



1966.

PARLIAMENT OF TASMANIA.

REPORT OF THE STANDING COMMITTEE OF PUBLIC ACCOUNTS
ON
Eastern Tasmania Fishermen's Co-operative Society
Limited: Guarantee of Loan under
Fish Canneries Act 1958

Brought up by Mr. Fraser on Tuesday, June 21, 1966, and ordered by the House of Assembly to be Printed.

The Committee of Public Accounts has the honour to report to your Honourable House as follows:—

1. On page 94 of his 1965 report, the Auditor-General commented on the accounts of the Eastern Tasmania Fishermen's Co-operative Society Limited in the following manner:—

"In previous reports reference was made to the extent of Governmental investment in this Society, the precarious position of the Society's finances and to the fact that it was decided that the receiver should proceed with realisation of the Society's assets. The fixed assets of the Society were taken over by the subsidiary of a mainland company, the consideration being the acceptance of the liability of the Society to the Commissioner of Crown Lands and the Minister for Agriculture amounting to £51,594.

"Realisation was completed as at 31st March, 1965, except in relation to the collection of some outstanding debts owing to the Society, £4,302, and the sale of a small quantity of tinned fish, £100, and taking the amount so realised into account, commitment still outstanding to Government authorities as at 31st March, 1965, totalled £38,576, as follows:—

Fish Canneries Act 1960—

Agricultural Bank:

Balance outstanding 30th June, 1964:	£	£
Principal	74,055	
Interest	2,122	
		76,177
Less Deposit Account 30th June, 1964 (Sale of stocks)	12,075
Balance outstanding (see 1964 Report)	64,102
Interest raised, 1.7.64-31.3.65	4,259
		68,361
Less 1.7.64-31.3.65:		
Amounts received from Receiver-Manager	28,349	
Interest allowed on Deposit Account	1,436	
		29,785
Balance outstanding 31st March, 1965	£38,576

"The Treasurer was called upon under the terms of the guarantee of £75,000 given in accordance with the provisions of the Fish Canneries Act 1958, as amended by Act No. 15 of 1960, and an amount of £38,576 was paid on 31st March, 1965. This amount did not include any possible receipts either by way of calls on uncalled capital (£1,725) or by recoveries of arrears of calls on capital (£4,314) it being decided by the Government that the Agricultural Bank should take no action in this direction.

"Since that date, some of the outstanding debts referred to above have been collected and the net proceeds paid over to Consolidated Revenue, thereby having the effect of reducing the amount payable under the guarantee to £37,893 at 30th June, 1965, and £37,330 at 1st September, 1965.

"The Governor-in-Council's authority to write off the amount of the interest-free loan of £20,000 advanced to the Society from the Commonwealth Grant Employment Suspense Account and which was to be repaid by 30th June, 1964, was given on 6th October, 1964.

"Thus, the total loss borne by the State can be set down as £57,330.

"In addition, at 30th June, 1965, there was an amount of £1,166 owing to the Lands and Surveys Department on account of matured principal."

In 1958 a company known as Fish Canneries of Tasmania Pty. Ltd. went into voluntary liquidation. This company had operated fish processing depots at Margate, Dunalley and Bridport in Tasmania. Also in 1958 the Tasmanian Parliament enacted legislation known as the Fish Canneries Act of 1958 (No. 73 of 1958) which authorised the Minister to buy at a price not exceeding \$116,000 certain land and properties belonging to the Fish Canneries of Tasmania Pty. Ltd. The Act further authorised the Minister to dispose of the assets of the company to the Eastern Tasmania Fishermen's Co-operative Society Ltd. on terms to be agreed, and also authorised the Commissioner of Crown Lands to grant to the Society leases of land at Dunalley and Bridport which had previously been under lease to the private company Fish Canneries of Tasmania Pty. Ltd. The sale of the assets to the Co-operative Society was completed at a price of \$116,000 payable over a period of 35 years. The Fish Canneries Act of 1958 also authorized the Treasurer to guarantee the Society's bank account to an amount of \$60,000. The Society was apparently unable to operate within this overdraft limit, and in 1960 an amending Act, the Fish Canneries Amendment Act of 1960 (No. 15 of 1960) authorised the Treasurer to guarantee a loan of up to \$150,000 to be made to the Society by the Agricultural Bank of Tasmania. This loan of \$150,000 was advanced over a period of two years and was stated to be repayable by June 30, 1966. The Agricultural Bank in July of 1962 made available a further \$24,000 to the Society but this was not guaranteed by the Treasurer, nor was it drawn. In July of 1963 the position with the Society was so serious that the Committee of Management decided it could no longer carry on its operations. The Board of Management of the Agricultural Bank considered taking action under its security but at this juncture the Treasurer decided to advance a further sum of \$40,000 to the Society from Employment Stimulation Grants. By December of 1963 the affairs of the Society were such that the Agricultural Bank acted under its debenture and appointed a Receiver-Manager, and in April 1964 instructions were given to the Receiver to realise on the Society's

assets. Following this position the Treasurer was called on by the Bank in the terms of his guarantee to the extent of \$77,152, although stock and debt recoveries since have reduced this figure at March 1, 1966, to \$75,174. The loan of \$40,000 from Commonwealth Employment Grants was written-off by authority of the Governor-in-Council on October 6, 1964. The total loss to the State as at March 21, 1966, resulting from the failure of the Society was \$115,174.

2 Your Committee was concerned to know the reasons for the failure of the Society which resulted in such a substantial loss to the State, and following consultation with the Auditor-General commenced its inquiry by taking evidence from Mr. Blackburn, the Deputy-Manager of the Agricultural Bank of Tasmania, and Mr. Thow, the Senior Executive Officer. It should be pointed out at this stage that Mr. Thow, in addition to his position with the Agricultural Bank, was also the Bank's representative on the Committee of Management of the Society of the Eastern Tasmania Fishermen's Co-operative. Mr. Blackburn submitted the following statement outlining the history of the Eastern Tasmania Fishermen's Co-operative Society Ltd.:—

"In 1958 the Company known as Fish Canneries of Tasmania Proprietary Limited went into voluntary liquidation. This Company had operated fish processing depots at Margate, Dunalley and Bridport. It processed fresh and frozen fish and was engaged in fish canning.

"Fishermen generally were disturbed at the loss of this major outlet for their products. They approached the Government with a request that the assets of the Company be purchased by the Government and sold to a Co-operative Society comprised of fishermen.

"In 1958 the Fish Canneries Act was enacted. This authorised the purchase of the following assets of the Company:—

1. Freehold land at Margate.
2. The Company's interest in land at Dunalley and Bridport.
3. Items of plant and equipment.
4. The trade mark 'Flair'.

"The Act provided for the sale of these assets to the Eastern Tasmania Fishermen's Co-operative Society Limited and the transaction was subsequently completed. A site at Triabunna was also leased to the Society which was required to pay for the buildings erected thereon.

"Details of the transactions and the amounts involved are set out hereunder:—

Triabunna—\$12,000:

- (1) Site rental \$10 per annum (lease from the Commissioner of Crown Lands).
- (2) Amount for buildings to be repaid over 14 years at \$561 per half year.

Bridport and Dunalley—\$38,000:

- (1) Site rental—nominal.
- (2) Repayable over 35 years—\$1299 half-yearly.

Margate—\$62,000:

- (1) Freehold land.
- (2) Deposit \$2000. Balance repayable by quarterly instalments of principal and interest \$968.09.

Plant—\$12,000:

Quarterly instalments \$590.42.

Trade Mark 'Flair'—\$4000.

Quarterly instalments \$230.12.

"The legislation also authorised the Treasurer to guarantee the repayment of any monies proposed to be borrowed by the Society upon overdraft on its bank account with a limit of \$60,000. This guarantee was subsequently executed.

"In 1960 the Society found itself in need of further funds. Its trading bank was not prepared to increase the overdraft limit, even if the amount of the Treasurer's guarantee could be amended accordingly. An approach was made by the Society to the Government, which had indicated it desired to preserve the Co-operative in order to provide a continuous and competitive outlet for fishermen's catches. The then Minister for Agriculture approached the Board of Management of the Agricultural Bank of Tasmania. The Board decided that it was unable to make a loan for the following reasons:—

- (1) Insufficient funds.
- (2) Lack of proper security.

"The Government subsequently made additional funds available and agreed to amend the Fish Canneries Act 1958 to enable the Treasurer to give a guarantee to the Board of Management up to a limit of \$150,000. A loan of this amount was subsequently approved to repay the liability to the trading bank and to provide additional working capital.

"During the next two years, although the Society appeared to be operating on a profitable basis, it still had periods when it was extremely short of working capital. This position was brought about by a build-up of stocks for varying reasons. In July, 1962, the Board of Management made a further short-term loan of \$24,000, a sum which was subsequently repaid.

"In 1962-63 a rapid deterioration took place in the Society's financial position. In that year it operated at a considerable loss.

"In July, 1963, the position was so serious that the Committee of Management decided it could no longer carry on its operations. The Board of Management of the Agricultural Bank considered taking action under its security, but before doing so advised the Premier of the situation. He had discussions with representatives of the Society and because of his concern at the possible unemployment of numbers of people in the industry a sum of \$40,000 was provided through the Treasury.

"It soon became apparent that the additional money provided only temporary relief. Large stocks of canned fish had been built up and there was practically no demand for this product. By November, 1963, the Society could not continue its operations. The Board of Management of the Bank appointed a Receiver and Manager and endeavours were made to dispose of the Society's assets.

"No satisfactory offers were received for the installations but a mainland company with considerable interests in the fishing industry agreed to provide further working capital and endeavour to rehabilitate the Co-operative. This move was not successful and further attempts to dispose of the assets resulted in a sale of the depots and items of plant to SAFCOL (Tas.) Pty. Ltd., a subsidiary of the South Australian Fishermen's Co-operative Limited. That company agreed to take over the installations and plant at the figure owing to the Government on these items.

"Remaining assets comprising mainly stock and vehicles were sold by the Receiver and Manager to reduce the liability under the guarantee.

"Briefly, the Society's failure could be attributed to—

- (1) Insufficient capital being subscribed by members.
- (2) Excessive borrowings.
- (3) Strong competition for major lines.
- (4) Excessive build-up of stocks.
- (5) Inexperienced management.

- (6) Errors in market judgment.
- (7) Insufficient knowledge of the requirements of the trade in respect of presentation and packaging.
- (8) Failure of a big proportion of members to give full support to their Society."

On April 4 last the Committee called Mr. Rowland, the Manager of the Agricultural Bank, together with Messrs. Blackburn and Thow, who had previously appeared before the Committee, and Mr. Rowland submitted to the Committee the following statement:—

"In order to establish the extent to which the Treasury was made aware of the affairs of the Eastern Tasmania Fishermen's Co-operative Society Limited prior to its failure, it is considered that an examination should be made of the negotiations and discussions which have taken place from the time the loan to the Society was first mooted.

"Prior to the approval of the loan by the Bank, discussions were held with Treasury Officers as to the procedures to be adopted. The Under-Treasurer was informed by letter on June 6, 1960, of the results of the discussions which included the security to be taken in relation to the loan, the form of guarantee required from the Treasurer and the manner in which the accounts were to be dealt with as between the Treasury and the Bank. These arrangements were confirmed on June 8, 1960, by the then Acting Under-Treasurer (Mr. N. E. Casey) who acknowledged that the Bank would rely solely on the Treasurer's guarantee as security for the loan.

"One of the conditions of the loan to the Society was that a nominee of the Bank was to be appointed to the Society's Committee of Management. The Under-Treasurer in his letter of September 14, 1960, indicated that as Mr. Thow had been appointed to represent the Bank, the Treasurer had agreed it would not be necessary for a Treasury Officer also to act.

"Some few months after the loan was made available, the Society submitted a proposal to establish a depot for crayfishing at Strahan. My views on this proposal were forwarded to the Under-Treasurer who replied on November 1, 1960, that he appreciated the explanations given of the actions of the Bank in ensuring that so far as practicable the Co-operative would not again become embarrassed because of inadequate working capital and that he had explained the position to the Treasurer. However, after some preliminary investigations by the Society the proposal was not proceeded with.

"In 1961, an approach was made to the Minister by the Licensed Fishermen's Association for a subsidy to cover the reduction in price approved by the Society to be paid to its members for the purchase of barracouta. This followed the action by the Society in reducing the price to fishermen from 6d. per lb. to 4½d. per lb. because the abnormal run of 'cوتا had resulted in a considerable stockpile of this fish. The matter was referred by the Minister to the Treasury, and the Under-Treasurer, after examining the facts relating to the Society's decision, furnished a report to the Treasurer (see copy of letter 20.12.61).

"During the early months of 1962, growing dissatisfaction occurred amongst the members of the Committee of Management of the Society concerning decisions made by the Society's Manager without the authority of the Committee and his failure to keep the Committee informed of important matters affecting the affairs of the Society. As a result, a Special Meeting of the Committee was held on June 22, 1962, and the following motion was submitted:—

'That the Committee of Management no longer has confidence in the ability of Mr. R. M. F. Roberts to manage the affairs of the Society.'

"Following a discussion on this motion, Mr. Roberts tendered his resignation to the Committee and this was accepted. This information was conveyed to the Treasurer on June 25, 1962, together with a report submitted by the Bank's representative, summarising the discussions which took place at the Special Meeting and the decisions reached. The following day, the Treasurer telephoned Mr. Thow and advised him he

would like to discuss matters with Mr. F. Gourlay, Chairman of the Committee of Management, on his return from Canberra the following week.

"Towards the end of 1962, the Society made a further approach to the Treasurer for additional finance. This was referred to the Bank and a special meeting of the Board of Management was held to consider the application. The Board, however, decided that it would be unwise to advance further sums to the Society and would be justified in doing so only if in the opinion of the Government the effect on the fishing industry in Tasmania would be so adverse as to warrant special consideration of the case. This decision was conveyed to the Minister on January 28, 1963, and on February 8, 1963, the Treasurer conferred with the representatives of the Society and the Bank. He informed the Chairman of the Committee of Management the Government was not in a position to make a decision in the matter until such time as a plan of procedure as outlined at the discussions had been received. This was forwarded to him by the Society on February 18, 1963, and embodied a scheme for the retention of 10% of the purchase price of fish until such time as the financial position of the Society had improved. This arrangement resulted in temporary relief for the Society from its cash point of view and the applications for the loan was not proceeded with.

"For reasons outlined to the Committee in previous statements, the Society's financial position deteriorated further in the ensuing months. On July 2, 1963, the Bank's representative submitted a full report on the crisis which had arisen and a copy of this was handed personally to the Treasurer on the following day under cover of a memorandum suggesting that a liquidator be appointed without delay. At the same time, a full discussion was held on the contents of this report.

"On that day, representatives of the Society met the Treasurer and advised him they could no longer carry on. Representatives of the Bank and Treasury also attended this meeting. He agreed to make a further sum of \$40,000 available, mainly to relieve a possible unemployment problem, but partly to await the results of negotiations with overseas interests which it was felt, if successful, would play a part in the Society's eventual recovery. Nothing came from these negotiations.

"In a memorandum dated September 25, 1963, the Treasurer was informed of action which had been taken by the Society to effect economies and endeavours made to improve its position. In the same communication, comments were made of steps which could be taken to protect the Government's investment and the appropriate paragraphs of this communication are quoted hereunder:—

'As regards steps which can be taken to protect the Government's investment, I consider that these depend upon whether the Society is to continue operating or not. If it is to continue, there is little that can be done other than to ensure that costs are cut to a minimum and that management is efficient. If trading losses continue to be sustained, working capital (now almost entirely provided by the Government) must erode. In other words, if the economy measures which have been taken and the diversification of agents does not check the adverse trading trend, then the Government must expect its investment in working capital to be endangered.

'On the other hand, if the Society should decide to cease operation (or if the Government should direct that it should) it is certain that the best protection for the Government would be to endeavour to find a buyer willing to take over the undertaking as a going concern. In this regard, I might mention that a well-known firm of food processors have made a tentative approach in this direction.

'Even if a sale to a 'going concern' purchaser were to be negotiated, I think there must be some loss to the Government if only for the reason that, in my opinion, most if not all of the real property assets of the Society were over-valued at the time they were acquired by the Society.

'The last alternative, that is, sale of the Society's assets piecemeal, would obviously result in the greatest measure of loss to the Government.

'In any of the circumstances mentioned above, I find it difficult to determine a practical way of protecting the Government's financial interest to any great degree. Short of renewed confidence in the Society's ability to trade profitably in the future, it seems that the least loss to the Government would be to seize the first opportunity of making a sale to a purchaser willing to make a reasonable offer.'

"Towards the end of October, 1963, the Committee of Management of the Society again found itself in the position where it could not continue operations. The Treasurer was advised of this, and, following discussions with him, it was agreed that negotiations should take place with companies it was considered would be interested in taking over. These negotiations took place but no satisfactory offers were received. One company with wide interests offered to provide working capital and endeavour to rehabilitate the Society. With the Treasurer's concurrence, this was accepted and operated for some months. However, it soon became apparent that losses were continuing and a recommendation was made to the Treasurer that a further endeavour be made to dispose of the Society's assets. He agreed to this and in May, 1964, a Receiver and Manager was appointed. The assets were advertised in all major Australian newspapers. Eventually, SAFCOL (Tas.) Pty. Ltd., a subsidiary of the South Australian Fishermen's Co-operative, agreed to purchase the fixed installations and items of plant at the figure owing to the Government. With the Treasurer's agreement, this was accepted. The remaining assets were sold at the best price obtainable and outstanding debts were placed in the hands of the Tasmanian Collection Service for recovery.

"The guarantee given by the Treasurer imposed no obligation on the Board of Management of the Bank to take any action whatsoever before calling on the guarantee. The relative clause is quoted hereunder:—

'This guarantee shall be independent of and in no way affected by any other security which the Bank may obtain or hold for any indebtedness or liability (whether present or future direct or contingent matured or unmatured joint or several) of the Society to the intent that this guarantee shall be enforceable unless the same shall have been satisfied according to the terms hereof notwithstanding that any other obligation whatever arising under any other security shall be in whole or in part unenforceable whether by reason of any statute (including any Statute of Limitations) or for any other reason whatsoever.'

"The Board, however, did not rely solely on the guarantee as it was entitled to do but firstly took all measures possible to effect recovery by other means. In doing this, it was acting, not on its own behalf, but in the interests of the guarantor.

"In conclusion, it is pointed out that in addition to information in this report, extracted from the file, several discussions took place with the Treasurer and the Treasury during the whole course of negotiations which took place."

3 In the furtherance of its inquiries the Committee then, on April 20, this year, took evidence from Mr. K. J. Binns, Under-Treasurer of the State Treasury, together with Mr. Firth, the Assistant Under-Treasurer, and Mr. Webb, Accountant of the Finance Branch. In his evidence before the Committee Mr. Binns also submitted a prepared statement which is now reproduced for the information of Honourable Members:—

"INTRODUCTION

Your Secretary, in his letter dated April 13, 1966, stated that the Committee wished to hear evidence concerning—

'... the extent to which the Treasury was aware of the affairs of the Eastern Tasmania Fishermen's Co-operative Society prior to its failure'; and

'... the adequacy of steps taken to protect the funds that were made available to the Society'.

"In answer to the first query, I wish to state that the Treasury was fully aware of the financial position of the Society from the very beginning—from the time of its first approach to the Government for direct financial assistance. It was definitely so aware in early August, 1958.

"The Treasury gave certain advice to the Treasurer relating to the Society on a number of occasions. I instance the following occasions:—

6th August, 1958, 8th August, 1958, 23rd September, 1958, 8th January, 1959, 22nd July, 1959, 23rd March, 1960, 26th April, 1960, 2nd May, 1960, 18th May, 1960, 20th December, 1961, 16th April, 1962, 14th November, 1962, 13th February, 1963, 7th October, 1963, 2nd October, 1964, 23rd October, 1964, and 17th March, 1965.

"With regard to the adequacy of the steps taken to protect Government interests, the action taken by the Treasury fell into two categories—

- (a) direct action by the Treasury both during the operation of the Treasurer's guarantee of the Society's bank overdraft of £30,000 with the Commercial Bank of Australia Ltd. from January, 1959, to December, 1960, and subsequently; and
- (b) indirect action through its intermediary the Agricultural Bank of Tasmania whilst loans from the Board of Management of the Agricultural Bank were covered by guarantees given by the Treasurer, namely, £45,000 executed on 24th June, 1960, and £30,000 executed on 29th November, 1960

"DIRECT ACTION.

1. The Treasury insisted on the granting of the original guarantee being conditional upon the Society giving a debenture providing for—

- (a) A legal mortgage over all the real estate owned by the Society and any real estate which may subsequently be purchased by the Society.
- (b) A floating charge over all the Society's assets including stocks, raw materials and uncalled capital.
- (c) Alteration of the Society's memorandum and articles of association being subject to Treasurer's prior approval.
- (d) Variations in payments made to fishermen for fish delivered to the Society being also subject to the Treasurer's prior approval.
- (e) Regular monthly financial statements being supplied by the Society.
- (f) Audited copies of the Society's annual accounts being submitted not later than 31st August each year.
- (g) The Society at all times to employ a Secretary-Accountant approved by the Treasurer.
- (h) The Treasurer to be given power to appoint a receiver in the event of any breach of the Agreement by the Society.
- (i) Full insurance cover of all assets and property of the Society which were also required to be kept in good repair.
- (j) Penalty provisions in the event of the Treasurer being called upon under the bank guarantee.

"2. The following further arrangements were then effected by the Treasury as additional safeguards to protect the value of the Government's interest in the undertaking:—

- (a) The Minister for Agriculture was asked to arrange for the Secretary for

Agriculture to inform the Treasurer from time to time, and at least monthly, concerning the rates of first payment to fishermen which in his view should be approved having regard to possible fluctuations in market prices.

- (b) The Commercial Bank was asked to supply monthly bank statements to the Treasurer during the currency of the bank guarantee.
- (c) The Society was told to amend its Rules to enable the appointment of a Treasury Officer as a member of the Committee of Management of the Society.

"The Treasurer considered that there was no need to duplicate direct supervision on behalf of the Crown by both Departments. The interests of the Agricultural Bank and the Treasury were one and the same. The common interest of the State was well illustrated by the fact that the Treasurer was advised by both the Manager of the Agricultural Bank and the Under-Treasurer after the first guaranteed loan was made available by the Bank. Moreover, a fairly continuous system of consultation between the various parties involved was used from 1960 and onwards, e.g., the Treasurer, the Agricultural Bank of Tasmania and the Treasury.

"Finally the Government was motivated by factors other than purely financial considerations in this particular case. These matters, which were believed to be of major importance by the Government, were explained to Parliament by the Minister for Agriculture in his second reading speech on the 1960 amendment to the Fish Canneries Act. As you are aware this legislation authorised the Treasurer to guarantee the repayment of a loan of £75,000 to the Society by the Board of Management of the Agricultural Bank of Tasmania.

"3. From January, 1959, to January, 1960, infrequent financial returns were submitted by the Society to the Treasury. Regular financial reports were supplied by the Society to the Treasury from February, 1960, until August, 1960, when an officer of the Agricultural Bank was appointed to the Committee of Management of the Society.

"4. The Treasury Accountant had discussions with the Manager and Secretary-Accountant of the Society generally at monthly intervals during the operation of the Treasurer's guarantee to the Commercial Bank.

"5. Formal conferences of senior Treasury officers were conducted with representatives of the Society on—

22nd July, 1959, 2nd May, 1960, 21st January, 1963, 27th March, 1963, and 3rd July, 1963.

"In addition it is understood that the Treasurer himself had a number of conferences with representatives of the Agricultural Bank and the Society at which the Treasury was not represented.

"INDIRECT ACTION.

1. Regular monthly statements were required to be forwarded to the Treasury by the Agricultural Bank indicating the Society's financial position.

"After the Agricultural Bank guarantee became effective there was a gap in which the monthly financial statements were not received by the Treasury. However, the Agricultural Bank's Debenture required these statements to be supplied to the Agricultural Bank and the Treasury assumed this requirement was being observed. Furthermore, the Treasury continued to receive monthly certificates from the Society's Bankers. These certificates with one exception showed credit balances which were often substantial (e.g., the Society's credit balance at the end of February, 1962, was £21,340).

"The Manager of the Agricultural Bank reported to the Treasurer on 3rd August, 1962, that, with regard to the provision of reports, it had been found that, when the Bank

was first represented on the Society, the accounting system was such that accurate information could not be supplied on a monthly basis. He stated that over the past two years a new accounting system had been installed and financial statements could then be supplied monthly. The Manager undertook to furnish copies of the Society's monthly accounting returns to the Treasury as soon as they were received at the Bank.

"The Treasury received from the Agricultural Bank copies of the Society's financial statements for the months of August, 1962, September, 1962, November, 1962, December, 1962, January, 1963, February, 1963, March, 1963, April, 1963, May, 1963, June, 1963. The Bank also supplied copies of the Receipts and Payments Statements of the Receiver-Manager of the Society covering the periods 10th December, 1963-10th June, 1964, 11th June, 1964-10th December, 1964, and 11th December, 1964-26th February, 1965.

"Audited copies of the Society's Final Accounts were furnished by the Bank for the financial years 1960-61, 1961-62 and 1962-63.

"2. The Under-Treasurer wrote to the Manager of the Agricultural Bank principally seeking information on various aspects of the Society's activities on:—

14th September, 1960, 1st November, 1960, 1st December, 1960, 29th August, 1962, 25th January, 1963, 29th January, 1963, 17th July, 1963, 8th August, 1963, 11th September, 1963, 8th October, 1963, 22nd October, 1963, 18th November, 1963, 3rd February, 1964, 12th June, 1964, 24th September, 1964 and 2nd October, 1964.

"3. Reports were submitted to the Treasury by the Manager of the Agricultural Bank relating to the affairs of the Society on—

16th August, 1960, 26th October, 1960, 1st November, 1960, 23rd November, 1960, 31st October, 1962, 29th January, 1963, 25th July, 1963, 25th September, 1963, 22nd November, 1963, 12th December, 1963, 18th June, 1964, 28th September, 1964, 12th October, 1964, 15th October, 1964 and 10th March, 1965.

"4. Arising from the Commercial Bank certificates received by the Treasury between July, 1960, and August, 1962, and the financial statements received by the Treasury after that date, the Treasury Accountant had discussions from time to time with the Bank's representative on the Board and sought and obtained explanations on such points of query as arose out of either those certificates or financial statements.

"5. During November, 1963, a senior Treasury officer was present at confidential discussions between the Treasurer, the Agricultural Bank and parties who were interested in disposal of the Society's products and who might be interested in active participation in management of the Society's operations.

"CONCLUSION.

"The Treasury took all reasonable action to keep itself informed at all times concerning the financial position of the Society.

"The Treasury took all possible action that it could to protect the State's financial interests.

"The Committee is undoubtedly aware that the Government was in certain courses actuated by other than purely financial considerations. Its policy in this regard was explained in Parliament."

4 Short History.—Following the passage of the 1958 legislation the Treasurer was authorised to guarantee repayments of money borrowed by the Society to the extent of \$60,000, and at this stage in its history the Society was in fact operating upon a bank overdraft with the Commercial Bank of Australia Ltd. This prevailed from approximately January, 1959, to December, 1960, and subsequently the amending legislation, the Act of 1960, authorised the Treasurer

to increase the amount of guarantee from the original \$60,000 to \$150,000 and proposed that this amount of money should be advanced by the Agricultural Bank. This decision flowed from a refusal of the Commercial Bank of Australia Ltd. to continue the Society's overdraft even though it was guaranteed by the Government. When the original guarantee with the Commercial Bank was sought the Treasury insisted upon this guarantee being conditional upon the Society entering into a debenture which provided for some 13 safeguard clauses. These safeguard clauses were again repeated in the debenture which the Society was obliged to enter into with the Agricultural Bank following the transference of the loan and the guarantee to that Bank. These conditions will be found in the Under-Treasurer's written statement to the Committee. From the time the Society commenced its operations under the Treasury guarantee in 1960, and in 1961 and 1962, it appeared to operate at a profit. In fact this was not so. Many of the figures relating to valuation of stocks held were listed at an inflated valuation and the Committee was told by Mr. Thow that—

“Actually in the first three years after he joined the Committee of Management the Society made a profit. In 1960 the profit was shown at \$8,322, in 1961 it was \$1,182 and in 1962 it was \$15,810, and it did appear during those three years that the Society was at least holding its own, but subsequent events caused a certain amount of doubt in the Bank's mind as to the accuracy of these figures and he thought it was more or less established with a fair degree of certainty that while the accounts did show these figures as running at a profit they were, in fact, running at a loss, and the evaluation of stocks on hand had been made at a figure which was too high for their real market value.”

Mr. Blackburn, in evidence, then told the Committee that following Mr. James' appointment as Accountant—

“the question of the possible over-valuing of stocks was brought to light and it was at that stage that the Bank realised that the results that had been shown previously were possibly not the actual financial results of the Society”.

Asked what the attitude of the Bank was to this matter at this time Mr. Blackburn said that—

“When loss did become apparent there was certainly no direct action taken by the Bank in this matter. The Society had not defaulted to the Bank under the terms of its debenture arrangement, and although the Society was getting into a difficult position and the Bank was concerned, it was not in a position to take any direct action against the Society. There was also no action taken by the Bank on the basis that it had been given false figures for the first three years. It was a situation which called for concern but not real alarm at that particular stage”.

On June 25, 1962, Mr. Thow reported to the Acting Manager of the Agricultural Bank of Tasmania that considerable concern had been expressed by members of the Committee of Management of the Society in the operations of the then Managing Director, Mr. Roberts. He stated that this dissatisfaction culminated with the calling of a special meeting of the Committee of Management which was held on Friday, June 22, 1962, and that at this meeting a motion was put forward to the effect that the Committee no longer had confidence in the ability of the Managing Director to manage the affairs of the Society. However, before this original motion was put to the meeting Mr. Roberts submitted his resignation which was accepted by the Society. A further comment on this matter will be made at a later stage in the report. Following this resignation it was decided to advertise for a General Manager and to appoint the Accountant, Mr. Dinon, as Acting Manager until an appointment was made. Mr. Dinon was subsequently confirmed at a later date in the position of Manager of the Society. On January 17, 1963, Mr. Thow's next report to his Bank commenced with the statement “I wish to bring to notice that the above Society is at the present time in a serious financial predicament”, and again on the 2nd July, 1963, Mr. Thow reported “In confirmation of our conversation yesterday I wish to confirm that there has been a serious deterioration in the Society's financial position. Sales have reached a low ebb and the liquid position is such that considerable difficulty will be experienced in meeting commitments”. In evidence to the Committee Mr. Thow said that “a loss of \$46,000 was shown in 1963. The deterioration was fairly rapid and it was at that time the Society decided it could not carry on”. It will be remembered that earlier in his evidence to the Committee Mr. Thow had stated that the Society's profit in 1962 was \$15,810, and having in mind this rapid deterioration between 1962 and 1963 your Committee was anxious to ascertain the standard of management during this

period. Commenting on Mr. Dinon's qualifications for the position of Manager, Mr. Thow said that—

“ Mr. Dinon had been with the Society probably 12 or 18 months. He was a qualified accountant. His knowledge of the fishing industry was probably not great, although he had learnt quite a bit in the time he was with the Society ”.

Mr. Thow went on to say—

“ The Bank certainly could not have thought Mr. Dinon an experienced Manager, but it was a question of filling the position. Quite a number of the applicants wanted \$9,000 to \$10,000 a year, and the Society thought they were not in a position to pay that sort of money ”.

In answer to a further question, Mr. Thow said that—

“ Mr. Dinon resigned after the Receiver had taken over. The Society had a fish buyer in Melbourne, Racovolis, who was dealing with the Society on the side of frozen fish. Mr. Thow thought Dr. Dinon had in mind that the Society was going to fold up and he wanted to ensure his future prospects. He was interested in getting a position with Racovolis and he did in fact work with Racovolis for a short time after he left the Society. The Committee of Management felt that with his conflicting interests he could not give his full attention to the Society. Mr. James and Mr. Thow himself took up the matter of his relationship with Racovolis with Mr. Dinon and as a result he resigned. He had been Manager from 1962 to some time towards the end of 1963 ”.

In a further report to the Manager of the Agricultural Bank dated November 15, 1963, Mr. Thow reported that—

“ at a meeting of the Committee of Management of the Society held toward the end of October of that year consideration was given to the serious financial position which had arisen and the inability of the Society's agents to move stocks of canned fish. The Committee decided that the situation was such that it could not carry on ”.

In the same month of November, 1963, the Board of Management of the Bank, operating under its debenture, appointed a Receiver and Manager and endeavours were made to dispose of the Society's assets. No satisfactory offers were received for the installations, but Craig Mostyn & Co. Pty. Ltd., a mainland company with considerable interests in the fishing industry, agreed to provide further working capital and endeavoured to rehabilitate the Co-operative. However, this move was not successful and further attempts to dispose of the assets resulted in the sale of the depots and items of plant to SAFCOL (Tasmania) Pty. Ltd., a subsidiary of the South Australian Fishermen's Co-operative Ltd. That company agreed to take over the installations and plant at the figure owing to the Government on these items. At the date of writing this report SAFCOL (Tasmania) Pty. Ltd. are still operating these plants in Tasmania.

SUMMARY

5—(1) Your Committee wishes at this stage clearly to state that it has no desire or authority to question the policy decisions which resulted in these loans being advanced to the Society upon Government guarantee, but rather concerns itself only with the manner of financial control and what effective steps were taken by various bodies concerned to safeguard the best interests of the State once these policy decisions were taken.

(2) At the outset it should be remembered that the Commercial Bank of Australia Ltd. declined to continue the overdraft for the Society in the initial stages of the guarantee by the Government, and your Committee sought the opinion of witnesses from the Agricultural Bank of Tasmania as to the stability of the Society at this stage of their entry into the transactions. The Deputy Manager of the Agricultural Bank (Mr. Blackburn) in evidence told the Committee that at “ no stage did the Bank ever feel confident about the funds which it had invested in the Society, and it was for that reason that the Bank insisted that it should have a Government guarantee before it made the loan to the Society. Once the Bank had the Government guarantee

the Bank stood to make no loss, but never at any time were they confident that the Society was going to operate as a satisfactory going concern." The Manager of the Agricultural Bank (Mr. Rowland), when questioned on this point, said he agreed in substance with Mr. Blackburn's statement in evidence just quoted, and went on to say "At the same time he would agree with Mr. Blackburn that the Board of Management was never very happy with the situation. It was not confident of the Society's ability to run at a profit, although he would repeat the Bank at this time had never had any association with it (the Society)". Further, Mr. Rowland told the Committee that overall he would say that Mr. Blackburn's statement was correct in that the Board was rather sceptical of the possibility of the success of the Society. The Under-Treasurer's (Mr. Binns) opinion was sought in regard to these same matters. Mr. Binns was queried by the Committee in the following manner:—

"QUESTION: We have Mr. Thow's reports here in the Committee, and there is little doubt that from quite an early stage Mr. Thow's reports changed their view quite radically and showed a deal of alarm as to the possibilities of financial collapse of the Society. What I would ask you is—in view of the fact that the Bank have said these actual reports were not regularly sent to the Treasury, was there any way at all in which the Treasury was made aware of Mr. Thow's alarm as the Bank's representative and a de facto guarantor's representative?

"UNDER-TREASURER: It is difficult for me to answer your question, because to do so I must reveal the advice I gave to the Treasurer. At no stage did the Treasury ever take a very sanguine view as to the prospects of the Society. I feel I cannot say more without disclosing the advice I gave to the Treasurer. We were not surprised—shall I put it that way. The Treasury on a number of occasions viewed the matter in such a light that it felt bound to advise the Treasurer in a certain way. I will go back to August 6, 1958. Now it is true that for a period the Society appeared to be doing rather better than subsequent events disclosed. I think one must read the whole of the Treasury file, Mr. Chairman, but I can only repeat that we were alerted by the Bank when the Bank became increasingly alarmed.

"QUESTION: In view of this not very sanguine view of the situation at that stage did you think . . .

"UNDER-TREASURER: I am worried about the words 'at that stage'.

"QUESTION: Let me remove that and say—In view of the not very sanguine view held by the Treasury . . .

"UNDER-TREASURER: The Treasury always had very considerable misgivings. Now I feel in even going so far as that I have perhaps inevitably disclosed some of the nature of the advice I gave to the Minister."

In view of the above evidence it was clear to the Committee that grave misgivings were entertained by both the Board of the Agricultural Bank and the Treasury as to the possible success of this particular venture.

(3) The Committee was then interested to learn what representation had existed on the Committee of Management of the Society in view of the moneys advanced by the Agricultural Bank and guaranteed by the Treasurer, and was informed that although Mr. Thow was appointed to the Committee of Management of the Society in 1960, representing the Agricultural Bank, the Treasury was at no time directly represented on the governing body of the Society.

(4) Your Committee is of the opinion that one of the primary causes of failure of the Society was lack of good management and the operation of good business principles. It is quite clear that two successive Managers of the Society resigned their positions following expressions of dissatisfaction by the Committee of Management, and to this end various witnesses were questioned as to their opinion of the management of the Society. Regarding the reference to inexperienced management in the Bank's written statement to the Committee, Mr. Thow said "It had to take into account not only the Manager and those on the staff responsible for the administration but also the Committee of Management. All of them were people who were engaged in the fishing industry, most of them all their lives, and they knew nothing on the management or marketing sides, which

were very important to a company of this nature. The inexperience was virtually from top to bottom." In the written submission submitted to the Committee by Mr. Rowland there is a section which reads, "In a memorandum dated 25th September, 1963, the Treasurer was informed of action which had been taken by the Society to effect economies and endeavours made to improve this position." In this same communication comments were made of steps which could be taken to protect the Government's investment and the appropriate paragraph of this communication is quoted hereunder:—

"As regards steps which can be taken to protect the Government's investment I consider that these depend upon whether the Society is to continue operating or not. If it is to continue there is little that can be done other than to ensure that costs are cut to a minimum and that management is efficient".

On the same question Mr. Binns, the Under-Treasurer, was asked certain questions by the Committee, and this section of the transcript is here reproduced:—

"QUESTION: Did the Treasury at any stage ever become concerned about the management of the Co-operative?

"UNDER-TREASURER: Yes. We always had considerable misgivings.

"QUESTION: Always—from 1958?

UNDER-TREASURER: Always, yes—concerning the Manager (Mr. Roberts) in particular.

"QUESTION: Were any instructions given by the Treasury to Mr. Thow to take any action in that regard?

"UNDER-TREASURER: Not that I can recall. We made it very clear to the Bank that we did have these misgivings.

"QUESTION: To your knowledge the Bank took no part in that regard?

"UNDER-TREASURER: I believe from memory that the Board in many respects sought from time to time to restrain Mr. Roberts. We suspected, but in saying this I would not wish, of course, to be unfair to Mr. Roberts, that he was running it himself and then obtaining confirmation of some of his actions by the Board at a subsequent meeting, and we felt that in part the problems stemmed from the personality of Mr. Roberts himself. The Bank, I think, were of a common mind in the matter. I believe this was also the view of Mr. Rowland, and we were in agreement.

"QUESTION: You didn't specifically pursue the replacement of Mr. Roberts?

"UNDER-TREASURER: No.

(5) Your Committee was next concerned to learn the degree of effectiveness of representation upon the Society. Regarding a representative of the guarantor on the Committee of Management, Mr. Blackburn told the Committee "that Mr. Thow was the representative of the guarantor as well as the Bank. There was only one person". Further, Mr. Thow pointed out "that after all the guarantor and the lender were looking after the same interests. It was Government money and whether it was the Bank's or the guarantor's responsibility it was out of the same pocket. He could not agree that the representative of the Bank was not going to have the same interest as a representative of the guarantor. He would say that the Bank's representative on the Society would be looking at it on the basis that a loan of £75,000 had been made and everything possible had to be done to see that no loss was incurred. The question of whether the money was guaranteed did not cross their minds. It was money that was advanced and they had to make every endeavour to protect it so the interests of both parties were served." Mr. Rowland stated to the Committee "that the Board regarded its representative as a representative of the Government as well as the Bank." He further stated that his Board "did in fact consider that Mr. Thow was acting for both parties, particularly after the Treasury advised that the Treasurer did not require a representative. Then, of course, the Bank could take no other view." The Under-Treasurer (Mr. Binns) was asked did the Treasury feel that Mr. Thow was their representative on the Society's Board,

to which Mr. Binns replied "I am afraid that is a question to which I cannot in truth give a categorical answer of 'yes' or 'no'." He further went on to state "Mr. Thow was in no way directly beholden to the Treasury, and therefore he could scarcely be deemed to be our representative in any narrow sense".

(6) It should be pointed out at this stage that your Committee in no way questions Mr. Thow's sincerity or conscientiousness as the Bank's representative on the Committee of Management of the Society. However, there are two factors which should be taken into consideration, the first being that the Committee was repeatedly informed in evidence that the Agricultural Bank considered themselves to be at all times safeguarded by the guarantee given by the Treasury, and, second, that Mr. Thow in his normal capacity is Senior Executive Officer to the Agricultural Bank and consequently his responsibility is in the executive field rather than the financial. Further, because of certain material contained in a report by Mr. Thow to his principals on the meeting of the Society that dealt with the resignation of Mr. Roberts from the position of Managing Director, your Committee feels that Mr. Thow may have been in some doubt as to his true position on this Committee of Management. At this meeting a motion was put forward to the effect that the Committee no longer had confidence in the ability of the Managing Director to manage the affairs of the Society. Mr. Thow reports that he suggested that a sub-committee should be set up to investigate the affairs of the Society with particular reference to the ability of the Managing Director to manage its affairs. He goes on to say "I informed the Chairman that I did not propose to move an amendment to this effect, but was merely putting this proposal forward as a suggestion, and if any member desired to take it from there he could do so. An amendment to the motion was subsequently moved and seconded and this opened up discussion considerably." Mr. Thow further reports that a motion that a sub-committee investigate was put to the meeting and lost by 3 votes to 4, and he says before the original motion was put Mr. Roberts submitted his resignation as Managing Director, but made it quite clear he was still a member of the Committee of Management. A motion that the resignation be accepted was carried unanimously. Then Mr. Thow informed his superiors—"I abstained from voting on both occasions." This reluctance to take part in the affairs of the Society, clearly shown in Mr. Thow's expressed advice to the Chairman that he did not intend to move his own amendment, coupled with his abstention from voting on both these vital matters of managerial control, leads your Committee to the opinion that Mr. Thow considered his role on behalf of his Bank to be a "watching brief" rather than an active participation in securing efficient management for the Society. In the opinion of your Committee Mr. Thow's position was such that he could not have done otherwise.

(7) Your Committee's attention was next directed to the question of the degree of liaison between the Agricultural Bank and the Treasury, and evidence by Mr. Rowland and Mr. Thow was received as follows:—

"Mr. Rowland said that the Treasury did not ask for reports at specified intervals, nor did they request at any time that Mr. Thow's reports be automatically passed to them. There was an arrangement, however, that after a better accounting system was adopted by the Society periodical profit and loss statements should be forwarded to the Treasury. Those monthly statements were all sent on to the Treasury, but some were rather tardy because of the difficulty of getting them from the Society. It was correct that until 1962 when the new accounting system was instituted there were no regular reports to the Treasury. The Treasury did not ask for them and the Bank did not send them.

"Mr. Thow said that at no time did the Treasury ask him to submit special reports, but the Treasury did at various times get on to him by telephone and a couple of time he was in the Treasury office to answer certain questions. There was no arrangement for a copy of his reports to be forwarded for the information of the Treasury."

Mr. Blackburn, when queried on this question, stated:—

"Mr. Blackburn said the reports Mr. Thow made to the Bank were only transmitted to the Treasury when it was felt that the Treasury should be advised of them, but not regularly. The import of adverse reports was forwarded to the Treasurer. This did not happen at specified regular intervals, but on several occasions either written reports were made to the Minister or the Treasurer or verbal discussions were held by the Manager of the Agricultural Bank with the Premier and the Minister on the various aspects of the Society's affairs. It was only in the last year of its operations that it became apparent that

the Society was running into these difficulties, and prior to that time the Treasury were supplied with the monthly statements which were being supplied by the Society, but not Mr. Thow's reports, unless they contained something which the Manager or the Board thought was of such a serious nature that the Treasurer should be informed."

This matter was further pursued with officers of the Treasury, who stated:—

"QUESTION: Your first mention of financial statements was in August 1962 on page 5.

"WITNESS: There is a mention of them on page 4 under 3.

"QUESTION: That says "infrequent". What action did the Treasury take when they were not getting these regular monthly financial returns?

"WITNESS: The position was that, as you will recall, in the early years the Society's accounts as audited showed profits. At the same time we did have considerable difficulty obtaining monthly accounts from the Society. On many occasions, in fact almost monthly I would say, some months even more frequent than that, I had occasion to either personally visit or telephone the Secretary-Accountant of the Society who at that time was a chap by the name of Stubbings. His ability to produce monthly accounts was non-existent. Shall we say we did get monthly accounts, but at times I had serious doubts about them and I took up the matter with him because they did not appear to be satisfactory. At the same time the Society from a cash point of view was not getting in any worse situation. However, we did get some accounts from Stubbings."

Examination of the written submission of Mr. Binns, the Under-Treasurer, will show his statement that "formal conferences of senior Treasury officers were conducted with representatives of the Society on 22nd July, 1959, 2nd May, 1960, 21st January, 1963, 27th March, 1963, and 3rd July, 1963". It should be noted that the first two formal conferences in 1959 and 1960 were both around the time of respective legislations in the Parliament, and then there does not appear to have been any formal conference between Treasury officers and the Society until early in 1963. This fact is alarming in view of the considerable down-slide in the affairs of the Society during the years of 1961 and 1962. In fairness to the Treasury it should be stated that this did not appear to be so in view of the balance sheets submitted for those years, but a close examination of the position would have revealed that the Society were indeed in some measure of difficulty.

(8) Your Committee feels that evidence indicated a considerable breakdown in liaison between the Treasury, the Agricultural Bank and the Society, at least until such time as the position became alarming, and considers that the lack of interest exhibited by the Treasury in Mr. Thow's reports submitted to his superiors would warrant considerable doubt as to whether the Treasury actually considered this matter as one in which they should have exercised direct surveillance in view of the large sums involved in the guarantee.

(9) As previously stated, the Fish Canneries Act was introduced by the then Minister for Fisheries in the House of Assembly in 1958 and was subsequently sent to the Legislative Council. While in the Legislative Council this Bill was amended in several ways, in particular the inclusion of sub-clauses 4 and 5 in Clause 7.

"7.—(1) For the purpose of assisting the Society to engage in the canning and processing of fish and the marketing of fresh, canned, and processed fish, the Treasurer, subject to this section, may, on behalf of the State, guarantee the repayment of any moneys proposed to be borrowed by the Society upon overdraft of its bank account and the payment of the interest and other bank charges payable in respect thereof.

"(2) The Treasurer shall not, in pursuance of this section, guarantee the repayment of any principal moneys in excess of the sum of thirty thousand pounds or the payment of interest on any principal moneys in excess of that sum.

"(3) Before a guarantee is given by the Treasurer under this section, the Society shall give to the Treasurer such security as the Treasurer may require and shall execute all such instruments as may be necessary for that purpose.

“(4) Within six months of the giving a guarantee under this section the Society shall, if so directed by the Treasurer, amend the rules of the Society so as to provide that during the period while the guarantee is in force or any moneys remain due and unpaid by the Society to the Minister in accordance with this Act, whichever is the longer period, some person appointed by the Treasurer, being an officer of the Treasury, shall be a member of the committee of management or other governing body of the Society.

“(5) Notwithstanding anything in the *Co-operative Industrial Societies Act 1928* or in the rules of the Society or any rule of law to the contrary, while his appointment continues in force, a person appointed by the Minister under subsection (4) of this section shall, by force of this section and without further authority, be deemed for all purposes to be a member of the committee of management or other governing body of the Society and to be entitled to all the rights and privileges, and to exercise all the powers and authorities, of a member thereof, notwithstanding any lack of qualification or any disqualification that, but for this subsection, would arise by virtue of any law or instrument.

“(6) If the Treasurer is called upon to make a payment to a bank in consequence of giving a guarantee under this section the Treasurer shall, upon demand of the bank and without any authority other than this section, make that payment to the bank out of the Consolidated Revenue (which to the necessary extent, is appropriated accordingly).

“(7) The Society shall, upon demand being made on it by the Treasurer, pay to the Treasurer any amount paid to a bank by the Treasurer under this section, together with interest thereon at the rate of five and one-half per cent per annum calculated from the day of payment by the Treasurer to the bank until repayment to him by the Society.

“(8) All moneys received by the Treasurer from the Society under subsection (7) of this section shall be paid by the Treasurer into the Consolidated Revenue.”

The amended sub-clauses (4) and (5) were subsequently accepted by the House of Assembly. These facts indicate the clear intent of Parliament to have a Treasury officer on the Board of such Society.

(10) Sub-clause (4) of Clause 7 of the Act states that within six months of the giving of a guarantee the Society shall alter its rules, if so directed by the Treasurer, to provide for the appointment by the Treasurer of a Treasury officer to the Committee of Management or other governing body of the Society. Sub-clause 5 of Clause 7 makes quite clear that this Treasury officer, if appointed under the discretionary powers conferred upon the Treasury by sub-clause 4, would be a full member of such committee or board with all rights and privileges and able to exercise all the powers and authority of a member of the committee or board. However in view of the distinct wording “being an officer of the Treasury” your Committee questions whether Mr. Thow was in fact correctly empowered under the Act to sit and vote upon the committee of management of the Society. It is felt that under this provision of the Act, as, “an officer of the Treasury” was not so appointed, Mr. Thow’s position was established by a privately agreed condition of the debenture between the Bank and the Society subsequent to the loan being made by the Bank and this appointment was not made under any power conferred by the Act. Your Committee is therefore forced to the opinion that a representative of the Treasury was not in fact at any time during the currency of the guarantee appointed to oversee the interests of the guarantor.

CONCLUSIONS

In his first report to the Bank dated 14.10.60 Mr. Thow said “referring to the Society’s growth, it is pointed out that sales have increased from £268,000 in 1958-59 to £409,000 in 1959-60, an increase of 52%. Expenses rose proportionately and stocks on hand increased by 122% from £40,352 to £89,673”.

In a further report dated 25th June, 1962, and dealing with the motion of no-confidence in the then manager, Mr. Thow stated “from the discussion that followed, it appeared obvious that members (of the Committee of Management) desired the motion to go through with as little embarrassment as possible. Matters referred to were, considerable comments from members generally in their lack of confidence in Mr. Roberts, *the high level of stocks against the cash position* and the purchase of an electric typewriter without authority.” From this report it is obvious to

your Committee, that at this stage in mid-1962 some members at least, if not all, of the Committee of Management were concerned about the effect upon the Society's finances of the high level of stocks being held, however no further mention is made by Mr. Thow of this matter, and it must be assumed that no action was taken to correct this position.

Again on the 17th January, 1963, Mr. Thow in reporting to his principles that the Society was then in a serious financial predicament and that cheques had been drawn to an extent where the overdraft balance with the trading bank would be approximately £20,000 against their overdraft limit of £12,000 commented upon the stock position that unsold crayfish to the value of approximately £20,000 were held in freezers and that sales of canned goods had not reached expectations with the result that considerable stocks were still held. He advised that the value of canned fish and frozen fish then held by the Society was in the vicinity of £95,000. As a result of this position Mr. Thow states that he was obliged on behalf of the Society to give an assurance to the Assistant Manager of the Bank of New South Wales that no further cheques would be drawn until the Society's account was within its limit.

Reporting that there had been a serious deterioration in the Society's financial position and that considerable difficulty would be experienced in meeting commitments, Mr. Thow, on July 2, 1963, gave as one of the reasons for this position being reached, "the excessive build up of stocks some two years ago. The Society had never fully recovered from this".

All these facts would justify the opinion that excessive stocks were held throughout most of the Society's history from 1959 until the final collapse in 1964.

In evidence to the Committee Mr. Thow stated referring to the profit and loss accounts of the Society in the years 1960-61 and 62, "the valuation of stocks on hand had been made at a figure which was too high for their real market value." Mr. Blackburn also told the Committee that "the later financial statements showed that the stocks were quite considerably over valued. For that reason these profits shown in the earlier years should have been shown as losses."

Mr. Blackburn in evidence further advised the Committee that "following Mr. James appointment the question of the possible over-valuing of stocks was brought to light and it was at that stage that the Bank realised that the results that had been shown previously were possibly not the actual financial results of the Society."

Further questioned on this matter Mr. Thow stated "consequently, instead of selling the goods to make a profit, those goods were still hanging fire in the store and subsequently most of that stock was sold at a considerable loss. The Society gradually drifted downhill from that stage."

1 Your Committee in trying to establish the reasons for the failure of the Society concluded that a great deal of its financial problems were caused by the carrying of excessive quantities of stock in hand and by its unrealistic valuation.

The Agricultural Bank's statement in writing submitted to this Committee gave various reasons to which the Society's failure would be attributed, in the opinion of the Bank (see statement submitted by Mr. Blackburn). Two of these reasons were insufficient capital being subscribed by members and failure of a big proportion of members to give full support to their Society.

On the question of capital subscription by members of the Society Mr. Blackburn told the Committee "the nett result was that the fishermen themselves lost all the capital they had subscribed which was something to the extent of £20,000 odd".

From this statement it would seem that the total sum subscribed by the fishermen to their Society was in the vicinity of £20,000, and while this does not appear very large in view of the desperate need of the Society for working capital, regard must be had for the fact that the general dissatisfaction with the standard of management expressed by the member fishermen may have had considerable bearing upon their willingness to make greater cash subscriptions.

It would appear that there was an unfortunate lack of support given to the Society by many of the fishermen insofar as their willingness to sell their fish to the Society was concerned. In seeking reasons for this lack of trading loyalty your Committee took note of the fact

that Mr. Thow reported to the Bank on October 20, 1960, that he was present at a meeting attended by fish buyers in Southern Tasmania to discuss the price to be paid for Crayfish. He went on to say that some buyers had already offered 2s. 9d. and 2s. 10d. per lb. and the meeting was called in an endeavour to bring about stability in price. Unfortunately the buyers who had offered the prices referred to were not present, and the indication was that they intended to meet, or go beyond, the prices of other buyers in an endeavour to increase their operations. Having listed the names of those buyers who were present the report goes on to say "it was finally agreed that the following starting prices should apply:—

Eastern Tasmanian Fishermen's Co-operative—2s. 8d.

Other buyers—2s. 9d."

2 Your Committee concluded that insufficient working capital was subscribed by members of the Society to assure its success in the early stages of its operation, but that later contributions may have been inhibited by dissatisfaction with the standard of management and financial control: fishermen members of the Society did not extend the degree of loyalty to the Society in the sale of their products that may have been expected. However, your Committee is at a loss to understand why the Society as early as 1960 was prepared to enter into a price fixing agreement with other buyers which must have operated at a distinct disadvantage to the affairs of the Society.

3 From the evidence previously quoted at length in this report your Committee has concluded that the primary cause of failure of the Society was inexperience and lack of concern at the managerial level. This fact is apparent from the Society's experience with its managers, both of whom resigned following expressions of dissatisfaction by members of the committee of management. There were many unsatisfactory aspects evident in the operations of both managers together with a clearly established lack of application of sound business principles.

4 Your Committee feels that no blame is attachable to Mr. Thow in his capacity as representative of the Agricultural Bank on the committee of management of the Society. It would appear that Mr. Thow's level of activity must to some degree have been affected by the knowledge that the Agricultural Bank, whose representative he was, stood to lose nothing because of the provisions of the Treasurer's guarantee.

5 An examination of the position of the Agricultural Bank in this matter has led your Committee to the conclusion that the Bank, having regard to its guarantee by the Treasurer, took all reasonable steps to keep itself informed of the progressive affairs of the Society.

6 Your Committee is of the opinion that, in view of the knowledge of the state of the Society's affairs conveyed to the Agricultural Bank by Mr. Thow from time to time there was an unfortunate lack of liaison between this body and the Treasury on the vital transactions relating to the Society, particularly during the period 1961-62 when it is evident the Society were getting into an extremely difficult financial position. Having regard to its own position in this matter, the Agricultural Bank may have felt they were taking reasonable steps to liaise with the Treasury. However, it would seem to your Committee that stronger and more definite action could perhaps have been taken by the Bank to arouse the concern of the Treasury at this situation, *but it appears quite clear that the Treasury did not seek these reports from the Bank, nor did it exhibit as high a degree of interest in the affairs of the Society as may have been expected from a department representing the guarantor in a financial transaction of this nature.*

In his written statement submitted to the Committee, the Under-Treasurer Mr. K. J. Binns stated that under the terms imposed upon the Society during the Treasurer's guarantee of the Bank overdraft with the Commercial Bank of Australia the Society was told to amend its rules to enable the appointment of a *Treasury Officer* as a member of the Committee of Management of the Society, and that this condition was re-imposed upon the Society as part of the debenture taken with the Agricultural Bank during the currency of the Treasurer's guarantee this action appears to be in accordance with the provisions of Clause 7; Sub-clause 4 of the Fish Canneries Act 1958. Having taken this initial step the Treasury did not then proceed to appoint a Treasury Officer to the Committee of Management of the Society.

The Under-Treasurer's statement goes on to say that . . .

"As you are aware, the Treasury was at no stage represented on the Governing body of the Society. No appointment was made initially because: first, it was considered that an undue measure of responsibility for overlooking the financial operations of the Society

would probably be placed on the Treasury Officer; secondly, this would have the effect of relieving the management of the full measure of responsibility which it should assume; and thirdly, the Society should be free to conduct and manage its own affairs to the best of its ability. However, the Society was required to alter its Rules to enable an appropriate Departmental officer to be appointed in case any adverse trends become apparent on examination of the monthly accounting returns from the Society. During the period the Treasurer's guarantee to the Commercial Bank was in force, the audited final accounts of the Society revealed favourable operation results.

"On August 11, 1960, the Chairman of the Society requested the nomination of a Treasury officer as a representative to the Committee of Management. The Treasurer replied on August 19, 1960, that he was not prepared to accede to the Society's application because, in view of the recent appointment of an officer of the Agricultural Bank as a Director of the Society, he felt that it was unnecessary for another Government representative to be on the Committee."

It will be noted from the above statement that the Under-Treasurer puts forward various reasons why the Treasury did not appoint an appropriate officer, and your Committee was perturbed to note that the first reason given for not taking this action was that, "an undue measure of responsibility for oversighting the financial operations of the Society would probably be placed on the Treasury Officer". Having regard for the fact that a policy decision had been taken by the Government to guarantee the advance of a large sum of money to the Society, your Committee is at a loss to understand the attitude of the Treasury in considering that there *could be an undue measure* of responsibility for oversighting the expenditure of these moneys, placed upon the Treasury. *It is felt that this policy decision having been taken, and in view of the clearly expressed doubts of the lending authority regarding the successful operation of this enterprise, every endeavour should have been made by the Treasury to provide a full and responsible oversight of the expenditure of these moneys.* The statement goes on to say "however, the Society was required to alter its rules to enable an appropriate departmental officer to be appointed in case any adverse trends become apparent on examination of the monthly accounting returns from the Society". This action was not taken, even when adverse trends in the Society's operations became apparent. The lack of action by the Treasury in this regard becomes even more difficult to understand when it is noted that quite early in the currency of the guarantee, August 11, 1960, the Chairman of the Society *requested* the nomination of a *Treasury Officer* as a representative to the Committee of Management. It is stated that this request was refused in view of the recent appointment of an Officer of the Agricultural Bank as a Director of the Society. Your Committee has previously pointed out that it does not consider the Officer of the Agricultural Bank to have been appointed within the provisions of Clause 7; Sub-clause 4 of the Act, and is therefore unable to accept this appointment as a valid excuse, for the refusal of this request, or the failure of the Treasury to carry out its clear duty to safeguard the interests of the Guarantor by the appointment of a Treasury Officer to the Committee of Management. Your Committee is of the opinion that there was a lamentable lack of interest in the affairs of the Society by the Treasury during the currency of this guarantee.

7 From the evidence before it your Committee concludes that a responsible officer of the Treasury should have been appointed to the Committee of Management of the Society. It is of the opinion that this was the intention of Parliament, and while it is difficult to determine the exact effect that such an appointment may have had upon the operations of the Society, it is reasonable to speculate that a Treasury Officer with the necessary qualifications would most certainly have detected some of the more undesirable trends in the Society's financial operations at an earlier stage.

RECOMMENDATION

Your Committee recommends that in any future comparable transaction involving a Treasurer's Guarantee, it be explicit in the enabling legislation that a Senior Officer of the State Treasury Department be appointed to the Committee of Management or Board of such organisation to whom the guarantee is being extended.

W. H. FRASER, Chairman.

Ministerial Party Room,
House of Assembly,
May 24, 1966.