**SOUTH AUSTRALIAN MEAT CORPORATION ACT AMENDMENT BILL 1981**

**Legislative Assembly, 18 Frbruary 1981, pages 2953-5**

Second reading

**The Hon. W .E . CHAPMAN (Minister of Agriculture)** obtained leave and introduced a Bill for an Act to amend the South Australian Meat Corporation Act, 1936-1980. Read a first time.

The Hon. W .E . CHAPMAN: I move: That this Bill be now read a second time.

Its purpose is to bring about a restructuring of the finances of the South Australian Meat Corporation. On 5 June 1980, I announced to this House the appointment of Mr. G .J . Inns, Director-General, Premier’s Department, as Chairman of the South Australian Meat Corporation, to take effect from 1 July 1980. I told members that Mr. Inns would be seconded from his full-time position for an initial period of six months to undertake a special assignment in finalising a corporate plan and proposing a financial restructuring of the corporation. In particular, I said that the project would cover the following specific terms of reference:

(a) effect a financial restructuring of the corporation;

(b) develop and put into effect a corporate plan for the future role of Samcor, taking into account the recently enacted meat hygiene legislation;

(c) arrange for the disposal of land surplus to the requirements of Samcor;

(d) propose a new corporate structure for the corporation’s future administration; and

(e) restructure the Port Lincoln works.

I went on to say:

I appreciate that this is a formidable task but it is one that we undertook to take on. I believe that I know what is required in order to achieve results and still bring the committed service to the consuming public and the producers of this State, and, at the same time, reduce the millstone this State has suffered for too many years from the losses surrounding this service works.

I am pleased to announce that the first three of these terms of reference have been completed, and work is progressing in the remaining two areas of the project.

Mr. Inns has formally reported to me on the proposed corporate plan for Samcor, on a proposal for a complete restructuring of the corporation’s finances, including the disposal of surplus assets, and on a range of alternative options to determine the extent of the corporation’s future role. I will outline the decisions which the Government has taken and, for the general information of members, I will table an overview of the corporate plan. It adequately covers the essential objectives for the operations of the corporation for the next three years, and I am aware of the interest shown by the member for Salisbury in relation to that particular overview plan.

The Government examined a number of options for the future of the Gepps Cross abattoir, which is operated by the South Australian Meat Corporation. It must now be acknowledged that by any commercial test Samcor cannot trade out of its present financial difficulties, and were it a privately owned abattoir it would undoubtedly be placed in a receiver’s hands to be either closed down, sold, or otherwise dealt with. However, because it is believed that in this State there is a responsibility to maintain a significant service abattoir, it has been decided by the Government to continue Gepps Cross as a statutory authority, but in a restructured form.

The South Australian Meat Corporation was established by the previous Government just over eight years ago, and for most of that time the Gepps Cross works has operated at a loss. As at the end of the current financial year those losses have accumulated to just over $20 000 000, taking into account the extraordinary write-down in the value of assets last year. This accumulated deficit, coupled with extensive capital borrowings for expansion and plant improvement with the assistance of substantial Government guarantees, now means that the corporation’s debts amount to $28 520 000. Its annual interest burden is just over $2 700 000.

There are a number of reasons why this situation has occurred. Some reflect on the previous Government’s handling of the problem. Sufficient for me to say now, however, that the high cost of debt servicing, coupled with high depreciation charges, a decline of Samcor’s market share, and adverse trends in the industry brought about by drought and restocking all mean that in the foreseeable future and in the present circumstances the corporation will be unable to generate sufficient operating profits to overcome the effect of these factors.

However, it is some consolation to learn from the 1979­ 80 annual report of the corporation that it has been able that year to produce an operating profit of some $1 100 000. That is, of course, before the payment of interest and depreciation, which change the profit situation into one of substantial loss. However, what this indicates is that, if some substantial relief is provided to Samcor from its interest and depreciation costs, net profits are achievable in times of reasonable seasonal conditions.

The Government has decided that some bold steps must be taken to place Samcor in a position which will give the corporation sufficient incentive (free from the debt burden) to operate in the future as an efficient service abattoir and to compete on a reasonable, but not favoured, commercial basis with operators in the private sector. The meat hygiene legislation has laid the foundation for that to happen. As an additional part of the programme to achieve this objective, the Government has determined that Samcor should not be required to provide at its own cost an open-ended service. It will refer to this aspect further in a moment.

The corporate plan, which has been endorsed by the Government and a summary of which is tabled, underlines the new commercial approach that Samcor will be required to adopt. Objectives have been established for the key operational areas of the corporation’s activities and, although there are a number of key external factors which are outside Samcor’s control, operating profits, at least of the level experienced last year, have been determined as an achievable target.

A new approach to marketing, by assuming a more positive attitude to customer requirements, is already being developed at Gepps Cross, and a marketing consultant has been engaged for a short period to assist the development of this objective. A rationalisation of the production areas within the works is taking place, and proposals to improve personnel relations and control administrative overheads all form part of the detailed corporate plan.

But central to all of the corporate restructuring is the development of a sound financial base for Samcor, and the purpose of this Bill is to bring that about. As I commented earlier, the two single burdening factors that have militated against a profitable operation at Gepps Cross have been high interest and depreciation commitments.

In the corporation’s 1978-79 annual report it was indicated that a decision had been taken by the board to write down the corporation’s assets to appropriate values. That was done during the financial year just completed and, with the approval of the corporation’s auditors, the 1979-80 financial accounts now reflect an agreed value of the assets at Gepps Cross that can be used. The full description and extent of that asset write-down is contained in the latest annual report.

It is the alleviation of the interest burden that necessitates the legislation currently before the House. In adopting a commercial role for Samcor, the Government believes that its financial accounts should be structured accordingly. If Samcor was a privately owned abattoir, its capital structure would reflect a reasonably high ratio of equity funding in relation to borrowings.

At present, Samcor’s capital structure is made up entirely of borrowed funds. The purpose of this Bill is to relieve Samcor of the direct liability for servicing a substantial proportion of its accrued liabilities so as to reflect an appropriate ratio of debt to equity in the corporation’s capital structure. The objectives are twofold: (a) to give Samcor the incentive to perform without the burden of capital and interest being reflected in its accounts in the annual loss or profit; and (b) to enable that performance to be assessed without the need to make allowance for financial encumbrances incurred over a long period by previous boards. Having regard to the capital structure of a number of private companies in the industry, the Government believes that a ratio of equity to borrowings for Samcor would be about 4 to 1.

It is intended to adopt this gearing ratio, which will require the Government to take direct responsibility for approximately $2 500 000 of Samcor’s annual interest burden. Of course, the Government has always had indirect responsibility for this debt by virtue of the Treasurer’s formal guarantee and the fact that Samcor is a statutory authority. Nevertheless, under this plan the cost to Government would be an additional direct payment of about $950 000 per annum, because the $1 550 000 being paid to the corporation for maintenance, depreciation and inspection charges for the northern works would be discontinued.

To effect these transactions, the Samcor Act Amendment Bill proposes to establish a Samcor Deficit Fund which, in addition to the functions already described, will receive amounts paid from the future profits of Samcor calculated according to a notional rate of company tax, and such further amounts agreed between the Minister and the corporation which would be related to a dividend it would pay on share capital if it were a commercial enterprise. From this fund payments will be made to Samcor for the continued maintenance of any slaughtering facility that the Government requires to be available to service excessive demands during peak seasonal conditions. The Government subscribes to the view that, if Samcor is to be given a commercial charter, it cannot be expected to provide an open-ended service by maintaining facilities sufficient to cater for abnormal peaks in supply of animals for slaughter.

At the same time, the Government believes it would be inadvisable at this time to contemplate demolishing or terminating the maintenance of a substantial portion of the facilities at Gepps Cross, and I refer to the northern works in particular. For the next three years, therefore, the Government will assume the responsibility for the cost of maintaining a significant portion of the facilities contained in the northern works by paying to the corporation, through the Samcor Deficit Fund, the sum of $250 000 per annum for each of the next three years as a major share in that maintenance cost.

One further aspect of the restructuring proposal is the disposal of assets that are now surplus to Samcor’s requirements. One such redundant asset that has been identified is 164 hectares of land situated to the east of Main North Road. The Government has accepted a proposal that the land be transferred to the Department of Lands to determine, with the approval of Cabinet, its future use and to supervise its subsequent disposal.

In return for the transfer of the land, the Government will pay to Samcor $4 000 000 in working capital which, in the financial accounts of the corporation, will be regarded as consideration for sale of an existing asset. An appropriation of this amount was made from Loan Account to Deposit Account in June 1980. This payment, therefore, will have no effect on the 1980-81 Budget. It is intended that these new financial arrangements will be effective from the beginning of the current financial year.

The package means relief for Samcor and an opportunity for the corporation to prove itself in a competitive climate, operating on a proper commercial basis. The decision should have been taken long ago in a situation for which previous Governments must bear considerable criticism.

I seek leave to have the explanation of clauses inserted in Hansard without my reading it. Leave granted.

Explanation of Clauses

Clause 1 is formal. Clause 2 provides that the amending Act will be retrospective to 1 July 1980. Clause 3 places the corporation under the control and direction of the Minister.

Clause 4 enacts new sections 54 and 55 of the principal Act. New Section 54 enables the Minister to assume liabilities of the corporation. New section 55 establishes a fund at the Treasury, to be administered by the Minister, and to be known as the Samcor Deficit Fund. The fund is to consist of moneys provided by Parliament and moneys paid into the fund by the corporation. These latter moneys are to consist of the amount by which the corporation benefits by reason of its exemption from company tax, and any remaining balance of profits. The Minister is required to pay out of the fund amounts required to satisfy liabilities assumed by him under new section 54, and amounts required to reimburse the corporation for costs incurred or to be incurred by it in maintaining plant and machinery, at the direction of the Minister, plant and equipment in excess of what would be required if the corporation functioned solely on a commercial basis. Any surplus in the fund is to be paid into general revenue.

The Hon. D .J. HOPGOOD secured the adjournment of the debate.