1953.

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA.

JOINT COMMITTEE OF PUBLIC ACCOUNTS.

ELEVENTH REPORT.

JOINT COAL BOARD—PLANT AND EQUIPMENT.

By Authority:
L. F. JOHNSTON, Commonwealth Government Printer, Canberra.
(Printed in Australia.)

F.5177.

Mr. President

On behalf of the Committee, I bring up the Eleventh Report of the Parliamentary Joint Committee of Public Accounts on the Joint Coal Board - Plant and Equipment.

JOINT COMMITTEE OF PUBLIC ACCOUNTS.

(Appointed 25th September, 1952.)

F. A. BLAND, ESQUIRE, M.P. (Chairman).

Senator C. B. BYRNE (Vice-Chairman).

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Senator the HON. H. S. SEWARD.

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A. V. THOMPSON, ESQUIRE, M.P.

NEIL R. CAFFIN,
Secretary,
Parliament House,
Canberra, A.C.T.

THE DUTIES OF THE COMMITTEE.

Section 8 of the *Public Accounts Committee Act* 1951 reads as follows:—

8. The duties of the Committee are—

(*a*) to examine the accounts of the receipts and expenditure of the Commonwealth and each statement and report transmitted to the Houses of the Parliament by the Auditor-General in pursuance of sub-section (1.) of section fifty-three of the *Audit Act* 1901-1950;

(*b*) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;

(*c*) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and

(*d*) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

and include such other duties as are assigned to the Committee by Joint Standing Orders approved by both Houses of the Parliament.

INDEX.

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JOINT COMMITTEE OF PUBLIC ACCOUNTS.

ELEVENTH REPORT.

JOINT COAL BOARD—PLANT AND EQUIPMENT.

INTRODUCTION.

In exercise of its powers under section 8 (*a*) and (*b*) of the *Public Accounts Committee Act* 1951, the Committee examined the circumstances surrounding the purchase and disposal of equipment by the Joint Coal Board.

2. In the course of its inquiry the Committee obtained statements from the Joint Coal Board[a] and examined the Chairman of the Joint Coal Board during the sittings at Canberra on 21st September, 1953. This Report deals with the position at that date.

PLANT AND EQUIPMENT.

3. The Joint Coal Board informed the Committee that the plant and equipment which it had purchased fell into three descriptions—

(1) Underground plant,
(2) Open-cut plant, and
(3) Stores and spares for underground and open-cut plant.

(1) Underground Plant.

4. In 1948 and 1949 the Board established an underground equipment pool fed by the purchase of equipment at the cost of £1,015,568.

5. Equipment from the pool was made available to operators of underground mines either by sale or on hire. In both cases the charges were calculated on a commercial basis, designed to show the Board a small profit. The results of the equipment pool up to 30th June, 1953, are shown in the following table:—

—	Ordered and Received.	Delivered to Collieries.		Firm Orders Received from Collieries, but Undelivered.	Not Allocated.
		Sold.	On Hire.		
Coal cutters	51	33	17	1	..
Coal loaders	67	45	20	2	..
Portable elevators	17	15	2	..	..
Shuttle cars	131	73	51	..	7
Locomotives	12	9	1	1	1
Belt conveyors	48	28	20	..	..
Rectifiers and battery chargers	122	115	..	..	7
Transformers	118	111	..	..	7
Electric motors	313	277	..	..	30
Car pullers	5	1	4	..	..

6. The above table shows that the greater part of this equipment has been disposed of and the Board stated that it does not propose to replenish the pool. The items remaining in the pool and unallocated at 30th June last have a value of about £60,000 and will probably be disposed on within the next six months.

(2) Open-cut Plant.

7. The Board told the Committee that it took over a small quantity of plant, mainly open-cut plant, on its establishment on 1st March, 1947, at a book value of £219,058, and in the next year or so, could only obtain machines of varying fitness from, in the most part, surplus military equipment.

8. The following statement outlines the history of the purchase by the Joint Coal Board of open-cut equipment.

After 1947-48 the supply position in the United States improved substantially and during 1948-49, the Board was able to begin a programme of re-equipping the open-cut industry with modern equipment of a suitable type. The following items were then ordered:—

Country of Origin.	No. of Machines.	Date of First Order.	Date of Last Delivery.	Capital Cost.	
				£	£
Excavators—					
United States of America	18	1.11.48	30.6.50	1,345,540	
United Kingdom	1	24.5.48	30.9.49	44,783	
Australia	5	6.4.48	27.3.51	179,240	
	24				1,569,563
Compressors—					
United States of America	..	..	..	..	
United Kingdom	5	16.8.48	31.1.50	8,308	
Australia	..	..	..	..	
	5				8,308
Cranes—					
United States of America	4	2.6.48	30.6.49	14,819	
United Kingdom	..	..	..	..	
Australia	3	16.11.48	16.11.48	411	
	7				15,230

(a) Exhibit JCB/1—Joint Coal Board—Statement on Plant and Equipment.
Exhibit JCB/2—Joint Coal Board—Schedule of Stores.
Exhibit JCB/3—Joint Coal Board—Price List.

Country of Origin.	No. of Machines.	Date of First Order.	Date of Last Delivery.	Capital Cost.	
				£	£
Drills and Boring Plants—					
United States of America	6	14.2.49	28.2.49	7,776	
United Kingdom	..	..	..	..	
Australia	6	5.12.48	31.5.49	4,197	
	12				11,973
Generating Sets—					
United States of America	..	..	..	..	
United Kingdom	..	..	..	..	
Australia	7	22.9.48	18.3.49	2,204	
	7				2,204
Pumps—					
United States of America	..	..	..	..	
United Kingdom	..	..	..	..	
Australia	12	25.10.48	31.5.49	6,135	
	12				6,135
Scoops—					
United States of America	..	..	..	..	
United Kingdom	..	..	..	..	
Australia	10	22.5.48	31.1.50	23,148	
Order cancelled	1	..	..	..	
	11				23,148
Tournapulls and Tournatrailers—					
United States of America	..	..	..	..	
United Kingdom	..	..	..	..	
Australia	10	4.11.48	30.4.49	37,252	
	10				37,252
Heavy Tractors—					
United States of America	42	3.5.48	30.4.50	230,738	
United Kingdom	..	..	..	..	
Australia	..	..	..	..	
	42				230,738
Totals	130				1,904,611

At the 30th June, 1949, the total value of open-cut equipment ordered but undelivered was approximately £1,250,000. Further orders to the value of £1,658,000 were placed during 1949-50.

In November, 1950, the 5,000,000-ton open-cut programme was adopted by the Board and in March, 1951, this was confirmed by the Commonwealth Government and authority was given for the purchase of additional open-cut plant at a cost of £5,180,000.

The plant recommended for purchase, together with the plant already owned by the Board and the privately owned plant in the industry, was estimated to be capable of producing 4,200,000 tons of coal a year. To have produced 5,000,000 tons would have required the ordering of plant with a total bucket capacity of 250 cubic yards. However, only 133 cubic yards capacity was ordered.

After world-wide tenders had been called, orders were placed for this plant towards the end of 1951. Orders were then placed for—

31 excavators,
15 compressors,
30 drilling plants,
85 wagons,
100 tractors.

Of the total open-cut plant then ordered, £3,480,000 was obtained from the United States after Defence Order Ratings had been obtained with the assistance of the Commonwealth Government. Of this amount only £29,500 was obtained under the International Bank Loan.

During November, 1951, the Commonwealth Government had approved certain arrangements designed to assist the sale of plant by the Board to open-cut contractors. From that date until the 30th June, 1953, £1,495,320 of open-cut plant was sold.

During 1952, and particularly its latter part, the coal situation changed rapidly and it became apparent that, unless the Board took positive action—

(a) there would be a continuing surplus of coal production;
(b) this would force some underground mines to close and others to work short time.

In order to protect the stability of the underground mines the Board therefore—

(i) abandoned the 5,000,000-ton open-cut programme;
(ii) in addition, took specific steps to reduce open-cut production;
(iii) stockpiled coal from both open-cut and underground mines.

The original target for open-cut output for 1953 was 4,000,000 tons. About the middle of 1952, when the Board began to slow down its efforts to increase open-cut production, it was then running at the rate of 2,500,000 tons per year. The reduced programme adopted in February of this year provides for the reduction of actual output during 1953 to 1,600,000 tons.

As a result of this change in the open-cut programme a substantial quantity of the Board's open-cut plant has become surplus. With the approval of the Commonwealth Government, the Board has decided to retain in reserve sufficient plant to produce 1,000,000 tons of open-cut coal a year. If present expectations of coal requirements should not be realized, or if any emergency should arise, this plant can quickly be put to work.

The position of the Board's fleet of open-cut plant at 30th June, 1953, is shown in the following table:—

—	Original Cost.	Book Value at 30th June, 1953.
	£	£
Required for present production ..	641,489	503,083
In reserve	2,528,129	2,220,035
Surplus	3,879,179	3,358,242
Total	7,048,797	6,080,360

The Board is making every effort to dispose of its surplus plant as quickly and as economically as possible. However, it does not propose to sell the plant at bargain prices merely for the sake of disposal.

The Commonwealth has directed all its departments, authorities and agencies to purchase their requirements from the Board wherever possible. The Acting Premier of New South Wales has asked State Departments to consider a similar course of action. The plant market is at present dull and the Board expects that the disposal programme may take about two years. Tenders for the sale of surplus plant have been called twice (November, 1952, and April, 1953) and plant has been sold by negotiation in between the tenders. The Board is also using commercial facilities in the machinery trade to assist it in this disposal programme.

In the first six months of 1953, the Board sold surplus open-cut plant which had an original capital cost of £848,300. This plant had a book value of £705,634 and was sold for £702,412.

The Board expects that the disposal of the surplus open-cut plant will involve it in some losses, as compared with book value. On the other hand, however, it also expects that these losses will not exceed the amount which has been provided to meet them from the Board's own internal reserves and provisions. If these expectations are fulfilled the disposal of the surplus open-cut plant will be completed without any cost to the Commonwealth Government.

(3) Stores and Spares for Underground and Open-cut Programmes.

9. The Board stated that it bought stores and spares for re-sale to the mining operators.

CALCULATION OF DEMAND FOR COAL ON WHICH PLANT AND EQUIPMENT WERE ORDERED.

10. The Committee is aware of what the coal position was in 1949-50 and that attempts had been made to calculate the future demand for coal. The importance of those calculations lay in the fact that they governed the amount of plant and equipment to be purchased to step up production. For these reasons, the Committee obtained a statement from the Board detailing the methods used and the authorities consulted in forecasting Australian coal requirements. This statement is attached as Appendix No. 1.

11. It will be noted that the Board first estimated in August, 1949, the probable existence of an unsatisfied demand for New South Wales black coal of 5,000,000 tons a year in 1953—the total demand being estimated at 18,000,000 tons for which there was a visible supply of 13,300,000 tons.

12. The estimate of 18,000,000 tons was prepared by asking coal consumers to make a forward estimate of the amount of coal which they would want. The results were checked by a statistical estimate and the average of the results from the two methods was adopted as the estimate of demand for New South Wales black coal.

THE SITUATION IN 1952-53.

13. The statement in Appendix No. 1 records in detail the occasions upon which the various authorities confirmed the Board's estimates of demand for New South Wales black coal up to June, 1952; by that time, however, the demand for coal was falling rapidly.

14. The Board obtained the approval of the Commonwealth and New South Wales Governments, in May, 1952, to establish a New South Wales Coal Requirements Committee whose purpose was to examine and to estimate the probable demand for New South Wales black coal. The Committee consisted of representatives of the Commonwealth and New South Wales Governments, of the Commonwealth and State Statisticians, the New South Wales Combined Colliery Proprietors Association and the Board. That Committee gave these estimates of demand—

On 16th September, 1952—15,200,000 tons for 1953.

On 21st May, 1953—14,100,000 tons for 1953.

The latest estimate for 1953 by the Board itself is 13,925,000 tons.

REVIEW OF THE POSITION.

15. In its review of the position for the Joint Committee of Public Accounts, the Board emphasized that—

In the light of our present knowledge the following points about the estimate are significant:—

(a) the Board fully realized that in the circumstances of 1949 there was a tendency for consumers to overstate their requirements for future years. Not only did the Board accept this as a possibility but, in fact (at the time) it reduced the estimates submitted by consumers by 619,000 tons.
(b) in 1949 the Board assumed that by June, 1953, employment throughout Australia would be 2,700,000. The present employment is about 2,550,000. Had this employment figure been forecast accurately, the estimate of requirements for 1953 would have been 650,000 tons nearer the mark.
(c) although the Board made some allowance for over statement by consumers, it is now clear that this allowance was insufficient.

16. The Board supplied an analysis of the estimate that the main consumers had made in 1949 of 1953 consumption of coal and the actual amount of coal they were likely to use in 1953. The larger over-estimates of requirements were made by the New South Wales Railways and by Coal Committees in other States. There was general over-estimation in respect of bunker coal. (Details are set out in paragraph 7 of the statement included in Appendix No. 1.)

17. Nevertheless, the Board reminded the Committee that there was an acute shortage of coal in 1949, and the future was then not promising. Some estimate had to be made, and the Board claimed that it did all that was possible.

18. The book position at 30th June, 1953, of the plant is set out in the table hereunder:—

PURCHASES, SALES AND DEPRECIATION OF PLANT AND EQUIPMENT TO 30TH JUNE, 1953.

Period ended 30th June.	Opening Balance.	Purchases.	Cost of Sales.	Closing Balance.		
				At Cost.	Depreciation.	Book Value.
	£	£	£	£	£	£
1948	220,400	221,001	60,723	380,687	64,950	324,737
1949	380,687	1,303,671	17,602	1,675,756	133,896	1,541,860
1950	1,675,756	3,496,021	397,495	4,774,882	257,572	4,517,310
1951	4,774,881	2,285,639	809,833	6,050,687	476,617	5,571,070
1952	6,050,687	4,335,259	1,340,109	9,095,838	1,457,702	7,598,136
1953	9,095,838	1,257,241	1,534,711	8,818,358	2,170,270(a)	6,648,088(b)
Total	..	12,749,423	4,160,473	..	..	..
Outstanding commitments, 30th June, 1953 ..	..	64,102				

(a) Includes £729,910 reserve for loss on realization of plant and £224,145 reserve for loss on realization of stores. (b) This figure equals the asset value to be shown in the Coal Industry Fund balance-sheet less the reserves as in (a).

19. The sales to 30th June, 1953, have shown a profit of £472,718 over the depreciated book value.

SALES OF PLANT, EQUIPMENT AND STORES.

Period ended 30th June.	Cost of Sales.	Book Value.	Selling Price	Profit.
	£	£	£	£
1948	60,723	52,739	52,739	..
1949	17,992	17,033	17,810	777
1950	397,405	370,716	410,298	39,582
1951	809,833	791,739	926,216	134,477
1952	1,340,109	1,262,852	1,401,871	139,019
1953	1,534,711	1,172,877	1,331,740	158,863
	4,160,473	3,673,956	4,146,674	472,718

20. Of the plant, equipment and stores still on the books of the Board the Committee was told that some was on hire, some was held in reserve and some was surplus to its requirements. The Board supplied the following summary of the position :—

DISPOSITION OF PLANT, EQUIPMENT AND STORES STILL ON THE BOOKS OF THE JOINT COAL BOARD.

Plant Category.	Cost.	Book Value.	Selling Value.
	£	£	£
Plant on hire—			
Underground ..	622,450	377,901	(a)
Open cut	1,100,439	842,595	(a)
	1,722,889	1,220,496	
Less Reserve and surplus open cut plant on hire	459,605	339,547	
	1,263,284	880,949	
Open cut plant required for production but not on hire	655	35	(a)
Trading stock—			
Stores and spares ..	898,070	673,934(c)	(b)
Underground plant ..	148,910	147,764	(b)
Installations and miscellaneous	100,113	88,000	(a)
Reserve open cut plant ..	2,528,129	2,229,035	(a)
Surplus open cut plant ..	3,879,179	2,628,332(d)	2,628,332(e)
Total	8,818,358	6,648,088	..

(a) These items have not been valued because there is no present intention to sell them as a whole. If and when a proposal for the sale of any particular item arises, a selling value will be determined.
(b) Trading stock is sold at prices fixed commercially by adding a gross mark-up on cost. There are about 9,000 lines and, because of the work involved, the selling prices have not been aggregated.
(c) Actual book value is cost but a reserve of approximately 25 per cent. has been created from profits to meet possible loss on realization—particularly of insurance stores.
(d) After deducting £729,910 reserve, which has been created from profits, for loss on realization.
(e) This figure represents the Board's considered assessment of the realizable value of the plant on the basis of a business-like disposal programme.

21. In reply to questions by the Committee regarding sale and hire terms of plant and equipment, the Board submitted notes which are set out in Appendix No. 2.

22. It had called tenders twice—in November, 1952, and April, 1953: further tenders will be called "if and when it appears desirable". The Commonwealth Government had directed that steps should be taken to ensure that Commonwealth agencies requiring plant of this nature should obtain it from the Board. The New South Wales Government had also agreed to do the same and other measures have been taken to promote sales to State governments. Machinery distributors have been canvassed and agents appointed to sell upon a 5 per cent. commission basis.

23. From November, 1952, to the end of August, 1953, the total sales by these means were £707,561 and the book value of the surplus open-cut plant on hand was £3,358,242. A reserve for loss on realization of £729,910 had been provided. The Board explained that it expected the disposal to—

involve it in some losses, as compared with book values. On the other hand, however, it also expects that these losses will not exceed the amount which has been provided to meet them from the Board's own internal reserves and provisions. If these expectations are fulfilled the disposal of the surplus open-cut plant will be completed without any cost to the Commonwealth Government.

24. The Board hoped to sell the balance of the plant in the next two years, but much would depend on the public works policy of the various governments. It conceded, however, that—

We will be hard pressed to dispose of this plant, if we want to dispose of it in two years.

25. The terms on which the plant was hired out ensured that the cost of the plant was amortised over the estimated life of the plant. Assisted by subsidies from the Commonwealth for interest on capital indebtedness in respect of surplus open-cut plant and for maintenance of that plant, the revenue and expenditure account for these assets showed a considerable profit (Appendix No. 3).

26. The Board also gave the Committee details of the measures it had taken to protect the plant and equipment on hand and its statement is attached as Appendix No. 4. The Board assured the Committee that these measures afforded adequate protection to the assets.

27. Further, the Board stated that the surplus plant would not become obsolescent for a considerable time, "up to five years, anyway".(a)

GENERAL COMMENTS BY THE COMMITTEE.

Statutory Corporations.

28. As the accounts of the Joint Coal Board are the first of those of a statutory corporation to be examined, the Joint Committee of Public Accounts thinks it desirable to refer to some of the problems associated with the status and functions of such corporations.

29. There has never been any clear definition of the status of the statutory corporation in Australia. At times these corporations have been given power that makes them almost completely independent of the Government of the day (save in matters of high policy), and in these cases, they have power to raise loans for capital works and to impose rates and charges. The Joint Coal Board has no independent power to borrow money (*see* section 23 of the Commonwealth *Coal Industry Act* 1946-1952), but apart from that, it appears to have a greater degree of independence than, for example, the Commonwealth Railways or the Australian Broadcasting Commission.

30. In England where, in recent years, many statutory corporations have been created for the management and operation of industries such as coal, gas, electricity and transport, the political and administrative status of these corporations has been extensively discussed.

31. Because it was felt that a large sector of governmental activity was tending to pass beyond parliamentary control, the United Kingdom House of Commons appointed on 6th November, 1952, a Select Committee on Nationalized Industries.(b) As it was generally agreed that the Parliament had intended to give these corporations a wide degree of autonomy, it was argued by some that if any authority were created to examine the operations of the corporations, it would be tantamount to denying their autonomy and, in addition, it could lead to destroying the initiative, the enterprise, and the independence of executives which were amongst the things chiefly sought in creating the corporations.

(a) Transcript of Evidence, 21st September, 1953.
(b) Order of the United Kingdom House of Commons:
"Ordered, That a Select Committee be appointed to consider the present methods by which the House of Commons is informed of the affairs of the Nationalized Industries and to report what changes, having regard to the provisions laid down by Parliament in the relevant statutes, may be desirable in these methods".

32. Nevertheless, the Select Committee in its recent report(a) to the House of Commons declared that it was of paramount importance to ensure the accountability of the corporations to the Parliament, because, amongst other things, of the way in which their activities touched on many aspects of every-day life, and of the vast sums of public money involved.

33. The Select Committee proposed to ensure accountability by creating a Special Committee of the House of Commons, which would be assisted by an officer having a status not unlike that of the Auditor-General. The duties of the Special Committee would be to keep the Parliament informed about the character and nature of the activities of the corporations, but it would make no attempt to influence their policy or control their general administration.

34. So far as the financial operations of the corporations were concerned, it was intended that the Special Committee would replace the Committee on Public Accounts, which, at present, has the power to examine the accounts of the corporations, but which, because of the magnitude of the work entailed, it was unable effectively to do.(b)

35. Whereas in the United Kingdom, interest in this question was stimulated by the creation in rapid succession of a number of important statutory corporations, a similar stimulus does not exist in Australia. Nevertheless, the problem is still present, for, over a period of years, a large number of statutory bodies of this character have been established in this country.

The Joint Coal Board.

36. The Joint Coal Board was created under the provisions of the Coal Industry Acts of 1946 enacted by the Parliaments of both the Commonwealth and the State of New South Wales. Under that legislation, the Board has been given a status different from that of an ordinary administrative department, a status usually known as one of quasi-autonomy. For example, the Commonwealth Parliament does not receive or approve the Board's estimates of revenue or expenditure, nor do its accounts figure in either the special or annual appropriations of the Parliament.

37. The funds of the Joint Coal Board's Coal Industry Fund, which were used for the purchase of plant and equipment, were provided (on loan) by the Commonwealth Government, during the years up to 1951-52 and are now being gradually repaid. The Board stated that—

The peak of the Coal Industry Fund borrowings was reached during 1951-52 and amounted to £13,405,202. During 1952-53, £509,000 was repaid to the Commonwealth and (in 1953-54) the Board expects to repay a further £2,225,000, and of this £1,065,202 has already been repaid. At the present time, therefore, the total borrowings of the Coal Industry Fund are £11,900,000.

The accounts of the Board are audited by the Commonwealth Auditor-General, who comments upon them in his Annual Report to the Parliament.

(a) Report of the Select Committee on Nationalized Industries, 23rd July, 1953.
(b) Ibid, para. 18.

38. The Joint Coal Board has a responsibility to the State Government of New South Wales as well as to the Commonwealth Government, but that does not take it outside the provisions of the *Public Accounts Committee Act* 1951. The Committee emphasizes that it is not here dealing with all the activities of the Board, nor is it concerned with the general policy of the Board. It is concerned mainly with certain administrative results of the Board's open-cut coal activities.

39. In this case, the Government, upon the recommendation of the Joint Coal Board, authorized the purchase of plant sufficient to obtain the amount of coal estimated to be needed for the Australian economy in 1953. The care taken to get a reliable estimate is fully set out in Appendix No. 1 and indicates the reasonable manner in which the Board interpreted its obligations. The estimates proved to be excessive not merely by the course of events, but also by the desire of coal consumers in New South Wales and other States to make certain that they would obtain adequate future deliveries. The large variations between estimated and actual consumption support the view expressed by the Board and concurred in by the Committee that some coal consumers took very lightly their obligations to the Joint Coal Board. It must be conceded that the increasing use of oil and fuels other than black coal was an important contributing factor to the ultimate disparity between the estimate and actual consumption.

40. The pattern of events in this case is not dissimilar from that which has been noted by the Committee when dealing with other departments. An emergency arises: proposals are suggested for meeting it: the spending of public money is approved: and as a result of events, the department has been left with unwanted (and sometimes unrealizable) assets on its hands. The only difference in the case of the Joint Coal Board is the scale of the expenditure involved, and in the value of the plant left for disposal. The original cost of this surplus plant was £3,879,179 which has been written down to a book value of £3,358,242 as at 30th June, 1953. The Board had created an additional reserve of £729,910 from profits for any losses on realization.

41. Having regard to the quantum of sales in a nine-months period in relation to the total amount of plant involved, the Committee is very doubtful whether the Board will be able to sell the surplus plant within two years without loss to the Government.

F. A. BLAND, Chairman,

On behalf of the Committee.

NEIL R. AUSTIN,
Secretary,
Parliament House,
Canberra, A.C.T.
4th December, 1953.

APPENDIX No. 1.

STATEMENT BY THE JOINT COAL BOARD ON CALCULATIONS OF DEMAND FOR COAL ON WHICH PLANT AND EQUIPMENT WAS THOUGHT NECESSARY.

The 5,000,000 ton open cut programme was adopted in November, 1950 (confirmed by Cabinet in March, 1951) and was based fundamentally upon two major judgments about the future coal situation. The first of these was that the requirement of New South Wales coal in 1953 would be 18,000,000 tons and the second was, that in that year, the underground mines could not, even on the most favorable forecast of the future, be expected to produce more than 13,300,000 tons. This left a gap of roughly 5,000,000 tons and gave rise to the expanded open cut programme.

2. As compared with the forecast of 13,300,000 tons of underground production for 1953, the actual production from the underground mines this year will probably be about 12,500,000 tons. However, since the latter part of 1952, the Board has restricted the output of certain underground mines and, in addition, the operation of the Long Service Leave award was brought forward by one year so that, since early this year some 600 to 700 men have continually been on long service leave. If these measures, which were designed to reduce underground production, had not been taken, the output of the underground mines this year would probably have approximated about 13,000,000 tons.

3. It will be seen, therefore, that it is in relation to the estimated requirements of 18,000,000 tons for 1953 that the expectations of earlier years have not been realized. This estimate of 18,000,000 tons compares with probable requirements this year of about 14,000,000 tons.

4. The original estimate of 18,000,000 tons was made in August, 1949, and was first published in the Board's Second Annual Report. The forward estimates of coal requirements then published were re-assessed from time to time but, until recently, the figure of 18,000,000 tons was not varied and it was repeated in the Board's Third and Fourth Reports. In the Fifth Report, however, dated 28th November, 1952, the Board stated that the earlier estimate of 18,000,000 tons was far too high (*see* paras. 11 to 17 and Appendix I.).

5. In order to explain how the original estimate of 18,000,000 tons was arrived at, it is most convenient to quote the following extract from a minute dated 26th August, 1949, addressed to the Board by the Secretary:—

"During the last few months we have been completing a consumers' survey in order to estimate requirements of New South Wales coal. This estimate has been made for a five-year forward period, and will be revised each year for a similar forward period. The basis of the survey was to ask consumers to make their own forward estimates and to add in their own estimates for those new projects where there are no consumers now in existence.

THE SECRETARY'S REPORT.

"2. The object of the survey was to estimate *requirements* and not merely the bare minimum which consumers could 'get through with'. For this reason consumers were told to assume that full employment would continue and that New South Wales coal would be freely available. They were, however, instructed to allow only for their consumption, and not for any re-stocking.

"3. The officers of the Board who have conducted this survey (and in the case of all large consumers the estimates have been discussed at some length) are convinced that not only are the estimates not overstated but, if anything, they may be conservative.

"4. Despite this, the figures look high, and I felt it desirable to check them from an entirely different point of view, i.e. the statistical analysis and general economic considerations. The basis of this approach has been to endeavour to determine whether or not Australia could, in fact, consume the quantity of coal per person employed which was indicated by the survey. This approach indicated that such a result was unlikely, and consequently independent estimates of likely coal consumption per person employed were made and compared with the results of the consumer survey.

"5. It should here be mentioned that for both purposes (i.e., the survey approach or the statistical approach) it is, of course, quite impossible to deal solely with New South Wales coal and with New South Wales. Not only must the problem be considered from the point of view of Australia as a whole, but also it is necessary to allow for the part played by other fuels. In effect, the problem is to estimate Australia's requirement of power and then adjust these estimates back to requirements for New South Wales coal. Because of the lack of sufficient information in a readily available form, it has not, unfortunately, been possible to allow for—

(*a*) hydro-electric power;
(*b*) liquid fuels; and
(*c*) firewood, &c.

"6. However, we have included Victorian brown coal, and this is probably in Australia the most significant source of power other than black coal. Victorian brown coal has therefore been converted into its black coal equivalent. All figures in this statement accordingly refer either to black coal or to brown coal in terms of black coal equivalent.

"7. Australian annual consumption of black coal (or its equivalent of brown coal) per person employed (excluding employees in rural, household, domestic and defence) has been as follows:—

Year.	Actual.	Estimated.
	Tons.	Tons.
1930	7.2	..
1931	6.9	..
1932	6.8	..
1933	6.7	..
1934	6.7	..
1935	6.9	..
1936	7.0	..
1937	7.0	..
1938	7.3	..
1939	7.4	..
1940	7.2	..
1941	7.8	..
1942	8.27	..
1943	8.44	..
1944	8.07	..
1945	7.61	..
1946	7.31	7.9
1947	7.18	7.75
1948	7.18	7.9
1949	..	8.1
1950	..	8.3
1951	..	8.5
1952	..	8.7
1953	..	8.9

"8. The following table compares for the last three years the estimated requirements as derived from the above figures of estimated tons per person employed with actual consumption:—

Year.	Actual.	Estimated.	Estimated Shortage.
	'000 tons.	'000 tons.	'000 tons.
1946	15.305	16.551	1.246
1947	16.307	17.616	1.309
1948	17.000	18.723	1.717

These estimated shortages are close to those which we know from our general knowledge applied in those years. This tends to some extent to support the validity of the estimated requirements per employee.

"9. For the purpose of assessing requirements in the future, total employment (males and females) has been estimated as follows:—

Year.	Million.
1949	2.45
1950	2.55
1951	2.6
1952	2.65
1953	2.7

This increase in total employment of 250,000 over the five-year period has been made up of net migration of 207,000 and a net natural decrease of 17,000.

"10. The statistical estimates and the survey estimates may now be compared—

—	Statistical Estimates.	Survey Estimates.	Difference.	Per cent. difference on Statistical Estimates.
	'000 tons.	'000 tons.	'000 tons.	Per cent.
1949	19,845	20,511	666	3.4
1950	21,165	21,893	728	3.4
1951	22,100	23,139	1,039	4.7
1952	23,055	24,455	1,400	6.7
1953	24,030	25,388	1,358	5.7

"11. In order to reconcile these two estimates, it would be necessary for either—

(*a*) employment in 1953 to be 153,000 persons higher than has been estimated; or
(*b*) coal consumption per employee to be 9.4 tons per annum compared with the estimate of 8.9; or
(*c*) some combination of these two.

"12. In the light of general economic conditions, neither of these appears likely, but we cannot say that they are impossible.

"13. All of the above figures have been on an Australian basis and have included the black coal equivalent of brown coal. Correcting these figures back to the total Australian requirement of New South Wales black coal, the following figures are obtained:—

—	Statistical Estimate.	Survey Estimate.	Difference.
	'000 tons.	'000 tons.	'000 tons.
1949	14,272	14,994	722
1950	15,230	15,992	762
1951	15,737	16,760	1,023
1952	16,391	17,779	1,388
1953	17,072	18,406	1,334

"14. It is difficult to say which of these estimates should be adopted for the Board's purposes. I have allowed certain outside authorities to examine the original detailed workings in order to obtain the benefit of their judgment. However, the best opinion that I could get confirmed my own view that all that we can say at this stage is that the best estimate lies somewhere between the two. Consequently a natural course would be to take an arithmetic average and to make this our best estimate in the circumstances.

"15. It should be emphasized that the above figures allow purely for Australian consumption of New South Wales black coal and they make no provision for—

(*a*) exports overseas; or
(*b*) re-stocking.

Allowing for our minimum export commitments to Pacific Island we might therefore derive our estimate of future requirement of New South Wales coal, excluding re-stocking, as follows:—

—	Average of Two Estimates.	Minimum Export Commitments.	Total.	Rounded Estimate.
	Million tons.	Million tons.	Million tons.	Million tons.
1949	14.633	.078	14.711	14.7
1950	15.611	.213	15.824	15.8
1951	16.248	.213	16.461	16.5
1952	17.085	.213	17.298	17.3
1953	17.739	.213	17.952	18.0

The Board's explanation continues—

6. In the light of our present knowledge, the following points about the estimate are significant:—

(*a*) The Board fully realized that in the circumstances of 1949 there was a tendency for consumers to overstate their requirements for future years. Not only did the Board accept this as a possibility but, in fact, it reduced the estimates submitted by consumers by 619,000 tons.
(*b*) In 1949 the Board assumed that by June, 1953, employment throughout Australia would be 2,700,000. The present employment is about 2,550,000. Had this employment figure been forecast accurately, the estimate of requirements for 1953 would have been 650,000 tons nearer the mark.
(*c*) Although the Board made some allowance for overstatement by consumers, it is now clear that this allowance was insufficient.

7. The following table shows a break-up of the 1949 estimate of 18,000,000 tons for 1953 and compares it with probable consumption this year. The figures shown in the first column of the table are the estimates made by coal consumers after having been reduced by the Board in an endeavour to allow for overstatement:—

—	Estimate made in 1949.	Probable Consumption, 1953.	Variation.
	'000 tons.	'000 tons.	Per cent.
New South Wales—			
New South Wales Railways—			
Locomotives	1,875	1,458	−21
Electricity	1,002	980	− 2
Other electricity	1,749	1,815	+ 4
Australian Gas Light Co. ..	754	600	−20
North Shore Gas Co. ..	196	168	−14
Australian Iron and Steel ..	1,870	1,700	− 7
Broken Hill Pty. Ltd. ..	1,030	1,550	− 5
Bunkers	643	355	−45
Other New South Wales consumers	3,647	2,674	−27
Total, New South Wales	13,372	11,300	−15
Other States—			
Victoria	2,767	1,318	−52
South Australia	1,411	910	−36
Western Australia ..	155	70	−55
Northern Territory ..	1	..	..
Tasmania	61	30	−51
Queensland	20	11	−45
Total, Australia ..	17,787	13,639	−23
Exports	213	286	..
Total Requirements ..	18,000	13,925	−23

8. The information in the above table has been set out in order to give some indication of the sources from which the Board obtained its information. The first seven lines in the table, covering only six authorities, accounted for 9,082,000 tons out of the total of 18,000,000 tons and here the overstatement amounted to 9 per cent. The most serious overstatement, however, occurred in the other States where (with the exception of Queensland) the information was obtained by the Board, in every case, from the State Coal Committees which operated (in fact) under the agency of the State governments.

9. In those years the States (particularly Victoria and South Australia) were constantly complaining that coal shipments were inadequate and that their real requirements were very much greater than the quantities they were receiving. It now appears clear that an atmosphere developed in which the States were concerned only with increasing effective pressure for greater current shipments. Having no contractual responsibilities, they gave no thought to the possible effects of overstating their requirements.

10. It may be argued that even if the estimates, which the Board made in 1949, were reasonable in the light of all the surrounding circumstances of that time, the Board should have realized earlier than it did that they were overstated.

11. The original estimate was subsequently reassessed and confirmed twice. During these years the situation was undoubtedly changing. Nevertheless the coal shortage remained. For this precise reason it was impossible effectively to test the estimates against actual market conditions. It is characteristic of all commodities (whether coal, cars or cigarettes) that, when there is a shortage, it is extraordinarily difficult to find out the exact extent of that shortage, i.e. find out how many additional units of the commodity placed upon the market will meet the effective demand of consumers. It was only toward the middle of 1952 that coal production had improved sufficiently to enable the market to be tested in this practical and effective way. It was then that it became clear to the Board that the original estimate of 18,000,000 tons was too high.

12. As a result the Board sought the approval of the Commonwealth and New South Wales Governments to the appointment of the New South Wales Coal Requirements Committee. This approval was given on the 9th May, 1952. The purpose of the Committee was to examine immediately the whole question of coal requirements in order to ensure that the Board would have the soundest possible basis for any reorganization of policy which might be necessary as a result of the changed situation. The New South Wales Requirements Committee consisted of representatives of the Commonwealth and New South Wales Governments, of the Commonwealth of State Statisticians, of the New South Wales Combined Colliery Proprietors Association and of the Board.

13. Reporting on the 16th September, 1952, the Committee estimated probable coal requirements for 1953 as 15,200,000 tons, i.e. 2,800,000 tons less than the original estimate. However, during the succeeding months, the Board revised this figure downwards. Subsequently, on the

21st May, 1953, the Requirements Committee, having again considered the problem, published a revised estimate of 14,100,000 tons. The Board's latest revision of that figure is 13,925,000 tons.

14. An indication of the rapidity of the change in the coal situation during 1952 (or at least the understanding of that situation by responsible authorities) is shown by the report of the Consultative Committee on Coal, which was set up by the National Security Council, comprising the Prime Minister and all State Premiers. The Joint Coal Board was not represented on the Committee, which comprised six representatives appointed by the State Governments and a Commonwealth Chairman. Reporting as late as June, 1952, the Committee recommended *inter alia*—

"5. That coal production be increased by the completion of the Joint Coal Board's open-cut programme (Note: i.e. the 5,000,000 tons programme) as at present planned; by according a high priority to underground colliery development instituted in New South Wales by the Joint Coal Board, the State coal mines authority, and coal companies, and on a similar scale in other States by Governments and companies; by extending the present housing programme in New South Wales so that accommodation may be found for about 2,500 additional employees, who are needed to utilize to the full advantage the development to which the industry is at present committed".

15. When considering the validity of the Board's estimates, it must always be remembered (and this point cannot be emphasized too strongly) that in those earlier years *some* estimate had to be made. There was then an acute shortage of coal and if the Board was to carry out its responsibilities in a rational fashion it was essential for it to assess the extent of that shortage and how it was likely to change in the years ahead. It is also important to make it clear that, when approaching the problem, the Board was primarily concerned that it should not understate its task. It then, quite specifically, adopted the attitude that it would more effectively be carrying out its responsibilities to the community if it overstated the coal shortage (and was therefore led to take more energetic measures for overcoming it) than if, by understating the task, it proceeded less vigorously to expand production and thereby allowed the coal shortage to plague the Australian community for a longer period.

16. The actualities of 1953 have, undoubtedly, turned out to be very different from the expectations of 1949, of 1950 and of 1951. However, the Board does not believe that it had any practicable alternative to the methods of estimating which it used in those years or to the judgments upon which those estimates were based.

APPENDIX No. 2.

NOTES BY THE JOINT COAL BOARD ON THE BASIS OF CALCULATION OF CHARGES AND CREDITS.

1. Open-cut Plant—Hire Charges.

The calculation of open-cut plant hire charges is directed towards relatively short-term hire periods, i.e., of the order of twelve months per hiring term, more or less.

They are based generally—

(*a*) on the recovery of capital cost of individual machines which it is not intended to replace, or on the recovery of replacement value of machines which would normally be replaced;
(*b*) on the grouping and averaging of cost of like classes of machines of different makes;
(*c*) on the assessed life of individual or individual classes of machines;
(*d*) on the average annual investment insofar as the recovery of interest on capital and insure is concerned.

The plant hire charges seek to recover—

Interest on capital at 4½ per cent. per annum on average annual investment.
Insurance, at a premium rate according to the class of machine.
Administration, at 1 per cent. or 2 per cent. of capital cost, according to the value of the machine.
Reserve for depreciation, as assessed.
Reserve for accrued repairs, as assessed.
Reserve for the movement of heavy plant, where applicable, as assessed.
Reserve for idle time—see below.
Profit, at 5 per cent. per annum on capital cost.

NOTES.—

(i) Calculations as above, excluding reserve for idle time, add up to a total sum required to be recovered per annum in respect of each machine in order to pay for actual costs, and to provide assessed reserves and profit.
(ii) When the Board carries spare parts related to particular machines, it is also sought to recover in the plant hire charges, interest on capital, insurance premium and provision for loss on realization in respect of the spare parts.
(iii) When the Board has incurred costs for interest on capital from the time when the first progress payment was made until a machine has commenced to earn revenue, this is calculated as a lump sum and recovered over the lifetime of the machine.
(iv) It is assumed that all the plant should be on hire for 70 per cent. of its life and, accordingly, the sum total of the hire charge calculations per annum is divided by 36 in order to arrive at a flat rental charge payable for 52 weeks a year.

Thus, if a machine actually works for a full year, the revenue collected over and above the sum calculated to be required per annum, is available as revenue received for the machine in respect of some future period when it is idle.

The plant hire rental charges are tied to a standard plant hire agreement, the main points of which provide—

(*a*) The hirer lodges a security deposit on signing the agreement equal to eight times the weekly hire rental.
(*b*) The hirer is required to pay rental within seven days after the period to which it refers (wherever possible arrangements are made for the contract principal to deduct the hire rental out of contract payments due to the hirer and remit direct to the Board.)
(*c*) The hirer is responsible for a first proportion of the cost of any accident and for all repairs while a machine is on hire.
(*d*) When a hire is determined, the hirer is required to return the machine in good order and condition, fair wear excepted—he is normally also responsible for transport both ways between the Board's depot and the operating site.

2. Underground Plant—Hire Charges.

The calculation of underground plant hire charges is directed towards relatively long-term hire periods, i.e., five years.

The method of calculation of hire charges follows the same pattern as for open cut plant, except—

(*a*) There is no reserve for accrued repairs, the hirer being responsible for all repairs during (and the machines being written off over) the hire period.
(*b*) There is no reserve for idle time, underground plant being on continuously long-term hire, normally for the whole of the assessed life of the plant.

The underground plant hire agreement also follows the same pattern as for open-cut plant, except:—

(i) In lieu of security deposit, the hirer is required to pay four weeks hire rental in advance and thereafter to pay within seven days after each period in respect of which rental is due, thus always being paid up four weeks in advance.
(ii) Provision is made for option to purchase at a negotiated price at any time during the hiring period.

3. Sale of New and Used Open-cut Plant and Used Underground Plant.

All of this plant is sold at current market value, which is defined as the highest prices bona fide purchasers can be persuaded to pay. The Board does not, however, sell plant at highest prices offered if, in its judgment, such prices are unreasonable and it ought to be possible to obtain higher prices.

4. Sale of New Underground Plant and Stores.

It was originally intended that new units of equipment should be sold at about cost plus 6 per cent., and stores at about cost plus 20 per cent. However, it was always necessary for the Board to have regard to market prices. Consequently, as market prices rose, the Board increased its prices. As a result, the mark-ups now vary widely. In some cases where the Board bought cheaply the present selling price is over 100 per cent. above cost, and is still less than market prices. In a few isolated cases prices have been reduced to or below cost in order to get rid of lines for which there was little demand.

5. Sale of Spare Parts.

The Board normally sells spare parts to the industry on the basis of net cost plus 50 per cent., with the object of covering oncosts, providing for loss on realization of residue stocks and to show a commercial profit.

APPENDIX No. 3.

PLANT, EQUIPMENT AND STORES—SUMMARY OF REVENUE AND EXPENDITURE.

—	Sixteen Months to 30th June, 1948.	1948-49.	1949-50.	1950-51.	1951-52.	1952-53.
Revenue.	£	£	£	£	£	£
Plant hire	93,604	139,087	291,072	621,922	1,330,803	1,130,135
Profit on sale of plant	..	777	22,223	65,890	104,733	(a)
Profit on sale of stores	..	..	17,369	68,587	34,286	17,621
	93,604	139,864	331,264	756,399	1,469,822	1,147,756
Expenditure.						
Repairs	25,072	10,761	38,551	40,508	53,148	107,030
Plant hire	11,432	25,972	13,460	12,722	8,802	692
Transport and miscellaneous	417	258	3,114	5,564	9,486	19,601
Store running expenses	..	783	7,167	12,621	13,446	16,629
Insurance	..	..	219	..	64,178	70,364
Depreciation	32,611	69,515	144,454	209,733	687,684	527,406
Provision for deferred repairs and transport	..	..	..	110,000	100,000	43,000
Provision for doubtful debts	..	..	..	..	..	21,000
Provision for loss on sale of plant	..	..	..	..	122,227	(a)
Provision for loss on sale of stores	..	..	..	30,375	82,000	(a)
Administration costs	..	11,985	21,156	24,016	32,724	36,934
Interest	12,265	30,985	100,582	167,467	218,608	109,502(b)
	81,797	150,259	328,703	612,906	1,396,363	953,158
Net Profit	11,807	*Dr.* 10,395	2,561	143,493	73,459	189,598

(a) Due to a change in the method of accounting arranged between the Audit Office and the Board, these items will in future be charged, not to the Profit and Loss Account, but to the Profit and Loss Appropriation Account. The amounts are as follows: Profit on sale of plant, £141,243; provision for loss on sale of plant, £663,683; provision for loss on sale of stores, £111,770. (b) After deducting interest subsidy amounting to £127,697.

APPENDIX No 4.

MEASURES BY THE JOINT COAL BOARD TO PROTECT EQUIPMENT ON HAND.

1. Plant in Use (on Hire).

In order to ensure that every hirer observes the provisions of each form of plant hire agreement, which requires him to keep the machine clean, to service it and to maintain it in good order and condition, the Board employs Plant Inspectors, who inspect every machine on hire at intervals at approximately two weeks.

On the basis of these inspections, reports are prepared, one copy of each of which is furnished to the hirer and one to the Board's Plant Division.

The hirer is advised, by his copy, of any work considered to be his responsibility which requires to be done.

Any failure by a hirer to comply with requests contained in a plant inspection report can, in extreme cases, be regarded as breach of contract leading to summary determination of the hire followed by action to recover the cost of the damage. The more usual practice is to stop the machine until the necessary repairs are carried out by the hirer.

2. Idle Plant.

Plant which is idle and is being held, either in reserve for future use or for disposal, is protected to the extent necessary to retain its value.

Such protection includes—

(i) regular service to keep machine adequately supplied with lubricant, to maintain tyre pressures, &c.
(ii) regular starting up and movement of machines, to avoid internal rusting or corrosion and to keep lubricants in circulation;
(iii) the moisture-proofing of electrical motors, switchgear and wiring;
(iv) the sealing against weather effects and vandalism of any machines necessarily stored in exposed locations;
(v) re-painting, as necessary, to avoid the effects of external rust or corrosion.

By Authority: L. F. Johnston, Commonwealth Government Printer, Canberra.