

LEGISLATIVE ASSEMBLY

Monday, 21 November 1994

Mr Speaker (The Hon. Kevin Richard Rozzoli) took the chair at 9.00 a.m.

Mr Speaker offered the Prayer.

BILLS RETURNED

The following bills were returned from the Legislative Council without amendment:

Appropriation Bill
Parliamentary Appropriation Bill
Business Franchise Licences (Petroleum Products) Amendment Bill
Motor Vehicles Taxation (Amendment) Bill
Road Improvement (Special Funding) Amendment Bill
Financial Agreement Bill
State Revenue Legislation (Further Amendment) Bill

CRIMES (PROHIBITED MATERIAL) AMENDMENT BILL

Bill received and read a first time.

STATE BANK SALE PROPOSAL

Special Audit Report

Mr Speaker, pursuant to the resolution of the House of 13 October 1994, announced receipt from the Treasurer of the Special Audit Report on Proposed Sale of the State Bank of New South Wales by the Auditor-General dated 8 November 1994, together with Volume 2 being a Report to the Auditor-General on Proposed Sale of State Bank of New South Wales by CS First Boston and Coopers & Lybrand.

POLICE NUMBERS

Ministerial Statement

Mr WEST (Orange - Minister for Police, and Minister for Emergency Services)[9.02], by leave: I wish to make a ministerial statement. As honourable members are aware, last Thursday the honourable member for Ashfield successfully moved in this House under Standing Order 54 that I furnish the Parliament with all papers regarding manning levels in the New South Wales Police Service. The time frame imposed by the honourable member was by noon today. I am taking this, the first opportunity, to make a statement on the matter. Yesterday afternoon I had a meeting with the Acting Commissioner of Police to ascertain the progress being made in response to the request. The acting commissioner informed me then, and again in writing this

morning, that it is impossible to meet the criteria of the Standing Order 54 resolution by noon today. I have asked that every effort be made to have the material available by the close of business on Thursday.

Not all of the papers requested by the honourable member for Ashfield are located centrally. For information on leave rosters and strength on a particular day, 1 November, my officers must go back to every police station in the State to obtain copies of rosters, sick leave applications, maternity leave, long-term leave and secondments, and the Government has undertaken to do so. I indicate to the House my compliance with the honourable member's request.

Mr WHELAN (Ashfield) [9.03]: What a laughable proposition. The will of Parliament is being flouted. On Thursday the Minister for Police, and Minister for Emergency Services said that it would cost 250 man-hours and \$400,000 - I am exaggerating - and now he says that it cannot be done until Thursday, which is likely to be the last day of the session. No doubt on Thursday he will seek leave to make another ministerial statement, saying that the information cannot be provided until the following week. What will happen on the following week? The Government will go to the Governor and ask him to prorogue the Parliament, saying that there is no need to comply with any requests of the Parliament.

A ministerial statement does not get the Government off the hook. The Government has an obligation under Standing Order 54 to comply with the will of the Parliament. The Minister for Police, and Minister for Emergency Services is not complying with the will of the Parliament by saying that the material will be available on Thursday. The Minister did not table the letter from the acting commissioner, and the Parliament has no evidence at all that the Minister is not being duded. There is no evidence whatsoever. I can tell the Minister - [*Time expired.*]

STATE BANK (PRIVATISATION) BILL

Second Reading

Debate resumed from 12 October.

Mr J. H. MURRAY (Drummoyne) [9.04]: At the outset I want to make it clear that the State Opposition opposes the sale of the bank at this time. The Opposition sincerely believes the sale is a poor decision for the taxpayers of New South Wales, as will be proved in the long run. I predict that in years to come students of government will be using this legislation as an analysis of the practice of government. Before the Treasurer starts smiling, I want to make it clear that it will be a study of the Fahey Government's actions as a process of bad government flowing from poor politics. This legislation provides for the sale of the State Bank in name only, in the process producing a very bad deal for both the seller, that is, the Government, and for New South Wales taxpayers.

Page 5406

The first mistake by the Treasurer was to narrow the list of possible buyers, thus ending up with an auction at which there was only one bidder. The Treasurer has boasted that the sale of the bank will remove \$19 billion of contingent liabilities from the State's balance sheet, as the State will no longer be obliged to guarantee the bank's deposits. Unfortunately, this deal will leave the State guaranteeing those deposits whilst losing all control over the operations of the bank. Talk about responsibility without power! It was interesting to read the comments from the learned journalist Bryan Frith in the *Australian*, which echoed those very same points. Mr Frith, a respected financial journalist, has repeatedly argued that the timing of the State Bank sale may undermine return to the State. He argues that the State Bank is now clearly on the recovery path, and that it is possible a sale further down the track would realise a higher price. Only on 18 November Mr Frith said:

It's arguable that if the NSW Government were to float the State Bank of NSW it would receive \$200 million to \$400 million more than it has agreed to accept from the sale of the bank to the life office, Colonial

Mutual Life Society.

In other words, if the Government offered the same concessions to public investors as it has offered to CML, and the float is held when the market starts to rally, the Government would achieve an extra \$200 million to \$400 million for the sale of the bank. I will deal a little more with those concessions at a later stage. It requires patience and intelligence - both qualities lacking in this dying, incompetent Fahey Government. Frith goes on to say:

. . . if the Government is prepared to wait for a recovery in the market climate it's probable that it would be able to float SBNSW during 1995-96. Moreover, that would have the advantage of enabling the bank to continue to report improved results.

In other words, it would allow the bank's performance to recover, allow the market to recover and allow the State to recover a much greater return for its valuable asset. Honourable members have all seen what is happening in the banking sector and know that recovery is in the tunnel. Clearly, the State Bank's profit for the next year will be in excess of \$100 million. Even the Chairman of the State Bank, Mr John Lamble, has stated his reservation about the sale, saying he would not comment on whether the sale was fair, that is, whether the sale price compensates for forgone projected earnings. As politicians, we all know that if he is refusing to comment it is because he does not agree with it, but he is not going to compromise his position as head of the bank. By not fully endorsing the sale, he is saying, and saying from a position of inner sanctum knowledge, that the sale price is not a fair price.

Let us consider the projected earnings of the bank. It would be agreed that the bank's profit record has been poor, not because the operating profit has been low but because its loan losses have been high. The bank is not Robinson Crusoe in that respect. Other banks, especially Westpac Banking Corporation, have gone through that cycle and have recently come up with a major improvement in profit. The general manager has indicated that the profit will double in the next 12 months. High loan losses were a direct result of wholesale corporate banking, in other words, lending to the corporate cowboys. Losses in that respect totalled \$1.3 million. As the bank clears its bad loan portfolio, it will be able to keep more of its operating profits as final profit. Last year the bank made an operating profit of \$160 million. After bad loan provisions of \$90 million, its final pre-tax profit was still \$70 million. It is quite clear that as the bad loan portfolio recedes into history the bank will return profits of more than \$100 million a year.

The sale of the bank now for \$576 million would short-change New South Wales taxpayers of significant future earnings or, more important, a much better sale price. A benchmark profit of \$70 million this year would equate to \$700 million in lost earnings over 10 years. We all know, however, that the figure of \$70 million is at the lower end of the scale. A more realistic figure would be at least \$100 million profit, which equates to \$1 billion forgone profit over the next 10 years, yet the bank is being sold for only somewhere around \$520 million - and later in the morning I shall say how I arrive at that figure. The Treasurer will want to have something to say about that, but I should remind him that the most profitable sector in Australia now is the banking sector.

In recent times the National Australia Bank Limited recorded the largest profit ever recorded in Australia for any organisation. Westpac is predicting massive increases in its already substantial profit, as is the Australia and New Zealand Banking Group Limited. The Government is selling off the bank for a figure that it says is \$576 million. As at 1 September the bank had assets of \$589.3 million. Therefore, the Government is selling off the bank for a figure \$13 million less than the asset value as at 30 September. One might say that is not a bad deal; I only wish that I had \$576 million to buy a bank that was worth \$13 million more than I was paying for it and would make a profit of up to \$100 million next year.

I stress one point. It is obvious that there has been no component in the sale for goodwill. That is outrageous. How could any government say that there is no goodwill for the State Bank, with its branch network throughout New South Wales having a net worth that every major bank in Australia would want to get its hands on? For the Government, which knows the value of that network but has obviously precluded it, to say that there is no component in the deal for goodwill is a real bum commercial deal. Everybody involved in

commercial dealings knows that there is always a goodwill component in any sale price.

The benefits that Colonial Mutual Life will derive from the sale are substantial. It is interesting to note that the Treasurer's second reading speech made only passing reference to the benefits that will accrue to CML. I shall spend a little time going

Page 5407

through some of the fine print involved with the sale. There are three distinguishing stages in the sale. There is the period from the execution of the sale contract and other related contracts to the completion of the sale. In that period both the State and the purchaser are committed to the sale, subject to various conditions being met. The State continues to be the legal owner of the State Bank, but the purchaser has an interest that requires active involvement in overseeing the State Bank. That is reasonable and nobody could complain about that.

Next there is the period from completion to three years down the track, the third anniversary of the sale. In that transition period there is a continuing government guarantee of funding liabilities to maintain funding stability for the State Bank. If that condition were put to the open market, shareholders would fall over themselves trying to get into an organisation for which the Government continued to guarantee the liabilities of funding for another three years. On the asset side, there is a government indemnity with respect to all loan assets existing at the date of completion. That is not a bad deal for CML, but it certainly exposes New South Wales taxpayers unnecessarily. The purchaser has full responsibility for all new business written after that date, which is fair enough. We are not worried about that; we are worried about what we as a State are covering for those parts of the loans that have been taken over.

There is then the period from the third anniversary of the sale. The government guarantee in relation to the State Bank funding liabilities ceases, with the guarantee of existing liabilities running down as they fall due. Loan indemnities apply only to non-accrual loans that were in existence at the date of completion. I wish to speak to the conditions precedent to sale. The Government has gone into the deal with a loaded gun at its head. The State Bank (Privatisation) Bill has to be passed by 24 November. If it is not passed by that date the taxpayers will be up for \$7 million. What is going on? A date has been stipulated and the Government has a \$7 million gun put at its head. If the deal is not executed by 24 November the sum of \$7 million will be forfeited. It is obvious that CML is in the box seat and the Government is running around trying to flog off the bank and will undertake any conditions to please the purchaser.

There are four components to the \$576 million purchase price. First, there is the \$20 million deposit to be paid on execution of the sale. Second, a sum of \$362.375 million will be paid on the date of completion. Third, \$144.125 million will be paid after finalisation of the sale. Fourth, there is \$50 million, on which interest will be payable on a fully commercial term, that will be paid three years after completion. The taxpayers of New South Wales are giving CML a loan of \$50 million. If the drought-stricken farmers want to borrow they are told that there is no money. Treasury has \$50 million, however, for the purchaser of the State Bank to help in the purchase and running of that organisation.

There are exclusions from the sale. I ask the Treasurer in his reply to give me an undertaking as to what is happening about the national electronic interchange services, the NEIS subsidiary. The State Bank will seek to sell NEIS either prior to the sale or as soon as practicable thereafter. Any amount by which the sale price of NEIS is greater or lesser than the net book value of the State Bank investment in NEIS will be on account of the State. I query the current status in that regard. Another important factor is the State Bank Centre in Martin Place. The Government will obtain freehold ownership of the State Bank Centre subject to an existing long-term head lease.

The existing long-term subleases of part of the building to the State Bank of New South Wales will be assigned to the State, which will grant new short-term leases to the State Bank on current market terms. The effect is that the State will bear the economic burden - and this is not a bad deal - of the rent differential between the existing long-term subleases and the new short-term sub-subleases, and the ongoing risks of the long-term subleases. Further, the Auditor-General advised that that is equivalent to \$15 million. That is \$15 million that can be written off from the purchase price straight away. We were not told that \$50 million of the \$576 million

is to be paid out on a loan. We were not told that \$15 million is for a rent subsidy. In his speech the Treasurer has not told the House about other figures which will have to be deducted. It is obvious why the Treasurer did not want to go through this particular document; he made only a slight reference to it and said that honourable members will find it is a great deal.

The State is providing specific indemnities as follows: past contraventions of the Credit Act and contraventions within six months after completion resulting from the use of the systems and products of the SBN in use as at completion. In another six months, if there are any problems with the Credit Act, the taxpayers will have to pick up the bill for them. That is a certain liability, the extent of which is unknown. Why are we to wait six months to pick that up? Another indemnity is litigation arising from acts or omissions prior to completion. That is reasonable. The indemnities continue: inadequate insurance coverage for insurance claims relating to events prior to completion; and certain property indemnities relating to rectification of any asbestos found in the SBN's freehold premises and in respect of any non-monetary defaults by SBN under its lease of the State Bank Centre. In other words, if asbestos is found there we will pick up the bills for rectifying the problems for ever and ever. This is the great deal! No wonder the Treasurer did not want to tell people about all these hidden problems.

[Interruption]

The honourable member for Ku-ring-gai laughed. I advise him that there have been court cases involving asbestos-related injuries costing millions and millions of dollars. That is an unknown of the deal. Why are we picking up that unknown? Most of the

Page 5408

indemnities are subject to a time limit, and that is fair enough. Each claim or class of claims under warranties must be not less than \$50,000 and in aggregate must not exceed \$10 million over the period. Colonial Mutual Life will maintain in operation all country branches in New South Wales for at least three years after completion. For it to do that, the Government will contribute \$3 million - and that is called a social benefit! This is supposed to be a commercial deal. Now the Government is providing a \$3 million social benefit for a major trading enterprise. It is going out backwards. CML is the winner in this deal. The Government will spend \$3 million on behalf of the taxpayers of New South Wales. That is half the money needed to build a high school. The Minister for Health should be listening to this because he could solve the health problems in the Illawarra area with some of that \$3 million.

The purchaser will not, for at least three years after completion date, seek to sell its interest in the State Bank, provided that CML may issue shares in the State Bank as long as it continues to hold at least 50.1 per cent of shares. In other words, CML can sell off 49.9 per cent of the bank in about three years time. We all know what will happen to the banking sector in three years time; we all know what banks will be worth in three years time. CML will sell off half this bank for the purchase price. That is a deal that we have nurtured for CML. I turn now to the Auditor-General's assessment. It is important to note what the Auditor-General was asked to do. The Opposition takes issue with the Auditor-General's Report.

[Interruption]

The Premier laughed. The Auditor-General did not report on one of the conditions on which he was asked to report. The Premier thinks that that is reasonable. The Auditor-General is not an agent of the Government but an agent of the Parliament. This Parliament asked the Auditor-General to report to the Parliament on one of the terms of the resolution of this Parliament. The Auditor-General did not report as requested. The Premier had the hide to say that as a member of Parliament I am not to take issue with that. Premier, you are saying that this Parliament should be subjugated to the role of an incompetent government, which is having a fire sale for the State Bank. The Auditor-General was asked to examine and report on the sale of the State Bank, having regard to the terms of sale. The timing of the sale is obviously one of those terms. In other words, the Auditor-General was giving an opinion on whether \$576 million was a fair and reasonable price for a lemon - and it has been a lemon. The point the Opposition wants to stress is that members of the Opposition believe that the State Bank will be a profitable, viable bank from here onwards. The Auditor-General has taken a line

on the operations of the bank to this time, drawn it off and said, "This is what I will give my report on". The State Bank became a lemon under the Greiner and Fahey governments.

The coalition has been in office for the past seven years. The State Bank was making a profit before 1988. The board, appointed by the previous Labor Government, created a problem. As the Auditor-General said on page 3 of his report, provision for loan losses have absorbed about 90 per cent of the State Bank's underlying earnings over the past five years. However, it must be emphasised that the Auditor-General was not asked to give a commercial judgment on what the bank would be worth after it had been restored to full health, after it cleared its portfolio of bad loans and when it has a reasonable record of profits behind it. He was not asked to make that judgment; nor did the Auditor-General do so. I question the methodology he used in respect of the limited task he was asked to perform, most noticeably his use of a 18.9 per cent discount rate to calculate a net present value of the bank's retention rate. All commercial commentators have commented on that 18.9 per cent discount. On page 15 of the Auditor-General's methodology he stated:

The price should be at least equivalent to what the seller would earn.

The Parliament is the seller and Parliament is not being told the range of the bank's projected earnings. All we are told is that CS First Boston, part of the advisory group for the Auditor-General, and the Auditor-General, had used the bank's predictions of future earnings and calculated the net present value of the bank by applying an 18.9 per cent discount rate to those projected earnings. Let us examine that figure. On this reasoning, the bank would need a projected annual profit of approximately \$130 million to have a net present value equal to the sale price of \$576 million. So it is out. Who, in their right mind, would sell an asset earning \$130 million a year?

Not one of the many business people on the Government benches would sell an enterprise which was making a profit of \$130 million a year for \$576 million, unless he or she were a Packard or a Smiles - and they have now gone. I wonder whether the frontbench and the backbench have been cleansed of all those deviates with their commercial acumen. The sale of the State Bank for \$576 million would mean forgoing an earning rate of 22.89 per cent. On the Auditor-General's methodology most of the publicly listed banks would have a net value of only 50 per cent of the current stock market valuation. In other words, if the 18.9 per cent discount rate were applied to all other banks, those banks would be worth half their market value.

[Interruption]

The honourable member for Coffs Harbour, who cannot even come into the Chamber on time to cast a vote, wants to comment on something about which he does not have a clue. He should stick to organising a decent water supply for Coffs Harbour. If we used the Auditor-General's figures it would mean that the market has undervalued all other banks by 50 per cent. The Opposition, in accordance with the terms of reference of this Parliament, asked the Auditor-General to examine a report on the anticipated range

Page 5409

of the bank's projected operating profits. However, the report does not disclose the bank's projected earnings because the Auditor-General says they are commercially sensitive.

But that is not the point. How can we make a value judgment if the information is not provided? We can only make a value judgment by looking at the 18.9 per cent discount as it applies in the marketplace. It is accepted that we will not get that information; therefore, we have to use the other methodology, which indicates that the bank is being sold off in a fire sale. The Parliament needs this vital information if it is to make an informed decision about whether the forgone earnings are worth more than the sale price. At page 4 of the special audit report the Auditor-General states:

The consideration to be received by the State clearly exceeds the financial and economic return that the State would obtain if it remained the owner of the State Bank . . .

Taking these latter factors into account, and having regard to the Preferred Terms of Sale, the

consideration for the sale of the State Bank of New South Wales Limited is, from the Parliament's viewpoint, a fair and reasonable consideration.

That is fair enough; it is only a good deal if we find out the actual figures. We cannot find out what they are and we cannot find out what is the projected return. If the projected return is taken into account it does not reflect a fair and reasonable consideration. I refer to page 20 of the Auditor-General's report, which states:

A listed bank might currently be valued at 20% more than its . . . (net assets) . . .

Honourable members already know that the bank is to be sold for \$13 million less than the value of its assets. What is going on? If I were the head of Colonial Mutual Life I would not mind that sort of deal, especially when the Auditor-General says that 20 per cent more should be paid for the assets than is currently being paid. The logic is flawed in that respect. One must also look at the actual figures. The Auditor-General, on page 27 of the report, states:

The Bank is currently committed to lease some 14 floors plus storage and car space at the State Bank Centre at Martin Place for, in effect, a period exceeding 115 years. The rent payable by the Bank is currently significantly in excess of the current market levels.

The Auditor-General also states:

The net present value of the likely additional cost is \$15 million.

The sale price of the bank is \$576.5 million. The Auditor-General has calculated that government concessions would cost \$38.7 million, which would bring down the sale price to \$537.8 million. After including the additional cost of \$15 million to take over the State Bank Centre, the figure would be \$522.8 million, less a social equity gift of \$3 million, which brings the figure down to \$520 million. The State Bank is to be given a loan of \$15 million. The Treasurer is correct when he says that the Government will receive \$576 million for the State Bank, but he did not say \$50 million to \$70 million would have to be paid to CML or to others. It is not the best deal that has ever been made. It is a deal that the people of New South Wales will rue in time. I was interested to hear the Treasurer, in his second reading speech, state:

The decision to defer the sale can only be justified if there is strong evidence to support the view that the sale value can be increased in the future by at least \$100 million a year and above commercial unprofitable levels for every year the sale is deferred.

It is obvious from the figures that have been given that that is the case. There is a case for deferring the sale if we consider what is happening in other areas of the banking sector. The Opposition has never taken the view that the bank is not for sale. The Opposition has said that, if the State Bank is to be sold, it should be sold at a opportune time when profits can be maximised for the taxpayers of New South Wales.

Mr Tink: When is an opportune time for Sussex Street?

Mr J. H. MURRAY: That is exactly the point I am making. One should wait until the market rises. The deal is being stitched up now rather than at a later stage because it was understood that there would be an upturn in the market. What happened with the profitability of the National Australia Bank, Westpac Banking Corporation and ANZ Banking Corporation will happen with the State Bank. But under this deal, brokered by the Fahey Government, all that will be sold will be the profits. Almost all the losses of the bank's existing business will stay with the taxpayers. It is as though CML and the Fahey Government have devised a new form of partnership. One partner takes the benefits of all the good bits of the profit and loss statement and the other partner takes the burden of the bad bits.

In the last five years the State Bank has made operating profits of \$1.6 billion. During the same period it made charges for doubtful debts of \$787.9 million and made a further net loss of \$76.2 million on abnormal

items, leaving a profit before tax of just over \$130 million. Imagine the huge profits if the bank had not made so many bad loans, or if the bank had a fairy godmother to relieve it of most of its losses, as is happening now. Economic realists might assume there is no such thing as a fairy godmother in the commercial world, but I am afraid John Fahey is about to prove that there is.

Mr SPEAKER: Order! I call the honourable member for Monaro to order.

Mr J. H. MURRAY: I wonder whether the honourable member for Eastwood is still trying to determine, in that marginal seat trio, a few winners for the next election. His record to date is abysmal. If, on 25 March, the Government applies the same methodology it used in the Cabramatta and Parramatta by-elections, Labor will win.

Mr SPEAKER: Order! I call the honourable member for Eastwood to order. There is far too much interjection in the Chamber. I call the Minister for the Environment to order. I call the honourable
Page 5410

member for Eastwood to order for the second time. The behaviour of members must be more decorous. The member for Drummoyne should resume his seat; otherwise, he might not be able to conclude his speech. The novelty of sitting at 9 o'clock on a Monday morning obviously has members in a fractious mood. For debate to proceed in an orderly fashion all members must be accorded their due right of being heard in silence. Members should desist from interjecting and engaging in conversation, the level of which is unacceptably high.

Mr J. H. MURRAY: If this deal had been brokered five years ago CML would have pocketed about \$870 million before tax, and the taxpayer would have forked out over \$700 million, indemnifying CML against failed loans. Government members claim the proposal is a great deal. They have not learnt from history. If this deal goes through now, a similar situation could occur. It is to be hoped that the bank's experience with bad loans over the next five years will not be as dreadful as it has been over the last five. But with total problem loans amounting to \$1,129 million, and specific provision for only \$310 million, what assurances can the Premier give this House? Taxpayers should also remember that, if we have to bail out these loans, we will not have \$200 million in operating profits each year to do this because all profits will belong to CML.

The loan guarantee is not, however, the only aspect that makes this sale questionable. Perhaps of equal concern is the requirement that the taxpayer will also have to foot the management costs and interest shortfall of all the bank's non-performing loans. This means that even after the bank is sold the taxpayer will continue to pay some of the bank's expenses and will be subsidising interest payments on defaulting loans of failed speculative entrepreneurs. The sale agreement summary does not make clear whether this reimbursement will apply only to the \$990 million of non-accrual loans or whether it will also apply to restructured and renegotiated loans of \$328 million. Even if it applied only to the former, the cost to the taxpayer could be enormous. Assuming a conservative 6 per cent funding cost for these loans, the shortfall between the cost of funding and income received could be anywhere between zero and \$60 million a year.

The bank would know how much these management costs and interest shortfalls have amounted to in the last five years and, therefore, should be able to provide some likely range of costs for the future. Why is it not telling us? Likewise, no estimate has been provided for other hidden costs to the taxpayers in this deal, including rent subsidies on the State Bank Centre - the Auditor-General has given some indication of those subsidies, but Parliament was not going to be given that information - indemnities for contraventions of the Credit Act, litigation, inadequate insurance, building rectifications, taxation, and a host of other miscellaneous warranties. We were not given those figures. It was not until the Auditor-General prepared a report for Parliament that these figures became available. Why is there a hidden agenda?

These are all costs which will have to be met from the sale price, without any help from the significant annual operating profits of the bank. The real sale price of the State Bank is not \$576.5 million; rather, it is a big question mark. No-one knows what will happen if and when some of these loans fall over. The question remains: why sell the bank now? Why not wait until the balance sheet has been cleared of bad loans, which will cost the taxpayer, whether the bank is sold or not? Why not wait until the bank's operating profits and final

pre-tax profit return to what should be a normal relationship for a well-run bank? The Opposition believes from its information that, when the loan books are finally cleared up, the bank should be returning a pre-tax profit of about \$150 million each year. A four-year or five-year track record of profits of this magnitude will give the bank a value in excess of \$1 billion. There is another argument I should answer. If the \$576.5 million sale price is such a bad deal for the taxpayer, why was CML the only bidder? The answer, I believe, is in two parts.

Mr SPEAKER: Order! I call the honourable member for Kiama to order.

Mr J. H. MURRAY: First, it is a bad time to put the bank on the market, when most potential buyers are trying to restore their own balance sheets from the ravages of the recession and their own lending miscalculations before embarking upon new acquisitions. Second, and perhaps more significant: how many initial bidders would have stayed in the race if they had known that the Fahey Government would make such incredible concessions on funding guarantees, loan indemnities, warranties and the like? I suspect that many people who fell over would have stayed in the running if they had known what such a soft touch the State Government would be in its negotiating skills. CML simply displayed better nous in assessing the stupidity of the Fahey Government and its lack of business acumen.

A mistake is sometimes made in assuming that a sale is the only way the State's liability for the bank's \$19 billion of commercial and retail deposits can be phased out. The State Bank Corporatisation Act already allows the guarantee to be phased out as term deposits, debentures and other financial arrangements entered into by the State Bank mature. This section of the Act has never been proclaimed. It can only be proclaimed when the bank returns to having a strong balance sheet. A number of honourable members have asked what a Carr Labor government would do with the bank. I have given them an answer. If this fire sale were stopped, Labor's first goal would be to nurse the bank back to health. It would require a new charter for the bank that concentrated on domestic lending to home buyers and small and medium businesses.

Mr SPEAKER: Order! I call the honourable member for Ku-ring-gai to order.

Mr J. H. MURRAY: In the late 1980s and early 1990s the bank's problems stemmed from its headlong rush into corporate banking - the chief

Page 5411

executive officer has admitted that. As I have stated, the bank has changed its direction and made a number of huge loans, many of which exceeded 10 per cent of its capital base. Subsequent events have shown that it offered those loans to corporate cowboys, without proper scrutiny, at a time when the State had a Premier who was an economic guru. He conned the people of New South Wales into believing that he had a full understanding of what was happening in the business world. While Nick Greiner was running this State the bank was running rampant. A new board of top management will also be necessary. Though it is impossible to apportion personal blame for the \$1.2 billion provision for doubtful debts and other loan losses between 1988 and 1993, the buck has to stop somewhere. In other words, those who are at the helm must go. At least as a short-term measure a Labor government would entice Nick Whitlam back to oversee new strategies for the bank.

Mr SPEAKER: Order! I call the honourable member for Gordon to order.

Mr J. H. MURRAY: Prior to 1987 Nick Whitlam's previous term as head of the bank saw it embark on steady but safe growth without the calamitous lending that followed his departure under Nick Greiner. When the bank is back to robust health a Carr government will proclaim the phase-out guarantee provisions of existing legislation provided it is satisfied that a potential sale price is greater than the bank's retention value. A Labor government would then dispose of the bank by means of a public float - an option preferred by the general market and by the State Employees Union. If such an option had been chosen it would have resulted in a 50 per cent increase in the price that the Government is receiving now. Labor's option would ensure that the bank remains an independent entity and continues to compete with other banks and financial institutions in New South Wales. In a nutshell, Labor's goal is to save the taxpayer from being fleeced of many hundreds of millions

of dollars. A Carr Labor government would ensure sure that the restoration of the bank's health was one of its triumphs in 1995. Government members laughed when I put Nick Whitlam forward as a person of substance who would demonstrate leadership at the bank. I wish to quote from a letter dated 11 October from Nicholas Whitlam to the editor of the *Australian Financial Review* which states:

Somebody has been feeding Gary Sturges fibs (AFR, The state of the State Bank, October 10) and confusing him.

I resigned as chief executive officer of the State Bank on June 30, 1987. Its book value then was \$607 million with a balance sheet of about \$10 billion. Today its book value is \$544 million -

so there has been a drop in that period -

(and this may include some "future income tax benefits") with a balance sheet of about \$19 billion.

Corporate loans turn over every three years or so. Whatever loans were on the books mid-1987 would largely have gone three years later.

That is exactly as I have said. Those lousy loans to cowboys were incurred by the bank while this Government had tutelage of the bank. The letter continues:

The bank first reported a loss in 1993. It would also have reported a loss in 1991 had it not taken to "profit" more than \$60 million from superannuation reserves we had over-accrued in the '80s.

Of course, that meant there would have been a loss in an election year, so obviously the board was looking after the Government at the time. The letter further states:

The Greiner Government's drive to corporatisation was largely correct and beneficial. The corporatisation of the State Bank was effected by the Wran Government via the State Bank Act 1981.

When I was appointed chief executive of the State Bank in 1981 I was keen to establish a lender of last resort relationship with the Reserve Bank. An exchange of correspondence put the State Bank under the effective supervision of the Reserve Bank from that time. While the 1990 "corporatisation" made that supervision public and explicit, even Gary Sturges acknowledges that the bank had been managed in line with Reserve Bank policies since 1964. Otherwise, this second corporatisation divided the bank's reserves into shares; subjected the bank and its directors to the Corporations Law; and liberated the chief executive's salary.

Whoever told Gary Sturges -
the apologist for this Government -

the bank's non-performing loans come "overwhelmingly from a period before corporatisation: 1983-1989" was telling him a fib.

The only person who could have done that would have been the Treasurer. The letter continues:

The State Bank's loan book was clean in 1987.

As I indicated earlier, the State Bank was given over to this Government as a cleanskin, with reasonable loans. Under the tutelage of the Greiner and Fahey governments, the State Bank has gone out backwards, reporting losses that were never reported under a State Labor government. A Labor government would be able to run the State Bank at a profit - the same way it was run prior to 1980 - and the bank would be able to be sold at a much higher rate than the Government is attempting to achieve with its fire sale. Even the loan that excites Gary

Sturgess was paid years before 1988. This Government is wanting to put out the big lie - it has even been able to convince some of its backbench members - that many of these loans were incurred when the former Labor Government was in office. In effect, Nick Whitlam, who ran the bank, has indicated that the loans that created difficulty for the State Bank were incurred while this Government was in office and had control of the bank. The letter further states:

That book deteriorated in years subsequent to 1987, and the 1990 corporatisation has nothing to do with it.

That puts to rest this Government's big lie concerning the downgrading of the bank. It was downgraded by none other than the present Liberal-National Party Government. As I have indicated, this bill will create
Page 5412

difficulties for the taxpayers of New South Wales in the future. It is a deal which shows very little business acumen on behalf of the Fahey Government. The shareholders of CML would be rubbing their hands; they would think it is the best deal in which they could ever have their company involved. They are getting a branch network of a bank at a bargain-basement price: a State government picking up the long-term debts, and all the risks being held by the seller, that is, the taxpayers of New South Wales. If CML could get an equivalent deal in the future it would rub its hands with glee. The people of New South Wales will see this as a dud deal. In March next year they will take it into account. Many of the people who support the Premier and the Treasurer today will not be here to do so again on 25 March.

Debate adjourned on motion by Mr Fahey.

BUSINESS OF THE HOUSE

Precedence of Business

Mr WEST (Orange - Minister for Police, and Minister for Emergency Services) [10.01]: I move:

That at the sitting on Monday, 21 November, 1994, and at any subsequent sitting the Order of the Day for the consideration of the State Bank (Privatisation) Bill shall have precedence of all other business until finally concluded, provided that the House shall consider the routine of business at each sitting up to and including Questions without Notice.

This motion allows Government business to take precedence for the currency of the debate on the State Bank (Privatisation) Bill. I have advised the Opposition Whip of my intention to move this procedural motion. The motion provides for question time, but not for matters of public importance, urgency motions or private members' statements, but only for the currency of the debate on the State Bank. The House is sitting today to debate this matter, which is important not only to the Government but also to the Parliament. The Treasurer's office, in good faith, made every effort to have the Auditor-General's report tabled and distributed on Friday afternoon. It was released immediately to honourable members so that they had access to this information. I seek the concurrence of the House to this motion.

Mr ANDERSON (Liverpool) [10.03]: It seems a somewhat strange process to cut off the business of the House after question time. The House is sitting today to consider the State Bank (Privatisation) Bill; a substantial and important issue. It seems inappropriate to take away from the House - should the motion be adopted - its ability to control its own destiny during the conduct of business today. I understand that this motion would preclude debate on an urgency motion or a matter of public importance. Given the somewhat uncertain situation, as we come to the end of the session, as to how many days we will sit and the enormous number of problems which emerge as each hour goes by in this State, there needs to be a mechanism to discuss such problems.

I believe it would be inappropriate to adopt the motion in its present form and, by doing so, to preclude the opportunity for the House to express a point of view, if it becomes necessary, in the normal course of business. It is all well and good for the business of the House to proceed up to and including questions without notice; that

provides an opportunity for us to ask questions. However, it does not provide an opportunity for this august Chamber to consider a motion of urgency or a matter of public importance if it believes that to be necessary. Such debates would not take away from the House the opportunity to consider the State Bank (Privatisation) Bill, which is why we are here today. For those reasons, the Opposition opposes the motion as it is presently framed. We will divide on the issue.

Mr COLLINS (Willoughby - Treasurer, and Minister for the Arts) [10.05]: Surely nothing is more important to the people of New South Wales at this time than the resolution of this issue. As the honourable member for Liverpool said, the House is sitting today specifically to debate the State Bank (Privatisation) Bill. We do not normally sit on Mondays. We are here today to deal with one issue, that is, the sale of the State Bank. It is a monumental financial decision for the people of New South Wales. The Parliament can make no single bigger financial decision than the one now before the House. The State Bank (Privatisation) Bill must take precedence over all other business. The Parliament has already decided to sit today to debate this issue.

The honourable member for Drummoyne said that several Labor members want to speak to this bill. The Independents will also speak to the bill. This debate could be concluded today. When debate on this bill has concluded, we will adopt our usual standing orders. We may be able to do that tomorrow. I strongly urge that common sense prevail; that the priorities for the people of this State prevail; and that the financial weight of this legislation prevail today and until the debate is concluded. We all know that a cut-off point is stipulated in the contract, that is, 24 November, as was referred to by the honourable member for Drummoyne. We are talking about something which has immediate financial consequences, as set out in the terms of the contract. Nothing is more important than the quick resolution of this issue.

Mr J. H. MURRAY (Drummoyne) [10.07]: The Parliament is not sitting today specifically to deal with the State Bank (Privatisation) Bill. On Friday I received a program from the Leader of the House which said that the House would come back to discuss ministerial statements, notices of motion, papers, petitions and questions. This House has not been brought back specifically for one debate; it has been brought back to function as a Parliament, so that the Government, the executive of this State, can be put under scrutiny. We have fought long and hard to debate matters of urgency in this House; we have fought long and hard to debate matters of public interest in this House. When the Government has a chance to knock out the opportunity for free speech in

Page 5413

this House it does so. If there were any logic in what the Treasurer said, we would not have a question time. The Government knows that we have to have question time. Question time, matters of public interest and urgency motions are of equal significance.

The Treasurer said that we have to debate this bill and that the Independents will want to have something to say. On Friday I was told that on Monday the House would debate the State Bank (Privatisation) Bill until 2.15 p.m., and then until 7.00 p.m.; I was told that on Tuesday we would debate the bill from 2.15 p.m. until 11 p.m.; I was told that on Wednesday we would debate the bill until 7.00 p.m.; and that on Thursday it would be off. The Government cannot tell me that it has not put time aside to debate the State Bank (Privatisation) Bill. It cannot tell me that we cannot forgo some of the time set aside so that members can have debates on matters of public importance or urgency motions - we are talking about an hour and a half. The Government claims that there is not enough time to debate the bill, yet on Friday it set aside Monday, Tuesday and Wednesday for debate on it. This is nothing but a sham. We have been brought back here to debate the bank bill - as well as to allow the Parliament to scrutinise the actions of the Government. One way of doing that, beside question time - it is a very vital way - is through the discussion of matters of public importance and urgency motions. I believe members should vote against the motion.

Mr HATTON (South Coast) [10.11]: I understood that today Government business would take precedence. I did not understand that this would also apply to tomorrow and therefore wipe out the opportunity for other business, in the form of discussions of matters of public importance or urgency motions, to be dealt with tomorrow. That was my understanding. I think it was fair enough for the bill to take precedence today. Suspensions of standing orders are possible only by leave and I take it that the Government would not agree to

that procedure. Therefore hours of debate could not be used up. Dealing with an MPI and an urgency motion tomorrow would take up at most 1½ hours, even if we debated both types of matters. I would be in favour of Government business taking precedence today but not tomorrow as well.

Mr WHELAN (Ashfield) [10.12]: First I would like to thank the Leader of the House for the courtesy he gave me in notifying me that he was going to -

Mr West: You ask the Whip. I gave him -

Mr WHELAN: It is all right to tell the Whip.

Mr SPEAKER: Order! If the Minister for Police and the honourable member for Ashfield do not observe the procedures of the House, I will have them removed from the Chamber. The honourable member for Ashfield will direct his remarks through the Chair.

Mr WHELAN: What the Government is attempting to achieve by adopting this procedure is to ensure that the Treasurer's handling of the State Bank (Privatisation) Bill and the handling by the Minister for Police of the resolution passed by the House on Thursday requiring him to direct the Commissioner of Police to provide all the necessary information about staffing and actual numbers in the police force cannot be the subject of a motion. There would be no possibility of a motion of censure or no confidence being moved against a Minister of the Crown. So if we found - I am not suggesting for one minute that this is the case - that the State's Treasurer was implicated criminally in the sale of the State Bank, this procedure would prevent any Opposition member from moving a motion of censure or no confidence in the Treasurer. I repeat, I am not suggesting for one minute that he is involved in that respect. However, there may be some other matter in relation to the sale of this State's important asset that would warrant the House dealing with the actions of a person involved as a matter for urgent consideration. A motion of censure or no confidence in the Government or the Premier could not be moved. The whole purpose of the motion is to put a gag on the Parliament. The Government wants a Monday without examination in the Parliament, a free Monday so that -

Mr SPEAKER: Order! I call the honourable member for Eastwood to order for the third time.

Mr WHELAN: The Government does not want anyone to scrutinise its actions or to make the it accountable for what it has done. The Government wants a free Monday so that it can peddle the stories about the State Bank and ignore everything else. That would allow no accountability in relation to the Minister for Police. He said that the New South Wales Police Department cannot comply with the will of the Parliament. With the passage of this motion, I would not be able to move a motion of no confidence in the Minister for Police. He claims that the Police department cannot provide the information; but it could whenever it wanted to. He has been duded by his department and he knows full well that is the case.

What is the Government afraid of that would make it seek to take away the rights of members to move urgency motions or discuss matter of public importance? By changing the motion to permit MPIs and urgency motions only 1½ hours would be added to the session of the Parliament. It would enable the Parliament to operate successfully. I would agree to that procedure. The motion moved by the Leader of the House provides that the proposed procedures will apply to any subsequent sitting. So it will apply tomorrow and on Wednesday and Thursday. The Government does not want the ban on MPIs and urgency motions to apply only to today; it wants it for the next three or four days of sitting of the Parliament. I was asked about the State Bank legislation. I gave an indication to the Treasurer of the number of speakers we had on the bill.

Mr Fahey: How many?

Mr WHELAN: Ask the Treasurer. I told him.

Mr Fahey: Put it on the record.

Mr WHELAN: Excluding Independents, because I do not know whether they are going to speak, there are nine. So if the three Independents speak there would be 12 speakers. Eleven speakers at 20 minutes each is about 3¾ hours - less than four hours of parliamentary debate spent in dealing with the sale of a major asset. Is that a filibuster? Of course it is not. I told the Treasurer that this morning across the table. Whatever the numbers are the numbers will be. The Government cannot stop the Opposition from criticising the Government on the sale of an asset, a massive financial resource. The Treasurer is now saying to the people of New South Wales -

Mr SPEAKER: Order! I call the honourable member for Drummoyne to order.

Mr WHELAN: - that he will not be cross-examined by the Parliament on the sale. He is going to carry that legacy because we will make sure that he carries it. The Parliament is being stifled; it is being muzzled. If the Treasurer thinks he has a great story, I have news for him: Opposition members will get out on the highways and byways, and the airwaves, to tell everybody in New South Wales that the State's Treasurer will not be cross-examined on the State Bank (Privatisation) Bill and he has wilfully colluded with the Leader of the House to curb the right of everyone to speak to the debate.

Dr MACDONALD (Manly) [10.18]: This is the classic sort of polarisation in debate that occurs in this place. On the one hand the Government is arguing that the House should debate nothing but the State Bank legislation for the rest of the week, it seems, and on the other hand the Opposition is arguing that we should debate urgency motions and matters of public importance and so on today. I make my contribution on the basis of how I understood the position when we left this place on Thursday: that today should be used in an attempt to mop up a number of speakers on the State Bank issue and we should then resume normal business tomorrow. Therefore, I wish to amend the motion by moving:

Leave out the words "and at any subsequent sitting" and "until finally concluded".

The effect of the amendment would be that today would be devoted to the State Bank and, as I understand, question time, and tomorrow we would resume normal business. There may have been some confusion in communication or the Government may be trying to do a frolic, as the Opposition is good at doing frolics. The understanding of the Independents - I think I speak on behalf of them - is that, rather than the matter going on towards Christmas, we agreed to extend the week's sitting for an extra day to debate this very important issue and then resume normal business.

Mr SPEAKER: Order! I advise the honourable member that I need the amendment in writing signed by the mover.

Dr MACDONALD: I have received advice from the Clerk. My amendment is to delete the words, "and at any subsequent sitting" and "until finally concluded". Therefore, I move:

That the motion be amended by deleting the words "and at any subsequent sitting" and the words "until finally concluded".

Mr SPEAKER: Order! I will not proceed with the debate on the amendment until I have had handed to me a copy of the amendment in writing, signed by the mover.

Dr MACDONALD: I now hand to the Clerk a written copy of my amendment, which I have signed.

Mr WHELAN (Ashfield) [10.20]: The effect of the amendment moved by the honourable member for Manly is to cure half the ill - that the motion moved by the Government will not apply for the future and that debate on the State Bank (Privatisation) Bill be able to conclude, to which the Opposition will agree. I indicated in private conference and to the House that the Opposition agreed to that procedure. I am happy to name the Opposition members who propose to speak in the debate. This amendment will enable the House to

critically examine a Minister in relation to matters raised for urgent consideration or matters of public importance. For those reasons I foreshadow a further amendment: to add the words, "and permit matters of public importance and matters for urgent consideration". If agreed to, that would add only approximately 1½ hours to the parliamentary session. Instead of finishing at 7.00 p.m. we would finish at 8.30 p.m. That is the drama. The plain fact of the matter is that Government members are afraid of the critical analysis of the performance of Ministers and of the Treasurer.

Amendment agreed to.

Question - That the motion as amended be agreed to - put.

The House divided.

Ayes, 46

Mr Armstrong	Ms Machin
Mr Baird	Ms Moore
Mr Beck	Mr Morris
Mr Blackmore	Mr W. T. J. Murray
Mr Causley	Mr O'Doherty
Mr Chappell	Mr D. L. Page
Mr Cochran	Mr Peacocke
Mrs Cohen	Mr Petch
Mr Collins	Mr Phillips
Mr Cruickshank	Mr Richardson
Mr Debnam	Mr Schipp
Mr Downy	Mr Schultz
Mr Fahey	Mrs Skinner
Mr Fraser	Mr Small
Mr Glachan	Mr Smith
Mr Griffiths	Mr Souris
Mr Hartcher	Mr Tink
Mr Hatton	Mr West
Mr Hazzard	Mr Windsor
Mr Humpherson	Mr Zammit
Dr Kernohan	
Mr Kinross	<i>Tellers,</i>
Mr Longley	Mr Jeffery
Dr Macdonald	Mr Kerr

Page 5415

Noes, 42

Ms Allan	Mr Markham
Mr Amery	Mr Martin
Mr Anderson	Ms Meagher
Mr A. S. Aquilina	Mr Mills
Mr J. J. Aquilina	Mr Moss
Mr Bowman	Mr J. H. Murray
Mr Carr	Mr Neilly
Mr Clough	Ms Nori
Mr Crittenden	Mr E. T. Page
Mr Doyle	Dr Refshauge

Mr Face	Mr Rogan
Mr Gaudry	Mr Rumble
Mr Gibson	Mr Scully
Mrs Grusovin	Mr Shedden
Mr Harrison	Mr Sullivan
Ms Harrison	Mr Thompson
Mr Hunter	Mr Whelan
Mr Iemma	Mr Yeadon
Mr Irwin	
Mr Knowles	<i>Tellers,</i>
Mrs Lo Po'	Mr Beckroge
Mr McManus	Mr Davoren

Pairs

Mrs Chikarovski	Mr Knight
Mr Merton	Mr Langton
Mr Photios	Mr McBride
Mr Rixon	Mr Nagle
Mr Turner	Mr Price

Question so resolved in the affirmative.

Motion as amended agreed to.

STATE BANK (PRIVATISATION) BILL

Second Reading

Debate resumed from an earlier hour.

Mr FAHEY (Southern Highlands - Premier, and Minister for Economic Development) [10.30]: In this debate we have seen the total humiliation and embarrassment of the Opposition. Where was the Leader of the Opposition this morning when the call was given? Why did not the Leader of the Opposition come forward and speak on this matter about which he had been so vocal in the media?

Mr SPEAKER: Order! I call the honourable member for Kiama to order for the second time.

Mr FAHEY: Who did the Labor Party choose to champion its cause? The honourable member for Drummoyne, the man the Opposition put down the list, the man who was not capable of holding any responsible position on the Opposition frontbench. He is the only person the Labor Party could find to come forward and take up the debate.

Mr SPEAKER: Order! I call the honourable member for Kiama to order for the third time.

Mr FAHEY: The Opposition is humiliated and embarrassed. The Leader of the Opposition has kept his head down all weekend, ever since the report of the Auditor-General was released. The Leader of the Opposition has not been prepared to make any statement, because he knows what an embarrassment the report is to him and to the Labor Party in this State. Why would it not be an embarrassment? Why would not all matters financial be an embarrassment to the Labor Party? The Opposition is totally incapable of looking after its own finances, let alone giving a serious opinion about the State Bank. The public of this State will never again wear any statement made by the Leader of the Opposition on matters economic, let alone statements from the monkey in the other place, whom the Leader of the Opposition keeps winding up and sending out to make

statements on matters economic. The Labor Party is in all sorts of difficulties with its Sussex Street loans. The \$10 million debt is about to be taken up by the Commonwealth Bank and a couple of unions. The Labor Party in this State is close to being sold up. One day soon in the interests of politics in this State we will have to move a resolution to save the Labor Party, because it is about to be wound up. All honourable members know that there has to be a reasonable Opposition - I am not sure that we have one now - if democracy is to work properly.

This historic bill authorises the sale of the State Bank to Colonial Mutual Life on the terms and conditions set out in the share sale agreement. This accountable Government has gone through the process of seeking expert advice, commencing in November last year, but no decision was made until the advice was forthcoming. On the basis of the advice that it was a fair and reasonable sale, a share agreement was entered into subject to the concurrence of Parliament. Before any decision was made, the Leader of the Opposition did many backflips. He indicated clearly that the Auditor-General was the appropriate person to advise Parliament whether the sale was fair and reasonable on the basis of the terms that are well known by all honourable members.

The Leader of the Opposition must accept the endorsement of the Auditor-General of the sale of the State Bank. It was a ringing endorsement not only of the process, but of the way in which the Government set about bringing the sale to conclusion. It was an endorsement by the independent Auditor-General that the sale was fair and reasonable and the Government's best option. Today we should be allowing members to speak constructively on the bill - I suspect that will not come from the ranks of the Opposition - and getting on with the other business of the House. It is clear that no-one can walk away from the umpire's decision. If the Labor Party persists with its approach of not accepting the umpire's decision, dire consequences will follow as we move towards next March.

The credibility of the Opposition is at an all-time low as a result of the report of the Auditor-General, as a result of the bill and as a result of the process to which the Government was willing to subject itself. Labor should accept that. The Auditor-General said that the Government has been telling the truth, and the Opposition is clutching at straws. The honourable

Page 5416

member for Drummoyne, leading for the Opposition, read a prepared speech, having little idea of what it contained and having no knowledge of the words he was speaking. He laughed on occasions because he was embarrassed; he knew that he was embarrassing his party and that he was a patsy for the Labor Party. He had to deliver that speech because his cowardly leader was not prepared to come into the House and make a statement for the Australian Labor Party. Why would he? The Leader of the Opposition has been left high and dry by the report of the Auditor-General. His financial credibility has been mortally wounded. If one looks at the history of what the Leader of the Opposition has said about the State Bank, it is difficult to know where he stands, except that he wants the best of all worlds. As he does in all matters in the public arena, he says one thing one day and the complete opposite the next day.

In May this year in an article that appeared in the *Daily Telegraph Mirror* the Leader of the Opposition said that there was never an argument that the State Bank should be sold. He said, "Neither I nor my colleagues put forward this view," that is, "We must never sell this priceless State asset". He was not prepared to say that it would not be sold at some stage. The Leader of the Opposition may not remember what he said, but I can assure honourable members that the Government remembers. In August 1990, in the lead-up to the last election, the Leader of the Opposition said, "In the long-term interests of the taxpayers, the New South Wales State Bank must be retained in public ownership". Again, in August 1990 he said, "At the next State election in New South Wales the Labor Opposition is going to be saying very firmly, very resolutely, that we believe this bank ought to remain in public ownership because that is in the interests of the taxpayers".

At the same time the Leader of the Opposition was saying that the Commonwealth Government should sell the Commonwealth Bank. So, he is hypocritical about those issues. In the *Sunday Telegraph* of August 1990 the Leader of the Opposition said, "Traditional ALP philosophies are changing, and there is no reason the Commonwealth Bank should remain fully owned by the Government". It is okay for the Federal Labor

Government to sell the Commonwealth Bank, but the Opposition is not prepared to sell the State Bank. It is a crazy process. It defies all logic. As I have said, it shows clearly that the Leader of the Opposition has no credibility on matters economic. I turn now to what is a fair price, about which we have heard so much carping and harping from the Leader of the Opposition. In November the Leader of the Opposition said that the State Bank was worth \$1.5 billion. In the *Newcastle Herald* of November 1993 he said, "We believe that the bank's value is \$1.5 billion," yet his finance spokesman, the man in the other place, the monkey, put the value even higher than that. In November he said that the State Bank could have a market value of about \$2 billion.

The Government was not prepared to destroy a structure of branches that is important to banking in this State to ensure competition. The State Bank employs 4,500 people and has branches in most country towns around the State. Although one would not hear it from those in the Labor ranks, the presence of a bank is important to the social and economic structure of any town. The Government took the responsible view that it was not prepared to break up the structure of the bank or sacrifice 4,500 jobs. They were the preferred terms of sale. Notwithstanding that, 50-odd expressions of interest for the purchase of the bank were received, even though the big four banks were excluded. At the time the bid was put in the envelope, the company that was ultimately successful, Colonial Mutual Life Limited, expected to be competing against two other parties. CML put its best price forward because it knew that that was necessary if it was to receive the concurrence of the Government. Therefore we received a competitive price on the responsible preferred terms of sale.

I cannot believe that Labor members of Parliament - as evidenced in quote after quote over a period - would say in this place and in the public arena, as the Leader of the Opposition has done, that they are prepared to sacrifice 4,500 jobs, and to throw State Bank staff on the scrap heap of unemployment. The Labor Party is supposedly the party that represents workers in this State. I now come particularly to the points made in the Auditor-General's report. Let us not have any doubt about it: the Auditor-General made it clear and unequivocal that we should sell the bank; that there is no choice. Page four of volume one, outlining the findings of the report reads:

The consideration to be received by the State clearly exceeds the financial and economic return that the State would obtain if it remained the owner of the State Bank.

This view is supported by an analysis of all material issues (guarantee, warranties etc.) including the relationship between the consideration for the sale of the State Bank with the bank's expected future profits and with its net assets.

We have heard much today about so-called expected future profits. The report continues:

... the consideration for the sale of the State Bank of New South Wales Limited is, from Parliament's viewpoint, a fair and reasonable consideration.

On those words alone, there can be no argument against the sale. We hear today from the Labor Party opposite that it is necessary to look at future profits, and for the Auditor-General to re-examine the loan books and various other matters, which, because of their commercial confidentiality, cannot be released into the public arena. This would of course apply with the State Bank or any other bank. Again, a desperate, directionless Labor Party is clutching at straws as it knows it cannot succeed on this matter. My Government is putting the people of this State first, and is intent on securing the future of this State for our children and our children's children. This is a responsible decision. Governments should not be in banking! Proof of that statement can be found by simply looking to the south. The economies of Victoria and South Australia have been destroyed as

Page 5417

a result of decisions made by Joan Kirner and John Bannon in those States. Who is jumping on the same bandwagon in New South Wales? Bob Carr.

The triumvirate of John Bannon, Joan Kirner and Bob Carr believe that governments should hang on to banks at all costs, irrespective of the fact that the whole world knows that governments should not be in banking. In the past 10 years 90 government-owned banks have been sold by 37 governments. The New

South Wales Labor Party is out of step with the rest of the world. By this arrangement the Government has secured the future of the State Bank's employees and the financial future of this State. The completion date of 24 November has been criticised. The reason for that arrangement is that the bank cannot be left hanging out to dry. Investors and employees need to know the bank's fate, and a completion date is necessary for that purpose. *[Extension of time agreed to.]*

I sincerely hope that the Labor Party does not filibuster in this Parliament - as it has already sought to do this morning - in an attempt to delay this process past completion date. We have already spent \$1.1 million of taxpayers' money to obtain a clean bill of health, and we have received the ringing endorsement of the Auditor-General. It is all over, and we should get on with the next item of business, rather than waste Parliament's time on this matter. I now return to a point made by the Auditor-General and his advisers, to which I referred earlier, about examining future profits. Under no circumstances should any bank be subjected to disclosure of the type requested by the Opposition. If the strategies or future trading of a bank or any public body were to be opened up in this way, all of its customers would be exposed, and it is possible that this substantial bank or public body would be destroyed. The call for such exposure shows the lack of financial credibility of the Leader of the Opposition and Opposition members who have spoken on this issue.

I now deal with the major banks. The honourable member for Drummoyne pointed to the profit of the National Australia Bank, and said that the Labor Party would fatten up the State Bank by putting money into it over the next few years. I want the Opposition to make clear in this Parliament the jobs and programs it will cut, the roads it will not build and the hospitals it will close if, in government, it is to put money into the bank to fatten it up for a future sale. At no time should a government be responsible for banks; but it is always responsible for roads, hospitals and other core services. Governments cannot become involved in the role of banking by seeking to invest public money in that way. Such investment is the only chance the bank has of improving its performance under its current ownership. It needs an injection of funds, and it will get it from Colonial Mutual Life Limited.

The Opposition referred to the National Australia Bank profit. Comparing the size of the National Australia Bank and the State Bank, and using the same comparison criteria, the performance announced by the State Bank only last Friday represents one-ninth of the performance of the NAB. Scaling back the size of the State Bank, its performance represents only one-ninth of the operation of the National Australia Bank. The Auditor-General, when assessing the assets of the State Bank and the price to be paid, took into account future profit, and supported the bank's sale.

The question to which we must return - hopefully sooner rather than later in the interests of the Parliament and the people of this State - arose at the point at which we started. Four years ago the Government said that governments should not own banks and that the Government wanted to sell the State Bank. In scoping through the possibilities of selling the bank at a fair and reasonable price, in November of last year the Government took the best expert advice. It took advice from Banker's Trust, Price Waterhouse, the board of the State Bank and Treasury officials; and now CS First Boston has been involved. At the end of that process their advice has been backed up by the Auditor-General. Against all the advice that the price set is fair and reasonable, the Labor Party opposes the sale.

The honourable member for Drummoyne gave a speech prepared by some underling who put together some notes on the basis that the Leader of the Opposition might make the statement. However, he was too embarrassed to do so, and the honourable member for Drummoyne, who was recently demoted by the Leader of the Opposition, was given the task of making the speech. The Labor Party contradicts all the views of the international experts about what is a fair and reasonable price for the bank. There is no other option than to proceed with the sale. In conclusion, I can do no better than quote from the *Sydney Morning Herald* of 19 November, which said, "The Opposition has already indicated it will continue to oppose the sale."

We all know how sad that is, but one must ask whether a hidden agenda is involved. Is the Labor Party trying to be good to the big four banks? Has some deal been made to make the Commonwealth Bank leave the Labor Party alone, as it owes \$5.8 million on Sussex Street? Does the hidden agenda relate to the fact that the

Labor Party has not met its instalment on that debt for the past four months? Are members opposite trying to give that bank a chance to acquire the State Bank somewhere down the road? There must be some reason for its opposition to the sale, against the advice of financial experts around Australia who have examined the sale in much more detail than the Labor Party has. The quote from the *Sydney Morning Herald* continued:

This is despite it agreeing to refer the matter to the Auditor-General for consideration.

The Opposition did not accept the umpire's decision, on rules that the Opposition set up. In the Parliament the Opposition supported the reference to the Auditor-General, but now that the time has come to accept the report and the clear indication in it that the Government has arranged a fair and reasonable sale under all the terms given to the Auditor-General, the Opposition will not accept the umpire's decision. The

Page 5418

Sydney Morning Herald report continued:

Having now received the umpire's verdict, the Opposition is refusing to accept it. It is to be hoped that the other Independents, and the minor parties in the Legislative Council, take a more sensible approach than Mr Hatton and the Opposition.

The Government has arranged the sale of the bank that no government should be involved in; it has done so at a fair and reasonable price and on terms that make for competition in banking in this State; and it has done it on the basis that the structure remains. That means that jobs have been protected; it means that people in country towns and in metropolitan suburbs that the Opposition is supposed to represent will retain their employment. The Government has sold the bank on the basis that it will retire \$19 billion worth of contingent liability and a debt which costs about \$60 million a year to service; that will finish. No Government should be in banking, and the Government is getting out of it. It is doing so responsibly and in a manner which the Opposition could never hope to achieve, even if given 50 years on the government benches - and on the strength of this exercise the Opposition is entitled to have one minute on the government benches.

Mr THOMPSON (Rockdale) [10.50]: A large part of the Premier's address was taken up with denigration of the Leader of the Opposition, so I think it is only fair that honourable members look at the Premier's position. I have a copy of the front page of yesterday's *Sunday Telegraph*. The heading says "Libs not up to Scratch. 'Weak individuals' says Premier Fahey". I will quote from the article:

PREMIER John Fahey yesterday admitted some of his MPs have never been up to the job and had cracked under pressure . . .

In a rousing bid to soothe public disquiet about the moral fibre of his Government -

Mr Chappell: On a point of order: these comments have absolutely nothing to do with the ambit of the bill, and the honourable member should be directed to speak to it.

Mr THOMPSON: On the point of order: I am responding to the denigration of the Leader of the Opposition.

Mr ACTING-SPEAKER (Mr Hazzard): Order! The subject matter of the bill is specific: privatisation of the State Bank. The member for Rockdale will confine any remarks he makes about members of the House to that subject matter and not refer to unrelated matters reported in an article in the *Sunday Telegraph*.

Mr THOMPSON: I am sure that during the course of what I have to say I will be able to draw the appropriate tag line so that I will be able to enlighten the House on these important issues. The Premier also said that this debate will be a waste of the time of the Parliament. That seems to me to be breathtaking arrogance and shows a total lack of respect for the role of the Parliament. The Premier has said that the Opposition should accept the verdict of the umpire and approve the sale of the State Bank simply because the Auditor-General has spoken, as if the Auditor-General was in fact the sole authority on what should happen in this State. It is the role of the Parliament to make such decisions. The sale was referred to the Auditor-General primarily because the unaligned Independents wanted an independent second opinion. In

debate on this matter on 13 October the honourable member for Manly said, "...we have sought to provide an independent second opinion on the issue". In the same speech he said:

The reference to the Auditor-General is about process. There are two elements to that process. The first is the involvement of the Auditor-General, which I think is a due process that is about accountability regarding a large asset sale. Governments and government activities are changing, in the sense that we are now seeing much more out of the budget sector deals; we are seeing privatisation by all shades of government; we are seeing more of joint sector financing; we are seeing contracting. In that process there must be transparency - no hiding behind commercial confidentiality. The sale of the State Bank deserves the cold eye of the Auditor-General.

That is what the honourable member for Manly - and, by inference, the other Independents and, for that matter, the House - said at the time that the Auditor-General was appointed to undertake this task. There were two essential elements in those comments made by the honourable member for Manly. The first was that the Auditor-General was asked to provide an independent second opinion. No-one seriously challenges the independence of the Auditor-General, but, given the circumstances, his office was unable to do the work in house, and it was largely given over to consultants. The methodology of the Auditor-General's report puts his office squarely in the role of participating in the process as a questioner. The real work was undertaken by a team from CS First Boston and Coopers and Lybrand.

Mr Cochran: Are you questioning their competency?

Mr THOMPSON: No, but listen; there is more. The team was led by one Alistair Walton, who I am told was Michael Yabsley's best man and is a confidante of Michael Kroger - neither of whom would be regarded as political shrinking violets. My information is that at one stage the State Bank was advised that there was no need to comment on the accuracy of the report because it had already been verified by Treasury, BT Corporate Finance and Price Waterhouse. However, numerous errors were subsequently identified and conveyed to the Auditor-General. Further, I am informed the State Bank conducted a time-constrained review of parts of the adviser's report and the Auditor-General's covering report, but were not shown the final copy before delivery to check if their comments were appropriately reflected. I also understand there were aspects of the adviser's modelling that were not shown to the State Bank, so it was not able to determine whether the errors it found in those parts of the report shown to it were material.

Reverting to my earlier quotes from the
Page 5419

honourable member for Manly, the first element he stipulated was the involvement of the Auditor-General to provide an independent second opinion. The second was that there must be transparency; no hiding behind commercial confidentiality. The Auditor-General's report attaches the adviser's review, except "segments considered to be commercially sensitive". It is my understanding that the State Bank is not privy to the segments considered to be commercially sensitive. On the morning of 18 November the Auditor-General entered into a contract that purports to prevent him from supplying those segments in whole or in part. This is an extraordinary situation given, first, the general condemnation of the original contract's provision of \$7 million compensation if Parliament does not approve the sale. On this point many observers have likened it to a gun being held at the head of Parliament and described it as being scandalous. It prompted the honourable member for South Coast to say on 13 October during debate on the referral of the sale to the Auditor-General:

... one last difficulty that I have, and that is whether under the Constitution the Government is able to anticipate a parliamentary decision and sign a contract with a penalty clause.

Barely 10 minutes prior to the member for South Coast making that statement on 13 October, the honourable member for Manly said, as I told the House earlier, there must be transparency - no hiding behind commercial confidentiality. In paragraph (b) of the terms of reference, the Parliament asked the Auditor-General to examine and report on:

(b) the anticipated range of the Bank's projected operating profits;

But the report did not give that information. It remained silent on the vital and relevant issue of the bank's projected earnings because the Auditor-General said it is commercially sensitive. This is vital information that the Parliament sought and requires to be able to make an informed decision as to whether the forgone earnings are worth more than the sale price. There appear to be a number of weaknesses in the analysis by the consultants overseen by the Auditor-General. For example, the report appears to compare the sale value with the retention value in perpetuity, rather than the sale value now with the sale value in a year or two, or more. In this regard I refer to a report that appeared in the *Australian* of Friday, 18 November. Bryan Frith in an article headed "Delayed float of State Bank could reap extra \$400m" stated:

It is arguable that if the NSW Government were to float the State Bank of NSW it would receive \$200 million to \$400 million more than it has agreed to accept from the sale of the bank to the life office, Colonial Mutual Life Society.

The article further stated:

It would not be possible to float the SBNSW in the current market environment. Demand for capital has vanished and issuers are being forced to abandon proposed new floats.

However, if the Government is prepared to wait for a recovery in the market climate it's probable that it would be able to float SBNSW during 1995-96. Moreover, that would have the advantage of enabling the bank to continue to report improved results.

Last year the State Bank reported a pre-tax profit of \$32.7 million, which became a loss of \$74.6 million after abnormals. This year the State Bank is tipped to return fully to the black and report a pre-tax profit of more than \$70 million and an after-tax result of more than \$40 million. Those figures were announced just the other day, so they are up to date. The essence of Mr Frith's remarks in the extracts I have quoted and in the balance of the article to which I have referred is that the Government is acting with undue haste. He notes that the State Bank is clearly on the path to recovery and that a sale further down the track would bring a significantly higher price. It is clear that what is needed is patience, intelligence and a commitment to do what is right for the people of New South Wales - qualities that are in short supply in this tired, lacklustre and weak Government.

The Government, by taking the path to which it has committed itself, is selling the people of this State short. Further weaknesses in the report of the Auditor-General are evident in the treatment of the government guarantee. The so-called cost of the government guarantee looms large in the analysis. This is despite categorical statements from the Government that it wants to be rid of the contingent liability of the bank and would use the proceeds to repay debt - which implies that the Government is not losing any opportunity to use the guarantee elsewhere more profitably. Furthermore, it is despite the notation of the Auditor-General that the Government already has the highest rating possible so the cost of other government debt will not fall on removal of the contingent liability. It is despite definitive statements that the bank has not and will not impose costs on this State such as those imposed by other State banks.

I turn to the important matter of the profit record of the State Bank. Since the early 1990s the bank's profit level has been poor. Last year the bank posted a loss of \$74.6 million. Last week the bank reported a 115 per cent increase in operating profit, to \$70.5 million before tax for the year ended 30 September. Net profit after tax was \$40.1 million, an increase of 87 per cent. Projections for next year are that a profit of more than \$100 million is achievable. It is in the context of the clear improvement in the bank's profit position that we should closely examine the deal the Government has entered into. Annual profits will improve as the bank clears the backlog of the lending disasters of the late 1980s and the early 1990s. The sale of the bank now for \$576 million would deprive New South Wales taxpayers of worthwhile future earnings or a greatly improved sale price.

Mr Cochran: That is rubbish. Read the report of the Auditor-General.

Mr THOMPSON: The Auditor-General based his report on the bank's past difficulties. Loan losses in the past five years absorbed about 90 per cent of

the bank's underlying earnings. The document from the Auditor-General is based on the difficulties or poor performance of recent years. There is no indication in the report of the anticipated range of the bank's projected operating profits.

Mr Cochran: There is. Read the report again.

Mr THOMPSON: I have read the report, although I bet the honourable member for Monaro has not.

Mr Cochran: You have missed the point.

Mr THOMPSON: I have not missed the point. The lack of such information is a crucial gap in the knowledge we need to make a reasoned and balanced judgment on whether the sale price is adequate. In my view, we are being short-changed. The honourable member for Monaro, a member of the National Party, is someone I know well. He has done me a favour or two in the past. I would expect him to be reasonably intelligent. He does not understand that it will be his constituents, National Party members in particular, who will ultimately suffer through the proposed deal. The Government thinks it has provided guarantees. Further down the track those guarantees will not be worth the paper they are written on. State Bank branches will be closed. Such a deal would not have been contemplated under the old Country Party. By using an 18 per cent discount rate to establish the current value of future earnings, the report suggests that earnings of \$700 million in the next 10 years represent a net present value of only \$265 million. [*Extension of time agreed to.*]

On the reasoning of the report, the bank would need a projected annual profit of approximately \$130 million to have a net present value equal to the sale price of \$576 million. If that were in fact the case, who could possibly condone or promote the sale of an asset earning \$130 million a year for a mere \$576 million? That would mean forgoing an earning rate of 22.5 per cent a year. That aspect shows that a statement made by the Auditor-General in his report to be highly questionable. At page 15 of the Auditor-General's report it is stated:

The price should be at least equivalent to what the seller would earn.

The seller in this instance is the Parliament of New South Wales. In the absence of knowledge of the anticipated range of the bank's projected earnings who can be sure that the Parliament and the people of New South Wales are not being ripped off? The adoption of a discount rate of 18.9 per cent certainly appears to be dubious. The analysis of the Auditor-General uses the discount rate of 18.9 per cent and suggests that it is difficult to use a rate of less than 17 per cent. I have been given to understand that discount rates are usually derived by adding to the long-term bond rate a premium for risk. As the bond rate is about 10 per cent, it would be suggested that a premium of 7 per cent or more has been added. The sale agreement itself, however, suggests that only a 5 per cent premium is required. This morning I heard on the Australian Broadcasting Corporation news that Professor Bob Walker of the University of New South Wales - a gentleman to whom Government members listen keenly - said that the Auditor-General had been snowed on the 18.9 per cent discount rate. My independent advice tends to confirm that suggestion. The 18.9 per cent figure is over the top.

[*Interruption*]

My independent knowledge, I would suggest, is much better than that of the Minister for Transport. Everyone acknowledges that the bank's strategies are working and that the reduction in impaired assets, increased housing loan portfolio and retail deposits underline the fact that the bank is at a turning point. Why not wait? Why not give the bank time to further improve? Most of the hard work has been done. The past three to four years of hard slog by the bank management and, in particular, the staff is starting to pay off. There is every prospect of the improvement accelerating, so suggestions of future annual profits of more than \$100 million are realistic and achievable. If that is the case, and all of the evidence says it is, the figure of \$576 million is not nearly enough. This really is a fire sale.

The analysis compares the sale price of \$576 million to net tangible assets as at 30 September of \$589.3 million. The figure of \$589.3 million, however, does not fully reflect the superannuation surpluses in the bank or the profits of the past two months. That could well amount to an additional \$30 million to \$40 million and as such would represent an additional windfall to the purchaser. I cannot find evidence in the report of the Auditor-General that full cognisance has been given to that aspect. In effect, it means that the taxpayers are being ripped off to a much greater extent than appears at first glance. A further question is raised about the thoroughness and credibility of the report. The report also appears to be deficient in that it does not cover all of the indemnities provided in the sale agreement. There is no reference to meetings with other bidders in stage 2, foreshadowed in a report of the *Australian Financial Review* of 10 November, or to the ability of Colonial Mutual Life to sustain the bank as a viable independent entity. An article in the *Australian Financial Review* of 17 November written by Anthony Boyd stated:

Colonial Mutual Life is planning to finance the \$576.5 million acquisition of State Bank of NSW with a capital raising of at least \$100 million and possibly as much as \$300 million . . .

Colonial has made no mention of the capital raising and, in fact, policyholders were led to believe the entire deal was being funded from the life company's statutory funds.

At the time the deal was announced in September, Colonial's managing director, Mr Peter Smedley, said Colonial would buy the bank, using its statutory funds.

Under persistent questioning about this, he was forced to defend the purchase and said it represented only 5 per cent of statutory funds.

A capital raising puts a different complexion on the deal because no mention was made of it when the State Government's adviser, Bankers Trust, determined whether Colonial had the financial strength to complete the deal.

Page 5421

In summary, the deal brokered by the Government is a lousy one for New South Wales taxpayers. In effect, all that is being sold are the profits; almost all of the losses in respect of the bank's existing business will stay with the taxpayers. The extent of this Government's largesse to CML will become clear with the passage of time should Parliament give approval to it. A *Sydney Morning Herald* article written by my colleague in another place, the Hon. Michael Egan, who I know is well regarded by Government members, stated:

In the last five years, the State Bank has made operating profits of \$1,000.6 million. During the same period it has made charges for doubtful debts of \$787.9 million and has made a further net loss of \$76.2 million on abnormal items, leaving a profit before tax of just over \$130 million . . . Because for \$576.5 million, John Fahey is about to give CML the right to pocket all of the operating profits . . . Also, he will indemnify it for 90 per cent of any bad loans over a threshold of \$60 million in addition to those already specifically provided for.

Imagine if this deal had been brokered five years ago! CML would have profited about \$870 million before tax, and the taxpayer would have forked out over \$700 million indemnifying CML against failed loans.

In the long-term interests of the people of New South Wales this fire sale should be extinguished. Even the board of the State Bank has branded the deal as unfair. The bank has turned the corner, better times and much-improved profits are ahead. The future is promising. The bank should now be allowed to get on with the job and through its revised structure and lending policies generate good profits for the benefit of the people of New South Wales. [*Time expired.*]

Mr BAIRD (Northcott - Minister for Transport, and Minister for Roads) [11.10]: As an indication of just how seriously the Opposition takes this debate it rolls out its economic heavyweights: the honourable member for Drummoyne and the honourable member for Rockdale. Their economic credentials stagger us all.

No Labor government, Federal or State, has any economic management credentials. Labor's record in that regard in Victoria, South Australia, Western Australia and in New South Wales is appalling. Labor governments invested \$3 billion worth of taxpayers' funds to prop up the State banks of Victoria and South Australia. This Government recognises the problems associated with retaining the State Bank and is moving to resolve those matters.

A clear demonstration of the economic incompetence of the Opposition is the loss by its headquarters of \$10 million. It has been said that if one cannot govern oneself, one cannot govern the State or the nation. If the Opposition cannot manage its own finances, how could it manage the economy of the State? To retain the State Bank is to maintain an ongoing liability. It is clear that the Government is taking the only option available, and it is a fair and reasonable brokering option, upon which I congratulate the Treasurer.

Opposition members are throwbacks to the old Eastern Bloc. Wholesale privatisation programs are taking place in Russia, Hungary and Czechoslovakia. Across the world contracting out is happening in a major way. Opposition members would have been at home in Ceaucescu's Romania, which wanted the state to run everything. The great inequities and inefficiencies created by Labor when in government have been corrected by this Government. The best deal possible for the sale of the State Bank was negotiated by the Government. The costs of carrying a \$19 billion liability and the obligation of a government guarantee are ever-increasing burdens on taxpayers. The Opposition might say that that is not a problem and claim that the bank would trade its way out of it. Opposition members should ask the people of Victoria and South Australia whether the guarantees of those State governments meant anything. They translated into \$3 billion worth of liability - money that could have been spent to improve roads, provide new hospitals and train additional police.

Because of the initiative of this Government the same mistakes will not be made in New South Wales. We operate in a deregulated banking environment. In the past the State Bank, and its predecessor the Rural Bank, had a role to play, but in a deregulated environment it is no longer practical or feasible for government to impose its imprimatur on a banking organisation. The Government has obtained advice from a series of renowned advisers. The comments by the honourable member for Rockdale were absolutely puerile. He is grasping at straws. It is clear that the Opposition has given up on this debate. Why does it not admit it and agree to support this deal, and we could then get on with the economic management of the State. Bankers Trust, CS First Boston, Goldman Sach, Price Waterhouse, Coopers and Lybrand and the Auditor-General asked for this inquiry, which gave a thumping endorsement of the sale of the bank, the terms and conditions, and the purchaser. The Opposition is saying what we have heard it say many times: we do not like the report; we want another one.

Honourable members will recall the episode involving Mr Neary and the State Rail Authority. In that matter the Opposition called for an inquiry, but because it did not like the outcome it denigrated the findings of the inquiry. It is an old line. This report delivers real benefits. The lengthy analysis by this consortium shows that it will deliver real benefits for the taxpayers of New South Wales, the State Bank and those who have savings in the State Bank. The customers of the bank will certainly be protected. There are no worthy rationales for continuing the ownership of the bank. I remind the House of some of the key reasons outlined in this report. The Treasurer deserves the congratulations of this House on the successful negotiation of this contract.

Anyone involved in the sale of any item is entitled to ask questions about the sale price. In regard to this sale we should ascertain whether the retention value is greater than the sale price. With regard to the way in which the sale has been conducted, one is entitled to ask whether sufficient alternatives were considered, and what costs would be

Page 5422

involved in keeping the bank. It is clear that the Auditor-General has given a ringing endorsement to the sale brokered by the Treasurer. One of the reasons the Government put forward for the sale was the provision of a government guarantee of \$100 million per annum to keep the State Bank afloat. This is a clear liability. The Auditor-General stated, on the cost of the guarantee:

In advocating the sale of the State Bank the Government has argued that the weight of the government guarantee on the funding liabilities of the State Bank is an important factor in the State's own risk rating, notwithstanding that the rating is currently at the highest level possible.

This State is proud of its AAA rating. Despite a significant downturn and the recession, while other States lost ground - and some of them crashed to low levels under Labor administrations - this State has retained its AAA credit rating. The sale of the State Bank will ensure the retention of that rating. If the Government continued to guarantee \$100 million per annum, the rating would be eroded, and the costs associated with borrowing would be substantially changed. Honourable members well recall the administrative disasters in Victoria and South Australia because of the approach the governments of those States took to the management of banks. Governments were thrown out for squandering taxpayers' money. The State has government guaranteed liabilities of \$19 billion in relation to the current establishment of the State Bank. The sale of the bank would free up the banking environment by providing a fifth banking force. If the State Bank were sold to one of the four major banks, the existing network of branches would be swallowed up and many staff dismissed. A fifth banking force will provide competition in the marketplace for a long time, and I am sure everyone in New South Wales would applaud that.

No government funding is required to enable CML to capitalise its future growth and provide injections of funds. The funds received from the sale of the bank will be used to reduce the debt. Debt levels under the previous Government rose significantly, but this Government is reducing those debts. For each year the sale is delayed, the State will forgo at least another \$100 million in opportunity costs under the guarantee. The sale price of any business is based on today's value of future earning potential as well as its past profits and assets. The board of management of the bank advises that it is difficult to compete under government ownership. The sale will remove restrictions on the bank and enable it to compete in the marketplace.

The Auditor-General's report emphasises that it is better to sell the bank by tender than by public float. A major float would have required major restructuring of the bank and its assets, and it could not have been floated until 1996, 1997 or later. In the meantime, the guarantees and liabilities would continue. On any criteria the Government is satisfied that this is the best deal possible. It has been reviewed at some length by Cabinet and all its members are satisfied with the deal. It has been considered in the party room, by the people of New South Wales, by editorial writers of the *Sydney Morning Herald* and the *Daily Telegraph Mirror*, and by economics reporters, and they have all given the proposal the thumbs up. Only the economic incompetents opposite would want to cling to the Eastern Bloc philosophy and continue with the current situation. For reasons that escape the Government, the Opposition is trying desperately, with some of its lightweights, to put reasons up for not selling the State Bank. In regard to the sale price, the Auditor-General stated:

The consideration to be received by the State clearly exceeds the financial and economic return that the State would have obtained if it remained the owner of the bank.

It meets the criteria. Is it a fair price? The answer is a resounding yes, absolutely. In regard to the costs to be met under the terms of the contract of sale and how they compare with the costs that would be borne if the State Bank remained under government ownership the Auditor-General stated:

The indemnities, warranties and reimbursements are generally designed so the Government receives no benefits and bears no costs that it would not have had if it owned the State Bank.

There are no additional costs; there is only the benefit of the sale price and the removal of the liabilities. As to whether the profit projections put forward by the bank were wrong or appropriate, the Auditor-General stated clearly:

In reaching a view on fair and reasonable, the financial projections adopted by the State Bank's board were accepted.

Again there was no deception; it was as represented. In regard to whether the State Bank should be retained and whether the net sale proceeds are likely to be less, approximately equal to or more than the reasonable

retention basis, the Auditor-General stated:

The consideration for the sale of the State Bank to CML clearly exceeds the reasonable retention benchmarks including the net present value and future income streams established and examined for the purpose of this report.

There should be no more argument. To the people of New South Wales the bank is worth more sold than it will be if retained. The Opposition takes its usual Eastern Bloc approach that the Government should own everything. But the arguments of the Opposition have no substance. On the basis of independent and expert advice, the Auditor-General said that the Government is getting an excellent deal. The value to the Government of the sale of the bank and the rundown of the government guarantee exceeds the value to the Government of the profits of the State Bank. The economic illiterates opposite would not understand the projections of future profits. The profit levels that the Opposition foresees do not exist. The Auditor-General said a better price would have been attained if one of the big four in banking had purchased the bank - but at what cost? The Auditor-General stated in his summary:

Page 5423

In return for these reasonably unquantifiable forgone gains -

and we are not sure of the exact amount -

the State enjoys the benefits noted above. A major Australian bank would have absorbed the State Bank and would have rationalised its distribution of staff.

If honourable members are concerned about the level of staffing and about further rationalisation - getting rid of the banking structure across the countryside - selling the bank to one of the major four banks is not the way to go. The approach recommended by the Treasurer is the way to go. This deal has been brokered by the Treasurer, and has been applauded by commentators in New South Wales. It meets every criteria the Government has established. Selling the State Bank to CML is more appropriate than selling it by way of float or selling it to one of the big four in banking. It is more appropriate than retaining the bank and waiting for the economy to improve. It is an excellent deal that highlights the economic credentials of the Government and the Treasurer. Labor Party administrations across Australia cannot point to one area - *[Time expired.]*

Mrs LO PO' (Penrith) [11.25]: It seems odd that the report from the Auditor-General was released on Friday and this debate is taking place this morning. My colleagues and I only received our copies of the report at 9.40 this morning. It does not allow much time to read the report. I wonder if Government members received copies of the report before Opposition members received theirs.

Mr Collins: No.

Mrs LO PO': I am not necessarily assured by the Treasurer's response. In the Treasurer's second reading speech the only rationale that was given for selling the State Bank was as follows:

When the forerunner to the State Bank, the New South Wales Savings Bank, was formed in 1819 there was seen to be a genuine need for some form of government involvement in the ownership of the banking sector to provide banking services to the middle and low income groups.

In 1994, and indeed for the past few decades, there has been no worthy rationale for continuing Government ownership of the State Bank.

The Treasurer has given an assurance that this is part of a worldwide trend. And that seems to be the only rationale for selling off the bank! What if it is a worldwide trend? The Minister is comforted by his insistence that the Government should follow the trend. The Government is setting its own trend by selling off a bank that earns \$130 million a year for a mere \$576.5 million. That is not a great business deal in anyone's language.

I turn to the history of the bank. The idea of a government bank was first put forward by Governor Macquarie in 1810.

Mr DEPUTY-SPEAKER: Order! Before a member quotes from a document, it should first be identified.

Mrs LO PO': I am quoting *Hansard* of 15 April 1981, page 5960:

The idea of a Government bank was first put forward by Governor Macquarie in 1810, and in fact a savings bank was established by the Savings Bank Act, 1832. In 1871 the Government Savings Bank of New South Wales was established along the lines of the post office banks in England. It survived until federation, when it was brought under the control of the State Treasury. The Commonwealth Parliament does not have power over State banking, unless it extends beyond the limits of the State concerned. In the 1890's droughts, falling export prices and the 1893 banking crisis left many farmers in difficulties. Temporary loans were provided to them through the Advances to Settlers Board, whose functions were taken over by the bank in 1906. The Government Savings Bank Act of that year gave the bank a more independent status with increased powers to expand and develop its activities.

In 1914 the bank was authorized to make loans for the purchase or erection of homes through its New Advances for Homes Department.

In 1920 further legislation enabled the Government Savings Bank to provide a complete banking service. Following a liquidity crisis which forced closure of that bank in 1931, its remaining functions were given to the reconstituted Rural Bank. That bank was only a skeleton, with no separate head office, no branches, no current accounts and a tiny staff. In 1981 the Rural Bank, which assisted farmers and rural workers, became the State Bank with much pride by the Labor Party of the day. In the last five years the State Bank has made operating profits of \$1.6 million. During the same period it has made charges for doubtful debts of \$787.9 million and has made a further net loss of \$76.2 million on abnormal items, leaving a profit before tax of just over \$130 million. The profits would have been huge if so many bad loans had not been made.

I hope that the bank's experience will benefit it in the future. Concerns about the sale are being documented. One concern is about selling when the market has bottomed out. The bank should not be sold until its earnings have returned to the levels of several years ago. Obviously, the bank's earnings have not returned to the levels of several years ago, and it follows that its sale is not viable at this time. Mr Rick Turner, Secretary of the State Bank of New South Wales, is reported to have said:

Privatisation programs have generally been aimed at some or all of the following: maximising the sale price, reducing the drain on government funds from enterprises requiring capital, and expanding public ownership of shares.

It appears that none of those aims is realised in this privatisation proposal. There is no expansion of public ownership of shares through a trade sale. As a result of both the timing and methodology adopted by the Government there is no way the sale price will be maximised. Mr Turner went on to say:

What is also clear is that currently our profit performance is not such as would support a float on the stock exchange to put shares in the hands of the public.

According to some commentators, the Treasurer's extraordinary plan to shut out Australia's largest bank from bidding for the State Bank of New South Wales has the potential to cost taxpayers dearly. It has been said that, in one swoop, the banks with perhaps the largest chequebooks to complete a purchase are shut

Page 5424

out, destroying an option for one of the Australia's better assets. The reason the best price might not be realised is that the Government, for purely political reasons, has ensured that those who might be most anxious to buy or who might at least drive up the price in an auction are being excluded. Bank executives recently warned that the bank might fetch as little as \$400 million because of its patchy asset quality and poor recent performance and, most of all, the exclusion of major banks from the sale.

[Interruption]

The Minister interjects that it has been said before. I was quoting commentators - it is not my view. Bryan Frith of the *Australian* has said that if the Government is prepared to wait for a recovery in the market climate, it is probable that it would be able to float the State Bank of New South Wales during the 1995-96 period. Moreover, that would have the advantage of enabling the banks to continue to report improved results. It is well known that this year the State Bank is tipped to return fully to the black, and has reported a pre-tax profit of more than \$70 million and an after-tax profit of more than \$40 million. It would make more sense for this Government to delay the sale, wait until the bank improves its profitability, and then float it. Instead of having a Hobson's choice of one bidder there would be a real opportunity to maximise the sale price.

The bank should be nursed back to economic health. To be more convincing, the Government has suggested that it would have to put an extra \$500 million of taxpayers' money into the bank if it retained ownership. However, there has been a report which shows that the State Bank would remain comfortably above the minimum Reserve Bank capital adequacy requirements for the next few years. It appears that the Government's need to sell off the bank is so great that it is prepared to indulge in untruths to win the day. This is a classic case of capitalising profit and socialising the losses. The Treasurer's speech outlined some of the conditions of sale:

From this period through a period of three years there will be a continued Government guarantee of funding liabilities of the bank.

One of the points that the Treasurer was particular about in his speech was that only government banks had to give that level of guarantee. He was pleased to get out of it. But now the same guarantee is being offered three years forward. Who ever buys an asset where the seller covers liabilities? We know the answer to that - no-one ever does. We never have the opportunity. The Treasurer assured us that the risk to taxpayers starts reducing from the date of sale. Part of the rationale is that only government banks need give such guarantees. The Minister for Transport, in his contribution, used the same platitudes expressed by the Treasurer and Premier. The Opposition remains unconvinced.

The Government is selling the bank at the bottom of the market. If the Government waited, it would get a better price. One of the articles I have quoted from - and given that I could not read the report; I depended mostly on newspaper articles - stated that an extra \$400 million could be had if the Government sold at the right time. The State Bank is being sold with undue haste. The bank should not be sold at the bottom of the market. The bank should be nursed back to economic health. The tendering process should be more liberalised, that is, opened up to more tenderers. The Opposition opposes the bill and believes that the people of New South Wales are not getting a square deal. The Government, in selling in indecent haste, is selling the people of New South Wales short. The Government could get more money on the sale if it were not so panicky about its finances.

Mr SOURIS (Upper Hunter - Minister for Land and Water Conservation) [11.38]: I offer my support to the Treasurer for this bill and the support of the National Party on the privatisation of the State Bank. It is a little worrying that the Australian Labor Party, given that this bill is probably the most important financial measure outside the budget, has drawn up a list of speakers from the bottom up. At least Government contributions are coming from the top down. The Leader of the Opposition, the would-be Treasurer who purports to be the spokesman leading for the Opposition on Treasury matters, was noticeably absent from this debate. He gave away the lead in this debate to the honourable member for Drummoyne. It is an indictment of the Labor Party that it has acted so frivolously on such an important bill. The Opposition has shown an extraordinary lack of depth in financial matters and lack of financial expertise by bowling up such a list of speakers.

Indeed, Opposition members are left quoting external commentators of the calibre of Bob Walker, and that is very interesting. At least on the Government side there is an experienced array of financial expertise, including organisations I shall refer to in due course and every media commentator who referred to the matter over the weekend. The press clippings are headlined as follows: the *Daily Telegraph*, "State Bank sale terms fair and reasonable"; the *Sydney Morning Herald* editorial, "Verdict on the State Bank"; the *Sydney Morning*

Herald, "Auditor's report eases way for State Bank sale" and "Right thing at the right time"; the *Weekend Australian*, "State Bank deal fair and reasonable" and "\$576m sale looks certain"; "State Bank bid reasonable", and the list continues.

The Opposition is left with the discredited Bob Walker, who is a Labor Party stooge - a union-paid stooge. He failed the test of disclosure a couple of years ago when annual reports of his little organisation at the University of New South Wales did not disclose that 13 unions had funded that particular organisation. That would have given the entire game away in terms of his allegiance. The Labor Party has been calling upon that sort of expertise, notwithstanding the pathetic speaking list it has put forward on this important debate. I received the Auditor-General's report this morning, and I understand it was available on Friday. The most significant part is found on the first page of the chapter relating to "Findings" on page 4 of the report, which states:

Page 5425

The consideration to be received by the State clearly exceeds the financial and economic return that the State would obtain if it remained the owner of the State Bank.

This view is supported by an analysis of all material issues, including the relationship between consideration for the sale of the State Bank with the bank's expected future profits.

That sets the tone of the report. The value to the State of privatisation is greater than the retention value - greater than it could ever possibly be by retaining the bank and operating it. The next part is important because it is the only point that the ALP is trying to make, in its misguided fashion. Despite what the ALP is saying, the report states that the consideration for the State Bank does reflect future profits. Did honourable members opposite, the dopes, think it reflected future losses or something similar? Did they think that Colonial Mutual Life Limited would be making an offer above net assets, given a prognosis of long-term losses. It is just a joke that the Labor Party would put up the notion that the bank would be better off kept, presumably in Labor Party hands, after the next election, and nursed, nurtured and brought to even greater strength, and then sold - let us just pick a figure - for some \$1 billion or \$1.5 billion.

The notion that the ALP would hold this bank and create from it a more developed, bigger and more profitable bank than would otherwise be the case ignores the experience of Western Australia, South Australia and Victoria. That experience is the reason for the condemnation of ALP management of State banks around Australia. The example in Victoria would be the classic of all time, and South Australia would not be far behind, as shown in the findings of the royal commission. It is incredible that the Labor Party on this recall day is bowling up weak speakers suggesting that the State Bank ought to be left in ALP hands. That is incredible, as is the notion that the sale price and the negotiations with one of Australia's leading financial institutions somehow reflect a loss-making concern. Surprisingly the ALP has discovered over the weekend that - guess what - the State Bank is likely to make future profits. That is incredible. It is abundantly clear that governments should not be involved in financial businesses, be it banking, insurance - the same arguments apply.

Mr McManus: Or racetracks.

Mr SOURIS: This is the fourth speaker for the ALP, rated No. 4 in financial expertise. I cannot wait for his contribution. This will be a beauty. Is he going to be the Treasurer in a possible Labor Party government?

Mr W. T. J. Murray: He would make a better one than most of them.

Mr SOURIS: That is right; I undersell him. The bank is performing no social obligations in terms of community facilities, or utility-type functions. The bank is an open competitor in a fully open market, that is, on the same grounds that applied to the Government Insurance Office. The Government does not need to have

any input into the functions being performed by the bank. But, more importantly, why would any government wish be involved in the risk business of banking, insurance or some other type of financial institution? What business does a government have in that industry? Is this a wonderful old-fashioned ALP notion that if the bank remains in government ownership in some way it can direct the bank to undertake non-commercial, non-competitive transactions and somehow take a dive on the so-called profits it is talking about through political interference that it would seek to impose on the State Bank in the years ahead? I suggest that strikes the mark more closely so far as the Opposition view is concerned.

The Auditor-General has agreed that the State Bank's terms, price, conditions and process are correct and that it ought to be privatised. Other leading financial institutions have also given the same opinion, institutions such as the respected Bankers Trust, CS First Boston, Price Waterhouse, and Coopers and Lybrand. The bank itself agreed. Every commentator - at least over the weekend since the Auditor-General's report became available - agrees this process and transaction are correct and that the Government should go ahead. The House saw fit to call upon the Auditor-General and his advisers to examine those issues and one could not hope to find a more clear, concise and unequivocal report than the Auditor-General's report.

The Labor Party has thrown in the towel - it must have, given its speaking list and the pathetic debating points made by Opposition speakers to the debate. It knows the game is up but is having one last attempt. It is relying on people such as Professor Walker or the Hon. Michael Egan MLC to lead the way, from a distance, in this debate. It demonstrates that honourable members on the Opposition benches are bereft of financial expertise, and they will remain in opposition following 25 March. The consideration to be received by the State clearly exceeds the financial and economic return that the State would obtain if it remained the owner. This view is supported by an analysis of all material issues, such as guarantees, warranties and indemnities, including the relationship between consideration for the sale price and future profits.

All the issues have been considered by the Government and the ALP cannot suddenly discover a further issue to torpedo the sale. All issues have been considered. The analysis of the sale of the State Bank has been more thorough than any other financial transaction in the central business district for a long time. Given the enormous weight of evidence relating to this sale, it is a waste of the time of this House for the amateurs opposite to try to come up with a show stopper at this late stage. The in-depth analysis carried out by the experts, including the Auditor-General, puts into perspective the financial naivety of those opposite. Compared with the close examination of the terms by the Auditor-General and the other professionals involved, the often changing and cynical positions taken by those opposite show in true light the extent and lack of strength of their argument. The criticisms by the Opposition are utterly unrealistic.

Page 5426

The claims that the sale was uncompetitive have been refuted. The claims that the State will materially gain by delaying the sale have been proven as unsophisticated and fanciful. Yet again, Labor's unimaginative, negative thinking has been exposed for all to see. [*Extension of time agreed to.*]

I refer to the price of \$576.5 million. On every assessment, allowing for the value of any costs arising from loan and other warranties, current and future profits, the price represents fair value for the taxpayer. The price gives the taxpayer greater value than retaining ownership of the bank. It takes into account future earnings. The Auditor-General stated:

In reaching a view on "fair and reasonable", the financial projections adopted by the State Bank's Board were accepted. These three year projections are seen as "aspirational" by the Bank.

By definition, they are more likely to be underachieved than overachieved. It is thus a useful, conservative approach to test the fairness and reasonableness of the consideration for the sale. Under more relaxed but reasonable assumptions that increase the net present value of the State Bank's profits, the consideration for the sale still exceeds the net present value of the profit flow. I refer to the Government guarantee arrangements. For the sake of fairness to bank customers, all call deposits will be Government guaranteed for three years from the sale date. All term deposits during that three-year period will be guaranteed to maturity. Wholesale borrowings by the bank will be guaranteed, but strictly limited and defined.

These are reasonable provisions for a smooth transition period. This is a sophisticated transaction, involving a complex sales arrangement. These are the sorts of things necessary to ensure the success of the sale. They are not political throwaways, as the Opposition has tried to make out; they are most important considerations of a complex and sophisticated sale. Apart from scaring the wits out of depositors and lenders by removing the guarantee overnight, such a move would immediately blow out the bank's funding cost structure and cause irreparable damage - another insight into the financial naivety and incompetence of the Opposition. That is the basic difference between a bank and many other financial institutions: most of the depositors of the bank have funds at call and many of the depositors beyond that have funds at short term.

Over the last couple of months the Labor Party has been trying to destabilise the bank, to cause as much trouble as possible, to scare depositors as much as possible and to see how much business it can lose the State Bank so that it is an uneconomic proposition and it can be put into a less competitive position, not a more competitive position. How can we believe the Labor Party when it says that it will nurse the bank back to health? It has actively spread lies and misinformation. It has tried to scare the customers of the bank away to other institutions, thereby deliberately, as an ALP tactic - this is Labor in action - to weaken the bank in some misguided notion to stop its sale. If this is how the Labor Party operates, how can we believe it? We certainly cannot trust it, that is for sure.

I refer now to loan indemnities. Once again, the Opposition has contributed nothing to rational debate on this issue. All it has done is scaremonger and wilfully distort the true position. It can be summed up as simply as this: the indemnities and warranties assure the purchasers that what they see is what they get. Did the Labor Party think that a sale as complex as this, involving a major financial institution, would not be complex, and would not have substantial warranties in respect of the commodity that is being purchased, given that investigations can only go so far? It is laughable to think of the lack of expertise we have been subjected to over the months of this debate, and especially this morning, from the Opposition.

Once again, the Auditor-General and his advisers have supported the terms of the contract. The report says that any costs are well balanced by losses which the Government will now not carry as a result of the sale. The report states that the indemnities, warranties and reimbursements are generally designed so that the Government receives no benefits and bears no costs that it would not have had as the owner of the State Bank. In other words, nothing has been created by way of an inducement, cost or payment above what would have occurred had the Government retained ownership of the bank. There is nothing extraordinary in this at all. The Auditor-General makes it abundantly clear in his report summary. He states:

Because the consideration exceeds the value of profit flows and because the benefit of the guarantee removal exceeds the tax losses, there is a clear financial advantage to the State if the sale proceeds.

It is time the Leader of the Opposition - the Mr Bean of Australian politics; the Mr Bean of financial matters - started to be less foolish and negative and more positive and imaginative. It is time that he and his colleagues started thinking more of the interests of the people of New South Wales and less of the sectional minority interests of the Labor Party. The arguments of the Opposition have been totally destroyed by the independent assessment of the Auditor-General, an assessment which has cost the New South Wales taxpayers a further \$1 million.

The Government's contract has been dissected minutely and proven to be fair and reasonable and to the financial benefit of New South Wales. There is no reason why this sale should not proceed and be fully supported by this House. The bill has the full support of the National Party. The National Party was concerned about the branch network and country employment. I commend the Treasurer and the Government for ensuring that the branch network will remain intact and country employment will be retained. The National Party fully supports the sale of the State Bank. I support the bill.

Mr McMANUS (Bulli) [11.57]: It is ironic that I am speaking to this bill directly after the Minister for Land and Water Conservation. The Minister has missed his vocation. He should have been the snake oil salesman of the Government. He has spent the last half an hour explaining to us the pros and cons, yet he is the Minister who presides over the black hole raceway at Eastern Creek and last week he had to stand, embarrassingly, before the cameras and tell us about the shemozzle at Luna Park. The Minister says that the Government should not be involved in private enterprise. Well, if we should not be involved in the banking industry, what in God's name are we doing with a racetrack that has cost the community \$110 million? What in God's name are we doing building amusement parks and rides that are blocking people's views and creating havoc for the environment?

This Minister has the audacity to say in this House that we do not need a bank. Why do we need any of these things? Why does the Government not shed itself of the lot? Why not get rid of it all? The whole thing is absolutely preposterous. Let me tell honourable members what has been happening in the past 24 hours - in fact, longer than that, because of the actions of the Treasurer. What is happening is that this sale is holding the Parliament and the people of New South Wales to ransom. If we do not pass this ridiculous, ludicrous bill in the next couple of days, we have to hand over \$7 million to the multinational corporations of this country. What a ridiculous situation in which to put the democratically elected representatives of the people of New South Wales.

[Interruption]

That is a ridiculous interjection from the Minister for Community Services. He should allocate some money for autistic people. He should not come in here proposing such things. He should get out there and do his job for the people he represents. He should not come in here and talk about the State Bank. He has more problems in this world.

Mr Longley: You should do your job for the people you represent and stop telling lies.

Mr McMANUS: The Minister says that I am telling lies. The fact is that if the bill is not passed in the next couple of days taxpayers will be up for \$7 million. The Government has blackmailed the people of New South Wales. When the bank is in profit, why is there this urgency to grab the money now? It is all about 25 March. The Treasurer, in his piety, said in his second reading speech:

... this Government will use 100 per cent of the sale proceeds to retire debt. They will not be used, as the Opposition has wrongly claimed, to fund election promises.

How can you believe this man? This is the man who only a few years ago - the honourable member for Kiama is sitting behind me - said to the Parliament and the people of New South Wales, "Kiama Hospital is okay. We have not got a problem". As soon as the coalition got into power he told a damned lie, another lie.

Mr Longley: On a point of order: the words of the honourable member clearly bear no relation to the legislation. Whilst it is clear that the Opposition has precious little to say on the bill, and the Leader of the Opposition did not even have the courage to try to defend the indefensible, I ask you, Mr Acting-Speaker, to draw the honourable member back to the leave of the legislation.

Mr Harrison: On the point of order: the honourable member for Bulli was responding to an interjection from the Minister, who did lie to the people of New South Wales by telling them that Kiama Hospital was not going to close. What the honourable member for Bulli said was absolutely factual and it is obviously hurting somebody a bit.

Mr Collins: A point of order -

Mr Harrison: We are debating a point of order. The Minister cannot take another one.

Mr Collins: I had not intended to raise a point of order on this, Mr Acting-Speaker, but -

Mr Harrison: Mr Acting-Speaker, I protest that you have not ruled on the point of order already before the Chair yet the Minister is raising another point of order. I ask you to rule on the point of order already before the Chair.

Mr ACTING-SPEAKER (Mr Glachan): Order! The Treasurer is speaking further to the point of order.

Mr Collins: If the honourable member for Kiama is going to abuse the process of the House, he should be ejected from the Chamber. I had not intended to raise a point of order but it is quite clear that the debate is straying from the matter that is being debated by the House and it goes well beyond the leave of the bill. The only debate the House should entertain is debate relating to the privatisation of the State Bank. Whilst some passing reference might be made to other matters - I have certainly been happy to indulge that - I ask, Mr Acting-Speaker, that you draw the honourable member back to the subject being debated.

Mr ACTING-SPEAKER: Order! The House is sitting today specifically to debate the State Bank (Privatisation) Bill. Members should confine their remarks to the subject matter of that bill and not introduce extraneous material.

Mr McMANUS: Mr Acting-Speaker, I intend to do that, except on some occasions when I shall make passing reference to other matters, as I did with reference to the deceit of this Government on Kiama Hospital.

Mr Collins: On a point of order: the honourable member is flouting your ruling, Mr Acting-Speaker.

Mr ACTING-SPEAKER: Order! The honourable member is flouting my ruling and provoking me. I will not accept that. The honourable member will confine his remarks to the subject matter of the bill, and that is privatisation of the State Bank.

Page 5428

Mr McMANUS: The Minister for Transport referred to the fair price for the bank. Before I deal with the fair price I shall discuss the fair deal that generally is supposed to be given by governments to oppositions. I point to the special audit report. I came in this morning intending to speak in this debate. At 9.40 this morning, just prior to the time I was due in the House to make my speech, a report arrived on the floor outside my office. It is disgraceful for members of Parliament to have only 20 minutes to consider the report prior to dealing with a matter of this importance. The Minister for Transport and a number of other Ministers and members referred to the fair price option. The Auditor-General stated in the report that there was no need to discuss projected profits in deliberating on the report.

Even lowly accountant members opposite realise the importance of financial projections when dealing with such matters. In considerations of any business matters, projected profit or loss are necessary factors. If I intend to buy a newsagency I may ask what was earned in the previous five years but I would be more interested in future profits. There may be developments involving necessitous expenditure for the business. The purchase or sale of a business of any sort requires projected financial estimates. It is obvious that the Auditor-General has handed over a lot of these queries to CS First Boston and Coopers and Lybrand and other people involved. The honourable member for Rockdale has already raised concerns about the cloudy and invidious pasts of some of the consultants and their relationship with member of Parliament. I was concerned when I heard these matters raised by the honourable member for Rockdale. Such provocative people should not be involved in the preparation of a report to this House purportedly by the Auditor-General. The past of some of the people involved in the preparation of the report may not be accepted by some members of the House.

Mr Collins: Cowards' castle.

Mr McMANUS: We can talk about Dr Ryan if the Minister wants to talk about cowards' castle. He is the one who put Dr Ryan through the courts and almost drove him mad - and the Minister has the hide to talk to me about cowards' castle! The Minister for Land and Water Conservation had a host of information which he claimed showed that the sale of the bank was fair and reasonable. One of the articles he referred to was a report by Jonathan Porter in the *Weekend Australian* of 19-20 November. But he did not go far enough in explaining what was happening. The Government took a lot of notice of the independent auditors who reported to the Auditor-General but deliberately did not mention what the board thinks about all this. The same article referred to by the Minister for Land and Water Conservation states:

... the State Bank of NSW chairman, Mr John Lamble, yesterday questioned the appropriateness of the \$576.5 million sale price despite Mr Harris's approval.

[*Extension of time agreed to.*]

The article continued:

Mr Lamble said the board of SBNSW had described the sale price, as the final offer from sole bidder CML, as "reasonable" but not "fair" in a letter to the NSW Premier, Mr Fahey.

SBNSW yesterday reported a \$40.1 million net profit for the year to September 30 compared with a \$74.6 million loss last year. The turnaround was aided by a big reduction in the provisioning for bad and doubtful debts.

Here we have a board that is totally at odds with some privateers and consultants.

Mr W. T. J. Murray: On a point of order: Speaker Rozzoli in 1989-90 at page 5199 of *Hansard* said:

... It is not proper for a member of Parliament to quote as fact statements contained in newspapers, unless that member can verify the accuracy of the report.

I ask you, Mr Acting-Speaker, to direct the honourable member to confirm the accuracy of this report.

Mr McMANUS: On the point of order: as I indicated, I am quoting from the same newspaper that was referred to by a Government member who spoke earlier in this debate.

Mr W. T. J. Murray: Further to the point of order: it is irrelevant whether the statement was earlier referred to by another honourable member. The statement is quite clear: "It is not proper for a member of Parliament to quote as fact statements contained in newspapers, unless the member can verify the accuracy of the report". Obviously the honourable member is quoting as fact newspaper statements that he cannot verify.

Mr ACTING-SPEAKER (Mr Glachan): Order! Is the honourable member for Bulli able to substantiate the statement as fact?

Mr McMANUS: I have already indicated that not only did the Minister for Land and Water Conservation use the statement; I stated for Hansard the article and the date on which it was printed.

Mr ACTING-SPEAKER: The Minister merely quoted the heading of the article, nothing else. Is the member able to substantiate the statement as fact?

Mr McMANUS: Yes.

Mr ACTING-SPEAKER: How is the member able to do that?

Mr McMANUS: I have it here; I have identified it to Hansard.

Mr ACTING-SPEAKER: Is the member able to substantiate the material that he is quoting as fact or only opinion?

Mr McMANUS: If the statement is not factual, why did the Chair allow the Minister for Land and Water Conservation to get away with the same issue?

Mr ACTING-SPEAKER: Order! The Minister read only the heading of the article. He made no comment about the content of it. The member may refer to the content of the article provided he does not claim that it is factual.

Page 5429

Mr McMANUS: I do so for Hansard. It is a bad time to put a bank on the market when most potential buyers are trying to restore their balance sheets and rectify their lending miscalculations from the ravages of the recession before embarking on new acquisitions. More significantly, there is only one bidder in this issue, Colonial Mutual Life, and an interesting scenario surrounds the procedure. If this Government had allowed such concessions as funding guarantees, loan indemnities, warranties and other incentives - as are available - it would have been interesting to note how many bidders would have been attracted. The Opposition is concerned that, because this information was not widely available at the time the Government decided to flog off the State Bank, many possible interested purchasers, for obvious reasons, were not prepared to come forward. It is more than interesting to note that CML obviously displayed more nous in assessing the stupidity of the Fahey Government.

The State Bank sale is a crazy farce. It is obvious that we will be selling off a bank that is running at profit and has projected further good profits in the next few years. Apart from other comments of Government members about other States, this bank has been providing \$70 million to this Government on a regular basis and could continue for the benefit of the people of New South Wales. Much as in the Parramatta by-election when half a billion dollars was promised, in contrast to what the Minister said in his second reading speech, the \$500-odd million that will be recouped will be a nice tidy sum to wave to the people of New South Wales next March. But it will not help.

If the honourable member for Manly votes with the Government, we will lose a bank but we will lose also the faith of the New South Wales people. The people are not stupid; they know the real reasons behind the sale of this bank. They know what the Government intends to do with the money from the sale. Unfortunately, it is like the kitchen fire sale: once it is sold, it is never returned. Regardless of which party is in power, it will rue the day that this Government determined this sale price, and presented the ridiculous situation for which the people of New South Wales will be the ultimate losers.

Mr LONGLEY (Pittwater - Minister for Community Services, Minister for Aboriginal Affairs, and Minister for the Ageing) [12.16]: The State Bank (Privatisation) Bill is an historic bill that authorises the sale of the State Bank of New South Wales Limited to Colonial Mutual Life Limited on the terms and conditions set out in the share sale agreement. The agreement between the Government and Colonial Mutual was reached after an extensive sale process that started in November 1993 and proceeded until late September this year. The sale of the bank provides a clear strategic direction for the bank which will benefit bank staff and customers and the taxpayers of New South Wales. I should like to address those three topics: the bank staff, customers of the bank, and the benefit to the taxpayers of New South Wales.

Colonial Mutual will make a capital contribution of \$50 million to the bank at the date of the sale. This will benefit bank customers and staff. I should like to address first the impact of the sale on bank staff. Without additional capital to fund expansion and investment in new technology, the State Bank simply will not be able to remain competitive and would have to close more branches and risk massive job shedding. Under continued government ownership, additional funding would not be possible because of the Government's commitment to the provision of core high priority services such as health, education and welfare. Of course, in

the welfare area, the Department of Community Services has benefited and will benefit significantly from government and taxpayer resources that will be freed up by the sale of the State Bank. That is very important for everyone to remember.

In addition, Colonial Mutual's base in Victoria - and that it is a non-bank business - implies that there will be no mass rationalisation of the bank as would occur if the sale were to another bank operating already in New South Wales. The purchaser has endorsed the bank's existing strategic plan, which provides for a minimum of 4,300 staff and 260 branches for three years after the sale. That is a significant commitment and will give great comfort to bank staff as it assures their minimum future and means that that is a base platform from which the bank's future can be assured. In other words, it is only upsized. The purchaser is also committed to retaining for three years all of the country branches of the bank now in operation. That will be beneficial, especially in the middle of a drought. Let us bear in mind that the Labor Party has neglected the two-thirds of the people of New South Wales who are affected by the drought. The Federal Labor Government is operating in some fictitious cloud-cuckoo-land and is telling two-thirds of the farmers and people of New South Wales that they are not really in drought.

Mr Harrison: On a point of order: Mr Acting-Speaker, you have ruled that honourable members should adhere strictly to the terms of the bill. Allegations of what the Labor Party may or may not have done with regard to the designation of drought zones in the State are not relevant. I would ask that the Minister be directed to return to addressing the bill.

Mr LONGLEY: On the point of order: I was merely making a passing reference.

Mr ACTING-SPEAKER (Mr Glachan): Order! I am sure the Minister was making only passing reference and that he will confine his remarks to the leave of the bill.

Mr LONGLEY: As I said, the purchaser is committed to retaining for three years all country branches now operating. That is a significant commitment, and it is embarrassing for the Labor Party. The board and management of the bank have endorsed the sale and advised that it will position the bank actively to compete for opportunities in the rapidly changing finance industry. We need to

Page 5430

recognise that the economy is undergoing dramatic change. The finance industry is also undergoing dramatic change, which means that the level of competition in the industry will continue to increase. To remain competitive, the State Bank will have to be well positioned, and the sale will enable that to occur.

Further - this is an important point in terms of the welfare and concerns of State Bank employees - the sale contract preserves all superannuation entitlements. That is a significant element. The career prospects of bank staff therefore will be at least as good, and most likely much better, under this proposal than if the bank remained under government ownership. I know some staff members of the State Bank. They know that the sale is the only way for the future of the State Bank to be assured. They know that it is the only way for the future of the State Bank to be not only viable but prosperous. The bank simply cannot remain under government ownership and maintain that level of staff assurance. This proposal provides the only way for that to occur.

I shall refer to the impact of the sale on State Bank customers. The bank and Colonial Mutual Life are two complementary businesses, with a combined customer base of more than three million people along the eastern seaboard. There are a number of significant synergies that need to be harnessed, including the offer of CML's products to State Bank customers. Customers will benefit through being served by a bank that has increased competitive capacity and a wider range of products and services. As I said earlier, that is significant because, as we see the level of competition increasing in the years ahead, it will be vital that State Bank customers be offered the full range of services and financial products that are available. In the banking industry, the range of services being offered is being broadened, and the full range of technology and level of investment required are expanding rapidly. The level and speed of innovation of finance products are also continuing to increase. It is only by harnessing those synergies, as will occur under this proposal, that the best

benefits and services will be provided to State Bank customers. This is the only viable way forward.

I turn to the impact of the sale on the State's taxpayers - the people whom the Labor Party forgot. The Labor Party has no concerns whatever about the taxpayers of New South Wales or, indeed, any taxpayers. As we learnt today, Paul Keating is talking about raising Federal taxes. We must remember that the proposal to sell the State Bank has significant benefits to the taxpayers of New South Wales. The central reason for selling the bank - and selling it now - is that New South Wales taxpayers are carrying a liability through their guarantee of \$19 billion. Opposition members cannot even count the number of zeros without taking off their shoes and socks - and heaven help us on that score. The bank is being sold principally to overcome that \$19 billion liability. New South Wales taxpayers have never been compensated for that financial burden.

As we have been advised by both Australian Ratings and Bankers Trust, the guarantee has an estimated market value of at least \$100 million a year. That means that New South Wales taxpayers are giving away about \$100 million every year, simply for the privilege of running a bank which must compete in the marketplace. That is \$100 million that is not going to schools, hospitals or the genuinely needy in our State. The Labor Party talks long and often about the needy in our State, yet it does nothing to help them. This is a great opportunity for the Labor Party to show it is genuine by putting its money where its mouth is, yet it is opposing the sale. The Labor Party has the opportunity to give \$100 million a year back to the taxpayers of New South Wales for schools, hospitals, roads and the genuinely needy in our State, but it is opposing the sale. The taxpayers of New South Wales are also the beneficiaries of the legislation. The honourable member for Bulli mentioned that he received a copy of the Auditor-General's report only 20 minutes before he had to speak this morning.

Mr McManus: It was 9.40 a.m.

Mr LONGLEY: The honourable member says that he received a copy of the Auditor-General's report only at 9.40 a.m. today. I suggest that he speak to his leader on some occasion because the office of the Leader of the Opposition was given 15 copies of the report before 3 p.m. on Friday. Opposition members are not even speaking to their leader. Their level of competence is so appalling that it is a sick joke. The fact is that the report has been tabled; it has been made available. Frankly, the fact that the Labor Party is putting itself forward as a credible alternative is a terrifying prospect when Opposition members do not even speak with the Leader of the Opposition. They do not speak within their party, and their lack of ability on such issues is terrifyingly bad.

Mr Collins: We should have sent crayons with the copies.

Mr LONGLEY: Indeed. They could then have drawn pretty pictures on the report; they may then have had some level of understanding of it. In conclusion, I rebut one of the more frequent lies which the Labor Party is running on this issue, namely, that there has been only one bidder. We will be bored by this, but the Labor Party is very good at peddling the same old lies and, unfortunately, many people pick up on these lies. I outline the process involved in this sale for the record and for the benefit of the ignorant members of the Opposition, so that they clearly understand that they are lying, just in case they have been duped by their own misinformation. A very clear four-stage process was followed to obtain the best possible sale terms.

Stage one involved a press advertisement of the sale placed in all major Australian newspapers in December 1993 and, in addition, the Bankers Trust Australia Limited, the Government's financial adviser, through its international branch network, made a worldwide search for interested parties by directly

Page 5431

contacting those whom it considered to be possible purchasers, regardless of whether they responded to the advertisement. During this stage, 54 expression of interest documents were provided to potential purchasers, including a number of foreign banks and financial institutions.

Stage two ran from February to March 1994 and, of the 54 inquiries, six parties which qualified to proceed with the sale were provided with information memorandum packages. From those organisations, two bodies

submitted offers to purchase the bank. Stage three ran from April to June 1994, and both parties who had submitted bids were invited to undertake due diligence procedures in relation to the bank. Normally only one party would do that. Stage four involved a detailed review. It is clear that there were two bids. It is clear that Labor is lying once again. I support the bill. [*Time expired.*]

Mr HARRISON (Kiama) [12.31]: For a number of good and intelligent reasons, I am totally opposed to the proposed fire sale of the State Bank of New South Wales by this Government and I am opposed to the bill that is presently being debated. As an earlier speaker said, the members of the Opposition received this information kit from the Auditor-General at 9.40 a.m. today. The Government had a responsibility to ensure that all members had a copy of this document. I have not had much time to look through the document, but a couple of items within it require some comment. I also received a document on this matter from Colonial Mutual Life, the recipients of this windfall gain, at 10.20 a.m. today. Again, I have not had much time to consider the document, but some aspects need clarification.

This is not a getting-out-from-under deal as far as the State Bank is concerned. We are being asked simply to sell off the profits of the bank, but none of its losses. In other words, it is a question of socialising our losses and capitalising our gains. Colonial Mutual Life will laugh literally all the way to the bank. The New South Wales taxpayer will indemnify 90 per cent of the bad debts over a threshold of \$60 million. I am not making this up - that aspect is clearly spelt out in the document we have received. If this deal had been brokered five years ago, CML would have pocketed about \$870 million before tax, and the New South Wales taxpayer would have coughed up over \$700 million. This would have sheltered CML from failed loans. This deal represents a windfall gain to a very wealthy multinational company, which does not really have the interests of the people of New South Wales or Australia at heart. In the dying days of this Government, with four months until the election, the Government is doing a favour for the people at the big end of town. It is certainly not acting in the interests of average taxpayers in this State.

Bad debts have plagued all banks over the past five years, yet the State Bank has made a clear profit of over \$130 million. When one considers the raising of \$130 million in taxes, an analogy would be a house owner renting a house for \$140 a week, which would return about \$7,800 a year. If that figure were multiplied by 10, a little less than \$80,000 in income would be made. If \$130 million were multiplied by 10 - that is, if ownership of the bank were retained for the next 10 years - approximately \$1,300 million would be raised.

Why is the Government in such a hurry to sell our bank when the election is only four months away? We are now coming out of the recession. It is a bad time to be selling the bank. Potential buyers are more intent on restoring their balance sheets than becoming involved in major acquisitions. Nevertheless, this Government is so intent on getting rid of this asset which belongs to the people of New South Wales that it has hooked the Parliament to a blackmail situation. The New South Wales Government will be up for \$7 million compensation to this greedy multinational company if the bill is not passed by Thursday of this week. The Government has hooked us up to sitting on a Monday, which is almost unprecedented in my time as a member of Parliament. The sky could fall, but this legislation must be passed this week. Ordinary business of the House, such as censure motions, votes of no confidence and other procedures which are the rights of elected members of Parliament, have been cast aside so that this matter can be resolved, despite the fact that this deadline is three days away. The matter must be dealt with immediately, with the sketchiest and most questionable of information made available to members.

Government members are little boys wearing their fathers' pants. Today's newspaper carried the Premier's timely words that some members on his side of the House were not up to the job. The people of New South Wales can see that that is true. Members opposite are flogging off a valuable business enterprise which belongs to the people of this State in what could be described only as a fire sale. They are not up to it. I refute the slur made by Ministers that the Opposition has put up a series of backbenchers to speak in this debate, while only Government Ministers have spoken. I have always paid my debts and taxes and I have always upheld the laws of this State. This is in contrast to the plethora of crooks and tax dodgers passing through the ranks on the other side of this House over the last few years.

Mr Jeffery: How do you spell Mochalski?

Mr HARRISON: I will get around to speaking about Nick Greiner later. An example of the business acumen of this Government arose in 1988 when it came to office. The first debt paid off was that of the Sydney Harbour Bridge. That debt had an interest rate of 3 per cent or 4 per cent. With interest rates at 17 per cent or 18 per cent a lot of other debts could have been paid off, but the Government had to do a favour for its mates at the big end of town. These people were let off the hook so that the money could be lent back to the State at an interest rate of 17 or 18 per cent. This is an example of the business acumen of Government members.

Over the next three years the Government will indemnify the new owner against all losses sustained as a result of existing contracts. The price of the sale

Page 5432

is \$576.5 million, but only \$20 million is to be paid on the date of the execution of the sale agreement. Another \$362,365,000 is to be paid on the date of completion, and \$144,125,000 will be paid after finalisation. Another \$50 million is payable on commercial terms three years after completion. We are not even getting all the money up-front; it will come to us in dribs and drabs. New South Wales taxpayers have to foot the bill not only for all past contraventions of the Credit Act but also for any contraventions that occur in the first six months after the sale is completed. This is another example of the generosity that has been shown to people such as Herscu, who received about \$20 million three days before he went into liquidation. That \$20 million just dissipated into space; no-one knows where it went. It was given to a number of creditors that Herscu had acquired. That money - money that belongs to the people of this State - should have been withheld.

This is the sort of business acumen we see from Government members - the representatives of people at the big end of town; the slaves of the multinationals - who say that they are concerned about the workers of this State. Even the board of the State Bank is on record as stating that \$576.5 million is not a fair sale price. That falls on deaf ears, so far as the Treasurer and the Government are concerned. They are frantic to get rid of the bank, as they are frantic to get rid of every asset that we own in this State - except, as has been mentioned earlier, the Eastern Creek motorcycle track. We have socialised motorbike racing in this State. Eastern Creek is not making money; it is losing money. It has cost the taxpayers of this State about \$110 million. The present Treasurer and Nick Greiner, the architect of Eastern Creek, should be put on a 500cc motor bike and be forced to ride round and round Eastern Creek in circles until they disappear up the motor bike's exhaust. On 30 September the bank had assets of \$589 million. No provision has been made for goodwill. In fact, the operation is being flogged off at a discount. I received a copy of the Auditor-General's report at 9.40 this morning and, in the short time the report was available to me, I elicited the following information, which appears on page 20 of the report:

The proposed sale price for the State Bank, notwithstanding that the buy-up consideration is about \$13 million less than the value of net assets, is reasonable and fair from Parliament's viewpoint.

What gives the Auditor-General the right to speak for Parliament? What is reasonable from his point of view is not reasonable from my point of view and from the point of view of Opposition members. It is not anything like reasonable. It is interesting to note in the information kit given out this morning by that greedy multinational company, Colonial Mutual Life Limited, that that company states that the State Bank is Australia's fifth biggest bank with assets of \$19 billion.

That is different from anything else we have been told. I do not know whether representatives of Colonial Mutual Life are sitting in the gallery today. If they are they might be able to give us some explanation of that. I did not think the bank had assets of anything like \$19 billion, but if it has, why are we selling it for \$576.5 million? The representatives of Colonial Mutual Life will not tell us the truth about what is going on, so how can we expect to get the truth from the subservient bunch of hypocrites on the other side of the House who are doing their bidding? Unfortunately, later we will see the usual game of musical chairs being played by the Independents. I have been advised that at least one of the Independents will vote for this legislation. There is nothing new about that. Despite all his blustering he still lined up and voted for the privatisation of Port

Macquarie Base Hospital. Despite all his blustering he will go along with selling an asset that belongs to the people of this State.

The Independents will play their usual game of musical chairs and the Government will more than likely get its way, but it will pay a very big price. I assure honourable members that history will judge the Government very badly on this sale. When the ongoing profits of this organisation become known - if they are not buried in some of the company's multinational figures, as multinational companies have a habit of doing - the Government will stand condemned for its fire sale of the assets of the people of this State. If the bank's modest profit of \$70 million this year were repeated over the next 10 years it would amount to \$700 million in earnings. If the bank retained its assets of at least \$589 million that would represent a total of \$1,289 million - which is all being flogged off for \$576 million. This is a short-term way of meeting the Government's shortfall in funding; it is about funding such things as the Olympic Games.

Mr Collins: It is about debt retirement.

Mr HARRISON: It is about the greasing of the palms of the Treasurer's friends at the big end of town.

Mr Collins: On a point of order: I ask that the honourable member be directed to withdraw that grossly offensive comment.

Mr HARRISON: I withdraw it. I sense the sinister presence of Nick Greiner in this sort of thing. He is, after all, on record as saying - [*Time expired.*]

Mr ZAMMIT (Strathfield) [12.46]: Those members of the Opposition who have spoken in debate this morning have one thing in common: they have no understanding of what business is all about.

Mr McManus: And you do, guru?

Mr ZAMMIT: Yes I do, and I will tell the honourable member about it in a moment. Those Opposition members have not run a business and do not know what business is all about. They have not even been employed in business and that is reflected in the paucity of their arguments and in their lack of understanding of what this debate is all about. The other interesting thing that has emerged from the contributions of Opposition members is that they have

Page 5433

not read the Auditor-General's report. That was admitted this morning by the honourable member for Drummoyne, who led for the Opposition. He said that he had not yet read the report, but he selected some sections of the report and tried to put forward an argument that - it is clear to all honourable members - is not well founded. If one quotes selectively one gets into trouble.

One thing I have learned in my capacity as a general manager of a medium-size company for eight years and after running my own business for 12 years is that no company can stand still. No company can say, "We will keep our business turnover at this level, but we do not want to grow". The moment a company does that, it is headed for destruction. The moment one goes backwards others take one's market share because they are more pro-active or they are able to find more money to compete. If the State Bank is retained, the Government will have to find additional funds to assist it to compete. Those additional funds can be found by the State Government borrowing money to fund the expansion program that the State Bank will need to undertake if it is to remain competitive and stay in business. The State Government will have to contend with others to raise the money to compete. Immediately that happens the State will come under direct threat from the possibility of mismanagement of businesses that no government should be in.

No government should be running banks, insurance companies or marketing authorities. Such organisations should be run efficiently and effectively by private enterprise. The moment the Government starts to inject funds it will have to look over its shoulder. Credit rating agencies will watch the Government very closely. That is when the Government will run the risk of losing its AAA rating, which it has maintained

and strengthened. It is interesting that no Opposition member has mentioned the terms of sale. It must have been difficult for the Treasurer to come to terms with the fact that although at least \$200 million more could be realised from the sale of the bank it would mean that the State Bank would rationalise, that offices would be closed, that people would lose their jobs and that customers would be disadvantaged. The Treasurer could have said that was in the interests of the whole community, but he did not because he wanted to protect jobs and he wanted to protect the State Bank as an entity. He wanted to make sure that the bank remained competitive and that those employed in country branch offices retained their jobs when the bank was sold.

Why have Opposition members said nothing about that? I should like to know why Opposition members have not congratulated the Treasurer on doing a great job under difficult and trying conditions. Opposition members are asking why the bank has to be sold now. They are saying that they think a better deal could be struck. They think the State Bank could earn more money; the Government should keep the State Bank going; and it should keep on pouring in additional guarantees. In good faith, the Parliament requested that independent advice be obtained on the terms and conditions of the sale to determine whether the deal had been properly handled. The Auditor-General was involved. CS First Boston and Coopers and Lybrand were involved. It should be obvious to Opposition members that the report of the Auditor-General states, as everyone else has stated, that if a major Australian bank were to take over the State Bank it would need to rationalise.

The major Australian banks have branches all over the country so a purchasing bank would need to cut down on distribution and cut down on staff. The proposed sale obviates the need for such a rationalisation process. Those who have jobs will retain them. The State Bank will receive the benefit of an injection of funds and will become more and more profitable. The State Government cannot and should not continue to pour money into a State bank. Surely the experiences in other States, the disasters that have occurred in Victoria and South Australia, are enough to convince Opposition members of that. Opposition members are not able to say that they have not had time to read the report of the Auditor-General; it is not that kind of report.

The introduction to the report, explaining the matters detailed in seven or eight chapters, should be enough to illustrate to Opposition members that the proposed deal is a fair and reasonable way of making sure that the State Bank, as an entity, remains and jobs are retained. That is a central and recurring theme of the report. CS First Boston and Coopers and Lybrand, worldwide companies that command enormous respect in the business sector, deal in billions and billions of dollars. Their report states that from a financial perspective the proposed contract of sale of the bank to CML provides a fair and reasonable economic return to the State and that the net sale value exceeds the estimated retention value. I mentioned the matter of indemnity and the reimbursement of warranties that the State Bank has had to provide. That is part of the business of running a bank and is understandable.

Opposition members have not understood what is meant by the statement in the report that, in the retention of the bank the reimbursements, the indemnities and the warranties that have to be provided, in the sum of \$176 million, would continue to be the responsibility of the State Bank. As a result, they would continue to have an impact on the New South Wales Government, because the Government owns the bank. Why is it that Opposition members do not say anything about the liabilities? Why do they not ask the Government to get rid of the liabilities, the warranties and the indemnities that have to be provided by the Government because it owns the State Bank? Opposition members have made no mention of that fact.

I turn to page 9 of the special audit report of the Auditor-General. There is a constant theme throughout the report of the Auditor-General and the report of CS First Boston and Coopers and Lybrand. They refer to the preferred terms of sale. I keep

Page 5434

returning to this point because it is important to stress that it would have been easy for the Treasurer to get a great deal more money for the bank if he had accepted that people would lose jobs, branch offices would close down and customers would be grossly disadvantaged in that they would have to find other means of raising money. The Treasurer did not do that. Rather, he placed conditions on the purchaser. No member on the other side of the House expressed an understanding of how difficult and how frustrating it must have been for

the Treasurer to say to the major banks that there was no way that the Government would let them take over the State Bank, close down three-quarters of the branch offices because they were not needed, and put off staff.

Reference to a rationalisation process is a phenomenon of the late twentieth century. Instead of talking about sacking people, people speak about rationalising. The report states that the sale process was open. That is correct. The authors of the report could have decided that their integrity in examining the facets of the sale was so important that they would say something they did not mean, but they did not do so. They have said that the sale process was open and fair and that the net sale price is a true reflection of the market value of the bank. I turn to page 12 of the report, under the heading "Methodology". Members opposite have not bothered to read the report. I think it is important that they know what is contained in it, so I quote:

In summary, the Government's advisers regard the consideration for the sale of the State Bank to be fair and reasonable from the State's point of view.

That thread runs through the whole report. The report is not something that has been made up, it is based on evidence that has been collected. [*Extension of time agreed to.*]

Mr Gibson: This is riveting.

Mr ZAMMIT: I am glad that the honourable member for Londonderry considers my contribution to be riveting. Perhaps he will learn something from it and vote with the Government on the sale of the bank. The Government wants to make sure that the people of this State get a fair deal. A fair deal will be achieved only if members opposite vote with the Government. If they do not, so be it; it will be on their heads. It is clear that the sale contract is fair and reasonable, as is apparent throughout the report. I turn now to the issue of profit flow, an important matter that Opposition members have not addressed. Frankly, Opposition members do not understand what profit flow means. It is disturbing that members opposite tell the Government not to sell the State Bank although they fail to understand the nuts and bolts issues.

When one is comparing the percentage of profit earning with the liabilities of the State Bank, the profit earning ratios have to be viewed in the context of the future earning capacities. The percentage of future earning capacity of the State Bank in regard to the sale price is dealt with in detail in the report. That percentage is very competitive, and in some cases higher than that which applies to some of the other banks. The Opposition does not understand that concept, and has not tried to understand it. I conclude by paying tribute to the Treasurer, his staff, and the officers of Treasury. They have put forward for the House to consider today something that was clear and open - nothing was hidden. The report stood up to scrutiny without anyone saying anything about the way the matter has been handled that was other than complimentary to the Treasurer, his staff and Treasury officers.

The Opposition will be making a very grave mistake if it opposes the sale of the State Bank. Opposition members will be saddling the people of the State with a liability that could well impact on the State's AAA rating long-term. The Opposition has said nothing about the possibility in the future of a downturn in the economy. What will happen if there is a downturn in the economy and businesses start to go bankrupt, or a credit squeeze occurs as has happened in the past. All honourable members will recall the statements of the Prime Minister. Who will pick up the tab of the potential \$19,000 million that this State Government is guaranteeing? What will happen to the State and to the credit rating of the State? In that event, I will always be able to say: the Opposition caused it to happen.

Debate adjourned on motion by Mr Neilly.

[*Mr Acting-Speaker, (Mr Glachan), left the chair at 1.04 p.m. The House resumed at 2.15 p.m.*]

PETITIONS

Newcastle Rail Services

Petitions praying that the rail line between Civic railway station and Newcastle railway station not be closed, received from **Mr Hunter** and **Mr Mills**.

Mudd Creek Rehabilitation

Petition praying that funds be provided for the dredging, rehabilitation and remediation of Mudd Creek, received from **Mr Hunter**.

Marijuana Prohibition

Petition praying that legislation be enacted to give effect to the Law Society's recommendations on reform of marijuana prohibition laws relating to the use, possession and cultivation of marijuana for personal use, received from **Mr Mills**.

Bellambi and Corrimal Policing

Petition praying that as there has been an escalation of crime and vandalism in Bellambi and Corrimal since the beat police were removed, beat policing be resumed, received from **Mr Markham**.

Part-time TAFE Teachers

Petition praying that the salaries and conditions of part-time TAFE teachers be improved, received from **Mr Mills**.

Page 5435

Wildlife Farming

Petition praying that as there is a trend to farm native animals for export and human consumption, a ban be imposed on wildlife farming and the export of wildlife, and native fauna management be kept within the National Parks and Wildlife Service, received from **Ms Moore**.

QUESTIONS WITHOUT NOTICE

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M2 MOTORWAY CONTRACT

Mr CARR: Mr Speaker -

Mr SPEAKER: Order! I call the honourable member for Burrinjuck to order.

Mr CARR: My question without notice is directed to the Minister for Transport. Does the secret contract for the M2 motorway ban the Government from providing public transport to the north-west sector for the next 50 years? Will the Minister make the contract public?

Mr SPEAKER: Order! I call the honourable member for Smithfield to order. There is far too much interjection. I call the honourable member for Keira to order.

Mr BAIRD: I am very grateful for the question from Herr Carr, the Leader of the Opposition.

Mr SPEAKER: Order! I call the Minister for Multicultural Affairs to order.

Mr BAIRD: As per the agreement that all details of the contract will be released to the normal public works committee of the Parliament -

Mr SPEAKER: Order! I call the Leader of the Opposition to order.

Mr BAIRD: - the Public Accounts Committee. I am happy to do that. There is no ban on public transport.

Mr SPEAKER: Order! I call the honourable member for Bulli to order. I call the honourable member for Kiama to order.

Mr BAIRD: As with any contract for provision of public infrastructure, if direct impact as a result of what the Government does can be proved, the contract can be renegotiated.

Mr SPEAKER: Order! I call the honourable member for Riverstone to order. I call the honourable member for Granville to order.

Mr BAIRD: Substantial impact would have to be proved in terms of the contract itself and revenue flow, but that does not in any way affect transport links that may be provided.

Mr SPEAKER: Order! I call the honourable member for Kogarah to order.

Mr BAIRD: The M2, which members on this side of the House acknowledge is a great breakthrough, was opposed totally by members opposite. The Government believes the M2 is going to be a great breakthrough for the north-west, and continues to support it. The M2 provides two public transport lanes - the first provision of its kind - which, according to the contract, can be converted into light rail linkage. That provision is clearly set out in the contract, without equivocation.

Mr SPEAKER: Order! I call the honourable member for Smithfield to order for the second time.

Mr BAIRD: Those public transport lanes cost \$100 million. When Labor was last in government no road projects of this nature were provided for the north-west. The honourable member for Kogarah decided to was on a great exercise with regard to the M2. He held a press conference in which he said that the man who did the financial analysis on the M2 has a problem, a conflict of interest, in that he had shares in the company that had been announced as being selected for the contract.

Mr SPEAKER: Order! I call the Deputy Leader of the Opposition to order.

Mr BAIRD: What happened subsequently? The honourable member for Kogarah, having announced at a press conference his coup that a big deal had been done and that the person who had done the financial analysis had all these shares in the company and that there was a great conflict, had to back right down and make a public apology in the *Sydney Morning Herald*.

Mr SPEAKER: Order! I call the honourable member for Eastwood to order.

Mr BAIRD: I quote:

Apology to: Infrastructure Development Corporation
Pty Limited,
Mr Michael Perry and
E. A. Perry & Associates Pty Limited.

In my press release of 18 August 1994, I stated that there were financial links between Infrastructure Development Corporation, the company which gave financial advice to the Roads and Traffic Authority on the M2 project and Abigroup, a member of the consortium which has been selected as the preferred tenderer for the M2.

It has been brought to my attention that the Chief Executive of IDC, Mr Michael Perry, in his capacity as director of EA Perry & Associates, ordered that all of EA Perry & Associates' shares in Abigroup be sold.

The apology continued:

I further acknowledge that all shares in Abigroup held by EA Perry & Associates -

Mr Langton: Exactly! He had them and sold them.

Mr SPEAKER: Order! I call the honourable member for Kogarah to order for the second time. I call the Minister for the Environment to order.

Mr BAIRD: It is not my apology, it is the apology of the honourable member for Kogarah. If he wants to apologise again, he can. He said, "I

Page 5436

apologise", when he heard of the embarrassment of this error of facts going forward to IDC, Mr Perry and E. A. Perry and Associates. The honourable member for Kogarah is well known for his press conferences. We well remember his Parramatta River RiverCat conference when he rushed down to the press gallery and said, "It will never work. It is a disaster. They cannot get the ferries up the Parramatta River". But 350,000 passengers later -

Mr SPEAKER: Order! I call the honourable member for Bulli to order for the second time. I call the honourable member for Wakehurst to order.

Mr BAIRD: The M2 is the biggest infrastructure development in Australia since the Snowy Mountains scheme. The M2 will provide about 22 kilometres of roadway, remove traffic congestion in the north-west, remove about 35 sets of traffic lights, slash travelling time by about 25 minutes every morning, and provide two public transport lanes.

Mr Carr: Rubbish!

Mr BAIRD: What does the Leader of the Opposition mean when he says it is rubbish? There it is in black and white. A public transport lane is planned from Epping to Baulkham Hills, at an extra cost of \$100 million, and it can be converted to light rail, as per the project documents, and as the contract was written out. This is more of Labor's lies, lies and more lies. The member for Kogarah and other Opposition members rush out with documents, but then they have to apologise because they get it wrong. None of the members opposite on the frontbench have too much credibility. If they want to start talking about public transport lanes, they should read the document again. They will find that it provides that this can be done by the Government at any time. The contract provides for light rail access. It also provides that if we do something that impacts on the contract and the parties can prove it has an impact, they can renegotiate. End of story.

SYDNEY OLYMPIC BID

Mr KINROSS: My question is addressed to the Premier, and Minister for Economic Development. Has he received the report from the Audit Office of New South Wales on its review of the estimates of the Sydney Olympics? Has the Audit Office expressed a view about the estimates and the likelihood of attracting private sector investment for Olympic projects?

Mr FAHEY: All honourable members would recall that just prior to question time the Clerk announced the receipt out of session of a report from the Auditor-General. That report was the result of the Audit Office conducting a performance audit into the operating and capital estimates of the Sydney Olympic Games. Not for the first time the budgetary process of the Sydney Olympic bid has received approval after independent scrutiny. The Audit Office concluded in its report that the bid estimates have been developed following due process, that the assumptions on which the forecasts were prepared are sound or neutral, that the procedures adopted in developing the estimates were rigorous, and that the processes used to develop the estimates were appropriate for the purpose. The Audit Office recognised, correctly, that the preparation of financial estimates is subjective in nature and requires considerable judgment. It said that ultimately the reliability of the estimates will depend upon the ability of the International Olympic Committee and Sydney Organising Committee for the Olympic Games to attract revenue at the levels projected, and the ability of government agencies to contain costs to the levels budgeted. On the first of these two points, SOCOG has every confidence of meeting projected television revenues.

Mr SPEAKER: Order! I call the honourable member for Newcastle to order.

Mr FAHEY: In fact, indications in the past year or so reveal that there is every reason for SOCOG to have that confidence. Second, the Government is committed to stringent financial management, as it displays week in week out, month in month out. The Audit Office report followed other investigations into the estimates, including that by the independent consultant Dale Cooper, who predicted that the SOCOG revenues have a good chance of exceeding estimates.

Mr SPEAKER: Order! I call the honourable member for Newcastle to order for the second time. I call the honourable member for Oxley to order.

Mr FAHEY: The House would be aware that the Government is seeking private sector equity in designing, constructing, operating and maintaining the remaining facilities and venues and villages to be used during the Games. As recently as last Thursday Mr 133 Unanswered Police Questions, the honourable member for Campbelltown, was talking down the prospects of private sector involvement. He is developing a quick reputation of being like his leader: anti-investment, anti-sport. One must ask why after 14 years of an apprenticeship on the backbench, no sooner does he get the promotion - he jumped over the honourable member for Drummoyne and onto the frontbench - than he blows all his goodwill and credibility in the space of about 13 days.

Mr SPEAKER: Order! I call the honourable member for Broken Hill to order. I call the honourable member for Campbelltown to order.

Mr FAHEY: The honourable member for Campbelltown was talking down the prospects of private sector involvement. It is interesting to note in that context the comments of the Audit Office. The report states it would appear there is a reasonable chance that the Government will attract private sector involvement. Further, it reported that information from a leading firm in the property market sector indicates that the required level of funds would be achievable without the need for government investment or the provision of guarantees. The Audit Office report referred to 1994 reports by the international credit rating agencies Standard and

Page 5437

Poor's and Moody's. They indicated that the staging of the Olympics will have a negligible impact upon the State budget and no effect on the State's AAA credit rating. The report concluded that the net cost to be met from New South Wales government revenue sources is about \$299.9 million. That is the equivalent of about \$33 million a year between 1992, when construction began on the Sydney international athletics and aquatic centres, and the year 2000. The Audit Office commented further on the organisational structure for the Games and it is worth repeating, in view of criticism from the Opposition. The report stated:

The organisational structure, as approved by the Government, should provide adequate accountability to both Government and the Parliament.

The organisation structure for the Olympics has been interwoven with the traditional accountability structures found within the Westminster System. These structures have operated satisfactorily in the past.

I will repeat for the anti-investment and anti-sport lobby on the other side of the Chamber that the Sydney Committee -

Mr J. H. Murray: You couldn't run up the stairs without having a heart attack.

Mr FAHEY: One of these days I will hold a press conference with the honourable member for Drummoyne. We will tell exactly what happened in Monte Carlo so far as the Leader of the Opposition was concerned, because the honourable member for Drummoyne complained bitterly about the role played by the Leader of the Opposition in Monte Carlo.

Mr SPEAKER: Order! I call the honourable member for Coogee to order. I call the honourable member for Campbelltown to order for the second time.

Mr FAHEY: I repeat for the anti-investment and anti-sport lobby on the other side of the Chamber that the Sydney Organising Committee for the Olympic Games is a statutory authority established by legislation passed by this Parliament and subject to the full scrutiny of the Audit Office, the Independent Commission Against Corruption, freedom of information legislation and the Ombudsman. It is worth noting also comments by the Audit Office that again expose the lack of accuracy in Opposition comments about the Olympics. The honourable member for Campbelltown recently claimed that there had been some cost escalation in the international rowing and canoeing course being constructed at Penrith Lakes because of decisions by this Government to alter the alignment of the course. "Olympic blow-out," he said.

The truth of the matter is that the decision to alter the alignment was taken by the Unsworth Government in 1987. A former sports Minister, Mr Cleary, had proposed that a course longer than that which had been proposed originally would assist Sydney in the bid for the 1988 Commonwealth Games. The Audit Office report confirms this, saying that the Government entered into an agreement in 1987 with the private sector to construct an international-class rowing facility at Penrith. Unlike the construction of the athletics and aquatic centres, this was not a precondition to gaining support for Sydney's bid, and as such is not viewed by the Audit Office as a cost directly associated with staging the 2000 Olympics. That project at Penrith is well on schedule for opening in the middle of next year. It is another example of the progress that is being made in construction and planning for the facilities and venues that will be used not only during the Games but well into the next century.

The report of the Audit Office underlines that every appropriate step has been taken and will be taken by this Government up to and including the staging of the Olympic Games in the year 2000. The Government has deliberately gone out of its way to ensure that there is no repeat of Labor's catastrophic mess with the development of Darling Harbour. Honourable members would all remember that Labor's mismanagement led to a multi-million dollar cost blow-out on that project. Of course, Darling Harbour was presided over by Labor's Minister for Public Works, the brother of the honourable member for Heffron.

SPEAKER: Order! I call the Minister for the Environment to order for the second time.

Mr FAHEY: He is now, of course, the Federal transport Minister and he has done a similar job in that portfolio as he did with public works in this State. He was responsible for a massive cost blow-out by giving in to industrial sabotage by the trade union movement. The convention centre was originally estimated to cost \$42.9 million in December 1985 but it blew out to \$106.7 million, an increase of 248 per cent by the time of completion, which was 54 months later, in June 1990.

Mr SPEAKER: Order! I call the Minister for Consumer Affairs to order.

Mr FAHEY: It took 445 working days to finish the convention centre, and on 212 of those days there

was a partial or complete stoppage due to industrial action, safety considerations or weather. This Government will properly manage the construction and administration of Olympic facilities to enable Sydney to host the best Olympic Games in the history of the event. The Government will not be distracted by Labor's anti-investment and anti-sport campaign, which is designed to undermine the work of those involved in the construction and management of the event.

Mr SPEAKER: Order! I call the honourable member for Ku-ring-gai to order.

M2 MOTORWAY CONTRACT

Mr LANGTON: My question without notice is directed to the Minister for Transport, and Minister for Roads. Does the contract for the M2 Tollway preclude the Government from upgrading Epping Road or any other roads to specified regions in north-

Page 5438

western Sydney for the next 50 years? Are the people of north-western Sydney aware of these provisions in the contract?

Mr BAIRD: I thought the honourable member for Kogarah would apologise. He denigrated someone in the private sector and had to apologise publicly. The honourable member can ask these sorts of questions for as long as he likes, but the people of the north-west are delighted with this project.

Mr SPEAKER: Order! I call the Minister for Health to order. I call the honourable member for Blacktown to order.

Mr BAIRD: The fact is that 74 per cent of the community in the north-west support the project. Despite the best efforts of the Opposition to try to stop this project, they have failed. I refer to reports in the media at the time. The *Australian Financial Review* refers to the way in which this structure has been provided.

Mr SPEAKER: Order! I call the honourable member for Heffron to order.

Mr BAIRD: It refers to the \$485 million financial structure that underpins Sydney's new \$650 million M2 motorway and provides a blueprint for structured development of -

Mr SPEAKER: Order! I call the Leader of the Opposition to order for the second time.

Mr BAIRD: The *Age* said that the financing structure for the New South Wales M2 project is both a breakthrough for infrastructure financing and a test for the potential for private sector funding of public sector projects.

Mr SPEAKER: Order! I call the honourable member for Ashfield to order.

Mr BAIRD: It is a breakthrough. It is a fine project, supported by the financial community and applauded by those in the north-west. As was said at the press conference - a number were held here, including one with Mark Coultan from the *Sydney Morning Herald* - there is nothing in the way the project is structured or financed that prevents alternative action being taken. The contract provides that if proponents can prove there is a direct impact on their investment, they can renegotiate and extend the length of the contract with regard to the time involved or the toll.

Mr SPEAKER: Order! I call the honourable member for Ashfield to order for the second time.

Mr BAIRD: There is nothing new with respect to that type of approach.

Mr SPEAKER: Order! I call the honourable member for Port Stephens to order. I call the Deputy

Leader of the Opposition to order for the second time.

Mr BAIRD: The Leader of the Opposition was very quiet when the tunnel project was criticised by the Auditor-General, as he has been with respect to the Auditor-General's report on the State Bank. Where was he today? He disappeared. The tunnel builder does not have to prove whether something has impacted on its revenue stream; it is automatically liable to receive assistance. No matter what happens with the revenue stream, this Government and successive governments are committed to backing the tunnel project and underwriting it by up to \$18 million. There is no provision for having to prove a case.

Mr SPEAKER: Order! I call the honourable member for Barwon to order. I call the honourable member for Mount Druitt to order.

Mr BAIRD: All the risks of the tunnel project are taken by the Government; all the profits are taken by the private sector. The M2 is a different project: all the costs are underwritten by the private sector, and there is profit sharing with the Government. Only if they can prove that action taken by the Government has impacted directly on the revenue stream can they renegotiate an extension of the toll. It is a first-rate project and one of which this Government can be proud. It is very different from the tunnel project. Honourable members may remember that the tunnel bill was brought into this House at midnight on the night that Mr Keating brought down a mini budget so that it could be obscured. The bill was declared urgent. Every right of councils was suppressed. There was no calling for tenders or expressions of interest beforehand.

Mr SPEAKER: Order! I call the honourable member for Ku-ring-gai to order for the second time.

Mr BAIRD: The bill was declared urgent and was debated from midnight until 4.00 a.m. Members who were in this House prior to 1988 will well remember the project. Under the provisions the Government was to underwrite the tunnel project and take all the risk. The then Minister for roads did not want a public debate on the issue; he did not want it exposed. The M2 situation is different. At the press conference we clearly outlined the deal. The people of the north-west are delighted with the deal - they are delighted now and they will be delighted when it opens in 1997.

Mr SPEAKER: Order! I call the honourable member for Drummoyne to order.

Mr BAIRD: There are traffic problems in the north-west; people struggle through the traffic morning after morning and they are delighted with this project. We have absolutely nothing to hide about contracts. The previous Government put through the shonky tunnel project. We stand by our record.

SYDNEY OLYMPIC GAMES CONSTRUCTION PROGRAM

Mr BECK: My question without notice is directed to the Deputy Premier, Minister for Public Works, and Minister for Ports. Has the direct benefit of the Olympic Games to country New South Wales been assessed? Can the Minister update the House on the construction program of Olympic facilities?

Page 5439

Mr ARMSTRONG: I commend the honourable member for Murwillumbah for being a sports-minded person. He has spent a lifetime supporting sport, both for himself and his family.

Mr SPEAKER: Order! I call the honourable member for Londonderry to order. I call the honourable member for Port Jackson to order.

Mr ARMSTRONG: He has had a major influence on improving the sporting facilities within his electorate.

Mr SPEAKER: Order! I call the honourable member for Burrinjuck to order for the second time.

Mr ARMSTRONG: It is remarkable to reflect on what this Government has been able to achieve at Homebush in such a relatively short space of time with quiet, confident, efficient and effective business management. It has been done without fuss. The performance of the Government in this regard should be compared with the havoc, the disruption, and the budget blow-outs in the major construction programs of the former Labor Government. That Government let Laurie Brereton run amok with the Darling Harbour budget - which blew out by 248 per cent. That should never be forgotten. The Labor Party's record on major construction in this State is hallmarked by that failure and that 248 per cent blow-out at Darling Harbour, which was due in part to industrial sabotage by the trade union movement. If members want evidence of how Labor deals with the trade union movement, they have only to follow what is happening with the Labor Government in Canberra at the moment between the Prime Minister, Mr Keating, and the Minister for Industrial Relations, Mr Brereton.

Mr SPEAKER: Order! I call the honourable member for Murwillumbah to order.

Mr ARMSTRONG: Mr Brereton, who is a good Labor Minister, seems to attract disgrace and provide bad administration wherever he goes, whether in New South Wales - where the State party was pleased to see the last of him - or in Canberra. Those programs reflect Labor's lack of capacity to manage. The proteges of the Labor system have not one ounce of real-life management experience amongst them; they have no experience of the real world. When one looks along the frontbench of so-called shadow spokespersons, one sees that they have literally no business experience. They have depended on a wage coming in every fortnight from the trade union movement. They have no business experience; they have no flair; they have no imagination.

Mr SPEAKER: Order! I call the Deputy Leader of the Opposition to order for the third time. I call the honourable member for Campbelltown to order for the third time.

Mr ARMSTRONG: They have no record of success. All we have had is embarrassed laughter. The Leader of the Opposition, Mr Baked Beans, is all wind. There is no doubt about him. The Leader of the Opposition admits that he does not understand sport. He does not even like sport. He is a sporting cretin, no matter how you like to take it on.

Mr SPEAKER: Order! I call the honourable member for Broken Hill to order for the second time.

Mr ARMSTRONG: As far as his management capacity, while ever Labor has a \$10 million debt over its own business it can hardly say it has any interest - let alone any expertise - in business management. Our industrial reforms, which were introduced by the Premier when he was Minister for Industrial Relations, our superior management practices and our commitment to getting the job done will ensure that the Olympic Games construction program is a model for everyone to follow. My Public Works Department has played a leading role in coordinating and overseeing the successful construction program.

Mr SPEAKER: Order! I call the honourable member for Illawarra to order.

Mr ARMSTRONG: The athletic centre was completed on time and within the \$50 million budget.

Mr J. H. Murray: On a point of order: the question asked about benefits to rural New South Wales of construction of facilities for the Olympic Games. We have heard nothing in the answer but reference to city areas.

Mr SPEAKER: Order! There is no point of order.

Mr ARMSTRONG: The honourable member for Drummoyne shows his ignorance once again. He did not listen to the second part of the question, which clearly asked that the Public Works Department participation

be recorded in *Hansard*.

Mr SPEAKER: Order! There is far too much interjection and audible conversation in the Chamber. The proceedings of this House will be conducted in an orderly and proper fashion with decorum and dignity. Otherwise a bad impression is created among people in the public gallery and those who may watch the proceedings on television.

Mr ARMSTRONG: The athletic centre continues to exceed expectation, with regular training sessions being held there and with a number of bookings for non-athletic uses. The Public Works Department handed the \$150 million aquatic centre over to the Homebush Bay Corporation on 14 October, having completed it on time and within budget. On the first weekend of operation 28,000 people visited this magnificent centre. The exciting thing about the construction of the facilities is that they will be there for all time to be appreciated by the people of New South Wales. During construction of the aquatic centre there were many benefits to people across the State, with 100 subcontractors asked to demonstrate their flexibility, imagination and ability to stretch state-of-the-art technology and procedures to new limits.

To succeed in meeting the time, cost and quality targets set for the aquatic centre, industrial peace was crucial and the project became a test case for innovative workplace reforms in the building industry.

Page 5440

A Gosford company was the successful tenderer to supply the scoreboard. In fact the Olympics is great news for country industries. The Government's Olympic purchasing policy incorporates a preference of up to 25 per cent for approved New South Wales country manufacturers, compared with a 20 per cent preference for non-country companies. Recent major subcontracts from outside the Sydney area include Australian Water Slides and Leisure of Coffs Harbour supplying the water slide. Teasco Proprietary Limited of Wagga Wagga supplied aluminium skylights for the aquatic centre, and Joanne Green Landscapes of Peats Ridge did landscaping. Valves for pool filtration were provided from Nowra, white aggregate from Lithgow and aluminium roofing from Kurri Kurri. Clearly, the building program has had benefits across the State already. The \$300 million budget for stage one has been met.

The Government is already working to capitalise on the tourism potential of the Olympic Games, especially in country New South Wales. The tourism master plan released last week by the Minister for Tourism is a comprehensive strategy for every segment of the tourism industry to capitalise on the Olympics - before, during and after the games in the year 2000. This includes a strategy to attract overseas and interstate visitors to country New South Wales. The general Olympic strategy aims to capitalise on markets such as Korea, Indonesia and Taiwan and to encourage our more established markets such as Singapore, Hong Kong and Malaysia. Another major beneficiary of the Homebush development will be the Royal Agricultural Society and the Royal Easter Show. When Labor was in government the only involvement of Labor members with the Royal Easter Show was in asking for free tickets each year.

In the 6½ years Labor has been in opposition, Labor members have been absent when it comes to ideas but they seem to pop up every year at Easter looking for a few free handouts to get themselves into the show. This Government is an unashamed and unequivocal supporter of the Royal Easter Show and the Royal Agricultural Society for the magnificent work that it does. The bottom line is that the Government will deliver. It has delivered stage one. We will support sport, business - country business in particular - and tourism. We will not fall into the position that Labor occupied over the years. Labor has no interest in sport. The only person with any understanding of sport on Labor benches was the honourable member for Liverpool - and Labor got rid of him. That leaves the Opposition without any expertise or interest in sport. The Labor Party has no business ability and is not interested in major projects to develop and support sport in this State.

M2 MOTORWAY CONTRACT

Mr J. H. MURRAY: My question is addressed to the Minister for Transport, and Minister for Roads. Does the contract for the M2 tollway provide for the Roads and Traffic Authority to reimburse the company for

any council or water rates above a specified level? Why should New South Wales taxpayers give this guarantee to private investors for the next 50 years?

Mr BAIRD: I thought the honourable member for Drummoyne was going to congratulate the Government on the great work we are doing in providing new ferry services to his electorate. This morning in his electorate when the Minister for Consumer Affairs, Minister Assisting the Minister for Roads, and Minister Assisting the Minister for Transport was there he said we were doing a great job.

Mr SPEAKER: Order! I call the Minister for Consumer Affairs to order for the second time. I call the Minister for Consumer Affairs to order for the third time.

Mr BAIRD: There are new services and more public transport in his electorate. We have provided the type of public transport services that he could only dream about when Labor was in government. I have outlined the contract for the M2 in general terms in response to questions asked. It is the standard type of arrangement. If I compared that contract line by line, clause by clause with what Labor agreed to with the tunnel project the Government would win every time, and well the Opposition knows it.

Mr SPEAKER: Order! I call the honourable member for Eastwood to order for the second time.

Mr BAIRD: We are negotiating with local councils on contracts. Labor's contract for the tunnel project overrode the rights of all the councils involved.

Mr SPEAKER: Order! I call the honourable member for Eastwood to order for the third time.

Mr BAIRD: Any objections, environmental concerns or representations about the impact on suburbs involved were overridden by legislation introduced to this House between midnight and three in the morning.

Mr SPEAKER: Order! I call the honourable member for Coogee to order for the second time.

Mr BAIRD: The contract follows a normal commercial approach and we do not apologise for it.

SERVICES FOR THE DISABLED

Mr O'DOHERTY: My question is addressed to the Minister for Community Services, Minister for Aboriginal Affairs, and Minister for the Ageing. What is the Government doing to address the needs of people with disabilities, their carers and their families?

Mr SPEAKER: Order! I call the honourable member for Bankstown to order.

Mr LONGLEY: I thank the honourable member for Ku-ring-gai for his ongoing concern about people with disabilities living in his electorate. The New South Wales Government, under John Fahey's
Page 5441
premiership, has presided over reforms in the provision of disability services which are at the cutting edge of international developments.

Mr SPEAKER: Order! I call the honourable member for Granville to order for the second time.

Mr LONGLEY: The passage of the Disability Services Act and the Community Services (Complaints, Appeals and Monitoring) Act 1993 have provided a groundbreaking framework for people with disabilities. The Fahey Government has viewed the needs of people with disabilities not as a marginal issue but as a mainstream issue to be factored into all decisions made by government.

Mr SPEAKER: Order! I call the honourable member for Coogee to order for the third time.

Mr LONGLEY: The legislative reforms of the Government -

Mr SPEAKER: Order! I call the honourable member for Smithfield to order for the third time.

Mr LONGLEY: - mean that the needs of these people will not be at the edge as they were for 12 years under a Labor Government.

Mr SPEAKER: Order! I call the honourable member for Granville to order for the third time.

Mr LONGLEY: People with disabilities have the same rights to the quality of life that we all enjoy. Having got the framework right, this Government is committed to ensuring that significant resources are made available for these important services. Unlike Labor, this Government has a plan for comprehensive services provision for people with disabilities.

Mr SPEAKER: Order! I call the honourable member for Penrith to order.

Mr LONGLEY: Unlike Labor, the Government's solution is not one of taking a random figure of money and throwing dollars at the issue.

Mr SPEAKER: Order! I call the honourable member for Illawarra to order for the second time. I call the honourable member for Mount Druitt to order for the second time.

Mr LONGLEY: Labor has demonstrated no policy framework for disability, no plans, and is simply committed to stirring up division and fear in the community.

Mr SPEAKER: Order! I call the honourable member for Moorebank to order. I call the honourable member for Auburn to order.

Mr LONGLEY: The opportunity to work with the disability community is one of the most satisfying aspects of my work as Minister for Community Services.

Mr SPEAKER: Order! I call the honourable member for Penrith to order for the second time.

Mr LONGLEY: It is therefore with a great deal of pride that I inform the House of the Premier's announcement today of an injection of \$173 million to assist people with disabilities, their families and their carers. This package is the culmination of 18 months of planning work that I and the Government initiated. The package will ensure that the Government provides for the long-term requirements of accommodation and support services for people with disabilities, their families and their carers. The package provides for a \$45 million commitment over four years to provide permanent -

Mr Beckroge: On a point of order: Mr Speaker, I ask that you rule that the Minister is not delivering an answer by making a ministerial statement. Obviously the Minister is referring to a matter of policy decided today by the Government, and the Minister can make a statement about that after question time.

Mr SPEAKER: Order! There is no point of order involved. The question sought matters of fact and the Minister is supplying those facts. Question time will proceed until 10 questions are answered, irrespective of the length of Ministers' answers.

Mr LONGLEY: The package provides for \$45 million over four years for permanent supported accommodation to more than 250 people; an \$8 million commitment to provide annual respite services to more than 300 families over four years; in excess of \$70 million for day activity programs over four years for nearly 2,000 young adults with disabilities - this will build upon the Government's post-school options program that started this year and which initially will focus on 1994 school leavers 18 years of age and over with moderate to

high support needs, and for future years; and a \$50 million package for the capital development of community-based services. Fundamental to the principles of the Government legislation is that services and activities for people with disabilities should be provided for in, and be part of, the community. This Government has firmly adopted the view that traditional service models have sometimes segregated people with disabilities from the broader community.

Mr SPEAKER: Order! There is too much audible conversation in the Chamber.

Mr LONGLEY: These new resources will allow for flexible and innovative community-based services. The Government's commitment is to look at the needs of each individual to ensure that there is a continuum of services which respond to the particular needs. It is appropriate that this announcement is made at the start of Family Week. The needs of families who have children with disabilities require a range of special support services. For this reason, the permanent supported accommodation within this package is primarily targeted at ageing parents and carers who will now be able to look forward to the future with confidence. The new services will make substantial inroads into relieving the pressure that these families very often experience. Further, the range of day activity programs within this package will provide significant support to families as their children will receive positive activities through the network of services available across New South Wales.

Page 5442

The post-schools options program initiated by this Government, and now assured for the future, makes it much easier for families to cope as there is a regular pattern of day activities available for their children. This program will provide for all school leavers in the moderate to high support need category. The Government's initiative in the provision of respite care will also provide relief to families. Respite care is considerably enhanced within this package. Sydney successfully won the opportunity to host the forthcoming World Congress of Disabled Persons International. This is an honour which befits the New South Wales Government's record in disability services. The Government will keep refining and improving its efforts in this area. The announcement today of this \$173 million package is another step in making our vision for disability services a reality - a vision that says we will always stand for providing people with disabilities every opportunity to fully participate in our community.

M2 MOTORWAY CONTRACT

Ms ALLAN: My question without notice is addressed to the Minister for Transport, and Minister for Roads. Does the contract for the M2 provide that if drainage basins and watercourse alterations cannot be provided on the actual M2 reservation, it will encroach on the Lane Cove National Park?

Mr BAIRD: The requirements are part of normal environment guidelines from the Roads and Traffic Authority, of which the honourable member is well aware.

TRANSPORT WORKERS' UNION STRIKE PROPOSAL

Mr D. L. PAGE: Can the Minister for Industrial Relations and Employment, and Minister for the Status of Women inform the House what effect the planned national strike by the Transport Workers' Union will have on the people and business of New South Wales?

Mrs CHIKAROVSKI: I commend the honourable member for Ballina for his interest in industrial relations. This specific action would be of particular concern to him as his electorate caters for a high number of holiday-makers. Honourable members on this side of the House are well aware of the puppet relationship between the State Labor Party and the trade union movement. The dummies on the other side of the House only speak when the trade union allows them to do so - a fact that has never been clearer than it was in the past few days. Honourable members are aware that the Transport Workers' Union has decided to push ahead for a

15 per cent increase in wages. The union has decided that if it cannot get this wage increase through negotiation, it will launch upon a campaign of strikes that will take place in the period up to and including Christmas.

Mr SPEAKER: Order! I call the honourable member for Londonderry to order for the second time.

Mrs CHIKAROVSKI: The union has decided that it will use bullyboy tactics in an industrial campaign - bullyboy tactics that we have not seen in this State since the late 1970s and early 1980s. In the ultimate scrooge act the union has decided it will ruin Christmas not only for those who seek to go on holidays - families whose holiday plans will be disrupted - but it will ensure that small businesses in this State are put under immense pressure. The lead-up to Christmas, when small business looks forward to good trading, will be put under pressure again from the Transport Workers' Union. Small businesses will be in strife and will founder, and jobs will be at risk. The Transport Workers' Union is not at all concerned about jobs in this State; it is only concerned about industrial action and the pressure that will put on small and large business.

Not often in this House do I agree with my Federal colleague, the Minister for Industrial Relations. Mr Brereton has called upon employers to take the strongest possible action against the Transport Workers' Union. I endorse those comments. But sadly Mr Brereton only speaks half the truth. Honourable members are well aware of the problems associated with this particular union. It will take this action because the Industrial Relations Reform Act of the Federal Government sanctifies the actions of trade unions, allowing them an almost unlimited right to strike. That is not in the interests of industrial relations in this country, it is not in the interests of the workers and it is not in the interest of business in this nation. We should be asking ourselves a number of questions. What did the Labor Party in this State have to say about the matter? What did the Leader of the Opposition have to say about the matter? Why is the Leader of the Opposition not standing up for the people of New South Wales?

Mr SPEAKER: Order! I call the honourable member for Monaro to order.

Mrs CHIKAROVSKI: The Leader of the Opposition is not in the Chamber today; he is not interested in this matter.

Mr SPEAKER: Order! I call the Minister for Multicultural and Ethnic Affairs to order for the second time.

Mrs CHIKAROVSKI: Why is the Leader of the Opposition not saying to the Transport Workers' Union of Australia, "Do the right thing by the people of New South Wales and negotiate decent conditions with employers. Do not threaten bullyboy tactics"? There has not been one squeak out of the Leader of the Opposition because, as Opposition members know, he needs the Transport Workers' Union to fund the Labor Party. The Labor Party in this State is broke.

Mr SPEAKER: Order! I call the honourable member for Port Stephens to order for the second time. I call the honourable member for Bankstown to order for the second time.

Mrs CHIKAROVSKI: The Labor Party is broke. The Leader of the Opposition knows that as soon as he opens his mouth to complain about the Transport Workers' Union, he will receive a

Page 5443

telephone call from Mr Hutchins and be told to pull his head in. This State is entitled to a decent industrial relations climate. We do not want to go back to the days under Labor when the union movement could go for broke. We do not want to go back to the days when the union movement had the Labor Government in its pocket and it could do whatever it wanted. The State cannot afford to have the Transport Workers' Union running out of control. Heaven forbid if the Labor Party ever gets re-elected in this State. The Government believes that industrial relations should be a matter of negotiation and discussion, not a matter of bullyboy tactics as used by the Labor Party.

M2 MOTORWAY CONTRACT

Mr J. J. AQUILINA: My question without notice is addressed to the Minister for Transport, and Minister for Roads. Does the M2 contract provide that if any roads connecting with the M2 are built by the Roads and Traffic Authority or any private company, the M2 operators are permitted to levy tolls on vehicles from those roads? Does that mean that the Government is planning to build the B3 option through Lane Cove Valley to improve the profitability of the M2?

Mr BAIRD: No.

OPPOSITION TIMBER POLICY

Mr COCHRAN: My question without notice is addressed to the Minister for Land and Water Conservation. Has the Opposition environment spokesperson made statements that are of concern to the New South Wales timber industry? If so, what are those concerns?

Mr SOURIS: I commend the honourable member for Monaro for his interest in these matters. I am aware of such statements. They were made by the honourable member for Blacktown at a public meeting for the environment held at Parramatta Town Hall on 9 November. That line has horrendous ramifications for not only the timber industry but all resource-based industries in the State - in other words, for the very foundations of our economy. We all know that Labor wants to reduce water licences. That would directly threaten this State's great irrigation industries, which are worth \$1.4 billion annually and which account for 5 per cent of output and employment in the State.

When one combines Labor's expressed need for radical policies with other comments made at the same venue by the honourable member for Blacktown, one begins to get a picture of what Labor is really about. The honourable member told the Parramatta environment meeting that the timber industry's argument that it will invest more if it has resource security is tedious and is only designed to have a go at the greenies. Beyond that, the honourable member said that Labor would not only set up 10 new wilderness areas in its first term of office, but would complement that with another commitment to set up 20 new national parks. When one adds them together, there will not be much room for forestry or anything else. The real design of Labor's policies is to wipe out this great industry, which is worth \$2,400 million each year and employs about 25,000 people, mainly in country and regional areas.

Labor is full of such inconsistencies. The Leader of the Opposition - the Mr Bean of Australian politics - says on the one hand that he is an unabashed greenie, while on the other hand he claims to want a viable and expanding timber industry. He really is a joke. The farce of it is that he expects the people of New South Wales to take him seriously. I instance another Mr Bean-like Labor proposal: Labor says that it will expand plantation forests - which it stopped when it was in government in 1981 - by imposing a surcharge on hardwood royalties. Labor robbed the State of about 13 years of accumulative growth by imposing such a surcharge on hardwood royalties. If the surcharge were 10 per cent, the cost to industry would be \$4.6 million. That is a lot for industry to bear, but not as much as the Government has committed to plantation forestry establishment - which is \$6 million per annum for some years ahead. It is no wonder that the Forest Products Association has rejected that piece of brilliance.

Mr SPEAKER: Order! I call the honourable member for Gordon to order.

Mr SOURIS: Labor also insults the integrity of the timber industry by choosing not to believe its estimates that resource security would lead to 1,000 new jobs and \$320 million in new investment within two years. Labor may not believe those estimates, but the Government does. My colleague in the other place, the Minister for Planning, and Minister for Housing, has estimated the cost of Labor's policies to his portfolio alone at a staggering \$41 billion. Couple that with the radical policies called for by the Opposition's environment

spokeswoman, and the consequences are frightening. Talk about voodoo economics! Talk about Eganomics! All that Labor is good at is whingeing and moaning. It gives no indication of support for industry, for future growth and development, and for the future of this great State. Members of the Opposition are doomsday sayers. Heaven help the timber industry and other great resource industries of this State if Labor's policies are ever implemented. They would be on the scrap heap, as would the economy and the standard of living of everyone in New South Wales.

STATE BANK (PRIVATISATION) BILL

Second Reading

Debate resumed from an earlier hour.

Mr NEILLY (Cessnock) [3.17]: I oppose the bill, but not for any of the reasons enunciated by Opposition members. For me, philosophically, the sale of the State Bank goes against the grain. The Government has a fiscal responsibility to the electorate

Page 5444

as well as a social responsibility. I believe that a well-managed State Bank would avert many of the difficulties with which some people in our community become confronted. I recall an occasion in the mid 1980s when the State Bank of New South Wales tried to influence home lending rates. It did so only for a limited time, but at least it took a lead. I recall also when the State Bank was a friend to the farmer - the man on the land. During the past two years, the State Bank has been primed for sale and, in conjunction with that priming, there has been a review of the loan portfolio. Some hard decisions have been made, and those decisions have had sorry ramifications for property owners.

A lucerne growing property owner at Jerrys Plains was induced by the agribusiness manager based at Tamworth to make further capital investment out of land borrowings from the State Bank. The bank foreclosed on him a few months later. When informed of this matter I tried to contact not only the local bank manager but the agribusiness manager - who, unfortunately, was on extended leave - the regional business manager and the New South Wales general manager, Mr John O'Neill. Needless to say, my inquiries were fruitless. If anyone took the opportunity to read some of the papers that have been released by victims of the State Bank recently, one would see that others have suffered from the priming that has taken place to privatise the organisation.

Despite the financial gobbledegook, the situation at the State Bank can be compared with what happens at an ordinary race meeting. Cash flow problems occur; an in-depth analysis is done; the prospects for the future are considered; and bad and doubtful debts must be taken into account. This could equate with the Bookmakers Co-operative. Just as a race club sets down the agenda for its meeting, the Government has set the agenda - the terms and conditions and parameters - for the sale of the State Bank. The Government has called in the Auditor-General to be the steward, as it were, purely and simply on the basis of the terms and conditions stipulated by the Government pertinent to that sale. The Auditor-General found that the sale package into which the Government has entered with Colonial Mutual Life, and the price involved are fair. I also subscribe to that view. However, the Auditor-General was only asked to comment on a limited basis, rather than to consider the whole ambit of possible options available in relation to the sale.

The sale has some good facets. Any reasonable person would subscribe to the view that the interests of employees and the continuity of operation of the branches should be protected. However, these protections are limited. In reality, the protection provided to employees is interim protection only - it is certainly not permanent - and there is no requirement that the branches in various locations operate in perpetuity. These guarantees should have been sought by the Government. Undoubtedly, those aspects, as referred to by the Auditor-General, are reflected in the sale price.

Many comments have been made about the Opposition not reading all available literature. I have with me a race meeting program from the Cessnock Greyhound Racing Club of 24 April 1972. It was called the Jack Lang night. The program was devoted to landmark legislation which had been put in place by Jack Lang. Ironically, the program covered two aspects of legislation with which we have dealt here in the past week, namely, "The Moratorium Act" Stake - pertinent data is in the program - and the "Rural Bank" Stake. The description of the "Rural Bank" Stake in that program read:

The Government Savings Bank of N.S.W. was wrecked in 1931 by the actions of the Nationalist Party and the Commonwealth Bank, which for a long while had been anxious to gain a strong foot hold in N.S.W. for its Savings Bank division.

After enduring a run on the bank, the Commissioners gave up the struggle and on April 23, 1931, the bank closed its doors.

When things had settled down Lang re-opened the Rural Department of the now defunct bank and so the Rural Bank of N.S.W. came into being as a trading bank and benefits each year from a clause inserted in an agreement with the Commonwealth Bank that half the profits and losses incurred by the C.S.B. in N.S.W. go to the Rural Bank.

That agreement ceased in 1980, and compensation was paid by the Commonwealth. The race meeting program was not prepared in ad hoc fashion. A journalist interviewed Jack Lang before the program was put together. During the course of that interview Jack Lang said that the closure of the Government savings bank by his political opponents in the Commonwealth Bank upset him more than any other incident in his life in politics. After the doors of the State Savings Bank of New South Wales were closed, Jack Lang considered how the institution could best be bailed out. The Commonwealth took over the bank's operation, along with substantial assets at that time, and left the dealings side of the State Bank to be resolved by the State - hence the formation of the then Rural Bank.

Mr SPEAKER: Order! If honourable members wish to converse, they should do so outside the Chamber.

Mr NEILLY: The Rural Bank was pulled up by its bootstraps from December 1932, when legislation was introduced by the Premier at that time, Bertie Stevens. Between the time Jack Lang had to close the doors of the State Bank and before the introduction of the legislation, which was initiated during Jack Lang's era, Sir Phillip Game transferred operations of this Parliament to the then Opposition, which was headed by Bertie Stevens, who pursued the legislation to its finality. I do not know the intricate details of this sale. The *Victims News*, published by the Victims of the State Bank of New South Wales Association, made reference to three subsidiaries of the bank: namely, Fouron Pty Ltd, Lazarose Pty Limited, and Fazen Pty Limited. These were virtually \$2 companies with multimillion dollar dealings. I presume that these companies represent a foray into mercantile banking by the State Bank. Millions and millions of dollars are involved with these companies, Page 5445

yet the only time I have heard mention of any of these companies was when Fouron Pty Ltd was before the courts as a result of its association with the Eros Cinema. I understand that Fouron Pty Ltd was the lender of finance to the Eros Cinema, which subsequently folded and left debts.

Whilst perusing the documentation available, I decided to examine the advice given to the Auditor-General of New South Wales contained in the report released last Friday. Specifically, I was concerned about the sale arrangements in relation to indemnities, guarantees and warranties. I wondered how responsible - and I do not suggest the Government would be irresponsible in this regard - the review of those arrangements had been. As a prelude to that consideration I examined a comment made by CS First Boston and Coopers and Lybrand in the first report. I was always of the view that the State was up for a penalty of \$7 million. However, the comment read:

The obligation, should this legislation not proceed and become law by 31 January 1995, is reimbursement of all costs incurred up to a maximum of \$7 million.

Therefore, it is a penalty reflective of cost, not an outright punitive penalty. The indemnity for loans is under

careful scrutiny. That determination will not be fully made by the new organisation, with CML at the helm. The sale arrangement provides that an independent committee will be established to consider the loans in default, or those that have potential for default. The committee must make a determination on the final outcome of performing or non-performing loans. Specific arrangements are outlined in the documentation to ensure that the Government is not duded in regard to losses that might be incurred from loans outstanding at the date of transition. The report read:

Based on the work we have performed and a review of the Bank's future projections we consider that the costs to the State under the indemnity might be \$36 million and we have used this in our assessment of sale value.

Another interesting comment under the heading of "Loan Funding and Loan Management Costs" is that the deed also indemnifies the bank against management costs incurred in the management of non-performing loans, including direct and allocated expenses. The report estimated these costs to be \$14 million. The estimation exceeds the figure for loans that may be in default, as it also relates to the cost of pursuing outstanding debts. The report also contains an interesting comment regarding the potential obligations to government in conjunction with the renewal of leases and subleases on principle premises of the State Bank in Martin Place. The assessment is that the arrangement in that regard could potentially cost approximately \$22 million in nominal dollar values - calculated in the context of present day dollars the figure would be \$15 million.

In its report, CS First Boston and Coopers and Lybrand also noted that litigation is outstanding against the State Bank in various cases, including under the Credit Act. The assessment has been made that claims under that heading are unlikely to exceed \$23 million after the indemnity claim pool. Further reference was made to litigation and asset sale recoveries of a positive nature. This is litigation where the bank may be a beneficiary. The report contains the expression that:

The estimation of the eventual outcome for future litigation is subjective; however, based on our review of bank documents and our discussions we consider that a reasonable assessment of the recoveries to be received by the State subsequent to completion of the sale is \$46 million.

That is on a positive note as opposed to the previous negatives. The view of the Government's action in respect of the closing of the State Superannuation Fund and the setting up of the First State Super scheme seems to me not quite correct. Discussions are contained in the document under "Superannuation" about obligations of the State Bank in regard thereto and the transference of some of those obligations to the new proprietors. The report stated:

Given that the State's unfunded superannuation obligations are reflected in the whole of Government accounts, and that this liability is determined by the Government Actuary, we conclude that there is residual cost to the State resulting from the sale of SBN of a nominal amount of \$46 million as at Completion Date. This amount will need to be funded over a period of time.

I subscribe to the view that that should be funded fully out of the proceeds of the sale of the State Bank, if the sale goes ahead. In other words, the Government will take the whole of the revenue derived from the sale of the State Bank into account during the course of this financial year, defer some obligations through guarantees in the future but a debt which is almost fully recognisable in the context of superannuation outstandings will be deferred to be paid in the future. If it is done correctly, it should be paid to the State Superannuation Authority out of the proceeds when they are received.

Mr PEACOCKE (Dubbo) [3.31]: I support the sale of the State Bank. It is interesting to examine the reasons that the Opposition opposes the sale. Let me briefly go over the history of the State Bank. The State Bank was originally the Rural Bank, which was set up with a charter to assist farmers and the rural sector. That situation was changed forever by the Wran Government when it changed the then Rural Bank to the State Bank and also changed the nature of the bank from a rural bank to a run-of-the-mill, ordinary, commercial bank. That was at the time, of course, when the Wran Government appointed Mr Whitlam head of the State Bank.

The situation today is that the State Bank carries out no special role in respect of country people, no special

role in respect of farmers and is no different from other banks except in the sense that it is extraordinarily undercapitalised. Much has been said about this today by Government members. Obviously, if the State Bank is retained, it will require huge amounts of Government funding to make it viable, and certainly that will deprive the State and its taxpayers of other much more urgent works. Recently, I and other members of Parliament had

Page 5446
discussions with representatives of Colonial Mutual Life Limited, which is the purchaser of the bank. It was a most interesting discussion because in those talks it was clearly indicated that not only did CML wish to expand its own insurance network in country areas - and for that reason alone would maintain bank staff and the regional branch structure - but it was very much interested in developing new types of finance for the rural sector and for small business.

It is quite obvious that one of the absolutely vital things for the recovery of the rural sector is a new approach to rural lending. That approach certainly needs long-term flexible lending, if there is to be a survival of many people in the rural sector. CML is situated in an ideal position to provide such funding because of the nature of its own core insurance business, which requires long-term commitment to policyholders, which fits very nicely with long-term flexible lending to the rural community. The fact is that the sale of the bank to CML on the terms upon which it was sold preserves an enormous amount of bank structure within the country areas of New South Wales, and an enormous amount of employment. I congratulate the Treasurer for his consideration of the humanity of this issue. Honourable members would know that 70 per cent of State Bank branches overlap with the branches of other major banks, and it would be obvious if a sale had been made to one of those banks that the structure would have been destroyed and employment lost on a massive scale in country areas - as well, of course, as loss of competition.

That was an excellent way to approach the matter. Certainly, it may have cost the State some money, in that there is a possibility that one of the major banks would have paid more money just to get rid of the branch structure of the State Bank. It was a statesmanlike act to preserve that structure, in country areas in particular but also in suburban areas, and to maintain a competitor. The State Bank as it now is certainly could linger on for years, producing small returns to the State and producing some loans for particular purposes for the broader community, but it would be no different from any other banking system. I am confident that under the CML regime there will be better lending policies, particularly for rural producers; better security for the staff of the bank; better banking all round for the whole of the State; and certainly better competition for the major banks.

The honourable member for Cessnock made some interesting comments about the State Bank. He talked about the time of Jack Lang when the State Bank was set up as the Rural Bank. As I said at the beginning of my contribution, and want to conclude by saying, the Rural Bank as it was formed has not existed since the Wran Government destroyed its basic core functions. For that reason it is hypocritical of the Opposition to oppose this sale because, in reality, if it did succeed in preventing the sale now and if it did, by any horrible mischance, ever get into government, it would immediately sell the State Bank, but would sell it on terms that would destroy its staff, would destroy its customers, would offer nothing new by way of banking assistance to the rural sector, and would certainly deprive the State of a great deal of employment and of new types of lending. For all those reasons I solidly support the sale of the State Bank. I congratulate the Treasurer on the fine work he has done in organising the sale. I look forward to CML, when it takes over, making the State Bank into a genuine rural bank and a genuine bank for small business, with sufficient capital to do its job.

Mr CRITTENDEN (Wyang) [3.38]: The honourable member for Dubbo, who has just spoken in the debate, raised the issue of the need for alleged capital injections into the State Bank of New South Wales. During the last two or three years the Opposition has certainly heard that argument advanced on several occasions. Honourable members have heard that the State Bank as it exists needs a capital injection in the vicinity of \$500 million. Indeed, in 1991, the managing director of the bank, Mr O'Neill, said:

The comment that we need \$300 million in terms of capital injection doesn't hold water . . . and our strong capital adequacy ratio indicates there is no problem.

That is precisely the point I am making, that this argument has been advanced over time but the Managing

Director of the State Bank said in 1991, when the bank was in a much more parlous state than it is today, that the need for capital injection was not that pressing. Mr Turner, the bank's secretary, in a letter to the Australian Bank Employees Union in July 1993 argued that a capital injection would be required in three or four years if the bank was not sold in the meantime. It is clear that the bank's senior management do not believe that a capital injection is a pressing requirement. It is not a pressing requirement, and I refute the argument made by the honourable member for Dubbo. Given the current capital adequacy, the discussion about future capital requirements is based on unquestioned assumptions about the desire to continue growth, which in itself is an interesting point. I would have expected the State Bank as presently structured to be more interested in examining its existing operation and improving on that than in embarking upon some growth phase that may or may not be of advantage to the people of this State or to a potential sale.

One of the big reasons given by the Government for the sale of the State Bank is the need for a massive capital injection. The Treasurer and other Government members have advanced that argument today. An article in the *Sydney Morning Herald* of 22 September quotes a Treasurer's office representative as saying that the Treasurer was concerned that two years down the track the bank might need capital to maintain its competitive position relative to the major banks. Unfortunately, the Treasurer was contradicted by a Bankers Trust Australia Limited report arguing that instead of seeking a capital injection from the Government the bank could follow an alternative strategy to reduce gearing and increase capital adequacy. That report stated that the bank could improve its capital position by reducing the total size of its balance sheet,

Page 5447

unwinding its offshore loans and paring back its large corporate loans. The Bankers Trust report added that the bank could slow down the growth in its assets such as housing loans by pricing those loans less aggressively.

Honourable members should consider the point made about less aggressive housing loans. I understand from a report written by James Walker that appeared on page 43 of the *Sydney Morning Herald* of 19 November that the State Bank wrote 49 per cent more home loans during the current year than in the previous year, with 75 per cent of the \$3.5 billion written being of the low-margin, one-year capped variety. It is clear that the bank is still geared to the aggressive end of the housing loan market. The article also stated that the bank's concentration in the cut-rate fixed home loan market and increasing bond yields contributed to a 6.8 per cent decrease in its underlying result, from \$173.1 million to \$161.4 million in the year to 30 September.

Those figures back up the report of Bankers Trust. The article written by James Walker stated exactly what Bankers Trust has been saying and demonstrated that the trust's argument is correct. The whole notion of capital injection is a bit of a furphy at this time. The report acknowledged that the bank had a lower capital backing than its major competitors. The existence of the government guarantee, though, means that the State Bank does not need to be capitalised on the same basis as listed banks. The Kent Consulting Group in its discussion and analysis in June of some of the issues relating to the proposed privatisation of the State Bank said that in the year to March the State Bank capital adequacy ratio had improved from 9.06 per cent to 10.54 per cent, primarily as a result of reductions in risk-weighted assets that came about because assets weighted at 100 per cent were replaced by housing assets weighted at 50 per cent. The achievements made are a direct consequence of the policy of the State Bank to expand its housing loan activity.

The Kent Consulting Group also attached a table demonstrating that the capital adequacy of the State Bank is more than adequate when compared with the Reserve Bank of Australia guidelines. The bank's capital adequacy ratio is lower than those of its competitors, but that is overcome by the fact that there is a government guarantee. I now turn to the management costs and interest shortfall, which the Government will still be required to pay. Unfortunately, under the very questionable deal negotiated by the Fahey Government the taxpayer will have to foot the management costs and interest charge shortfall of all of the bank's non-performing loans. After the bank is sold the taxpayer will continue to pay some of the bank's expenses and will subsidise the interest payments on defaulting loans of failed speculative entrepreneurs from the late 1980s.

The worst part of all is that the agreement between the Government and Colonial Mutual Life has not made it clear whether the reimbursement will apply only to the \$990 million in non-accrual loans or also to the restructured and renegotiated loans of \$328 million. Even if the reimbursement applies to the former only, the

cost to the New South Wales taxpayer will be horrendous. The shortfall between the cost of funding and income received could be anywhere up to \$60 million a year. Bryan Frith in an article appearing in the *Australian* of 18 November stated that all up the concessions granted to CML by the Government were estimated to add about \$50 million to pre-tax earnings of the State Bank in 1995-96. The management costs and interest charge shortfalls over the past five years could be readily ascertained by the State Bank, yet we are not told even the likelihood of the range of costs involved.

There could be horrendous costs that a future Labor government, after March 1995, would have to deal with. No estimates have been provided. Costs include the rent subsidies on the State Bank Centre, indemnities for contraventions of the Credit Act, litigation, inadequate insurance, building rectifications, taxation and several miscellaneous warranties. The Bryan Frith article to which I have already referred could well have underestimated the costs. The article stated further that the Government is to pay the cost of administering problem loans, which are estimated at \$7 million to \$8 million a year, and to meet Credit Act costs, estimated at another \$6 million to \$7 million a year.

Given that Mr Frith could be well short of the mark, his estimates would provide for a total of \$15 million a year, which is a hell of a lot of money in anyone's book. I wish to speak about the way in which the privatisation process has been conducted. At the outset I make it clear that I do not necessarily support privatisation. For the purposes of the debate, however, I am prepared to examine the three methods of privatisation that could have been followed. It is important to realise that there are three main methods of privatisation, not only the method that the Fahey Government was hell-bent on applying. The options were outlined in the Kent Consulting Group report of June. The first method is to have a sale by way of private treaty; the second is flotation at least partially to the public, as in the case of the Government Insurance Office; and the third is a combination of the other two methods, which in itself has some options.

The Government has insisted on sale by private treaty, for the simple reason that it is determined to achieve a sale before the March 1995 election. The most prudent approach to sale by private treaty would be a tendering process. However, there is one big problem with that. On this occasion there was only one tenderer, so that tenderer had to be successful. The real worry for me and for the taxpayer is just what the implications are when there has been only one prospective purchaser for the State Bank. I cannot put it any better than the Advance Bank executive, Arthur Delbrige, who said it was clearly unfortunate for the Government to have only one bidder left because, as he stated in the *Daily Telegraph Mirror* of 27 May, "you cannot get any leverage on the sale price". [*Extension of time agreed to.*]

Page 5448

The second option, the public flotation of shares in the State Bank of New South Wales, is likely to give a greater result to the vendor - the State Government - than the negotiated sale, if the precedents offered by the Commonwealth Bank, the GIO, Woolworths and CSL floats hold good. Floating the company is a complex operation and, to a large extent, the flotation depends on market sentiment. No doubt in 18 months or two years time, if it were the then government's wish, the public float of the State Bank may be a viable option. It would then be a far better option for the taxpayers of New South Wales. The third option would be to have a combination of the two previously mentioned options. The whole issue of the public float is worrying. Mr Frith has calculated some interesting price to earnings ratios that indicate there would be a substantial benefit to the taxpayers by a public float. Mr Bryan Frith in the *Australian* on 18 November stated:

However, If the Government is prepared to wait for a recovery in the market climate, it's probable that it would be able to float the SBNSW during 1995-96. Moreover, that would have the advantage of enabling the bank to continue to report improved results.

Later in the article Mr Frith points out that assuming a price to earnings ratio of seven times, a float of the State Bank of New South Wales would return the Government \$790 million, or \$215 million more than the amount proposed under the sale, that is, \$215 million more, without the underwriting of the non-performing loans and the hidden costs which were outlined earlier. A price to earnings ratio would produce \$926 million or \$350 million more than the proposed sale. It is unfortunate that the Government is hell-bent on proceeding headlong

into this privatisation, which simply does not stack up.

In terms of the bank's profitability, a \$49.5 million reduction in a charge of doubtful debts allowed the bank to lift the bottom line result from a \$74.6 million loss to a \$40.1 million profit. On the face of it, the \$40.1 million profit looks substantial. But it is even better because the State Bank of New South Wales does not pay tax to the Commonwealth Government, and therefore the tax component really comes to the State Government. In effect we are talking about an income-earning stream of not \$40.1 million to the Government in profit, but \$70 million to the State Government, but it is prepared to abandon that for a one-off payment of \$576.5 million.

Mr Frith also pointed out that, based on the income-earning stream, as at 30 September the net asset backing of the State Bank of New South Wales would be increased to have increased to more than \$585 million. This would be to the benefit of CML if a trade sale proceeds at \$576.5 million, and the net asset backing has probably risen further since that date to around \$600 million. If one accepts that the sale has to proceed, the sale price must provide maximum value for money. I ask the Independents to consider that the profit figure was not taken into account; that seems an unbelievable exclusion in this whole sorry affair. One cannot make a decision if one does not know the projected future earnings, the projected income stream, or the projected future profits.

Mr Windsor: No-one knows.

Mr CRITTENDEN: That is the point, no-one knows, except some people who are not releasing the information. The Leader of the Opposition in the upper House has information that the State Bank of New South Wales profit projection will be more than \$100 million this year. He was advised by the Auditor-General that the sale price of \$576.5 million was calculated on profit projections which indicate that the bank is projecting a profit in 1996-97 of between \$210 million and \$280 million. That is a substantial amount of money when one considers that on the one hand the Parliament of New South Wales is expected to cop a price of \$576.5 million when on the other hand the Auditor-General advises that for the 1996-97 financial year the profit will be between \$210 million and \$280 million - a tremendous amount of money.

No matter which way it is looked at, whether in terms of the payback period or the discounted cash flow model, I cannot work out how the sale figure of \$576.5 million was arrived at; it does not add up. It does not make sense to do what the Government is proposing to do in this case. Other speakers in this debate mentioned the unfortunate way the deal has been structured. The financial risk exposure will remain. The government guarantee will remain on all deposits lodged up to the date of sale and the Government will continue to be exposed to the financial risk the guarantee places upon it. The Government's exposure continues, but it will have no say in the future management or running of those State assets. If that demonstrates the Government's financial management expertise, it certainly has a massive problem. There is an interesting article in the *Business Review Weekly* today written by Tim Boreham, which stated:

CML's plan involves keeping the bank a separately managed entity, but then demutualising and publicly listing.

In fact the article gives a suggestion as to when that might occur. The article continued:

To date, CML has released little information about the structure of the deal and is unlikely to do so until it gets parliamentary assent. Under the sale conditions, CML must keep the bank a separate, Sydney-based entity with an autonomous management function, and maintain current staff numbers.

But here comes the rub:

Most of the reporting issues -

between the life assurance company and the bank -

will emerge when the bank demutualises in four years and converts to a publicly listed entity.

[Time expired.]

Mr WINDSOR (Tamworth) [3.58]: I speak to this legislation with pleasure because it is an issue I have taken quite a deal of time to examine. I will raise a number of concerns that essentially have been removed by the Auditor-General's report. I support the State Bank (Privatisation) Bill. I will highlight what I believe is the rural perspective in relation to

Page 5449

the regional structure of the bank. The honourable member for Dubbo may have addressed some of the issues that I will speak about. From the onset of this debate I have not had a philosophical objection to privatisation. I would have to be convinced that it was not a good idea for the sale to go ahead. There are some misconceptions, particularly in regional New South Wales, as to what the State Bank is, has been and should be as a provider of finance to country New South Wales. In essence, the State Bank - or the Rural Bank, as it used to be called - stopped being a special provider of finance to the rural sector many years ago.

In considering this bill, honourable members have to consider whether there are any special reasons for keeping the bank in public hands. On a philosophical level, it seems that both Government parties and the ALP are in favour of sale of the bank. Therefore, there is no division as to whether the bank should be sold. It is difficult to take a firm philosophical decision because that has been taken by both sides. This bank is to be sold. The division is on whether the price of sale of the bank is fair and reasonable to the taxpayers of New South Wales. The second point at issue, which the ALP continues to debate today, is the timing of the sale. Both sides of the Parliament agree with the sale, for a number of reasons. I do not see any reason that the sale should not take place at this time, particularly considering the report that was released by the Auditor-General last Friday.

My first concern about the bill was whether the \$576.5 million was a reasonable return to the taxpayers of New South Wales. The report of the Auditor-General has vindicated that price within the terms of reference. It could be argued that if the terms of reference had been changed and the other banks had been allowed to tender for the sale a more attractive price may have been obtained. However, costs could have been included if the four major banks had been in a position to buy the State Bank. One sector of the community that could have had to bear those costs is the regional country network of the State Bank. That has not been taken into account by many when reviewing the bill. Rural and regional New South Wales have a number of problems, particularly in regard to finance. The Farm Debt Mediation Bill is currently before the Parliament. It is critical that many options are available in regional New South Wales for the availability of finance.

I had discussions last week with Mr Peter Smedley, Managing Director of Colonial Mutual Life Limited, and Paul Batchelor, Chief Financial Controller. I am heartened by some of their objectives in regard to the purchase of the bank. I was also concerned about the cost of warranties, guarantees and indemnities that the Government would have to bear in certain circumstances. Without referring to the document, I think that cost was to be in the vicinity of \$25 million. I believe that taxpayers would be reasonably happy to absorb that cost. The Opposition has raised the question whether, if it were agreed generally that the price was reasonable, now is the correct time to sell the bank, or whether an improved position would be obtained if the sale were delayed. As an Independent, I have a problem separating the politics from the genuineness of the ALP in wanting to obtain a higher price and have asked myself whether the purpose is to promote uncertainty in the mind of the community as to the timing of the sale. The other option that was mentioned was an open float at some future time.

An open float would result in costs and benefits to different sectors of the community. Though that may have resulted in a higher price being paid for the bank, many taxpayers, particularly those in the regional network, would be disadvantaged. On the down side, if a float had taken place, one of the larger banks would have bought the State Bank and, with a takeover of the branch network, many branches would have been wiped out of the State Bank. That would have had massive ramifications for the staff and the incomes of many small communities. If an open float had taken place - and the Opposition suggests it would go down that road - I would see some danger to regional New South Wales from options available in the future.

Some weeks ago a number of my colleagues in this place met with members of banks, commodity brokers and financial representatives to discuss the banking structure in New South Wales, in particular the long-term needs in regard to finance in the rural sector, especially after the drought breaks. At that meeting it became obvious to me that there is growing reluctance by some within the banking sector to continue to lend money to the farming sector. It has to be made clear that it is not a foregone conclusion that the existing banking structure will maintain a flow of funds into regional New South Wales, particularly when it is recognised that the proportion of farming sector business of most major banks is less than 10 per cent of their total business. In the State Bank it is as low as 5 per cent of its total business.

Those who would argue that the banking system needs the farming sector to survive could be in for a rude shock if they use the argument that has been used in debate on the Farm Debt Mediation Bill, that more stringent controls need to be placed on banks in fairness to farmers who are in strife. There could be implications throughout the farm sector if such legislation were to proceed unamended. I referred earlier to a meeting that was held last week with the managing director and the chief financial controller of Colonial Mutual Life in regard to the sale. I was heartened to hear that they were keen to maintain the regional branch structure of the State Bank. Colonial Mutual Life is bound to retain the regional structure for three years. There had been some concern within the farming sector that the regional structure would be sold off at the end of that three-year period. CML has to consider the long-term needs of agriculture and try to develop financial packages which could be incorporated with the general approach of the insurance industry to better address the financial needs of the farming sector.

Page 5450

I am happy to see an insurance industry entering the banking sector. If it recognises its full potential, it could bring to the banking sector some interesting long-term thinking and packages that would be of great benefit to the farming sector over time. This morning I had a conversation with Mr Mitchell, President of the Shires Association, and discussed options that would be available if CML was serious about maintaining its regional structure, developing its insurance packages and developing longer term financial packages for the farm sector. Mr Mitchell advised me that he was keen to let CML know that the Shires Association would be willing, in some areas where there are not at present any structures, to deliver financial and insurance services; and that could be done through the network of country councils.

I will be attempting to organise a meeting between the Shires Association president and the CML at some later date. I will be supporting the legislation. I urge CML to take advantage of the country branch structure and to take advantage of being an insurance company moving into the financial market. I urge CML to recognise that in the longer term agriculture and other industries need an approach different from that offered by the current banking system, and that financial packages could be married within insurance packages to achieve a positive outcome for rural New South Wales.

Mr RUMBLE (Illawarra) [4.11]: The Opposition is opposed to the sale of the State Bank for the fire sale price of \$576 million. The honourable member for Tamworth asked whether \$576 million was fair and reasonable. That sale price, matched against net assets of \$589 million, gives a shortfall of \$13 million. No provision seems to have been made for goodwill. The honourable member asked whether there is any benefit in delaying the sale of the bank. All indicators from information recently and lately available is that the bank's profits are increasing. The State Bank made a loss last year and a profit this year. Commonsense dictates that an asset should be kept until profits accrue and that, if it is to be flogged off, it should be sold at the most opportune financial time.

The question must be asked why the State Bank is being sold now. Whilst the latest profit of \$70 million is welcomed, it has to be matched against certain other facts. The bank announced a \$74.6 million loss for the year ended September 1993, as well as a loss for 1991. In 1992 the bank was valued at \$900 million. The bank is Australia's fifth largest bank and the third largest operating in New South Wales. It is a potentially valuable asset. However, its performance in recent times has been far from satisfactory. KPMG Peat Marwick's 1993 financial institutions performance survey ranked the State Bank of New South Wales as the

second worst overall performer of the nine State and regional banks, slipping down one ranking from its position in 1991. Specific provision for bad and doubtful debts in the year to September 1993 was \$140 million. That brought specific provision since the emergence of the bank's asset problems in 1990 to \$713 million.

Write-offs over the same period total \$734 million, including a massive \$235 million in the year to September 1992. The bank's 1993 annual report shows that its rate of return after taxation fell from 8.4 per cent in 1992 to 2.6 per cent in 1993. Over the same period shareholders' equity fell by 12.7 per cent, or nearly \$100 million, to \$678 million. Those are just some of the burdens that the State Bank is labouring under now. Honourable members opposite keep saying that a major part of their constituency is owners of small- and medium-size businesses. These same business people must think that the Government needs its head read for selling this asset, with its current financial problems, at a fire sale price. A prudent business person would say that any asset to be sold should be sold when the asset has a good track record in terms of profit and other economic indicators. Businesses are generally not sold when they are in the economic doldrums. An asset is not sold when it is just limping around the marketplace performing poorly, especially when its future prospects are not known. Honourable members have been informed that we have not been told of the bank's future prospects because that is commercially sensitive material.

The deal must be wrapped up by 24 November, otherwise taxpayers will be slugged with a \$7 million bill. This is an amateurish way of holding a gun at the heads of members of Parliament. CML must be laughing its head off at this type of behaviour and at getting this type of provision written into a contract. The honourable member for South Coast questioned the constitutionality of entering into an agreement subject to the approval of Parliament. The Auditor-General had to report to this Parliament by 18 November. This gave the Auditor-General one month to fully investigate negotiations that have been going on for the past 12 months. He had an enormous task to unravel all the information within a short time - of how the sale price of \$576 million has been arrived at.

Earlier the honourable member for Strathfield lectured honourable members on his experience as a successful businessman before entering Parliament. Would he have sold a business solely on the value of net assets? I am sure he would have been shrewd enough to have built in a provision for goodwill, otherwise he would not bother to sell the business. Though taxpayers are getting a raw deal with this fire sale, some institutions have been winners. An amount of \$1 million has already been paid to Bankers Trust for its analysis of the deal. A fee of \$1 million is to be paid to Bankers Trust if the deal goes through. An amount of \$1.25 million has been paid to CS First Boston for advising the Auditor-General on the prospects of the sale being of benefit. One newspaper report estimated that cost at \$23,000 per day. An amount of \$164,000 was paid to a public relations firm to answer media questions for the Treasury. In respect of a lucky few, everyone is a winner.

Notwithstanding the bargain basement price of \$576 million, \$3 million will be paid to CML to keep open country branches of the bank. The Opposition

Page 5451

does not object to keeping country branches open, but why should taxpayers' money be used to get that condition written in? In addition, \$17.2 million will be paid to the State Bank by the Government as an amount the State Bank was supposed to have overpaid under section 15 of the State Owned Corporations Act - another good reason for CML to be rubbing its hands. The honourable member for Dubbo was reported in the *Sun Herald* of 6 November as saying he had serious concerns about how the State Bank's prospective new owner, CML, would treat its struggling rural landholders who are hard hit by the drought. The honourable member for Dubbo was reported as saying:

This Government has guaranteed faulty loans and bad debts, and that could be a trigger for a ruthless new owner to put the squeeze on these people and write them off and then get the money back from the Government . . .

Very few banks these days understand rural finances. They get rid of the old-style managers who knew their customers well, and now they have kids with degrees and calculators who only look at the bottom line.

However, today the honourable member for Dubbo said that he is satisfied with the discussions he has had to date with Colonial Mutual Limited. The latest information is that the State Bank is projecting a profit of more than \$100 million this year; between \$210 million and \$280 million in 1996-97; and the retention value, or the sale price of the bank, is still \$576 million. What about the potential earnings of the State Bank? What about goodwill? The bank is being flogged off now when it has sustained losses, but it is predicted to make a profit in the next two or three years. In summary, why should the State Bank be sold at a fire sale price with the Government retaining its huge debts? The Government is attempting to sell off an asset with no good reason. Moreover, no price has been mentioned for goodwill when profits are predicted to increase. The Opposition opposes the sale of the State Bank.

Mr MOSS (Canterbury) [4.21]: The sale of the State Bank is being proposed at a time when the Government is about to go out of office. In true conservative fashion this appears to be a desperate attempt to sell off a public instrument which has an enormous potential to provide additional revenue for future State governments. I am not an economist and I do not profess to be a financial whiz, but I do not have to be an expert to be convinced that the sale, particularly at this time, is definitely the wrong move. The Government will receive short-term gains from the sale of the bank, but there are long-term losses. The decision to sell the bank at this stage will undoubtedly be regretted in 10 to 15 years, as we will lose not only the annual income but also a valuable asset.

It is significant that this issue is being debated at the same time as we are debating the corporatisation of the Water Board - another matter about which I am not happy. While the corporatisation of the Water Board might have some disastrous effects on the State, it will only shift responsibility from ministerial control and do away with the day-to-day functioning of a government body. The board will not be lost entirely. However, the proposed sale of the State Bank means that it will be lost for ever - and in this case we appear to be losing it in a hurry. I am particularly concerned about the effect the sale will have on staff and services. The Minister, in his second reading speech, stated that employees would be working for a bigger, financially stronger, more competitive and diverse organisation. Of course, he was implying that staff will be better off when the bank is sold. In fact, he went so far as to say that future career prospects would be good, if not better.

I question that statement as the Minister said in that same speech that the sale contract requires that the headquarters of the bank remain in Sydney for five years. I thought that the headquarters of the State Bank would remain in Sydney for ever and a day. The contract should spell that out. That five-year requirement does not warrant inclusion in such a contract. The Minister for Community Services, who referred earlier to the benefits of Colonial Mutual Limited being based in Victoria, said that this was a good thing as the State Bank would not be purchased by another banking competitor in New South Wales who might run it down. By the same token, as the purchaser is a Victorian-based organisation, it is possible that, at the conclusion of the five-year period, the headquarters of the State Bank of New South Wales could well be shifted to Melbourne. If that were so, most of the financial facilities associated with the bank, with the exception of a few branches, would be based in Victoria. The Treasurer referred to good career prospects. That could benefit workers in a State other than New South Wales.

I am concerned also that the contract states that no country branches will close within three years. Again I do not believe that period is sufficient. In the 12 months preceding the 1999 State election, half the branches of the State Bank of New South Wales could have been closed under the agreement in this contract. National Party members have been particularly weak on this issue. It would appear that National Party members have not been included in any negotiations concerning the sale of the bank. However, if they were, they have either been duped over the issue of branch closures or they have caved in to Liberal Party pressure. The people who will be affected by the closures of branches will mainly be those in rural areas, in remote little towns where there is only one bank, which happens to be a State Bank. Local communities, who support National Party members and who, in the past, relied on the State Bank for deposits, withdrawals, obtaining loans and many other services, will lose out because the National Party has been very weak in this regard.

I am also perturbed about the significant duplication of branches in a number of areas in this State. For

instance, there are 145 State Bank branches in areas that have Advance Bank Australia Limited branches; 197 State Bank branches in areas that have Australia and New Zealand Banking Group branches; 220 State Bank branches in areas that have Commonwealth Bank branches; 218 State Bank
Page 5452

branches in areas that have National Australia Bank Limited branches; and 242 State Bank branches in areas that have Westpac Banking Corporation branches. This is of concern because in future an organisation such as Colonial Mutual Limited could work out a deal with, perhaps, the ANZ bank. They could agree to a particular proposal, but the ANZ bank might insist on the closure of the 197 branches of the State Bank in the areas where ANZ banks exist. If that occurred the State Bank would lose 3,500 employees.

What is to prevent Westpac Banking Corporation and Colonial Mutual Limited getting together and deciding to close a number of State Banks in areas where Westpac branches exist? If that occurred approximately 4,000 could lose their jobs. The New South Wales Government would have no say in it whatsoever; we would have sold off the bank to a private organisation. In the past governments always gave some consideration to banks providing a service; they were not solely motivated by profit - which will not be the case in the future. The sale represents a serious threat to existing staff levels and future job prospects.

Mention has already been made in this debate of the high discount rate used by the Auditor-General in his calculations. I find 18.9 per cent totally out of line with the expectations of ordinary people in New South Wales. I am referring, of course, to the shareholders of the State Bank. High discount rates devalue longer term cash flows, which is why treasuries around the country usually use a rate of approximately 8 per cent. I will give the House an example. The equivalent today of \$100 received in 10 years will be only \$17.70 if the Auditor-General's 18.9 per cent discount rate is used. If, say, 8 per cent is used, the discounted value will be \$46.32. That is a difference of \$28.62. The choice of the higher discount rate means that the later cash dividends received by the people of New South Wales, if they retained ownership, would be totally debased.

In my example the higher discount rate removes an extra 30 per cent of the value of the future receipt. No-one would expect to receive a compound interest rate of 18.9 per cent. I am sure that the current owners of the State Bank would not understand why they would have to give away so much of their investment, when treasuries in this country usually use a rate of about 8 per cent. Why should so much be given away at the stroke of a pen? It should be emphasised that the purchase of a bank is a relatively safe investment; therefore, one does not debase it with a high discount rate. Why use a high discount rate on a safe investment?

I refer to the selling price of \$576 million. The sale price is \$13 million less than the bank's net assets, as was pointed out by the honourable member for Illawarra. This year net assets were assessed at \$589 million. No regard has been given to the goodwill of the bank. More importantly, the price is based on the bank's current performance rather than on its projected profits for the immediate and long-term future. The big problem with assessing the price on current performance is that no consideration appears to have been given to the fact that we are just out of a recession - a time during which the bank experienced particularly bad debts. All banks experienced bad debts because of the failure of people to repay loans. [*Extension of time agreed to.*]

Prior to the recession the financial sector went through a pretty reckless period. The corporate cowboys of this country managed to borrow millions of dollars from banks and financial institutions - money which has not yet been fully recovered. We are just out of the bad old days - a poor economic period. The State Bank survived the excesses of the 1980s in much better shape than a number of its rivals. I refer again to the magical discount rate of 18.9 per cent. If one applied the 18.9 per cent discount rate, one would need to make an annual profit of \$130 million to achieve a retention value equal to the sale value. By the same token, why would we sell off for only \$576 million something which, under the Government's own calculations, has the potential to make an annual profit of \$130 million? Only today the Opposition was advised that the State Bank is projecting a profit of more than \$100 million this year and between \$210 million and \$280 million in 1996-97. That information has been given to the Opposition on the basis that projections are more likely to be underachieved than overachieved. Even if the profit was reduced from the projected \$280 million to \$180 million I would still ask: why is the retention value assessed at only \$576 million?

Why sell the bank for \$576 million when it will achieve a profit of between \$210 million and \$280 million in two years? It is little wonder that the chairman of the State Bank stated recently that he thought the sale was reasonable; he was not prepared to state that it was fair. The *Daily Telegraph Mirror* of Saturday quoted the chairman, John Lamble, as saying that he never said it was fair, but he said that it was reasonable. In other words, he was not prepared to go that far. To my way of thinking, that implies that the chairman of the State Bank believes that either the bank should not be sold or, if it is sold, the current offer is certainly not enough. The Opposition opposes the sale because, while Colonial Mutual will gain all operating profits, the Government will indemnify 90 per cent of bad loans over a threshold of \$60 million. If that deal had been struck five years ago, today Colonial Mutual would have gained \$870 million and the Government would have forked out some \$700 million. That agreement means that the Government retains the burden of losses but none of the bank's profits.

The Opposition has stated on a number of occasions that it is not opposed to privatisation, but it is opposed to the total sell off of the State Bank, particularly at this stage. The Opposition is convinced that we should hold on to the bank. There should be a period in which it can be nurtured back to health. When, and if, the potential sale price is greater than the bank's retention value, the way to go would be to
Page 5453

dispose of the bank by a public float. We believe that is the way to go in the long term. The bank would remain an independent entity and would provide competition with other banks in New South Wales. We are totally opposed to the sell off of the bank at this stage.

Mr IEMMA (Hurstville) [4.38]: This is a Christmas special, a red hot deal, courtesy of the Premier. We have conclusive proof that there is a Santa Claus - the Premier. The deal he has broken on behalf of the Government will see the profits of the State Bank being sold. That is what we will get for \$576 million. The Premier said, "You can have the operating profits and, not only that, we will guarantee all the bad loans". That is not a bad deal! No wonder Colonial Mutual Life is laughing; it has found a sucker. Over the last five years the operating profits of the State Bank were about \$1 billion and there were about \$789 million worth of bad debts.

What better deal could a company get than to acquire the operating profits and have the State still pick up the tab for all the bad loans? But the object of this exercise should be getting the best possible deal for the taxpayer, not the best possible deal for CML. How can anyone say that this is the best possible deal for the taxpayer when the Government is getting rid of the right to keep the operating profits but still guaranteeing all the bad loans into the future. Those loans amount to \$1.1 billion, but we will be without the benefit of the operating profits. We cannot say that at a price of \$576 million that is a good deal for the taxpayer. That is why CML thinks that there is a Santa Claus and his name is John Fahey.

The taxpayer, though guaranteeing the bad loans, will have no say through the Parliament in the administration of the entity that is sold. So the taxpayer will carry the responsibility but have no power over the management and administration of the entity. Exposing the taxpayer to that risk is not satisfactory. If this deal had been brokered five years ago CML would have got \$1 billion in profits and the taxpayer would have had to fork over \$700 million for bad loans in accordance with the indemnities. I do not know how the Independents could come to the conclusion that this is a decent deal and should proceed. They have hung their hat on the Auditor-General's Report. A little later I will have a few things to say about the report and the methodology used in arriving at the conclusion that the price for the bank is reasonable and therefore the sale should proceed now.

The Opposition is not opposing the sale of the bank per se; it is vigorously opposing the sale of the bank now. There is no doubt that if the Government waited for changes in two factors it could get a much better price for the bank. The Auditor-General looked at the current circumstances and made a judgment, but the bank's management, from O'Neill to Turner, said, "If we are allowed to continue on the path of recovery and stabilise the bank, if we wait for the capital markets to improve and we proceed via a public float, there is no doubt that the Government could reap a much bigger price for the entity when it is ultimately sold". For example, the Western Australian Government announced that the State Government Insurance Office would be

sold. The highest price at tender was not satisfactory and the Government decided to proceed by way of public float. It will realise \$150 million to \$160 million, about 50 per cent more than was offered at the close of tenders last year. The Government allowed the SGIO to stabilise, to get back on its feet, to continue its path of recovery and to be floated on the capital markets. This will result in a return of much more than was offered by the highest tenderer. At the end of the day the taxpayers of Western Australia will be much better off - and much better off than New South Wales taxpayers will be. The claim that the sale will enable the Government to retire State debt and reduce contingent liabilities by \$18.9 billion, thereby reducing the State's financial risk, just does not hold because there will be continued exposure to the bad loans. The Government should be listening to the management of the State Bank. It should not cancel the sale but hold off until it can get a better price, a better deal. Then all the arguments about reducing State debt and financial risk can apply. But that is not the approach being taken at present.

The honourable member for Strathfield gave us a dissertation about what a fantastic businessman he is. He suggested that all Opposition members were morons because we had never been involved in business. If the honourable member for Strathfield were offered a price for an asset that was not the best possible, would he sell or would he hold off to manage the asset and obtain a better price in the market? He said that the Government had to sell the bank now because it needs a capital injection of \$500 million. But no Government speakers have come forward with evidence to support that assertion. The Managing Director of the State Bank, John O'Neill, was confronted a couple of years ago with the question of capital injection. A couple of years ago it was \$300 million; today it is \$500 million. He said, "The comment that we need this \$300 million as a bailout does not hold water when you look at our provision and our strong capital adequacy ratio". That is the key: the bank does have a comfortable capital adequacy ratio. Its risk weighted ratio is 10.2 per cent, which is comfortably in excess of the Reserve Bank standard of 8 per cent. So the claim, particularly by the honourable member for Strathfield, that there is a dire need for a capital injection of \$500 million and unless the bank is sold now the taxpayers will have to fork out \$500 million for the State Bank, money that could otherwise be better spent on hospitals, schools, roads and extra police resources, does not hold water.

The honourable member for Wyong referred to the Bankers Trust report, which also contradicts the claims made by the Treasurer and other Government members. The BT forecast is that the capital adequacy ratio of the bank will remain comfortably in excess of the Reserve Bank standard for a couple of

Page 5454

years at least. That also gives the lie to the argument that there must be a fire sale of the bank now so that down the track we will not have to inject hundreds of millions of dollars of taxpayers' money into the bank to keep it going. The bank secretary, Mr Turner, does not believe that the issue of capital injection will arise for at least four to five years. On all the available information that he, the managing director and the Chairman have, he believes the issue will not arise. If it does, as the honourable member for Wyong said, the BT report outlines a number of alternative strategies that the Government could pursue to avoid the necessity to inject hundreds of millions of dollars of taxpayers' money to keep the State Bank competitive and operating.

The argument about the \$500 million capital injection is not about the bank growing and expanding. It is about continuing the process of the bank recovering and improving its standing in the marketplace so that it can be sold for a decent price. This does not involve the bank embarking on some massive expansion program that requires an extra \$500 million, which seems to be the assumption of the honourable member for Strathfield. The argument is about stabilising the bank to obtain the best possible price when it is sold. The methodology used by the Auditor-General must cast doubt over the 18.9 per cent discount he used to arrive at the current value of the bank's future earnings. He suggested it was difficult to use a rate less than 17 per cent. Discount rates are usually derived by adding together the long-term bond rate and a premium rate for the risk. The current bond rate is about 10 per cent and the sale agreement suggests a premium risk of about 5 per cent.

The analysis the Auditor-General made is based on the discount rate of 18.9 per cent, which is much greater than that provided for in the sale agreement. This must cast doubt on his methodology. On the basis of his assessment of the retention value of \$576 million, the asset would need to be returning an annual profit of \$130 million. If that was the case, why sell the asset for \$576 million? Today the Auditor-General confirmed the future profits of the bank: next year about \$100 million and in 1996-97 about \$200 million. He admitted

that was the basis of his calculations for working out the bank's current worth. If by 1996-97 the bank is expected to be earning about \$200 million profit, why sell for \$576 million now? It is grossly undervalued at that price and one would not let it go for that amount now. If the Government were prepared to wait and take the advice of the people running the bank - O'Neill and Turner, the chairman - and were to proceed on the basis of a public float similar to that in Western Australia, it would certainly get a much better price for this asset. *[Time expired.]*

Mr AMERY (Mount Druitt) [4.53]: I join other Labor members of the House and oppose the bill and the sale of the State Bank. Apart from the obvious fire sale price of under \$600 million, residents of the State deserve a far better explanation for this institution being sold and, at this time, an explanation other than it just being another item to support the ideology of a conservative Government. Time and again the question is asked: is the sale price good value in light of the asset value of the bank and its income potential? The Premier made reference to the sale of the State Bank of Victoria and the South Australia State Bank, to support the need to sell the State Bank of New South Wales. It is obvious the Premier has missed the point. The State banks of South Australia and Victoria did not survive the 1980s.

In Victoria the State Bank was sold to the Commonwealth Bank in 1991 following the collapse of Tricontinental the year before. The total cost to the Victorian taxpayer is estimated to be about \$3 billion. Since that sale there has been wholesale closure of many bank branches throughout the State. In 1991 in South Australia the State Bank had a rescue package of about \$1 billion and in May 1992 more than \$4 billion in non-performing loans was transferred to the State Treasury. Honourable members know that a royal commission inquiry ensued, the Premier of the State resigned and the Government was thrown out.

Surely there is no comparison between the performance of the State banks in those two States and that of the State Bank of New South Wales, which has survived the lending practices of the banking industry through the 1980s and the early 1990s. The New South Wales State Bank survived that period because of the strong prudential standards imposed by the Wran and Unsworth governments. Some Government members may disagree, but they should check the history books. The prudential standards of the Wran and Unsworth governments kept the State Bank going through the 1980s, in contrast to the dismal failures of the other State banks. The Fahey Government is selling a bank that has an improving financial position, in contrast to the actions of the governments of Victoria and South Australia, which sold their banks because they were basically bankrupt. Obviously that is the reason Colonial Mutual Life wants to buy the New South Wales State Bank.

The honourable member for Hurstville said the Premier is acting like Santa Claus. The Treasurer is in the Chamber; if honourable members see an advertisement in the public notices of the newspaper saying, "Garage sale at Peter Collins' place", my only recommendation is to be there, because if one can get the whole structure of the State Bank of New South Wales, all its branches, all its business and goodwill, for \$570-odd million, one should get a bargain at the Treasurer's home! Members should consider the income potential of the State Bank when seeking the reason to sell it. On 22 April 1993 I asked a question upon notice of the Premier and Treasurer, "What has been the total dividend paid to the State Government from the State Bank of New South Wales for each of the past 10 financial years?" The answer received on 16 September 1993 was that by the end of 30 June 1983 the Government had received \$3.914 million in dividends plus \$6.669 million in taxation payments. As at 30 June 1987 there was \$9.32 million in

Page 5455

dividends and \$25.562 million in taxation payments. By 30 September 1991 there was \$26.885 million in dividends and \$10.2 million in taxation payments.

In just on 10 years the New South Wales Government received more than \$340 million from the State Bank in dividends and tax payments. This was during a decade that included the recession and the boom and bust periods of the lending practices of the banks during the late 1980s. Now that the economy is improving and the banking sector is declaring record profits - one only has to instance the National Australia Bank - how long will it take to get the \$570-odd million in dividends and taxation from the normal trading practices of the State Bank? If we can get \$340 million during a depressed 10 years, we could certainly achieve the sale price by normal trading within the next 10 years or well within that period.

What we get is \$500 million five months before an election, which could have been achieved during this decade by normal trading practices. Effectively, the Fahey Government is selling the bank because selling assets is the only financial weapon of this tired, conservative Government. I shall briefly set out some of the Government's ways of solving problems. The Government could not cope with having a successful insurance company in this State so it sold the GIO by public float. Of course, the GIO is doing well now, and is another institution that was making substantial contributions by way of dividends to the State Government. The Government Printing Office was not a money-making organisation; it was costing too much. The Government did not have the expertise to make it operational so it was closed down. We now have no State printing office and many of our government instrumentalities use other State Government printing offices to get important documents printed. I can recall that a couple of years ago the New South Wales Government went to the South Australian Government Printing Office to have examination papers printed.

The Minister for Land and Water Conservation waxed lyrical this morning. It is best to say that the Government cannot handle irrigation areas, so the solution is to unload them onto the irrigators. We have a bank which survived the 1980s and which has an improving income potential. However, as the Government needs another boost for its mismanaged Treasury, the simple solution is to sell the bank at any price. Of course, any price is what the Government is getting. Today is a sad day for the State because if the bill is passed we will have sold off one of the great institutions of New South Wales. Previous speakers have recorded in *Hansard* the history of the bank. It was established in the 1800s and became the State Savings Bank in the latter part of the 1800s. After the closure of that bank in the early 1930s, it operated as the Rural Bank of New South Wales until it changed to the State Bank in the early 1980s.

Although some statements have been made about the continuation of the State Bank, there is a three-year sunset clause. This morning the Premier, in supporting the need for the State Bank branch structure, said that the presence of a bank in country towns is important. He assured us that the branch structure will remain, but we must ask, "For how long?" When has this pro-private bank, anti-rural Government ever stepped in to save a branch of any bank in any rural area? Rural areas are not getting a fair shake. The sale of the State Bank offers no assurances that branches will not close, in line with similar closures by and similar policies of the major trading private banks. Westpac has closed branches in places such as Trundle, Ungarie, Lake Cargelligo, Eugowra, Binnaway, Collarenebri, Gulargambone and so on. The National Australia Bank has closed its branch at Ivanhoe, and the Commonwealth Bank has a list of closures that is just as comprehensive. Does anyone believe that Colonial Mutual Life will act any differently with a similar campaign of branch closures in rural areas?

If one wants to know what the new private bank will do, the best thing is to consider the past and what the private banks are doing in rural New South Wales. The future of rural banking is under threat by the big banks, and the sale of the State Bank will not arrest those fears. These concerns have been raised by the Shires Association and, more recently, by the Australian Co-operative Development League. Only this month, the league submitted that the rural network of the State Bank should be withdrawn from the sale and be reserved for development by community-owned institutions. Without arguing the merits of those submissions, we should take note of the message of concern from such organisations about the future role of the banking industry in rural areas.

The Government's only contribution is to mouth speeches endorsed by the banks. Only last week, we had a debate on the Farm Debt Mediation Bill - that was referred to by the honourable member for Tamworth - in which officials of the Australian Bankers Association were present at the back of the Chamber to advise Ministers. Honourable members have referred to a number of issues which encapsulate the Opposition's arguments against the bank being sold now. Basically, the speech of the Minister for Land and Water Conservation was a few words about the sale of the bank, and the majority of it spent attacking the Opposition's speaking list, or words to that effect. It was a bit rich to be lectured by a person who is best described as the Minister for mismanagement. The honourable member for Bulli was right when he referred to the Minister as being in charge of Luna Park and Eastern Creek. Yet he attacked us as being financial mismanagers.

The Minister for Land and Water Conservation attacked the Opposition's speaking list. Where have Government members been since lunchtime? The Government ran out of puff after three or four speakers. The honourable member for Strathfield was the first member to throw in his two bobs' worth. I shall conclude because I know that there is an arrangement for the Independents to make a contribution. This is a disappointing day for the State Bank. I wonder how consumers will benefit from the new bank that may exist for the next three years. The

Page 5456

State Bank has a proud record in various parts of the State. Various of its products have won awards from consumer organisations as being the most friendly consumer products for pensioners. The bank also has low product charges, and so on. We must ask whether such products will remain when the new privatised organisation commences operating. I hope that some of our fears are proved wrong and that the rural branch structure of the State Bank is maintained. We must be concerned about the record of private banks and the number of branch closures in rural New South Wales. I join all Labor members in strongly opposing the bill and the sale of the State Bank at such a fire sale price.

Dr MACDONALD (Manly) [5.07]: I shall comment on some of the contributions from the Opposition. Having listened to the debate, I am disappointed by the approach taken by the Labor Party, because it has attacked the wrong end of the problem. The Labor Party should have argued that it is important for the bank to be State owned, together with the social and financial benefits that could bring, rather than attack a situation which is almost undefendable - that is, the Auditor-General's report on financial aspects of the sale of the bank. I shall make some basic comments relating to the privatisation of the State Bank. The Government has a policy of asset disposal. Indeed, governments all over the world of all political colours are disposing of assets, so there is nothing new about privatising a State asset.

When we comment on the sale of a State asset, the role of government and its core services must be clear. I am aware that there is a difference of opinion about core services. We agree that health, education, welfare and so on are core services, but there is a reasonable argument that banking is not a core government service. The fact that we have a State Bank in New South Wales is more a reflection on history than it being a core service. The role of government is to provide financial assistance to those who require it, whether on a welfare basis or in the rural sector. By way of economic or social engineering, that assistance is now taking new forms, such as community service obligations, tax relief, and concessions.

There are better ways for a government to assist the community than by owning a bank. This involves shifting sands. During the past 12 months the view has gradually come through that the sale of the bank will result in benefits. Since the legislation has been on the table all members have had briefings and discussion on it. Banking is a risky business, and this bank sale involves a \$19 billion risk and liability. The bank is not a strong asset; at the moment it is small and vulnerable. Another benefit of the sale of this bank is that it will provide an opportunity to re-allocate the proceeds of the sale into government debt reduction and allow extra allocations to core services. That benefit is relevant to the debate.

The sale will also provide increased competition in the bank marketplace. The exclusion of the big four banks from the sale has allowed the development of a strong fifth big bank, albeit of a slightly different flavour; and the added competition in the market will benefit the customer. We must acknowledge that the benefit of private ownership of banks is that it allows for diversity. I understand that the intention of Colonial Mutual Life is to establish insurance and banking within the one company. Also, private ownership will allow for risk capital to be injected into the bank - which governments understandably are reluctant to do.

Genuine concerns have been raised about the sale of the bank, and I understand their origins. The first concern was job losses and branch closures. As a result of that concern, and discussions with all members of Parliament, particularly the crossbenchers, the big four banks were excluded from the sale. There may be a possible cost from that decision, but that is arguable. Benefits will particularly obtain in the rural sector if massive branch closures and job losses do not result.

Opposition has been expressed by the Labor Party, and strong representations have been made by the

financial sector union, claiming that this is a fire sale. I am concerned, as I am sure all members are, that in a complex transaction such as the sale of a bank it is hard to establish whether the union's claim has any veracity. In an effort to balance competing arguments, the Independents were faced with the dilemma that resulted in the reference of the sale to the Auditor-General. We were told by the Opposition, particularly by the Hon. M. R. Egan in the other place, that the bank could be nursed back to health in a few years. We were also told that it would be of greater public benefit to float the bank and sell it in a few years.

Initially the Premier and the Treasurer were resistant to the reference to the Auditor-General, but as the hours went by and it became clear that the reference was not to be feared, the Government, with Parliament's support, embraced the reference. That reference to the Auditor-General is perfectly consistent with the Independents' philosophy of increased scrutiny and accountability. It could be argued that the reference should have been made earlier, and I would be interested to know the Treasurer's views on that. A lot of comfort flowed from the Auditor-General's report, the purpose of which was to determine whether the Government had arranged a good deal and whether the sale price was in excess of the retention value, and to comment on guarantees, indemnities and loan liabilities. What has the Auditor-General told us? He has said that the State Bank is not in good shape, that it is making only a small return. Page 19 of the report states:

As noted in the advisers' report (section 4.2.3) the market would expect to receive around 18.9% after tax on equity in regional banks. (On the basis of research of the advisers, the after-tax 1994 return on equity for six other regional Australian banks varies between 14.5% and 22.1%). The equivalent return for the State Bank (using a 33% tax rate) is about 3%. The historical low earning capacity of the net assets of the State Bank, and the prospect that this will be repaired only over time must affect the selling price/net asset ratio.

Page 5457

The bank is not producing a good return. As the report indicated, the bank, which is one-sixth the size of the National Australia Bank, made a \$70 million profit; the NAB made a profit of \$1.8 billion. Also, the State Bank has more bad loans than other banks, and its margins for borrowings and lendings are very low. The bank is undercapitalised and is in bad shape, as is clear from the Auditor-General's report.

The Auditor-General also examined the sale price, which is a very apparent part of the sale and conditions. I have had discussions with the Auditor-General, and I understand that the initial impression by CS First Boston was that the \$576 million sale price seemed a little low. However, during the last few weeks, at the end of that organisation's investigations, it has come to the belief that the State is obtaining a reasonable deal; that in fact there is some premium in the sale price. Arguably, CML may be paying too much - I do not know - but that is a decision for that company and its future planning for the bank. The company needs the bank, and in discussions with Mr Smedley, through the Treasurer, it is clear that it is keen to buy the bank. In other words, it aspires to a bank and insurance operation and requires a presence in New South Wales.

Nevertheless, it is a gamble for Colonial Mutual Life as it not only will be paying the \$576 million, but will have to inject further capital investment to shore up the bank and provide its required capital base. It is estimated that it will cost CML more than \$1 billion to purchase the bank, even though it has only \$2 billion in reserve. Colonial Mutual Life is prepared to pay that price and it is confident that it can turn the bank around and make it work. The Auditor-General had to satisfy himself that the sale price exceeded the retention value, and he examined the matter in some detail. In fact, he has said that the cost to the Government of the guarantees is approximately \$100 million. Following the sale, the net outcome regarding guarantees, liabilities and indemnities is \$38.7 million. The Auditor-General is unequivocal in his summary. At page 4 he stated:

The consideration to be received by the State clearly exceeds the financial and economic return that the State would obtain if it remained the owner of the State Bank.

He further stated:

Taking these latter factors into account, and having regard to the Preferred Terms of Sale, the consideration for the sale of the

State Bank of New South Wales Limited is, from Parliament's viewpoint, a fair and reasonable consideration.

The Auditor-General has adequately addressed the assertion that holding on to the bank would produce a better return. He unequivocally indicated that that is not the case. Page 4 of the report further reads:

This view is supported by an analysis of all material issues (guarantee, warranties etc) including the relationship between the consideration for the sale of the State Bank with the Bank's expected future profits and with its net assets.

In other words, allowing for the best case scenario and the extra capital injection and increased future annual yields, he is of the opinion that the sale price is such that it is better for the Government to sell the bank rather than hold on to it. In the time that I have available to me I shall say something about loan liability. In my discussions with the Auditor-General today I again asked him if he was satisfied with the provisioning. He signed off the State Bank's books at \$300 million, and at page 26 of his report he stated:

Under the new arrangements the State is liable for only 90% of the actual loss that occurs after the first \$60m loss. Thus, for valuation purposes, if a total unprovided loss of \$100m should occur, the State is only liable for \$36m.

He went on to say:

The loan indemnity arrangements are not unreasonable from the State's point of view and are within the range of commercial reality.

In my view, the benefit in having the Auditor-General prepare this report is clear. I am sure he will not mind if I quote him. He said that the study involved a determination about whether political motives outweighed the financial imperatives. The report clearly shows that financial and economic benefits will flow to the State from the sale of the bank. Some political considerations have gone into the sale, particularly with regard to job saving and branch saving, but essentially political motives did not outweigh the financial imperatives. It is appropriate that this bank should be sold, and I believe the price negotiated is fair and reasonable. I have confidence in the Auditor-General's report.

Ms MOORE (Bligh) [5.21]: I would like to say at the beginning of my contribution that honourable members need to remind themselves that the sale of the State Bank is on the agenda of both the Government and the Opposition. The question for me, as an Independent in this Parliament, is whether the price negotiated is the best price and whether the time is right for the sale to go ahead. When the House referred this matter to the Auditor-General, I was presented with equally persuasive and contradictory points of view about whether or not it was the right time and whether or not it was the best price. Without the expert knowledge needed to assess this highly complex financial matter, I support it - relying on the skill and knowledge of the Auditor-General.

The Auditor-General possessed the resources to assess the financial situation of the State Bank. I welcomed his support of that action and the fact that he agreed that it was proper role for him, as a servant of this Parliament, to assess the situation. At the time this matter was referred to the Auditor-General I wanted to ensure that the bank was not underpriced. The only way I could do that was to hear his independent assessment, which clearly was that it is a fair and reasonable proposal. He has shown that the sale is socially responsible, as represented by the preferred terms of the sale, and that it is commercially defensible. Under the heading "Findings" at page 7 the report concludes that the process was fair, competently managed and led to a competitive result. The Auditor-General confirmed the view that the big four banks would have closed branches and dismissed staff. The Auditor-General, at page 7 of his report, stated:

Page 5458

... a major Australian bank would have absorbed the State Bank and would have rationalised its distribution and staffing.

The likelihood is that had the big four been included, the price would have been higher, but the Auditor-General's report, interestingly enough, does not say that it would certainly have resulted in a higher

price. He did say, though, that it is no longer fully relevant, and that to commence a new sale process would result in costs amounting to tens of millions of dollars. I understand that if the sale had been refused at this stage, the Government would not have been able to get the parties back to the table again because they were three-quarters of the way down the track. Besides, no better deal is available at this time.

The sale price of almost \$600 million is more than the bank is worth to the Government if it were to keep it, even if the bank were to achieve its most optimistic and unlikely budget. CML is paying a premium for the bank, because the earning record of the bank does not justify the price. The Auditor-General has stated that, for whatever historical reason, this bank has been unable to generate earnings comparable to those of other banks. The honourable member for Manly alluded to some of the reasons advanced by the Auditor-General to the Independents at the briefing this morning.

I would like to mention the referral of the issue to the Auditor-General, particularly in light of public discussion about whether this was a million dollars well spent. This is the most complex proposal ever to be put before Parliament. Government guarantees are to be taken lightly. The HomeFund guarantee has cost this State \$400 million, as the Auditor-General pointed out. He also pointed out that guarantees in other States have proved very costly to governments - I instance the \$3 billion for each of the State banks of South Australia and Victoria. Experiences in other States demonstrate that when guaranteed entities go wrong they can cost the State billions of dollars.

The New South Wales Government had to spend this sum of money to make sure that it was getting it right for the people of New South Wales. The amounts involved are huge - a sale price of \$576 million and a government guarantee of almost \$20 billion. I believe, therefore, that \$1 million for the Auditor-General's report is justifiable when sums of this magnitude are involved. Because of the Auditor-General's recommendations I support the Government's move at this time to proceed with the sale of the State Bank.

Mr HATTON (South Coast) [5.26]: On any reading of Australia's social and political economic history, not for 50 or 60 years - since the 1930s and the days of Premier Lang - has distrust of banks and other financial institutions been higher throughout our nation. There is anger and anxiety, there is concern, and Parliament must act. And I do not mean just the Parliament of New South Wales, I mean all the parliaments of Australia, primarily, the Federal Parliament of course. For rural Australia, small businesses and the ordinary taxpayer, such episodes as the Tricontinental Bank of Victoria, the State Bank of South Australia - and the \$3 billion worth of problems that arose from that - and the performances of such high-flyers as Skase and Bond have fuelled the debate.

This debate is in a political climate of anxiety - anxiety that this State should be selling a bank, and anxiety based on a misconception that Government ownership of a bank at the State level can mean control; that State Bank involvement can be a meaningful, moderating influence in the market place. That is a misconception because of the problems the State Bank has, such as undercapitalisation and its very small influence in the marketplace - although, arguably, the State Bank has made some impression in terms of cutting its margins and has successfully improved its market share by moving into the housing market.

It is disappointing that this Government should talk in terms of its good financial management. The unanimous report of the HomeFund committee, under my chairmanship, showed that a secondary mortgage market involvement backed by a Government guarantee - in relation to which a private group, Fanmac, became a funnel for funds - ended up costing this State more than \$440 million. Even given my inadequate understanding of banking, I fail to see how there was not a role in the mortgage market for the State Bank. The Government has the hide to talk about responsible financial management in that climate, when the most important conclusion to come out of the exercise was that we could not follow the public liability into the boardroom.

At the national level there was deregulation, lending at unprecedented levels and an unprepared and inexperienced banking and finance industry. Hype became the norm. The State Bank was no better and no worse than others. Across the country financial institutions went into property and business as if there were no

tomorrow. As the honourable member for Manly has pointed out, it is significant that the State Bank, the fifth largest bank, had more impaired loans than the five regional banks in total. Included in those banks would be the St George Bank and Advance Bank, which are new and were not involved as banks in the madness of the 1980s. Out of that experience came a perched interest rate, which was the legacy of double-digit inflation, inflated property values, high interest rates, the bringing in of overseas money and the sudden change in interest rates, rural property expansion, people being misled, people losing their properties and people in rural Australia becoming fugitives and refugees in their own land.

Once again I question the social role of lending institutions. What is the social role of banks? It is my belief that the social role of banks went out when deregulation came in. Incidentally, much of the reputation of banks for probity and honesty has gone as well. Anybody who reads the book *Bankers and Bastards* or examines selective cases, as I have done, whether they concern the illegal transfer of mortgages or other shonky actions taken by some of our leading banks, would understand the widespread level of

Page 5459

distrust. The motion moved in the House last Thursday on debt mediation showed the level of anger against banks felt by members on both sides of the Parliament. Honourable members could not wait to take their opportunity to say what they thought of the record of banks. There is a widespread feeling that because banks lent money unwisely the customers and the taxpayers pay with perched interest rates.

Who will take the role of social responsibility in the long-term lending sector? Who will take on the responsibility of lending to local government at preferred interest rates, so that we can do something about this country's infrastructure? Who will take on the responsibility of rural lending, to support the vital rural sector? I am greatly disappointed in the management by the Federal Government of the countless billions of superannuation funds that could have been used for that purpose. The sale of the State Bank became a political imperative in a climate that was the upshot of mismanagement by the Labor Government in South Australia and the huge public debt liability left as a result of failings in Victoria and South Australia. The sale had to happen.

National Party members exerted pressure to ensure that there would be no closure of branch offices as a result of bank rationalisation. National Party members wanted to safeguard the branch structure and the 4,800 jobs, so the big four banks were excluded from the sale process. The Australian Labor Party changed its position numerous times, as the Premier said. Labor Party members changed their position more often than they changed their socks. The question became not one of whether the State Bank would be sold but when the bank would be sold. For me it has been a great and intense learning experience - meeting the manager of the State Bank of New South Wales, some of the board members, the financial sector union, Treasury, Bankers Trust, Michael Egan, the Auditor-General and others.

The ground kept changing, however. From 15 initial expressions of interest seven parties lodged expressions of interest. Six went to stage two interest bids. Two parties lodged preliminary stage two bids. One of the two parties withdrew two weeks after the commencement of stage three, on 5 March, so CML was the only party to complete the due diligence process. That left one bidder and an anxious seller. I was faced with enormous anxiety and a great deal of scepticism built up over many years. I might say that the scepticism was shared by the Auditor-General and some senior members in the banking industry and the financial sector. It will be noticed that there has been a subtle shift in statements made by financial commentators in the past few months, with major questions being raised about whether the price is fair, whether projections were correct, whether it was the opportune time to sell and what the conditions should have been.

My decision today to support the Government's sale of the State Bank reflects a faith in the Auditor-General. It is a vote of trust in the Auditor-General. I must say, however, that I have continuing doubts. Opposition members clouded the issue and spoke with forked tongues. They want to sell the bank, not retain it. I am left with a major concern: if the sale of the bank is such a good thing for New South Wales, how can it be such a good thing for CML? That question has stayed with me through all of my searchings. Colonial Mutual Life has some weak points. According to advice I have received - Rice Kachor research data of March this year - CML does not have to meet the normal public company disclosure standards. Its profits are dependent on United Kingdom activities, accounting for 44 per cent of its assets but 75 per cent of its

income. It is reliant on investment income to maintain positive returns.

My advice shows that CML is susceptible to adverse movements in bond and equity markets. It has suffered more markedly in terms of premium loss and surrender levels, the former being 14 per cent and the latter being 72 per cent for 1993 premiums. CML is a high-cost producer, its expenses being 50 per cent of premium income, which is one-and-a-half times the level of its main mutual rivals. In 1993 CML reported on a group basis a net cash outflow of \$206 million and in 1992 reported a net cash outflow of \$552 million. Poorly performing property assets of CML have contributed to a 32 per cent decrease in net investment income, rental cash flow, since 1991.

Colonial Mutual Life is only the sixth largest life company in terms of Australian assets, down from fourth largest in 1990. It is only the seventh largest life company in terms of new annual premium income, down from third largest in 1990. It is only the nineteenth largest life company in terms of new single premiums, down from third in 1990. I am worried about the strategy of CML also. I am concerned in terms of the agricultural sector. CML has sold the Australian Agricultural Company Limited. Will it quit lending to farmers, too? I am concerned about CML's expansion into relatively immature Asian markets, potentially increasing the operating risk profile of the company. I am concerned that CML did not rate in any category in the 1994 life insurance company of the year award of the *Personal Investment Monthly*. I should like the board of CML to meet more often. [Extension of time agreed to.]

I turn to press coverage about the company. An article by Chanticleer in the *Australian Financial Review* of 28 September stated that the critics of the deal paint the CML-State Bank marriage as "the merger made in hell", a seriously flawed strategy of patching together two financially- and strategically-challenged organisations in the belief that two wrongs somehow create a right. The article also stated:

No matter which camp you support, there is one inescapable conclusion to be drawn from the deal; that the merger rationale will not work at all unless somebody - and that somebody probably means the investing public - comes up with another \$1 billion in very patient capital to bankroll the deal.

Other inquiries I have made in that regard seem to indicate that we are talking about \$1 billion. The *Australian Financial Review* on 6 May stated:

Although Colonial Mutual has the financial firepower, it has no bank management expertise.

Page 5460

The *Sydney Morning Herald* on 15 May stated:

CML almost certainly needs to raise capital to make a serious offer.

The *Australian Financial Review* on 3 June stated:

... despite having assets of \$2.2 billion, after the big loss of business over the past few years, its ability to maintain its grip on its existing share of life insurance and superannuation markets is still in question.

In other words, there may be a real imperative for it to move to Sydney. Some comfort to us and to the Treasury in that regard is that we were worried about the condition that it remain in Sydney, and have its base in Sydney. Another quote states:

Opinions are divided in the investment community over whether the State Bank will prove too big a morsel for the life office to digest.

In the concern I have as to whether this is such a good deal for New South Wales and for CML, I am assured by the Auditor-General that if the bank goes bust in CML's hands, obviously the burden will be on the

shareholders. If the bank goes bust in the State's hands, the State will have to pick up all the liability. There are complicated matters to look at in this deal, even coming down to the rental of the premises and the guarantee on the building in the central business district, and the fact that the bank was undercapitalised. Even if a notional capital of \$700 million was put in to make a fair comparison with other banks, how would this shape up in terms of value for money in the selling price?

Issues to be resolved included: the headquarters to stay in Sydney; the future of 4,800 employees; the branch structure in the country; the agreement to maintain 4,300 employees' jobs in three years - it has been overlooked, of course, that the State Bank, in State ownership, sharply reduced the number of employees - the low return of 3 per cent on the capital compared with its comparable rivals in the marketplace; the low interest rate margin; the bank's projected performance and how it affects the decision to sell now to CML; and how much the bank would be worth in three years on the open market. Of course, in three years CML can divest itself of as many of the branches and employees as it likes. Will it follow another rival bank and go into agent selling rather than selling bricks and mortar and maintaining a branch structure?

Of course, if there were a \$100 million difference in price in three years time, and we were to sell the bank on the open market, would the cost of retaining 4,300 jobs in three years in a branch structure be worth \$400 million to the taxpayers of New South Wales? These were some of the problems I waded through with some concern. However, it came down to the wire today for me when talking to the Auditor-General. The Australian Labor Party asked a question about the \$40 million a year profit. The profit this year of \$70 million was unusually high because the superannuation and leave entitlements of the staff had been overprovided for. It was not a true reflection of the year-by-year profit. The Auditor-General took the State Bank forecast aspiration for three years, projected that for a further two years and discounted the future profits to bring it back to present-day values by adding 18.9 per cent.

I noticed in the latest press release of the Hon. Michael Egan that that figure was far too high. When asked about this, the Auditor-General said that even with 3 per cent less, in his view it was still a good deal. That would bring it back to something of the order of 15.9 per cent discounted. The poor capitalisation of the bank, the high performance of non-performing loans and the lower margins, and the fact that we would be unloading risk now rather than later, were of great concern to me. Looking at the ongoing liability in Government ownership and the ongoing liability in CML ownership, I was very concerned that we were underwriting CML, a private company, and worried about whether there would be State Government guarantees for borrowings commitments that could be taken, say, a week before the three-year period was up. I now understand that the State guarantee on borrowings is capped and there are limits on the private guarantee borrowings.

I have other matters of concern, including the undercapitalisation of the bank - \$300 million at least is needed. The notional pump up in order to compare it in profitability and sale value with its rivals was \$700 million by the Auditor-General, but at least \$300 million is needed to put it in a reasonable market position. Would any future government do that? I think quite likely not. Another financial consideration was the cost of this exercise. Do we want to go through this exercise again, costing \$11 million? I think not. The image of the bank and the nature of this debate may have been affected by this exercise. I make no apology for demanding that the Auditor-General look at it because there is a lot of anxiety about selling the State Bank. Somebody who was not on one side or the other needed to look at it. I am proud that I was associated with that, although it cost \$1 million. The State Government had already spent and committed \$10 million to this exercise. Even though the Auditor-General took the profits - [*Time expired.*]

Mr COLLINS (Willoughby - Treasurer, and Minister for the Arts) [5.46], in reply: I thank all honourable members for their contributions to this debate. I begin by commenting on the absence of the Leader of the Opposition in this crucial debate dealing with the State's most significant financial asset, a matter which has weighed heavily on the minds of all members of Parliament. I note the comments made by each of the three Independents on the value of that asset. I would have thought the very least the Leader of the Opposition could have done would be to express his view on behalf of his party, as he professes to be the alternative premier in this State. He is someone who says that the Labor Party should be elected to government in four

months time. Yet, on this, the most fundamental financial debate which will occur in this Parliament, he is conspicuously absent. He is totally silent. He has wimped out of this debate. Instead, he has sent in - I cannot even say the second XI; that would be a complete overstatement -

Page 5461

Mr SPEAKER: Order! I call the honourable member for Drummoyne to order. I call the honourable member for Oxley to order.

Mr COLLINS: - because he sent in the honourable member for Drummoyne, and that is as good as it got from the Opposition.

Mr SPEAKER: Order! I call the honourable member for Drummoyne to order for the second time. I call the honourable member for Oxley to order for the second time.

Mr COLLINS: That was the high point of the whole day - the honourable member for Drummoyne. What a terrifying prospect when the pinnacle of the Opposition's achievement in debate is to send in the honourable member for Drummoyne. I will refer to a couple of issues that the Opposition has raised, not so much because of their serious content but to illustrate a couple of points. At no time has the Opposition so graphically demonstrated to this Parliament and to the people of New South Wales its utter financial incompetence as it did during the course of this debate and, indeed, throughout the entire sale process of the State Bank. The Auditor-General's report shows that the Government achieved a fair and reasonable price for the State Bank and that the process was fair, competitively managed and achieved a competitive result. These findings alone put paid to all the Opposition lies about this sale: that it was a fire sale, that it was a one-horse race, a lousy deal, a bad price. The Opposition had every excuse under the sun.

The Auditor-General's report does more than validate the Government's actions. Its ringing endorsement shows that the Opposition has had a solid track record of lies and deceit over the past year since the Government began the process of sale of the State Bank. The Auditor-General's report highlights the Opposition's reckless attempt to thwart this sale - reckless because its arguments had no substance whatsoever. Members of the Opposition have complained that they did not receive copies of the Auditor-General's report until today. Fifteen copies of the report were delivered to the office of the Leader of the Opposition by 3.00 p.m. last Friday. Members opposite should ask him why they did not receive copies of the report. I do not know what he did with his 15 copies over the weekend but he obviously sat on them; he did not trust them to read the report. They had to be provided with other copies because their leader would not provide them with the report.

I was obliged to table the report today, but I tabled it on Friday to enable honourable members to read it, to discuss it if they wished, to consult other people if they wished and to make up their minds. After having read the Auditor-General's report the Leader of the Opposition should have withdrawn any objection by the Australian Labor Party to the sale of the State Bank. He should have dropped any objection as soon as he read that the Auditor-General gave the sale a clean bill of health, as he did unequivocally in the report I tabled last Friday. However, he did not do that. He has wimped out of this debate. He has not been game to show his face in Parliament during this debate, and that is not surprising. Instead, the Opposition has continued its farcical opposition to the sale up to this moment. I suspect there will be a final frolic in Committee.

The Opposition claimed that the Auditor-General's report, which it requested by way of resolution of the Parliament, was ridiculous. On a motion moved by the Independents - I think the honourable member for Manly initially proposed the idea - we sat around a table and hammered out some terms of reference to send to the Auditor-General. It was a unanimous resolution of the Parliament. The Government, the Opposition and the Independents resolved to send the terms of reference to the Auditor-General for an independent assessment. Yet one of the key Opposition spokespeople on this issue has said the findings in the Auditor-General's report are ridiculous. The Opposition is ridiculous, not the Auditor-General.

The Opposition is at odds with the combined expertise of a significant element of the financial community

in Australia - not only someone with the objective and broad view of the Auditor-General but the finance community, including CS First Boston, Coopers and Lybrand, Bankers Trust and Price Waterhouse. The Leader of the Opposition knows he is fighting a losing battle and has run away from this debate. He has spoken out against the sale of the State Bank for six years, yet when it comes to the crunch, when it comes to the final discussion in this Parliament, when it comes to the final will of the Parliament, where is he? He is absent, he is not game to enter the Chamber. That is the sort of financial leadership the people of New South Wales can expect from the Leader of the Opposition now and in the future.

The ALP has presented what at best can be described as a B-grade team of speakers for this debate. I can only describe what they have said collectively as irrational babble. I have never heard a more disgraceful, lengthy contribution that said so little in my time in this Parliament, and that is now 13 years. They have said they did not get the report because their leader did not give it to them. The only thing they did not say to the House was that the dog ate their response, but there is still time for that - the Committee stage is still to come. The Opposition has commented on the exclusion of the four major banks from this process. In the *Australian Financial Review* in September 1990 the Leader of the Opposition said:

All I can see is the prospect of a New South Wales based financial institution which is strong and profitable being consumed by one of the big four banks.

In October 1990 in the *Sun-Herald* the Leader of the Opposition said:

All Premier Greiner wants to do is to flog the bank off effectively to one of the big four banks which have been performing so contrary to the public interest. This is the very opposite of microeconomic reform which is supposedly about increasing, not reducing, competition.

Page 5462

In 1993 it appears that the Leader of the Opposition had changed his tune. On 25 November 1993, almost exactly a year ago, the Leader of the Opposition said:

There is no doubt excluding the big spenders of the banking world will further erode the bank's sale price.

Not content with that, in June this year in the *Sydney Morning Herald* he said no decision had been made on the issue. In regard to the approach of the Labor Party to the sale of the bank, he said:

Down the track we would make a decision. I haven't committed us down the track to guidelines that would govern the sale if the sale went ahead.

Three months later he said, on the Andrew Olle program, in regard to excluding the four major trading banks, "I accept their exclusion". Nine days later, on 30 September, Michael Egan, finance spokesman in another place, said:

The State would have been better served if the four major trading banks had been allowed to take part in the initial bidding process.

The *Illawarra Mercury* on 1 October stated:

The Opposition spokesman, Michael Egan, said yesterday that jobs would be shed and branches would be closed if a major bank bought the State Bank.

We have had this flip-flop, Carr-Egan, on-again, off-again approach to what the Opposition is going to do about the State Bank. The Labor Party would not have a clue what it would do with the State Bank. It would not know; it would be incapable of making a decision. Members of the Opposition say they understand microeconomic reform and the need for it, but not this economic reform or that economic reform; it cannot be

done this way and it cannot be done that way; this is the wrong price, this is the wrong time. The Labor Party pays lip-service to the sorts of reforms that the Government has consistently engaged in since it was elected in 1988. The Government has the runs on the board. It has set the agenda and it has been fair and reasonable in setting the agenda.

The Government did not throw the bank to the wolves, it did not throw the bank to the big four. The Government said it would make a number of policy decisions in drafting the terms of reference for the sale process. I did that after I consulted individually with each of the three non-aligned Independents. Each of the Independents expressed to me their concern about the sale price, which had to be fair and reasonable, and about the preservation of the branch network and the retention of jobs. Hence the terms of reference adopted by the Government; hence the exclusion of the four big banks; hence the preservation of the State Bank, its network, its staff, and its viability; and hence the emergence of a fifth major force in Australian banking because of this merger between Colonial Mutual Life Limited and the State Bank of New South Wales.

In case those remarks sound self-congratulatory and it appears that the Government is persisting with political rhetoric, I turn to the terms of reference on which the Auditor-General based his report. Those terms were determined not by the Government or by me as Treasurer, but by the Parliament. They were given to the Auditor-General to respond within a short time. The Auditor-General sought the assistance of advisers, namely Coopers and Lybrand and CS First Boston, and managed to do the impossible. The Auditor-General managed to bring in his report by 24 November, this Thursday, the deadline stipulated in the contract. It is worth noting some highlights of the Auditor-General's findings:

The consideration to be received by the State clearly exceeds the financial and economic return that the State would obtain if it remained the owner of the State Bank.

This view is supported by an analysis of all material issues (guarantee, warranties etc) including the relationship between the consideration for the sale of the State Bank with the bank's expected future profits and with its net assets.

Taking these latter factors into account, and having regard to the Preferred Terms of Sale, the consideration for the sale of the State Bank of New South Wales Limited is, from Parliament's viewpoint, a fair and reasonable consideration.

The findings take everything into account: future profits, net assets - all the factors the Opposition has tried to distract honourable members with today. The bottom line, loud and clear, is unqualified support for the sale, and that the consideration is fair and reasonable. The Auditor-General also stated:

Overall, I am satisfied that the arrangements for these indemnities, guarantees and warranties are commercially appropriate and equitable from the State's point of view.

His report makes clear that the consideration for the sale of the State Bank to be received by the State clearly exceeds the net present value of the bank. I am skimming through the Auditor-General's conclusions in his report. If I read them all on to the record there would still be only one inescapable conclusion the Parliament could arrive at. The Auditor-General's report continued:

In addition, the consideration is entirely acceptable when compared with the State Bank's net assets, having in mind the value of these assets to the Government.

I again skim through his conclusions, to this one:

Having regard to the Preferred Terms of Sale, the sale process was fair, competently managed and led to a competitive result.

Where in those conclusions is the reference, however tenuous, to anything that could vaguely constitute a fire sale or a one-horse race? There is none. Who provided the terms of reference? The Parliament provided them, after the Opposition sat down with the Government, the Independents and the cross-benchers to devise not stacked or biased terms of reference but objective terms to enable the Auditor-General to get to the truth of the

matter. He has done exactly that, with the best financial advice possible supporting him in his conclusions.

I remind the Opposition, if it is necessary, that the Auditor-General does not always agree with the Government. There are many occasions on which the Auditor-General finds that the Government or a
Page 5463

Minister or department has erred in some way, and points that out to the Government on an all too regular basis. When that happens, the Opposition is very keen to point out that the Auditor-General has got it right. The Opposition cannot have it both ways. The Opposition was very keen to tell the Government that the Auditor-General had it right over HomeFund. The Opposition is telling the Government that somehow the Auditor-General has got it wrong on the State Bank - because he has seen through the sorts of games the Opposition would have the Parliament play. Sometimes one might say that is politics, that is the way it goes, and that some things have to be opposed for the sake of opposing them just to keep people on their toes.

This is not such an occasion. This is the sale of the State's biggest asset, which has attached to it \$19 billion - \$19,000 million - worth of contingent liability. This is not the average political game that is played all too farcically and often in this Chamber. This is the most deadly serious financial decision the Parliament will make. There is no other decision along these lines that any government will make as long as this Parliament exists. It is that serious. It is a \$19 billion decision. The honourable member for Manly got that almost right when he called initially for the Auditor-General to provide an independent assessment. What does \$19,000 million mean in contingent liability? It means a lot in terms of the State's AAA rating and our ability to maintain that rating. It means that every man, woman and child in this State has \$3,000 in contingent liability around his or her neck because the State owns the State Bank. The Government says it should not be in banking. Governments should not be in banking.

Mr J. H. Murray: We are not arguing that.

Mr COLLINS: You are arguing that. That is the whole point. The Labor Party has made that argument consistently and confusingly ever since the Government started the sale process. The Opposition does not really want to sell the State Bank. The Opposition does not know what it would do with it, how or when or to whom to sell it, or how to float it. The Opposition does not know where it is, and has been exposed. The bottom line is that the Opposition, confronted with the Auditor-General's report, had one course of action open, and that was to accept the umpire's independent assessment and decision. The Labor Party has not done that.

The honourable member for Manly, who is not present in the Chamber, said to me that maybe the process with the Auditor-General could have started earlier. That process could not have started earlier because the Auditor-General had been kept advised of the process by Treasury officials. There had been regular dialogue. The Auditor-General made clear that as the Parliament was going to debate the sale and would be privy to the details of the sale agreement, there was no need for him to play any role in the sale. Essentially, that was the Auditor-General's position. He did not seek pro-active involvement in the sale process. But when he received a resolution from the Parliament, supported unanimously by the entire Parliament, he responded to that, as he would respond to any resolution from the Parliament. Given the size of the asset and the desire of the Parliament to obtain further particulars and an independent assessment, it was perfectly understandable and legitimate for the Parliament to make that reference.

The reference was made, the result was obtained, and the Independents support the proposed legislation, yet the Opposition continues to dither, fiddle, obfuscate, prevaricate, and generally play the sort of political game that might be played on lesser occasions with lesser legislation. But to do this with this legislation not only does the people of New South Wales a great disservice but brings great dishonour upon the Opposition. I wish to thank many people who have contributed to getting the debate to this point. I thank the chairman and the directors of the State Bank and, in particular, the Managing Director of the State Bank, John O'Neill. I thank New South Wales Treasury, which has throughout provided clear, dispassionate advice on the sale and has managed the sale process. Assisting Treasury have been a number of leading organisations in their field: the investment bank Bankers Trust Australia Limited, the legal firm Clayton Utz, the accounting and

consultancy firm Price Waterhouse, and, indeed, the communications advisers Cosways Creative Communications. To each of these organisations and staff involved I wish to express my personal thanks and the thanks of the Government for a job well done.

It would be remiss of me not to thank my personal staff for their diligence and hard work over the past 12 months on this most important piece of legislation. I would also like to place on the public record my acknowledgment of the professional and expert assessment undertaken by the Auditor-General of New South Wales, the Audit Office and the Auditor-General's advisers, CS First Boston and Coopers and Lybrand. In commending this bill to the House I emphasise the Government's commitment to job security, preservation of the branch network, and competitiveness in Australian banking. The Government wishes State Bank and Colonial Mutual Life well in a marriage of their interests which will make them the fifth force in Australian banking.

In conclusion, I want to emphasise that governments should not be in banking now and should never have been in banking. To return to the point I made earlier about the impact this will have on the people of New South Wales, I have referred to the \$3,000 contingent liability for every man, woman and child in this State, which totals some \$19 billion in contingent liability. Once the Parliament supports this legislation the people of this State can breathe easier, because from the time this Parliament resolves to sell the State Bank, as it is about to do, every man, woman and child in this State will have removed from his or her shoulders \$3,000 in contingent liability. I warmly commend the legislation to the House.

Page 5464

Question - That this bill be now read a second time - put.

The House divided.

Ayes, 47

Mr Armstrong	Mr Merton
Mr Baird	Ms Moore
Mr Beck	Mr Morris
Mr Blackmore	Mr W. T. J. Murray
Mr Causley	Mr O'Doherty
Mr Chappell	Mr D. L. Page
Mrs Chikarovski	Mr Peacocke
Mr Cochran	Mr Phillips
Mrs Cohen	Mr Photios
Mr Collins	Mr Richardson
Mr Cruickshank	Mr Schipp
Mr Debnam	Mr Schultz
Mr Downy	Mrs Skinner
Mr Fahey	Mr Small
Mr Fraser	Mr Smith
Mr Glachan	Mr Souris
Mr Griffiths	Mr Tink
Mr Hartcher	Mr Turner
Mr Hatton	Mr West
Dr Kernohan	Mr Windsor
Mr Kinross	Mr Zammit
Mr Longley	<i>Tellers,</i>
Dr Macdonald	Mr Jeffery
Ms Machin	Mr Kerr

Noes, 42

Ms Allan	Mr Markham
Mr Amery	Mr Martin
Mr Anderson	Ms Meagher
Mr A. S. Aquilina	Mr Mills
Mr Bowman	Mr Moss
Mr Clough	Mr J. H. Murray
Mr Crittenden	Mr Nagle
Mr Doyle	Mr Neilly
Mr Face	Ms Nori
Mr Gaudry	Mr E. T. Page
Mr Gibson	Mr Rogan
Mrs Grusovin	Mr Rumble
Mr Harrison	Mr Scully
Ms Harrison	Mr Shedden
Mr Hunter	Mr Sullivan
Mr Iemma	Mr Thompson
Mr Irwin	Mr Whelan
Mr Knight	Mr Yeadon
Mr Knowles	
Mr Langton	<i>Tellers,</i>
Mrs Lo Po'	Mr Beckroge
Mr McManus	Mr Davoren

Pairs

Mr Hazzard	Mr J. J. Aquilina
Mr Humpherson	Mr Carr
Mr Petch	Mr McBride
Mr Rixon	Dr Refshauge

Question so resolved in the affirmative.

Motion agreed to.

Bill read a second time.

In Committee

Clause 8

Mr J. H. MURRAY (Drummoyne) [6.22]: I move:

No. 1 Page 6, clause 8. After line 24, insert:

(8) Despite anything in the Share Sale Agreement, the Transaction Documents or any other instrument or in any other Act or law, the maximum aggregate amount recoverable from the State under the Share Sale Agreement and Transaction Documents in respect of all claims for warranty and indemnity is \$76,500,000. In this subsection, "**claims**" includes any actions, demands or causes of action (whether based in contract, tort or statute).

It is apparent after discussions that we had today with the Auditor-General that next year the profit of the State Bank will be in the vicinity of \$100 million. The projected profit for 1996-97 is between \$210 million and \$280 million. These figures provide some relevance to the sale price of the bank. The sale price is \$576

million, the projected profit next year is \$100 million, and the projected profit for 1996-97 is between \$210 million and \$280 million. That figure of \$576 million is not the real figure. There are a number of give-aways which decrease the price to somewhere in the vicinity of \$520 million. However, the asset base is \$589 million.

These are important figures when looking at this amendment, which seeks to cap the State's future indemnity to \$500 million. The amendment will obviate the existing situation where, if those loans fall over, the taxpayers of New South Wales pick up the bill - up to a capped figure of \$576 million. There is the potential to do that; I am not saying that it will happen, but there is the potential. The taxpayers of New South Wales will have to pick up at least \$576 million. If that happens, we will have debated this bill all day for nothing. The taxpayers of New South Wales will get a big fat nought for the bank. Under this amendment, if there are problems in that area claims will be capped to \$76 million, which will ensure that the taxpayers will get a minimum of \$500 million.

The CHAIRMAN: Order! There is far too much audible conversation.

Mr J. H. MURRAY: The legislation does not provide for that at all. I ask honourable members to support the amendment.

Mr COLLINS (Willoughby - Treasurer, and Minister for the Arts) [6.25]: This is a final attempt by the Opposition to derail the sale process. In the Committee stage of this debate, after having considered this sale process for a year and after the Auditor-General has reported on the totality of the

Page 5465

sale process, we have a last-minute, half-baked attempt by the Opposition, which does not know whether it is for or against the sale process now or at some time in the future. The Opposition has no idea what its position is, but it is trying to fiddle the terms of the sale in Committee. In relation to what the honourable member for Drummoyne has just said, I refer all honourable members to the Auditor-General's report, which states:

The consideration to be received by the State clearly exceeds the financial and economic return that the State would obtain if it remained the owner of the State Bank.

This view is supported by an analysis of all material issues (guarantee, warranties etc) including the relationship between the consideration for the sale of the State Bank with the Bank's expected future profits and with its net assets.

That is the important part. The Auditor-General concludes:

... from Parliament's viewpoint, [this is] a fair and reasonable consideration.

The Opposition is trying to second-guess the Auditor-General. It is saying, "In the last minute, let's have another stab. The Auditor-General did not get it right". The Opposition disagrees with the umpire's decision; it does not accept it. It wants to re-open the whole thing. The amendment is totally unacceptable, as it would involve a variation of the contract which has been agreed to and thoroughly analysed by the Auditor-General of New South Wales.

Mr SCULLY (Smithfield) [6.27]: What is the net present value of the future income stream? The Treasurer ought to be ashamed of himself. He is seeking our support for this bill when he has not given us that figure. I have read the report and that figure is not in it. The Treasurer should tell us what the figure is as it is not in the report. Is it supposed to be commercially confidential? The Treasurer should tell us what the figure is?

Mr HATTON (South Coast) [6.28]: After all these months of careful negotiation, I cannot believe that the Opposition, which has moved an amendment such as this at this stage, expects it to receive support. If there had been serious concern about the liabilities involved in this sale, it would have been reflected in a proposition brought forward earlier than this. It is just not possible to consider it at this time. I will certainly vote against

the amendment. In answer to the question asked by the honourable member for Smithfield, I was assured by the Auditor-General that even if we took the projected profit in 1997 of \$300 million, it would still be better to sell the bank at this time rather than sell it on the open market to the big four. That was one of the most convincing arguments I have heard and it was one of the things that made me change my mind.

Question - That the amendment be agreed to - put.

The Committee divided.

Ayes, 42

Ms Allan	Mr Markham
Mr Amery	Mr Martin
Mr Anderson	Ms Meagher
Mr A. S. Aquilina	Mr Mills
Mr Bowman	Mr Moss
Mr Clough	Mr J. H. Murray
Mr Crittenden	Mr Nagle
Mr Doyle	Mr Neilly
Mr Face	Ms Nori
Mr Gaudry	Mr E. T. Page
Mr Gibson	Mr Rogan
Mrs Grusovin	Mr Rumble
Mr Harrison	Mr Scully
Ms Harrison	Mr Shedden
Mr Hunter	Mr Sullivan
Mr Iemma	Mr Thompson
Mr Irwin	Mr Whelan
Mr Knight	Mr Yeadon
Mr Knowles	
Mr Langton	<i>Tellers,</i>
Mrs Lo Po'	Mr Beckroge
Mr McManus	Mr Davoren

Noes, 45

Mr Armstrong	Ms Machin
Mr Baird	Mr Merton
Mr Beck	Ms Moore
Mr Blackmore	Mr Morris
Mr Causley	Mr W. T. J. Murray
Mr Chappell	Mr D. L. Page
Mrs Chikarovski	Mr Peacocke
Mr Cochran	Mr Phillips
Mrs Cohen	Mr Photios
Mr Collins	Mr Richardson
Mr Cruickshank	Mr Schipp
Mr Debnam	Mr Schultz
Mr Downy	Mrs Skinner
Mr Fahey	Mr Small
Mr Fraser	Mr Smith

Mr Glachan	Mr Souris
Mr Griffiths	Mr Tink
Mr Hartcher	Mr West
Mr Hatton	Mr Windsor
Dr Kernohan	Mr Zammit
Mr Kinross	<i>Tellers,</i>
Mr Longley	Mr Jeffery
Dr Macdonald	Mr Kerr

Page 5466

Pairs

Mr J. J. Aquilina	Mr Hazzard
Mr Carr	Mr Humpherson
Mr McBride	Mr O'Doherty
Mr Price	Mr Petch
Dr Refshauge	Mr Rixon

Question so resolved in the negative.

Amendment negatived.

Clause agreed to.

Clause 15

Mr J. H. MURRAY (Drummoyne) [6.38]: I move:

No. 2 Page 9, clause 15, line 12. Omit "as at that day".

There are three main superannuation funds which cover current and retired employees of the State Bank group - the State Authorities Superannuation Fund, SASF; the State Superannuation Fund, SSF; and the State Bank superannuation benefit scheme, SBSBS. Prior to 1 July 1985 new employees were covered by SSF; from 1 July 1985 to 1 January 1986 this fund was replaced by SASF. The trustee of both these funds is the State Authorities Superannuation Board. New employees from 1 January 1986 are covered by the SBSBS, a bank sponsored scheme, or in-house scheme. Within SBSBS there is one division which provides for benefits and conditions similar to SASF. This division is, however, closed to new entrants. It is proposed to reopen this division and amend the trust deed of SBSBS so that members of SASF can transfer to SBSBS on their existing conditions and benefits.

The share sale agreement requires that the State will procure that, prior to completion, the trust deeds of SBSBS will be amended to establish a new division of SBSBS to provide the same benefits and on the same terms as those of SSF so that these members are not worse off. The State is then required to procure the transfer of SSF and SASF employee-members to the appropriate division of SBSBS so that each employee retains identical benefits and conditions to those he had prior to the transfer. Retired employees of the group who are members of SASF or SSF will remain with those funds. The import of this amendment is to maintain those benefits if the bank is ever sold after the three-year period.

The CHAIRMAN: Order! If the honourable member for The Hills, the honourable member for Strathfield and the honourable member for Lake Macquarie wish to converse, they should do so outside the Chamber.

Mr J. H. MURRAY: The agreement provides that after three years 49.5 per cent of the bank can be

resold. This proposed amendment will ensure that any accrued superannuation benefits remain with the employees and are not sold off in the future. This provision will look after the benefits of the employees and prevent them going down the drain. I commend the amendment to the Committee.

Mr COLLINS (Willoughby - Treasurer, and Minister for the Arts) [6.40]: Cabinet and the Government agonised over the superannuation issue for quite some time, determined that bank employees would not be disadvantaged by this transaction. Advice from Treasury, after the matter was well and truly considered and taken on board in the sale process, is that this proposed amendment is neither appropriate nor necessary. The Government negotiated with Colonial Mutual Life to establish clone superannuation schemes for approximately 1,500 employees who are members of the State Superannuation Fund and State Authorities Superannuation Fund. By the completion of the sale agreement the bank will have put in place a corporate trustee pursuant to the superannuation and investment supervision legislation whereby trustees equally representing employers and employees will be established. Any change in the superannuation scheme will require the majority support of the trustees.

This is effective and appropriate protection for employees and is fully consistent with Commonwealth legislation. This amendment ignores that protection and seeks to link the clone scheme in the future to changes in the two closed government schemes. This would impose an element of risk on both the bank and its employees that is not acceptable and is quite non-commercial. The Government has very carefully worked out the ways in which employees can be protected after the sale. They will come into effect very quickly. Treasury advises that the variation proposed in the amendment moved by the honourable member for Drummoine would put that protection at risk. The Government proposes to stick to the proposed terms of sale and not tinker with them at this very late stage. Therefore, this amendment and the consequential amendments attaching to it are undesirable, non-commercial, unacceptable and impose some element of risk on employees.

Question - That the amendment be agreed to - put.

The Committee divided.

Ayes, 42

Ms Allan	Mr Markham
Mr Amery	Mr Martin
Mr Anderson	Ms Meagher
Mr A. S. Aquilina	Mr Mills
Mr Bowman	Mr Moss
Mr Clough	Mr J. H. Murray
Mr Crittenden	Mr Nagle
Mr Doyle	Mr Neilly
Mr Face	Ms Nori
Mr Gaudry	Mr E. T. Page
Mr Gibson	Mr Rogan
Mrs Grusovin	Mr Rumble
Mr Harrison	Mr Scully
Ms Harrison	Mr Shedden
Mr Hunter	Mr Sullivan
Mr Iemma	Mr Thompson
Mr Irwin	Mr Whelan
Mr Knight	Mr Yeadon
Mr Knowles	
Mr Langton	<i>Tellers,</i>
Mrs Lo Po'	Mr Beckroge
Mr McManus	Mr Davoren

Noes, 45

Mr Armstrong	Ms Machin
Mr Baird	Mr Merton
Mr Beck	Ms Moore
Mr Blackmore	Mr Morris
Mr Causley	Mr W. T. J. Murray
Mr Chappell	Mr D. L. Page
Mrs Chikarovski	Mr Peacocke
Mr Cochran	Mr Phillips
Mrs Cohen	Mr Photios
Mr Collins	Mr Richardson
Mr Cruickshank	Mr Schipp
Mr Debnam	Mr Schultz
Mr Downy	Mrs Skinner
Mr Fahey	Mr Small
Mr Fraser	Mr Smith
Mr Glachan	Mr Souris
Mr Griffiths	Mr Tink
Mr Hartcher	Mr West
Mr Hatton	Mr Windsor
Dr Kernohan	Mr Zammit
Mr Kinross	<i>Tellers,</i>
Mr Longley	Mr Jeffery
Dr Macdonald	Mr Kerr

Pairs

Mr J. J. Aquilina	Mr Hazzard
Mr Carr	Mr Humpherson
Mr McBride	Mr O'Doherty
Mr Price	Mr Petch
Dr Refshauge	Mr Rixon

Question so resolved in the negative.

Amendment negatived.

Mr J. H. MURRAY (Drummoyne) [6.50]: I move:

No. 4 Page 9, clause 15. After line 34, insert:

(6) Employees of the Bank who become, by force of this section, members of the division of membership of SBSBS that provides the same level of benefits as are provided by membership of the State Superannuation Fund are entitled as members of SBSBS to benefits that are no less favourable than those to which members of the State Superannuation Fund are entitled from time to time.

Mr COLLINS (Willoughby - Treasurer, and Minister for the Arts) [6.51]: The Government opposes the amendment.

Question - That the amendment be agreed to - put.

The Committee divided.

Ayes, 42

Ms Allan	Mr Markham
Mr Amery	Mr Martin
Mr Anderson	Ms Meagher
Mr A. S. Aquilina	Mr Mills
Mr Bowman	Mr Moss
Mr Clough	Mr J. H. Murray
Mr Crittenden	Mr Nagle
Mr Doyle	Mr Neilly
Mr Face	Ms Nori
Mr Gaudry	Mr E. T. Page
Mr Gibson	Mr Rogan
Mrs Grusovin	Mr Rumble
Mr Harrison	Mr Scully
Ms Harrison	Mr Shedden
Mr Hunter	Mr Sullivan
Mr Iemma	Mr Thompson
Mr Irwin	Mr Whelan
Mr Knight	Mr Yeadon
Mr Knowles	
Mr Langton	<i>Tellers,</i>
Mrs Lo Po'	Mr Beckroge
Mr McManus	Mr Davoren

Noes, 45

Mr Armstrong	Ms Machin
Mr Baird	Mr Merton
Mr Beck	Ms Moore
Mr Blackmore	Mr Morris
Mr Causley	Mr W. T. J. Murray
Mr Chappell	Mr D. L. Page
Mrs Chikarovski	Mr Peacocke
Mr Cochran	Mr Phillips
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Mr Debnam	Mr Schultz
Mr Downy	Mrs Skinner
Mr Fahey	Mr Small
Mr Fraser	Mr Smith
Mr Glachan	Mr Souris
Mr Griffiths	Mr Tink
Mr Hartcher	Mr West
Mr Hatton	Mr Windsor
Dr Kernohan	Mr Zammit
Mr Kinross	<i>Tellers,</i>
Mr Longley	Mr Jeffery
Dr Macdonald	Mr Kerr

Pairs

Mr J. J. Aquilina	Mr Hazzard
Mr Carr	Mr Humpherson
Mr McBride	Mr O'Doherty
Mr Price	Mr Petch
Dr Refshauge	Mr Rixon

Question so resolved in the negative.

Amendment negatived.

Clause agreed to.

Page 5468

Clause 16

Mr J. H. MURRAY (Drummoyne) [6.54]: I move:

No. 5 Page 10, clause 16, lines 3-4. Omit "as at that date".

The information that I gave previously in relation to superannuation applies to this amendment and to amendments Nos 6 and 7. The only difference is that this amendment applies to division B of the SBSBS. I commend the amendment to the Committee.

Mr COLLINS (Willoughby - Treasurer, and Minister for the Arts) [6.55]: For the reasons already stated, the Government opposes the amendment.

Amendment negatived.

Mr J. H. MURRAY (Drummoyne) [6.56]: I move:

No. 6 Page 10, clause 16. After line 24, insert:

(6) Employees of the Bank who become, by force of this section, members of Division B of SBSBS are entitled as members of SBSBS to benefits that are no less favourable than those to which members of the State Authorities Superannuation Fund are entitled from time to time.

Mr COLLINS (Willoughby - Treasurer, and Minister for the Arts) [6.56]: The Government opposes the amendment.

Amendment negatived.

Clause agreed to.

New clause 27

Ms ALLAN (Blacktown) [6.57]: I move:

No. 7 Page 13. After line 38, insert:

Land at Bonville owned by the Bank

27. (1) Any estate or interest of the Bank at the commencement of this Act in the land described in Schedule 3 is vested in the

Crown.

(2) So much of the land described in Schedule 3 as is owned by the Crown (including land vested in the Crown by the operation of subsection (1)) is reserved as Bongil Bongil National Park on the commencement of this Act.

(3) The land reserved as a national park by this Act is, for the purposes of the National Parks and Wildlife Act 1974, taken to have been so reserved by a proclamation made under section 33(2) of that Act.

(4) A reference in the National Parks and Wildlife Act 1974 to the publication of a proclamation under section 33(2) of that Act is, in relation to the reservation under subsection (2), taken to be a reference to the enactment of this Act.

(5) Section 35 of the National Parks and Wildlife Act 1974 does not apply in relation to the reservation under subsection (2).

(6) All existing interests (within the meaning of section 39 of the National Parks and Wildlife Act 1974) in relation to so much of the land described in Schedule 3 as is reserved as a national park by this section are revoked on the commencement of this Act.

(7) A revocation effected by subsection (6) does not affect anything done or omitted to be done before the commencement of this Act.

(8) The Bank and any other person with an interest in the land referred to in subsection (2) are to be compensated, out of money to be appropriated by Parliament, for any estate or interest vested in the Crown by the operation of subsection (1) or existing interest revoked by the operation of subsection (6).

(9) For the purposes of subsection (8), the vesting of any estate or interest of the Bank in the Crown and the revocation of any existing interest in land under this section are taken to have been effected by a notice under section 19 of the Land Acquisition (Just Terms Compensation) Act 1991, and accordingly that Act applies to the determination of the compensation referred to in that subsection.

The amendment provides for the protection of environmentally sensitive coastal land south of Coffs Harbour. The land that the Labor Party is concerned about is under threat of residential development. Despite environmental rhetoric, especially by the Minister for the Environment, the Government has failed to acquire all the areas of land that are available for inclusion in the Bongil Bongil National Park. Our amendment would provide a series of important environmental achievements. We would be able to transfer the land south of Coffs Harbour that was formerly owned by Bonville Beach Hardwoods Limited; it is held by the State Bank at present. Although the land is still owned by the bank, we will be able to transfer it to the Crown on enactment of the bill. The amendment would protect the land as a national park under the National Parks and Wildlife Act, and the park would be known as the Bongil Bongil National Park.

The amendment would provide compensation to the State Bank under the Land Acquisition (Just Terms Compensation) Act for loss of the land. With the increase in money that is available to the National Parks and Wildlife Service and the coastal protection fund of the Department of Planning, the \$1.5 million that the land is estimated to be worth would be readily available. The amendment is significant because it would provide for the protection of this area, and that will not be possible if the amendment is not accepted. As I said, both the State Minister for the Environment, and the former Federal Minister for the Arts, Sport, the Environment and Territories, Ros Kelly, have made many pronouncements that the land is worth saving; but the State Government has not taken any action.

The honourable member for Coffs Harbour is in a position to lobby the Government because the land is in his electorate, and this is a vital electoral issue. No action has been taken to create this national park. The amendment will ensure that the new owner of the State Bank is not in a position simply to flog the land; the land would come under the administration of the National Parks and Wildlife Service. The State Government and the Federal Government said that should be the case. The Minister for the Environment is nodding his head. He is not nodding his head out of habit; he knows that it is exactly the sort of initiative that the National Party in this State should have taken.

The CHAIRMAN: Order! It being 7.00 p.m., I shall report progress and seek leave to sit again.

Progress reported and leave granted to sit again.

Page 5469

BUSINESS OF THE HOUSE

Bill: Suspension of Sessional Orders

Motion, by leave, by Mr West agreed to:

That Sessional Orders be suspended to allow the House to sit beyond 7.00 p.m. to conclude proceedings on the State Bank (Privatisation) Bill.

STATE BANK (PRIVATISATION) BILL

In Committee

Consideration resumed from an earlier hour.

Mr West: On a point of order: the amendment moved by the honourable member for Blacktown is clearly out of order. The three objects of this bill are to permit the sale of the State Bank, to permit the sale of certain shares, and to remove the name of a State-owned corporation from schedule 1 to the State Owned Corporations Act. Therefore, it is not possible under this legislation to amend another Act to declare a national park, as provided in the amendment. Proposed new section 27(8) reads:

The Bank and any other person with an interest in the land referred to in subsection (2) are to be compensated, out of money to be appropriated by Parliament . . .

That clearly refers to an appropriation, which I am advised cannot be made without a certificate from the Governor. Therefore, I ask that the amendment be ruled out of order.

Mr Whelan: On the point of order: clearly, the amendment is in order. It relates to the miscellaneous provisions of the bill. A number of members today have said that the bill deals with the sale of the bank and the conditions involved. This amendment relates to the sale of State government real estate, assets and deposits, and the deposits of shareholders. It also deals with contingent liabilities of the bank. For those reasons, an amendment of this nature - which deals with the preservation of land now held by the State Bank by virtue of its exercising power of sale - relates to the miscellaneous provisions of the bill. Therefore the amendment is clearly in order.

Mr Hatton: On the point of order: the amendment is clearly in order, and I do not understand how it could possibly be ruled to be otherwise. The State Bank (Privatisation) Bill deals specifically with the property and assets of the bank and the transfer of those assets. The land at Bonville is owned by the bank, and the amendment seeks to impose specific conditions on the transfer of that land. Therefore the amendment comes within the provisions of the bill. Over many years it has been common in this Chamber for one bill to amend another to achieve a certain effect. I do not understand why this amendment could be ruled to be other than totally within the leave of the bill.

Mr Fahey: On the point of order: the Opposition seeks to use this bill for a particular purpose - to allocate a sum of money for a certain parcel of land in the north. I am advised that as this amendment stands it is in order, but has no consequence whatsoever without an appropriation bill.

Mr Whelan: Further to the point of order: the Premier obviously has read a different amendment. This amendment would ensure that environmentally sensitive land owned by the State Bank is transferred to the Crown. The amendment does not deal with the matters suggested by the Premier. It deals with the transfer of land at Bonville, and relates to the miscellaneous provisions of the bill. I urge you, Mr Chairman, to read the notes prepared by Parliamentary Counsel on the sale of the bank and its various assets, particularly the provisions in part 2 relating to the guarantee and the other post-sale provisions on page 4 of the explanatory note.

Mr Collins: On the point of order: obviously, some contention has arisen about whether this amendment is in order. It can be dealt with in two ways: first, Mr Chairman, you could rule that it is either in order or out of order; and, second, you could rule that it is in order and have the Committee vote on the amendment. Rather than delay the Committee, it would be better to deal with the amendment expeditiously.

Mr Hatton: Further to the point of order: the Treasurer's proposal would be a messy way to deal with this matter. For example, if you, Mr Chairman, rule the amendment in order, and the vote of the Committee is such that the Government loses - which is a distinct possibility - a challenge could be made to your ruling by way of a notice of motion given tonight or tomorrow. The challenge would be considered by the House, which could resolve that the matter is in order, and we would have a mess on our hands.

Mr Fahey: Further to the point of order: it is a simple matter. Either this amendment obliges the Government to appropriate, or it does not. If the amendment imposes that obligation, it is unconstitutional as it needs a Governor's message.

Ms Allan: Which part?

Mr Fahey: I refer to proposed new section 27(8). If the amendment does not require that appropriation, it is useless.

Mr Fraser: On the point of order: the portion of land set out in proposed section 27(8) is now in receivership. Therefore the bank does not own it, but has only an interest in it. On that basis, the amendment is out of order.

Mr Hatton: Further to the point of order: regardless of whether the land is in receivership, the bank has an interest in it. It comes within the leave of the bill. The Premier referred to appropriation. The present budget has already appropriated funds for the specific purpose of acquiring land - in this case it is an interest in land - in sensitive coastal locations. Therefore the amendment will not require a specific allocation at all, as an allocation could be provided from the existing vote.

The CHAIRMAN: Order! I have listened to the arguments from both sides and I have taken advice from the Clerks. I consider that the amendment moved by the honourable member for Blacktown is outside the leave of the bill. Accordingly, I rule it out of order.

Page 5470

Mr WHELAN (Ashfield) [7.10]: In accordance with Standing Order No. 162, objection is taken to your ruling that the amendment of the honourable member for Blacktown is out of order. I move:

That the Chairman do now leave the Chair to report a Point of Order, and ask leave to sit again so soon as the Point of Order shall have been decided by the House.

The point of order is that the Chairman was in error in ruling that the proposed amendment inserting a new clause 27 and schedule 3 was not relevant to the subject matter of the bill.

Motion agreed to.

In the House

The CHAIRMAN: I have to report a point of order from the Committee. The point of order is, "That the Chairman was in error in ruling that the proposed amendment inserting a new clause 27 and schedule 3 was not relevant to the subject matter of the bill".

Mr WHELAN (Ashfield) [7.11]: The honourable member for Blacktown moved an amendment to the State Bank (Privatisation) Bill that deals with land at Bonville owned by the State Bank. As you would be aware, Mr Speaker, the bill provides for the sale not only of shares of the bank but of all of the assets, and indeed liabilities, of the State Bank. The honourable member for Blacktown is concerned about the environmentally sensitive land at Bonville and has framed an amendment to provide for the protection of that land. The bank inherited the land as a result of a mortgagee sale and the land is now either in the name of the State Bank or disclosed as one of its assets. The proposed amendment of the honourable member for Blacktown would be to alienate the land at Bonville owned by the bank so that it is vested in the Crown and becomes part of a national park.

That is the substance of the amendment, and I have objected to the ruling of the Chairman of Committees that the amendment is out of order. There is a feeling of *deja vu* about this matter, as I moved dissent some considerable time ago and I hope that tonight we may not have the same consequences. The Opposition should not be disintitled from moving what it regards as a valid amendment, appropriately framed under the miscellaneous provisions in clause 26 of the bill. For those reasons, both on merit and as we are dealing with the privatisation of the State Bank and the sale of State assets, the Opposition believes that the amendment is in order.

Mr WEST (Orange - Minister for Police, and Minister for Emergency Services) [7.14]: I took the point of order that the amendment moved by the honourable member for Blacktown was out of order. My argument was that the objects of the bill are to permit the sale of the State Bank, the sale of shares in the bank, and to remove the name of a State-owned corporation from schedule 1 to the State Owned Corporations Act. The amendment seeks to add the Bonville land to the Bongil Bongil National Park, but it is not within the leave of this bill to establish a national park. Proposed section 27(8) refers to money being appropriated for compensation. I am advised that an appropriation of this nature cannot be done without a certificate from the Governor. The honourable member for South Coast argued that money is already allocated in the appropriations, but that allocation does not cover this land, and for that reason the amendment is unconstitutional.

Mr HATTON (South Coast) [7.15]: When I spoke on this amendment earlier I put the view that, by its very nature, the bill involves the transfer of property rights and interests in property. The amendment provides for specific conditions to apply to the transfer of property that is either owned by the State Bank or in which the bank has an interest. The bill provides for the transfer of land, buildings, property and interests in property, and as the amendment provides for land, it should be ruled in order. It does not, as the Minister for Police, and Minister for Emergency Services claimed, seek to establish a national park. It seeks to add such land to an existing national park.

There is no reason why, for this purpose, this amendment cannot amend another Act, as happens with countless other bills that make consequential amendments to other legislation. On the question of appropriation which was raised by the Premier, money is available in the budget to acquire sensitive land, and it is therefore within the power of the Government to allocate such money without a special appropriation of the House, in order to compensate the bank for any land that is transferred. Consequently, I submit that the amendment is totally within the leave of the bill.

Mr SPEAKER: Order! Some complex matters have been raised in this objection. The Chair is always placed in a dilemma when considering matters that appear on the surface to be unusual. On my examination of

the bill as it stands, the amendment seeks to introduce a new element, which relates to a particular parcel of land in which the State Bank currently has an interest. Obviously it would not be the only parcel of land in which the State Bank has an interest. If it had been intended that the bill should contain a ceding or transitional provision that dealt with parcels of land in which the State Bank had an interest - other than that over which it had total and obvious ownership - such a provision would have been included in this enabling bill.

Part 8, Miscellaneous, has two clauses. Clause 25 deals specifically with the protection of contractual and other obligations. Clearly there is no room for an amendment to be moved to that clause. Clause 26 mentioned by the honourable member for Ashfield is specific also, the intent of which is common to many bills. It has the effect of binding the Crown, and gives transitional procedure in regard to other Acts. Similarly, the subject amendment could not be moved to that clause.

Page 5471

A strong point in the submission of the honourable member for Ashfield was that as part 8 is entitled "Miscellaneous", the amendment has some standing. However, because a part is entitled "Miscellaneous" does not of itself give a member carte blanche to introduce material by way of an amendment that may in some way touch upon the operations of the State Bank. Any such amendment would have to have a close relationship to the aims and objects of the bill. Accordingly, as the leave of the bill does not enable such a relationship to be established, and given that many other procedures are available to members to give effect to such a provision if it is the will of the House, I rule the amendment out of order.

Committee Resumed

Bill reported from Committee without amendment, and passed through remaining stages.

House adjourned at 7.24 p.m.
