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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA.

JOINT COMMITTEE OF PUBLIC ACCOUNTS.

NINETEENTH REPORT.

TREASURY MINUTE AND COMMENTS OF POSTMASTER-GENERAL'S DEPARTMENT ON TWELFTH REPORT OF THE 1952-54 JOINT COMMITTEE OF PUBLIC ACCOUNTS—POSTMASTER-GENERAL'S DEPARTMENT.

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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

JOINT COMMITTEE OF PUBLIC ACCOUNTS

(Appointed 11th August, 1954.)

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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 1901-1954* ;
- (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.

JOINT COMMITTEE OF PUBLIC ACCOUNTS.

NINETEENTH REPORT.

TREASURY MINUTE AND COMMENTS OF POSTMASTER-GENERAL'S DEPARTMENT ON TWELFTH REPORT OF THE 1952-54 JOINT COMMITTEE OF PUBLIC ACCOUNTS—POSTMASTER-GENERAL'S DEPARTMENT.

TWELFTH REPORT OF THE COMMITTEE (13TH APRIL, 1954)—POSTMASTER-GENERAL'S DEPARTMENT.

1. Since presenting its Sixteenth Report, the Committee has received a Minute from the Treasury dealing with the conclusions of the 1952-54 Committee set out in its Twelfth Report on the Postmaster-General's Department and further comments from the Postmaster-General's Department.

2. The conclusions of the Committee were as follows:—

SUMMARY OF CONCLUSIONS.

The Committee has examined a large number of statements covering the activities of the Postmaster-General's Department and has discussed them with departmental and other witnesses at length. Throughout the Report it will have been observed that the Committee has insisted that the business management of the Post Office should not be subordinated to its status as a government department. The Committee realizes, however, that whether it is looked at as a government department or as a business undertaking, the services offered to the public, and the rates or charges that will be fixed for those services, will be decided by the Cabinet on the recommendation of the Minister, i.e., the Postmaster-General. If its appraisal as a government department predominates, there is no effective yard-stick to measure costs, and, therefore, to fix the rates that should be charged.

The effect of the dual character of the Post Office as a gigantic service organization, and as an immense business using commercial practices and tests to measure its efficiency, has already been discussed.

The Committee cannot over-emphasize the importance of comprehensive commercial accounts, and it has constantly used them for evaluating the results of the Department as a whole, as well as for the branches in each State. It seems to the Committee that the Department has not used the accounts for a similar purpose.

It has been able to supply comprehensive data to the Committee covering the technical operations of the services provided by the Post Office as well as its plans for the continued improvement of the services.

The Committee feels that the departmental organization has been primarily concerned with the technical efficiency of its services, and that the business management of the undertaking, including a full appreciation of accounts and costs of the organization, has been relegated to a less important position.

Had the Department carried through the Post Office organization the conception that the charges for the several services are influenced by the results of the financial operations as disclosed by the Commercial Accounts, the Committee believes that the Post Office would have concentrated less upon the departmental votes than it appears to have done. It would also have used the Commercial Accounts as an aid to efficient management as between the branches as well as for the Department as a whole. Had the comparative costs of the branches been subjected to closer scrutiny, the Committee believes that costs might have been substantially reduced.

The conclusions of the Committee on specific matters discussed in the Report are as follows:—

FUNCTIONS.

- (1) The statement of functions of the Postmaster-General's Department should be reviewed.

STATUS.

- (2) Although organized on traditional departmental lines, the Postmaster-General's Department should also be regarded as a business undertaking.

IMPORTANCE OF THE COMMERCIAL ACCOUNTS.

- (3) The Postmaster-General's Department's Commercial Accounts are important in the consideration of Commonwealth finance and should record all the revenue and all the expenditure accruing for the year.

FORM OF THE COMMERCIAL ACCOUNTS.

- (4) The form of the Postmaster-General's Department's Commercial Accounts could be improved.

SCRUTINY OF THE COMMERCIAL ACCOUNTS.

- (5) (a) The Auditor-General should undertake the audit of the Commercial Accounts, having in mind the Committee's comments on disputed items, and
(b) The scope of regulation 127 (3) of the Audit Act should be reviewed and, if necessary, amended, to ensure that the Treasurer possesses the power to prescribe the form of the subsidiary accounts of Commonwealth departments.

OVERHEAD CHARGES.

GENERAL ADMINISTRATIVE EXPENSES.

- (6) The volume of the General Administrative Expenses should be kept under critical review by the Department.
- (7) The system of depreciation of assets followed by the Postmaster-General's Department should have been reviewed long since—
 - (a) In any review of the present system of depreciation of assets of the Postmaster-General's Department, account should be taken of the ability of the Department to keep the maintenance of the assets up to date.
 - (b) The differences in the treatment of depreciation reserves—whether as book entries or trust account credits, by Commonwealth departments should be reviewed by the Treasury.
 - (c) The differing practices adopted in regard to depreciation may be seen from the fact that the Commonwealth Railways takes into account sinking fund payments, while the Postmaster-General's Department provides for depreciation.
 - (d) The gross value of motor vehicles should be shown in the Balance-sheet of the Postmaster-General's Department as are the values of other assets.

SUPERANNUATION LIABILITY.

- (8) (a) The amount of the liability for the Commonwealth proportion of superannuation for present employees accruing in the year in question should be included in the Commercial Accounts of the Postmaster-General's Department.
(b) The additional Commonwealth liability for superannuation for its present employees arising from more liberal superannuation conditions should be included in the Commercial Accounts of the Postmaster-General's Department.
(c) The differences in the treatment by Commonwealth undertakings (subject to the Audit Act) of superannuation liability should be investigated by the Treasury.
(d) Gross contributions to the cost of superannuation could, with advantage, be shown in the reports of the Superannuation Board and of Commonwealth undertakings.

CAPITAL, INTEREST AND EXCHANGE CHARGES.

- (9) (a) The amount of capital of the Postmaster-General's Department to be included in its Commercial accounts should be determined without delay.
- (b) The present basis of charges for interest on capital in the Commercial Accounts of the Postmaster-General's Department has long been anomalous; the proposed review by the Department, the Audit Office, and the Treasury should proceed expeditiously.
- (c) A general statement on charges for interest to Commonwealth undertakings, and the specific proposals for the Postmaster-General's Department will be submitted to the Committee by the Treasury.
- (d) The method of apportionment of charges for interest and exchange between the branch accounts of the Postmaster-General's Department should be discussed by the Department with the Audit Office and the Treasury.

FIRE INSURANCE.

- (10) The desirability of a common practice, or common principles, governing insurance reserves to be followed by Commonwealth undertakings should be examined by the Treasury.

SERVICES FOR OTHER DEPARTMENTS.

- (11) (a) The charges for the services rendered to other departments should continue to be reviewed regularly by the Postmaster-General's Department.
- (b) The *Post and Telegraph Rates Act 1902-1951* and the *Electoral Act 1918-1953* should be amended to permit cash payments as between the departments concerned for meteorological telegrams and for the carriage of electoral matter.

FOOD CAFETERIA SERVICES.

- (12) (a) Losses incurred in the operation of cafeterias should be included in the Annual Estimates so that they will be disclosed to the Parliament.
- (b) The preferable procedure in regard to the Cafeteria Trust Account would, in the particular circumstances, have been initially to repay to the Consolidated Revenue Fund any surplus funds in the account.

UNIT COSTS.

- (13) (a) Despite the difficulties involved in determining unit costs for the branches as between States, these costs are considered by the Committee to be of value in helping to ensure the efficient administration of the Postmaster-General's Department.
- (b) The accounts of the Postmaster-General's Department should be compiled and published in its Annual Reports on a State basis for each service.
- (c) Reasonable units of comparison within the accounts of the Telephone, Telegraph and Postal Branches should be established.
- (d) A comparison of the unit costs of each of these branches as between States, should be included with the accounts with brief explanations.
- (e) The branch results in total and on a unit basis should be reviewed regularly.

TELEPHONE BRANCH.

TARIFF.

- (14) The measured rate system is favoured by the Postmaster-General's Department as against that of the flat rate or any other variant of the measured rate system.

TARIFF POLICY.

- (15) The tariff policy of governments has been to treat the financial operations of the Postmaster-General's Department as a whole and this policy has been extended to individual services such as rentals, business and residence telephones, larger networks, extra mileage charges, press charges, and public telephones.

STAFFING.

- (16) (a) The method of dual control of staffing of the Postmaster-General's Department exercised by that Department and by the Public Service Board illustrates the extent of the compromise that has been necessary in distinguishing the Department—
- (i) as a government department, and
- (ii) as a business undertaking.
- (b) Statistics of telephone operating staff indicate that the output of the staff is as good as in 1936-37.

INTERNATIONAL COMPARISONS.

- (17) Having in mind the difficulties of international comparisons, the charges for telephone services do not appear to be unreasonable by comparison with charges for overseas services.

PROFIT AND LOSS ACCOUNTS 1939-40 AND 1951-52.

- (18) The expansion of business, higher wages and higher prices of materials have resulted in the rate of expenditure in 1951-52 showing a substantial increase over that of 1939-40.

PROFIT AND LOSS ACCOUNT 1951-52.

- (19) (a) States' results showed surpluses on local and trunk-line business in New South Wales and Victoria, deficits in South Australia and Tasmania, a deficit in one service and a surplus in the other service in Queensland and Western Australia, with a net deficit in Queensland and a net surplus in Western Australia.
- (b) Although the Department was reluctant to endorse the principle of State comparisons, the figures of local and trunk-line revenue and expenditure per subscriber's line served to point the Committee to variations between States in those factors which affect State figures.
- (c) The variations in rentals, extensions per line, average charge for a call and the volume of calls, the proportion of metropolitan to country lines, go to explain differences in revenue per subscriber's line between States.
- (d) The balance between incoming and outgoing interstate trunk-line calls could be important in comparing State revenue figures, but figures could not be obtained.
- (e) Factors such as the variations between States in the proportion of manual to automatic exchanges, the volume of calls, telephone directory costs and management, assist in the explanation of differing figures of expenditure per subscriber's line.
- (f) The system of free classified advertising entries, which is confined to the Sydney and Melbourne directories, and the question whether advertising rates for those two directories should meet the costs involved, instead of having to rely on the surpluses from the various contracts for other directories, should be reviewed by the Department.

TELEGRAPH BRANCH.

PROFIT AND LOSS ACCOUNTS 1939-40 AND 1951-52.

- (20) (a) The Telegraph Branch earned surpluses in pre-war years, but now operates at a deficit, a feature common to telegraph services overseas.
- (b) The cause of this position in Australia is seen in the percentage increase between 1939-40 and 1951-52 in expenditure per telegram of 216 per cent., compared with the percentage increase in revenue per telegram of 148 per cent.
- (c) As four-fifths of the expenditure of the branch is on wages, wage rates and output by staff are of predominant importance when expenditure is reviewed: wage costs per telegram increased between 1939-40 and 1951-52 by about 253 per cent. because of wage increases, penalty rates, shorter hours of work, use of adults in place of juniors; the average hourly output per telegraphist has increased during the period because of the increasing use of the direct printing machine system.
- (d) The grade of departmental service was not quite as good in 1951-52 as in 1939-40. Part of the explanation of this position was to be found in staff turnovers and inadequate accommodation. Particular attention should be paid to this problem.
- (e) Tables setting out the results of the Department's tests on the grade of service should be published in the Department's Annual Report.
- (f) Despite a fall in 1951-52 and 1952-53 in the number of telegrams sent, the increased rates charged from 9th July, 1951, have brought in higher revenue than would probably have been received had the rates not been increased.
- (g) There has been a fall in the number of words per telegram in 1952-53 because of increased rates, the greater use of leased lines, of code addresses, competition from airmails and trunk lines.
- (h) Urgent telegrams probably show a surplus to the Department and the proportion of telegrams sent at urgent rates has increased.
- (i) Press telegrams involve a considerable concession, but both the number and the proportion of press telegrams to total telegrams have declined.

PROFIT AND LOSS ACCOUNT 1951-52.

- (21) (a) Costs per telegram for each State show costs on a uniform basis but there are different factors in the different States to be taken into account.
- (b) Interstate traffic, including "through" traffic, could affect the validity of the comparison of unit costs.
- (c) The differences in unit costs between the States have given rise to inquiries into the operating costs, repairs and renewals costs and other costs, the effect of the extent of the use of the machine system, and the employment of adults in place of junior staff.
- (d) The State branches should, in their own interest, be able to explain the differences in the unit cost of items of overhead expenditure.
- (e) There are wide differences in the unit costs of Chief Telegraph Offices, which the Department could explain only in general terms. State Directors should be induced to study their unit costs and to compare their own with those of other States, in a search for economies.
- (f) The Department should consider the restoration of interstate adjustments for interstate telegraph traffic.

METEOROLOGICAL TELEGRAMS.

- (22) Meteorological telegrams have constituted an important part of the business of the Telegraph Branch, but the increasing use of leased lines will further reduce the number of telegrams involved. The payment for the telegrams and for leased lines by the Meteorological Branch to the Department will place the two in the position of buyer and seller and, in that way, should contribute to an economical service. The Meteorological Branch should investigate the extent of the use of urgent rate telegrams.

POSTAL BRANCH.

PROFIT AND LOSS ACCOUNTS 1939-40 AND 1951-52.

- (23) (a) The Postal Branch Profit and Loss Account shows, as in the case of the Telegraph Branch, surpluses in the pre-war years and deficits in recent years.
- (b) The bulk of expenditure of the branch is on salaries and wages, which have increased in proportion substantially more than have postage charges.

PROFIT AND LOSS ACCOUNT 1951-52.

- (24) (a) Comparisons of State operations on the basis of "per £1 of revenue" are, for the reasons set out in paragraphs 347-350, not satisfactory.
- (b) On the other hand a comparison made by the Committee of the costs of State operations on

the basis of "per million postal articles handled" served as a guide to the Committee into variations between States.

- (c) Variations between the States in exchange of mail, mail conveyance costs, mail handling costs, and miscellaneous costs, point to possible reasons for differing unit costs in the several States.
- (d) Individual services show marked differences in surpluses or deficits; broadly, a profit on the ordinary letter rate operates to subsidize a loss on the bulk carriage of newspapers and periodicals.
- (e) Regular reviews are made of the costs of parcels delivery.

MONEY ORDERS AND POSTAL NOTES.

- (25) Consideration should be given by the Department to a separate Profit and Loss Account for the money order and postal note business, or to providing at least sufficient detail in the existing Postal Branch Profit and Loss Account to enable the results of the business to be ascertained.

SITES AND BUILDINGS.

- (26) A more adequate review of the holdings of vacant sites and buildings not occupied by the Department should be maintained.

STORES AND TRANSPORT TRUST ACCOUNT.

- (27) (a) The comments by the Auditor-General on the Post Office Stores and Transport Trust Account in his Annual Report for 1952-53 justify a review of the operations of the Account under regulations 91 and 92 of the Audit Act;
- (b) Particular consideration should be given to the correction of the present position of the Trust Account by presenting specific legislation to the Parliament as soon as possible; and
- (c) The Committee prefers separate Trust Accounts for each section of the present Account but the situation requires examination.

STORES.

- (28) The stores in excess of the normal supply could be regarded as well stored and not obsolescent; a proper system of checks on issues and usage was maintained, and the Department's control of its stores, as shown in stocktaking results, appears to be satisfactory.

TELEPHONE DEBTS.

- (29) The amount of telephone debts has increased, both in terms of money and percentage of Telephone Branch revenue. To some extent, this increase appears to be due to a lag in sending out accounts.

TREASURY MINUTE.

3. The Treasury Minute is dated 7th February, 1955, and is as follows:—

1. The Treasury has examined the conclusions of the Committee in the light of comments on those conclusions by the Postmaster-General's Department.

FUNCTIONS.

2. Following the issue of the Committee's Third Report relating to the Administrative Arrangements Order, an expanded statement of the functions of the Post Office has been prepared for inclusion in a new order.

STATUS.

3. The Director-General in his evidence to the Committee explained the position of the Post Office when he said—

"The Post Office is a Government instrumentality which carries out the wishes of Parliament and of the Government in regard to the provisions of communication services; but it is a business undertaking in that it endeavours to utilize every modern method of business control over its staff, over its equipment, and over its purchases. It tries effectively to take advantage of all modern business ideas."

The Department points out that in the report of a Senate Committee on the Post Office and the Civil Service in the United States of America (No. 1086 of 24/3/54) a recommendation was made that Congress should consider the following resolution:—

- "(1) That the Post Office Department is fundamentally a public service to the people of the United States and should be so considered.
- (2) That the postal service shall be conducted according to the highest standards of efficiency in either business or Government, and that constant efforts shall be made to improve the service in the interests of the public."

The Department states that this is the principle under which the Australian Post Office has operated.

IMPORTANCE OF COMMERCIAL ACCOUNTS.

4. It is agreed that all the revenue and expenditure accruing for the financial year should be recorded in the Commercial Accounts, and this principle has been applied since their inception. Credit is generally taken for services performed for other Commonwealth undertakings even though a cash payment has not been made for all of them. Working liabilities and accrued earnings which have not been received at the end of the financial year are also taken into account in preparing Profit and Loss Accounts and the Balance-sheet.

FORM OF THE COMMERCIAL ACCOUNTS.

5. Discussions have taken place over the past two years between the Treasury and Post Office and, more recently, in conjunction with the Audit Office, for the purpose of reviewing the form and content of the Commercial Accounts.

In addition to a re-calculation of the Post Office's capital, this review has included the examination of a number of items, including those mentioned by the Committee in its Twelfth Report. Results of the review will be submitted to the Treasurer and Postmaster-General at a convenient opportunity. In many cases, the approval of the Treasurer and Postmaster-General to changes in past practices would be necessary; in some cases, Parliamentary approval would have to be sought.

The Commercial Accounts for 1952-53 were presented in a form which is an improvement upon that used previously. Figures for the previous year were included to facilitate comparisons; assets, liabilities and reserves were regrouped, and accumulated profits or losses were shown for each trading branch.

SCRUTINY OF THE COMMERCIAL ACCOUNTS.

6. The Treasury agrees with the Committee's views that legislative authority should be obtained to remove any possible doubt concerning the power of the Treasurer to approve the form of commercial and subsidiary accounts

The Treasury also agrees with the Committee's conclusion that the Department's Commercial Accounts should be audited by the Auditor-General. These matters are being dealt with in the general revision of the Audit Act and Treasury Regulations which is now in progress.

GENERAL ADMINISTRATIVE EXPENSES.

7. The general administrative expenses of the Post Office are being kept under constant review by the Department. They are recorded under Sectional Classification Accounts and are thus available for scrutiny and comparison by the Director and Branch Heads in each State and by controlling officers at Head-quarters. In addition, very stringent control is exercised by the Department over these costs by its oversight of the staff employed compared with the volume of work to be discharged. All proposals for additional staffing are subject to the closest examination in the States and at head-quarters; in addition, the Public Service Board has to be satisfied of the justification for the creation of new permanent positions and the employment of temporary staff.

DEPRECIATION.

8. The Post Office is making a comprehensive survey of the system of depreciating its assets, which it has followed since the inception of its Commercial Accounts. This will be submitted to the Treasury in due course. It will include consideration of the classes or types of assets for which depreciation provision should be made, the rates to be charged, the ascertainment of the value of assets written off and of depreciation which has been charged thereon, and the treatment of the profit or loss (if any) incurred on assets written off.

The differing practice followed by the Commonwealth Railways, which the Committee comments on in this Report, is being examined by the Treasury.

VALUE OF MOTOR VEHICLES.

9. The improved Balance Sheet for 1952-53 shows the gross value of motor vehicles as well as the net value after deducting depreciation.

SUPERANNUATION.

10. The Commonwealth Actuary has advised the Treasury of the amounts which should be included in the Commercial Accounts to provide for superannuation liability, including the increases in 1954, and in previous years in the value of the pension unit. The Actuary considers that the appropriate charge in a financial year for this item is the Commonwealth share of the accruing liability for pensions to existing employees and not, as in the Commonwealth Railway's Commercial Accounts, the amount of the Commonwealth contributions towards the cost of pensions paid in that year to past employees.

The Post Office adjusted its Commercial Accounts for the increase in the value of the employer's contribution to the pension unit only from the date on which the increase took place, although the increase was effective from the date on which the scheme commenced. The Commonwealth Actuary has also advised on the annual amount necessary to amortise this accrued liability. This adjustment is being discussed with the Post Office.

The Treasury has noted the view of the Committee that gross contributions to the cost of superannuation could, with advantage, be shown in the reports of the Superannuation Board and of Commonwealth undertakings. This matter has been taken up with the Superannuation Board and will be kept under consideration in connexion with the framing of the form of accounts of Commonwealth undertakings.

CAPITAL, INTEREST AND EXCHANGE CHARGES.

11. The Treasury agrees that the present basis of determining the amount of capital for which the Post Office is deemed to be responsible, and the computation of capital charges thereon, are anomalous. In addition to re-calculating the capital of the Post Office, consideration is being given to the basis on which interest and other capital charges should be determined for past and future years.

The examination extends to the present method of apportioning capital charges between the Branch accounts of the Department on the basis of the ratio of Branch assets to the total value of departmental assets.

INSURANCE.

12. The Treasury is considering whether or not it is desirable to apply common principles and practices to the provision of insurance reserves for Commonwealth undertakings. In general, Commonwealth statutory bodies falling outside the Budget carry their own risk and credit to an internal Insurance Reserve each year an amount equivalent to the premium on its assets that would be payable to an outside insurer. Any losses are then charged to that Reserve.

SERVICES FOR OTHER DEPARTMENTS.

13. A submission will be made at an appropriate time to the Treasurer concerning the Committee's conclusion that the law be amended to permit cash payments for meteorological telegrams and electoral matter. The basis of charges for services performed by the Post Office for other Departments is reviewed at intervals, the results of the reviews being submitted to the Treasury for approval.

FOOD CAFETERIA SERVICES.

14. The Treasury has been engaged for some time on a comprehensive review of the finances and control of all cafeterias within the Public Service, and will be in a better position to inform the Committee on this matter when the review has been completed.

UNIT COSTS.

15. (a) It has always been recognized by the Department that unit costs are of value in securing greater efficiency and economy. Unit costs are already available for telephone and telegraph transactions. The matter of arriving at reasonably representative figures for postal business is receiving constant attention and the Department is closely in touch with developments in this respect in other countries.

(b) The Postmaster-General approved that the 1952-53 accounts should be published on a Commonwealth and not a State basis. One reason is that the publication of State Profit and Loss Accounts covering an interlocking Commonwealth service has not proved of value and cannot give a reliable picture of the relative efficiency of operation as between the several States. Moreover, unless prohibitive costs were incurred, it would not be possible to allocate accurately from an accountancy standpoint the revenues and expenditure specifically within State boundaries. Instances of this difficulty were explained to the Committee. As far as is known, no other major Commonwealth activity endeavours to separate its profit and loss results into States.

However, the Department will continue to produce comparative results under various items for intensive analysis by controlling officers and is confident that this method is the one likely to be productive of the best results.

(c) Comparisons on a unit basis within the Telephone and Telegraph Branches are made by the Department and will continue to be scrutinized by controlling officers. These are supplemented by a continuous review of staffing costs, &c., in post offices, telephone exchanges, engineering divisions, &c.

(d) Comprehensive unit costs of engineering capital and maintenance works have been in force for many years, the units being reviewed from time to time and adjusted where necessary in the light of experience and the greater use of mechanical aids. Appreciable differences in results of the same type of units as between States are followed up.

TELEPHONE BRANCH.

PROFIT AND LOSS ACCOUNTS 1939-40 AND 1951-52.

16. The increase in the rate of expenditure since 1939-40 has been very marked, since earnings and financial turnover have risen rapidly and in 1952-53 were nearly four times as great as in 1939-40. Expenses have also been greatly affected by inescapable extra costs resulting from higher wage rates, costs of materials and freight and mail conveyance charges. Salaries have risen by more than 200 per cent. in some cases and the prices of materials have increased even more sharply. In the same period the overall level of Post Office charges has gone up by only 106 per cent.

PROFIT AND LOSS ACCOUNT 1951-52.

17. (a) The varying results on local and trunk-line business in the several States are due to factors which are not uniform in all States, such as the extent of the development in automatic working, the varying extent of outdoor construction and the durability of pole timber available, the accessibility of routes, weather conditions, the proportion of telephones to lines, the ratio of metropolitan to country subscribers, the proportions of outward and inward calls, the incidence of through traffic, and so on. In addition, the revenue from interstate traffic and services is not apportioned between States on an accountancy basis. The Department considers that if Profit and Loss Accounts are to be regarded as indicators of relative efficiency drastic and costly changes in the distribution of revenue would be necessary. The Department considers that this underlines the difficulties in the way of producing soundly based State Balance Sheets in a Commonwealth service which interlocks at so many points and where local circumstances play such a big part, particularly with a tariff structure that in many cases is based on considerations which do not relate solely to the cost of giving service.

(b) The Department advocates State comparisons if they are soundly based. It compares, for example, unit costs of doing work under the same conditions, the staffing of activities of a similar type, the standard of service given by related services, the output of personnel and many other items. Its

reluctance was in connexion with comparisons on a Commercial Profit and Loss basis as between States when, without expensive and complicated accountancy procedures, it would be impracticable accurately to apportion revenue and maintenance costs in a Commonwealth service which obviously cannot be kept within State boundaries, and moreover where the incidence of revenue is unequal and beyond the control of the administration, and the tariffs are assessed on a broad Commonwealth basis rather than on the cost of giving service in the respective States.

(c) While in general the variations in telephone rentals, extensions per line, average call fees, volume of traffic and the proportion of metropolitan to country lines, go to explain State differences in the revenue per subscriber's line, other factors such as extensive floods and bush fires could affect the revenue per line in any particular period.

(d) While it might be interesting to compare trunk line revenue on a State basis, a great deal of additional work would be involved in maintaining accounts in such a way as to enable the Department to secure detailed State figures for interstate trunk traffic.

In addition to the maintenance of records of all classes of in and out traffic at each exchange in the city and country and making an equitable credit to the State concerned for the widely differing value of the calls, many of which traverse intrastate as well as interstate channels, there would also be the problem of apportioning the operating and maintenance expenditure for the thousands of lines which carry interstate traffic in a greater or lesser degree.

It is felt by the Department that the extra cost and work entailed is hardly justified, as comparisons of output and efficiency can be made in other less costly ways.

(e) Nearly 50 per cent. of the telephone directory revenue is derived from block type and other paid entries in the Alphabetical Sections of the books, and these entries are arranged direct with the Department by subscribers. In fact, in the States which are referred to as providing a surplus to cover the cost of the New South Wales and Victorian directories, collections from the paid entries amount to about twice the revenue from the advertising contracts.

Notwithstanding the publication of free entries in the Classified Sections of the Sydney and Melbourne directories, the payments made to the Post Office by the advertising contractors in respect of these sections more than cover the cost of printing them. In common with the practice observed by other leading telephone administrations, the publication of full Classified Sections in the Sydney and Melbourne directories is considered by the Department to be necessary in the interests of an adequate and efficient telephone service to the public. As the subscribers in the metropolitan telephone networks in other States increase sufficiently, the same practice will, no doubt, be followed.

It is of interest, however, that the gross cost of the Sydney telephone directory, for example, is 10s. per directory, but the net cost to the Department after crediting advertising and other revenue is approximately 11½d. per copy. It might be quite unreasonable to expect revenue from advertising and paid entries to meet the whole of the costs of printing both the alphabetical and classified lists of telephone subscribers, although it so happens that until recent years the receipts have done so in regard to the directories as a whole.

Naturally, the Post Office cannot charge excessive rates for paid directory entries, nor can advertising contractors be expected to charge fees above what they and the Department consider to be reasonable. To maintain a satisfactory volume of business, rates must be fixed in relation to circulation and advertising charges generally.

TELEGRAPH BRANCH.

PROFIT AND LOSS ACCOUNTS 1939-40 AND 1951-52.

18. (a) The position, which is common to telegraph services in some overseas countries, is naturally affected by more frequent and speedy air mail services between the capital cities and improved trunk line facilities. In addition, the rates for telegrams have been kept as low as possible by successive governments and are considerably less than are justified by the greatly increased operating and maintenance costs.

(b) The speed of telegraph service in 1951-52 was not as good as in 1939-40 in New South Wales, Victoria, South Australia and Western Australia, the decline being more noticeable in the two former States. The Department states that the inferior results in New South Wales and Victoria were due mainly to delays in the internal circulation system in the Chief Telegraph Offices because of staffing difficulties and inadequate plant and building accommodation.

The arrangements for handling telegraph traffic were examined critically some time ago by an expert Committee and measures to effect some improvements have already been taken by the Department. The establishment of an automatic switching scheme, which would obviate the double handling which exists under the present manual system of a great proportion of telegrams, is being considered in the light of developments in other countries and the problems peculiar to Australia. Two departmental experts recently investigated the matter in the United States of America.

(c) Appropriate details covering the grade of service will be published in future annual reports.

(d) The revenue derived from urgent telegrams, which are charged double the ordinary rates, exceeds the cost of handling. The percentage of urgent paid telegrams within the Commonwealth to the total load has declined, however, in recent years, e.g., 5.4 per cent. in 1950-51, 4.1 per cent. in 1951-52 and 3.6 per cent. in 1952-53. The percentage in 1939-40 was 2.5 per cent.

(e) Owing to the greater use of leased teleprinter services by newspaper organizations, the volume of press telegrams has been declining for a number of years. In accordance with the policy of successive Governments, concessional rates are applied to such telegrams. The revenue earned in 1952-53, for example, was £111,071, but at the ordinary rates this amount would have totalled £320,291.

PROFIT AND LOSS ACCOUNT 1951-52.

19. (a) The factors which tend to invalidate comparisons between State costs of telegrams include the retention by the originating State of the whole of the revenue from outgoing telegrams, the greater mileage of channels and maintenance costs in some States than in others, the varying proportion of traffic moved over direct printing machine systems and the need for maintaining in some States large provincial operating centres.

(b) The validity of the comparison of unit costs as between States is also affected by the difference between the volume of traffic outgoing from a State and the volume of incoming messages as well as by the costs incurred by an intermediate State in handling traffic crossing its territory or for providing direct channels to enable such traffic to be moved automatically across the State.

In making cost comparisons it is of course most important that like should be compared with like. General profit and loss comparisons on a State basis are not satisfactory, as these results contain too many variables. A much better check is the comparison of unit costs of performing work of a similar type supplemented by adequate controls of staff, expenditure, procedures and service standards.

(c) It is agreed by the Department that State branches should be able to explain differences in the unit costs of items of overhead expenditure and also items of working expenses, and they are in a position to do so.

Moreover, in analysing costs for each State at head-quarters it is customary to consult with the States where they are appreciably above or below the Commonwealth average and these matters are followed up appropriately at head-quarters and in the States where necessary.

(d) Although expressed in general terms in evidence furnished by the Department to the Committee, the wide differences in the unit costs at Chief Telegraph Offices are due mainly to factors which are known to controlling officers. The Commonwealth average cost in respect of each telegram handled in 1951-52 was 9.7d., but there were two particularly wide variations—7.2d. in Adelaide and 14.3d. in Hobart.

The low cost in Adelaide, for example, was due mainly to special arrangements regarding meteorological telegrams, many of which were retransmitted to Alice Springs and Darwin at the request of the Meteorological Branch. The high cost in Hobart resulted principally from the small "through" load handled—37 per cent. as compared with the Commonwealth average of 68 per cent.; a greater proportion of the Hobart traffic, therefore, bore acceptance and delivery costs.

(e) The main item involved in interstate adjustments are the rentals for interstate leased teleprinter services, differences between the volumes of inward and outward interstate traffic, the costs incurred in New South Wales, Victoria and South Australia in handling interstate traffic crossing their territories or for providing direct channels for the movement of such business, the separation of the amount chargeable to the intra-state section which is involved as well as the interstate channel in many cases, and the terminal charges on incoming international telegrams.

In the circumstances, and as substantial costs would be involved in maintaining the additional accounts necessary, the Department feels that action along the lines suggested would be hardly justified, particularly as better and more effective comparisons can be and are being made in other ways.

METEOROLOGICAL TELEGRAMS.

20. The Committee's comment on the extent of the use of urgent rate meteorological telegrams has been taken up with the Department of the Interior.

POSTAL BRANCH.

PROFIT AND LOSS ACCOUNTS 1939-40 AND 1951-52.

21. As pointed out by the Committee, salaries and wages, and also mail carriage costs, which constitute the bulk of the expenditure of the Postal Branch, have increased in proportion substantially more than have postage charges. Therefore, it is not surprising that a pre-war surplus has been converted into a post-war loss despite the efforts of the Department to

introduce modern methods and to practice all reasonable economies, including mechanization, consistent with the provision of public services in accordance with Government policy.

PROFIT AND LOSS ACCOUNT 1951-52.

22. (a) The Department does not regard State comparisons on a per £1 of revenue basis as valid or useful, having regard to the varying proportions of postal articles of all classes dealt with in each State and the fact that the profit on letters assists in meeting the loss on other articles.

Variations in labour costs as between States are due mainly to differences resulting from geographical factors which give rise to special payments to staff in certain areas, higher travelling expenses in some States than in others and the unbalance of mail exchanges between States.

(b) Several factors detract from the value of a comparison of total articles dealt with to total expenditure—

(i) The quantities of different types of mail matter are added together.

(ii) Mail on different routes requires different sorting and handling arrangements.

(iii) Some factors are peculiar to one State and not another.

(iv) A considerable proportion of the expenditure in the Postal Branch covers mail conveyance. Road carriage costs are dependent on local circumstances and in most cases on the results of competitive tendering.

(c) Surface conveyance costs by rail and road vary appreciably as between States, due largely to differences in the mean distances over which mails have to be transported within each State.

The extent to which it is necessary to use road instead of rail carriage, and State differences in the average mileage cost of road services, also affect the conveyance costs by surface means.

(d) In addition to the differences in results of the individual services the Department points out that the ordinary letter rate also operates uniformly on the basis of individual articles whereas the bulk postage charges on newspapers and periodicals apply on a weight basis, irrespective of the number of articles covered by the weight unit, at specially low rates in accordance with Government policy.

MONEY ORDERS AND POSTAL NOTES.

23. The maintenance of separate Profit and Loss Accounts for money order and postal note business would involve additional expenditure which, the Department feels, could hardly be justified. Moreover, it is not considered that these particular activities merit special treatment in comparison with other transactions such as bulk postage, parcels and leased teleprinter services.

The Department feels that the wishes of the Committee to have information concerning comparative costs presented to Parliament will be met by making sample surveys in each financial year and embodying the results in the Annual Report.

SITES AND BUILDINGS.

24. Sites for post offices, telephone exchanges and most other purposes must be obtained well ahead of the erection of buildings in order to ensure that the premises will be in a suitable location, having regard to the business activities, the distribution of population and the connexion of telephone subscribers without involving unnecessary construction costs.

If such a practice were not followed it would be impossible in many cases for a new post office to be provided in the business section of a centre without compulsorily acquiring a block on which a building had been erected. Then again, heavy additional costs would be incurred in providing lines to an exchange not situated close to the most economic distributing centre.

It is recognized by the Department that many of the sites already purchased have been vacant for a long period. Abnormal factors which could not be foreseen by the Department have been responsible, however, for this position, e.g.—

(i) In the past twenty years a serious depression and world-war precluded the erection of buildings which were justified;

(ii) The acute shortage of labour and building materials in the early post-war years limited the buildings programme to the most essential and urgent cases;

(iii) Many sites were required for staff residences on which it had been proposed, in accordance with Government policy, to erect imported prefabricated houses. The modification of this policy meant that a large number of sites were left on the Department's hands. Quite a number have already been sold.

In the case of buildings which were purchased, the Department considers that the majority has been a most valuable adjunct. In some instances, however, vacant possession could not be secured and the properties have been disposed of.

The Department holds the view that it is fortunate to have the Central Hotel property in Perth adjacent to the General Post Office which will be valuable for the essential develop-

ment of its activities. The historic association of General Post Office buildings is such that they are not likely to be altered so far as general architectural treatment is concerned and the logical means of development appears to be the provision of adjoining buildings when required.

The overall position concerning buildings, acquired but not occupied by the Department is under critical examination. Three full-scale Commonwealth-wide reviews have been made by the Department during the past six years. In addition, the annual programme of acquisitions has been subjected to detailed and rigid scrutiny. A particularly critical examination was made of the programme for 1954-55 and no proposal has been included unless there is clear-cut evidence that, having regard to present sites and facilities, the land must be purchased in the next twelve months to enable vital facilities to be provided. The Department states there is close co-ordination of sites and buildings with the engineering capital works programme and the measures which have been taken in recent years to ensure adequate control of expenditure are now bearing fruit.

STORES AND TRANSPORT TRUST ACCOUNT.

25. Following an examination of the Stores and Transport Trust Account, in the light of the Committee's comments and the opinion of the Solicitor-General of 30th December, 1953, it has been closed and replaced by a new Account designated "Post Office Stores and Services Trust Account", with wider purposes covering all the operations of the Stores and Transport Trust Account.

The transfer of the cash balance and stocks of the old Trust Account to the new Account took place at 30th June, 1954. The necessary statutory authority for the transfer is contained in the Appropriation Act (No. 2) of 1953-54.

Consideration was given to the Committee's suggestion of presenting specific legislation to Parliament. However, the legislative programme of the Government did not permit specific legislation to be introduced before the dissolution of the Parliament and the necessary authority was included in the Appropriation Act. This enabled the change-over to take place before the commencement of the new financial year.

The Auditor-General suggested that there should be separate Trust Accounts for stores, transport and workshops. It is considered that because of the close relationship between stores and workshop activities, it would not be practicable to have a separate trust account solely for workshop expenditure.

The establishment of a separate Trust Account for transport activities would involve the provision of a further advance of approximately £2,000,000 from Consolidated Revenue. Treasury endeavours in recent years have been directed towards a reduction of present advances which now stand at the high figure of £16,700,000. The time is not considered opportune to provide from taxation revenue a large further amount which, in the event, would be immobilized in the Trust Fund.

The sectional headings of the Post Office Stores and Services Trust Account will, however, be shown separately in the Trust Fund Table (No. 22) published in the Budget Papers. The Treasury notes from paragraph 434 that the Committee supports in principle the current practice of the Post Office in debiting the cost of certain equipment to a vote even though, to meet practical needs the equipment may have to remain in the Department's store. The Treasury realizes the possibility that advantage may be taken of an unexpended balance of an appropriation to buy materials beyond the necessities of the occasion. The test appears to be whether the value of equipment held in store under this procedure increases to any significant extent in a financial year. Adequate records are being kept by the Post Office and the position is being closely watched in the Treasury.

Paragraph 424 *et seq.* of the Report dealt with the application of Treasury Regulations 91 and 92 to the operation of the Trust Account. These Regulations restrain an Authorizing Officer from authorizing expenditure from a Trust Account unless a credit is available therein for the purpose, and require the Authorizing Officer to see that the total amount which he has authorized to be paid does not exceed the total amount included in the Trust Fund Credit for the particular head of expenditure.

The practical difficulty that exists is that the cash balance in the Trust Account at any time is so small that it is not possible for the Central Office to allocate to each State Branch at the commencement of each month a credit sufficient to cover the net expenditure for the month. An allocation would require a close assessment not only of the forthcoming expenditure in a State but also of the credits likely to accrue in the State during the month. To provide a sufficient cash balance to meet the requirement of an allocation to each State, a further advance from Consolidated Revenue of the order of £4,000,000 would be necessary.

The practical solution of the problem would be for the Audit Office to conduct a continuous audit of the Central

Office records which consolidate the transactions of the various States. Then so long as the Trust Account is overall in credit, the spirit of the law would be observed. In effect, an Authorizing Officer in a State would be acting in the capacity of agent for the Authorizing Officer in the Central Office.

The Treasury cannot at the moment see any other means of meeting the position other than the exemption of the Trust Account from the provisions of Regulations 91 and 92 which it would be reluctant to approve. However, it is intended to discuss the problem again with the Post Office and also with the Auditor-General to ascertain whether the practical expedient suggested above would be acceptable.

COMMENTS OF POSTMASTER-GENERAL'S DEPARTMENT ON STATEMENTS MADE IN TWELFTH REPORT OF PARLIAMENTARY JOINT COMMITTEE OF PUBLIC ACCOUNTS WHICH DO NOT APPEAR IN THE CONCLUSIONS OF THE COMMITTEE IN PARAGRAPH 480.

4. The further comments from the Postmaster-General's Department are as follows:—

STAFF.

Statement.—Paragraph 27—The excess of establishment over staff actually employed is a feature common to all the Departments reported upon by the Committee. It has drawn the attention of the Public Service Board's representative assisting the Committee to this and has pointed out that the system can weaken control over the number of persons to be employed in the several Departments.

Comments of Department.—The fact that the total staff employed in the Post Office on 30th June, 1953, was 1,105 less than the approved establishment, representing as it does a difference of 1.5 per cent., in no way discloses any weakness, but is a state of affairs which could be expected in such a large organization.

Naturally, there must be some flexibility to meet fluctuations in traffic of different types and also emergencies which lead to unusual calls on personnel.

There is no lack of effective control of Departmental staffing levels from all standpoints within the Department and there is also a close oversight by the Public Service Board and more generally by the Treasury through the Budget.

CHARGES.

Statement.—Paragraph 36—Without going so far as to say that the Post Office should pay its way, the Committee considers that the fullest attention should be paid to the relationship between the income and the expenditure of the Post Office in fixing charges.

Comments of Department.—The charges for services rendered by the Post Office are generally determined by Parliament. In formulating proposals for consideration by the Government in the first instance, the relationship between income and expenditure is given careful consideration, but based on experience over very many years there are many other factors which affect the final determination.

BUILDINGS BRANCH.

Statement.—Paragraph 65—The Committee considers that the Department should examine ways in which the cost of the Buildings Branch can be reduced.

Comments of Department.—The Buildings Branch was set up in 1947 to co-ordinate the building needs of all branches and to ensure economy in the provision of buildings and associated services. Formerly these activities were carried out in the Engineering and Postal Services Branches. Subsequently, the Buildings Branch was consolidated by the transfer of cleaning, servicing and light and power staffs from other branches.

In 1939-40—the last pre-war year—the total expenditure on the new buildings and sites programme, plus repairs and maintenance and rentals for leased premises, totalled £403,007 but in 1952-53 the corresponding amount was £5,723,040. The expenditure on general administration, light and power and the cleaning and custody of buildings was £111,615 in 1939-40 compared with £986,715 in 1952-53.

Of the total staff of 1,169 employed in the Buildings Branch as at the 30th June, 1954, 985 were workmen engaged on light and power, cleaning and miscellaneous work and if the Buildings Branch had not been created these people would have had to be employed in any case. The remainder covered the administrative, professional and clerical staff engaged on the varied and comprehensive activities of the branch.

There is ample evidence that its achievements fully justify all the expenditure that has been incurred. Savings have been achieved in many directions by the rationalization of plans and the drawing up of specifications for buildings and services. The building designs for postal and telecommunication purposes are of a specialized nature and preliminary plans and specifications of the functional requirements must be prepared before the Department of Works can commence the drawing of sketch plans.

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TELEPHONE DEBTS.

26. The amount of telephone accounts outstanding at 30th June, 1952, showed an increase over previous years, due to a lag in sending out accounts. This was due to a variety of factors, including difficulties in the recruitment of clerks, accounting machinists and a shortage of machines. The greatly accelerated increase in the rate of connexion of new telephone services has also affected the position.

The situation has improved to a marked extent in the past two years. For example, the outstanding telephone accounts on the 31st May, 1954, totalled £1,109,314, compared with £2,175,622 in May, 1952.

The matter is being watched closely with a view to effecting a further improvement.

The Joint Committee, in its Fifth Report on the Department of Works, emphasized that client departments should define their requirements clearly before they approach the Department of Works and that a constant review should be maintained of the arrangements between the design staff of the latter department and other departments.

Care has been taken to avoid any overlapping of functions between the Buildings Branch and the Department of Works. A particularly close watch has been exercised on the operations of the Buildings Branch and the staff is not in excess of urgent and essential needs. In fact, some additions will be unavoidable to meet the requirements of capital and maintenance programmes which must be expanded progressively to meet the needs of the Post Office which has been faced with very high public demand for services and which shows no signs of decreasing.

TRAINING.

Statement.—Paragraph 65—The Committee considers the Department should examine ways in which training costs can be reduced.

Comments of Department.—This matter is one that is receiving constant attention. Because of the specialized nature of many of the postal and telecommunication services provided by the Post Office, and the fact that qualified people cannot be recruited, as a general rule, from outside sources, staff training is essential and training schemes have been developed and extended over the years in order to meet the progressive requirements of an expanding organization which is keeping abreast of changing techniques and procedures in leading countries overseas.

Training has received special attention and procedures are constantly under review by expert officers who also deal with the use of modern teaching aids and techniques. Many trainees, particularly engineering staff, are, in fact, apprentices.

For the purpose of seeing that each training scheme is essential to meet staffing needs and is carried out in the most effective and economical manner a standing committee has been established at head-quarters. This committee maintains a continuous oversight on training arrangements, and examines detailed reports prepared by working committees. The standing committee ultimately reports on all important aspects to the Director-General.

One of the main causes of the increase in training costs has been the extraordinary staff wastage figures in the main groups of employees such as telephonist, mail officer, &c. This involved the department in the training of enormous numbers of recruits as the only alternative to closing down vital services. The wastage decreased in 1952-53, but is again increasing owing to the heavy demand for labour in Australia.

The methods of training are under constant examination and variations will continue to be made in the interests of economy and efficiency.

TRADING RESULTS.

Statement.—Paragraph 162—Conceding always that the charges by the Department are determined by the Government and over which the Department has no control, it should be judged, amongst other things, on the results of its trading operations each year, and these results will be shown in suitable Commercial Accounts, i.e., by a surplus or a deficiency in the accounts of the Telephone, Telegraph or Postal Branches. Furthermore, it appears to be equally sound to assess the activity of each of the administrative divisions of the Department—the State branches—by these trading results. In private enterprise, branch trading results are closely watched; they should also be regarded as of supreme importance in an enterprise the size of the Department. To the central management variations in costs incurred for one service by a State branch should be a matter for concern and investigation. Variations in work loads, comparisons of grades of service, would assist the examinations of financial results.

COMMERCIAL ACCOUNTS.

Statement.—Paragraph 476—The Committee cannot over-emphasize the importance of comprehensive commercial accounts, and it has constantly used them for evaluating the results of the department as a whole, as well as for the branches in each State. It seems to the Committee that the department has not used the accounts for a similar purpose.

Comments of Department.—The Post Office shares the Committee's view that there should be comprehensive Commercial Accounts of each service branch but does not agree with the sub-division of these accounts to show profit and loss results of each State separately. The Postmaster-General is of the same opinion.

The Department operates a Commonwealth-wide service and for all practical purposes State boundaries are not significant. Its plant in many respects traverses State boundaries and its revenues and operating and maintenance costs cannot, without costly and complicated procedures, be equitably allocated to individual States. Moreover, there are so many items of revenue and expenditure which cannot be influenced by local management that to use the State results as a measuring stick of efficiency would be unreal and misleading.

The Post Office has a comprehensive system of classifying its expenditure and also of recording unit costs of doing work. Comparisons of these items as between States or districts, or with different periods of time, are of real value as are comparative output studies for work of various classes. These studies are being extended as staff permits.

Supplementing these checks the Department has procedures for a rigid oversight of staffing; it uses modern scientific loading bases for relating staff to work volume and also the latest mechanical aids in every section of its activities. It has a sound system of purchasing and storing its supplies and in programming its work. In the case of individual jobs the procedure for estimating costs and subsequently checking the results is effective and is under constant overhaul.

The Department also measures its service results against desirable standards in various ways which were explained to the Committee, and special attention is given to the technical efficiency of its plant and equipment.

The foregoing is a very general indication of the extent to which the Department applies business principles to its task. It regards these matters as of fundamental importance and all controlling officers understand this and apply it to their daily work.

The concentration on a system of State profit and loss statements for this nation-wide service would not only increase costs but would not constitute anything of real value to justify the costs which is not already being received in a more balanced and effective way.

Although the Postmaster-General has decided that separate State profit and loss results will not be published in future, they will still be prepared for Departmental use and the matters arising therefrom will be pursued with, of course, the full understanding of the anomalies which are in evidence and which affect their value as indicators of regional efficiency.

STATE COMPARISONS.

Statement.—Paragraph 238—The Committee has weighed the doubts raised by the Department (in regard to the validity of comparisons of expenditure per telephone subscriber's line as between States), but nevertheless it felt that a study of these figures and the examination of the reasons for the variations would be worth while in its attempt to explain the differing circumstances of the Branch in each State. The figures collate and express in monetary terms the effect of all the differing factors. After all, each Branch is judged in the main by its financial results and in these results due weight is given to the technical equipment of the Branch in the States.

Comments of Department.—The Department agrees that the financial results of the different services, i.e. Postal, Telephone and Telegraph, are vital and must be constantly studied, but, as explained in the previous comments, it does not feel that State profit and loss results are of any real value in determining the relative efficiency of State administrations. Having regard to the factors which have already been stressed elsewhere, it would be wrong indeed to regard differences in State profit and loss results, however compiled, as evidence of administrative competency or weakness. It was for this reason that the Postmaster-General decided that Profit and Loss Accounts, broken up into States, are not suitable as published documents.

Statement.—Paragraph 248—Figures of cost of the kind described above (relating to subscribers' lines) have stimulated the Committee to seek reasons for the variations among them (State comparisons). Similarly, the comparison of figures of this nature for one period with those of preceding periods, as well as any differences revealed, also provoke inquiry. In this way, financial tables can be an aid to management and a standing challenge to the Branches "to better the last results" even more than does quality of service results.

Comments of Department.—The Post Office is constantly seeking to achieve better results and many real and substantial economies have been effected in practices and procedures, which are reviewed frequently in the light of experience and improvements in techniques. Use is made of service and cost comparisons and these are supplemented from time to time by special investigations. The fact that the Commercial Accounts showed a loss of only £937,971 for 1952-53, despite an unavoidable additional expenditure of about £6,000,000 as the result of cost of living increases and award variations, an increase in superannuation liability and higher costs of materials, mail conveyance and freights, indicates the good results of the Department's business management.

REVIEW OF COSTS.

Statement.—Paragraph 284—While it is true that wage rates have considerably increased, that fact should not deter the Department from looking at the general position to see whether other costs have got out of line. In the search for economies and greater efficiency the unit costs and comparisons between periods and States, should be circulated to all Branches. The results should be used by both Branches and Central Office as a stimulus to further inquiry, and a record made of the results of the investigation and improvements.

Comments of Department.—The fact that there has been a substantial rise in wage rates and in the costs of materials and conveyance has not deterred the Department from examining the matter of costs generally, but has stimulated action. There has been a more searching analysis of practices and procedures in the past two years than ever before in the history of the Post Office. Unit costs and comparisons between periods and States will continue to receive the most critical attention with the object of increasing efficiency and minimizing to the maximum possible extent the effect on the Commercial Balance Sheet of the inescapable extra expenditure which the Department has to meet through causes outside its control.

TELEGRAPH TRAFFIC.

Statement.—Paragraph 287—The Department had not investigated the difference between the outgoing and incoming volume of telegraph traffic in each State since 1924. In that year adjustments of revenue were abandoned as an economy measure. Adjustments for traffic passing through New South Wales, Victoria and South Australia were made but these had also been abandoned.

Comments of Department.—Revenue adjustments as between States to allow for the difference between the outgoing and incoming volume of telegraph traffic were discontinued in 1924 because it was felt that the additional expenditure involved was not compensated for by the advantages derived. Until 1939-40, however, interstate adjustments were made to recoup New South Wales, Victoria and South Australia for the costs incurred in handling transit traffic or for providing direct channels for such business. It was clear, however, that this was only a partial adjustment and that better control and more realistic comparisons could be made in other ways.

Statement.—Paragraph 294—A Departmental committee is now investigating the activities, operations and procedures of the Telegraph Branch and the question of "through traffic" is one important matter being reviewed. The Department has stated that overseas telegraph administrations are also concerned with the problems, and various switching systems adopted overseas are being examined to see whether they might be applied in Australia.

Comments of Department.—This is correct and is indicative of the positive action which is constantly being taken in all Branches to modernize practices, reduce costs and improve services.

Statement.—Paragraph 318—It seems to the Committee that, with the emphasis on the costs and quality of telegraph service between States, it is likely that the State Administrations will, of their own volition, calculate the amount which the handicaps peculiar to their States represent by way of cost per telegram, and which have not been available to the Committee. This information would be interesting and could well be published in the Department's Annual Report.

Comments of Department.—Although the mere evaluation in terms of the average cost per telegram of the various handicaps peculiar to each State would not in itself be particularly useful in securing the more economical operation of the service, it is agreed that information of this kind is of interest. Appropriate unit costs and similar information will be included in the Annual Reports.

POSTAL TRAFFIC.

Statement.—Paragraph 356—If, however, the Department's view (that it is very difficult to fix a unit for postal traffic) is accepted and unit costs are discarded, and comparisons are desired, the Department has suggested it would be possible to consider individual post offices' traffic loadings and staffing. But, as the Department has pointed out, it would be difficult, even so, to compare the results of individual post offices because of their differing characteristics.

Comments of Department.—Although it has not been possible to fix suitable units relating to the handling of postal articles, having regard to the disposition and treatment of mail matter the problem is being studied further in the hope that some appropriate unit basis can be determined for purposes of comparison.

No reliable basis of comparing the results of individual post offices is practicable because the volume of traffic in itself does not provide an accurate index to the staff provision necessary. For example, the number of Postmen required to distribute a given quantity of mail matter differs widely as between compact industrial areas and more widely dispersed residential districts. Other factors also have a marked influence, for example:—

- (i) The value of postage stamp sales differs widely according to the locality of an office. Post offices supplying commercial demands show a higher transaction value unit than those dealing mainly with private purchases.
- (ii) The functions of post offices differ widely in many cases and there are substantial divergencies between the labour consumption on operations which do not represent any local revenue credit, e.g. incoming mails and cashing of money orders and postal notes, and the labour on activities which produce local revenue such as the sale of postage stamps, money orders and postal notes.

Nevertheless, wherever comparisons are valid they are made and from time to time expert officers independently review the staffing of post offices with substantial benefit from an economic and service viewpoint.

Statement.—Paragraph 357—The other course (if units of postal traffic cannot be fixed) would be to consider the Profit and Loss Accounts themselves of the State administrations and to press for explanations of the differences in the trading results of each.

Comments of Department.—This statement has already been dealt with in other comments.

Statement.—Paragraph 358—The Committee has earlier in this Report referred to the interest of the public and the Parliament in the financial results of the Department as a whole and of its Branches. It, therefore, finds that the Department's proposal (to compare results by considering traffic loadings and staffing of individual post offices) whilst of importance to the Department itself in its oversight of operations outside the Head Office, does not serve the purpose the Committee has in mind. That purpose is best served by using the Profit and Loss Accounts.

Comments of Department.—The Department agrees as to the importance of the Profit and Loss Accounts as a whole and also the Branch results for the Commonwealth, but does not support the publication of the State Profit and Loss Accounts for the reasons already stated.

Statement.—Paragraph 359—The Committee concludes that, in its opinion, the unit comparison based on postal articles handled is of some value in the examination of the Department's accounts. It has taken the reasons given by the Department for the varying results of the State administrations and has used its own proposal of unit costs, with the result shown in paragraphs 360 to 380.

Comments of Department.—The basic information obtained by relating the total number of postal articles handled to the revenue must necessarily be qualified by a number of factors which are difficult to weigh. As already indicated, the Post Office is exploring further the practicability of fixing appropriate units for the handling of postal articles.

MATERIALS.

Statement.—Paragraph 461—Forward ordering of materials was commented upon by the Auditor-General in his Annual Report for 1952-53, paragraph 126, and the Committee thinks that this matter might well be examined comprehensively by its successor.

Comments of Department.—The Department's method of operating under forward-ordering authority by a series of budgets and strict and continuous control and review of liabilities has been examined by the Committee.

The controls adopted have been discussed with the Treasury and the Audit Officers who have agreed that the Post Office system is satisfactory.

It would be impossible for the Post Office to function economically unless many of its materials are ordered from periods of one to two years (or even longer in the case of certain specialized equipment) in advance of the date required for installation.

Failure to order on a long term basis in these cases could result in workmen being idle awaiting the delivery of equipment, the break down of essential services and increased costs through the placing of small orders which would require high tooling costs by manufacturers in proportion to the volume of equipment ordered at any one time.

BUSINESS MANAGEMENT.

Statement.—Paragraph 478—The Committee feels that the Departmental organization has been primarily concerned with the technical efficiency of its services, and that the business management of the undertaking, including a full appreciation of accounts and costs of the organization, has been relegated to a less important position.

Comments of Department.—On the contrary, the Department's main concentration is on efficient and business-like management in which technical efficiency plays a very important part. The evidence placed before the Committee was designed to show that all of the fundamental principles of business management were applied in the Post Office and in no instance was any question in relation to this important matter inadequately dealt with.

If the Committee's comment is based on the Department's reluctance to use State profit and loss results as indicators of efficiency, the reasons for the Department's attitude were made clear as were also the methods it used to check costs, output and all those factors which are of vital importance to business management.

It is emphasized that, although the Department operates to the maximum possible extent on business lines, its results are influenced by factors quite outside its administrative control such as, for example:—

- (i) The provision under Government policy of telephone and other services in country areas below cost, irrespective of distance or frequency;
- (ii) The adoption of tariff schedules which do not, in many instances, relate to the cost of giving service, i.e., the general telegram rate irrespective of distance;
- (iii) The carriage of newspapers and periodicals at a very unremunerative rate;
- (iv) Increases by Parliament in the value of superannuation units;
- (v) The distribution of population;
- (vi) The incidence of floods and bushfires.

Statement.—Paragraph 479—Had the Department carried through the Post Office organization the conception that the charges for the several services are influenced by the results of the financial operations as disclosed by the Commercial Accounts, the Committee believes that the Post Office would have concentrated less upon the Departmental votes than it appears to have done.

Comments of Department.—The Department reviews the trading results of the Postal Telephone and Telegraph Branches as recorded in the Commercial Accounts. At the same time, a close and continuous check on expenditure is made in order to ensure that the funds allocated in the Budget are spent to the best advantage in the public interests.

Controlling officers are fully conscious of the fact that to some extent the charges for services are influenced by the commercial profit and loss results, although the policy of rate fixation is to provide services at the lowest possible cost, after making due allowance for considerations of national interest and of the maintenance of reasonably adequate and efficient services to the public. The extent to which charges are maintained at a level either above or below working costs is a matter for Government decision.

Statement.—Paragraph 479—The Department would also have used the Commercial Accounts as an aid to efficient management as between the branches as well as for the Department as a whole.

Comments of Department.—The Post Office has used both its Commercial and Treasury accounts as an aid to efficient management. Advanced business principles have been applied and measures have been adopted to secure effective control on the financial side. The management of staff and the adjustment of numbers employed to traffic and work loads wherever possible is done on a daily and even hourly basis in many cases.

Controlling officers are deeply sensible of financial results and are continuously analysing costs and means of reducing expenses. Avenues of securing additional revenue from available facilities with a view to improving trading results receive constant attention.

Previous comments deal more fully with the shortcomings associated with the production of Profit and Loss Accounts for individual States.

Statement.—Paragraph 479—Had the comparative costs of the branches been subjected to closer scrutiny, the Committee believes that costs might have been substantially reduced.

Comments of Department.—The Department is unaware of the basis for this statement or what influenced the Committee to believe that costs might have been substantially reduced under certain circumstances.

On the other hand, it can be said with confidence that special measures have been taken to keep costs to the lowest possible limits. Moreover, the Departmental practice is to closely scrutinize all outgoings whether it be on staff, materials, works, extra duty payments, transport or any of the numerous items involved. Comparative cost statistics of work of a like nature are also used for this purpose.

Many of the increased costs are, of course, inescapable and are brought about by causes outside the Department's influence.

The Post Office feels that more detailed use of State profit and loss comparisons than has been the case hitherto would not have influenced costs in view of the much more practical measures taken for this purpose and which have been successful.

On behalf of the Committee,

F. A. BLAND, Chairman.

PETER H. BAILEY, Secretary,
for NEIL R. CAFFIN,
Parliament House,
Canberra, A.C.T.
21st February, 1955.