the process of improving the quality of information about guarantees and indemnities available to the Government, I authorised the issue of a revised Treasurer's instruction which required all public authorities to maintain a register of guarantees and indemnities.

That instruction also requires Treasury to maintain a central register, which is to be reconciled annually with those maintained by individual authorities. Returns have now been received from all relevant agencies, but the information provided must be regarded as provisional until it has been subjected to an audit, a process that will entail visits to authorities by Treasury officers to ensure that what has been provided represents a true and full picture of contingent liabilities which may exist as a result of guarantees or indemnities given in the past. Until that audit is complete it has been decided not to publish information about the remaining public authorities.

It should be noted, however, that there is nothing in the data provided to suggest that the Government will be called upon to meet any significant guarantee. From time to time, of course, the Government is called upon to honour guarantees given pursuant to the Industries Development Act to encourage industrial expansion in this State. These payments are always fully disclosed in the budget. In fact, there were two separate payments in 1992-93. So, there is no mystery about that, and as soon as the list has been verified to everyone's satisfaction (ours and the Auditor-General's) it will be published.

Mrs HUTCHISON: I refer to page 33 of the Estimates of Payments 'Program 2—provision of budgetary and economic advice'. One of the objectives of the Government's debt management strategy is the continuation of the present policy of reducing the level of the public sector work force. Will the Government, in pursuing this objective, continue to respond to specific community needs? I refer especially to the area of youth unemployment.

The Hon. Frank Blevins: As part of the April statement the Government endorsed a debt management strategy which included planned job reductions totalling 3 000 by 30 June 1994. The 1993-94 budget includes planned reductions of an estimated 1 800 positions with further losses anticipated through the process of restructured agencies. Even with employment in aggregate terms declining the Government has acknowledged in this budget that some increases are essential in high priority areas such as children's services, correctional services, police and courts administration.

Furthermore, the Government recognises the particular difficulty of youth in the community in the current economic circumstances to find employment opportunities that realise their potential. To this end, in 1992-93, the South Australian Government, with the financial assistance of the Commonwealth, engaged 400 young people aged 17 to 24 under the job skills and career start programs for training and work experience in a number of occupational categories. The training and employment of young people on this basis is proving successful as it is a very effective means of providing competency based training that is directly applicable to the work force. It is estimated that at least 200 of the 400 participants in this strategy will secure subsequent employment in the public sector. Furthermore, it is anticipated that a number of other participants in the present program will be successful in gaining private sector employment.

As the first scheme has been successful the Government has decided in this budget to offer up to a further 1 000 places under the same programs to young people in the 17 to 24 age range. Total funding of $12 million including Commonwealth assistance has been allocated in 1993-94 to finalise the initial scheme that commenced in 1992-93 and to implement the new employment strategy in this financial year. It is important to note that Commonwealth funding in the initial stages of the scheme means that the cost to the budget is much less and that budget savings targets will not be disturbed.

I would like to make a plea to private sector employers. Those schemes are available, they are very cost effective, they provide (certainly in the public sector, and there is no reason why they should not in the private sector) very high quality training and, if our experience is anything to go by, if the private sector takes greater advantage of these schemes it will find some very good young employees that it will want to keep even when Commonwealth funding runs out. To have such programs in operation is a credit to the Federal Government, and also to the State Government for taking it up in such a very large way, because 1 000 trainees in this year is a significant number.

Mrs HUTCHISON: My next question refers to the same line on page 33 of the Estimates of Payments. The Opposition Leader in his remarks to the House on the 1993-94 budget suggested that the Government would achieve job reductions of only 2 500 for the two years to 30 June 1994 and not 3 900 as planned. Will the Treasurer comment on that statement as to its accuracy or otherwise?

The Hon. Frank Blevins: I thank the member for Stuart for her question because some clarification is needed, and I think this forum is excellent for that purpose. It is often difficult to break into the media with corrections of statements, a great number of which are nonsense statements from members opposite and incorrect.

Mr Becker interjecting:

The ACTING CHAIRMAN (Mr Holloway): Order!

Mr Becker interjecting:

The ACTING CHAIRMAN: Order! The member for Hanson will cease interjecting.

The Hon. Frank Blevins: Often it is difficult to get the true picture across. I enjoy this forum because it provides that opportunity. The number of job reductions cited by the Opposition Leader is simply incorrect. I will attempt to clarify the Government's position on this matter. Let me say from the outset that, because of the effects of the recession in recent years and the recent Government commitment to a debt management strategy for three years hence, there has been a need to exercise a level of expenditure restraint. It is inevitable that expenditure reduction translates into work force losses.

However, this Government is attempting to negate the effects of a declining work force on service delivery through productivity improvements. Enterprise bargaining is one such approach to achieving this. The Opposition's statement that the Government will achieve fewer job reductions than planned is not accurate. The figures in the 1993-94 financial statements clearly show that the minimum target for the two years to 30 June 1994 is estimated at 3 300 State funded positions consisting of 1 500 employees already separated between 30 June 1992 and 30 June 1993 (reflected in table 7.12 of section 7) and a further reduction of 1 800 employees, as stated in section 1 of the statement presently identified by agencies and factored into budget figuring for 1993-94.

As I have mentioned repeatedly, these reductions are the minimum, and with the restructuring of agencies now under way it is expected that further reductions beyond the 1 800 positions identified will occur through the year. I have been involved in this area of restructuring the public sector for about five years now-it is not always a pleasant task-and of ensuring that the maximum amount of services will be delivered for each of the taxpayers' dollars that are applied to them. I point out that we would now be approaching close to 7 000 separations during that time, all of which were voluntary, none of which were service providers and all of which, for one reason or another, are no longer required in the public sector.

If some of the figures boasted about in other States are applied on a *per capita* basis, it will be seen that what this Government has achieved in the area of public sector reform to date is commendable, and that will continue. We have increased, and have been proud to do so, the number of positions in connection with police, correctional officers, social workers and positions in a whole range of other areas while at the same time making an overall reduction in the number of positions by, what by now must be almost, 7 000. It is a significant program and it is ongoing.

Mr BECKER: I refer to page 37 of the Estimates of Payments. What does the line 'Compensation to South Australian Financing Authority under indenture of guarantees, $58 444' involve?

The Hon. Frank Blevins: On 6 June 1988 Cabinet approved the provision of a Government guarantee in favour of the Commonwealth Development Bank for a $70 000 advance for the Vocational Resource Agency. To give effect to this decision, the then Treasurer approved SAFA's entering into an indenture of guarantee with the Commonwealth Development Bank and the Food for Thought Coffee Shop Inc. The Food for Thought Coffee Shop was incorporated as a subsidiary of the VRA, and the Treasurer of the day undertook to make good, by way of appropriation from the Consolidated Account, any loss incurred by SAFA as a result of its obligation under the indenture of guarantee.

During 1992-93, SAFA advised that it had incurred losses totalling $58 444 as a result of its obligation under the indenture of guarantee and sought compensation from the Consolidated Account. That is the response. It begs the question: who on earth is the Vocational Resource Agency? My information is that the VRA was a group of handicapped people who were given some assistance to start a small business. I do not know where the representations came from, but that can be checked.

Mr BECKER: It is good to see, and we need to give them greater supervision and encouragement. I refer to 'Intra-agency support items not allocated to programs' on page 34 of the Estimates of Payments. It states that accommodation of service costs proposed for this financial year is $2 523 000, while last financial year it was $2 168 225, which is a proposed increase of some $365 000. Has there been an assessment to ascertain whether we are receiving value for money in respect of these accommodation and service costs? What studies have been conducted into providing cheap alternative accommodation?

I have not gone through and assessed every Government department, but I would say that we are paying millions of dollars on the maintenance of Government buildings. The Economic and Finance Committee reported that millions of dollars will have to be provided in the years to come to upgrade some of these buildings. Government departments occupy some of the most prestigious buildings in the city. Is it necessary to have five-star accommodation for some of these Government departments when it may be more affordable to look at the metropolitan area or the fringe of the city square mile for accommodation that is just as good? Has there been any assessment of the accommodation costs of the various Government departments?

The Hon. Frank Blevins: We have a Government Office Accommodation Committee (GOAC) which makes recommendations to Government. The committee does a cost benefit analysis before it makes a recommendation. Whether you own, rent or lease accommodation is a vexed question, and circumstances do vary. You can make a logical decision based on the circumstances of the day, and then a few years later, when circumstances have changed, you realise that you should have made a different decision. Even in our own life we find that that is a bit of a dilemma; we do not have a crystal ball. But, overwhelmingly, the recommendations made by GOAC are good. I can assure the member for Hanson that it is an expert committee which applies itself to its duties very diligently. When recommendations come to Cabinet, I can assure the member for Hanson that they are extremely well researched and very few questions have not been thought of or left unanswered.

However, the Government does have, in its own funded sector, about 80 000 employees. It is a bit of a jigsaw putting them all into the various and appropriate types of accommodation that are available, and also the geography involved can be quite complex. I can get the guidelines for the Government Office Accommodation Committee and, if necessary, I would be only too pleased to make the Chair of that committee available for a more in-depth briefing. If the member for Hanson chooses to drop me a line, I will make that individual available very quickly.

Mr BECKER: I will bring up that issue with the Economic and Finance Committee, because that is the appropriate committee to look at this organisation. No doubt, in the near future, the Minister will receive a letter from that committee asking for a briefing. I refer to page 496 of the Auditor-General's Report. Since 1 July 1986 the Government has been required to pay tax on the value of non-cash fringe benefits provided to its employees. I understand that the Minister's department, on behalf of the 35 departments, collects the money. The tax paid for the year ended 1993 was $2 935 000, but the previous year it was $2 936 000, so there is a difference of $1 000. Eight departments and the amount they paid is as follows: police, $831 000; Legislature (which includes politicians), $143 000; Court Services, $128 000; Education, $251 000; Employment and TAFE, $208 000; Road Transport, $255 000; and other, $846 000. Will the Minister provide details in respect of the other 27 departments?

The Hon. Frank Blevins: It is certainly possible. I point out that the fringe benefits tax payable by the State Government is overwhelmingly in the area of housing, particularly the very economical rents that we charge our police officers, which we do with my total support. There is a large gap between the rents the police are charged and the market rent, and fringe benefits tax is paid on the difference, according to the Commonwealth statute. Again, the provision of motor vehicles as part of salary packages is widespread throughout the private sector. They are not quite as widespread in the public sector, but I suppose they are catching up. Fringe benefits tax is also paid in that area.

In the most recent Federal budget there were some changes to the fringe benefits tax legislation which I assume will go through the Parliament at some stage. The changes may well make it unattractive to have some of these mixes in salary packages, including motor vehicles etc., so that you take your salary and work your car out yourself. It may well be that we will see a decline in this area.

Mr BECKER: As a supplementary question, could the Minister provide details making up the other $846 000?

The Hon. Frank Blevins: Certainly, Sir.

Mr HOLLOWAY: With respect to taxation, the Leader of the Opposition claimed that there was a 32 per cent increase in land tax. Will the Treasurer comment on the accuracy of that claim?

The Hon. Frank Blevins: It is just completely wrong. The Government's policy in this area is to increase the top margin rate of tax on the excess value of land above $1 million from 2.8 per cent to 3.7 per cent. While the increase in this one marginal rate is equivalent to 32 per cent, land tax receipts in total are estimated to increase by less than the estimated inflation rate, which is 3.4 per cent. That is a reduction in real terms. When members opposite go through these figures, I ask them to note that they exclude land owned by the Commonwealth Bank Officers Superannuation Corporation, which becomes liable for land tax for the first time this financial year, along with the Commonwealth Bank. So there are a couple of new taxpayers in there. When members do their calculations, they will see there has been an actual reduction in real terms in land tax, and that is not for the first time.

The increase in the top marginal land tax rate is estimated to affect 2 per cent of those who pay land tax, and they are a very small group in the population. A total of 86 per cent of those who pay land tax have land ownership valued at between $80 000 and $300 000, whilst 12 per cent have land ownership valued at between $300 000 and $1 million. That leaves only the 2 per cent that I mentioned earlier in the top bracket that are affected by the rate change. The proposed increase is consistent with the Government's existing policy. It was adopted in response to representations from industry groups to limit the growth in land tax receipts to no more than the estimated growth of inflation.

We can all remember those campaigns when those who pay land tax, with some justification, complained vigorously about the wild fluctuations in land tax, which made it extremely difficult for them to budget. The Government listened to those representations and came up with a policy whereby the total land tax take was not to exceed the CPI for three years. That has been adhered to. This is the final year of that three year program. We have announced that we will keep it going for another three years because we believe that those who pay land tax have a very good case with respect to the extreme fluctuations and the amounts they had to pay.

I would like to advise the Committee of how land tax receipts have fallen in absolute terms in each of the past two years. In 1990-91, land tax receipts were $76 million; in 1991-92, $75.8 million; in 1992-93, $75.4 million; and in 1993-94 the estimated amount is $78.3 million. Again, I point out that we have two very significant new taxpayers in 1993-94. As I said, I think those who pay land tax have a case for the maintenance of the policy of stability, and I can assure them that that policy will continue for the next three years. There will be no increase in real terms in the State Government's receipts from land tax.

Mr HOLLOWAY: Can the Minister confirm that there are no additional tax measures in the 1993-94 budget?

The Hon. Frank Blevins: Yes, I can confirm that. Again, the Opposition, quite surprisingly, has made comments that taxes have increased when in fact they have not, and every commentator accepts that they have not. In fact, there have been a couple of reductions. I refer to the FID exemption for export income. That is estimated to cost about $1 million in 1993-94, and $2 million in a full year. That is a small but worthwhile reduction.

I also point out one that would be of interest to those who use the TAB, whereby the tax bracket for oncourse totalisator bets is proposed to be broadened at an estimated revenue cost of $156 000, with savings to the racing codes of an equivalent amount. The Committee ought to take note of those two actual reductions in taxation measures. As I have mentioned, the existing policy of limiting growth in land tax receipts, which I have just gone through, will assist business in this State. We will also continue the payroll tax rebate for another year. That gives employers who retain or take on new employees a rebate, if they maintain 98 per cent of their previous year's work force, of $1 700 for each new employee. That is not insignificant. We have announced that that will continue this financial year at a cost to the budget of about $10 million, but I think it is money well spent.

I am not a lover of payroll tax. Wherever we can justify giving rebates or lowering the level, I am a supporter of that. That brings us to a point where we have the second lowest level of payroll tax in the whole of Australia. I hope that in future budgets we will improve on that, and I will certainly be working towards it.

I will mention just one or two other taxation measures for the information of the Committee. In my opening statement I said that there had been a huge reduction in FID of about 30 per cent. There has also been an exemption for offshore banking units and certain Treasury financial products from financial institutions duty. It is only small, but again it is worthwhile to that sector of our economy.

I am particularly proud of the reduction in the liquor tax rate from 13 per cent to 11 per cent. The record will show that I am probably the only Treasurer in the history of the world who has ever reduced taxation on liquor. If that is the only thing on which I make my mark, I will have helped an awful lot of people. Many people say 'Cheers' in the pub every time they have a drink, because I have reduced the price. I think the taxation record of this State is very good, given that South Australia has the second lowest taxation level in Australia. That is a good record, given the high quality and level of services provided by the public sector. It is not a record that we intend sitting on. Whenever there is an opportunity to reduce taxes, particularly regressive taxation, we will do so.

Mr HOLLOWAY: At page 212 of the Estimates of Payments and Receipts, under 'Commonwealth specific purpose recurrent grants—Concessions to pensioners and others' an amount of $10 million is estimated for this year. That would undoubtedly refer to the extension of fringe benefits. Is that sum expected to cover the entire cost of State fringe benefits? Is it intended to cover the whole of the cost of the concession?

Mr Hill: The note I have here suggests that in future the Commonwealth and the States are to share the funding of a core group of concessions for energy, municipal and water rates, public transport and motor vehicles, so that would suggest that in fact it is not the entire cost but rather a share of the costs of those concessions.

Mr S.J. BAKER: I will ask the general questions that were going to be asked at the beginning except we had some problems with the lines. The questions relate to the portfolios under the Minister's responsibility. I have a list of questions and I am quite happy to put them on notice and provide them to the Minister.

For what boards, committees and councils does the Minister have responsibility as Minister or which are within his department or agency? Some of those are listed under the Treasury; others are not. In respect of each such board, committee or council, who are the members, when do the members' terms of office expire, what is the remuneration of the members, who appoints the members, on whose recommendation or nomination is the appointment made, and what is its role and function?

In terms of contract officers, how many officers are now on contracts of service rather than permanent employment and what levels are they serving? How many, if any, of these officers are subject to performance reviews? Are any performance bonuses paid and, if so, what are they and how are they measured?

For each of the departments and agencies for which the Minister is responsible, how many positions have been proposed for abolition through targeted separation packages? What are the positions? How many persons have applied? How many have been accepted? What was the payout? So if the Minister is happy to take those questions on notice the responses can be provided later.

The Hon. Frank Blevins: I will certainly take them on notice. It is a tremendous amount of work. I cannot guarantee that they would be available for the date that was announced at the start of the Committee. We will make every endeavour, but I hope the Committee will excuse me if I cannot get all that mass of detail together in time.

Mr S.J. BAKER: I notice that the Minister has gone into damage control mode this morning. The questions, of course, were similar to the ones that we would have asked in terms of the guarantees. The Minister has said, 'Well, look, yes, we have a list but it is secret and nobody is allowed to have it.' Can the Minister confirm that he will not be providing that list to the Committee, because I am sure it would be of interest to all people of South Australia as to how much is out on guarantee on behalf of the State Government?

The Hon. Frank Blevins: Until those figures are audited I think it would be irresponsible to supply them to the Committee. I know that the Auditor-General would want them audited, too. As soon as they are audited I will make them available to the whole of South Australia. I think the whole of South Australia will probably yawn at them. They are no different to any other State Government figures as far as we have been able to see. A lot of it relates to Housing Trust mortgages and things like that. The degree of risk involved in some of these guarantees is infinitesimal. But as soon as the figures have been audited they will be sent to the Auditor-General and I am sure the Auditor-General will have no objection to me making them public. But in all fairness to everybody concerned they ought to be audited, but I can assure the Deputy Leader that they are rather boring.

Mr S.J. BAKER: As a supplementary question, given that there is an election in the wind, can the Minister give us a firm date? It seems to be very convenient for that list not being be available. I understand that there is a need to get some accuracy. When is it intended to make that list available and what is the approximate size of the guarantees?

The Hon. Frank Blevins: We can get that. Certainly, we would expect to have them all audited before the end of the year. As regards elections in the wind, I know nothing of elections, and that certainly would not influence the provision or otherwise of this list. I hardly think that this issue would feature prominently in an election campaign. I may be wrong. Some odd things have featured in election campaigns, but I would be surprised if this is one of them. But as soon as it is available, audited and sent to the Auditor-General, I can assure the Deputy Leader that everybody can have it.

Mr S.J. BAKER: I would like to ask about a specific guarantee and it relates to the ASER project, because there are guarantees on the ASER project. Can the Committee be provided with details of how much the Government pays to SASFIT as far as its guarantee is concerned; how much is paid to Kumagai or any other interested parties as a result of those guarantees; and where are they actually hidden in the budget papers, or where are they contained within the budget papers?

The Hon. Frank Blevins: Mr Chairman, nothing is hidden in the budget papers. I note that the Deputy Leader said 'hidden' in the budget papers. I take strong exception to that. The budget papers in this State are known throughout Australia as being the most comprehensive, and I know that the other States and the Commonwealth are moving towards supplying the degree of information that we do. I do not have the answer to the specific question with me. I will examine the question in *Hansard* and provide whatever information is appropriate.

Mrs HUTCHISON: My question relates to page 37 of the Estimates of Payments and Receipts. Can the Treasurer confirm that the 1993-94 budget provides the further reductions in electricity tariffs, which is obviously of interest to all concerned?

The Hon. Frank Blevins: Yes, I can confirm that there have been substantial reductions in ETSA tariffs over the years. I think we can all go back to those atrocious deals that were done between 1979 and 1982 with the gas producers, which meant that electricity tariffs in this State increased by something in the order of 50 per cent. That was quite outrageous. It caused a deal of hardship and it has meant that this Government has had to spend a great deal of time and effort over the past few years in rectifying the quite disastrous contracts signed during the period of the Tonkin Government.

However, in fact, the budget this year provides for substantial reductions in electricity tariffs. In particular, as from 1 July this year, average electricity tariffs have been reduced by 2.25 per cent in nominal terms. Industrial and commercial tariffs have been reduced in nominal terms by between 2 per cent and 12 per cent and tariffs for domestic customers have been increased in nominal terms by 1.5 per cent, which I point out to the Committee is below the rate of inflation. Tariff reductions effective from 1 July follow reductions in previous years and, in particular, since 1985, average electricity tariffs have been reduced by 17 per cent in real terms. That is of enormous assistance to the people whom we represent on this side of the House.

Most of the benefits of tariff reductions have been passed on to industry to assist in improving industry competitiveness and the economic growth of the State. Large industrial tariffs have been reduced by 42.8 per cent in that period. It is an enormous reduction and assists those large industries in becoming more and more competitive. Small industrial tariffs have also been reduced by 20.8 per cent. These are very significant reductions. Commercial tariffs have been reduced by 21.9 per cent. I suppose most pleasing to most of us is the fact that small business tariffs have been reduced by 28.5 per cent. Whilst costs are increasing in a number of areas, this State Government has made a point of where it can effect the costs of businesses, particularly small business, being willing to do so.

In this budget the Government has continued with its commitment to provide significant benefits to industry and commerce in South Australia through a substantial reduction in the tariff gap between this State and its eastern States competitors. I point out that whilst the record is astonishingly good, it is an ever-moving target. Our competitors in other States are also rationalising and making more efficient their power generation operations. So, it is not something about which we can sit on our laurels and say that an actual 40 per cent decrease for big business is enough and that we will not do any more. We cannot adopt that attitude because our competitors are also moving.

I would like to congratulate the employees and management of ETSA and the ETSA board—although I have probably never met most of them—on the efforts that they have made in making ETSA a very efficient power producer and distributor indeed. I think everyone in South Australia ought to be appreciative of the efforts they have made and I want to put on the record my appreciation of what the board, the management and the employees have done to enable us to produce figures such as those we have today.

Mrs HUTCHISON: I certainly support what the Treasurer says with regard to ETSA. I refer to page 27, 'Other payments' and the line 'State taxation—refunds and remissions'. Can the Treasurer explain the results of the payroll tax rebate scheme for 1992-93?

The Hon. Frank Blevins: I thank the honourable member for her question. As I said in response to an earlier question, I think payroll tax is one of the most invidious forms of taxation, but no-one has yet come up with a means of doing away with it and getting some replacement income for the States. I can assure members that it is not for the want of thinking; every State Government has applied itself in the same way. To recap briefly, the payroll tax rebate scheme that I mentioned earlier was introduced in last year's budget. It gives a $700 rebate to each full-time employee, in excess of 98 per cent of the previous year's figure, so it is an attempt to hold the line as well as to assist in increasing the numbers. The estimated cost last year was $10 million, but it is likely to finish at around half that amount. It was a new scheme and it is very difficult to estimate the cost of new schemes.

I have been somewhat disappointed, because I believe that there are private sector employers out there who could make a claim under this scheme but they have not done so. I have appealed to members opposite on earlier occasions, and also to the various employer bodies, just to put in their newsletters and so on that this scheme is available and that hard cash of $1 700 per employee over a certain number is available to them and we would be delighted to send them a cheque. The effect of that, in sum total, is that payroll tax is frozen in real terms, because any increase in employment in any of the tax paying firms is rebated immediately. So, in effect, it is a freeze on payroll tax. I think it is perfectly proper in periods of high unemployment. To tax people for employing people seems to me to be pretty illogical in these particular circumstances.

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

Mrs HUTCHISON: My last question relates to the Estimates of Payments and Receipts (page 33), program 2. There has been some criticism of the under expenditure on the capital works program; is there any reason why it should be any different in 1993-94?

The Hon. Frank Blevins: There are several reasons why it should be different in 1993-94 and I thank the member for Stuart for her question. When the budget comes out comments are made from various quarters and you would think at times that they have not even read the budget papers prior to making the comment, which I think is unfortunate, but the Government's capital works program is a key part of the ongoing economic activity of the State. The Government is conscious of the problems facing the construction industry and there has been every encouragement to proceed with the capital works proposals. There has certainly not been a deliberate policy to cut back in capital expenditure. The accurate forecasting of capital works expenditure is one of the more difficult budgetary tasks and the main problem is estimating the timing of the lumpy items of expenditure that make up the capital works program.

The 1992-93 capital works program had several projects in this category including the MFP, the Waite Institute relocation project and the economic development program. Ultimately these projects did not proceed as quickly as expected and significant under expenditure resulted. The 1992-93 outcome was also affected by the under expenditure of $17 million in the school building program. This came about mainly because of a shortfall in income from the sale of surplus school properties which meant some capital works had to be delayed to keep within the budgetary targets. While any delays in necessary capital works are not desirable, it is suggested that a concept of an agency living within available funding limits is an approach that needs to be encouraged and certainly not criticised. In fact, it is an approach that is demanded.

The other area of major under expenditure in 1992-93 occurred in the non-budget sector agencies such as ETSA, TAB and the Urban Lands Trust. In regard to the 1993-94 program there are some reasons for confidence over the outcome for this year's capital works program. There are fewer very large projects that have not yet commenced construction; others, such as the Waite Institute project, are well under construction and accordingly the budget of expenditures ought to be achieved. The circumstances which affected the education program in 1992-93 are not expected to recur. While the program is based on receiving $32 million from the sale of school properties, about $14 million is either under contract or has already been settled in 1993-94, so that is money in the bank for the Education Department.

Finally, the level of proposed expenditure by non-budget sector agencies is significantly lower than last year's budget and does not include the same number of major one-off items. We are, for example, very much dependent on agencies such as ETSA and its capital works program. If ETSA puts certain projects back for a few months, for its own reasons, then if that crosses over the end of June obviously you can say there is a shortfall in spending. The fact that the contracts may be let in the middle of July, again, has an effect. When it is a large program or a large item within a program, these variations do take place. I point out that it is a feature of all State Governments that, because of the lumpy nature of capital works programs from time to time, there are problems in all States, if it can be seen as a problem, of underspending in capital works. From memory I think last year something like $400 million was underspent in Queensland and I am sure that it is not that they did not want to spend it: it was just that the nature of the projects means that that happens. It is the same in every other State, so South Australia is no different there.

Mr S.J. BAKER: My next question relates to land tax. Can the Treasurer inform the Committee what percentage or proportion of properties by value fall within the $1 million plus category? The Treasurer has already said that there are 2 per cent of taxpayers in that category but, if we look at all those properties greater than $80 000 in value, I am interested in the number of tenants who will be affected, because ultimately the costs of increased land tax are passed on to the renters of premises, not directly but certainly indirectly, through the rents. I would be interested to know what percentage of properties by value fall within the $1 million plus category.

The Hon. Frank Blevins: There are 651 out of 31 614.

Mr S.J. BAKER: Are they over $80 000 in value?

The Hon. Frank Blevins: That is what you asked.

Mr S.J. BAKER: I did ask that.

The Hon. Frank Blevins: Well, I told you. Why are you so surprised? There are 651. On the question of passing on increases in land tax to tenants, it is much more difficult these days for landlords to do that. I think the commercial tenancies legislation has made that much more difficult. It may well be that when contracts are renewed there is an adjustment, but it is not so easy for landlords to do that these days, and properly so. This Parliament and this Government should be congratulated for making it that much more difficult. We are talking 2 per cent of land tax payers here and the other 98 per cent, as a group, have no collective increase at all. Overall, as I have stated a number of times already today, the revenue from land tax will decrease in real terms.

Mr S.J. BAKER: The Treasurer still has not answered the question I asked, by value: obviously the ones at the higher end take up a greater proportion of the total property values, so if the Treasurer does not have that information, I can assure him that more than 3 per cent of the total properties would be falling within that group. So, I would like the property value of the total property values in the land tax net provided to the Committee.

The Hon. Frank Blevins: The 1993-94 figures show that there are no land tax payers because of the threshold between $0 and $80 000; between $80 001 and $300 000 the number of taxpayers will be 27 250, and the estimated receipts from that group will be $5.4 million. In 1993-94, 3 713 taxpayers are earning between $3001 and $1 million. The estimated receipts from that group is $14 million. There are 651 taxpayers in the group earning over $1 million, and the estimated receipts from that group is $58.9 million. The total number of taxpayers in those three groups is 31 614, and the estimated receipts from those three groups have been published in the budget papers as $78.3 million.

Mr S.J. BAKER: As a further supplementary question, I confirm that $58.9 million out of the $78.3 million is caught within the $1 million plus group, which is about 80 per cent of the tax being paid by that group. I thank the Treasurer for that information. My second question relates to expenditure by departments. I would like the budget allocations as shown in the Appropriation Bill as well as the expenditures to date by the departments and authorities listed. This will enable me to work out what percentage of the budget has been spent by 31 August 1993.

The Hon. Frank Blevins: We may have some trouble with that, but I will examine the question and do my very best, as always.

Mr S.J. BAKER: My next question relates to superannuation. Looking at page 7.9 of the financial statement, members would be aware that superannuation liabilities exploded in 1992-93 to the tune of $719 million, which is an increase of about 20 per cent on the previous year. I find that quite extraordinary and very difficult to deal with. The taxpayers of the future will have to deal with this massive blow-out in superannuation. Can the Treasurer explain how much of this $719 million blow-out is due to the superannuation guarantee not being met at the level of 5 per cent?

The Hon. Frank Blevins: The words 'exploded' and 'blow-out' are very macho. I am not quite sure why the Deputy Leader feels it necessary to use that kind of terminology. I would not have thought it was necessary to use such emotive and inaccurate terms in an Estimates Committee. That should be saved for Question Time. Mr Dean Prior, Manager of Superannuation within Treasury, has those details and will supply them to the Committee.

Mr Prior: The large increase in the unfunded superannuation liability comes about because of two things: one is the superannuation guarantee, but primarily a large proportion of the increase is because of the adoption of a lower real discount rate of 4¼ per cent per annum as the State Government's long-term CPI indexed cost of funds as at June 1993, compared with 5 per cent per annum as at June 1992.

The Hon. Frank Blevins: I would also point out that the cost of superannuation to the State Government last year was around 6 per cent of payroll, which is very modest. I suggest that it is probably only half what it costs many private sector enterprises, which can only dream of having superannuation costs of 6 per cent of payroll. It is very modest because only 30 to 40 per cent of the State's public servants are in the State superannuation scheme. I would prefer more public servants to be in our superannuation scheme, but it appears that more and more are settling for the statutory requirement only, rather than the much more generous voluntary schemes that are available to them. I think that is a great pity.

We have ongoing campaigns to encourage our employees to join our superannuation scheme because we believe that it is in the interests of Australia as a whole, as well as the individuals, that everybody has adequate superannuation on retirement. There is no doubt that the statutory requirement (I think it is now 5 per cent of payroll) will not provide a decent retirement income. We have spent quite a bit of money encouraging people to join our voluntary superannuation schemes to enable them to make adequate provision for their retirement, rather than relying on the statutory provision, which will not be enough.

Mr S.J. BAKER: The Treasurer has just made this extraordinary statement that it costs only 6 per cent of payroll, and he is allowing the liabilities to build up. For the period 30 June 1992-93 to 30 June 1993-94 we have $4 264 million in liabilities, because we do not have a private sector scheme. The Government does not contribute to that amount of money. I find it somewhat perplexing that the Treasurer cannot grasp that, if we continue to build up the liabilities as we are now—and it was revealed in the previous answer that the Government has no intention of meeting all the guaranteed moneys by next financial year—by 1994-95 the Government will not be contributing sufficient moneys to cover the full superannuation guarantee of 5 per cent for all employees. I think the Treasurer needs to go back to school and learn how to count.

The Hon. Frank Blevins: In response to that question, statement, or whatever it was, I point out that where the State Government does allocate some funds separately for superannuation and whether or not this is absolutely essential is still a debate and is still questioned by me. It seems to me that if as a State Government you are a net borrower and you are borrowing funds—and they all are, with the exception of Queensland, although the arrangements there are subject to question—it would be extraordinary to put it to one side to pay for superannuation instead of having, as we do, a pay as you go scheme. We went through this last year in the budget. The Deputy Leader obviously read last year's *Hansard* and decided he would have to try to show some indignation at this stage as he did last year. I would have thought that 6 per cent of payroll in the private sector would be a dream. They would love to have an obligation as low as that.

That is 6 per cent of the payroll. That figure will increase obviously as the superannuation guarantee levy increases, but it is not unusual in the private sector to have 11 per cent or even 12 per cent of the payroll being paid out as superannuation. So, it is not a huge burden on the budget.

Mr S.J. Baker interjecting:

The Hon. Frank Blevins: We are paying the bills as they fall due, and we are paying 6 per cent of the payroll because, as I said, only about 30 or 40 per cent of our employees are in superannuation. We are paying them as they fall due-6 per cent of the payroll is not particularly onerous, but I concede that it will increase.

Mr S.J. BAKER: I refer to the local government disaster fund (page 43 of the Treasury report): are there any outstanding amounts? I note flood payments of $4.394 million, the original estimate being that at least $7 million worth of damages would be paid out. What is the status of those flood payments?

The Hon. Frank Blevins: In 1992-93 receipts in this fund totalled $5.046 million and total payments, $8.265 million, giving a balance in the fund at 30 June 1993 of $600 000. In the period December 1992 to February 1993, 56 claims for assistance were received from local governing authorities as a result of flood damage, and $4.365 million was distributed to 31 eligible councils. The disaster fund FID levy is due to cease in April 1995. However, the Local Government Association's State Executive has proposed continuation of the fund from alternative revenue sources, and obviously this issue is under consideration.

On behalf of local government, I make the point that local government is very appreciative of the actions of this Government, again the only Government in the whole of Australia that has made this provision to assist local government during periods of natural disasters. It is not something that local government has to do by itself. We took the political flack by having this levy on FID just as we did on petrol. I cannot think of any other Government in Australia that has made the strenuous efforts that this Government has made to assist local government, and I must say that local government is appreciative of the efforts we have made, even if the Opposition is not.

Mr S.J. BAKER: That was not my question. The Treasurer continues to go onto the sidelines. The question was: are there any outstanding amounts that have to be paid?

The Hon. Frank Blevins: I thought I was quite specific about this, but I see that I will have to go through it again. In the period December 1992 to February 1993, 56 claims for assistance were received from local governing authorities as a result of flood damage, and $4.365 million was distributed to 31 eligible councils. I did not do the arithmetic for the honourable member; perhaps I should have, but if 56 claims have been received and 31 claims have been settled with that money being distributed that leaves 25 outstanding claims that are being worked through. I gave the honourable member those figures; there are no other outstanding claims.

Mr S.J. BAKER: Is there a further liability yet to be paid for those 25 claims, or are they deemed to be no longer eligible?

The Hon. Frank Blevins: The committee has looked at them and knocked them back.

Mr S.J. BAKER: I will put the remainder of my questions on notice.

Additional Departmental Advisers:

Mr. E.C.J. Johnson, Managing Director, State Bank.

Mr. A. Anastasiades, General Manager, Finance, State Bank.

Mr. R. Ruse, Executive Chairman, Government Asset Management Division.

Mr. G. Bethune, Chief Executive, Task Force for Corporatisation of State Bank.

Mr. G. de Gennaro, Acting Assistant Under Treasurer (Finance Institutions).

Mr. R. Martin, Treasurer's Representative and Chief Counsel, Government Asset Management Division.

Mr S.J. BAKER: This is the first time during the Estimates Committees that I have not had an annual report of the State Bank available. I have annual results, but I do not know what has happened to the report. I will deal with the annual results on their merits, but we do not have an auditor's statement before us to show the truth or otherwise of the figures with which we have been provided. However, I will ask my questions on the information that is available to the Committee. I turn, first, to the Government Asset Management Division, because that is of considerable interest to the Opposition. On page 32 of the GAMD annual review there are some components of the loss statement for the year ended 30 June 1993. In terms of the interest expense for 1993-94 what is the estimate available to the Committee?

The Hon. Frank Blevins: I will deal, first, with the statement that the Deputy Leader made before asking his question. He referred to the annual report of the State Bank not being available for the first time. That is not my information. My information is that last year and the year before we worked from financial statements rather than the annual report. The annual report will be available next week, but nothing new has happened this year that did not happen in the two previous years.

Mr Ruse: The GAMD Board has not yet adopted its final budget for the year ended June 1994; it is still going through that process. My expectation is that our interest expense over the coming year will be in the range of $160 million to $180 million.

Mr S.J. BAKER: I presume your budgets were done prior to the beginning of the year. However, you have not done your budget for the GAMD at this stage, and your best estimate is $160 million to $180 million. On what outstandings to the good bank is this based? What amount is this $160 million to $180 million based on? Is it $2 billion, or $1.89 billion; what is the amount?

Mr Ruse: The interest expense is not the total loss of GAMD because it receives income: the interest expense is based on our expected borrowing level, which at the beginning of the year was running at about $1.9 billion. Obviously, that is expected to run down over the course of 1993-94. Our expectations of interest expense or of function obviously are based on interest levels on the amount of debt that needs to be repriced and the cash flows that we will receive from the sell down of assets. That is why there is still some uncertainty about that number.

Mr S.J. BAKER: The interest income of $89.6 million would obviously be a lot lower this year, given that you have already quit some assets to the good bank, as reported for the year 1992-93, and the lower interest rates. What is your expected interest income? The interest income is the fist item on that page.

Mr Ruse: The classification of GAMD's income between interest income and other revenue is essentially determined by accounting conventions. GAMD is primarily concerned about what its total income will be rather than that which may be classified as interest income, because we are dealing with a loan receivable or rental income on property. I do not have information relative to the expected accounting split for the coming year. However, essentially, the honourable member is asking about the breakup of our expected profit for the year. Obviously, if one has interest expense and total revenue, one can conclude roughly the magnitude of our profits.

Again, that is part of our budgeting process, but I expect it to be another loss rather than a profit, as we have always expected. However, the loss for GAMD this year is expected to be below $100 000. That relates to the question of expenses; the earlier question related to interest expense of $160 million. The combined net interest we are receiving from interest receipts and other revenue will turn into about $60 million.

Mr S.J. BAKER: I have just done some computation work on this and, obviously, if your interest expense is about $160 million to $180 million, your interest should be down, given that I have been provided with an explanation of what is included in interest income. We will probably see some further provisions and write downs, given that two major properties, namely, Remm-Myer and 333 Collins Street, are above local valuations in both instances. It seems to me that, whilst there will not be a loss of $287 million, I would expect on the GAMD figures provided in the 1992-93 statements—and obviously you have not worked through those figures, which I find quite surprising—that the loss could well be as high as $150 million this year.

The Hon. Frank Blevins: What the Deputy Leader's computation brings about is all very interesting for the Committee. However, out of all the words we have just heard, if I understand correctly, what the Deputy Leader is on about is the expected GAMD loss for next year. The response to that is that the budget has not been completed—it is in the process of being finalised. The head of GAMD expects it to be less than $100 million. Out of the exchange over the past 10 minutes, that is the essential question and answer. If the Deputy Leader chooses not to believe that, that is fine. There is not much we can do about it. If the Deputy Leader wishes to rephrase his questions or give them a bit more thought and write them out and let me have them at any time—nothing to do with this Committee—we will get him some precise answers.

Mr QUIRKE: What is the value of the Myer Centre carried by GAMD in its accounts? How did it impact on GAMD's 1992-93 reported loss?

The Hon. Frank Blevins: The Myer Centre is one of GAMD's largest single exposures, and I suppose the most visible exposure. Obviously the value of the property has a significant impact on GAMD's overall results. That was certainly the case in 1992-93. The directors of the GAMD Board assessed a fair and reasonable value for the Myer Centre as $205 million as at 30 June 1993, down $85 million from last year. This reduction in value has had a large impact on the $287 million loss reported by GAMD for 1992-93. Without this reduction in value, GAMD would have reported a loss better than the budgeted level. So, obviously, a single property has a very significant impact.

In assessing a fair value, the directors of GAMD had regard to the Valuer-General's valuation of $100 million and an independent valuation of $190 million. The independent valuation—which was a private sector valuation, by a very well-known private sector firm—stated that the most probable value of the property was within the $165 million to $225 million range. In all fairness to valuers, whether they are involved in the private or public sectors, there is not exactly a market in GAMD-type developments. It is not as though they are bought and sold everyday. So, it is somewhat difficult to assess. If the valuers turn out to be somewhat inaccurate, I do not think we ought to be too hard on them.

In any event, we took the best possible advice from the highest qualified valuers in the State. The value adopted by the GAMD Board reflects the strategy of GAMD to hold the property for at least five years to allow its value to be enhanced through time, with full disclosure made by GAMD in its report released on 26 August 1993. GAMD's approach to carrying the value for the Myer Centre in its accounts is in accordance with accounting standards and practice. The carrying value adopted after assessment of independent valuations and GAMD strategy in relation to the property will not necessarily equate to the Valuer-General's assessment of current market value for the purpose of statutory rating assessments.

It should be noted that 1992-93 was the first full year in which GAMD has exercised full control over the Myer Centre. Key achievements through the year include the disentanglement from the Remm corporate ownership structure; appointment of Bennett property group as external managers; revamp of food court on Terrace level; an energetic leasing campaign which has produced some success; and development of a strategy for long term income growth. The Myer Centre has continued to operate in a difficult retailing market since its opening and in some respects carries with it the stigma of being associated with the State Bank's losses. However, the adoption of a long term strategy by GAMD should enable the centre to achieve its potential and be justifiably recognised as a prominent retailing complex in South Australia.

Mr QUIRKE: The Deputy Leader, when making his wind-up to one of his questions, referred to 333 Collins Street. My understanding is that that is not a GAMD property but an SGIC managed property?

The Hon. Frank Blevins: It was transferred from SGIC to SAFA and from SAFA to GAMD. The expertise for managing the building is not within the SGIC and SAFA. It is within GAMD but the effect is entirely the same. On the budget, the Government has been left holding 333 Collins Street. The only two decisions to be made are who are the best people to manage it at this time—clearly GAMD. At what stage is the building sold and whatever value it has at that time realised. I would suggest that that will be quite a few years to come.

Mr QUIRKE: Will the Minister report on what is happening with respect to the East End Market property?

The Hon. Frank Blevins: The Minister of Housing, Urban Development and Local Government Relations would know more about it than I would, but maybe there is an officer here who knows something about it.

Mr Ruse: Apart from stating it was a GAMD asset during the course of the year. The GAMD asset, known as the East End Market, was transferred to the Government and it is being looked after by another arm of Government.

Mr S.J. BAKER: Given that you have not prepared your forward budget for the GAMD for this year, or that you are still in the process of doing so, have you done any broad analysis of the handling of these assets in 1994-95 for example? Has there been any indicative position taken at this stage, and how many assets would remain within the GAMD at the end of this financial year?

The Hon. Frank Blevins: When you are having a look at forward estimates, they are just that, estimates, but the GAMD team now has considerable experience in handling these particular 'assets', so the predictions are not wild guesses: they are based now on a considerable amount of experience. That shows us that the $3.15 billion was a fairly accurate estimate of the losses of the old bank and its subsidiaries, and the longer time period that we have to live with that estimate the firmer that estimate appears to be. We would have all hoped that the estimate was too pessimistic and that perhaps there would have been a lot of money returned from the $3.15 billion that we made available to the bank in one form or another. The information that I have to date is that towards the end of GAMD's life it is a reasonable expectation that GAMD could return as high as $300 million to the Government. As I say, we are not dealing with wild guesses but we are dealing to some extent with crystal ball gazing, based on fairly good assessment of the assets that GAMD is managing.

Mr S.J. BAKER: As a supplementary question, I am interested in wild guesses. Given that the Minister seems to have a fairly firm hold of where the wild guess will be in three, four or five year's time, he seems to have a lack of comprehension or is not prepared to make a wild guess where we will be in this year or next year. What is the best wild guess for 1994-95?

The Hon. Frank Blevins: I said that these were not wild guesses.

Mr S.J. Baker interjecting:

The CHAIRMAN: Order!

The Hon. Frank Blevins: The people who were making these estimates now had a considerable amount of experience in handling these accounts, and I thought that both Robert Ruse and myself had given the estimate for next year, and it was less than $100 million. I thought we had said that on several occasions. If the Deputy Leader did not hear, then I will repeat it.

Mr S.J. BAKER: Not this year, the next year?

The Hon. Frank Blevins: The year after next?

Mr S.J. BAKER: The year after this year. We are into 1993-94.

The Hon. Frank Blevins: I will get the best possible estimate for you then. It will not be a wild guess. It will be based on a lot of thorough work. However, it will be speculative. By definition, if it is in the future, it has to be speculative, but it will be based on sound information.

Mr S.J. BAKER: I return to the good bank and draw your attention to page 1 of 10 of the appendix of the annual results. There are some details provided of the various components of the operating revenue, including the ultimate outcome of $107.9 million. Can the Committee be provided with information of the breakdown of 'other revenue'? What components make up the $179.3 million other revenue shown in that group operating statement?

The Hon. Frank Blevins: Eventually. It would be a rather long list. We will have a go at it for you to save us doing some work later. I invite Mr Johnson to give details from the best of his memory.

Mr Johnson: The item is made up of an aggregate of what we call non-interest income and 'other revenue' includes the fees earned on lending, account fees for operating accounts, commission and other income, rental income, profits from sales, investments, and a wind-out of what we call non-core businesses. There were two or three that were exited in the last year. That in aggregate comes to $179 million. If you would like to see the way that is broken up, it is on page three of the bank's release of results, section three, page three. It will be detailed in full in the report and accounts. As the Treasurer has said, those accounts are to be signed by the board after the auditors have signed the accounts next week, and the board meeting of 24 September will sign the audited report and accounts which will become available to the Governor on the week commencing 11 October.

Mr S.J. BAKER: My next question relates to money market activities and how much money is out in the marketplace and not being lent to the customers. What is the breakdown between domestic and overseas; and what were the earnings on money market activities for the year 1992-93?

The Hon. Frank Blevins: I will have that question examined. I know that the Committee would not want any information that was given here to be damaging to the bank, but that information can be made available. I hope it will be used responsibly. It may well be that if the Economic and Finance Committee wants to probe in those areas, it is a better body than this to do that. But I know every member of the Committee, and certainly everybody in South Australia, would not want to give the competitors of the State Bank any advantage whatsoever. A lot of taxpayers' money is invested in the State Bank and we would not want it to be sabotaged by giving our competitors a free kick. Nobody in South Australia, I assume, would want to do that.

Mr S.J. BAKER: I thank the Treasurer for his response, but it so happens that in previous annual reports, whilst we have not had the earnings I would have liked, we have certainly had the detail of the various components of the bank's activities. They have been provided in the report and

I would presume that they are available to the Committee now. I would particularly like to know how much money we have lent overseas, for example.

The Hon. Frank Blevins: Almost all, if not all, the information that the Deputy Leader seeks will be in the annual report when it is published next week.

Mr S.J. BAKER: I would like the Committee to have it now.

The Hon. Frank Blevins: I am afraid the Deputy Leader is going to be disappointed. It will not been signed off until next week. It is not anybody's fault: it is the same procedure that happened last year and the year before. But what I can do, within the Standing Orders, is to say that I will take the question on notice and I will supply the answer by the date that was advised earlier, and it will be well within that date. In fact, it will be ready next week. I will supply it then to the whole of South Australia, as well as to the Committee.

Mr HOLLOWAY: What is the total contribution that the State Bank will make to Consolidate Revenue? Will the Treasurer outline the reasoning behind the fact that the Government has decided to charge the State Bank guarantee fees totalling an estimated $30 million?

The Hon. Frank Blevins: As reported in the budget papers, the State Bank has had an unaudited profit before tax of $108 million for 1992-93. That will be signed off next week. As I stated, the financial papers are accurate. The bank will pay income tax equivalent and dividends totalling $107 million into Consolidated Revenue in 1993-94 in accordance with and as required by the State Bank Act. Those payments, which reflect the bank's improved performance, are regarded as being of a recurrent nature and rightly assist in reducing the recurrent deficit. Furthermore, in light of the bank's strong capital adequacy position the bank proposes to return $160 million in capital to the Government. This will be paid by way of a special dividend out of the retained earnings of the bank and, as required by the Act, will be paid into Consolidated Revenue. The $160 million has been treated as a capital receipt in the 1993-94 budget. In effect, this receipt is a one-off in the budget and it has not been included in calculating the recurrent deficit.

The Government has also determined to charge guarantee fees in accordance with the State Bank Act, with an initial broad estimate of $30 million being provided as a recurrent receipt in the 1993-94 budget. That figure may vary somewhat: it is still a matter for discussion between the Government and the bank. It is totally appropriate that the guarantee fees be charged. On reflection, everybody, with the benefit of hindsight, would probably have insisted that guarantee fees were charged from the outset of the formation of the bank from the two previous organisations. I am not suggesting that the mere existence of a guarantee charge fee would have saved us some of the financial problems that we have with the old bank, but it would certainly, in my view, have made people think twice before they entered into certain transactions. I would have hoped so, anyway. Nevertheless, the new bank is being charged a guarantee fee as the legislation envisaged.

Mr HOLLOWAY: What is the State Bank's exposure to non-performing accounts in the rural sector?

The Hon. Frank Blevins: There has been a considerable amount of publicity, some of it most unfortunate, about the way the State Bank handles its customers, particularly in the rural sector. In fact, from time to time the bank has to take possession of the security because people have either chosen not to or have been unable to meet their obligations. But it is interesting to have a look at the figures, because the bank has some 3 000 rural borrowers—a very large number indeed. I am advised by the bank that there are only 36 accounts out of the 3 000 that are within the bank's 'intensive care' section, which is known in the bank as CRAM (Commercial and Rural Asset Management). So those accounts are receiving intensive care—I repeat, 36 out of 3 000, which is not a very high figure. Even of those 36 accounts, only nine are under some form of action for recovery. A further seven have been identified by the bank as likely to result in action being taken by the bank for recovery.

But at the moment there are only nine out of 3000—we do not even like to say nine, but I would suggest that nine out of 3 000 which are clearly not going to make a go of it is unfortunate, but it is not a huge figure. The 16 problem accounts that I have mentioned—that is, 16 out of 3 000—represent principal at risk of $10.3 million: again not a huge amount given that there are 3 000 rural borrowers. The total exposure at risk from the 3000 accounts would be about $.5 billion. Of that number 16 are in difficulty, and the 16 represent the principal at risk of $10.3 million. It is more than we would like, but out of 3 000 I would not think it was too bad.

Mr HOLLOWAY: I refer to the GAMD annual report (page 16), where information is given about the remaining exposures to GAMD. The point is made at the end that the 291 exposures that account for about a quarter of GAMD's balance sheet involve significantly more than a third of GAMD's resources in time and management expense. What has been the success of GAMD to date in dealing with those smaller accounts as against the larger accounts, given that they involve significantly more resources and given the amounts involved?

The Hon. Frank Blevins: Mr Ruse knows all these accounts by name and he will give a breakdown of each one.

Mr Ruse: I wish I did, Treasurer. I guess it is difficult to be specific about 291 exposures, especially as they are all small and they vary from small property exposures to exposures to the tourist industry, the retail sector, and so on. I think it is fair to say that with respect to the small property exposures we have had a reasonable success in selling those properties at reasonable values.

In respect of operating businesses, in some instances we have been able to deal with the operators and help them work out their problems. However, equally, there has been a range of operators where the business is just not viable and they have had to be liquidated. There have been some successes. I think that there has been some publicity about the Dowd Clothing takeover of Walter Kristensen. We were able to enter into reconstruction which kept that business in South Australia. Other smaller accounts have received publicity. I do not know whether one would call Sabco a small account, but it is not one of our largest accounts. However, that has been able to retain some employment in South Australia. It is very difficult to be specific.

Mr HOLLOWAY: You mentioned previously the different sectors and how obviously industries in different sectors have different problems or the economic factors facing those industries will differ from sector to sector. Do you take a sector-by-sector approach to handling these difficult accounts or do you deal with each one individually?

The Hon. Frank Blevins: Every account in GAMD is treated individually. There are some figures which aggregate various sectors, whether it is tourism, within South Australia or outside South Australia. I think those figures were published in the annual report. However, they are not treated as a whole; every single one is treated as an individual account. It is very intensive work and I think that the people who have those accounts with GAMD overwhelmingly appreciate the amount of effort that goes into assisting them to conduct their affairs in an ongoing way if that is possible.

There are accounts in GAMD that could be put into the hands of receivers if we chose to do so. However, where we believe there is more value in keeping the business going rather than attempting to realise on what few assets may be available to us, we do that quite frequently. There are quite a few businesses around town that if we wanted to close down we could. It may well be that other banks would have done so. However, we have made a commercial decision—and they are all commercial decisions—that these businesses have some potential for the future and that we are likely to realise more of our security by keeping the business going, usually with the proprietors in charge and still working those businesses. We make the assessment on the proprietors, for example. So, it is very intensive individual assessments of each account.

Mr S.J. BAKER: Can the Committee be informed as to who actually owns the State Bank building?

The Hon. Frank Blevins: At the end of day it is us.

Mr S.J. BAKER: But what is the detail?

The Hon. Frank Blevins: Mr Johnson will respond.

Mr Johnson: We have a building that is in a structured finance vehicle called Ollago. That has a land component and a building component. The other parties involved in terms of the investment, aside from State Bank, are two other major banks. The State Bank underpins the rental under that arrangement that was entered into at the outset, and that structured finance arrangement has a conclusion in 1996. So, the rental is made good if there is a deficiency on a per annum basis and that is a requirement of the initial structured finance arrangement.

Mr S.J. BAKER: Supplementary to that, who then actually owns the building? Do you have an arrangement where you are forced to buy the building under those circumstances? I am not too sure how this finance is structured. We did at the time talk about Kabani as an off-balance sheet company and made some reflections on the company at that time. From memory, the total cost of the building was about $125 million without the land component. I am particularly interested in what total moneys are outstanding and what would have to be met to retrieve the building in 1996.

The Hon. Frank Blevins: Mr Anastasiades, the General Manager, Finance, of the State Bank of South Australia will supply some further details.

Mr Anastasiades: If I may, I will use a very simple analogy of going out to buy a car and you have a hire purchase agreement whereby you have the car, you drive it and you use it. The honourable member is asking the question: who owns the car during that period of time? The State Bank Centre is sitting on a balance sheet as a fixed asset. Effectively we are saying that it is an operating lease which we are carrying on our fixed assets.

At the end of 1996 the bank would have created equivalent to a sinking fund by which, by writing off that account, we would create an asset on our books. The honourable member is correct in saying that it costs us $125 million, but as a result of the partnership getting together the amounts involved, the interest and the fixed commitments, would take the building up to close to $208 million up to 1996. By that time the bank would have paid for it, and it would have an asset which would reflect the market of that particular time.

Mr S.J. BAKER: Did you say that the total cost, including all the payments, was $280 million?

Mr Anastasiades: No, $208 million.

Mr S.J. BAKER: It is $208 million.

Mr Anastasiades: Correct.

Mr S.J. BAKER: And what is the current valuation on that building?

Mr Anastasiades: The current valuation of the building is included in our numbers, but we would place the bank in a difficult situation if we wanted to sell the building and we had just disclosed publicly the valuation on our books. However, we can deliver that valuation on a confidential basis.

Mr S.J. BAKER: It is about $65 million, isn't it?

The Hon. Frank Blevins: I am not quite sure why anyone in South Australia would want not just to prejudice but actually damage the bank in a potential commercial transaction by telling potential customers or competitors that such a thing is the valuation.

That information will be made available to the Deputy Leader or anybody else who wants it, but I would request that they keep it confidential; if they do not there is nothing we can do about it and they will have damaged the bank. That is something that all taxpayers ought to deplore, but the information will be given to you and if you choose to make it public and damage the bank then you do so. There is nothing we can do about it.

Mr D.S. Baker interjecting:

The CHAIRMAN: Order!

The Hon. Frank Blevins: The member for Victoria thinks it is amusing to suggest that the bank can be damaged. I do not know why that should be so because a lot of the people that the member for Victoria purports to represent in the rural community have an enormous stake in the bank not being damaged. I would have thought that out of respect for those people, if nobody else, the issue would be taken a little more seriously. If the Deputy Leader—

The CHAIRMAN: Order!

The Hon. Frank Blevins: —or the member for Victoria, or anybody else wishes to—

The CHAIRMAN: Order! There is a point of order.

Mr D.S. BAKER: On a point of order, Sir, I take exception to that remark; that was not at all what I said, and I ask for it to be withdrawn.

The CHAIRMAN: First of all it is not a point of order. I point out to the Treasurer that the member for Victoria has requested a withdrawal of the remark. It is in the hands of the Treasurer as to whether or not he withdraws, but the request has been made.

The Hon. Frank Blevins: I am sorry, what was the request?

The CHAIRMAN: The member for Victoria has taken exception to the remark of the Treasurer and he asks for a withdrawal. The Chair is simply directing that—

The Hon. Frank Blevins: He was laughing; maybe it was just wind, or he was grimacing—I do not know. In any event, whatever—

The CHAIRMAN: Order!

The Hon. Frank Blevins: —it was, I withdraw it.

The CHAIRMAN: Order! The Treasurer.

The Hon. Frank Blevins: I have not got a clue

The CHAIRMAN: Order! Let us handle this properly. The position under Standing Orders, as I understand it, is that there is nothing that the Treasurer has said that is unparliamentary. However, the member for Victoria has taken exception to a statement that the Treasurer made. I will ask the member for Victoria to clarify, very briefly, what the statement is to which he has taken objection.

Mr D.S. BAKER: The statement was that I had an interest in damaging the bank, and I reject that statement and ask that it be withdrawn.

The CHAIRMAN: That is the request. I pass that on to the Treasurer.

The Hon. Frank Blevins: That certainly was not the statement, but nevertheless if the member for Victoria imagines that that was the statement I will happily withdraw whatever it is that he imagines. Anything and everything.

The CHAIRMAN: The withdrawal is made and I will not take it any further. I give the floor back to the Deputy Leader of the Opposition.

Mr S.J. BAKER: I would like, and the Committee would appreciate, a copy of the agreement with the Federal Government on the bail-out and sale of the State Bank. We would like a copy of that agreement and to know whether we have to repay the $647 million if the bank is not sold within the particular time frame, as we have only had statements from the Premier on this matter. We would like to know how you have renegotiated the position of the first $265 million into a cash settlement and the second $150 million into a cash settlement, both of those sums having been meant for debt reduction; and what is the position of the last $234 million in relation to the State total bail-out? The Committee would appreciate having the document to know exactly what this State is facing.

The Hon. Frank Blevins: With regard to the Federal Government, the State is facing an absolute bargain. I would not want anybody to think that the Federal Government has been less than generous to the chagrin of all of the Treasurers around Australia, perhaps including even its own. Nevertheless, the $600 million in net present value is what we believe is no more than our due. There is no agreement as such; I think it is just an exchange of letters. I will see what is available in that area and happily make them available. The question of giving back the $600 million if the bank is not sold just does not arise.

The agreement was that the bank would be sold at a fair market price but in any event would come within the Commonwealth tax net. So, instead of the bank paying tax to the State Government it will pay it to the Federal Government, so the Federal Government will get its $600 million back that way over a number of years—decades. That is the understanding, and a quite proper understanding, and it is a very generous offer which we were very pleased to accept. Whatever documentation is around I will get for you. It has all been made public and, in fact, boasted about.

Mr S.J. BAKER: What is the $30 million guarantee based upon? There is $30 million being paid into the State budget this year for the guarantee on the State Bank and this is based on the Government Management Board drawing some conclusions on how loans are being administered under the South Australian Government Financing Authority. However, I noted in the Treasury papers that $30 million is being paid in by the State Bank this year and $21.9 million by all other authorities. Is the $30 million fee based on a percentage, or is there some other formula for calculating that guarantee fee?

The Hon. Frank Blevins: As I said earlier, the precise way that $30 million is computed is still under discussion. I stated clearly that it could vary a bit either way but in broad terms the Act makes such a provision. It was always envisaged that a fee for the guarantee ought to be charged and I believe that it is long overdue and wish it had happened all those years ago. It might have made people think twice before they made some of the decisions. I can give you the information on what our thinking is, at the moment, as to how the charge shall be computed. It is our view, and I hope it finishes up being the bank's view; that is subject to negotiation but it will be around there. Mr de Gennaro, who is well known to all, will enlarge upon the negotiating position of the Government.

Mr de Gennaro: Treasury made an initial broad estimate of $30 million for the guarantee fee based on advice, which was conveyed to Treasury by Baring Brothers earlier this year, of the possible value of the guarantee of the bank's liabilities. In addition, Treasury considered the extent of wholesale liabilities on the bank's balance sheet and applied a broad percentage rate to those liabilities to come up with the quantum of $30 million as an initial broad estimate. Subject or pursuant to the provisions of the State Bank Act the fees need to be further discussed with the State Bank Board, between the Treasurer and the board, to finalise the arrangements which will be then put in place. The broad estimate of $30 million should be around the mark but it could vary subject to those final negotiations.

The Hon. Frank Blevins: That was the Government's position in these discussions and in all fairness I would like Mr Johnson just to outline briefly the bank's view of that position.

Mr Johnson: The board will be considering the payment of a fee over the next two board meetings and the board's view will be based on the bank's liabilities and the deposits in various forms, and they make up both the wholesale funds and the retail funds. We would be looking to have a formula attached to certain of the liabilities of the bank. There is an interesting inter-relationship between the liabilities and the capital adequacy of the bank and the extent to which the Government is being asked to guarantee the deposits of the bank.

It is by no means a simple calculator fee to work out what that is in relationship to the total liabilities of the bank. It will be inter-related with the capital of the bank, the nature of the liabilities of the bank and the extent to which the bank feels the guarantee should be attached to certain of the liabilities as opposed to all of them. We look forward to a vigorous debate on the issue. The quantum has not been determined. We are not surprised at the amount; in fact, we have foreshadowed something like that in a submission to the royal commission in the past year and we will again refer to it in our strategic plan for the bank over the next three years.

Mrs HUTCHISON: Can the Treasurer provide an update on the provision of support for GAMD for the ongoing situation?

The Hon. Frank Blevins: There is not really much new to report in this area that I have not answered in previous questions. I suppose you have to be very careful. I was chastised in one of our newspaper editorials, a thundering one at that, for allegedly cracking a joke about the $3.15 billion figure: I said 'The good news is it is not getting any worse and the bad news is it is not getting any better'. The more experience we have with identifying and working through the accounts and examining them closely and working with the people who in many cases are still operating businesses, the clearer it is to us that the $3.15 billion that was estimated 18 months ago is pretty well spot on. There have been considerable numbers of overs and unders within the hundreds of accounts that are managed by GAMD.

There was very good news a few months ago. I think there was about $40 million from an account that we thought would return zilch. In that instance we were favoured by the result of a court case and that particular court decision. I did not rush out and put out a press release, 'Here we are paying money back to the State.' Obviously there will be unders and overs, and a very good example of that was the Myer-Remm building and business where the valuation has dropped and dropped more than we thought. We must remember that these unders and overs are pretty well balancing themselves out.

There is absolutely no information before me to suggest that the $3.15 billion would be exceeded. In fact, the indication for this financial year is that the GAMD loss will be under $100 million, of which there is provision within that $3.15 billion. Therefore, it is not an additional figure, less than $100 million, if that is what it turns out to be. From the GAMD people there has also been an indication that the year after that they will break even and gradually emerge showing quite substantial profits; because some of these businesses that were in GAMD as lame ducks are now operating profitably and meeting all their obligations to the bank. They are now performing loans and not non-performing loans. So the reasonable expectation—and it is not wishful thinking—is that several hundred million dollars will come the other way towards the end of the nineties.

I hope we are all around to see that when it does happen. Several hundred million dollars is no small figure, but it is pretty cold comfort compared to the $3.15 billion which was paid out. If you knew the attention to detail that the GAMD people give to these individual accounts I think you would only applaud what they are doing for the people of South Australia. It is a pity that they have to get that amount of expertise. We wish they could have got it in the employ of another bank, but nevertheless they are now an expert team. Whilst the ongoing support is a pity, we can, however, see the end to it.

Mrs HUTCHISON: My next question relates to the group asset management annual review. Since July 1992 there has been a direct decline in staff numbers from 132 to 84 as at June 1993. It states that that further decrease is expected in the first half of 1993-94. Can the Treasurer provide any figures as to what that decrease is estimated to be, or is that not able to be judged at this stage?

Mr Ruse: We are obviously reviewing our need for account managers on a continuing basis. We have indicated to our staff that we will be closing down the Sydney office by the end of December and the Melbourne office early in the new year. That will see a decline of around 10 to 12 staff just from those offices and there will probably be a decline in the order of 5 to 10 in head office over the course of the next year. They are just broad estimates. We will firm up those figures as we get closer to the finalisation of particular accounts.

Mrs HUTCHISON: It is an estimate of around 15 to 20.

Mr Ruse: Yes.

Mr D.S. BAKER: I want to go back to the bad bank and I would like to find out how many rural accounts—I think we were given some figures which I will question in a minute in the not so bad bank—are in the bad bank.

The Hon. Frank Blevins: There would be two or three.

Mr Ruse: To be precise we would have to take it on notice, but probably two or three.

Mr D.S. BAKER: Therefore, the 16 problem accounts and the 9 which may have to leave the industry, out of a total of 3 000 accounts, are the total rural problem accounts that the bank has in the not so bad bank; is that correct?

The Hon. Frank Blevins: They are the ones that are in what they are calling in the new bank 'the intensive care ward'. They are the ones that have serious problems and, as I stated, nine of those have actions being taken to secure the rights of the bank over those assets. We believe that the other seven may go the same way. There are only 16 in the category having action taken or likely to have action taken.

Mr D.S. BAKER: Legal action has been taken to sell the assets of 25 accounts.

The Hon. Frank Blevins: Not necessarily legal action. Sixteen accounts are in what we call 'the intensive care ward', where action of one form or another is being taken—right now on nine of them and it looks like it will have to be taken on the other seven. It is not necessarily legal action. I will ask Mr Johnson to outline some of the action that we do have to take.

Mr Johnson: Obviously, we are all concerned about the rural sector and problems of seasonal factors and special concerns with some of the commodities to which the farming industry has particular exposure. I think it is fair to say that we deal with each one on a case-by-case basis. It would be difficult to put an umbrella figure over the whole thing and say that the net number of good farming businesses is the difference between 3 000 and 16, which is 2 984. That is not the case. We know that there are difficulties in farm income being insured because of seasonal factors, but we take a responsible view on a case-by-case basis. We have continued to support viable farms even though some seasonal factors may make their interest payments difficult.

Where it is absolutely clear that the viability of a farm and the equity of the farmer will be significantly eroded by allowing the farm to trade on, clearly we will have to determine how that farmer can be extricated from the problem loan. We do not adopt a blanket approach where a farmer is involved in, say, wool or in one of the areas of South Australia that are more affected by the seasons. We take it on a case-by-case basis, and I think we show sympathy and support. From time to time, we probably have been a bit slow to respond to some of the concerns of farmers. We are being very frank about the current numbers involved and our dealings with the farms concerned. We cop a blast when we have to take possession of a farm, but that is not new to the banking industry.

It would be in the long-term interests of the farming community—and we think this is largely its view—if it supported the tough decisions that banks take so that viable farms can continue. Any sense of debt forgiveness of the sort that might be wished for by some farmers would have a detrimental effect on the long-term exposure of the bank to the farming industry. It should be remembered that we do not make a wholesale decision to exit from a certain area or a certain part of the farming industry.

Mr D.S. BAKER: There appears to be a tremendous gulf between what the client perceives as a problem and what the bank is saying. As shadow Minister of Primary Industries I have seen about 50 clients of the State Bank who claim to be in diabolical trouble, but the bank says that there are only 16. If a client receives a letter saying that the bank will refuse to cash his cheques, is that not an indication that that client is in trouble?

The Hon. Frank Blevins: There are degrees of trouble. We have been trying to point out today that those farming accounts that have reached the critical stage where the bank must take decisive action to ensure that security is realised number 16: action has been taken on nine and it is quite clear that action will have to be taken on a further seven. That is not to suggest that there is not an ongoing bank/client relationship. From time to time, we all ask for an overdraft or overdraw a bit or go to see the bank manager about a loan, and sometimes we come away with less than we asked for. A normal banking relationship exists with all 3 000 clients, but some are more difficult than others. We are merely pointing out that, of the 3 000, it is the end of the road for 16.

Mr D.S. BAKER: How many rural clients has the bank written to informing them that it will no longer cash their cheques?

Mr Johnson: We may write to a client saying that if they fail to keep within their arrangement their cheques will be dishonoured. It is a requirement of the bank that arrangements be clearly agreed to by the parties. I do not have the number of people to whom we have written in the past three months, but it would be small. It does not follow that because cheques are not being honoured and because there is a signed arrangement that the farmer is by definition 'in difficulties'. It could mean that, but that does not necessarily follow. There could be a seasonal factor causing a delay in payments or interest could be charged in such a way that it puts an excess on the account, but it does not follow that a letter from the bank indicates that the farmer is in such difficulty that it will result in the farm having to be put into recovery mode by the bank. As the bank deals with small and medium-sized businesses, it adopts a sensible approach to dealing with farmers on a customer by customer basis. We know the difficulties and we know that viability is crucial in the long term.

Mr HOLLOWAY: What assumptions has GAMD made in its projections as far as the future price of property is concerned? Obviously, the returns that GAMD receives will depend on the price it gets for property given that it has a high exposure to the commercial property market. I recently read a report from Bankers Trust Australia in which the comment was made that it thought that supply and demand in the commercial property market area was starting to come into balance following the massive over construction of property in the 1980s. It also observed that the price of commercial properties such as shopping centres was increasing. If it is true that the property market is on the turn and is likely to recover quickly, what effect will that have on GAMD projections?

The Hon. Frank Blevins: If the property market in any of these areas comes good—and there are some signs of that, as has been pointed out by the member for Mitchell—GAMD's financial position will be that much better. We hope that these predictions prove correct.

Mr Ruse: What the Treasurer says is correct. By and large, we projected on the basis of what we can get for our assets in the current market place, with a few exceptions where it is clear that management of an asset will enhance its value above what it could possibly be sold for. The Myer Centre is a prime example of that. If property values increase, we expect to recover 64 per cent of the book debt of assets. If we can improve on that, it will mean that we can return more to the Government.

It is probably worth noting that we have recovered 67 per cent of the book value of assets since July 1991; that compares with the expected 60 per cent return that we provisioned at the beginning. Both those levels of return are around 60 to 67 per cent, compared with what we understand to be the recovery of the Tricot portfolio of around a third. So, those comparisons are reasonably favourable.

Mr HOLLOWAY: How many of your accounts go into liquidation? If you put a sizeable number in there, how do you ensure that you have a reasonable recovery rate? I read recently that a committee of the British Parliament was set up to look at what had happened with the liquidation of the Robert Maxwell companies, which involved pension funds. The committee was extremely critical of the amount that liquidators squeezed out of those assets at the expense of the pensioners. Do you have a problem here and, if so, how do you deal with it?

Mr Ruse: I understand the question to relate essentially to the fees that liquidators extract from assets in the process of liquidation. Obviously, in GAMD we deal with a range of assets, some of which require liquidation, receiver management and working out. Each asset requires individual treatment. We try as much as possible to work with the client so that we avoid having to appoint receiver/managers or liquidators. But to the extent we do have to appoint them, we have processes in place to negotiate as fine a price as possible to do that.

Of course, in some instances we are part of a banking syndicate; we do not have total control over the fees involved in a liquidator or receiver/manager process, because we are just one bank in a number of banks, and the banking syndicate has to appoint them. We do have processes in place. Sometimes it is a mortgagee-in-possession approach rather than a liquidator. It is more cost-effective to liquidate assets by appointing an agent for the mortgagee-in-possession.

Mr HOLLOWAY: On page 23 of your report you make the observation that there are over 250 accounts which GAMD carries on its balance sheets at no value but which have the potential to yield tens of millions of dollars for GAMD after the legal recovery or negotiating processes have been completed. Is that legal recovery done in-house? How do you decide how much effort will go into the recovery process?

The Hon. Frank Blevins: Mr Robert Martin, who is the Treasurer's representative and the chief counsel for GAMD, will respond to that question.

Mr Martin: When GAMD was first set up, we decided to engage senior legal counsel from the private profession to control the main part of the legal exercise. We engaged Nigel Winter, who was formerly with Finlaysons, to carry out that role under our supervision. We have also had two other in-house lawyers working internally on these accounts. To start with, we established a regime. The legal costs of running a portfolio such as this were really significant, so we established a regime with each firm of solicitors who would act for GAMD, setting out agreed fee structures and controls over who could work on each matter and a number of other controls to make sure that the whole legal exercise was well controlled.

The 250 accounts that are mentioned in this review have not been taken into account in working out what value might come from them in the future. However, they do involve really significant claims against liquidators and companies, auditors, legal practitioners and guarantors in what is called the salvage ledger. We hope that that will produce a significant amount for the benefit of the State, and the indications are that that will be so, although we do not put any value on it whatsoever. Some of these are managed in-house in a collection sort of way, and others are briefed out to legal firms in each State, subject to being controlled by our own legal officers.

Mr BECKER: Off-shore lending was reduced in the State Bank from 19 to 12.9 per cent; when will we quit these markets?

The Hon. Frank Blevins: Mr Johnson has those dates.

Mr Johnson: We set a plan to exit the non-core assets of the bank, which include our off-shore business and the lending side in New York and London. The plan was to identify those assets that over time through prior arrangements would mature in the period up to and including 1996. We believe that we have established a good track record of downsizing and then exiting these off-shore lending assets, both in London and New York. We have estimates on how the book will appear with regard to both those centres in the next year. The question is whether we have a final date with respect to when we will not have any lending assets in either centre. I would say that we are pretty close to exiting both centres by between 1996 and 1998.

There is a pretty active market off-shore involving people who look at a bank that they think may be lacking support from its shareholders. Like proverbial vultures, they move in, and they call themselves the vulture funds. We have had lots of interesting offers, such as, 'You don't want to be in London or New York any more; why don't we take these assets off your hands at a savage discount?' In response, we have told them politely, 'We are not particularly interested, because we feel we have worked out a strategy for each loan.' Some of the off-shore loans are in GAMD management, and they are being well dealt with. We will exit as planned on a provisioned amount that we expect on average at the value GAMD has them in its accounts. With respect to the new bank, as I have said, we still have a residual number of properly managed assets in London and New York that we will exit as planned with no losses on average. We feel this is the way we should continue to successfully exit these off-shore areas.

Mr BECKER: Given that the overseas activities of the bank continue, how many bank employees travelled overseas first class last financial year, and what was the total cost of fares and accommodation?

The Hon. Frank Blevins: I will ask Mr Johnson to respond.

Mr Johnson: State Bank travel policy is that nobody from the bank's employment travels first class going offshore. They travel business class by arrangement with the bank. We continue to audit and credit inspect our offshore operations, so some of the visits are undertaken for the specific purpose to ensure that our assets are as spelt out. We can certainly provide the exact number, but it is well within the plan and budget for the bank and well within the prudent oversight of the offshore operations.

Mr BECKER: I appreciate the answer to that question. I have no objection to anyone travelling overseas to audit these overseas accounts. That should be done. I was just curious as to how many went overseas and what was the total cost. Referring to the GAMD bank, what was the value of the exposure to the Minderrie Keys project?

The Hon. Frank Blevins: $42 million.

Mr BECKER: What was the sale price of the Pier Hotel and Casino in Cairns, and what was the exposure left there to the bank in recoveries?

The Hon. Frank Blevins: It has not been sold. There has been a reconstruction of the financing of that asset. Mr Martin will enlarge upon that.

Mr Martin: We should be aware that this is the subject of an ongoing banking relationship and there is some sensitivity about these figures. There was a reconstruction done on this account. There is an ongoing banking relationship with the people who took over the responsibility for servicing some of the moneys owing here. I am sure that information could be provided privately, probably by way of preference if that is sufficient for the honourable member.

Mr QUIRKE: What is the GAMD policy towards compromising and settlement of legal claims against individual guarantors and debtors?

The Hon. Frank Blevins: We are fortunate, as I mentioned, that my representative on the GAMD board is also the chief counsel for GAMD. I know that GAMD does act in a very sensitive way, certainly with full knowledge of all the legal ramifications of everything we do. As I stated earlier, Mr Martin is my representative and the chief counsel of GAMD, and I would ask him to enlarge upon my response.

Mr Martin: This of course is one of the most sensitive areas, dealing with individuals who owe money by way of guarantees and compromising their debts with them. What we do is try to endeavour to act consistently with what we think is the philosophy and will of Parliament expressed in the bankruptcy laws, not only with a view to rehabilitating people and giving them an opportunity to get themselves back into a good economic condition so they can operate in the future, but the bankruptcy laws also require the acceptance of some responsibility by people who undertook speculation for gain to be brought to account for those endeavours. As members would be aware, the bankruptcy laws contain penal provisions that stop people who have incurred significant debts at the expense of the public from being able to continue in office in the future.

What we do is try to balance all of those factors, together with the desire to obtain the maximum economic return from each exposure for the benefit of the State. As part of doing that, we look at each individual's circumstances, their ability to pay, their willingness to pay, their conduct in the handling of the matter, and what they are prepared to do. We do not wish unnecessarily to destroy their prospects of being able to carry on future business. We hope to achieve that our expectations for their paying are not unrealistic. We need to examine the interests of other creditors and see what claims they have, how these people are dealing with their other creditors, and how their overall financial position is. As I have said, we need to balance all those factors against maximising the economic recovery to the State. It would be easier if there were a slide rule that could give us the right answer in every case, but there is not, so we do the best we can balancing all those factors and using the judgment of our advisers and of the GAMD board.

Mr QUIRKE: What is the State Bank's share of various markets in South Australia?

The Hon. Frank Blevins: It is high and we expect it to get higher. Obviously one of the principal objectives of the bank is to maintain the bank's dominance in housing and personal finance, and to capture the dominant share of small business deposits. In housing loan approvals, the State Bank averaged a 37.4 per cent market share in 1992-93, which is very large. It is not resting on its laurels: it is looking to increase that share in 1993-94. Home loan approvals of $1.25 billion in 1992-93 are expected to be matched in 1993-94, increasing the State Bank's market share and consolidating its position as market leader.

In personal loan approvals, the State Bank had a 19.1 per cent market share at June 1993 and plans to increase this in 1993-94. Personal loans amounted to $169 million in 1992-93, which is expected to increase significantly in 1993-94, with strong growth in revolving credit, and in commercial and small business loans, the State Bank has a market share of 26 per cent as at June 1993, with plans to maintain this market share over the next year. Obviously the State Bank's objective is to position itself as the bank for small and medium businesses. In deposits, the State Bank held 25.1 per cent at June 1993 of this State's deposits in banks and plans to increase this during 1993-94.

So despite the problems that the old bank had, there has been a tremendous customer loyalty to the bank, I think recognising that 99.9 per cent of the bank's management and employees had absolutely nothing whatsoever to do with the financial problems that the old bank got into; because that was a handful of people who went off the rails to say the least. The overwhelming majority of the management and employees conducted the business of banking and servicing the financial needs of businesses and individuals in this State very well indeed, and I think that is quite a remarkable market share.

I understand that by one calculation, about 40 per cent of households in South Australia have dealings with the State Bank, so it really is a South Australian institution. You would have to congratulate the staff for maintaining and increasing market share in what has been a rather torrid time for them. They have done remarkably well and I can only compliment them and compliment the people of the South Australia for their loyalty to the bank in recognition of the service that they receive.

Mr QUIRKE: What is the State Bank's assessment of the next few years in respect to things like the Cooperative Building Society and a number of other organisations in South Australia getting into the housing market in particular? Is the State Bank confident that the current share that it has (which we heard a moment ago is 37.4 per cent) of household mortgages will be maintained in the light of these changes?

The Hon. Frank Blevins: We welcome competition. A large number of banks and financial institutions operate in this State, all competing vigorously, already in the housing market. Of course, the Co-op is a significant competitor as an overall operation, as an overall financial institution. I think it is only about a tenth of the size of the State Bank, but nevertheless it is significant in the housing market and it has a very good product. Without wanting to get into any difficulties with anybody, I believe its product is a different one than we supply: ours is cheaper, but it is probable that we need a greater level of security for supplying that cheaper loan. But we are happy to take on all comers and we believe that with our branch network, our customer base, our expertise and our volume we can meet the competition and beat it fair and square. It is our objective over the next few years to increase what is already a very, very large share of the market in all the areas where we operate.

Mr S.J. BAKER: How many performing loans currently exist within the Group Asset Management Division within the bad bank? The reason I ask this question is that there is some concern amongst some businesses in Adelaide that they are performing; they believe that they should be in a financial institution but believe they are being held back. Of course, with the separation that is envisaged of the good and the bad banks into two separate corporate entities their capacity to gain finance from another source is very limited, if they are stuck within the Group Asset Management Division. So my question is: how many of the businesses within the GAMD are actually meeting their interest and repayments?

The Hon. Frank Blevins: I will get that information for the Deputy Leader.

Mr S.J. BAKER: My next question relates to the income tax expense. According to the State Bank report, the income tax expense was $21 million, but $54 million is being paid over this year into Treasury. Can I have some reconciliation of those figures?

The Hon. Frank Blevins: Mr Anastasiades will have the figures at his fingertips.

Mr Anastasiades: The bank had an income tax expense of $21 million in the financial year compared with $3.9 million in 1991-92. This includes abnormal charges of $11.8 million, writing down the balance of the net future income tax benefit resulting from a reduction of the current rate of income tax from 39 to 33 per cent. Let me explain that in more detail. In our future income tax benefit we have put aside an asset on our balance sheet which was calculated on the basis of 39 per cent over income. As a result of the taxation rate dropping from 39 to 33 per cent the value of that future income tax benefit has reduced. So the first adjustment that was made to the taxation was reducing the value of the future income tax benefit straight out of the current year taxation. That cost us $11.8 million.

The bank's income tax expense before the abnormal charges represents an effective rate of 9.3. The rate is very low and represents the utilisation of tax losses that were written off in prior years. The write-off was included as a tax expense in prior years. So, again, we have spent the money in tax in the prior years, we made the losses and now we are bringing it back into account. Therefore, there is a reduction of our income tax expense. The amount of income tax paid differs from the income tax expense because certain expenses, such as provision for doubtful debts, annual leave, long service leave, are not allowable as deductions for income tax purposes until the amount is actually paid. So what we are saying is that we have an accounting income tax but the amount payable, in effect, is different from what we have there. We have $54 million tax to be paid to the State of South Australia and $3.4 million to be paid in other jurisdictions. So there is a complete reconciliation in the annual accounts, which I can provide to you at any stage. It is very difficult for me to go through it right now.

Mr S.J. BAKER: I appreciate that. I have some difficulty with the way that is accounted for and I will have to think about it, but I appreciate the explanation. Have any offers been made for the purchase of the bank, either to the bank itself or to the Treasurer?

The Hon. Frank Blevins: No offers would be made to the bank—they are not the shareholders. They are employees in one form or another. They have no authority to sell the bank. But as regards the Treasurer, the answer is 'No'.

Mr S.J. BAKER: What was the effect of the land tax write-down on Myer-Remm? To be more explicit: the Group Asset Management Division is carrying that property on the books at $205 million. The Valuer-General has put a figure of $100 million on it. What is the land tax saving from that write-down?

The Hon. Frank Blevins: Whatever land tax is due under the Act is paid. Whatever the obligation is under the Act is paid, obviously.

Mr S.J. BAKER: I refer to page 25, which states:

> The agreement with State Bank specifies certain quarterly reductions in the maximum level of borrowings from Global Treasury. This limit covers borrowings in all currencies and was reduced from $3 430 million at the start of the year to $2 365 million at 30 June 1993.

At 30 June 1993 we had only $1.89 million in net assets. What is the reconciliation between the two figures?

The Hon. Frank Blevins: Mr Anastasiades will respond to that.

Mr Anastasiades: In addition to the assets that we transferred at 1 July 1992 there was receivable the indemnity of the $450 million, for which GAMD was the payer. Therefore, in addition to the assets, they owed us the indemnity of the previous year, which brought the figure closer to $3.4 billion or $3.5 billion. That was the difference. That indemnity was paid in the current financial year.

Mr S.J. BAKER: I was not referring to 30 June 1992: I was referring to 30 June 1993. The net asset figure under the control of GAMD was $1.9 billion, yet the loans outstanding from the Treasury were some $2.3 billion.

The Hon. Frank Blevins: Mr Ruse will enlarge upon that.

Mr Ruse: The difference between the outstanding amount of $1.9 billion and the figure of $2.365 billion is the fact that the later number is the maximum size of the facility, but it had not been drawn down to that extent. We had a facility agreement in place that indicated the maximum amount of borrowings that we could have from Global Treasury to fund our assets and that was $2.365 billion at the end of June 1993, but in fact we had used only $1.9 billion.

Mr S.J. BAKER: My last question relates to the State Bank asset quality (page 4 of 10 of the appendix). I refer to the total non-performing and other doubtful loans. for which, the previous year, the figure was $172.3 million and for the current year it is $220.5 million. That is an increase of some $48 million in non-performing and doubtful loans. Can the Treasurer explain the reason for this deterioration?

The Hon. Frank Blevins: It is easy to explain and Mr Johnson will do so.

Mr Johnson: The principal difference is due to the area of loans subject to provisioning with loss of principal off shore. We have continued to review our core bank or ongoing bank operations off shore and not all of the loans in London and New York were transferred into GAMD. Over the past year two loans were sold into GAMD at a written down value and nine customers sold back into the bank at the ongoing viable exposure, and so on. So, the bank accepted those transfers.

However, through the past year—and in fact we spelt out a bit of this in the half year interim report—we had about three core bank loans involving difficulties and two of those were in the US. We have kept them in the bank but they account for the significant difference between the two figures. You have spelt out a difference of close to $40 million.

With the figure going from $148 million to $198 million, the question is whether that shows a deterioration in the bank's ongoing assets. We have a figure at the end of August of about $189 million, so it has actually come back a bit since the end of year accounts. There is still in CARAM, as we spelt out before, a number of smaller businesses. Not all the non-performing loans were transferred into GAMD more than a year ago now. Many of the bank's smaller accounts are being managed, as with any bank, as an ongoing part of the bank's business. Some of them are being worked through by the specialists in the CARAM area of the core bank. However, we are satisfied that there is no underlying trend of significant deterioration in the accounts.

We are concerned about small business and middle-size business, where economic difficulty and borrowings, etc., are still an issue, but overall we are pleased that we are managing both off shore and on shore in a way that does not look like we are (a) under provided; (b) not managing the way we should; and (c) I think the exposure is quite within the bounds.

Mr S.J. BAKER: On what date was KPMG appointed as auditors for GAMD?

The Hon. Frank Blevins: From memory, I think it was September of last year.

Mr Ruse: The situation technically is that the Auditor-General is the auditor of GAMD by statute and he has appointed KPMG as his contractor to assist him in the audit, but the Auditor-General will sign off on our accounts.

Additional Departmental Advisers:

Mr S. Scammell, General Manager, Finance, State Government Insurance Commission.

Mr M. Jones, Managing Director.

Mr S.J. BAKER: Page 20 of the SGIC annual report shows a loss of $41.8 million before tax. There is a further explanation in the report about Hurricane Andrew contributing $42 million and financial risk, $12 million, to the loss. What is the actual nature of the financial risk loss? I would also like to know, given that Hurricane Andrew was a reinsurance exposure, exactly what reinsurance exposures you have at this time.

The Hon. Frank Blevins: I will ask Mr Jones to enlarge on that, but there is no question that Hurricane Andrew was one of the most disastrous things to hit the insurance market in the past few years.

To give the Committee some indication of the size of the disaster, it was about 10 times the size of the financial disaster of the *Exxon Valdez*. It was the equivalent of 10 disasters of that size, so it is huge. I was interested to read in the paper today that the Government Insurance Office in New South Wales has been heavily hit, harder than we were, by Hurricane Andrew. In fact, there are insurance companies and financial institutions all around the world that still talk about Hurricane Andrew today. It really was a disaster, not only for the people concerned but also for the insurance industry. It has made the market shrink because people no longer write that kind of insurance, including us. We no longer write that kind of insurance—it is out of our league. I believe it was always out of our league and we should not have been in it, but nevertheless we were, as was the GIO and many other insurance companies around Australia. When they have all run out, it will remove a large area of very high exposure. SGIC will no longer be part of that market.

Mr Jones: Our ongoing reinsurance exposure has been winding down over the past year. We terminated all contracts at 31 December 1992, but there is a run-off period with those contracts depending on the renewal date. A contract with a renewal date in November last year would conclude in November this year. From our analysis of the position, about 80 per cent of contracts are now off risk at this time.

Mr S.J. BAKER: I also asked about the financial risk of $12 million.

Mr Jones: We have created provisions in respect of the financial risk, and we cannot confirm any losses at this time. There is a certain expectation of asset coverage over the obligations to lenders which may come out of the securitisation program. Where the asset coverage has been reduced, we can bring that asset coverage back up to what we believe is an appropriate level. We reviewed all our contracts, and we identified this amount of $12 million in contracts entered into prior to 1990.

Mr S.J. BAKER: You do have some residual, and it is now 20 per cent. There have been some other significant events in America and other places post Hurricane Andrew, and during July there were major storms across America and there are still ongoing problems with floods in America. Have we any exposures in those areas, or is there some residual in those areas now?

The Hon. Frank Blevins: As I said in the House a couple of weeks ago, we have no exposure to the floods that occurred earlier this year in the US or as regards anything that has hit since the floods.

Mr Jones: The general position with flood prone areas is that we typically do not insure in those areas in any event, so we normally would not have a risk in relation to flooding—it is an exclusion. With some of the other storms, our insurance covered mainly property damage, so it had to be something akin to Hurricane Andrew before we were exposed. SGIC did not provide liability coverage, so it was not affected by claims associated with loss of life. Similarly, the floods do not typically affect SGIC. At this time we have not identified any experience with the storms in the US or the UK that have any impact on SGIC.

Mr S.J. BAKER: I am always fascinated by the treatment of income tax losses in the accounts and the extent to which a Government agency brings those losses to account. Whilst it is true that the corporate sector can trade off its losses in future years, the same does not apply with statutory authorities until they become even more corporate in their exposures and perhaps become part of the market place. So, can the Committee be informed as to why we should write down the $41 million in losses by the sum of income tax attributable to the loss of some $19.272 million?

The Hon. Frank Blevins: The short answer is: why not?

Mr Jones: The primary reason is that SGIC is assessed as a listed public company as far as income tax goes, and it is subject to the provisions of the Income Tax (Assessment) Act, but the equivalent amount is paid to the State. Part of the reason for including that future income tax benefit is that SGIC is paying $5 million worth of tax to the State in respect of our profits, because most of the losses arise out of unrealised losses. An example is the write down of the Terrace. That is non-deductible so, even though it is reflected in losses, if you take that amount out of our performance that is what we would pay tax on. In the reverse situation, when a property is sold or a loss is realised and it is not in that financial year you would similarly have an amount of deduction. If you do not adopt this approach, it is very confusing and not comparable with the public sector.

Mr QUIRKE: What is the current status of the Terrace Hotel with respect to SGIC? Is it now paying back some of the funds that were expended on the refurbishment of the hotel and which led to it becoming part of SGIC?

The Hon. Frank Blevins: One of the problems with the Terrace, and it has this in common with all other hotels, is that we still have a recessed economy. However, as much as you can get figures and believe other people's figures, the Terrace Hotel seems to be doing better for its class than comparable hotels, certainly in Adelaide and possibly around the country. It is still doing well in a very depressed market; there is no question about that. There has been a further write down of the value of the Terrace, which is unfortunate, but nevertheless it reflects what the value is and what the market would be prepared to pay should the property change hands. We now have—and I do not know whether this is the correct term—rebadged the hotel. If that is not the term, I am sure everybody understands what I mean.

We believe that the group that is now associated with the hotel is marketing it. There has been a significant improvement in the marketing of the hotel since the group took over responsibility in that area, but I do not pretend that I would rather have nothing to do with the Terrace except enjoy its excellent facilities, which I do from time to time. That is as much as I would like to be associated with it, so I am not pretending that it is a jewel in the crown of SGIC. Mr Jones might have a further comment on that.

Mr Jones: The only comment I would make is that last financial year the hospitality market in South Australia was down by some $3 million compared with the previous year. The Terrace returned a level of revenue similar to that of the year before. In a lesser market it shows that it did improve. Unfortunately, tourism is a problem, and as a country it is something that we have to focus on.

Mr QUIRKE: Is it running at a loss or not?

Mr Jones: Yes, it ran at a loss of just under $1 million last year.

Mr QUIRKE: Is that the figure for 1993?

Mr Jones: That is in round terms.

Mr QUIRKE: When you say it is in round terms, I gather that it is fairly close.

Mr Jones: Within $100 000 of that.

Mr QUIRKE: What are the projected figures for this year?

Mr Jones: A profit of approximately $1 million.

Mr QUIRKE: Do you think the two will counter-balance each other out?

Mr Jones: Yes.

Mr QUIRKE: As I understand it, the payroll for the Terrace Hotel is now, and has been for some time, under Bouvet Pty Ltd and that the Intercontinental management agreement is simply that—a marketing and management agreement for the hotel. Everything else is conducted by Bouvet and the Bouvet board, which is a wholly-owned subsidiary of SGIC.

Mr Jones: I believe that is correct.

Mr QUIRKE: When you were talking about re-insurance you said that the market is really too big for the likes of SGIC, GIO and other companies you mentioned. My concept of insurance is that one should lay off significant amounts into a number of different fields otherwise, if there is some sort of major catastrophe in South Australia, it is very hard for the organisation to handle that. Is it the case that SGIC and smaller insurance companies around Australia have reached a stage where it is very difficult for them to get involved in re-insurance because of the loss potential, whereby if there is a major problem here in Australia their exposure would be far too great? In other words, will there be a problem for companies the size of SGIC in the future?

The Hon. Frank Blevins: I do not believe there is a problem if the company is aware of the segment of the market it is in. If a company wants to play with the big boys, it ought to make sure it has large resources behind it. SGIC is not in that position and never has been. SGIC is a very good local insurer with a very good share of the market, and it has a high reputation. All of SGIC's core businesses—and I am going from memory—are profitable. However, SGIC has no experience in running hotels and, in my view, should not be in that business. If it feels like having an association with hotels, I believe it would be better to buy shares in public companies that run hotels. In my view, that is the appropriate way to go.

In relation to obtaining a larger slice of some of these big insurance risks overseas, I suppose it is fair enough if you are aware of what you are getting into. If you want to be involved in that area, you should take only a very thin slice so that you have a limit which will not send you broke. I do not know whether you can have a very thin slice of something like Hurricane Andrew, or whether it is even worth bothering with. My guess is that, if you are in these things, they come in certain sized lumps and you have part of a lump or you are not in the business. SGIC is just not large enough for that. I do not know about GIO in New South Wales. It has been hit far worse than we have. I do not know the size of that business—maybe it can stand it. If it can stand it, this business can be quite profitable, provided there are no Hurricane Andrews. It really is a business decision. All businesses have to take account of their size and expertise and fight in their own weight division rather than in a class above them.

Mr S.J. BAKER: My question relates to a comment on page 449 of the Auditor-General's Report in relation to a former Director, Mr Vin Kean and the status and balance of his loans. Mr Kean paid off $13.89 million in 1991-92, but only $250 000 in the past financial year. What is the status of that loan?

The Hon. Frank Blevins: I am really not that keen on discussing an individual's business with SGIC, but it has been raised publicly. My understanding is that they are all performing loans and that there is no problem with them. There is no problem with the loans as far as we are concerned. Mr Kean is paying off his obligations and always has, and as far as we know he always will.

Mr S.J. BAKER: My next question relates to the valuation of SGIC in terms of reserves, and I refer to page 21 of the SGIC report. When we are talking about reserves, particularly with respect to life, to what extent are these included in the net worth of the business? I took some note of the figures provided in the financial statement on the net worth of the asset listing of SGIC. It shows that between 30 June 1992 and 30 June 1993 SGIC's net assets fell from $68 million to $29 million. This does not compute with the figures that we are looking at there.

Mr de Gennaro: The table in the financial statements on page 7.9 shows that the net assets of SGIC counted for that table at June 1992 were $68 million, falling to $29 million by 30 June 1993. Treasury compiled that table and excluded from SGIC's net assets the future income tax benefit assets that SGIC carries on its balance sheet, which relate to a benefit against State equivalent income tax. Treasury believed that it would not be sensible to include under net assets in that table the assets held by SGIC against State income tax. So, that table reflects the reduction in net assets for the FITB being excluded. A detailed reconciliation can be provided to the Committee to show how the figures of $68 million and $29 million were compiled. I undertake to provide that in the next day or so.

Mr S.J. BAKER: I would appreciate that. Is the $29 million, therefore, a reasonable reflection of the net worth of SGIC at this stage?

Mr de Gennaro: In terms of State ownership, yes.

Mr S.J. BAKER: I refer to pages 21 and 36 of the SGIC report. There appears to have been an increase in the number of debtors as at 30 June 1993. Why has this occurred?

The Hon. Frank Blevins: The recession. Mr Jones may wish to enlarge on that.

Mr Jones: There is a settlement period of seven days between the sale of an investment and when you get the proceeds. People with a share transaction have seven days in which to settle. Anything that we buy can be recorded as an investment; anything we sell will disappear from investments and become receivables for seven days and then they come back in. Most of that is due to the sale of independent holdings, as at 30 June.

Mr HOLLOWAY: It is stated on page 14 that Bouvet returned a trading loss of $.7 million in the past year, yet on page 44 of the balance sheet its contribution to the consolidated profits of SGIC is listed as $5.86 million. Could I have an explanation of those figures?

Mr Jones: The reference to $.7 million means that I was actually $300 000 out in my estimation before of the trading loss for the year: it is actually $.7 million. The difference between that figure and $5.6 million is the write-down on the property. There are some other reconciling items contained in that figure, but it is mostly comprised of the write down.

Mr HOLLOWAY: What effect will the non-availability of reinsurance have generally on the premiums of SGIC, particularly in the household market? I gather that not only is SGIC getting out of the business but all around the world there are problems with obtaining reinsurance. What effect will that have on premiums and how will that affect SGIC in the marketplace?

Mr Jones: SGIC's getting out of inwards reinsurance will not have a direct effect on its capacity to reinsure outwards our risk, which is typically our household products. It may impact on pricing the cost of that reinsurance. The capacity of the market is down. For instance, Lloyds' capacity is down by some 25 per cent, so the ability for us to reinsure, the price of that product, is now more costly. We have placed coverage at virtually the same level as in the previous year but with a fairly substantial increase in cost. While costs have increased by almost 50 per cent we have been able to absorb most of those costs, and the product increase that will flow on will be approximately 10 per cent.

Mr HOLLOWAY: What is SGIC's position within the local marketplace as far as household insurance is concerned? Has it held its market share in recent years?

Mr Jones: SGIC's market share is approximately the same. There has been a slight fall in the household portfolio; the motor portfolio has slightly increased. The health portfolio is down and is pretty much consistent with the reduction in the health insurance market generally. In life insurance we have actually performed ahead of the market, so it has gone very well. Business insurance has picked up a number of risks also.

Mr HOLLOWAY: Is the household market becoming more competitive and is the GIO, following its privatisation and extension into Western Australia, making any move into the South Australian market?

The Hon. Frank Blevins: As with the State Bank, we welcome all competition. The SGIC has a tremendous reputation for service in this State. I suppose most people in the Committee would have dealings with SGIC and would appreciate the service that is given. It is, of course, an open market and GIO or anyone else are welcome to come in and chance their arm and see whether they can make a go of it.

Whilst I do not wish them any ill, I think they will find the SGIC to be a formidable competitor. The SGIC will compete not only on price but also and most particularly on service. I have no fears whatsoever for any substantial change other than upwards in market share. On a month-by-month basis market share fluctuates a bit, as it does in the banking field, but overall I can only see competition from the GIO or anyone else actually strengthening the SGIC, and I have no reason to believe otherwise.

Mr S.J. BAKER: I refer to the entities on page 28 of the report. Substantial losses seem to have been made in a number of areas. The general insurance area shows a $55.9 million loss-that has already been explained. Health is barely making a profit. Other industries are better than last year but have still made a loss of $2 million. The surplus on eliminations has decreased dramatically, so we finish up with a figure for the year of $41.8 million.

One matter that concerns me about the figures is that there does not seem to be a strong income profile that will assist SGIC in future years. For example, regarding the CTP fund I note that a profit will be made this year of $729 000. My question relates specifically to the CTP fund. There appears to have been a dramatic increase in claims paid out this year. Is there a particular reason for this?

The Hon. Frank Blevins: I am not sure. I will take advice on the number of claims paid out. I would not have thought that it would vary too much, but there is no doubt that a fund as small as the CTP fund can be seriously affected by very high awards for damages. It is a fact that medical technology has enabled people to live much longer, after a road accident, for example, than they used to. So, it appears that more paraplegics, quadriplegics and brain-damaged people will have to be supported for the rest of their life. In some cases we are looking at awarding damages of many millions of dollars. If you get a few of those in any one year, there is no doubt it make can make a significant difference.

The CTP system that we have in South Australia ought to be the envy of the rest of Australia, if not the world. It is a very good system, which I would not like to see changed. In New South Wales, for example, where for ideological reasons they changed their system—and it is their right to do so—the marketplace has occasionally thrown up some cheap premiums. They appear to be cheap at a first glance, but when you have a look at them in depth you see that there are many exclusions. For example, there is a threshold on pain and suffering of $16 000 or something like that. It is a quite significant threshold, where none such applies here. So, you may be able to get $10 off your premium but you are certainly getting a lot more than that off the quality of the product.

Mr S.J. BAKER: Page 24 of the SGIC Annual Report indicates under CTP current liabilities that outstanding claims amounted to $185.1 million, compared to $173.4 million for the previous year.

Mr Jones: That is the current portion of the outstanding liabilities, not the claims paid. What we have been trying to do is shorten the period of time in which we settle claims. Further down, there are details of outstanding claims in the non-current liabilities section. That has reduced by some $36 million and the current portion has increased by $12 million. So there is a net reduction of $24 million. That really reflects our trying to shorten the period in which claims are settled. At page 7 of the annual report, the total claims payments graph indicates that in 1992 there was a peak of $201 million, and that moved to $185 million 1993. The $201 million figure is where most of the acceleration has occurred, and that is now tapering down.

Mr S.J. BAKER: Can the Treasurer explain why the amount received in CTP premiums has reduced?

The Hon. Frank Blevins: The CTP premiums are set by the committee. It is not a committee over which I have any control. It sets the premiums as it sees fit, and that is how it should be.

Mr Jones: Two factors are involved: people have shortened the period over which they now insure vehicles. Whereas typically people used to always have 12 months, that has shortened up. Secondly, rather than there being a normal increase in the number of vehicles registered, that has reduced as well. The indication seems to be that some people are just leaving cars off the road and not registering them for a period.

Mr S.J. BAKER: Or driving them unregistered.

Mr Jones: I am also on the Road Safety Advisory Council, and I understand that that incidence has increased. The only way you can quantify that depends on whether the police identify it and a number of people get apprehended that way.

Mr S.J. BAKER: Page 44 of the report deals with Bouvet Pty Ltd and the $5 862 000 which will not go to consolidated profit this year. In relation to the status of SGIC hospitals, I was of the belief that SGIC was, when the time was appropriate, going to quit its hospitals, because it was not believed to be core business. I might have misinterpreted previous statements. I do note that SGIC Hospitals Pty Ltd is returning a modest profit of $227 000 and Darwin Private Hospital, $458 000. What is the status of the hospitals?

The Hon. Frank Blevins: Obviously the hospitals are still in our ownership. However, if somebody came along and made the right offer we would certainly consider that. They are still with us; they are making a modest profit, but we are open to offers.

Mr S.J. BAKER: On page 45 of the report a number of companies are listed in which the SGIC has investments, and some of them, for example, the Stock Exchange and others are unlisted. The following companies experienced a loss: Bennett & Fisher, $466 000; Sabco, $2 075 000; Austereo Limited, $2 090 000; Dominguez Capital Partners Trust, $2 401 000; Dominguez Mezanine Fund, $1 945 000; and Satisfac Prime Property Trust, $463 000. Looking through those investments, we see that the net figure is several million dollars loss. Did SGIC pick them all wrong? There seem to have been some more losers than winners there, and the stock market is generally doing particularly well at the moment and has been for some time. I realise that the unlisted market is different from the listed market. It appears that SGIC has made some decisions that consistently are losing money.

The Hon. Frank Blevins: Every organisation or individual who has an investment portfolio does not pick 100 per cent winners. If such an organisation or individual existed who could do that, they would very quickly own the world. So, every institution, whether it is in the private or public sector, has a few on its books that it would rather not have. That is the nature of our system. It is the same system that allows you to make a fortune that also allows you to make a mistake. That is the way it is, from the biggest investor, the biggest institution, to the smallest individual. However, on very many of our investments, the profits, both realised and on paper, have been considerable. I would ask Mr Jones to detail just some of them where we have done extraordinarily well.

Mr Jones: The unlisted market is a very difficult market currently with the recessed economy. A case in point is that, if you look at SBC Dominguez Mezanine Fund, you will notice that in 1992 it returned a profit of $6.8 million and, in 1993, a loss of $1.9 million. These represent the vagaries of the market and show also the risk discounting that is applied to certain industries and how certain industries have fluctuated over time. A similar situation applies to Austereo, which was $8 million up in 1992 and $2 million down in 1993. These reflect the performance of those companies relative to projections. They are really an assessment of that industry and the appropriate discount factors that are being applied in the market.

With the continued recession this year, most people seem to have gone out in their discount factors, so in the case of Austereo, which has maintained very good radio ratings throughout Australia and is doing very well in the market—its income is on track, albeit probably six months behind its projections—just being six months behind has increased the discount factor that is applied to its valuation and has resulted in approximately a 10 per cent reduction in value. Long term, how these will wash up is very difficult to determine. We like to be fairly conservative in our assessment of these values.

If you take a listed equity, it is far easier driven by market, and it goes up and down and you strike it based on that market. We have had some very good gains to 30 June 1993. In actual fact in the past two months there have been some excellent gains, some of which have been lost this month with the drop in the market value. We have assessed each one individually. Whilst in isolation in 1993 some of those are down (in the case of SABCO they went into receivership and have been sold off, and that is a very unfortunate situation, but they are the realities of this market; the same applies to Bennett and Fisher), Austereo is still operating well and over the two years has returned a net $6 million profit. Berrivale Orchards has come up quite well. With the SBC transactions, over the two years they have returned $2.7 million. So, years in isolation, yes, there has been a fall off this year, but if we look at it over time most have performed reasonably well of late.

Mr S.J. BAKER: I note that the life operating revenue has fallen from $162 million in 1991-92 to $139.7 million in 1992-93, a fall off of some $33 million: what is the reason for that?

The Hon. Frank Blevins: To which page is the Deputy Leader referring?

Mr S.J. BAKER: I am actually using page 46 which gives the overall coverage, but we can go to the individual page which is page 25.

The Hon. Frank Blevins: If I understand the question correctly, premiums have remained approximately the same.

Mr S.J. BAKER: Yes, but the other investment income has decreased. What is that due to?

The Hon. Frank Blevins: Fixed interest rates mainly, and interest rates coming down.

Mr S.J. BAKER: Returning to the table we were dealing with previously, talking about SGIC having a net worth of $29 million, we either have a static situation or a declining situation in almost all areas. I note that health is down, as we would expect with the Federal Government. Is the $29 million at further risk by possible losses in this financial year? In each area of operation there appear to be problems arising. Is there something that will improve the situation?

The Hon. Frank Blevins: I think the reverse is actually the case. For the past three half-year periods, the core business has produced profit. It has done very well in those three six-month periods. As the economy improves—which it is doing, although not as fast as any of us would like, but nevertheless it is improving—so the insurance business will improve. I do not think the insurance business all around Australia, and as I gathered earlier this year around the world, has been doing too well. We believe that the core business of the SGIC is a good and profitable business. It supplies a service to the people of this State that I believe is very worthwhile.

It is an industry that I believe requires a public presence there to give a window into the industry. I do not think that that public good is so much that you pay a fortune for it. The window into the industry also supplying a service and making modest profits is as ambitious as I would be for the SGIC. At that level it serves a very useful purpose, depending on Australia's economy, which depends again on certain parts of the world economy. I believe that the prospects for SGIC to move into further profit—it did make a profit in the past six months—are very good. As we move out of areas that we believe we ought not to have been in (I have listed them earlier this afternoon), more and more of our business will be core business and less and less will be in this somewhat riskier and more speculative area.

So I can see no reason why, over the years, the SGIC should not be a good business for the people of South Australia to hold without expecting hundreds of millions of dollars a year in profits out of it, because if that is their expectation they will be disappointed. But I do not expect it to make losses.

Mr HOLLOWAY: I note in the SGIC report a copy of the SGIC's charter, and of course that came into effect 12 months ago following a select committee of this Parliament that looked into it. As SGIC was the first public trading enterprise to have one of these charters, how has the Treasurer seen the operation of that over the first 12 months, and does he regard the existence of the charter as having achieved its objective of making the enterprise more accountable to the public?

The Hon. Frank Blevins: I think that is a very good question. I also think, to some extent, it is too early to say. As the member for Mitchell said, we have only had a very short history of the operation of the charter. Nevertheless, despite its short history, it is appearing more and more to be worth while. As the Committee would know, approvals from the Treasurer are required under the charter in relation to various matters, which include asset allocation benchmarks adopted by the SGIC in managing its investments; the SGIC acquiring more than 10 per cent of the shares of a company or units in a trust; the SGIC entering into new types of activities and transactions, either in joint ventures or with associated companies; any departures which may be necessary from accounting standards and from accounting disclosure requirements of the corporations law in relation to SGIC's annual accounts; and the adoption of CTP from performance indicators.

Eight approvals have been given under the charter during the year which related to the areas that I have just mentioned. An example of an approval given under the charter related to a new accounting policy adopted by the SGIC for its life insurance business. SGIC changed the format of reporting for the life fund in its 1992-93 annual report compared with the previous year. SGIC sought and received approval under the charter to alter its accounting policies governing the presentation of financial statements in respect of that life fund. The changes sought flowed from the recommendations contained in the report of a task force on financial reporting in October 1992, which had been commissioned by the Commonwealth Insurance and Superannuation Commission.

The adoption of these policies provides the reader of the account with information which will enable a greater understanding of the performance of and relationship between the life fund and SGIC itself. The effects of the changes are to require the amount of solvency reserves in the life insurance funds and the amount which can be recognised as profit attributable to SGIC. Therefore, SGIC under the approval granted is adopting appropriate accounting standards for its operations in this area of insurance.

It should also be noted that, as required under the SGIC Act, the charter was reviewed in consultation with the SGIC board but no changes were made to the charter, which is hardly surprising as it has been running for such a relatively short period. But I think it is something that will prove very worth while in this area, as the honourable member said, particularly of accountability.

Mr HOLLOWAY: My next two questions relate to page 45 of the document that the Deputy Leader referred to earlier. What is the current state of play with the investment in Bennett & Fisher Limited? It is not quite clear to me from those amounts what exactly is happening. Of course, that company is in liquidation, but there is no carrying amount listed for this year. Does that mean the shares have been disposed of, or are they just given a zero value?

The Hon. Frank Blevins: From memory, yes, I think we have written our investment in Bennett & Fisher off completely. Again, from memory, it was to the tune of something like $4 million.

That is not so. I am being vigorously corrected by the CEO. We have disposed of them—I was right there—at a loss 10 times less than I estimated. So, I am very pleased about that. It was a loss of $466 000.

Mr HOLLOWAY: Were they actually sold or just written off?

The Hon. Frank Blevins: They were sold and the amount they were carried for in 1992 was $698 000, and the loss when we sold them was $466 000.

Mr HOLLOWAY: What was the position in relation to SABCO? I gather you still have an investment in that company.

The Hon. Frank Blevins: That has been written off completely to the tune of $2 million. I would point out, again from memory, that some of these investments are residuals from the late 1980s: they are not something that the present board or management initiated. It is something that they are having to deal with from the previous board of management.

Mr S.J. BAKER: Page 49 refers to 'contingent liabilities', but I am not aware of what our exposures are in that regard and whether they will ever be called to account. Can we have an explanation for each of the four items listed there?

Mr Jones: The four dot points listed there relate to Collins Street and to the securitisation deeds between ourselves and the State Bank of South Australia. Previously they would have been similar deeds with SAFA, and it is just the manner in which the securitisation has been constructed. Do you want me to go through each one and explain why it says what it says?

Mr S.J. BAKER: Is the liability likely to be brought to account?

Mr Jones: No.

Mr S.J. BAKER: So they are placed in there as a conceivable obligation, but they will not be exercised?

Mr Jones: Essentially, because they passed through SGIC and they are different parties, you have an indemnity from a different party so you cannot offset it. So it would be a similar situation if we had $100 in one bank and owed $100 to another bank: we cannot say our net cash position is nil. We have to record both, and what we have with this is really recording that we have obligations but we have an indemnity from the State Bank in respect of those that is equal to them.

Mr S.J. BAKER: Do your most recent insurance policies now include $1 000 excesses for earthquake damage, and what was the previous excess limit?

Mr Jones: The previous excesses we had applied to any claim. There are excesses for contents and also buildings: those have not changed. I cannot tell you the precise amount, but they are in the order of $200 to $250. In addition, after negotiating our outwards re-insurance this year, concern was expressed about the experience in the Newcastle earthquake where the comment was made that essentially everybody had their house fixed. One of the means by which we could control our reinsurance cost was the introduction of a $1 000 excess in respect of earthquake in order to eliminate minor claims for damage that may not be related to an earthquake, given that it is not cost beneficial to investigate whether or not such claims are valid. So, for new business as from the beginning of August and renewals from the middle of August a $1 000 earthquake-only excess applies to policies.

Mr S.J. BAKER: I have not yet received my bill, but a number of people have telephoned me and asked what is going on, because evidently other insurance companies have not done the same thing. There is some consternation that SGIC is suggesting that the risk of earthquake has increased, which is obviously not the case. International onlookers would say that after Newcastle we have to make better provision than we have previously and price Australia higher in the market place. I presume that is the general belief.

This $1 000 excess on the account is causing concern. Without giving confidential commercial information, can the Committee be given some idea of the savings you receive from reinsurance by placing a $1 000 excess on each policy?

Mr Jones: Without giving the precise number, if we had 75 000 households insured, that would have a reduction effect of $75 million, if you take it as broad instance bottom-line protection—that is, $1 000 on each household. Logically, when you have an earthquake it will not hit all your policies; it will be only a section.

When you try to estimate how much protection you need, there is a calculation called 'maximum probable loss' (MPL). Based on your sums insured in given areas you assess the likely impact of an earthquake of, say, 5 to 6 or 6 to 7 on the Richter scale, and you get an MPL from that area. You can then assess the likely reduction of that excess. That would depend on how many householders had the potential to claim within a given radius of the shock centre of the earthquake. That is how it is struck.

One of the problems we faced in the South Australian market is that this is something new, but it is strongly recommended by reinsurers. The view is held that smaller players in the market cannot or will not implement something of this nature unless the leader implements it. SGIC is almost twice the size of the next largest household insurer in South Australia, and there was a belief that we needed to lead. It is expected that others will follow our lead.

Mr S.J. BAKER: Do you expect all property insurance companies to place a $1 000 excess on their premiums?

Mr Jones: The encouragement from the reinsurers will be that way. I think that, if insurers choose not to do it, they will pay an additional price, and that additional cost may well be reflected in the premiums. It is the same as placing an excess on a health insurance policy or any other policy. If you have no excess, typically your premium costs more.

Mr S.J. BAKER: A number of my constituents are physiotherapists and they have had considerable difficulty with SGIC over a period in relation to their claims. There has always been some difficulty in the WorkCover area, particularly in South Australia. However, I will not pursue that. I will ask about SGIC, which seems to be getting on the bandwagon. SGIC uses three possible approaches. If patients are directly billed by the physio, they pay the reduced fee, which is the fee that SGIC wishes to impose and not the APA rate, which is recognised in all other States. The second proposition is to reimburse the full APA rate if the patient has already paid for the treatment. The third option is to reimburse the patient if the physio billed them the gap; that is, if they are billed the gap, SGIC meets the gap payment. The second two options have now been cut out and paying the reduced fee seems to be the current dictate.

Kevin Tremellon took a matter before the Magistrates Court. The court found in his favour and a full APA rate payment was made on 2 September 1993. This physiotherapist—and a number of others have brought this to my attention—feel that they have been run around the block a few times. They have had delays in payments and inadequate payments, and they do not know whether they will eventually receive full payment of their fees or some figure derived by SGIC.

When the rate was declared by both WorkCover and SGIC, the SGIC rate was $1 above the WorkCover rate. So, it is a very messy area and this physiotherapist, who is one of my constituents, says that one of her patients who was injured in a car accident has an outstanding fee gap because of long-term treatment of some $392.10, and she does not know who will pay the bills.

The Hon. Frank Blevins: That was more of a grievance debate than a question.

Mr S.J. BAKER: I am just trying to satisfy where we are.

The Hon. Frank Blevins: I must admit that I know nothing about repayments to physiotherapists on behalf of people who are insured with SGIC. I do not know whether we are talking about people with health insurance or whether it is through CTP.

Mr S.J. BAKER: It is CTP.

The Hon. Frank Blevins: Well, had they come to me in the first place I am sure we could have fixed this up a long time ago. Now that it has been drawn to my attention, however belatedly, the physiotherapist should write to me with details of the case so that we can get down to the specifics and sort out the difficulty. I can assure the Deputy Leader, the Committee and the physiotherapists that we are not trying to be difficult. We will see whether we can deal with their concerns promptly.

Mr HOLLOWAY: The SGIC report states that one of its aims is to further reduce its property portfolio as appropriate opportunities arise. I think we would all support that. What is the scope of the portfolio and is it entirely within the Adelaide area?

The Hon. Frank Blevins: Mr Scammell, who knows all about this, will provide an appropriate response.

Mr Scammell: We currently have 54 properties that have a net market value of some $202 million. All the properties, apart from one—the Darwin Hospital—are held in South Australia, with 40 per cent in the city's central business district, 3 per cent in the fringe district, 24 per cent in the metropolitan district and 29 per cent in the country.

Mr HOLLOWAY: What is SGIC's role in respect of public relations and sponsorship? Is it SGIC's intention, as it has been in the past, to be involved in public relations and sponsorship?

The Hon. Frank Blevins: It certainly is, particularly in the area of road safety because this is one of the benefits of having compulsory third party structured the way it is in South Australia. I would be surprised if any other insurance company writing CTP business in Australia puts as much into road safety education as does SGIC. I think it is shortsighted of those other insurance companies not to contribute as significantly in this area. SGIC is a very corporate citizen. The road safety campaigns financed by SGIC are in the interests of not only SGIC but everybody in South Australia. The statistics of the past few years demonstrate the effectiveness of those programs, supplemented by some legislative changes.

SGIC also contributes quite considerably in areas where you could argue there is no direct benefit to SGIC. You could also argue that its motives are purely altruistic and that it just wants to demonstrate that it is a good corporate citizen of South Australia, and it does so very effectively. It contributes across a wide range of activities, including the arts, sport and so on. The Government has every intention of encouraging the board and management of SGIC to continue to make appropriate donations to various bodies.

Mr BECKER: I was very impressed to see the SGIC's activities in dealing with fraudulent claims. Will it continue to aggressively pursue fraud? Does SGIC propose to conduct a public relations campaign warning people against that type of fraud?

The Hon. Frank Blevins: Again, this is one of the benefits of having CTP constructed in the way it is in this State. It gives us an additional advantage in having all the statistics within one organisation so that trends can be discerned, patterns observed and follow up can take place. That will continue, and I thank the member for Hanson for mentioning it because in the past it has been an area of serious concern. It is still an area of concern, but we believe that some of the well-publicised cases and victories that we have had over the years have acted as a warning to people. If people believe that insurance companies are an easy mark for fraudulent claims, they are wrong. Quite properly, SGIC will pursue these people, because they are stealing not from an anonymous Government organisation but from every other policyholder in SGIC. The costs of fraud are borne by all motorists, for example, if it involves the CTP fund. Policy holders are entitled to be protected.

Mr Jones: The main thing we work on is early detection. In the past a lot of work was done on the collection of data. Everything was fragmented, which meant that, when the information was finally brought together, often it was too late to take any action. We spent quite a lot of time getting a group together that understands the issues that confront insurance companies, particularly in the CTP area. Any new claim that comes in goes through a screening process and is weighted and, if it comes up with a certain weighting, it is flagged for an initial look rather than finding out later that you have paid out on something that you should not have. We are doing a lot of work in this area, and we believe that we can do a lot more still.

Mr BECKER: SGIC has been known within Government circles as a pretty good cash cow because it generates a considerable amount of cash through insurance premiums, particularly compulsory third party. What level of borrowings does Treasury or the Government have with SGIC? The reason I ask the question is that I can well remember many years ago when SGIC first started that the Government of the day sought to obtain as much funding as possible from SGIC. This was about the time that SAFA was formed. I was told that the Government was asking SGIC for funds at a little bit less than the normal market rate. In other words, the Government of the day saw SGIC as a way of providing reasonably low cost funds. Is that still going on, or is there an entirely different arrangement today?

The Hon. Frank Blevins: Those rumours were totally unfounded. The State Government has never used SGIC as a cash cow. If that rumour was abroad, it could have been dealt with easily, because it is certainly not true. I will ask Mr Jones to comment on the present situation with respect to the Government and SGIC.

Mr Jones: We have a $60 million loan to the SGIC. In addition to that, SGIC has invested in SAFA approximately $200 million of its $800 million or $900 million in fixed interest investments. The reason why that amount is in there is that SAFA's investment rates are currently very attractive in the market and that is the rationale. We have what we term 'counter party limits' and there is a limit on the SAFA amount and with all other institutions, so there are also substantial sums with other banks and debenture providers.

Additional Departmental Adviser:

Mr Schwarz, Assistant Under Treasurer (Revenue and Economics).

Mr S.J. BAKER: Page 1 of the report of SAFA refers to an operating surplus of $386 million for 1992-93. In the explanation on the same page there is a breakdown of certain components including accounting gains for debt management of $33 million, debt redemption of $11 million, SAGASCO $16 million, SAFT $40 million, Enterprise Investments $2 million, and indemnity $5 million. That makes a total of $107 million. This leaves $279 million of the operating surplus unexplained, and based on an equity of $1.864 billion it certainly could not be interest income. Can the Committee be provided with the remainder of the breakdown of that surplus of $386 million?

The Hon. Frank Blevins: Mr Wright will outline the details of that.

Mr Wright: The other two components of the surplus are, firstly, the largest one, the income earned from the investment of the capital provided by the Government to SAFA, which stood at $1.864 billion at 30 June 1993. Those funds are invested or lent to semi-government authorities or invested in a range of fairly liquid and secure assets. The other component of the surplus is relevant in 1992-93. It will not be relevant in 1993-94, but for the year 1992-93 a figure of the order of $65 million was attributable to the guarantee fee component of interest rates charged by SAFA to State Government borrowers, which was in turn part of the surplus payable to the Consolidated Account. In effect, SAFA was acting as an agent for the Government in the collection of that fee. That process has changed from 1 July 1993.

Mr S.J. BAKER: By my calculation, $214 million has been earnt on the $1.864 billion worth of Government injection. This appears to be a reasonably high return. Has any other component been left out of it?

Mr Wright: I did not follow the detailed list that the honourable member mentioned earlier about the surplus. We could take that question on notice in relation to that gap. The investment of the capital would not earn $214 million. It would be about $160 million to $170 million. We would need to go back over those numbers that you have mentioned to isolate the figure.

The Hon. Frank Blevins: Essentially, what the Deputy Leader is asking for is a breakdown of the components of the $386 million profit for 1992-93. I will obtain those figures for the honourable member over the dinner adjournment.

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

The Hon. Frank Blevins: In relation to the break-up of the SAFA surplus of $386 million for 1992-93, $107 million of that has already been detailed, and I think it was the remaining $279 million that was giving some problems. Mr Wright mentioned two further components of the surplus, being approximately $170 million from investment by SAFA of capital provided to it by the Government and approximately $65 million attributable to a Government guarantee margin added to interest rates charged by SAFA to many public sector borrowers. The other significant component of the SAFA surplus for 1992-93 is $29 million in respect of dividend payments received from the State Bank on a capital investment of $539 million held by SAFA in the bank. The relatively small residual component of the surplus is attributable to the investment of SAFA's retained surplus from earlier years. Those amounts may not add up exactly due to rounding.

Mr S.J. BAKER: An amount of $421 million of asset equity in SATCO and Woods and Forests was transferred out. What would have been the written down value if that amount had remained on the books, and how has it been treated in other Government accounts?

Mr Schwarz: The transfer of the equity interest in Woods and Forests and SATCO occurred at the current book value in SAFA's accounts, and no additional valuation has been undertaken.

Mr S.J. BAKER: I make the observation that there was a rort in the first place to put it into the bank and convert loans to equity and now because it will affect the SAFA surplus it has been taken out. Perhaps on notice an explanation can be given of how, on the one hand, it can be included as equity capital, and on the other hand, it can be taken out without leaving any residual debt or benefit in the system. As far as I am concerned, the original proposition was rigging the system, and it seems that that continues.

The Hon. Frank Blevins: The Government has not rigged the system. Even if the Government were of a mind to rig the system, I am quite sure that the Auditor-General would notice that the system was being rigged and say something about it. If the Deputy Leader did not understand Mr Schwarz the first time, I would be happy for him to try to explain the position again for the benefit of the Committee.

Mr Schwarz: Most of the equity interest in Woods and Forest and SATCO was acquired by way of a capital contribution by the Treasurer to SAFA. So, in effect this just reverses that earlier transaction.

Mr S.J. BAKER: How are falling interest rates expected to affect earnings and debt servicing during this year and next year?

The Hon. Frank Blevins: Favourably.

Mr S.J. Baker interjecting:

The Hon. Frank Blevins: The Deputy Leader never seems to be happy. He is unhappy with short answers and he is unhappy with a little more detail; I am finding it difficult to please him. The short answer is 'favourably'. The lower the interest rate, the easier it is to service your debt. I am not quite sure without descending into waffle what more one can say in answer to that question.

Mr S.J. BAKER: I would like some numbers.

The Hon. Frank Blevins: The numbers are already in the material that is before the Committee, but if the honourable member wants to waste the time of the Committee by having them read out I am happy for that to occur.

Mr Harding: In broad terms net interest costs met from appropriations for the Deputy Premier and Treasurer 'Other Payments' are estimated to be $684.2 million for 1993-94, a decrease of $14 million or 2 per cent in nominal terms over the reported outcome for 1992-93 of $698 million.

Mr S.J. BAKER: My question was directed to the years 1993-94 and 1994-95 on both meeting debt repayments and on earnings of the fund, so I have been given one quarter of the answer.

The Hon. Frank Blevins: If the Deputy Leader wants more detail, we will supply it before the appointed time.

Mr QUIRKE: Why have SAFA's investments grown from $2 billion to $5.4 billion during 1992-93?

The Hon. Frank Blevins: There are three main reasons for the increase, as mentioned in SAFA's annual report. It is now possible under Loan Council rules for SAFA to hold on its balance sheet all debt and liquidity management assets. So, assets previously held by the South Australian Finance Trust for these purposes have been transferred to SAFA. SAFA acquired additional assets during 1992-93 as a hedge against falling interest rates. SAFA's debt management activities are discussed in detail in SAFA's annual report. SAFA's formal policy is to maintain at any given point of time a pool of liquid assets, that is to say, short dated and readily marketable assets, as a buffer against forecast liquidity requirements for the ensuing months and, consistent with the purposes of the investments as just described, the main increase in investments over 1992-93 were in respect of Commonwealth and semi-government bonds and bank bills, as indicated by note 12 to SAFA's accounts.

Mr S.J. BAKER: The Treasurer would remember the criticism by the Government Management Board of a number of practices being undertaken by SAFA, and it is pleasing to see that some of those practices have been corrected. From the report it is apparent that a very large sum of money—I think it was over $3 billion—was being used for arbitrage, with only a $20 million return. What is the current applicable figure?

The Hon. Frank Blevins: I did not take any of the comments in the Government Management Board report as being criticism—not at all. In fact, some complimentary remarks were made about SAFA, as I would have expected, being the success that it has been. Over the years, I have been generous enough to pay the appropriate compliment to the Tonkin Liberal Government, which had some responsibility for establishing SAFA. It has been tremendously successful. There is no doubt that with any organisation, when you are talking 10 or more years further on, it is appropriate to review it, and practices can be updated, modified, and so on. I did not intend and I am sure that the Government Management Board would not have intended any of those comments to be taken in any way as criticism, so I reject that comment.

In any event, the practice that the Deputy Leader commented on ceased about three years ago. That was in the report and acknowledged by the review team. Of course, there is an existing reinvestment portfolio which will run down overtime as assets mature, although, if any attractive opportunities occurred to unwind the transaction earlier, that would be considered where it was commercially favourable to do so. But it is not something in which SAFA has been engaged for a number of years. Again, if any figures become available for the honourable member, I will have the question further examined and bring back a reply.

Mr S.J. BAKER: I note on page 36 that overseas borrowings increased from $4 177 million to $6 180 million in 1992-93.

Mr Becker: Is that wise?

Mr S.J. BAKER: My colleague the member for Hanson asks, 'Is that wise?' We always have concerns about some of the operations offshore, as we have already heard about in relation to the State Bank. What are the estimated costs and savings associated with international borrowings in the current market and, on the other side of the coin, have any losses been incurred as a result of international lending operations?

The Hon. Frank Blevins: I really cannot see the difficulty in borrowing from overseas or in Australia. There is no foreign exchange exposure in this. I would have thought it was commonsense to go where the best deal was, whether that be in Switzerland or in Sydney. I would not have thought it would make any difference, provided there was no foreign exchange exposure—and we do not have any foreign exchange exposure. For many years, the Loan Council has permitted semi-government authorities to borrow overseas to help satisfy their financing needs. Every State—and the Commonwealth, indeed—does so, on an opportunistic basis, when there is a deal to be done that is more favourable than that which can be done onshore. So, I do not see why it makes a blind bit of difference where the money comes from: surely it depends on the benefit of that transaction to the taxpayers of South Australia.

Having had the pleasure earlier this year to make a very brief visit to some of our lenders, I was pleased to see the regard with which SAFA and, indeed, the South Australian Government (and more particularly, I suppose, the South Australian economy) was held in these markets. The only complaints I got from our overseas lenders is that we do not borrow enough. We were quite blatant about being opportunistic borrowers. We said that, if they offered good enough deals, we would do the deal: if they did not then we would not. There is nothing complicated, secret or threatening to the welfare of the State; in fact, it is commonsense. I will get back to the Committee with any figures that arise out of the question. That is the principle, and it is a very sound one.

Mr S.J. BAKER: I would appreciate the figures when they become available. Have we sustained any losses with our lending overseas?

The Hon. Frank Blevins: I have some difficulty with the question. Given that we are borrowing from people, how can we sustain losses?

Mr S.J. BAKER: Obviously, the Treasurer does not look at his own books: we are also lending overseas. Some of them are back-to-back arrangements. I am simply asking the question: have losses ever been sustained overseas?

The Hon. Frank Blevins: No. It does not matter; it makes no difference. It is all swapped back into Australian dollars straight away. We do not have any foreign exchange exposure at all. I am not quite sure what else I can say. I do not know why the honourable member should be disappointed: he should applaud the practice. It is very sound.

Mr S.J. BAKER: I simply asked the question, and the Treasurer has told us that no losses have been sustained overseas from any lending activities. If that is what has been explained to the Committee and is the case, then certainly I would have no difficulty—

Mr D.S. Baker: Is that what he said?

Mr S.J. BAKER: That's exactly what he said.

Mr D.S. Baker: Never been any losses overseas?

Mr S.J. BAKER: Never been any losses overseas.

The Hon. Frank Blevins: That is my advice. I am not quite sure what is supposed to be behind the question. We are borrowing. It may well be that the lenders are fearful of some losses. I would not have thought that borrowers were fearful of losses.

Mr S.J. BAKER: It is not the practice for members of the Committee to tell the Minister what is behind question: I simply ask the question. What is the status of the High Court's decision on deferred annuities? What is the total cost that has had to be paid out to the Australian Taxation Office as a result of the overturning of lease-back deals?

The Hon. Frank Blevins: The taxation issues associated with the deferred annuities issued in 1986 by SAFA are not yet resolved. The Federal Court of Australia, in respect of an annuity issued by the New South Wales Treasury Corporation to a partnership involving the ANZ Banking Group, found in favour of the ANZ in an appeal against assessment made by the Australian Taxation Office. This judgment was consistent with legal advice received by SAFA before issuing its deferred annuities in August 1986. The Commissioner has sought leave from the High Court to appeal this decision of the Federal Court. The outcome of this special leave application is not expected to be known until later this year. Until the annuities tax dispute is resolved, SAFA will continue to account for the annuities on the basis that the taxation assumptions on which they were issued may not apply. An appeal against taxation assessments involving SAFA deferred annuities is also before the Federal Court. An initial directions hearing was held on 11 June (this year, I assume), and a date is yet to be set for the hearing of this appeal.

If the High Court dismisses the application by the Commissioner of Taxation to appeal the Federal Court judgment in the ANZ case, the appeal involving the SAFA deferred annuities is not expected to proceed. The relevant taxation matters would then be settled in SAFA's favour. This would enable SAFA to write back some or all of the additional amounts which have been provided on the basis that the taxation assumptions on which the deferred annuities may not apply. It is not possible at this time to determine the likely amount of any write back, but it could be as much as $50 million plus interest.

Mrs HUTCHISON: I would like to pursue a matter raised by the Deputy Leader with regard to the overseas borrowings. There has been much comment about that in this place, as the Treasurer would be aware. I refer to page 36 of the SAFA annual report. Why was there such an increase in SAFA's overseas borrowings in 1992-93? In 1992 it was $4.177 million and in 1993 it was $6.180 million.

The Hon. Frank Blevins: Note 5 to SAFA's 1992-93 account shows that overseas borrowings increased by, in round figures, A$2 billion in 1992-93, from $4.177 to $6.180, as the honourable member mentioned. This increase reflects the easing of Loan Council rules, as I mentioned earlier, and the cost effective opportunities that became available during the year. Just to give a bit of a break down, the increase in the main was due to Eurobond issues, A$350 million; various longer dated placement and loans, A$340 million; increase in Euro CP outstandings, A$900 million; and increase in United States CP outstandings, A$300 million, giving a grand total of $1 890 million. Also the amortisation of previous offshore borrowings account for the balance.

Opportunities in the Euro CP market increased for SAFA during the year as international investors became less concerned about Australia's economic outlook, and as SAFA's name became better known. SAFA has been a proactive issuer in this market for only 18 months or so. 1992-93 was SAFA's first full year of operation in the United States CP market and, together with the appointment of additional dealers, its increased acceptance in that market enabled increased issues. In all cases, SAFA's overseas borrowings achieved A$ funding at better than domestic rates, which brings me back to the question asked earlier by the Deputy Leader, that we are opportunistic, we borrow where the best deal is, and we make sure we have no foreign exchange exposure, a very sound policy.

Mr S.J. BAKER: I refer the Minister to page 16. In 1992-93 SAFA received dividends on capital provided to the bank totalling $58 million, comprising $25 million in relation to the bank's 1991-92 operations and $33 million for 1992-93. The full amount of dividends it expects from the bank is now being received on an ongoing basis, according to the report. Has there been a write-down of tier 2 capital in the bank, and what does the $33 million represent in return on capital?

Mr Wright: The $33 million received by SAFA in 1992-93 represents a dividend return on the $538.9 million of capital that SAFA has held in the bank for a number of years. The amount has been calculated based on bank bill rates plus a margin of .65 per cent, so from SAFA's perspective its profit or surplus in 1992-93 was increased by about $4 million as a result of that activity. So, SAFA, having borrowed funds and provided capital to the bank, would have had expenses of the order of $29 million and has received a dividend of about $33 million. That explanation ties in with the Treasurer's explanation just after the dinner break where one component of SAFA's surplus in 1992-93 was dividends from the bank of about $29 million, being the $4 million I have just explained and a further $25 million received in respect of the year 1991-92 operations of the bank.

In relation to the second part of the honourable member's question, the tier 2 capital of the bank was unchanged during 1992-93. The amount is actually shown in the table at the top of page 16 of SAFA's annual report. It is the case that those subordinated loans have increased in value, but that is only on account of changes in exchange rates. Also as the Treasurer mentioned, SAFA has zero exposure to foreign exchange rates, so SAFA's borrowings on the other side have shown a corresponding increase. So, the increase from $278 million in June 1992 to $291 million merely reflects changes in foreign rates but does not involve any additional subordinated debt provided to the bank.

Mr S.J. BAKER: I then refer to page 10 of 10 of the State Bank Report which says that tier 2 capital at 30 June 1993 was $424.1 million and at 30 June 1992, a year earlier, was $656.6 million, representing a reduction of some 35.4 per cent.

The Hon. Frank Blevins: So?

Mr S.J. BAKER: How does the Minister reconcile those figures with the figures contained in the SAFA report? I certainly could not.

The Hon. Frank Blevins: Mr Wright will explain it again for you.

Mr S.J. BAKER: He does not have to explain anything again. I am just saying the figures here are different from the figures provided in the State Bank report.

Mr Wright: I might be able to help clarify that problem, because not all of the subordinated debt in the State Bank has been provided by SAFA. There have been other parties, particularly overseas, that have provided $US capital to the bank, so we would really need to ask that question of the State Bank to get a detailed split up of the components of the subordinated debt that it has on its books.

The Hon. Frank Blevins: I give an undertaking that all the questions will be gone through, and some of them are fairly difficult to understand. I am not sure that they are phrased in a way that ensures maximum clarity, but with goodwill we will examine the questions and, if we can extract the point that the Deputy Leader is trying to make, we will respond to that perceived point in full because, as far as I am concerned, the greater the clarity the better.

Mr S.J. BAKER: I turn now to enterprise investments. Do any directors have any potential conflicts of interest?

The Hon. Frank Blevins: Certainly none that I know of, and none has been brought to my attention. If the Deputy Leader has some concerns about that he should let the Committee know, or let me know privately, and I will pursue it.

Mr HOLLOWAY: In examining the *Hansard* of last year's Estimates Committee I notice that the shadow Treasurer, the member for Mitcham, advised SAFA to lengthen its debt portfolio and thereby lock in long-term interest rates applying at the time. What he said in that Committee was:

> Without going on with it, there is a big difference in where one locks in and for what term. I take note of the previous statement by Dr Bethune when he was talking about going short in the market. I trust that we are now going along in the domestic market because of the present state of interest rates.

It is apparent from SAFA's report that it did not heed the member's advice, and indeed SAFA appears to have further increased its exposure to short-term interest rates. Can the Treasurer inform the Committee of the effect on the Government's overall interest costs would have been if SAFA had implemented the advice of the member for Mitcham?

The Hon. Frank Blevins: At the time I thought it was something of a bold statement. The Deputy Leader puts himself forward as a great financial whiz who is able to put everybody right about all matters financial. During the Estimates Committees last year he could not help showing how clever he was, and he lectured us. The source for the quote is page 143 of *Hansard* of 16 September 1992. The lecture went on. I will not repeat everything that was said by the Deputy Leader, although it does make amusing reading. I suppose the crux of the whole thing was the Deputy Leader's remark, as follows:

> I trust that we are now going long in the domestic market because of the present state of interest rates.

There was no comment by the financial people on this side. As I mentioned in my opening statement, SAFA has reaped the benefits of debt management strategies designed to ensure that the State was not over-exposed to high interest rates at a time when interest rates were falling. Had SAFA done as the member for Mitcham advised, SAFA would have locked in interest rates at about 2 to 2½ per cent higher than those currently prevailing. Based on the amount of debt exposed to short-term interest rates in September 1992, this action would have led to additional interest costs of at least $120 million per annum.

So I advise the Committee to beware of any advice provided by the member for Mitcham. Thankfully, the people from SAFA quite properly did not blink when they received that advice from the member for Mitcham: they did not comment. They are professionals, and they did not take the advice. They went to people who are even more qualified than the member for Mitcham tells us he is when he lectures us. By increasing its exposure to short-term interest rates over the past two years, SAFA has been able to reduce significantly the interest costs of Government and semi-Government authorities.

Short and long-term interest rates continued to fall during 1993 and, assuming that current interest rates remain steady with no variation through 1993-94, and that SAFA maintains its existing debt profile, the additional interest costs to the State in 1993-94, if we had adopted the member for Mitcham's advice, could have been as high as $150 million. I think the lesson to be learnt is to be very wary of advice given by the member for Mitcham, particularly when he is being his most pompous and authoritative. That is where the greatest danger lies.

There are many pundits out there who like to make these predictions and lecture Governments on what they should and should not do, and it is surprising when you read back some of the things that they have said. Some of us make a practice of that: we read back what they have said in the past and realise just how inaccurate they are. The sad thing is that to a great extent Australia as a whole has listened far too much to these people over the past decade. It is a pity that it did. I thought the Committee would be interested in being brought up-to-date on the advice that was given to it last year by the member for Mitcham.

Mr HOLLOWAY: After that answer, Mr Chairman, I will leave it for the member for Mitcham to give the Committee some more advice.

Mr S.J. BAKER: I wondered whether that statement would come back to haunt me. About a month after making that pronouncement I could see the interest rates looking very soft and I thought, 'My goodness, why did I open my mouth?' We had the benefit of a Treasury briefing, and I asked why our interest costs were so high in average terms. Without revealing confidences, I said, 'We are locked in too high.' Perhaps they did listen to my advice. I understand they did lock in on the way down, and therefore we did not get the best deal possible. But you lock in at that moment with only the amount of funds that become available on the way down, as everybody here knows. So I was very gracious about it. What is the program for the closing down of SAFT?

The Hon. Frank Blevins: I cannot answer that, but I am sure Mr Harding will be able to.

Mr Harding: SAFT was introduced when we needed a separate vehicle to undertake reinvestment opportunity that provided benefits to this State, in terms of improving liquidity in our inscribed stock issues and providing opportunities to take advantage of our credit status. In the context of particular Loan Council arrangements, those circumstances have now changed. We do not undertake reinvestment activity, so we do not need a separate vehicle and we are winding down the separate entity. The assets are being progressively transferred into SAFA or run down. Eventually, in a time frame that we have not finally set, the trust will be wound up.

Mr S.J. BAKER: I have received a statement from KPMG, which I presume has been widely distributed. It relates to CP Ventures Ltd and Austech Ventures Ltd, which incurred a loss of $37.041 million. What was the net outcome for SAFA on CP Ventures Ltd and Austech Ventures Ltd?

The Hon. Frank Blevins: Are you referring to Enterprise Investments?

Mr S.J. BAKER: That is correct.

The Hon. Frank Blevins: Enterprise Investments, of course, is a venture capital company, and the beneficial owner is the State Government. It is an area that gives me some concern, even though it is a profitable operation, and it also assists listed companies and is publicly available in South Australia to expand, amongst other things. However, it is venture capital and it can be risky.

The Enterprise Investments board is very conservative. I think about 50 per cent of the funds available to the company are invested back with SAFA. So, it does not go out looking for organisations to throw money at by any means. I have a tremendous regard for its operation, but it is venture capital and it is not going to win them all.

What happens to Enterprise Investments in the future is currently the subject of discussions within the Government and between the Government and Enterprise Investments. I think everyone would agree that venture capital, by and large, ought to be provided by the private sector; that is the most desirable scenario, although the private sector is quite risk averse and not too interested in supplying this product in South Australia, or anywhere else for that matter.

It does serve a useful role in supplying venture capital, but whether it should be a wholly-owned Government operation or possibly one with some private sector involvement is under discussion at the moment. However, I just want to put on the record that the board of Enterprise Investments has done a tremendous job for companies in South Australia as well as returning funds to the taxpayers from overall investment profits.

The overall return from Enterprise Investments has been 8 per cent in four years, which compares with 8.2 per cent for the All Ordinaries Accumulation Index. This is a fairly satisfactory performance given the economic recession, and particularly given the very nature of the investments. I stress that it is venture capital. However, the Government has it under review at the moment, as I say, and no option has been ruled out—none at all. Mr Schwarz will provide specific details about the company.

Mr Schwarz: I believe the Deputy Leader referred to a letter issued by KPMG regarding the performance of CP Ventures and another venture capital company called Austech. As background, late last year Enterprise Investments asked KPMG to prepare a performance comparison of various venture capital funds. It did that and circulated the results, which showed that most venture capital funds had lost a large proportion of contributed equity, which was in stark contrast to the performance of Enterprise Investments.

Some fund managers for the other entities took umbrage at the circulation of this report and disputed some of the details of the performance comparison that was issued by KPMG. I believe the letter referred to is KPMG's settlement of the outstanding disagreement between it and the other venture capital fund managers.

Mr S.J. BAKER: How much overseas lending in total is there across the whole of Government? Obviously SAFA is the major instrumentality, but we do have the State Bank and a number of other institutions. This question may need to be taken on notice, but I would like to know how much money is being lent overseas by the State public sector.

The Hon. Frank Blevins: There are no overseas loans from SAFA. SAFT has funds made available to it but, as the Committee has already been advised, SAFT is being run down. To the best of my knowledge, we do not make loans overseas.

Mr S.J. BAKER: How can that be, given the subsidiaries in the UK and Hong Kong?

The Hon. Frank Blevins: If you do not believe me, will you believe Mr Harding?

Mr S.J. BAKER: I have not heard Mr Harding.

The Hon. Frank Blevins: Well, you are about to. Mr Harding will enlarge upon my answer.

Mr Harding: The investment activities of SAFA's affiliates offshore are not in the form of what are traditionally described as loans. We require securities of an investment character.

Mr S.J. BAKER: You are providing money and you get a security.

Mr Harding: Yes, although not in the sense of a banker but like an investment fund. At 30 June 1993, the annual report (page 22) shows total overseas investments, combined SAFA, SAFTL and SAFT of $409 million, and it gives the particular type of security that those investments cover.

Mr S.J. BAKER: What sort of securities do they cover?

Mr Harding: Securities issued by Governments or their agencies, international banks, corporate securities of a mortgage backed character or other types are the four categories. They are high credit investments.

Mr S.J. BAKER: Are they all AAA rating?

Mr Harding: They are not necessarily all AAA. I am not sure whether we have the details in the annual report. Our credit exposures are shown on page 18, but the off shore investments are not segregated there.

Mr S.J. BAKER: That is correct.

Mr Harding: We can obtain that information.

The Hon. Frank Blevins: However, there is a general policy. The minimum credit rating provided for long-term investments in foreign banks is 'A' assigned by Standard and Poor's rating agency, and 'AA-' for long-term investments in foreign corporations. Overseas investments were also subject to country credit limits restricting the maximum aggregate credit exposure to any one country.

Additional Departmental Adviser:

Mr C. Boyce, Manager, Accounting and Support Services, SASFIT.

Mrs HUTCHISON: In relation to page 20 of the Superannuation Board's Sixty-Seventh Annual Report, in the past concern has been expressed about the limited numbers of women in superannuation schemes. I was very pleased to see that 57 per cent of new members for the year were women, compared with 19 per cent in the pension scheme. What work has been done with regard to that, what work will continue to be done and is that predominantly in the casual area, part-time and casual area or is it across the board with full-time employees?

The Hon. Frank Blevins: It is particularly pleasing to see that such a high proportion of the new applicants for the superannuation scheme are female. It gives me a great deal of personal pleasure because some honourable members would remember that I had the privilege when I was Minister of Labour of bringing the superannuation scheme before the Parliament for significant amendment. In fact, we introduced a new scheme because it was quite clear that the old scheme was designed by men for men. It worked very well for them but it was not much use to working women. Whilst I am pleased, I am not surprised that the majority of new starters into the superannuation scheme are women. The scheme is now much more attractive to women and they are responding accordingly.

However, I am still concerned at the lower rate of take up of superannuation in general. I think that it is a great pity that more of our employees do not take up the opportunities that are available to them because there is no doubt that if they are relying on the statutory provisions only they will not have sufficient superannuation to keep them in any degree of comfort in their retirement. We run campaigns from time to time, as do some of the public sector unions, encouraging employees to join the superannuation scheme. However, it is not possible to conscript people into it: you can only do it by persuasion, and we do that, and we have quite extensive publicity campaigns. As regards the breakdown between casual and full-time, I am not sure that we have that detail with us. However, I will examine the question and if those figures can be found then we will certainly supply them to the member for Stuart and the Committee.

Mr S.J. BAKER: I refer to page 29 of the SASFIT report, and I cite the $56.510 million, which is net appreciation of assets. These are inflation linked investments for 1993. I have never looked into that particular area of financing: can somebody explain how you can have an appreciation of assets if they are inflation linked?

Mr Boyce: Inflation linked investments, if you like, are a specialised form of debt instrument where the interest rate quoted is a real interest rate rather than a nominal interest rate. The appreciation of assets occurred when the real interest rates at which those assets are traded had fallen, so in the nominal interest rate market over the past few years there has been substantial appreciation of fixed interest investments, as interest rates have fallen. Similarly, over the past two years there have been substantial falls in interest rates in the real interest rate market, which the inflation linked investments are part of, and that has given rise to the appreciation of assets shown in that account.

Mr S.J. BAKER: From where are these investments being drawn and what markets are we talking about?

Mr Boyce: If you refer to page 31 of the annual report, note six describes the nature of SASFIT's inflation linked investments. Primarily, the areas involve Government securities, which currently comprise inflation linked bonds issued by the Commonwealth Government, and we have some debentures issued by SAFA. A major part of our inflation linked portfolio concerns arrangements where we secure loans against Government sourced or Government guaranteed incomes, which are listed in the accounts there, and we have a number of leasehold property management arrangements with the Government of South Australia where we have provided long-term financing for various Government infrastructure arrangements.

Mr S.J. BAKER: I appreciate the explanation. How much is SASFIT getting on a yearly basis from its ASER agreement?

Mr Boyce: The total return on the ASER investment since funds were initially outlayed in the mid 1980s has been 20.5 per cent per annum. That is an internal rated term calculation on funds that have been passed to the ASER project. The situation now is that SASFIT has in fact had a positive receipt of funds from ASER, in that all moneys initially advanced to the ASER project have now been repaid, and we have some additional cash flow on top of that as well.

Mr S.J. BAKER: Can I have the particular details of that on notice if that is possible?

The Hon. Frank Blevins: Sure.

Mr S.J. BAKER: I notice in the superannuation board report the comment that you have to examine the superannuation position in the long term. The exit rates on the pension scheme have been consistently higher than the earning rates: what sort of shortfall would have been built up over the past five years?

The Hon. Frank Blevins: I will have to take that on notice, but we will provide the details.

Mr S.J. BAKER: According to page 18 of the superannuation board report, 2 900 people are still underpaying contributions. That is an improvement on the previous year, but it is obviously still much too high as far as the superannuation board should be concerned. What action is being taken to arrest this problem?

The Hon. Frank Blevins: Very significant action has been taken. In 1991 there were, as stated by the Deputy Leader, 2 900 contributors whose contribution account was underpaid. In approximately one-third of these cases the arrears were caused by the agencies failing to deduct salaries for one or two fortnights following the date of acceptance into the scheme. It is not a major problem, but nevertheless it adds up to a significant number of people. As at 30 June 1992 about 700 arrears queries remained for resolution, so that is a considerable reduction, and the expectations are that these queries will be finalised by the 1993 calendar year. For the interest of the Committee the board took particular action to avoid further problems with arrears beyond 30 June, as follows:

> The date of acceptance in all cases now is now fixed as the first day of the fortnight in respect of which the first calculation is received. This avoids the problem created by accepting applicants into the scheme from a retrospective date—

when we are talking about the payment we are talking about that occasional fortnight and a misunderstanding that occurs there. We are not talking about tens of thousands of dollars being underpaid. It involves relatively minor amounts but a lot of people. Continuing with the quotation:

> and also agency deductions are carefully checked each fortnight to ensure that deductions by agencies are consistent with the amount due, based upon the contributor's chosen rate. Discrepancies are referred to the agency and to the contributor so that errors can be corrected quickly.

When SASFIT relies entirely on the agencies to collect the right amount of money at the right time, and when the agency does not, it is SASFIT that has to try to tidy it up. It is a bit frustrating when you are relying on other people to do something and it does not always work out right. It is a diminishing problem, and in any event it was not a problem of enormous, if any, financial consequence.

Mr S.J. BAKER: I have had a question from State Bank staff members: about 630 of them are members of the South

Australian Superannuation Fund, and they would like to know what happens to their entitlement under the State superannuation scheme if the bank is sold.

The Hon. Frank Blevins: The corporatisation task force is examining those issues. It is an issue that has to be resolved. We are aware of it and we will deal with it. It is not an immediate problem, but it will be dealt with in a rational and sensible way, certainly not to the detriment of any of the contributors or to the detriment of the taxpayer. Some machinery will be put in place to satisfy everyone.

Mr S.J. BAKER: I would appreciate it if the Minister could provide me with details of the outstanding liabilities from the Government's point of view concerning those 630 staff members.

The Hon. Frank Blevins: I will see what I can do.

Mr S.J. BAKER: Is SASFIT involved in any international money market dealing, or is it all domestic?

The Hon. Frank Blevins: The short answer is 'Yes'. Mr Boyce will enlarge on that.

Mr Boyce: I refer you to page 33 of our annual report. Note 8 details the exposure within our externally managed equities fund.

The Hon. Frank Blevins interjecting:

Mr S.J. BAKER: The question was supposed to be: why was there a market and value loss on the short-term money market? That was the question, not whether you had dealt overseas, but whether there was a loss. We were just told that we do not make losses at all, so I asked that question.

Mr Boyce: That particular table is a listing of asset positions rather than an income statement. The negatives to which I think you are referring are the overseas short-term money market areas, and that is a position resulting from currency hedging positions undertaken by BTAM and, in itself, does not indicate that a loss has occurred.

Mr S.J. BAKER: Is that the cost of going into the market? It is shown as a short-term money market—minus $2 647 000. The previous year it was a minus of $474 000. Is that the cost of hedging in the market, is it a loss sustained in the market, or is it just a revaluation of the asset downwards on your total overseas assets?

Mr Boyce: The figures there indicate a position in the overseas markets at a particular point in time. The negative figures indicate that BTAM have been in a short position in relation to overseas currency as at the balance date as part of their currency hedging process.

Additional Departmental Adviser:

Mr Fioravanti, General Manager, Lotteries Commission SA.

Mrs HUTCHISON: Can the Treasurer provide an update on the introduction of gaming machines in South Australian clubs and hotels and outline what the expected revenue will be from those gaming machines?

The Hon. Frank Blevins: The position in respect of clubs and hotels is still a little up in the air. The clubs and hotels themselves are the organisers of poker machines in their establishments: it is not a Government-run operation. Of course, whilst we monitor everything they do to the last detail, we are not responsible for getting the system up and running; that is their responsibility, and it is their system. So, we are very much in their hands. In the last discussions I had with them a couple of months ago, they indicated to me that they were hopeful that they would have started poker machines operating in some hotels and clubs by the end of this year.

I hope that is correct, but as I say that is something over which the Government has little or no control. The Casino is a different kettle of fish. Approval has been given by the Government for the Casino to introduce poker machines from 28 October. My understanding is that several hundred will be available on that day. They will replace the 700 video gaming machines. There will not be 300 on top of the 700; there will still only be the maximum limit allowed by the Casino Supervisory Authority, but the mix will be left up to the Casino within the maximum number allowed by the Casino Supervisory Authority.

As regards revenue, we have estimated conservatively for this financial year a return of $8.7 million to the State budget, which is very modest when industry tells me that it expects a minimum of $50 million a year to be returned to the State budget when the machines are up and running in all the clubs and hotels that want them. They expect about 6 000 machines, and approval has already been given by the Liquor Licensing Commissioner for well over 3 000. There has not been a real turning point yet, so goodness knows what the end result will be. The $50 million could be a conservative estimate.

In any event, we have been fairly conservative this year in providing an expected return of $8.7 million. There will also be a significant employment generator. These machines are labour intensive, and we look forward to the clubs and hotels taking on many new staff, both permanent and part time to service the machines and the customers. It will give the hospitality industry something of a lift, and that, of course, will be welcomed.

Mr S.J. BAKER: We do not have available an annual report of the Casino Supervisory Authority. All we have is a comment in the Auditor-General's statement that $20 million will be handed over to the Government this year. When will the annual report be available?

The Hon. Frank Blevins: The annual report of the Casino Supervisory Authority will be available whenever it is normally available.

Mr S.J. BAKER: I think it is normally available for this Committee so that we can ask questions about it.

The Hon. Frank Blevins: I will check that matter and, if that is so, I will see why it is not here; if that is not the case, I will let the Deputy Leader know.

Mr S.J. BAKER: When will the report on the Genting inquiry be available?

The Hon. Frank Blevins: My information is: very soon, within days.

Mr S.J. BAKER: Has the Casino provided any information to the Government of what the overall impact of poker machines will be on the Casino's operations?

The Hon. Frank Blevins: Not to me. I do not know whether anyone else has spoken to the Casino. It was very happy about it when it was told it could have poker machines from 28 October. So, I assume that it considers that the impact will be favourable, but I do not know of any advice being given to the Government. If that has happened, I will make it available to the Committee.

Mr S.J. BAKER: Is the expected start-up date 28 October? Presumably the monitoring equipment will be in place by then even though we have not reached the stage of the commission's actually agreeing to provide us with that monitoring equipment?

The Hon. Frank Blevins: That is an entirely different system; it has no connection at all with the clubs and hotels. The Casino has its own monitoring system, which is supervised by the Casino Supervisory Authority, the Liquor Licensing Commissioner, Uncle Tom Cobley and all. So, the Casino is not involved in the Independent Gaming Corporation at all. It has its own Act under which it operates. That is why it is able to start so quickly, because it already has the system for the video gaming machines. There is no difficulty for the Casino; on my understanding, all it needs to do is to get the approval of the Casino Supervisory Authority and the Liquor Licensing Commissioner for various computer game chips (eproms) that operate these poker machines. So, there does not seem to be any great problem with that. I think the Casino is getting eproms that have been approved in other States; it is a relatively simple operation, unlike hotels and clubs that are starting from scratch, where it is an extremely complicated operation, and necessarily so. I know they are doing their very best.

Mr S.J. BAKER: When is the expected start-up date for the first hotel?

The Hon. Frank Blevins: I really cannot say; that is up to the hotels and clubs. You would have to ask their company (the Independent Gaming Corporation), which is organising it. It probably could not tell you either because it is still going through all the machinery of getting the various approvals and putting the bits and pieces in place. As I say, it is a complex operation. I doubt whether the Independent Gaming Corporation could give you a date, but I certainly cannot. To a great extent it is none of my business; it is being done by a private company.

Mr S.J. BAKER: I note on page 172 of the Auditor-General's Report that there were savings of $120 000 through an open tender on insurance requirements. The report of the Crown Solicitor tabled recently in Parliament shows that in 1983 the Lotteries Commission changed insurance brokers from Reid Stenhouse to De Conno and Blanco. One of the partners of De Conno and Blanco is a brother-in-law, Mr Fiorovanti. Why was this open tender process not commenced earlier?

The Hon. Frank Blevins: I have no idea, but Mr Fiorovanti has been with the Lotteries Commission since day one, so I am sure he will be able to enlighten the Committee as to what happened regarding the various insurances, brokerage and so on.

Mr Fioravanti: In 1983 the commission changed its insurance brokers. During the intervening 10 years the commission did not see fit to change those brokers again. It was finally decided in 1992 to put it out to an open tender arrangement. As a result of that public tender we received three applications. We went out to public tender again because we did not consider that three were adequate. We got an additional applicant and we selected a further two; so, we ended up with six applicants for tender. Of those six only four submitted a quotation. Zurich Insurance Brokers was selected as the successful company.

Mr S.J. BAKER: I note that the value of the commission's assets in terms of freehold land has decreased by $5 million. I presume that that refers to the Rundle Street property, so there has been a significant markdown on that building. I also note on page 25 of the commission's report that the cost of prizes increased by $10 million. I would like confirmation of the freehold land downgrading and if possible some reasons for the increase in the cost of prizes, given that there seems to be a lot less revenue coming into the budget in this financial year.

Mr Fioravanti: We had our Rundle Mall property valued, and it was valued down by about $4.7 million. However, the warehouse at Stepney was purchased at a price of $636 000 and the value came in at $640 000. So, the only variation was in respect of the Rundle Mall property.

Mr S.J. BAKER: How far were the investigations taken in relation to travel allowances for a trip to America by the Chairman and the Manager of the Lotteries Commission? What is the current situation in relation to sales tax avoidance?

The Hon. Frank Blevins: I am not quite sure to which inquiry the Deputy Leader was referring involving the trip to America and travel allowances. If he gives me some information either now or after the Committee I will have it thoroughly investigated as I do with all these matters and bring back a reply to Parliament.

Mr S.J. BAKER: My second question involved sales tax on a car that was purchased through the Lotteries Commission.

The Hon. Frank Blevins: I think the matter is still before the Anti-Corruption Branch, but I am not sure about that because the Attorney-General rather than the Treasurer deals with such issues. There is an ongoing police inquiry into this matter, and it is perfectly proper that we allow the inquiry to continue. In any event, I think the questions were answered very well by the Attorney-General yesterday.

Mr S.J. BAKER: Are there any re-equipment needs of the Lotteries Commission?

The Hon. Frank Blevins: My guess is that there is an ongoing program of re-equipping. Do you have anything specific in mind? Give us a clue and perhaps we can narrow it down.

Mr S.J. BAKER: Some of the equipment in the Lotteries Commission has now been there for some considerable time. I merely ask the question because sometimes you must go through a process of re-equipment for new games and new linkages with interstate equipment. Is there any program to change the equipment in the commission and its agencies within the next two years?

The Hon. Frank Blevins: An estimation has been made that in five years time there would be a need to replace the commission's computer-related equipment. If that turns out to be the case, the estimate now, which is about five years out, is about $20 million. However, that is five years away. That is the only thing of significance. Of course, terminals and things such as that are being purchased and changed from time to time. The only major item I can think of is that computer changeover in about five years time. Again, I will ask the General Manager to examine the question and see whether we can supply any further detail. The Casino Supervisory Authority annual report is presented by 31 October. That is the date when it is required to be presented. Do not ask me why: the statute must stipulate 31 October. So, that will be done.

Mr S.J. BAKER: Last year we had available to the Committee the Casino operation details, so I do not know in what form they came.

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

Mines and Energy, $19 340 000

Departmental Advisers:

Mr R. Fardon, Director-General, Department of Mines and Energy.

Dr M. Messenger, Chief Executive Officer, Office of Energy.

Mr P. Bleckly, Manager, Administration and Finances Services.

Mr D.S. BAKER: I refer to 'Security of supply of natural gas' and 'Competitiveness of the State's energy prices' on page 421 of the Program Estimates. What is the current state of the ethane project that may proceed in New South Wales, and does the Minister still refuse to allow the ethane to leave the State?

The Hon. Frank Blevins: The State Government's position is very clear. The State Government will not sell ethane gas to New South Wales or anywhere else until the long-term needs of this State are met first. There is only 10 years contracted gas for our industrial use here in South Australia. The second five years of that 10 year contract has a confidence factor of only 50 per cent so, as members can see from those figures, the position is not that sound. The ethane can be used to spike the existing gas reserves to spin them out more, or it can be used as a feed stock. Also, the ethane is required for hydrocarbon-based industries within this State that we are still very actively pursuing. At Port Bonython, as members now know, there is a State tax free industrial zone which makes that area even more attractive for hydrocarbon-based industries.

We have come under some criticism: the Opposition supports selling the ethane, which I think is tantamount to economic treason. There is no doubt about that, because we would receive only about $2 million a year in royalties for the ethane, which would not keep the Royal Adelaide Hospital going for four days, never mind anything else. Further, there will be less than 20 jobs at Moomba once the pipeline to New South Wales is finished. We are not prepared to sell out this State's long-term energy needs and its long-term industrial and employment needs for $2 million a year and less than 20 jobs at Moomba. It is as clear as that. The Opposition has a different policy—that is fine. It can take its different policy to the electors in the Iron Triangle reasonably soon.

The Government is saying to the other States and the Federal Government: if you want South Australia's ethane, you have to allow some of the gas in the Northern Territory and Queensland to come across the border to supplement our own reserves so we can be sure that we have sufficient gas for our long-term needs for the next 15 to 20 years, and also that we have enough for hydrocarbon-based industries here in South Australia. If the Queensland Government, which to date has prevented any significant quantities of gas leaving Queensland, and the Northern Territory Government, which has done exactly the same thing, come to the party and are prepared to provide PASA with sufficient gas to satisfy our needs, we will be very happy for the producers to talk to ICI or any other company for the supply of our ethane. However, I repeat: our long-term energy needs have to be met first, including feed stock for hydrocarbon-based industries.

I have today written to the producers and to ICI, making them aware of the Government's policy. I think they are very clear about it anyway, but just in case they have any doubts I have reinforced that position. I know the Premier is also writing to the Federal Government and the Premier of Queensland, again stating our position very clearly: that no ethane will leave this State until such time as South Australian needs are satisfied.

Mr D.S. BAKER: Are active negotiations going on with other States to try to secure our long-term gas needs if, in the Government's opinion, they are not adequate so that the ethane can be then sold interstate?

The Hon. Frank Blevins: We have been having discussions with producers in Queensland and the Northern Territory for quite a while—in fact, I think they began as long ago as a couple of years. Both the Queensland Government and the Northern Territory Government have prevented any satisfactory results, because they will not allow their gas to come into South Australia until their long-term needs are met. I am not critical of that, because I hold exactly the same view, but to criticise South Australia for not releasing gas to New South Wales is nonsense. We have been selling gas to New South Wales for 20 years. We are the only State that allows gas to be exported across its borders, but we certainly have no intention of allowing any more to go until our needs are met.

I hope that the Federal Government will put some pressure on the Queensland Government and possibly the Northern Territory Government and suggest to them very strongly that they do what South Australia does, and that is allow gas to go out of the State. I hope those negotiations come to a reasonable conclusion and, as soon as they do, obviously when we have enough ethane for our own needs, we will be happy for the producers to enter into discussions with anybody for the sale of surplus ethane.

Mr D.S. BAKER: I note also on the same page (421), under 'Broad Objectives' there is a line 'Impact on the State of the national electricity grid'. Could the Minister explain to the Committee what the impact on the State will be with respect to the national electricity grid?

The Hon. Frank Blevins: Reading the paper on a daily basis, even that is in a state of flux. I believe that Victoria at the moment is not too happy with the proposals for the national electricity grid. The State Government's position again is fairly clear: we do not have any difficulties with the national electricity grid, provided it does not disadvantage South Australia. South Australia is not a charity. South Australia is not here to be used up by anybody. This State Government—indeed, I would hope the Opposition as well, although it has not shown any backbone as regards the ethane—would not want any national arrangements to disadvantage South Australia. We just cannot afford any disadvantage.

Mrs HUTCHISON: My question relates to page 424 of the Program Estimates and geoscientific mapping. I commend the Government on what is a very important initiative for South Australia and also the department, because it is quite an exciting initiative for the State. What are the strategies for the Northern Spencer Gulf region, and I am aware that a number of meetings have occurred with regard to some of them?

The Hon. Frank Blevins: I thank the member for Stuart for her interest in this project. I believe that the Northern Spencer Gulf certainly has the best potential of any region in Australia to capitalise on the Government's exploration initiative. The Department of Mines and Energy, in association with the Economic Development Authority, is formulating a resource processing strategy to attract major investment into the region. This project is an exciting model of inter-agency and inter-regional cooperation. At least six major Government departments are involved. Local involvement comes from Aboriginal groups, development boards and committees, large and small industries, environmental groups and farmers.

Part of this strategy involves assembling a comprehensive and computerised map of the region to show its land zoning, environmental and people attributes. Such a sensitivity plan and its acceptance by the gulf cities and the communities is essential for the marketing of the region nationally and internationally. It will also ensure lower costs for project proponents and Government overall when it comes to EIS and related development costs.

The project has a total budget of $250 000: it is not just words. Five working papers have been commissioned from Government agencies, such as the Environment Protection Office, the Office of Fisheries, etc., and these will deal with land capability, emission standards, marine ecosystems, accident hazards and socioeconomic factors respectively. These working papers, together with the computerised sensitivity plans will form the technical foundation of the draft strategy. Money is allocated for community consultation and communications, involving public exhibition of the draft strategy in the three cities over the month of November.

The technical components of this project will flow into a broader planning strategy for the region and indeed for the whole of Eyre Peninsula. So it is a very comprehensive strategy indeed and, while some people would argue that a quarter of a million dollars is a lot of money to put into such a project, I believe that it is money well spent. The mineral resources of that region will provide a very significant base for the future prosperity of this State.

It is a very rich area of the State. We have an obligation to develop those resources in a sustainable way and in a way that causes minimal disturbance to the environment. I believe that those things can be done and they will be done.

Mrs HUTCHISON: It is certainly a very rich area, and in fact some of the local newspapers reported a 'rush' with regard to the diamonds in the Abminga area. What information can the Treasurer provide on the exploration activity for diamonds in that Abminga area in the Far North of the State?

The Hon. Frank Blevins: It is very exciting to be involved with the Department of Mines and Energy at a time when I think there is more exploration tenements and more activity taking place than has been the case for many years here in South Australia. Of course, to have diamonds involved always sparks the imagination—

Mr Becker interjecting:

The Hon. Frank Blevins: It certainly adds a sparkle to the program. The Abminga area in the Far North of the State is now highly prospective and highly sought after by the various exploration companies. The exploration activity has been a direct result of the Government's exploration initiative, which I remind members has cost taxpayers $16 million and they will never spend a better $16 million. The excitement has been generated by 'little bubbles', as they are called, in high resolution aeromagnetic pictures, which indicate possible kimberlite pipes, the host rock for many major diamond deposits. Before the South Australian exploration initiative not one mineral exploration tenement existed in the area. Now with the release of the aeromagnetic data over 10 companies have lodged exploration licence applications. It is envisaged that millions of dollars will be spent over the next year if kimberlite are discovered. In the first year expenditure is expected to be in excess of $2 million. Results should be known late this year or early next year.

The companies that have applied for licences to explore in the area include some of the major exploration companies—and CRA and Stockdale are just two of them. There is also Redfire Resources, Laura Holdings, Dioro Exploration, Poseidon—which is well-known to us all—and I believe that Ashton has also applied for exploration licences in the area. So we are talking about the world's foremost diamond producers, and we are very pleased that they have shown the interest they have. One of problems that we have is satisfying everyone's wishes in the area. Some of the companies would like exploration rights over the lot, but we have to try to allocate amongst them fairly.

Mrs HUTCHISON: I look the forward to a diamond-led recovery; it sounds very exciting. I refer to the wind turbine at Coober Pedy, which I have seen on a number of occasions. It has now been in place for more than two years. How is it actually performing and have any savings in fuel been achieved with the operation of that wind turbine?

The Hon. Frank Blevins: Again, I thank the member for Stuart for her interest in this area. I think that as long as I have been in Australia people have been telling me that the Far West Coast and the North are ideal areas for the generation of power by wind. It has taken some time for an actual turbine to be put in place so that we can have some proper assessment rather than a bit of wishful thinking by people who mean well but perhaps are not prepared to pay the cost for some of these experiments. Anyway, a wind turbine has been in operation for two years now in Coober Pedy and the availability of that turbine has been nearly 80 per cent. I would like that to be a little higher, but as in all new things there are always a few hitches. But we will try to get that 80 per cent up to a higher figure. During the two years it generated 665 500 kilowatt hours and the estimated fuel savings which have resulted are 199 650 litres of diesel, which is equivalent to a cost saving of about $118 000. The fuel savings achieved are equivalent to an estimated return on investments of about 4 per cent.

That estimate is based on comparing the levelised cost of wind generation and fuel savings over 20 years. Increases in the cost of diesel fuel over time obviously would result with improved wind generation economics. The estimated cost of the wind generator levelised over 20 years is about 17¢ per kilowatt hour and it is also estimated that there has been a reduction of about 500 tonnes of the greenhouse gas, carbon dioxide, as a result of the wind generated electricity in the first two years. So, it is a significant reduction in carbon dioxide emissions. Five hundred tonnes is no small amount. It is a very worthwhile experiment to date and it will be ongoing and I will report to the House from time to time as new figures become available.

Mr D.S. BAKER: I note on page 422 of the Program Estimates it states:

> Deposits of coal are being assessed for possible establishment of a coal mine and associated coal fired electricity generating station.

I would have thought with the national grid coming on that we would be able to purchase power far less than using second-rate coal and starting a new electricity generation station. What stage is this new generation station at?

The Hon. Frank Blevins: I think the Committee ought to take into account that it is all very well saying that you can, at certain times, get power cheaper from across the border. It seems to me that for South Australian based industry there needs to be a greater certainty of availability than just saying, 'Well, when they have some spare capacity elsewhere we will be able to buy it cheap at the marginal cost of production.' That is all very well occasionally but what happens when they find that they are short at a certain time or everybody wants it at a certain time and you find that it is suddenly not available? You then become hostage to other States and their power generation capacity and their maintenance programs and their breakdowns. It seems to me that that is not a sound base for South Australia so we must have our own base load generating capacity. If we can buy some extra power and opportunity bases, then that is all well and good, but I do not think it will ever substitute for having our own generating capacity so that we are to a great extent self-reliant. Dr Messenger is far more expert than I in this area and I am sure that he would have a few words to say on the present state of play with the new coal-fired generation capacity, and a new mine—it gets even better.

Dr Messenger: There are no firm proposals that I know of for a new mine at this stage or for a coal fired generation. We would expect in the normal course of events that it would be the turn of the century before a new base load capacity would be required, and it is not clear at this stage whether it would be based on gas or coal or some other alternative form. There have been some suggestions that an export base power station could be built to export power into the national grid, but that has not progressed to the stage of definite or even preliminary proposals that I am aware of.

Mr D.S. BAKER: This is quite clear in the Program Estimates. Where is the mine and where is the electricity generation station mooted to be built? It is quite clear in the estimates.

The Hon. Frank Blevins: Can we have some clarification from the member for Victoria?

Mr D.S. BAKER: Page 422.

The Hon. Frank Blevins: 'Continue to assess coal deposits in SA and encourage proponents to re-evaluate, update and re-submit proposals to fuel a new coal fire powered station'.

Mr D.S. BAKER: You must have a different page. 'Deposits of coal are being assessed for possible establishment of a coal mine and associated coal fire electricity generation station'.

The Hon. Frank Blevins: I cannot see that, but I can assure you at this stage there is no—

Mr D.S. BAKER: I was just wondering—

The Hon. Frank Blevins: We will just have to cross-check this. I am not trying to be difficult.

Mr D.S. BAKER: Have you got the right year?

The Hon. Frank Blevins: Is the member for Victoria saying that he is reading out something that says 'coal mine'?

Mr D.S. BAKER: Yes.

The Hon. Frank Blevins: We will have to go through it with him, because I am afraid our tired eyes cannot locate it. I can assure you that there is no proposal for a new coal mine. However, if deposits of sufficient size and quality were found and there was a commercial proposition I would be only too pleased to hear about it and I would write 'coal mine' in.

Mr D.S. BAKER: Only three lines down it says, 'World heritage listing proposed for Lake Eyre Basin': does the Minister support that?

The Hon. Frank Blevins: The Government's position on that is very clear. Provided that sustainable economic activity can continue in the area, we would have no difficulty. If there were any restriction on sustainable development, we would oppose it. It is as simple as that. We believe that the area can be used economically by pastoralists, by tourists, and by miners without in any way damaging the inherent worth of that wilderness area, and that is what we strongly advocate. There is no-one in Australia who is not aware of our very clear position. Apparently (and I say 'apparently'; I have to qualify it) the Federal Government holds the same position. I have heard on numerous occasions the Federal Minister for the Environment saying that world heritage listing would not prevent economic activity in world heritage areas. If that is the case, I suggest she persuade the pastoralists, the miners and the tourist industry of her *bona fides* in this area and give them guarantees that satisfy them, whether they be legislative or any other guarantee. If the Federal Minister on behalf of the Federal Government is not prepared to do that, I can understand the suspicion of the pastoralists, miners and tourist operators, and I would share that suspicion. I believe that areas within the Lake Eyre Basin—the very sensitive areas—can be totally protected without in any way restricting sustainable development as I have outlined.

Mr D.S. BAKER: I wish to ask a few questions on a water resources related matter, which I think comes under the Minister's jurisdiction. On 21 August 1989, licence No. 7071 was issued by the Minister of Mineral Resources to J.W., F.M. and J.A. Bell to put down an irrigation bore in the Padthaway district. However, when the Bell family started to put down that bore, unfortunately, someone from the department stopped them.

Mr Fardon: The liability for this matter may be shared between the Department of Mines and Energy, the South-East Water Resources Committee and the E&WS Department, because the technical advice came from the Department of Mines and Energy, the licence was approved by the South-East Water Resources Committee and the decision was taken by the E&WS, which is the way in which these things are done. The whole matter is with Crown Law at the moment. It is a classic case of people going ahead and doing their formal duty, the net result, however, being a disaster for a local farmer.

Mr D.S. BAKER: If the Committee wishes, I will read my questions into *Hansard*.

The Hon. Frank Blevins: I assure the member for Victoria that, even if his questions do not come under the jurisdiction of the Department of Mines and Energy, they will be pursued by the department with the appropriate authorities to obtain answers for him.

Mr D.S. BAKER: The licence was allocated on 21 August 1989 and drilling was stopped. Why was drilling stopped? Was the drilling permit in order when drilling was stopped? If not, what steps were taken by the department to remedy the situation if it was found that the permit was in order? On whose authority was the drilling stopped? What delay took place as a result of the drilling being stopped before the matter was resolved? And what compensation, if any, is being or is contemplated to be paid?

The Hon. Frank Blevins: I will obtain answers to all those questions. We will start on them tomorrow; we will not wait for the date to put them in *Hansard*.

Mr D.S. BAKER: In relation to the Upper South-East Water Resources Committee, how much has been paid to each board member per meeting for the past two years? How much was paid to each member for travel to each meeting for the past two years? How much was paid to each member for accommodation to attend those meetings? Is it usual practice for Government committee members who travel to those meetings to do so in separate vehicles?

The Hon. Frank Blevins: My understanding is that those questions should more properly go to the Minister of Public Infrastructure. However, we will forward them to his office tomorrow morning.

Mrs HUTCHISON: Given the fact that co-generation is becoming an increasingly popular mode of energy distribution, what progress has been made in establishing co-generation units in our major hospitals?

The Hon. Frank Blevins: The Office of Energy is assisting the South Australian Health Commission to introduce cost-effective co-generation in its hospitals. The Health Commission has accepted the principle that the installation of co-generation facilities in public hospitals will bring about a net reduction in their operating expenses. The co-generation units will also assist the Government to achieve other benefits through reducing peak electricity loads and emissions of greenhouse gases. The installation of co-generation systems in the four major hospitals—the RAH, the Flinders Medical Centre, the QEH and the Women's and Children's Hospital—has been assessed, and the potential aggregate generating capacity is about 8.1 megawatts.

The estimated capital cost is about $12.4 million in total, and the estimated saving in energy costs is about $2.2 million *per annum*. Detailed design documentation has been completed for the Women's and Children's Hospital co-generation project, and tenders were invited from six selected tenderers in June 1993. The tenders are currently being assessed, and the contract is expected to be established by October 1993. Documentation for the design and construction of co-generation projects at the RAH and the FMC is expected to be completed by October 1993. Further work on a co-generation system for the QEH has been deferred until a facilities development plan for the hospital has been prepared.

We are significantly well advanced in co-generation within our major hospitals. I look forward—and I know that every member in the Committee will look forward—to ongoing reports on those projects, because they do point the way, in certain circumstances, to the future. The financial savings in the production of power alone make it worthwhile. The very significant savings in the emission of greenhouse gases is of equal importance. Even if there were no dollar savings—and there are—it is a responsible approach, where possible, to have these co-generation facilities.

Mrs HUTCHISON: I refer to program four, Mineral Resources—Management and Assessment. There has been much talk, certainly in this place, about perceived problems between the department and Aboriginal people. What is the department doing with regard to Aboriginal people and their communities?

The Hon. Frank Blevins: This year, the International Year of Indigenous People, has been significant for the department in its ongoing relationship with Aboriginal people. We have seen successful outcomes of previous consultation in the form of two agreements with the Anangu Pitjantjatjara and one with the Maralinga Tjarutja to undertake geoscientific work on their lands. There have been significant staffing decisions through the recruitment of three Aborigines as assistant area officers to assist our mining inspectorate in its role of regulating mining operations in the Far North of the State.

Further, an Aboriginal staff member has been reassigned to the position of Community Liaison Officer in recognition of the importance of good communication between ourselves, mining companies and the South Australian Aboriginal communities and people. Consultation with Aboriginal people and their communities has been an ongoing activity for the department at all levels, from the CEO and directors to all our field staff who obviously work in the field. Following previous successful Aboriginal awareness sessions for our staff, the department is planning further sessions through the Aboriginal Training College at Port Adelaide. The Department of Mines and Energy takes very seriously the interaction that it has through necessity and through choice with Aboriginal communities throughout South Australia, and in particular, in this Year of Indigenous People, I think it is important that that be recognised.

Mrs HUTCHISON: With respect to the South Australian exploration initiative, what overall impact has that had on mineral exploration activity in the State?

The Hon. Frank Blevins: A very significant impact. In 1992-93, flying has been completed under the SAEI, and $5.5 million has been spent recording airborne magnetic data over a total of 175 000 square kilometres, or 17 per cent of the State. It is expected that, because of this, the number of exploration licences will increase by 30 per cent, and exploration expenditure will increase very significantly after the first year of operation. Since the initiative commenced, there has been a three-fold increase in exploration licence applications in the six month period ending 30 June compared with the same period last year.

Millions of dollars of company funds will be directed to these areas over the next 10 years. A total of 25 mineral exploration companies are participating, and these include some of the very major explorers such as CRA, BHP, Pasminco, Stockdale, Shell, Peko Wallsend, Ashton, Poseidon, Western Mining, Aberfoyle Resources, PASA Exploration and so on. New regional offices in Adelaide have been established by two of the companies—Pasminco and Peko Wallsend—from which they wish to coordinate their exploration activities. Mineral exploration licences granted to date have annual exploration expenditure commitments totalling over $1 million. It is estimated that additional exploration licences granted in the next six months will have expenditure commitments totalling nearly $5 million.

There has been some criticism of the Government's expenditure of $60 million in this area. We know the hoary old charge about Governments interfering in the private sector and that we should just get out of the way and leave them to it. I have always believed that that was nonsense. We can work cooperatively, and I think taxpayers' money has been well spent in this area. The data provided to companies at fairly nominal cost is an investment. I know it goes against all those right wing theories of leaving the market to sort itself out, but I am quite happy and feel quite comfortable with this level of intervention in the mining industry. I believe it is very sensible that we do it. I am afraid those who have an ideological difference can argue their case and I will argue ours for this level of intervention, and hopefully more.

Mr BECKER: On page 194 of the Auditor-General's Report under the heading 'Thebarton complex' there is a detailed report of what has happened following the closure and the audit review of the complex, where there are large quantities of plant and machinery no longer required. I assume they are stored in buildings that are also no longer used other than for purposes to store unused items. Mention is made that the property could be subject to a subdivision. Could you please update the Committee on what is happening at Thebarton and, if a subdivision is proposed, will it be residential or industrial or both, and are you likely to dispose of the surplus plant and buildings?

Mr Fardon: In addition to what was recorded here in our replies to the Auditor-General, we have to find some extra storage for core. We have a giant core storage shed and that is getting full and we have to do something else with it. We also have the old asylum Z block over at Glenside, which is now full of part of this $3 billion worth of company exploration equipment on our files and we are looking for extra storage for that. We have been scouring the Adelaide region for those things. It turns out that some of the old buildings at Thebarton are probably suitable. It is being worked on between ourselves and SACON. Treasury has asked us to look at some other ground where we can save new capital costs, but we cannot sell the Thebarton area for any sort of price at the moment. It has been devalued every year for the last couple of years. It might now turn out to be a very valuable asset for us for storage. The old equipment there is almost unsaleable now. I wish it had been sold 10 years ago, but if we get a recovery in drilling in this State over the next couple of years we might actually find some resale value for up to $20 million worth of old drilling equipment out there. Some of it is reusable. The whole thing is being reassessed. It is not urgent because at the moment we cannot sell anything.

Mr BECKER: The only other question I have goes to page 196 of the Auditor-General's Report under 'Statement of accounting methods', where there is a reference to 'AMDEL—Thebarton redevelopment'. That shows a payment of $252 000 and receipts of $250 000. What was the redevelopment at Thebarton involving AMDEL, because $1 million was borrowed from SAFA?

The Hon. Frank Blevins: Mr Breckly has those details.

Mr Breckly: I am not entirely familiar with the details of what redevelopment was done down there. It was quite extensive and the cost was supported through the Department of Mines and Energy to the tune of $1 million, which was actually financed from SAFA. The payments that are recorded there of $252 000 and the receipts of $250 000 in fact relate to rental paid by AMDEL to the department and used to repay the debt to SAFA.

Mr BECKER: Could you take that question on notice and give me the details?

Mr Breckly: Certainly.

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

ADJOURNMENT

At 9.59 p.m. the Committee adjourned until Thursday 16 September at 11 a.m.