

CABINET - SUBJECTS FOR CONSIDERATION, 29 AUGUST 2002 9:30 AM

1 New Initiatives/Policy Matters

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Not Relevant

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TFD089/02CS

**Financial Assistance to the Basketball Association of
South Australia
APPROVED**

All Ministers

2 Bills and Regulations in Principle

3 Bills for Introduction

4 Appointments

5 Other Matters

6 Cabinet Notes

7 Reports from Ministerial Councils and Cabinet Committees

8 Parliamentary Questions

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RB
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CABINET COVER SHEET

- 1. TITLE:** Financial Assistance to the Basketball Association of South Australia (BASA)
- 2. MINISTER:** The Treasurer
- 3. PURPOSE:** To obtain Cabinet approval of the Treasurer's offer of financial assistance to the Basketball Association, which comprises the following elements:
- A financial assistance package to the Basketball Association of South Australia (BASA) by way of:-
- a loan restructure whereby interest will be foregone on BASA's loan from the Treasurer for a period of 5 years and principal will be repaid only on maturity of the loan in 2020;
 - the continuation for a 5 year period of an existing grant of \$250,000 per year for BASA not to hold concerts at the Powerhouse in direct competition with the Entertainment Centre.
- 4. RESOURCES REQUIRED FOR IMPLEMENTATION:** \$500,000 per annum
- 5. COSTS:** The assistance offered is less than that sought by BASA and represents additional assistance of \$500,000 over the amount previously approved by the former Cabinet on 14 August 2000.
- This outcome compares favourably with the list of possible scenarios as depicted in Table 1 of the Cabinet Submission.

6. CONSULTATION:

Minister for Recreation and Sport
Department of Treasury and Finance
Office for Recreation and Sport
Basketball Association of South Australia

7. URGENCY:

High

8. RECOMMENDATIONS:

That Cabinet approves the Treasurer's offer of financial assistance to the Basketball Association of South Australia, which comprises the following elements:

A financial assistance package to the Basketball Association of South Australia (BASA) by way of:-

- a loan restructure whereby interest will be foregone on BASA's loan from the Treasurer for a period of 5 years and principal will be repaid only on maturity of the loan in 2020;
- the continuation for a 5 year period of an existing grant of \$250,000 per year for BASA not to hold concerts at the Powerhouse in direct competition with the Entertainment Centre.


Kevin Foley MP
DEPUTY PREMIER
TREASURER
MINISTER FOR INDUSTRY, INVESTMENT AND TRADE

26 August 2002

MINUTE forming ENCLOSURE to

T&F02/089CS
T&F99/0355 Pt II

TO: THE PREMIER FOR CABINET

RE: FINANCIAL ASSISTANCE TO THE BASKETBALL ASSOCIATION OF SOUTH AUSTRALIA (BASA)

1. PROPOSAL

- 1.1 That Cabinet approves the Treasurer's decision to offer the Basketball Association of South Australia (BASA) a financial assistance package to ensure the Associations ongoing operation.

2. BACKGROUND

- 2.1 There have been a number of approaches to Government by BASA for financial assistance since the Government provided BASA with loan funds to help finance the construction of the Clipsal Powerhouse Stadium in 1989.
- 2.2 Initially, the loan provided by the Government was for an amount of \$12 million indexed to the Consumer Price Index (CPI). A further \$3 million was subsequently advanced to BASA in 1991. As a consequence of the indexed nature of the loan, the loan balance increased to around \$18.3 million.
- 2.3 From 1995, the Government also provided BASA with an annual grant of \$250,000, as compensation for agreeing not to hold entertainment functions at the stadium, which would be in direct competition to the Entertainment Centre.

From 1999 the Government provided BASA with an annual grant of \$250,000 for the purposes of promoting basketball in the State. These amounts are paid to BASA by the Office for Recreation & Sport (ORS).

- 2.4 In September 1998 the financial arrangements between BASA and the Government were reviewed by a private consultancy firm, Equity & Advisory Limited. The purpose of the review was to provide the Department of Treasury and Finance (DTF) with a report which would enable a better understanding of the financial position of the BASA Group. The review found that the Association would need to fund its existing loan obligations from external sources or asset sales if the loan from the Government was not restructured and a percentage of the debt forgiven.
- 2.5 In April 2000, BASA advised that it was facing financial difficulties and that the expected increase in the CPI as a result of the GST would cause a further decline in its operating position. In order to survive, BASA proposed that its debt be reduced to about \$7.5 million.

- 2.6 On 14 August 2000, Cabinet approved a partial write-off of BASA's loan to the Government and agreed to extend the existing grants totaling \$500,000 per annum beyond 2003-04 to 2020.
- 2.7 Subsequently, agreement was reached between BASA and the former Treasurer for revised arrangements for the Powerhouse loan, culminating in a partial write-off and restructuring of the original loan resulting in the outstanding amount being \$11 million with installments payable half-yearly over 20 years to 30 June 2020. This restructuring represented a write-off of \$7.3 million as the CPI loan had a balance outstanding of \$18.3 million.
- 2.8 In addition, two further general purpose grants of \$300,000 (2000-01) and \$250,000 (2001-02) were paid by the former Treasurer to assist BASA to overcome its financial difficulties. At the time, BASA indicated that although the assistance would enable it to meet its commitments in the short term, concern was expressed by BASA on its ability to survive in the long term.
- 2.9 Further representations were made by BASA in late 2001 to DTF where the Department of Treasury and Finance noted BASA's advice that its financial position was 'parlous' and 'deteriorating' due to falling attendances since the introduction of the GST.
- 2.10 By letter dated 5 February 2002 to the former Treasurer from the Chairman, BASA reaffirmed the financial problems faced by BASA and requested the opportunity to meet with him to discuss options for further concessions.

3. DISCUSSION

- 3.1 Upon assuming office, the current Treasurer replied to the Chairman's earlier request advising that before meeting with him, he would like officers of DTF to assess the extent of the difficulties facing BASA.
- 3.2 A formal submission to the Government was received from BASA on 29 May 2002. The submission was a comprehensive document that outlined the case for BASA's request for financial assistance and included a range of financial reports for analysis and review.
- 3.3 The South Australian Government Financing Authority (SAFA) conducted a review of BASA's finances, confirming its difficult financial position and identified a number of options that could be pursued by Government.
- 3.4 According to the information provided, BASA's expected results for 2001-02 were an operating loss of \$42,000 and a zero cash position at financial year-end. Its forecast 2002-03 results are an operating loss of \$650,000 and a deficit cash position of \$565,000 at 30 June 2003. It was clear that without some form of financial assistance BASA would be placed in the hands of an Administrator or Liquidator some time in 2002-03.

3.5 The assistance sought by BASA was:-

- its debt to the Government be completely eliminated effective 30 June 2002 (ie: \$10.595 million); and
- Government grants of \$500,000 already planned for 2002-03 continue at that level for 10 years.

3.6 On 22 July 2002 the Treasurer and Minister for Recreation, Sport and Racing met with delegates from BASA to discuss its situation.

3.7 Subsequently, the Treasurer made an offer to BASA comprising:-

- a loan restructure whereby interest will be foregone on BASA's loan from the Treasurer for a period of 5 years and principal will be repaid only on maturity of the loan in 2020;
- the continuation for a 5 year period of an existing grant of \$250,000 per year for BASA not to hold concerts at the Powerhouse in direct competition with the Entertainment Centre.

3.8 The assistance offered is less than that sought by BASA and represents additional assistance of \$500,000 over the amount previously approved by the former Cabinet on 14 August 2000.

3.9 As a further condition of the offer, the Government has sought the undertaking from BASA that they will seek to identify further efficiencies in their internal operations.

In addition, a strict reporting schedule will be initiated whereby BASA will be required to submit regular financial reports to SAFA who will monitor BASA's operations to ensure the Government's assistance is being used in the manner for which it is intended.

3.10 If the Government does not offer assistance to BASA:

1. BASA would likely be put into voluntary liquidation during the current financial year with a forecast operating loss of \$650,000;
2. Under this scenario, the Government will be left with a Basketball stadium with no or little use;
3. The Government will be required to write off the outstanding debt of \$10.5 million, which would have an immediate negative impact on State net debt. This far outweighs the additional cost of the financial assistance package on offer which equates to an additional \$500,000 per annum (refer to table 1 attached);
4. Most importantly, there will be serious resulting implications for basketball at all levels in South Australia.

Not only would this result in the closure of the Adelaide 36'ers and Women's Adelaide Quit Lightning teams but also the many children's and junior district grades which are supported by the Association.

Table 1

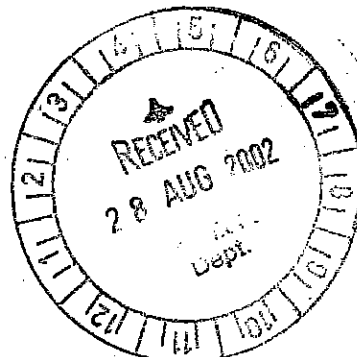
FINANCIAL ASSISTANCE TO THE BASKETBALL ASSOCIATION OF SOUTH AUSTRALIA (BASA)
IMPACT ON BUDGET

	<u>No Action</u>	<u>BASA Request</u>	<u>Government Offer</u>
	<u>BASA Liquidated</u>		
Interest Payable on Borrowing	-750,000	-750,000	-750,000
Interest Receivable on Loan	0	0	0 (for 5 years)
Grants to BASA	0	-500,000	-250,000
Already factored into Budget	+500,000	+500,000	+500,000
Additional Impact on Budget	-250,000	-750,000	-500,000
Financial Liability Value	10,451,042	10,451,042	10,451,042
Financial Asset Value	0	0	10,451,042 ¹
Impact on Net Debt	-10,451,042	-10,451,042	0

¹ Potential that loan may need to be written down under accounting standards.

In addition there would be the likely closure of the following 8 suburban stadiums, which are overseen by the Association and used to support South Australian junior basketball.

- Clipsal Powerhouse
- Marion
- Wayville
- Hillcrest
- Marden
- Port Adelaide
- Pasadena
- Nourlunga



Further to this, the employment of the Associations 49 permanent staff and approximately 500 casual staff would be terminated. This is in addition to the numerous volunteers who give their time to ensuring the suburban stadiums are adequately staffed.

4. RECOMMENDATION

- 4.1 That Cabinet approves the Treasurer's offer of financial assistance to the Basketball Association, which comprises the following elements:

A financial assistance package to the Basketball Association of South Australia (BASA) by way of:-

- a loan restructure whereby interest will be foregone on BASA's loan from the Treasurer for a period of 5 years and principal will be repaid only on maturity of the loan in 2020;
- the continuation for a 5 year period of an existing grant of \$250,000 per year for BASA not to hold concerts at the Powerhouse in direct competition with the Entertainment Centre;

In Cabinet

29 AUG 2002


 Kevin Foley MP
DEPUTY PREMIER
TREASURER
MINISTER FOR INDUSTRY, INVESTMENT AND TRADE

APPROVED

 PREMIER

28 August 2002