

JOINT COMMITTEE OF PUBLIC ACCOUNTS



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S E N A T E

I N T E R I M R E P O R T

U P O N

THE PURCHASE OF SAW MILLS AND TIMBER AREAS

in Queensland.

1920.

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA.

INTERIM REPORT

FROM THE

JOINT COMMITTEE OF PUBLIC ACCOUNTS

UPON

THE PURCHASE OF SAW MILLS AND TIMBER AREAS,

in Queensland.

**MEMBERS OF THE COMMONWEALTH PARLIAMENTARY JOINT COMMITTEE OF
PUBLIC ACCOUNTS.**

(Third Committee.)

Honorable James Mackinnon Fowler, M.P., Chairman.

James Edward Fenton, Esquire, M.P., Vice-Chairman.

Senate.

1. Senator Thomas William Crawford
2. Senator the Honorable John Earle.
3. Senator Allan MacDougall.
4. Senator Lt.-Col. William Kinsey
Belton, C.B.E., V.D.,
5. Senator Richard Bussacott
7. Senator John Dunlop Millen.

House of Representatives.

- James Garfield Bayley, Esquire, M.P.
William Montgomerie Fleming, Esquire,
M.P.,
John Henry Prowse, Esquire, M.P.,
John Edward West, Esquire, M.P.,
6. Matthew Charlton, Esquire, M.P.

1 & 2. Resigned 28th July, 1920.

3. Retired 30th June, 1920.

4, 5 & 7. Appointed 29th July, 1920.

6. Appointed 1st July, 1920.

INTERIM REPORT
OF THE
JOINT COMMITTEE OF PUBLIC ACCOUNTS

Under the "Committee of Public Accounts
Act 1913-1920" upon

THE PURCHASE OF SAW MILLS AND TIMBER AREAS.

INTRODUCTORY.

In pursuance of the Repatriation policy of the Commonwealth Government a Bill to make provision for homes for Australian soldiers and dependants of Australian soldiers was introduced into the Senate in December, 1918. The Bill passed through both Houses of Parliament, and was assented to on 25th December, 1918.

By this measure - the War Service Homes Act - the Commissioner was given power to acquire, purchase, sell, lease, and hold lands, tenements, hereditaments, goods, chattels, and any other property for the purposes of the Act.

The programme required the erection in the Commonwealth of about 8,000 houses annually for a period of ten years. Enormous quantities of building material were consequently necessary, and the Commissioner immediately sought means whereby he could obtain continuous supplies at reasonable prices. But the ordinary trade channels failed to meet the requirements of the scheme, and the cost of the materials so obtained was considered to be excessive.

It was alleged by the Commissioner that the Timber Merchants' Associations controlled the output of all classes of timbers and joinery, and "regulated" prices. In those States where Government enterprises are established, these activities conformed to the prices and discounts of the local Associations. With few exceptions the best terms upon which the Commissioner could obtain goods were only a little better than usual trade discounts. After twelve months unsatisfactory experience, the Commissioner came to the conclusion that he would have to arrange for the control of the sources of supply with regard to the principal lines of building materials, such as timber, bricks, sand, lime, and cement.

The annual timber requirements of the War Service Homes Scheme were estimated by the Commissioner at 60,000,000 super feet, and in order to insure a continuity and sufficiency of supplies at reasonable cost, it was determined to acquire timber areas and saw mills to be operated entirely in connection with the War Service Homes Scheme.

On the 6th September, 1920, the Prime Minister announced in the House of Representatives that certain timber properties in Queensland had been acquired by the Commissioner, and on 29th idem the Assistant Minister for Repatriation supplied the House with particulars of the purchase of Victorian sawmilling interests and their resale under conditions to meet the requirements of

of
house building for the soldiers.

Soon after these announcements the actions of the Commissioner were subjected to considerable criticism in Parliament, and the Joint Committee of Public Accounts was asked by the Government "to look into the questions raised, more particularly with reference to the purchase of saw mills and timber areas, and report on the matter generally". The Committee has now completed its investigations so far as the purchase of the Queensland properties is concerned, and, as promised, now presents an interim report relating to the transactions in that State.

COMMITTEE'S PROCEEDINGS.

The Committee commenced its investigations in public on 12th October, 1920, and after taking preliminary evidence in Melbourne proceeded to Brisbane where the vendors and others interested were examined. The Committee also publicly intimated that it would be prepared to hear the evidence of any person who considered he had any information of value to the Committee concerning the transaction.

The Committee paid visits of inspection to the saw mills acquired at Canungra, Beaudesert, Samford, Killarney, and Emm Vale, and also inspected the more central and accessible ^{portions of the} timber areas at Canungra, Samford, Blackbutt, Killarney and Emm Vale.

PARTICULARS OF PROPERTIES ACQUIRED.

The principal owners of timber areas in Queensland outside the Government reserves were Laheys Limited and Mr. J.F. Brett. The

the
interests of these two firms were bought by the Commission.

Laheys Limited.

The properties acquired from Laheys Limited consist of -

(1) At Camungra -

(a) 10,412 acres of freehold land, of which 4,392 acres carry pine, principally hoop pine - a timber which if properly seasoned is undoubtedly one of the best woods obtainable for joinery purposes, and for use in buildings where not exposed to the weather - and some bunya pine which is regarded as less valuable.

(b) An up-to-date saw and planing mill situated on about 17 acres of leasehold land adjoining the railway, together with Log Store, Drying Kilns, Casemaking and Broom Handle Plants, railway and branch lines, totalling 16 miles, locomotives, rolling stock, traction engine, stone crusher, and bush plant comprising waggons, bullock teams, horses etc.

The mill is well equipped with modern machinery and labor saving devices. The saw mill contains a band saw with waterous carriage, band re-saw mill, conveyors, log-turners, etc. all of the very latest type, and capable of turning out 30,000 superficial sawn feet of pine per day off 8 hours. The planing mill has a capacity for dressing section sizes up to 15" by 6" at varying speeds up to 190 feet per minute. The filing room and blacksmith's shop are well equipped and fitted with every appliance necessary to enable the work to be carried out expeditiously. The buildings are all of first

first
class material in good condition, and are well laid out. A Grinnell sprinkler system is installed in the main saw mill and the planing mill, and connected with a special water storage plant of large capacity. An abundant and permanent water supply for the works is available from the Canungra Creek. Stacking and despatching yards are well laid out with a well organized system of light tramways.

(2) At Beaudesert there is a newly erected saw mill built of the best material and well constructed. The plant has been designed on strong lines for the cutting of Hardwood, but pine can also be treated. The mill is situated on a block of $6\frac{3}{4}$ acres of freehold land, about one mile from the Beaudesert Railway Station, and is connected with the Government Railway line by a short siding. The mill is well laid out for receiving the logs and despatching the output by rail and road. Water is obtained from the Government Railway Scheme.

(3) Joinery Works and Offices at Vulture Street, South Brisbane.

These are situated on corner blocks of freehold land totalling 1 acre, 3 roods, $30\frac{1}{2}$ perches. The buildings are old, but in fair repair. The machines are in good order and of the latest type, enabling the factory to produce 400 doors and from 600 to 700 sashes per week.

Previous to purchase by the Commissioner all the properties were inspected and reported upon by Mr. J. McDaniell, Manager of the

the
 Queensland Pine Co., Yarraman, who has had many years experience as a practical timber man, both in Western Australia and Queensland. He appears to possess a thorough knowledge of timber mills and machinery, and has had considerable experience in assessing the value of timber lands. Mr. McDaniell estimated the timber areas to contain 46,550,000 super feet of pine, all of which he considered accessible, and 7,000,000 super feet of other scrubwood. His valuation of the whole of the properties enumerated was £259,923.

A check inspection was made by Mr. J. F. Brett, who estimated that 4,392 acres of the Canungra lands contained pine averaging from 10,000 to 15,000 super feet to the acre, and assuming 12,000 super feet to the acre the quantity of timber available would be 52,704,000 super feet.

Mr. W. Blackband, Managing Partner of the City Joinery Works, Brisbane, valued the machinery in the Joinery Factory, and Mr. J. B. Charlton, of Messrs. Charlton, Elliott & Sons, Estate Agents of Brisbane, supplied a valuation of the land and buildings in Vulture Street.

The price originally asked by Laheys Limited was £259,700, and the price agreed upon was £243,600, half in Cash and half in Peace Bonds. It was also agreed, that when the timber has been removed from the areas at Canungra the freehold shall be resold to Laheys Limited for the sum of £5,570.

The appointment of Mr.J.F.Brett as valuer was, under the circumstances, injudicious, and might have been expected to give rise to unfavourable comment. The Committee considers Mr.Brett's valuation to be quite bona fide, but less exhaustive than that of Mr.McDaniell upon which accordingly our estimates are based.

Mr.J.F.Brett.

The properties acquired from Mr.J.F.Brett comprise timber areas totalling 17,437 acres, of which 10,271 are freehold, and 7,166 in respect of which Timber Rights are held, and three saw mills -

(1) Beaudesert - 1,786 acres of freehold, and 2,270 acres Timber Rights - carrying principally pine, but also a fair quantity of scrubwood.

(2) Blackbutt - 1,686 acres of freehold, 3,527 acres Timber Rights - chiefly a pine area, but carrying a large proportion of hardwood and scrubwood.

(3) Killarney - 4,601 acres of freehold, and 424 acres Timber Rights - estimated to contain equal quantities of pine, hardwood and scrubwood; one saw mill adjoining the Killarney Railway Station, and another situated on one of the freehold blocks about 12 miles from the Emu Vale Railway Station.

(4) Sanford - 2,196 acres of freehold, and 841 acres Timber Rights - containing heavy growths of hardwood, and a little pine and scrubwood. The third mill is situated near these areas, and is adapted for dealing with hardwood.

These areas were inspected before purchase by Messrs.F.J.O. Twine, of the Forestry Department, Queensland, and A.G.S.Lawrence, formerly of that Department. Mr.Twine has had much experience in work of this kind. His estimates of timber available on the areas purchased may be regarded as absolutely reliable. By the seller, Mr.Brett, they were objected to as unduly conservative. Mr. Lawrence has had considerable experience in valuing timber areas and making feature surveys of timber reserves for the State Government. The two estimates of then number of super feet of timber on all the areas are as follows -

	<u>Pine</u>	<u>Hardwood</u>	<u>Scrubwood</u>
Mr.Twine	43,840,000	46,400,000	19,350,000
Mr.Lawrence	48,240,000	60,312,000	24,530,000

The price asked was £245,000 free from Federal and State income tax.

The proviso freeing the seller from taxation was deleted. but the vender was given the right to the "Tops" on all the properties acquired from himself and Laheys Limited, and the price finally agreed to be paid was £220,000, half in cash and half in Peace Bonds.

REASONS FOR THE PURCHASE.

The Committee devoted considerable attention to this phase of the subject.

The majority of the expert witnesses stated that no considerable quantity of timber from overseas can be expected in Australia, and the evidence indicated that there is a shortage of timber throughout the world generally, due to wasteful and short-sighted exploitation of the available sources.

The New Zealand Government has placed an embargo on the export of Kauri, and the United States of America is anxiously considering the question of future timber supplies.

There are said to be immense tracts of pine bearing lands in Siberia still undeveloped, but the conditions in Russia make commercial and industrial enterprise in that country very uncertain.

It appears, therefore, that the War Service Homes Scheme must largely depend for its supplies on Australia.

The Commissioner, however, could not obtain continuous and sufficient supplies of Australian timber for his requirements from sawmillers and timber merchants, neither was there any prospect of the imports of foreign timber being equal to meet the shortage.

In some of the States of the Commonwealth there are localities where an abundance of good timber is awaiting the sawmiller. Unfortunately, owing to lack of railway communication

communication

nothing can be done with these areas for the present. The Commissioner had to obtain his supplies of timber promptly, and that limited his enquiries to those forests already being exploited, or at least immediately accessible.

So far as the War Service Homes requirements of softwood were concerned, the pine bearing "scrubs" of Queensland offered the only available source of supply. The Queensland Government still held some of these areas, but though approached by the Commissioner refused to sell or lease. The policy of that State is to put on the market through the Forestry Department timber in the log only, and neither in quantity nor price have these consignments from the State forests had much effect on the situation. There remained then to the Commissioner the pine lands held by private persons, and, in view of all the circumstances, the Committee considers that the acquisition of timber areas by the Commissioner was necessary to ensure the carrying on his undertaking.

VALUE OF PROPERTIES.

After closely studying the reports of the experts who inspected the properties on behalf of the Government, and hearing other expert evidence, the Committee is of opinion that the terms upon which the Government ~~has~~ secured these properties ^{were} are on the whole satisfactory, with the exception of that proviso which gives Mr. Brett the right to the "Tops" on Laheys' and his own properties.

T O P S.

Investigation by the Committee into this aspect of the question showed that the "tops", i.e. those portions of the pine trees above the first whorl of green branches, represent an asset of more value than seems to have been apparent to the Minister when Mr. Brett secured this timber.

Until recent years "tops" have been utilised principally for the manufacture of oses, but their use is gradually extending. Although portions of the "tops" are unusable owing to the presence of large brittle knots, still it is found that a fair percentage of this part of the tree may be used as building material.

The "top" comprises on an average about 25% of the total timber in a tree; a conservative estimate therefore of the quantity of pine on the properties acquired by the Commissioner gives the amount of tops as 30 million super feet.

The present value of "tops" in Brisbane is about 12/- per 100 super feet, but in estimating the value on the properties the cost of haulage and freight must be taken into consideration.

During the course of his examination Mr. Brett would not place a value on the tops he had acquired under the agreement, but stated he was prepared to stand by his original offer to sell his properties for £245,000, less State and Federal taxes. He also intimated to the Committee that he proposed to tender for the working of the properties on behalf of the War Service Homes Commission should

should
that policy be adopted by the Government. It appears to the Committee highly undesirable that the party working the property for the Commission should be the owner of the tops; while on the other hand it must result in considerable friction to have two divergent interests operating simultaneously, not only on the same area but on the same trees - the one handling the lower portion, the other dealing with the top.

FUTURE WORKING OF THE PROPERTIES.

The ultimate success of the transaction, however, will depend upon the efficient working of the areas and mills.

The business of Laheys Limited has been built up steadily after many years of experience. The mill at Camungra is one of the finest and most up to date in the State, able to economically deal with all material sent to it; the railway is adjacent, tramways laid out to the timber areas, rolling stock and bush plant are provided, and the whole organization necessary for the successful working of the concern is available.

The problem of securing the timber from the less accessible portions of the properties must, however, be taken in hand at an early date, and unless managed in the right manner might involve the Commission in heavy expenditure that would easily alter the whole financial aspect of the transaction.

It must be borne in mind also that, although Laheys Limited

Limited

is a going concern, the areas acquired from Mr. Brett have not yet been fully developed, and much of the organization necessary for their successful working has yet to be brought into existence.

The timber business is essentially one for expert and experienced management, and after the most careful consideration of the position, a majority of the Committee is of opinion that the best results will be obtained if tenders are invited for the working of the properties on a specification drawn up by a competent engineer, which should provide, inter alia, for effective supervision by the Government.

The contract should stipulate for a supply of the timber requirements of the Commission at prices to be based on actual cost of production, with reasonable profit to the contractor and sufficient margin to provide a sinking fund which will cover the capital expenditure and interest by the time the timber is cut out. It is considered that by this means a regular supply of timber considerably below present market rates would be assured.

The creation of a special branch for the working of the timber areas by the War Service Homes Commission was considered, but it was recognized that the task of the Commission to provide good houses annually was of sufficient magnitude and difficulty without requiring it to carry on in detail the operations included in the provision of the varied and extensive list of timber

timber
requirements which go to the building of a house.

ALLEGED PREVIOUS OFFERS OF LAHEYS' PROPERTIES.

It has been stated that Laheys properties were offered to other buyers some years ago at a much lower price than that at which they have now been purchased. The Committee made inquiries into this statement.

A communication was received from the Honorable the Premier of Queensland to the effect, that early in 1916 Laheys Limited approached him with a proposal to place their sawmills and timber business under offer of sale to the Government, and the sum asked was £150,000. Mr. Theodore added, that he was unable to place his hands on a memorandum submitted at the time which set out particulars of the properties and their valuations, and as the interviews took place over four years ago he could not recall the details with certainty from his memory.

Mr. J. W. Lahey, senior director of Laheys Limited, stated that the firm had no documents bearing on this matter. As far as he remembered the position he was deputed by his company to point out to the State Government that their Canungra property might suit them for the dual purpose of State sawmills and a settlement for Returned Soldiers, and, that if the Government so wished, the property might be placed under offer. Mr. Lahey's recollection was, that the Government took little interest in the offer and that no further action was taken. He does not remember mentioning any price, but the offer had reference to the Canungra property only - a portion of

of
which was then leasehold land since converted into freehold.

It was also reported to the Committee that a syndicate, in which A. & E. Ellis Ltd. of Sydney, and the Hon. Randolph Bedford, M.L.C., were interested, received an offer to purchase half of the pine at Camungra for £25,000. Mr. Bedford stated that the offer covered roughly what is known as the Gairbaird area, but after inspection no action was taken owing to the timber being considered inaccessible.

The Committee is of opinion that, although previous attempts to sell the Lahey properties or portion of them have no doubt been made, the great rise in values, apart from the difficulty of identifying precisely what was offered for sale, makes it impossible to arrive at any reliable basis for comparison. The Committee further feels obliged to put on record the very high opinion expressed in all quarters regarding the Lahey brothers. Their probity and conscientiousness as business men were universally recognized in Queensland. One witness, a strong competitor, declared that he was prepared at any time to accept as absolutely reliable a statement from the Lahey Brothers as to the quality and quantity of anything they had to sell.

FINANCIAL ASPECT AND ESTIMATED SAVINGS.

At the request of the Minister for Repatriation, Mr. A. E. Barton, F.C.P.A., Consulting Accountant, Sydney, made a thorough

thorough

investigation into this question, and after having satisfied himself that there were no other means available to supply requirements recommended the acquisition of the properties.

In order to ascertain the saving which could be effected by the adoption of this course, it was necessary to arrive at the cost at which timber could be supplied to the War Service Homes Commission. Mr. Barten therefore obtained quotations from different sources, and on varying bases, for the delivery of timber from the separate properties. The Committee have followed his calculations carefully, and in the main are prepared to endorse them.

Taking the lowest estimates as to the quantity of timber available, there will be produced 60,000,000 super feet of sawn pine, and 36,500,000 super feet of sawn hardwood and scrubwoods.

To cover the writing off at the end of six years of the whole cost of the properties including freehold lands, buildings, plant, tram lines, rolling stock etc., as well as the value of the timber, and to provide for interest on the capital invested at 6% p.a. it is necessary to provide a sinking fund of 14/- per 100 super feet sawn for pine, and 7/- per 100 super feet sawn for hardwood and scrubwood.

To this Mr. Barten added the cost of cutting, hauling, milling, stacking, handling and freight, in accordance with an offer received, which at that stage was the only practicable means of arriving at a reliable cost.

On this basis the cost to the Commission of the timber manufactured and delivered was found to be - Pine, £1,215,000, Hardwood and Scrubwoods, £654,250, or a total of £1,869,250.

Assuming the quantities could be obtained in the market, and taking an average price of 55/- per 100 super feet for dressed and undressed timber, the market price of the pine would amount to £1,650,000; and on the basis of equal quantities of dressed and rough hardwood at 45/- per 100 super feet, that timber would cost £821,250 - or a total of £2,471,250. An estimated saving of £602,000 can therefore be shown. It must be remembered, also, that the prices provide for timber specially manufactured into required sizes and lengths, whereas the market prices quoted are for stock sizes only; and that scrub timbers have been taken at the same values as hardwoods.

POSSIBLE
PROBABLE FALL IN PRICES.

The Committee desires to point out that the financing of this purchase has been based upon an abnormally high price for timber. ^{and} an assumption that there would be no great drop during the continuance of the scheme. As a matter of fact, however, the price of oregon timber has fallen from 34/- to 24/- per 100 super feet during the last four months, and a recent witness engaged in the importing trade gave it as his opinion that the tendency of the market was to weaken still further. It is ~~almost~~ certain that the drop in the price of imported timber, if

~~if~~
 permanent, must affect the value of the Australian article. The Committee therefore endeavoured to ascertain, ~~if possible~~, to what extent a decline in prices might take place without causing the scheme to be carried on at a loss. To give the exact figures ~~would be to reveal the rate at which the Commissioner of possible contracts expects to let the contract, and this would be highly injudicious at the present juncture.~~ *might embarrass the Commission in the letting* It may be affirmed, however, that if a contract for working the scheme is made at about the figure which there is reason to believe can be obtained, it will give a fair margin of protection against a fall in prices. But if the decline in the value of Australian timber should be equal to the drop which has already taken place in Oregon, the point would be reached at which there could be no monetary advantage to be derived by the War Service Homes. ~~any further decline below that point would, of course, mean a corresponding loss.~~

COMMITTEE'S CONCLUSIONS & RECOMMENDATIONS.

- (1). The acquisition of timber areas was necessary to ensure the carrying on of the undertaking of the War Service Homes Commission.
- (2). The terms upon which the properties of Laheys Limited and Mr. J. F. Brett were secured were on the whole satisfactory, with the exception of the proviso regarding "Tapa".

- (3). Considerable friction must result in having two divergent interests operating simultaneously, not only on the same area but on the same tree - the one handling the lower portions and the other dealing with the top. *The decision regarding "tops" should be reconsidered.*

- (4). Tenders should be called for the future working of the properties under a contract stipulating for the regular supply of timber, at prices to be based on actual costs of production with reasonable profit to the contractor, and sufficient margin to provide a sinking fund which will cover the capital expenditure and interest by the time the timber is cut out.

In making such a contract the Government should be safeguarded against the contractor cutting only the easily available timber, and abandoning the undertaking at a point when it ceased to provide him with the profit he wanted.

The tenders should be invited on a specification drawn up by a competent engineer which should provide, inter alia, for effective supervision by the Government of the forestry operations.

- (5). There are several leasehold areas in the properties purchased from Mr. Brett, and one, the Canungra mill site, is included in the purchase

purchase
from Laheys Limited. Some of these leases are due to expire during the operation of the War Service Homes Scheme; steps should be taken immediately to secure the necessary extensions. The Government can, of course, resume these areas, but the former course is preferable.

DISSENT.

Messrs.Charlton, Fenton and West dissent from recommendation No.4 and are of opinion that for reasons of economy, and in order to conserve the assets, the Government should retain direct control and appoint a competent and reliable man to supervise operations on these properties.



CHAIRMAN.

Melbourne,
26th November, 1920.