

1956.

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA.

---

JOINT COMMITTEE OF PUBLIC ACCOUNTS.

---

TWENTY-NINTH REPORT.

REPORT OF THE JOINT COMMITTEE OF PUBLIC ACCOUNTS

ON THE

DEFENCE SERVICES AND THE ESTIMATES

FOR THE YEAR 1955-56

---

THE DEFENCE SERVICES AND  
THE ESTIMATES.

---

By Authority:

A. J. ARTHUR, Commonwealth Government Printer, Canberra.  
(Printed in Australia.)

JOINT COMMITTEE OF PUBLIC ACCOUNTS.

THIRD COMMITTEE.

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

A. V. THOMPSON, ESQUIRE, M.P. (Vice-Chairman).

Senator A. M. BENN  
Senator the HON. H. S. SEWARD  
Senator I. E. WEDGWOOD

L. H. BARNARD, ESQUIRE, M.P.  
J. F. COTE, ESQUIRE, M.P.  
F. J. DAVIS, ESQUIRE, M.P.  
A. S. HULME, ESQUIRE, M.P.  
H. A. LESLIE, ESQUIRE, M.P.

The Senate appointed its Members of the Committee on 16th February, 1956 and the House of Representatives its Members on 22nd February, 1956.

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 1901-1955*;
- (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.

THE DEFENCE SERVICES AND THE ESTIMATES.

CHAPTER I.—THE INQUIRY.

Although Your Committee have never made a specific examination of any of the Departments grouped together in the Defence Services section of the Estimates, items from their Votes have been considered in each Report so far prepared on Supplementary Estimates.

2. The findings resulting from our examinations of selected items from the Defence Services Estimates in respect of the years 1951-52, 1952-53, 1953-54 and 1954-55 seemed to warrant a more thoroughgoing investigation of those Estimates. Accordingly, we decided to make a more general review: that review is the subject of this Report.

3. The evidence given to Your Committee during our general consideration last August of the Estimates of the Departments in the Defence Group has been the subject of a great deal of comment. That comment has ranged far beyond the nature of the Defence organization, and the manner in which finance has been arranged for the very large number of projects necessitated for fulfilling the defence programme authorized by the Government.

4. Because the comment may have led to misconceptions about the scope of the Inquiry conducted by Your Committee, we have arranged to print and to distribute with this Report the evidence taken by us.

5. We emphasize that, notwithstanding the nature of current public discussions, our Inquiry concerns not at all the vexed question of defence policy. Into that complex field Your Committee do not go: that is not our function. Our purpose in this Inquiry is to make known to the Parliament the background to the Estimates for and expenditure upon the Defence Services, and, by an examination of the procedures involved, to find the reasons for the inaccuracies in estimating that have occurred in recent years.

6. From the time of our Fourteenth Report (presented in April, 1954), dealing with Supplementary Estimates for 1952-53, the general position of Defence Services Votes has caused Your Committee some concern. We quote, by way of example, paragraphs 54 and 55 of our Fourteenth Report—

"GENERAL CONSIDERATIONS APPLYING TO DEFENCE VOTES IN 1952-53.

The Treasury and the Defence departments stressed the need for the Committee to give weight to the background of the 1952-53 Estimates, for the Defence departments.

The Defence departments prepared their first estimates in the expectation that the Government would approve the balance of the Services £315,000,000 Programme of Material Requirements on mobilization and that all orders for this programme would be placed in 1952-53. The Government, instead, decided to allot £200,000,000 for Defence Expenditure for 1952-53, and this sum was apportioned among the Defence departments upon the recommendation of the Defence Committee. The departments were then given short notice of the need to reduce their original estimates to the new figures. The departments claimed that in the short time available to them before the Treasury required revised figures for printing in the Estimates, it was not possible to do more than prepare estimates on the basis of round figures."

7. Again, in respect of the year 1954-55 we reported—

"Your Committee are concerned at the laxity in the control of defence expenditures that can spring from the adoption of a Defence Programme that in recent years has been substantially under-spent. To know that there will be heavy under-expenditures on most items is not an encouragement to careful spending. No incentive is given to Departments to 'keep within' the appropriated figure: instead, every effort appears to be made 'to spend the funds voted'."

8. In the Twentieth and Twenty-fifth Reports of Your Committee particular reference was made to the occurrence of over-estimating in both 1953-54 and 1954-55. Not only over-estimating, however, attracted our attention: we noted repeated examples also of substantial additional funds being required. At times the additional funds were asked for the same Votes as, in other years, attracted our attention because they were substantially under-spent, e.g. Department of the Army, Divisions 134 and 135, and the Department of Air, Division 147.

9. To appreciate the cause of our concern, we cite below actual instances that have come to the notice of Your Committee and have been the subject of comment over the years 1951-52 to 1954-55. The instances are given according to the three chief categories which may be the result of loose estimating: the request for additional funds during the year; the occurrence of over-estimating; and the absence of proper co-ordination between Departments,

TABLE OF CONTENTS.

	PAGE.
I. THE INQUIRY .. .. .	5
II. THE ORGANIZATION OF THE DEFENCE SERVICES .. .. .	7
III. THE DEFENCE PROGRAMME AND ITS ACHIEVEMENT—	
(a) The Extent and Balancing of the Programme .. .. .	10
(b) Expenditure on the Programme .. .. .	12
(c) Defence Preparedness .. .. .	17
IV. PREPARATION OF THE ESTIMATES .. .. .	19
V. THE DEFENCE TRUST FUNDS .. .. .	25
VI. FINANCIAL AND ECONOMIC ADVICE .. .. .	29
VII. SUMMARY .. .. .	31
VIII. CONCLUSIONS AND RECOMMENDATIONS .. .. .	35

APPENDICES.

	REPORT PARA. No.	PAGE.
Appendix No. 1.—Organization Chart for the Higher Defence Machinery .. .. .	15	37
Appendix No. 2.—The Functions of the Ministers for Defence: Australia, United Kingdom, and United States of America .. .. .	28	39
Appendix No. 3.—Defence Services: Monthly expenditures since 1952-53 .. .. .	42	40
Appendix No. 4.—Defence Services: Allocation of Votes .. .. .	49	41
Appendix No. 5.—Defence Trust Funds .. .. .	131	42

14th Report,  
para 55,  
Table 7th,  
April, 1954.

25th Report,  
para 40,  
Table 23rd  
May, 1956.

1955-56  
Estimates.

10. First, we mention Votes on which additional funds were required and obtained during the financial year (i.e., not in the main Estimates), but for reasons that were not convincing to Your Committee:

Department.	Division and Item Number.	Report.	Funds Required for—
Navy ..	115-2.—Naval and Air Stores	14th Report,* paras. 79-83	A Supplementary Estimate of £425,008 to meet increased costs and deliveries of Naval stores from overseas and local suppliers. (Vote.—£5,430,000)
Army ..	127A-1.—A.R.A. pay, &c.	20th Report,† paras. 53-58	A Supplementary Estimate of £409,614 for pay and allowances. (Vote.—£19,037,000)
Air ..	142.—Aircraft spares, &c.	1st Report,‡ page 4	A Supplementary Estimate of £2,697,841 was required to meet excess expenditure incurred by the Department of Defence Production on overseas orders and local production projects

\* Tabled 5th April, 1954.  
 † Tabled 24th May, 1953.  
 ‡ Tabled 16th March, 1953.

11. Second, we mention the substantial over-estimates of requirements for funds for the Defence Services that came to Your Committee's notice in their examination of the Supplementary Estimates for 1953-54 and 1954-55. The following instances of over-estimating are among the most significant found by us, but the list is far from being inclusive:—

Department.	Division and Item Number.	Report.	Reason for Over-estimate.
Navy ..	120.—Miscellaneous Expenditure	20th Report, paras. 122-124 ; 25th Report, paras. 137-141.	Undue provision for gun-stiffening measures for merchant ships
Army ..	134, 135.—Arms and Equipment—Maintenance and Procurement	20th Report, paras. 83-89 ; 25th Report, paras. 42, 158-164	Difficulties in procuring authorizations for 1953-54, and an additional allocation for 1954-55
Air ..	147.—Equipment and Stores	20th Report, para. 48 ; 25th Report, paras. 175-183	Difficulties in procuring communications and radar equipment in 1953-54 and in obtaining overseas supplies in 1954-55

12. Third, we mention deficiencies in co-ordination that have occurred within the Defence group as a whole. When there are—

- (i) a co-ordinating department (Department of Defence);
- (ii) three Service departments (Navy, Army and Air); and
- (iii) three construction and supply organizations (Departments of Supply, Defence Production and Works),

difficulties of co-ordination are inevitable. One example of these difficulties is in respect of Division 142 (Aircraft, &c., for the Department of Air): it was mentioned in paragraph 10 above. Another example is in the co-ordination of the Defence Works Programme. With certain exceptions, the Department of Works is the constructing authority for new works for the armed forces. In 1953-54, the estimated expenditure on Defence Works was £16,322,000. £9,841,000 was spent. In 1954-55 the Defence Works Programme was £9,500,000. However, the Department of Works was allocated £13,144,000 in the Annual Estimates, and expended £8,621,000.

13. In our Twenty-fifth Report we discussed in some detail the circumstances surrounding the allocation of £13,144,000 to the Department of Works for defence purposes. We note that the Department itself did not know how the figure of £13,144,000 was arrived at. Our comment was:

"Your Committee propose to examine at a later date the general problems associated with defence expenditure. We are led inescapably to the conclusion that where the Defence Departments and the Department of Works have to co-operate, there is a serious absence of co-ordination. Two matters in particular have here engaged our attention:—

- (i) That, at least in 1954-55, the defence works estimates made by the department of Works were either ignored or by-passed or both.
- (ii) Some estimates of works expenditure are submitted to the Parliament for approval without full consultation with the Department of Works

It is our view that measures ought forthwith to be taken to rectify the situation on both these matters."

25th Report,  
para. 76-81.  
Para. 77.

14. Because we took the view that the answers to the shortcomings suggested by the Q. 14. facts outlined above might best be discovered by a general examination, rather than through further investigation of details such as we had undertaken in successive Supplementary Estimates inquiries, we invited the Secretary of the Department of Defence (Sir Frederick Shedden) to discuss their background with us. This he did on Wednesday, 8th August, 1955. Discussion took place on the basis of memoranda submitted by the Department of Defence and the Defence Division of the Department of the Treasury. Those who appeared before us on that day were—

Sir Frederick G. Shedden, K.C.M.G., Secretary, Department of Defence.  
 O.B.E.  
 Mr. T. J. Hawkins, C.B.E. .. Secretary, Department of the Navy.  
 Mr. A. D. McKnight .. Secretary, Department of the Army.  
 Mr. R. I. Cameron .. Assistant Secretary (Finance), Department of Air.  
 Mr. C. L. S. Hewitt .. First Assistant Secretary (Budget and Accounting), Department of the Treasury.

## CHAPTER II.—THE ORGANIZATION OF THE DEFENCE SERVICES.

15. From a chart shown to us by the Secretary of the Department of Defence, it can be seen that the Higher Defence Machinery in Australia operates in the main through a substantial number of committees whose function is to advise the Government. At the highest level there is a Defence Preparations Committee, which is a sub-committee of the Cabinet. It is composed of the Prime Minister as Chairman, of the Treasurer and of the Minister for Defence and the Service Ministers. In addition, the Ministers for External Affairs, Defence Production, Supply, and Customs and Excise are members. See Appendix No. 1.

16. We understand that the Defence Preparations Committee is able to invite interested Ministers to attend when necessary. The Committee—

"Reviews and approves of the Programme, after it has gone through the Service Departments and the Defence Committee. Specific items are subject to the normal review and approval by Ministers concerned, in the ordinary course of administration." Q. 38.

Items requiring Governmental decision are submitted to the Defence Preparations Committee for approval. We understand that, to all intents and purposes, that Committee is the final authority in respect of decisions about defence matters.

17. The Minister for Defence is allotted, subject to the authority of the Cabinet and the Defence Preparations Committee, responsibility for—

- "The formulation and general application of a unified Defence Policy relating to the Defence Forces and their requirements, including—
- (a) Co-operation in British Commonwealth and Regional Defence and the Defence aspect of the Charter of the United Nations.
  - (b) The supply aspect of Defence Policy, including the review of production programmes and capacity.
  - (c) The scientific aspect of Defence Policy.
  - (d) The financial requirements of Defence Policy, and the allocation of the funds made available.
- Exhibit No. 20/1, para. 3. See also the Administrative Arrangements Order.

The Defence aspect of Armistice and Peace Terms, Control Commissions, and Forces of Occupation.

Matters of policy or principle and important questions having a joint Service or inter-departmental Defence aspect.

The Higher Defence Machinery, the control of the Joint Service Machinery, and Secretariat of the Council of Defence.

The Defence aspect of questions relating to the Organization and Machinery for:—

- Co-operation in British Commonwealth Defence.
  - Co-operation in Regional Security, including obligations under the United Nations Charter.
  - Higher Direction in War.
  - Higher Direction of the Services.
  - The Commonwealth War Book, which is a summary of National Plans for an Emergency as developed in Departmental War Books.
  - The administration of Inter-Service Organizations, such as the Joint Intelligence Machinery.
- The Defence aspect of:—
- The Strength and Organization of the Forces.
  - Higher Appointments in the Services.
  - Honours and Awards.
  - Advice on the military aspect of Civil Defence."

Thus it can be seen that the Minister for Defence and his department are responsible for the preparation of Defence Policy.

18. The Programmes of the Service Departments and the Departments of Defence Production, Supply and Defence, are prepared originally in those Departments and are reviewed by the Defence Committee in order to ensure a balanced development in accordance with Defence Policy. They are then submitted by the Minister for Defence to the Defence Preparations Committee for approval, subject to annual review in the light of the Defence Vote that can be made available in each financial year. The various factors which the Department stated, are taken into account in determining the nature and extent of the Programme are—

- (i) the international outlook;
- (ii) the probable form and scale of any attack that is to be made;
- (iii) the extent of the defence effort that can be sustained by the economy without endangering its stability.

19. The Department advised us that—

"The strategic basis of policy is at present under review by the Defence Committee. The chief influence on the future Defence pattern is the planning that is proceeding under the SEATO Treaty. From this will emerge a statement of force requirements and force availability within the times required to give effect to the plans."

20. Until the last war, the three Services were part of the Defence Department. They are now separate Departments. Sir Frederick Shedden, Secretary of the Department of Defence, told us that when he became Secretary of the Department in 1937—

"It was an integrated department with the Navy, Army and Air Force in it. I was permanent head and there was one Minister. Therefore, we had control of the three service boards, and every proposition for expenditure came up for approval. Then it was decided that they would have separate service departments. The boards were decentralised, and the Ministers and permanent heads were appointed. The Prime Minister decided on a functional distribution of duties between Ministers. The Minister for Defence was to attend to policy, planning, joint service questions of major importance or principle, and control of the joint service machinery which is pretty voluminous and in relation to the organization of which I will later hand in a chart. The Service Ministers were to be responsible for the administration of their services, and the execution of the programme. It is left to the service departments to achieve their programmes."

21. When the functions were divided, as described above, the Ministers for the Navy, the Army and Air were made responsible for specific matters, and independent Service Departments were established. We note in passing that the Administrative Arrangements Order for the three Service Departments is in the barest possible terms. Under the heading "Matters dealt with by each Department", their functions are stated as—

Department of the Navy	Naval Defence.
Department of the Army	Military Defence.
Department of Air	Air Defence.

22. The organization under the Minister for the Navy provides for Naval Head-quarters for the administration of the Service; for ships in commission and reserve, and for shore establishments essential for bases for commissioned ships and for administrative, storing, repair and training facilities.

23. The organization under the Minister for the Army provides for Army Head-quarters for the administration of the Service, and for—

- (i) A Field Force organized as one Infantry Brigade Group of three Battalions, an Armoured Regiment and supporting units, and one Infantry battalion group;
- (ii) Citizen Forces organized as a field force of two infantry divisions and the nucleus of a third;
- (iii) Cadres and Staffs for Citizen Military Forces, National Service Training Units and Cadets;
- (iv) Training Installations;
- (v) Command and Maintenance Organizations.

24. The organization under the Minister for Air provides for Air Head-quarters and for operational squadrons for—

- (i) Home Defence and protection of sea communications;
- (ii) The cold war potential and war-time expeditionary force.

There are also specialist units, and ancillary units covering the various aspects of operations, equipment, servicing and training.

25. The Minister for Defence Production is responsible for the provision of munitions and the administration of Government Factories.

26. The Minister for Supply is responsible for supplies other than munitions; and for research and development. His responsibilities include appropriate functions in connexion with the Joint United Kingdom-Australian Weapons Research Establishment.

27. When the Defence Department was split up, the major part of the finance section was also removed. It has become the Defence Division of the Department of the Treasury, and its functions include—

"Financial aspects of Defence matters, including questions of pay and conditions of service of the Defence Forces; financial review; budgetary, and accounting matters in respect of Departments in the Defence group; War Gratuity administration, and administration and accounting under Defence Forces Retirement Benefits Act."

Responsibility for financial administration of the programme rests with the Treasurer and Service Departments; the responsibility of the Minister for Defence being for the financial requirements of Defence policy and the allocation of the funds made available. The Assistant Secretary of the Defence Division would be co-opted to the Defence Committee when such matters are discussed.

28. Sir Frederick Shedden, Secretary of the Department of Defence, told us that the trend overseas is in the direction already taken by the higher Defence organization in Australia. For example, in the United Kingdom a separate Minister for Defence was appointed under the *Ministry of Defence Act 1946*. His functions are similar to those of the Australian Minister for Defence. In 1947 the President of the United States of America directed that a Secretary of Defence should be appointed to exercise direction and control over the general planning for and operation of the various Service Departments. Thus the trend seems to be toward the establishment of some central policy arm in the defence group. We note that the developments overseas have been from a background of separate Service Departments; whereas developments in Australia have been from the background of a unified Department of Defence.

29. Since the general questions of the Higher Defence Machinery that arise from a consideration of these facts are matters of policy, we make no comment upon them. We refrain in spite of the fact that decisions as to the existence of single or multiple Departments affect the costs of administration\*.

30. As a Service and departmental level, numerous committees operate. Some of these function within the Department of Defence; but most of them operate on a joint basis, with representatives of at least the Service Departments on them.

31. Chief among the committees operating below the ministerial level is the Defence Committee. It advises the Defence Preparations Committee on Service aspects of defence.

32. The Defence Committee is constituted under the *Defence Committee Regulations 1946-52*. It is an "advisory and consultative body to advise the Minister of State for Defence with respect to matters within the functions of the Committee and these Regulations".

33. The Defence Committee consists of—

- (a) The Chief of the Naval Staff;
- (b) the Chief of the General Staff;
- (c) the Chief of the Air Staff; and
- (d) an officer of the Department of Defence appointed by the Minister (of Defence) to be a member of the Committee.

Regulation 6 empowers the Minister to appoint a Chairman for the Committee: he appointed the Secretary of the Department of Defence.

34. In addition, the Committee may, with the approval of the Minister for Defence, co-opt any person. Such a person is deemed to be for the time being a member of the Committee, and we understand that several persons sit fairly regularly with the Committee, e.g., the Secretary of the Department of External Affairs. Representatives of any department or authority concerned in a matter under discussion may be invited to consult with the Committee.

35. The functions of the Committee are to advise the Minister with respect to—

- (a) the defence policy as a whole;
- (b) Matters of policy or principle and important questions having a joint Service or inter-departmental defence aspect; and
- (c) Such other matters having a defence aspect as are referred to the Committee by or on behalf of the Minister."

The Department of Defence provides the Secretary or Joint Secretaries to the Committee: they are appointed by the Minister.

36. The work of the Committee is continuous and voluminous. Sir Frederick Shedden told us that it sits almost weekly.

\* COMMITTEE MEMBER.—I suppose it would be true to say that the Committee hammers out for the Minister for Defence the policy that it thinks should be followed in connexion with defence? (Sir Frederick Shedden) That is correct. It meets regularly, every Thursday, almost

\* A statement of the additional costs involved in splitting expenditures is contained in our Twenty-ninth Report, at paragraphs 130-144. The split Department here discussed is the former Department of Commerce and Agriculture.

Exhibit No. 29/1, para. 1.

Exhibit No. 29/1, para. 1.

Q 215. See also Q. 75.

See Appendix No. 1.

Exhibit No. 29/1, para. 1.

Exhibit No. 29/1, para. 3.

Federal Guide, February, 1955, para. 29.

Q. 55. Exhibit No. 29/1, para. 3, and Appendix No. 2.

See the Chart at Appendix No. 1.

Q. 40

S.R. 1946, No. 39.

Reg. 2.

Reg. 5 (1).

Q. 5 (3).

Reg. 4, 5.

Q. 3.

Reg. 10. See also Q. 5-8.

Q. 6, 7.

without exception. It is like a board of directors. The business is quite voluminous. At the moment, we have considerable business on hand relating to basic policy as to what is proceeding under ANZAM, which concerns the United Kingdom, Australia and New Zealand; ANZUS, which concerns Australia, New Zealand and the United States of America; SEATO, with which eight or nine powers are associated. Therefore, a constant review is proceeding of the background of policy in the light of the international outlook. Planning is proceeding. In this calendar year I think we have fifteen meetings occurring in such places as Pearl Harbour, Karachi, Bagnio, Bangkok, Melbourne and Auckland. This is rather ambulatory. The planning people work under these various treaties. Our military advisor goes to SEATO. He puts in a report and that report comes back to the Minister for Defence and goes to the Defence Committee. If a matter is of Cabinet importance it goes to the Cabinet. Similarly, in respect of the other parties to these treaties, I elaborate on this in order to indicate that the Committee has, first of all, a strategic background in the light of the international outlook.

COMMITTEE MEMBER.—Does the Committee directly advise the Minister?—(Sir Frederick Shedden) Yes."

37. The Defence Committee is thus a body composed of Armed Service Chiefs of Staff and of a representative of the Department of Defence. The inclusion of an officer of the Department of Defence, especially when he is Chairman, makes the Australian Defence Committee rather different from those operating in the United Kingdom and the United States of America. In those countries, the Defence Committee consists of the Chiefs of Staff plus a Chairman who is a Service Officer appointed from one of the three Services; but the functions of the committees in the three countries are not exactly comparable.

See Appendix No. 1.

38. Under the Defence Committee there are six other Committees, e.g., Defence Research and Development Policy, Principal Administrative Officers' Committees for Personnel and for Maintenance and Materiel, and the Joint Planning Committee. There are also numerous sub-Committees (numbering about 20) that deal with detailed aspects of the work covered by the Committees. We note that there is no Committee that, as such, deals with finance, though a Board of Business Administration is appointed to give general advice on the business aspect of matters such as supplies and works. We return to this subject in Chapter VI. below. We note also that the Assistant Secretary, Treasury Defence Division, is co-opted to the Defence Committee when financial matters are discussed. (See paragraph 27.)

39. In addition to the committees and sub-committees just mentioned, there are two others that function in Australia: a Chiefs of Staff Committee and a Joint War Production Committee (with four sub-committees). Overseas, Australian defence representatives and joint service staff are posted in the United Kingdom and the United States of America and a defence representative in New Zealand.

40. When to this arrangement of committees are added those that exist within the organization of each Service, it can be seen that committee work must absorb a great deal of the time of officers in the Defence Services Departments. It may be that some review of the number and functions of the committees, with a view to their simplification, might yield valuable savings.

### CHAPTER III.—THE DEFENCE PROGRAMME AND ITS ACHIEVEMENT.

#### (a) THE EXTENT AND BALANCING OF THE PROGRAMME.

41. 1956-57 is the third year of the third of the Defence Programmes that have operated since the war: the Programmes have extended for more than one year to enable proper planning and organization. Through the Programme, the Objectives of Defence Policy are implemented. It has been found that a programme extending beyond three years becomes unrealistic because of internal politics and changes in strategic requirements, price levels and equipment available, and so three years has been the duration of the last two Programmes.

Exhibit No. 2/31, para. 4.

Q. 56.

Q. 12.

COMMITTEE MEMBER.—Is the three-year programme the longest that you can have because of the life of the Parliament?—(Sir Frederick Shedden) When the Chifley Government was in office we worked on a five-year programme but it became so unrealistic because of the rise in prices that it was suggested that three years was sufficient because it coincided with the life of the Parliament. One of our aims in defence is to have uniformity and continuity in policy. We take the view that defence should be above party politics. Nevertheless, to provide for differing views between governments, we suggested that three years was a sufficient period because it corresponded with the life of a Parliament and would correspond with a change of government. The changes in price levels became very substantial in later years and it would have caused embarrassment to the departments if they had had to keep within their original estimates over a five-year period."

42. The current Programme was framed around an annual Vote for the whole of the Defence Services that was not to exceed £200,000,000. This was subject to annual review in the light of the actual funds that could be made available for Defence in each financial year. Votes and expenditures for each of the last six years have been as follows:—

Details of monthly expenditure are contained in Appendix No. 3.

Years.	Vote (a)	Expenditure.
	£ M.	£ M.
1950-51 .. .. .	149,538	148,067
1951-52 .. .. .	181,703	169,495
1952-53 .. .. .	200,000	215,292
1953-54 .. .. .	213,668	189,725
1954-55 .. .. .	211,899	185,534
1955-56 .. .. .	197,671	190,716
	1,154,479	1,098,829
(1956-57) .. .. .	(190,000)	..

(a) These figures include appropriations made in Additional Estimates.

43. For a Programme involving sums of money of this magnitude, a complex organization is required. One function of that organization is to fit the expenditures into the general pattern of government expenditure and into the framework of the national economy.

44. In addition, there are what might be called internal problems of organization. These arise from the changing nature of strategic requirements and variations in the basic expenditure patterns that become necessary to meet that situation as it develops. For instance, the Secretary of the Department of Defence advised us that, at present, greater emphasis than in the past is being laid upon the development of air defence. If a fixed ceiling is provided for defence expenditure, the switching of funds to the Air Force means that they will not be available for expenditure on another part of the Defence Programme. At the moment, for instance, it appears that expenditure on the Navy is being reduced. We discuss further in the next section of this Chapter the general problems connected with "rebalancing" the Programme. Here we mention them as an example of the internal problems met in organizing efficient expenditure under the Programme.

Q. 70-73.

Q. 69.

45. The Department of Defence has drawn up a set of rules intended to guide the Service Departments in organizing their sections of the Defence Programme. The Rules are—

"Departments are required to carefully consider each item of their programmes to ensure:—

Exhibit No. 2/31, para. 7.

- That first things come first.
- That it makes the greatest immediate contribution to Australian Defence.
- That it is based on the minimum requirements consistent with efficiency.
- That expense is avoided wherever possible, even if it means that desirable, although not absolutely essential, features are eliminated.
- That the objectives can be completed within the financial allotments available without risk of either a project being unfinished or of additional provision being required to liquidate outstanding commitments.
- That, in view of the importance of the time factor, every effort should be made by Departments to complete the annual programmes each financial year, having regard to the principles of priority, efficiency and economy."

46. The Department of Defence is concerned with the general progress of the Programme, watching its achievement in terms of the Objectives set at its inauguration. Furthermore, there is an inter-departmental committee representing the Service Departments and the Departments of Defence Production, Supply, Defence, Works and the Treasury, whose function it is to review progress from time to time—

COMMITTEE MEMBER.—Have you examined the monthly expenditure since the adoption of the three-year plan and compared it with the monthly expenditure prior to the adoption of the plan?—(Sir Frederick Shedden) Not in so far as the Defence Department is concerned. I should say that we are chiefly concerned with the progress of it and whether the objectives are being attained.

Q. 15.

We have a working party, comprising representatives of all departments, which examines the trend in detail. The chief aim of this party, in short, is to review progress, because, as I mentioned originally to the Chairman, the responsibility for the execution of the programme rests with the department under the Minister concerned. It is for it to see that it is getting full value for the money. The division of functions between Sir Philip McBride and the Ministers responsible for the services was explained earlier. The Defence Department is concerned with the pattern of the programme and variations of it. As to how they go about spending their money, some general rules are set out in paragraph 7 of my statement."

Quoted at para. 45 above.

## (b) EXPENDITURE ON THE PROGRAMME.

47. Three main factors appear to affect expenditure on the Defence Programme. They are—

- (i) the international situation, involving problems of technical development and "rebalancing";
- (ii) the state of the economy, involving availability of equipment and personnel; and
- (iii) the broad division of the Programme between capital and maintenance expenditure, involving considerations of commitments and flexibility.

48. The international situation, insofar as it affects the changing weapons likely to be used in any probable conflict, is beyond our purview. Suffice it to note that some of the most difficult problems confronting those who frame estimates are bound up with these considerations. For instance, current overseas developments are bound up with these considerations. For instance, current overseas developments in fighter and bomber aircraft make it very difficult to decide what aircraft should replace the existing Avon Sabres and Canberra Bombers. Discussing the general problems of selecting new equipment, the Secretary of the Department of Defence was asked—

Q. 206. "COMMITTEE MEMBER.—We have been considering two things. The first is the programme for 1954 to 1957, and in that period manpower shortages operated; the second thing is the absence of any new plan for aircraft: because that decision has not yet been made, it has been necessary to shorten sail and folk are being involuntarily dismissed?—(Sir Frederick Shedden) I do not dissent from Mr. Thompson's view in the least. If I was a bit ambiguous, it was my fault. I did not think there was any divergence in the views expressed. I am not blaming anybody. We do not take decisions on these big issues, which are matters for the Government, in regard to the magnitude of the programme. Manpower figures are involved in the types of these new aircraft and it is not a matter for a department to decide, but for the Government."

Q. 208. 49. The international situation may also have its effect upon the relationship between the three Armed Services. We gathered the impression that in a country such as Australia, some authorities contend that it may be desirable to concentrate upon defence by air rather than defence by sea, with the accent upon a relatively small, mobile and highly equipped land force rather than on a large force confined to one land mass. For instance, it was decided that Australian defence should concentrate largely upon the development of an efficient air force. But when it is decided to make a major change, with the accent upon development of a specified arm of the Service, expenditure on another of the arms must be reduced (assuming the total Vote remains unaltered). So the Navy, whose Vote for 1955-56 was £50,522,000, or 25.7 per cent. of the total Vote for Defence Services, was reduced to £39,065,000 or 20.6 per cent. of the total Vote for 1956-57. (Details of Votes, expenditures and percentages for 1950-51 to 1956-57 are given in Appendix No. 4).

50. When considering the state of the economy, account must be taken not only of Australian economic conditions, but of the supply situation prevailing in the countries from which Australia draws much of its defence equipment.

51. A substantial proportion of all Service equipment appears to come from overseas. Thus in 1954-55, the Department of Air placed orders for equipment under its main Vote of £17,633,000 (Division No. 147—Equipment and Stores) as follows:—

	Estimate.	Expenditure.	Over-Estimate.
	£	£	£
Australia .. .. .	10,517,000	7,505,000	3,012,000
United Kingdom .. .. .	3,208,000	1,550,000	1,658,000
United States of America .. .. .	3,908,000	1,568,000	2,340,000
Total .. .. .	17,633,000	10,623,000	7,010,000

These figures show that more than half of the over-estimate for 1954-55 (£3,998,000 in £7,010,000, or 57 per cent.) was caused by the failure of overseas suppliers to deliver the goods required. The Department of Air advised us that it is difficult to be sure that supplies ordered overseas will be delivered when promised, because so many claims are made on the two major sources of supply, the United States of America and the United Kingdom.

52. The over-estimate for Australian deliveries was the result of heavy demands upon suppliers made in 1954-55. Deliveries from the Australian suppliers (in large part the Department of Defence Production) did not match promises made at the time the Estimates were prepared.

53. In each of the Service Departments, similar problems were encountered. The result was over-estimating, especially in 1954-55.

54. Another important item in the Estimates that is affected by the state of the economy is the strength of personnel that can be attracted to service with the Armed Forces. We understand that, at the present, each of the Services is under-staffed. The following figures show the position in August, 1956:—

	Establishment.	Strength.	Deficiency.
Navy .. .. .	14,400	13,000	1,400
Army .. .. .	26,000	23,000	3,000
Air .. .. .	16,000	15,000	1,000
Total .. .. .	56,400	51,000	5,400

Q. 14.

Even a fairly small over-estimate of the personnel that will be on strength during a year will cause substantial errors in the Estimate placed before the Parliament. For instance, Sir Frederick Shedden told us that one of the main causes for the over-estimates of the Department of the Army has been the difficulty of obtaining personnel—

Q. 15. "COMMITTEE MEMBER.—That was mainly because they could not get the man-power?— (Sir Frederick Shedden) Yes. The figures that I read out originally in relation to the strength of the forces show that their establishment is 57,000 but that their strength is 51,000—a difference of 6,000. It costs at least £1,000 a head, so that immediately £6,000,000 is involved if an optimistic view is taken in the estimates about recruitment or wastage. In relation to the Army, the decision on rebalancing directed particular attention to the question of improving the equipment position, because it is of no use to train an army of 26,000 permanent men and a Citizen Military Force of 84,750 unless we have the equipment for them to use."

55. The third main difficulty experienced in making accurate estimates of expenditure upon the Defence Programme is related to the substantial proportion of the expenditure devoted to what can broadly be termed maintenance. It seems that something over £120,000,000, or some 75 per cent. of their expenditure, is each year expended by the Service Departments on maintenance of one kind and another. Accurate and comprehensive figures showing capital and maintenance expenditures on the Programme are not readily ascertainable from the Treasurer's Estimates; but the table in the next paragraph gives a reasonable indication of the position.

56. The table relates only to expenditures in 1955-56 and is, as far as possible, derived directly from the expenditures shown for the various Votes in the Estimates. For that reason, it is only possible to make an approximation to expenditures on capital or maintenance projects: expenditures of a capital nature will inevitably be included in some of the Votes whose nature warrants their classification as Maintenance Expenditure, and vice versa.

	Navy.	Army.	Air.	Total.
	£'000.	£'000.	£'000.	£'000.
Maintenance Expenditure—				
Regular Forces (Pay)	12,172	22,305	13,732	49,209
Citizen Forces (or Reserves) and Trainees	530	8,736	(a) 665	10,179
Civilian Services (a)	6,089	4,271	2,229	12,589
Arms, Equipment and Stores .. .. .	13,793	7,374	15,445	35,941
Other Expenditure .. .. .	4,153	6,294	5,554	15,424
Total .. .. .	36,737	48,980	37,625	123,342
Capital Expenditure—				
Arms and Equipment	9,998	9,000	11,500	30,498
Buildings, Works, Sites, &c. .. .. .	1,289	3,466	3,013	7,768
Total .. .. .	11,287	12,466	14,513	38,266
Grand Total .. .. .	48,024	61,446	52,138	161,608

(a) Pay and allowances only.

NOTE.—These figures of expenditure for 1955-56 are taken from the "Estimates" for 1956-57, and their classification is suggested by tables submitted by the Auditor-General at the time of the hearings (8th August, 1956). Exhibit No. 297

57. In addition to the capital expenditures shown above, the amounts spent by the Departments of Supply and Defence Production should be added. These Departments have been good enough to supply us with the following estimates of their capital expenditure in 1955-56:—

	Supply.	Defence Production.	Total.
	£'000.	£'000.	£'000.
Plant and Machinery .. .. .	993	2,061	3,054
Buildings and Works .. .. .	2,113	691	2,804
St. Mary's .. .. .	..	6,499	6,499
Acquisition of Sites .. .. .	18	46	64
St. Mary's .. .. .	..	6	6
New Guinea Resources Prospecting Coy. Ltd. ..	38	..	38
Commonwealth Mica Pool .. .. .	17	..	17
<b>Total .. .. .</b>	<b>3,179</b>	<b>9,303</b>	<b>12,482</b>

58. Thus, of expenditure by the Service Departments themselves, only a small proportion can be described as of a capital nature: £38,266,000 in 1955-56, or approximately 24 per cent. When to this is added the sum of £12,482,000 that can be taken to represent capital expenditure on defence projects by the Departments of Supply and Defence Production, capital expenditure is £50,747,000 in a total Defence Programme expenditure for 1955-56 of £190,716,000, or rather less than 27 per cent.

Qa. 35, 71. 59. We were informed that the high proportion of maintenance expenditure, especially in relation to the Department of the Army, caused the Government some concern in 1954, when the rebalancing decisions were made. We understand that efforts are being made to increase the proportion of total defence expenditure devoted to new equipment.

60. Looked at from another point of view, the high proportion of expenditure devoted to maintenance may or may not be considered an indication that the Armed Services are being kept to a minimum available in the event of war to form the nucleus of a much larger force. There is a minimum base for the defence of the Commonwealth, as the Secretary of the Department informed us—

Q. 23.

"COMMITTEE MEMBER.—I want to get the picture in my mind. Is there a base, minimum defence established for this country, regardless of international commitments and all that sort of thing, being the minimum requirements from the point of view of defence?—(Sir Frederick Shedden) Yes. I thought that I had brought that out early in my paper, when I referred to the fundamental basis of the organization. There are head-quarters. There is a striking force, the field forces in the case of the Army, ships in the case of the Navy, and certain squadrons, which are a task force, in the case of the Air Force. Behind the administrative head-quarters that run those field forces, in effect, are all the training and other establishments which support them. That provides the minimum base for the defence of the Commonwealth and, in embryo, a nucleus on which to expand on mobilization, and also a nucleus on which you would expand in the event of war. The Government has endorsed those objectives of expansion in war as a basis of planning without Government commitment."

61. Another feature closely related to the high proportion of defence expenditure taken up in maintenance is the level of commitments carried forward from year to year. The Department of Defence informed us that the current position is as follows:—

Exhibit No. 291, page 3.

	Authorizations.	Expenditure.
	£	£
Outstanding Commitment brought forward on 1st July, 1955 .. .. .	142,472,000	..
1955-56 .. .. .	205,534,000	191,683,000
1956-57 .. .. .	200,078,000	198,785,000
Outstanding Commitment at 30th June, 1957, that would be carried forward to subsequent years .. .. .	..	157,616,000
	548,084,000	548,084,000

62. It can be seen from these figures of commitments that the carry-forward is high in relation to annual expenditure. For every pound spent during 1955-56, for instance, there was, at the beginning of the year, a firm commitment involving the Commonwealth in

further expenditure of approximately 15 shillings. We asked whether that was an unduly large sum—

"COMMITTEE MEMBER.—We were about to deal with the commitments of your department at various periods throughout the financial year. I think that you will recollect that on the 1st July, 1955, you brought forward outstanding commitments amounting to £142,472,000. Can you tell me why that sum was so large?—(Sir Frederick Shedden) As the Chairman mentioned originally, a succession of programmes has been going on since the present Government came into office and stopped the vote up from £60,000,000. I mentioned that it had gone as high as £215,000,000. Some of those things are spread over a long period.

Mr. Hawkins of the Department of the Navy will be able to elaborate on his naval construction programme which proceeds well into the 1960's with the laying down of hulls and the equipping of ships. The aircraft production programme is proceeding over a period of years. We are building the Sabre at the Commonwealth Aircraft Corporation and the Canberra at the Government factory whilst the De Havilland people are doing the De Havilland jet trainer. The Commonwealth Aircraft Corporation is also tackling a trainer, the Winjcel.

These things, of course, are long-term spreads. They are authorized originally and, of course, the expenditure is a commitment over a period. The residue is outstanding commitments and is taken up in the records as such. We have to watch closely how our commitments run so that in one year we shall not be so confronted with outstanding commitments that will not leave anything for new expenditure.

With a £190,000,000 vote you have to be very careful that you have control of authorizations and outstanding commitments and be able to meet maintenance expenditure. It is an accumulation over a long period. It is quite legitimate, and in order, but it is all a case of what is the spread, over what period."

63. In a statement submitted to Your Committee when we were considering Supplementary Estimates for 1954-55, the Department of Defence had indicated that the outstanding commitments brought forward on 1st July, 1955, amounted to £135,273,000. A later statement, prepared for the August hearings, contained the £142,472,000 figure quoted in paragraph 61 above. We were informed that the reason for the altered figure is that, in pursuance of reductions made by Cabinet in the Defence Programme allotments for 1955-56 (to £190,000,000) and 1956-57, several items of the Programme were reduced or eliminated, including reductions in the Naval ship-building programme. The result was that the commitments carried forward were reduced by £7,199,000, making the revised commitments at 1st July, 1955, £135,273,000.

64. When the statement submitted to us in March was prepared, the commitment figure was stated as £135,273,000; but it was subject to readjustment because by that time the amount of £7,199,000 had been reinstated by the Government. Thus the commitments were as indicated in the statement submitted to us in August (£142,472,000).

65. To make allowance for additional expenditure during the year 1955-56, the estimate of Defence expenditure was increased from £190,000,000 to £191,683,000. Mr. Port, Assistant Secretary (Finance) of the Department of Defence, explained the situation in this way—

"(Mr. Port) . . . . I think our next statement shows £191,683,000 as the estimated expenditure in 1955-56. The increase over the vote of £190,000,000 is for the items reinstated by Cabinet. £190,000,000 was shown in the first statement, but Cabinet reinstated certain items in the programme which are not provided for in that £190,000,000.—(Sir Frederick Shedden) I think the thing might have been simplified if we had put outstanding items in the previous statement at £135,000,000, and then put in another item covering outstanding liabilities in respect of items reinstated by Cabinet and extended that. The figure would then have come out at £142,472,000."

66. In fact, it appears that the suppliers were never advised of the proposed reduction of £7,199,000. Mr. Port explained this delay in actually reducing the commitments as follows:—

"(Mr. Port) . . . . In the case of the Navy, the only way they could come down to the allotments approved for 1955-56 and 1956-57 was to cancel some of the outstanding commitments which came in at the 1st July, 1955. If these commitments had been allowed to run on the Navy would not have been able to come down to the allotments approved for those years. The only way was to cancel some of the outstanding commitments, in particular some of the ship construction commitments. This brought the outstanding commitments of £142 million down to £135 million. The Cabinet, amongst other items which have been explained, reinstated those commitments into the Navy programme."

COMMITTEE MEMBER.—When? It must have been between March and now?—(Mr. Port) No, it was not. It was earlier than that, but there had been some lag in re-assessing the programme to bring in the new outstanding commitments after the Cabinet reinstatement of the projects in the programme. That is why when we put this revised statement before you we got the revised figure and put it in as the ultimate outstanding commitment which is now approximately £142,000,000, which includes the reinstatement by Cabinet. The earlier statement you had did not include that."

The change in the figures that we have been discussing illustrates the difficulty encountered in making any reduction in expenditure, and also the strong pressure that can be exerted to reinstatement an amount even as large as £7,199,000. But, the Auditor-General informed us, the alteration has no direct effect upon the closing of accounts or the expenditure of the preceding year.



67. We questioned whether amounts that could be thus reduced and reinstated were properly described as commitments. The Department informed us that all commitments mentioned in the figure of £142,472,000 are firm commitments. If they are broken at its instance, the Commonwealth would presumably be liable for damages in some cases.

Q. 115.

See paragraph 61 above.

68. The Department of Defence watches the level of commitments incurred by Departments within the approved amount of authorizations for the Objectives of the Programme. The Secretary of the Department advised us that, at the highest policy level, a series of Objectives is decided upon for the Defence Programme as a whole. These Objectives can be divided into Maintenance and Capital Projects. For instance, pay and allowances of the Armed Forces would be classed as Maintenance, new equipment or buildings as Capital expenditure. At the next order of generality are the Projects. These include two major categories—Material Requirements and Works. Examples of Material Requirements are weapons, clothing, stores. The Works Projects are contained individually in the annual Works Programmes. At the third level, the Defence Programme can be described in terms of Items. The individual Items within the Projects are contained in the internal Programme records of the Service Departments. An example would be individual types of equipment, e.g., tanks or clothing.

69. The Secretary of the Department of Defence described their control over commitments in the following terms:—

Q. 116-118.

“COMMITTEE MEMBER.—Do you keep any control over the way these commitments expand?—(Sir Frederick Shedden) We watch them. Our control exists in the fact that we approve the objectives of the programme as such. We know what the ceiling that they are working on is. But, as I mentioned before, the detail of the programme is a matter for the individual departments. We watch this figure pretty closely. As Mr. Fort mentioned a moment ago, at one stage we were in a jam before the Cabinet reinstatements. Navy cancelled some of its ship-building projects and the Government was not prepared to accept the reduction because of various angles, such as unemployment and so on, and decided that the programme ought to be completed. It, therefore, reinstated those items. But, except for authorizing the programme as such, we leave it to the departments and keep our eye on the figure.

COMMITTEE MEMBER.—Are the whole of these commitments represented by contracts or are some represented by authorizations for the department to obtain what is wanted?—(Sir Frederick Shedden) Some may be contracts. They all represent either a contract or an order placed.

COMMITTEE MEMBER.—They are not just authorizations to the department?—(Sir Frederick Shedden) Oh, no, they are commitments, obligations.”

70. In the preceding paragraphs, Your Committee have attempted to provide a factual statement of the various difficulties standing in the way of making accurate annual estimates of expenditure. Where possible, we have included an example discussed in the course of one of our Supplementary Estimates Inquiries, or with the Secretary, Department of Defence. The paragraphs that follow contain some observations upon the handling by the Defence Services of these difficulties.

71. We appreciate that the problems faced in assessing overseas technical developments are very great, especially when any decision to order equipment will involve the expenditure over a number of years of many millions of pounds. However, we think it only right to point out that, if it proves difficult to make a decision, e.g., about the next type of aircraft that is to be standard front-line equipment, and that decision is delayed, serious consequences may flow—

Q. 203, 204.

“COMMITTEE MEMBER.—A lot of men have been put off who were engaged on local aircraft production, so there was not a shortage of manpower?—(Sir Frederick Shedden) The Commonwealth Aircraft Corporation recently represented to us—and also the Department of Defence Production—that the planning cycle of an aircraft is such, the ordering of materials is such, and the question of achieving production is such that they need to know the next types to be approved because they reach the point in the line of production at which men have to go off. The psychological aspect that they have represented to us is that the knowledge in the factory that there is indefiniteness of intention results in fellows saying, in time of full employment, “I am going to get a job somewhere else.”

COMMITTEE MEMBER.—You cannot blame a shortage of manpower if there is a lack of planning of aircraft to be built?—(Sir Frederick Shedden) No. That is the reason why the production schedule falls behind—because people leave. I am not blaming anybody.”

72. It is easy to attribute to lack of personnel and resources, shortcomings in a Programme that are in fact caused by delayed decisions, however necessary it may have been to delay them.

73. Your Committee are not satisfied that appropriate allowance has been made, when framing each year's Estimates of expenditure, for the ever-changing level of economic activity. We have often been told that it affects vitally expenditure for the year, speeding up or retarding as it does the rate of deliveries of supplies and equipment made during the year. This is the point at which considerations of good estimating and good programming, may well suggest the inclusion of different figures in the draft Estimates: criteria of good

estimating may suggest minimum figures, whilst a desire to achieve a Programme may suggest figures that include a degree of optimism as to achievable results. We have already discussed this matter in our Twenty-fifth Report, and take it up again in Chapter VI.

25th Report, paras. 46-47.

74. Nor are we satisfied that the forecasts made by the Service Departments of the personnel that would be serving with them during the financial year under consideration are as accurate as they could have been. We commented upon this matter in our Twentieth Report, in respect of the Department of Air, and have noted explanations submitted by the Department of Air (for under-estimates of personnel on strength for 1954-55 and 1955-56) and by the Department of the Army (in respect of 1954-55).

25th Report, paras. 48-49.

75. We appreciate that the Service Departments desire to operate their establishments up to strength and that they are anxious to do the job assigned to them. But it is our view that, however laudable the general intentions, substantial over-estimating of this kind is not desirable. In discussing the achievement of the Programme we received the following interesting evidence from the Secretary, Department of Defence, concerning the Service Departments' forecasts of personnel strength:—

Q. 194.

“COMMITTEE MEMBER.—To what extent actually is your present programme incomplete?—(Sir Frederick Shedden) By reason of under-expenditure it is short of expenditure originally laid down. The permanent forces are 5,000 under strength and the Services hope that they will get those bodies. At the present time we are pushing the recruitment campaign in order to get more bodies. The Services are even more greatly concerned about the low figure for the re-engagement of skilled men, because in regard to new recruitment they have to train a new man. Consideration has been given to such things as re-engagement bonuses. As an illustration, provision has been made for a strength greater than that which the forces have at the moment. One of the reasons why there has been under-expenditure on the personnel side is that bodies have not been forthcoming. But hope springs eternal and the Services have budgeted in expectation of better results. They learn from their experience in regard to the provision to be made for pay and related matters. The fact that personnel targets are not being realized in the Air Force is apparently due to the state of the economy.”

76. Finally, we observe that it is extraordinarily difficult to make major changes to a Defence Programme as large and yet as detailed as we have described. Major alterations will often affect one of the long-term Projects approved by the Cabinet. This is because, when maintenance expenditure involves some three-quarters of the total Programme, reductions can only be made in one-quarter of it. If the reductions are to be appreciable in terms of a Programme aggregating £200,000,000, but have to be made from one sector of it amounting only to some £50,000,000, then the cuts in that sector will have to be inordinately heavy. It was considerations such as these that caused the reinstatement of the Navy commitment for ship construction (which comprised most of the £7,199,000 of commitments reinstated in 1955-56: see paragraphs 63-66).

77. We think that it should have been possible to foresee more clearly the difficulties attendant upon changes in the structure of the Programme. If the heavy under-expenditure that occurred in 1954-55 was really caused by the rebalancing decision in the first half of 1954; then it is understandable. But we note that none of the explanations submitted to us in respect of the over-estimates for 1954-55 made mention of this factor.

Q. 35.

#### (c) DEFENCE PREPAREDNESS.

78. In 1950 the international situation was grave. Troops had been sent to Korea and it looked as if war on an international scale was imminent. In those circumstances, the Government announced that it had set in train an expanded programme of defence, involving heavy expenditures over the next three years, that by 1953 would make the country ready for mobilization.\*

79. In 1954 the Programme was, as we have explained elsewhere, reviewed, and the Government announced that the basis of Defence Policy “had been transformed from preparedness by a critical date, to maintaining it at a level that could reasonably be sustained for a ‘Long Haul’”.

Statement by Minister for Defence in the House of Representatives, 11th September 1956, *Hammer*, page 307.

80. “Mobilization” is a term that has many meanings. It may mean that a force exists which, at very short notice, could be despatched, ready for action, to any place where it would be required. At varying stages following the availability of the Permanent Force, the Citizen Force or Reserve would be called up, to the degree necessary for the requirements of the particular operational plan envisaged. Naturally, the readiness of Citizen Military Forces for operations is contingent upon the availability of mobilization equipment for them, and the completion of their training for operational deployment.

81. Thus, according to this definition of mobilization, a country may or may not be mobilized at any point of time, according to the particular operations in relation to which mobilization is considered.

\* See the Government Policy Speech, 3rd April, 1951, and the Prime Minister's Statement to the Premier, 2nd March, 1951. F.5971/56.—2

82. On the other hand, "mobilization" may mean "General Mobilization". In this case, mobilization is the marshalling of the national resources for a total war effort. This point was not reached during the 1939-45 war until 1943. By 1943 the strength of the Forces had increased from 0.6 per cent. of the total man-power to 26 per cent., and the labour force in factories engaged on war production had grown from 0.4 per cent. to 14 per cent.

Qn. 187-189. 83. In answer to questions, the Secretary of the Department of Defence informed us that Australia had not been ready for mobilization in 1953, and that that was still the case in the current year. The amounts voted by Parliament had not, he said, been entirely sufficient to enable the full Programme, as recommended by the Defence Committee, to be carried out. In addition, there are deficiencies in each of the Services—deficiencies to which we have referred in the previous sections of this Chapter.

Q. 189. 84. Sir Frederick Shedden explained that Parliament—  
 " . . . did not provide the amount that had been asked for by the Services which came to the Defence Committee. Having looked at the programme, the Government said, 'This is to be the Vote. You have to cut your coat according to your cloth. This is the amount.' I merely make that clear. I am not wanting to ascribe responsibility to anybody, because the Government is well acquainted with the position. We are a bit on thin ice in regard to the quotation of specific things on this matter because I am on the verge of classified information which I am not authorized to give to the Committee except in camera. But the Government is aware and has long been aware of what are the deficiencies of the Services and carry the responsibilities of what they can provide for them. I am prepared to give you a document which I have in my collection here and which I brought with the intention of allowing you to see it. It is a classified document. It deals broadly with the position of one of the Services as regards its equipment, which shows deficiencies. The Government looks at the cost and decides what it can put in the Budget."

Qn. 187-189, 190, 191. 85. It will be seen that although Sir Frederick claims that insufficient funds were provided for carrying out the full Programme as envisaged by the Defence Committee, there have been heavy under-expenditures, especially on the equipment votes for the Services. Thus the Programme is short not only because of the Government's decision that it was not practicable to allocate to the Defence Services all the funds they required; but also because the funds actually allocated to the Defence Services were not fully spent.

86. The first of these factors is a matter of policy and does not concern us in this Report. The second indicates a certain lack of realism in estimating. We have already referred to it in this Report, and in our previous Reports on Supplementary Estimates.

Q. 215. 87. One of the most difficult of all the problems associated with expenditure by the Defence Services is to determine whether value has been obtained for the money spent. Sir Frederick Shedden told us that basically, the responsibility for seeing that money is efficiently spent rests with each Service Minister and his Service Board.

Qn. 215, 224. 88. The Department of Defence has no direct control over the expenditures of the Service Departments, though it keeps constant watch on how progress towards the Objectives compares with expenditure upon them. He said that—

" . . . As a matter of Ministerial functions, it has been laid down by the Prime Minister that the responsibility for execution of their respective programmes rests on the Ministers of the departments concerned. In Defence, we look at it from the over-all angle of a balanced programme to provide for what we consider to be the defence needs. We closely watch their progress but, as to the method of spending or achieving economies and that sort of thing, as long as they conform to the particular pattern of the programme the responsibility is with them."

" . . . We take the physical aspect of some of the major items of their programmes and watch those essentially in a material sense apart from their progress of expenditure. The Defence Committee does look at this extremely closely, particularly at the time when the annual programme is approved, to see what our objectives are and how we are getting on. This thing has been greatly complicated, if I may say so, by the purchasing power of money."

Q. 268. 89. The tendering procedure adopted by the Service Departments is one means of ensuring that the work required is done for the lowest available price. Both the Department of Works and the Department of Supply also follow these procedures.

Q. 269. 90. In the final analysis, Sir Frederick Shedden said, one must rely on the efficiency and integrity of the Service Departments and their Service advisers. They alone can watch detailed progress and ensure that the available funds are spent to the best effect. Because the Objectives of the Programme exceed the Vote, they have every incentive to spend economically.

" (Sir Frederick Shedden) We, as well as the public in general, are concerned with getting value from the vote that is spent and the achievement of the maximum defence security. I have often said that I am greatly opposed to the appointment of an auditor-general to audit the Auditor-General. I think there is a rationality in which you do superimpose overhead on some of these things. These people are paid to do a job, and if they cannot do it efficiently, it is just too bad.

You come down heavily on them if there is waste. But I do know that, from the feeling in the Services, there is a very strong administrative zeal amongst these people to squeeze the vote and get all they can out of it because, as I mentioned earlier, the objectives of the programme exceed the vote. They know that if they want to get these things they have to spend their money properly and effect savings to do it. Quite frankly, from my knowledge of the public service in general and what they do in other countries such as the United States of America and the United Kingdom, I think that the other departments are very able and efficient and we are very well served by them. There is no new machinery that I could suggest. As I mentioned, the business advisers in the department meet collectively and apply their collective brains to these things. I think that on the whole they are doing quite well."

91. Your Committee note that it is the opinion of the Secretary of the Department of Defence that, on the whole, the Service Departments are "doing quite well". We suggest that in the technique of "input-output analysis" now being applied in the United States of America might be found a further means by which expenditure upon the Defence Services could be tested for practicability and its effects on other users of resources.\*

#### CHAPTER IV.—THE PREPARATION OF THE DEFENCE SERVICES ESTIMATES.

92. In the annual Estimates, those of the Defence Services are given a section of their own. The section includes all Votes made specifically for defence purposes, and its total is the figure used when total Defence Programme expenditure for the year is mentioned.

93. As we mentioned in Chapter I., estimating for several of the Votes in the Defence Services group has been wide of the actual expenditure: in some cases additional funds were required and in others large surpluses remained at the end of the year. Your Committee, in an endeavour to obtain satisfactory explanations for the inaccuracy, have examined the time-table according to which the Defence Services Estimates are prepared.

94. In outline, the time-table seems to be as follows:—

- (i) The determination of the Defence Programme as an expression of Defence policy.
- (ii) Authorization of expenditure upon the projects necessary to give effect to the Programme.
- (iii) Preparation of draft Estimates.
- (iv) Cabinet review of the draft Estimates.
- (v) The settling of the Estimates, and their presentation.
- (vi) Review of the Programme by the Defence Preparations Committee.

95. Defence Programmes usually extend over a period of three years. When approved by the Government, they provide a working basis for the various departments in the Defence Group. At the same time, the Government gives an indication of the order of funds likely to be available during each of the financial years through which the Programme runs. For the Programme commencing in 1954, the Government indicated that expenditure plans could be based on a figure of about £200,000,000 for each year.

96. The aggregate Votes for and expenditures upon the Defence Programme during the currency of the last two three year Programmes have been—

Year.	Vote (a)		Expenditure.
	£'000.	£'000.	
1951-52	181,703	169,495	
1952-53	200,000	215,292	
1953-54	213,668	189,725	
1954-55	211,899	185,534	
1955-56	197,671	190,716	
1956-57	190,000	..	

(a) These figures include amounts appropriated in Additional Estimates.

97. Once the Programme has been approved by the Government, the Defence Preparations Committee, and under it the Defence Committee, review progress from time to time. We were advised by the Defence Division of the Treasury that in recent years the Government has often made approval of increased expenditure from one Vote conditional upon corresponding reductions in another Vote or Votes.

\* See, for an appreciation of "input-output", Robert Dorfman: "The Nature and Significance of Input-Output", in Review of Economic Statistics (Harvard), May, 1954, page 121, and especially page 132; and Burgess Cameron in articles in "Economic Record" (M.U.P.) for May, 1954 (an exposition) and November, 1955 (an assessment) in relation to mobilization and other factors.

98. It seems that the main meeting of the Defence Preparations Committee in connexion with expenditure in any financial year occurs after approval of the Defence Votes by the Parliament. Usually it is not possible for this Committee to meet until October or November, four or five months after the beginning of the financial year. The Committee authorizes expenditures under the Programme for the year and at the same time looks at the general prospects for the next financial year.

“COMMITTEE MEMBER.— . . . We were a little non-plussed as to the timetable you followed which created difficulties for the service people when trying to bring their plans into conformity with the new decision. You commenced your discussions in October when preparing for the ensuing year?—(Sir Frederick Shedden) That is customary. It is customary in the first half of the financial year to present the programme for endorsement and ask for a provisional figure for the next financial year. Two figures are arrived at; one is a prospective expenditure and the other an authorization figure. The authorization figure is always higher to enable the job to be got on with. It is customary to commence that in the first half of the financial year.”

Thus it is not possible for the Defence group as a whole to begin any capital expenditures until the financial year is one-third or even nearly one-half completed, except with the special approval of the Treasurer and Minister for Defence.

99. But at the same time the Defence Preparations Committee considers the outline Programme for the coming financial year. From then on it is possible for the Defence group to begin planning for the ensuing financial year, and they have the benefit of an authoritative figure to work from. If they prepare their draft Estimates according to the figure laid down by the Defence Preparations Committee, they will have taken all reasonable precautions and should be well prepared for the final review.

100. While expenditure for the current financial year is continuing, requests are sent out by the Treasury for the submission of draft Estimates for the ensuing financial year. The Treasury normally requests that draft Estimates be in its hands by the end of April. In the case of the Defence Group, the Estimates must, of course, conform to the approved Programme. Between the end of April and the time when the Government gives consideration to the Estimates (usually in July or early August) there will be discussions between the Defence and Service Departments and the Defence Division of the Treasury as to the amounts that are to be submitted to the Government. They will, of course, centre round the achievement of the Objectives, Projects and Items that make up the Programme as a whole.

101. Therefore, by the time the Estimates are presented to the Cabinet, they will have been the subject of considerable discussion between the Service Departments, the Defence Production and Supply Departments and the Department of Defence.

102. The Secretary of the Department of Defence informed us that they exercise a “broad control” over the Estimates of the three Service Departments and the Departments of Defence Production and Supply.

103. After the draft Estimates are considered, the Cabinet looks to the Minister for Defence to recommend allocations of the total Vote between the individual departments. Individual Programme proposals for the financial year are then reviewed by the departments to conform to their allotments. These revised proposals are reviewed by the departments Committee and are submitted to the Defence Preparations Committee for approval. At the same time, draft Estimates conforming to the approved Programme allotments are submitted by the Departments to the Treasury.

104. Although the Minister for Defence exercises a broad control over the expenditure and expenditure proposals of the individual departments, each responsible Minister reviews and approves the detailed items within his part of the Programme. The Estimates of his Department are his responsibility, not that of the Minister for Defence. Items involving matters of policy or important principle are submitted to the Defence Preparations Committee for approval.

105. We have often been told that the Defence Services Estimates are difficult to control and that they occupy a special position in the pattern of government expenditure. Your Committee do not deny these assertions. However, we desired to inform ourselves of the main difficulties associated with accurate estimating for this series of Votes and in consequence undertook this inquiry. Some of those difficulties in making accurate estimates we have discussed in Chapter III.

106. We now consider problems that may arise directly as a result of the nature of the Estimates required by the present system of financial control. The various suggestions for improvement that we discuss below are that—

- (i) Parliament should approve “block votes” for the Defence group.
- (ii) More time should be given for revision of Estimates after financial decisions by the Government on overall totals.
- (iii) Better co-ordination between the Departments concerned might be achieved.
- (iv) The system of continuing Appropriations operating in the United States of America might be applied.
- (v) Earlier approval of the Estimates would facilitate more effective expenditure within the year of estimate.

107. In the Fourteenth Report (on Supplementary Estimates for 1952-53), Your Committee discussed the practice of providing funds for the Navy, Army and Air Force in three block votes. According to that practice, each Service Department expends its own Votes and may temporarily use savings on one Vote to meet excesses on another. After the end of the financial year the Parliament is asked to give approval to the transfers (“virements”), that must have received Treasury approval during the year.

108. It is suggested that if the Service Departments were voted “block votes” of this kind, much of the criticism that is at present made of inaccuracies in estimating would be forestalled. The only criticism that could justifiably be made would be of excess over, or heavy under-expenditure from, the Vote for each Service Department.

109. Because of the special nature of Defence expenditure, it may appear that there are good reasons why such a procedure should be followed. However, Your Committee re-affirm the views expressed in the Fourteenth Report.

110. It is our firm opinion that “block votes” are not desirable. If it becomes necessary, for strategic reasons, to make alterations to the Votes as approved by Parliament at the beginning of the year, there is nothing to prevent those alterations being made. We have indicated in various Reports that we take no exception to variations in expenditure that are made for good reasons. The same would apply with special force to Defence Votes. Nevertheless, such variations do alter the amounts that it was stated would be required, and cause for the alteration should exist, and be stated (though subject to any restrictions that are necessary for security reasons).

111. We observe also that the main Defence Services Votes are for large amounts, with little itemization as compared with Votes for civil departments. Many of the variations that are necessary in any given year are in fact made either within one of the large items of the main Votes: or at least between two items of the same Vote, in which case a Section 37 Transfer is very often available.

112. Thus we conclude that the institution of the practice of approving “block votes” would not greatly increase the accuracy of estimating. We understand, too, that the work of accounting would not be reduced by such a device, because financial branches even now find it necessary for purposes of control to keep records containing far more details than are presented to the Parliament.

113. Your Committee have heard from representatives of each of the Departments in the Defence group that very little time is given those responsible for the preparation of the Estimates to revise them in the light of alterations to the overall Programme figure made by Cabinet during its July-August pre-Budget review. There are two reasons why the draft Estimates submitted for the Defence Services might be widely divergent from the figure actually decided upon by the Government in its final Budget review—

- (i) The Estimate submitted to the Cabinet may have been considerably higher or lower (and in recent years it appears to have been higher) than the figure in favour of which the Cabinet was ultimately likely to decide.
- (ii) The Government may have had to revise drastically its assessment of the priority of defence expenditure in the light of extraneous circumstances, e.g., the state of the economy or the international situation.

114. Your Committee were advised that in respect of the Estimates for 1956-57, three figures assumed importance. The first was the figure actually submitted to the Cabinet on behalf of the Defence Services. This figure was £208,000,000. The second was the Programme figure that had been fixed provisionally by the Cabinet for 1956-57, and was £198,700,000. (This figure had been raised from £196,000,000 because of items reinstated by the Cabinet during the financial year, mainly because of representations by the Navy that the allocation of £37,900,000 from the total Vote of £196,000,000 was inadequate). As can be seen from the Estimates for 1956-57, the third figure, the total Defence Services Vote approved for 1956-57, is £190,000,000. Of this Vote the Navy's share is £39,000,000. In addition, the Vote for St. Mary's Filling Factory is increased from £6,000,000 in 1955-56 to £13,000,000 in 1956-57. Expenditure of £250,000 on Aid to South East Asia and provision for V.I.P. Convaire aircraft are also included.

115. Your Committee cannot help concluding that some of the draft Estimates submitted to the Government by the Service Departments were not as close to the figures suggested by the Defence Preparations Committee as they might have been. No doubt they are the result of a desire by Departments and the Services they represent to achieve the Objectives.

and Projects included in the Programme as quickly as possible. It is our view that the financial considerations may not have been taken sufficiently into account, especially when it is borne in mind that no special crises have occurred or major readjustments to the Programme been necessary.

116. All the alterations in the draft Estimates had to be made within the space of a few days, because of the need to have the final Estimates printed in time to present them to the Parliament. We understand that the time for revision in connexion with the 1955-56 draft Estimates was approximately 24 hours.

117. We asked Sir Frederick Shedden whether he thought it was possible to make accurate reductions with notice as short as this. He said that expenditure in 1955-56 of £190,716,000 had vindicated Estimates totalling £190,000,000 submitted at the beginning of the year. (Although £7,671,000 was provided in Additional Estimates in May, 1956). Elaborating upon his reply, and speaking in general, he said that he thought the short time for revision was not a major contributing factor to the inaccuracies that have occurred. The procedure as he described it is as follows:—

“(Sir Frederick Shedden) . . . . Having got the word from Cabinet of what the amount is, the Services and Defence Committee then see the impact of that figure on the programme as it stands at that time and then say to the Government, ‘This is what we think is the way to cut this amount.’ This is on your point about the time for the revision of the Estimates. The Services complete the Estimates under the headings of divisions, sub-divisions, and items, and the Estimates then go to the Treasury to be embodied in the Budget. The programme statements in detail come in, and we look at them closely in the Defence Committee and present them to the Defence Preparations Committee, which is the sub-committee of Cabinet dealing with defence. This is the programme for the year, in the form of the objectives of the programme, as distinct from divisions, sub-divisions, and items of the Estimates. Under the time-table laid down in those circumstances, the governing factor is the Government’s decision on what is the amount to be given for defence. Until this is known, finality cannot be reached on the estimates and the programme, but the information about the vote is generally not available until Cabinet considers the Budget.

COMMITTEE MEMBER.—The departments told us in March last that they did not have time to re-adjust all their estimates in the light of the new decisions that were taking place at a high level. I gather from you now, in connexion with the Estimates and Budget for this financial year, that if as a result of a decision of Cabinet today a certain line of action is decided upon, that will have to go through you back to the Service Departments to have all these things done in time to be included in the Budget to be delivered in August?—(Sir Frederick Shedden) Yes.

COMMITTEE MEMBER.—That means that there is cause for complaint by the Service Departments. Because of the way in which things are done there is insufficient time adequately to consider the various adjustments which should be made to bring the actual Budget expenditure into line with the programme that has been modified to a very great extent by the Cabinet decision?—(Sir Frederick Shedden) We would agree with that. I would say that it is clerical work that happens at this particular stage, with people working long hours to get their Estimates ready, because the broad pattern of what they have to do with the money is resolved by the Defence Committee. The broad pattern has existed on the bulk of this, since the first approval of the three year programme three years ago. It fluctuates and it is flexible. I do not say that it is clerically impossible for them to do it. The fact that they do it shows that. The Chiefs of Staff have sat on the Defence Committee and have agreed on the adjustments and the directions in which they will spend money in broad terms. Working out the divisions, sub-divisions, and items may be hard to do quickly, but it is possible and feasible and I would not say that that would stand as a major reason for the Estimates being out of line with something in the programme. Naturally, during the course of the year, they have Supplementary and Additional Estimates. That is the way things happen, variations occur during the year. The Services find that works are not progressing and supplies are not coming to hand. They make adjustments to spend the money. The aim is to spend the money, because it represents a programme which the Government has laid down to be achieved.”

118. Your Committee recommend that careful consideration be given to the question of “timing”. We have in mind the time factor in relation to two matters—

- (i) the date at which the Defence Preparations Committee authorizes expenditures for the current year; and
- (ii) the time available for adjustment of the Estimates following Cabinet review, bearing in mind the complexity of the figures presented by the Defence Services Departments to the Government.

119. In our Twenty-fifth Report we commented upon the *apparent lack of co-ordination* between the Department of Works and the Department of Air in connexion with maintenance for the Department of Air. We also mentioned the appearance on the Estimates of £13,144,000 for Defence Works. We note that, in accordance with a new procedure, and following the presentation of the Defence Works Vote to the Parliament, the Department of Works estimated, in consultation with the Treasury, that its works capacity was £9,489,000 for 1954-55.

120. We observe also that the figures for Defence Works for 1955-56 are—

Vote	£14,800,000.
Expenditure	£13,956,000.

These figures seem to indicate that there is still room for better co-ordination between the departments concerned on the works side.

121. We understand that another cause of inaccuracy in the Estimates of the Department of Air is that the preliminary estimates of expenditure submitted by the Department of Defence Production have not been accurate.

“COMMITTEE MEMBER.—One of the features we discovered in relation to the activities of the Department of Defence Production was that the Department of the Army, so it told us, did not know what it was going to be up for until the bills came in. The Department of Defence Production did not tell them what was on the slate, and it was only when the bills came in that they knew it had to meet them. I think that is the position, Mr. McKnight?—(Mr. McKnight) I think it was, but it has improved.

COMMITTEE MEMBER.—The Committee had some comments to make about that—that the service departments were really paying for things for which they had no responsibility in contracting?—(Sir Frederick Shedden) Again without criticizing any other department, the Business Board has been paying great attention to this problem of aircraft production, which is done by that same department. It is the controlling authority in regard to what is done by outside contractors in addition to its own production of equipment. People budget for certain payments but the trouble is that, through various technical production matters, loss of skilled man-power, or other variations such as modifications in the types of aircraft, increases are caused. The Department of Air has to rely on the Department of Defence Production for information of these increases in respect of locally produced aircraft.”

122. No doubt the other Service Departments have also experienced difficulty in obtaining equipment approved under the Programme because of similar supply difficulties. We recommend that the relations between the Departments of Defence Production and Supply and the Service Departments also be examined with a view to ensuring that the Estimates presented to the Parliament are as realistic as possible.

123. The Secretary of the Department of Defence advised us that in the United States of America there is a *system of continuing appropriations* for Defence Services. In a discussion of the “Defence Budget”, Mr. Arthur Smithies\* says that the programming and budgetary procedures can best be described by outlining the chronological process involved. He observes that one of the special features of the process is that the Budget normally results from programming commenced as much as two years earlier. For the Budget for 1955-56, the process would be as follows:—

- (i) July, 1953-March, 1954—  
Preparation of departmental programmes, with consideration by National Security Council and President.
- (ii) April, 1954-August, 1954—  
Preparation of departmental budget estimates—The budget process proper begins.
- (iii) September, 1954-December, 1954—  
Review by the Department of Defense and Budget Bureau, and preparation of the President’s budget, with discussions between the Secretary of Defense and Chiefs of Staff.
- (iv) January, 1955-June, 1955—  
Revision of departmental programmes to conform to the President’s budget and, subsequently, to Congressional action on the budget.

124. Mr. Smithies’ comment on the detailed Estimates is—

“The detailed estimates included in the budget may be so much out-of-date by the time the fiscal year commences that they cannot serve as working programs. In fact, the timing is such that the estimating agencies must make their budget estimates before they even know how many dollars they will have in the year intervening between the time of estimating and the budget year for which the estimates are drawn. The obsolescence of the budget figures before the beginning of the fiscal year necessitates a further budget process, called the funding program or the financial plan. This plan is particularly necessary when abrupt changes in the international situation, such as the cessation of hostilities in Korea, necessitates program revisions.

A budget based on a highly intricate procedure that is designed to work out over a two-year period clearly does not lend itself to ready revision in its final stages; and if it is not revised in a rapidly changing situation, the basic assumptions underlying it tend to become obsolete by the time the budget goes into effect. In view of their importance in appraising the process and in considering possibilities of improvement, more extended comments are required on two matters: (a) the methods of preparation of departmental estimates, and the consideration of those estimates and action on them in the military departments and in the office of the Secretary of Defense.”

\* “The Budgetary Process in the United States”, by Arthur Smithies, for the Committee for Economic Development Research Study McGraw-Hill Book Co. Inc., 1955. Pages 243 et seq.

Q. 211.

Q. 32-34.

Q. 13, 45  
and 121.25th Report,  
paras. 82-85.25th Report,  
paras. 76-81.

Q. 79, 80.

Q. 89.

Smithies,  
pages 246-248.

125. Congress appropriates funds for a particular financial year: but, although the appropriations must normally be "obligated" during the year for which they are made, the obligations may be paid off during the next two years. It seems that in the case of programmes such as the Defence Programme, the appropriations will be made for several years in advance. They will be obligated when contracts are let, and spent as construction is completed or goods are delivered.

Smittles,  
page 102-104.

126. As an example of the way in which the American system works, we quote the following short extract from the "Budget Message of the President" to the Congress for the fiscal year ending June, 30th, 1956:—

Budget  
Message,  
page M. 24.

"Expenditures for major national security programs in the fiscal year 1956 are estimated at 40.5 billion dollars. This total is 186 million dollars below that for 1955, and 6.1 billion dollars below the actual 1954 amount. Recommended new authority to incur obligations is greater than for 1955 but less than for 1954. After the cessation of combat operations in Korea, we were able to reduce our 1955 military appropriations because the unobligated balances available were greater than required and the large stocks of supplies on hand permitted the military services to 'live off the shelf' to a large degree without replacing the items consumed."

(Committee's Italics).

127. Although on the face of it the American practice appears to have great merits, more careful examination of the constitutional background seems to suggest that such a procedure would not be appropriate for Australia, or for any system similar to that of the United Kingdom. The fundamental difference between British and American practice appears to be that in the British system the Executive may enter into contracts that may last beyond the currency of one financial year and will involve expenditure of more funds than have in fact been appropriated. In America, no obligations may be entered into without Congressional authorization. Hence the need for an appropriation that will cover not only expenditure in the current year, but probable future expenditure under the Programme.

128. Mr. Samuel H. Beer, in a monograph entitled "Treasury Control—The Coordination of Financial and Economic Policy in Great Britain,"\* suggests that the inability of the President to incur obligations without Congressional authorization is the main reason for the development of a Programme and for not following the traditional procedure of annual appropriations and lapsing votes. From it, he suggests, stems the unsuitability of the American system for annual audit, a cardinal feature of British financial practice—

Beer, page  
45-46.

"In its freedom to incur liabilities the British executive also enjoys what must seem from the American point of view an even more remarkable power. The point can be brought out if we examine a peculiarity about the estimates presented to, and the appropriations voted by, the British Parliament. It is that they show only the sums which are expected actually to come in course of payment during the year to which they relate. They include cash required to meet liabilities outstanding at the end of the previous year and cash required to meet new liabilities incurred and coming into payment in the current year. They do not, however, provide for liabilities which may be incurred in the current year, but which do not come into payment until a later year. In short, appropriations in Britain do not present that familiar feature of recent American budgets: a discrepancy, sometimes huge, between the sum that will actually be spent in the financial year and the sum appropriated, which will be spent over a period of years. The reason for the American practice is obvious: many programmes, especially defence programmes, can be carried out only over a period of years; hence, if departments are to make the necessary commitments they must be assured of the requisite appropriations. But the British Government also undertakes activities of this kind; it also has a set of long-run defence programmes. How does it avoid the discrepancy?

The reason in a nutshell is that while in Britain the executive can, if circumstances are sufficiently compelling, incur liabilities not already covered by an appropriation, in the United States it cannot. Exceptions to the rule occur in the United States when Congress from time to time specifically provides in legislation that a department, for a limited period and within a fixed sum, may make contracts creating liabilities not covered by an appropriation. The general rule, however, is that if a department of the Federal Government is legally to incur liabilities, even though they do not come in payment during the current year, these liabilities must already be covered by an appropriation. Freed of this limitation, the British executive in launching a programme is obliged to ask Parliament only for such funds as appear to be needed for the fiscal year, the result being that appropriations and expenditure are not greatly discrepant."

129. One other suggestion made to us concerning a solution for inaccurate Defence Services estimating was that the Parliament might appropriate funds earlier in the financial year. Your Committee have already, in their Eighteenth Report, suggested that earlier presentation of the Estimates would be desirable, especially in the case of Capital Votes, e.g., for the Department of Works. Although, according to the analysis of the Defence Programme made earlier in this Report, capital expenditures as such appear to form a relatively small portion of total expenditure on the Defence Programme, they form, nevertheless, an important part of it. The Programme is so large that unless adequate time is given to the procurement officers to lodge their orders, it is not reasonable to expect that they will be fulfilled during the year.

18th Report,  
paras. 88-102,  
113-120 and  
Conclusions  
13, 14.

\* This book, by Samuel H. Beer, Professor of Government at Harvard University, was published in Oxford at the Clarendon Press, 1952.

130. Mr. Hawkins, Secretary of the Department of the Navy, indicated that his Department would be assisted by being granted appropriations earlier in the year. We recall that in Your Committee's Eighteenth Report it was indicated that all the Service Departments regarded earlier presentation of the Estimates as desirable. We discussed the question of timing, with Mr. Hawkins, and received the following evidence:—

Q 235  
18th Report,  
para 14,  
para 93.

COMMITTEE MEMBER.—Mr. Hawkins, you have been good enough to furnish us with a statement. You remember that in our last Report we complained about the under-expenditure of quite a number of items in your section. You have provided us with a statement dealing with the estimate of those things. In discussing this matter with the services the general complaint has been that there is not sufficient time to consider the re-arrangement of the estimates at the last point before they go into the Budget. Are you handicapped at all in that regard? Can you effectively handle the situation in the time that you have at your disposal?—(Mr. Hawkins) I cannot say at the moment what time we are going to have at our disposal. As far as the current financial year is concerned the position is that we have prepared our estimates knowing what our programme figure would be. The estimate we put in was above that figure. In view of increased costs and for various other reasons the figure we put in was above our programme figure by a certain amount. We have not yet obtained a decision on what our final allocation for this year is going to be. When we get our final programme figures then we will know how much we will have to reduce. If the reduction is only small we would be able to adjust our estimate as we have already worked it out on that basis. We would at once put in a new estimate and would point out to what extent the project we had in mind would be influenced by the reduction on account of higher costs. If we have to go down below that programme figure the estimate we require would depend upon how much we have to go below it. If it were a substantial sum it would necessitate the naval board getting together again and going into the whole programme. It would require them looking at the whole programme and setting out an order of priority. One of our problems is that part of this financial year has already gone and by the time we get our decisions we will have spent a certain amount of the money that is allowed to us. We are spending it on maintenance and small capital orders. If we have to reduce a number of employees, the sooner we obtain the figure the better. The position would be much easier if we knew what the position was at the beginning of the year. The naval board will have to decide how to bring about the saving. Last year was a very high year for us because of certain reasons. This year is going to be lower as we have the Melbourne paid for. We would have to decide first of all what we will do. We may need to cut out national service training or we may have to advise the Minister for Defence along those lines. Perhaps we will have to stop building some of our frigates or the number of employees in our dockyards be reduced or some yards closed down. We would have to go into these estimates and see what the saving would be. We would have to put down the savings for one particular item and the savings for other items and decide which we would prefer to have taken out. There is our difficulty. It depends on how soon we have to submit our reduced estimates. I understand the Budget is to be presented fairly soon but we have not yet obtained our figure."

Q 235.

(Committee's Italics).

## CHAPTER V.—THE DEFENCE TRUST FUNDS.

131. In the Budget Papers for 1955-56 are shown twenty-five separate Trust Funds or Accounts dealing with some aspect of Defence. Eight of these are included in Section 1 of the Budget Papers Table and are funds held by the Commonwealth in Trust for persons and authorities other than the Commonwealth Government. There are seventeen funds or accounts in Section 2. Most of the Section 2 Accounts are working accounts covering the operations of factories, e.g. the Munitions Factories Account, the Defence Clothing Material Account. Others constitute reserves appropriated by Parliament and are set aside for specific purposes. The three accounts of this type set aside for defence purposes are the Strategic Stores and Equipment Reserve Account, the Korean Operations Pool Account, and the Defence Equipment and Supplies Account.

For a list of  
Defence Trust  
Funds see  
Appendix  
No. 5.

Q 145, 146.

132. We intend shortly to make a general investigation of the Trust Fund and of the arrangements made for the use of the funds lying in it. In this Report we are concerned chiefly with the three Special Purpose Trust Accounts created to further the objectives of the Defence Programme.

133. Although the total balances carried forward at 1st July each year in the Section 1 Accounts have risen from £5,742,000 in 1950 to £11,888,000 in 1956, the rise does not appear to be more than would be expected as a result of the changing value of money and the increasing amounts standing to the credit of the Defence Forces Retirement Benefits Fund:

134. The increases in balances carried forward each year for the Section 2 Accounts have, however, been dramatic. From £5,286,000 carried forward at 1st July, 1950, the balance rose to £89,794,000 in July, 1955, and declined only slightly, (by £3,786,000 to £86,008,000) during 1955-56.

135. The following table sets out the movements in Defence Trust Funds (Section 2) since 1950-51:-

	£m.	£m.
1950-51—Strategic Stores	+48.0	
Other Trust Funds	- 1.4	
		+46.6
1951-52—Strategic Stores	+ 2.2	
Other Trust Funds	+ 1.7	
		+ 3.9
1952-53—Strategic Stores	- 1.3	
Korean Operations	+10.0	
Other Trust Funds	+ 0.6	
		+ 9.3
1953-54—Defence Equipment and Supplies	+12.0	
Other Trust Funds	+ 5.1	
		+17.1
1954-55—Defence Equipment and Supplies	+ 8.0	
Other Trust Funds	- 0.4	
		+7.6
1955-56—All Trust Funds	- 3.8	
		- 3.8
		+80.7

It can be seen that the movement in Section 2 Trust Funds, other than in those we have called the three special reserve Trust Accounts, has been small. Balances in Trust Funds other than the three special reserve accounts have increased by only £0.5 million during the six years. On the other hand, aggregate balances have increased by £80.7 million.

136. The increase represents the funds in the three major Trust Accounts—

	Balance at 1st July, 1956.
	£
Strategic Stores and Equipment Reserve Trust Account	48,637,027
Korean Operations Pool Trust Account	10,000,000
Defence Equipment and Supplies Trust Account	20,000,000

137. The Strategic Stores and Equipment Reserve Trust Account was created in 1950, in pursuance of a Government decision "to build up in Australia reserve stocks of certain key materials, and equipment needed for the Defence Services, and war industries".

138. A provision of £50,000,000 was included in the Estimates for 1950-51 for payment into the Trust Account. A further £5,000,000 was transferred to the Account by the *Appropriation Bill (No. 2) 1950-51* (Additional Estimates for that year). The Treasurer indicated in his Second Reading Speech that only about £10,000,000 had actually been spent from the Account during 1950-51, but that—

" . . . very substantial commitments have been entered into under the Defence Programme and the unspent balance together with any Budget surplus will be available to meet the commitments which have already been entered into."

139. In 1951-52 more funds were transferred to the Account. The Treasurer announced in his Budget Speech that £32,500,000 was the amount that the Government proposed to pay into the Account. In fact, only a little more than £10,000,000 was credited to it in 1951-52.

140. Expenditure charged to the Account was £9,038,000 in 1950-51, £7,866,000 in 1951-52 and £1,321,000 in 1952-53, a total of £18,225,000. Payments out of the Account since then have been negligible (except that there was a payment of £239,000 in 1955-56).

141. The purposes of the Korean Operations Pool Trust Account are—

"To record the receipt and payment of moneys by the Commonwealth arising from Australian participation in the Korean Operations Pool established under the administration plan for the non-operational control and general administration of the British Commonwealth Force, Korea."

142. The Treasurer announced in the Second Reading Speech on the *Appropriation Bill (No. 2) 1952-53* that provision had been made in the Budget for 1952-53 to meet Government expenditure on supplies and services in Korea. However, Australia's share of expenditure was considerably greater than originally anticipated, and for that purpose an appropriation of £10,000,000 in the form of a Korean Operations Pool reserve was then being sought.

143. Details of transactions on this account are—

Year.	Balance Brought Forward.	Receipts.	Expenditure.	Balance Carried Forward.
	£	£	£	£
1952-53		23,160,210	13,160,210	10,000,000
1953-54	10,000,000	19,172,361	18,267,316	10,905,045
1954-55	10,905,045	3,542,119	4,057,511	10,390,013
1955-56	10,390,013	5,886,400	5,976,413	10,000,000

144. In our Fourteenth Report we set out the position as follows:—

"The Department of the Army explained that—'The bulk of the expenditure charged to this vote relates to the Army's share of the cost of stores, supplies, &c., for and the maintenance of the British Commonwealth Land Forces, which expenditure originates in the country of the participants in the operations, viz., United Kingdom, Canada, New Zealand and Australia. Expenditure is debited in the first place to a Pool Account controlled by the Treasury and is allocated out on a per capita basis to the countries concerned. Apart from rations, the Army sends very little to Japan and Korea and consequently, in the main, debits are in respect of issues by the United Kingdom and Canada which are not known until the allotment is made by Treasury'."

The Treasury explained that, although it was aware of the existence of the outstanding claims from the United Kingdom, it did not have sufficient information to assess what the additional debt might be. It was necessary to write to the United Kingdom Government for the information and the money was provided when that information was received later in the financial year."

Your Committee understand that the funds in the credit of this Account may shortly be used for the purpose for which they have been held.

145. The Defence Equipment and Supplies Trust Account was established in 1953-54. £12,000,000 was paid into the Account by appropriation in the Additional Estimates.

146. The purpose of the Account is to provide funds—

"For expenditure in connexion with the following Defence requirements—

- (i) Construction and procurement of Naval vessels and associated equipment and stores.
- (ii) Construction and procurement of aircraft and associated equipment and stores.
- (iii) Procurement of arms, ammunition, munitions, mechanical transport, machinery, equipment, plant, coal, petrol, oils, clothing and other stores and supplies."

Exhibit No. 294, page 34.

147. In his Second Reading Speech on the *Appropriation Bill (No. 2) 1953-54*, the Treasurer said that difficulties had been experienced in the fulfilment of orders and—

" . . . on the one hand it is proving difficult to keep total defence commitments within planned ceilings. On the other hand actual cash expenditure is tending to lag somewhat behind the rate for which provision was made in the Budget. Unless, however, some provision is now made to meet these delayed expenditures an extra burden may be thrown forward on to the Budget for 1954-55. . . ."

Hansard, page 371, 6th April, 1954.

148. Again, in 1954-55, moneys were appropriated to the Defence Equipment and Supplies Account. Additional Estimates for 1954-55 appropriated an amount of £8,000,000 to it, bringing the balance at the end of the year to £20,000,000. On the occasion of the appropriation of £8,000,000, the Treasurer indicated that, because defence expenditure in 1954-55 was going to fall short of the Budget Estimate of £20,000,000 through economic conditions in Australia and overseas, the Government had decided to transfer a further amount to the Account. He said that—

" . . . This amount of £20,000,000 will be held available in the Treasury to assist in financing outstanding Defence commitments."

Hansard, page 849, 18th May, 1954.

149. The various Accounts containing Defence Trust moneys are subject to control by different authorities. For instance, Departmental working accounts are normally controlled by the departments in question. A fund such as the Defence Forces Retirement Benefits Fund is controlled, on behalf of the beneficiaries, by the Department of the Treasury (Defence Division). Control of the three Accounts we have been considering specially is discussed in the following paragraphs.

150. The Korean Operations Pool Trust Account is under the control of the Department of the Army. Its purposes are relatively closely defined, and there is the prospect that claims will be made that will use most of the balance remaining. Mr. Hewitt, First Assistant Secretary of the Department of the Treasury, explained that, as claims were made, they could be met without further appropriation—

"COMMITTEE MEMBER.—The fund could be actually used but it would need a new appropriation in order to find the cash?—(Mr. Hewitt) No. The appropriation is there. By appropriating the amount originally for the Korean Operations Trust Account Parliament authorized the expenditure of that money at any time for the limited and specified purpose of the trust account. No further

Qs. 130-132.

Qs. 166, 168.

Q 167.

Budget Speech 1950-51, page 17.

Hansard, Volume 213, page 137, 5th June, 1951.

Exhibit No. 294, page 2.

Hansard, Volume 221, page 1255, 15th March, 1953.

appropriation is necessary by Parliament for cheques to be drawn against that trust account. Certain other requirements are necessary in order to provide the cash at the moment-to-moment disbursements because the amount in the fund, as well as amounts in other funds, is not in idle cash, but has been invested until such time as it is required."

Qn 172, 124. 151. The position in regard to control of the other two major Defence Trust Accounts is not so simple. They are Accounts established in accordance with Government policy, and operations upon them are made subject to Government direction. At the present time, no operations are permitted on either of them.

Q 172.  
Qn 123-126. 152. The Strategic Stores and Equipment Reserve Account is under the jurisdiction of the Department of Supply; but because of a change in Government policy, no drawings of any significance have been permitted since 1952-53 (when £1,321,000 was expended from it). It appears that the Account is, in fact, controlled by the Treasury, and that the balance is invested in Government Securities.

Qn 158 159. "COMMITTEE MEMBER.—So that because of a change of Government policy and the exigencies of outside events you were left with the sum of £48,000,000 which has not been used?—(Sir Frederick Shedden) That is so. It is really a Treasury fund. It was created by the Government in its wisdom and when a request was made to use it they decided against it.

"COMMITTEE MEMBER.—The balance is invested?—(Mr. Hewitt) Yes, as part of the Trust Fund. It is one of those accounts which was included on Table 18 of the last Budget Papers under the description "General Trust Funds."

Q 134. 153. The third Account, the Defence Equipment and Supplies Account, was established following the review of the Programme by the Prime Minister and the Minister for Defence in 1954. But, as with the Strategic Stores and Equipment Reserve, no expenditures have been made from it in recent years. Indeed, no expenditure has ever been made from it, in accordance with decisions of the Government executed through the Treasury. The Secretary, Department of Defence, explained that its intended purpose had been to equalize annual appropriations for a three year Programme, expenditure upon which would not necessarily be the same in each year of its operation (although the Account was not credited with the unexpended balances of the Defence Vote).

Q 121, 122. "COMMITTEE MEMBER.—I think it only right to say that we realize the need for flexibility in a defence programme but I think that the Committee would be concerned at the effect of the creation of trust funds in relation to the parliamentary control of the public purse. In the second place, the Committee would be concerned at the relationship between the smaller trust funds of which there are quite a number and the need for precision in the Estimates. In one of the statements that you gave to us in relation to the defence programme you mentioned that unexpended balances would be placed to the credit of trust funds. Is it the usual practice to make such a provision or was, if expected, at the time, that balances might well be left unexpended?—(Sir Frederick Shedden) This Defence Equipment Trust Account arose from discussions between the Prime Minister and the Minister two years ago on rebalancing the programme. Rebalancing and revision take time to do and the services take time to implement them. There is generally an under-expenditure because the Estimates have gone through. The Government, for its own reasons, considered that £200,000,000 was a stable figure and proposed, subject to revision each year, to give us £200,000,000 a year. We have to relate this to the general background of the international outlook at that time—in 1954—and the instructions that we were under from the Government to complete our preparedness to a degree. The Prime Minister and the Minister for Defence agreed and the Defence Preparations Committee ultimately approved that the trust accounts should be created for unexpended balances. Personally, other things being equal, I consider that a good way of equalizing expenditure is to have these funds. I know that there are political objections to them. They have been abused at different times. But—as an administrator, on a programme of three years, I favour them. That was the origin of these funds. It was agreed that our unexpended balances should be placed to our credit in trust funds. There was a credit in the Defence Equipment Trust Account of £12,000,000 and one of £8,000,000 which makes £20,000,000. I think that the under-expenditure over the period was £40,000,000. We did not get the full sum. That did not matter much because we were forbidden by the Treasury to use the fund. But the reasons are as I have stated them. It was considered that the programme of expenditure would be tightened up and that there would be no abuse of it.

"COMMITTEE MEMBER.—Would the general attitude be: 'Here is the amount necessary, in view of the considerations we have before us, to achieve this programme; if, due to other considerations that appear, that money cannot be actually spent in that period, it will be retained in a trust account in order to fulfill that programme?'—(Sir Frederick Shedden) Yes. The graph of expenditure since Federation has been in peaks and troughs and you get an equalization in this sort of thing. In my opinion, if the state of the economy is such that the Budget can afford it, it is a good idea. It means that, in the lean years when the Government cannot give us the vote that is necessary, perhaps because they want to reduce taxation or for some other reason, our vote can be supplemented from a trust account. Senator Benn spoke about meeting outstanding commitments. The magnitude of those commitments has arisen from the original view, which I have mentioned, that we should have a vote of £200,000,000 a year and trust accounts for unexpended balances. As was mentioned a while ago, when our vote was cut down to £190,000,000 we had to cut out certain things. The Navy cut out some of its construction programme. I think it is a stabilizer and an equalizer in the annual vote to have a trust account to work to."

154. Moreover, Sir Frederick Shedden said that he thought such a Trust Account, if <sup>Q 134.</sup> reasonably used, could be of great value because—

"These annual fluctuations are quite a nightmare to the Service Departments <sup>Q 142.</sup> and the Department of Defence, and the effective operation of a spread of the appropriations supplemented by a trust fund is a very good idea."

155. Discussing the question whether it is better that any such Account should be controlled by the Treasury, rather than by the Department of Defence, Sir Frederick Shedden said that they would not seek control of such an Account because the executive work on the Programme is done by the other Departments in the Defence Group. However, the Department of Defence would be willing to operate an Account if that were the wish of the Treasury—

"COMMITTEE MEMBER.—Do you believe there is any economic advantage in your department's <sup>Q 138.</sup> having a trust account, even if it is controlled by the Treasury?—(Sir Frederick Shedden) The Treasury has kept a tight hold on trust funds in the past. In general, we have found them to be quite reasonable people in regard to our requests and the use of the funds, but we understand that paramount Treasury and political considerations precluded our use of this one. I should not think we would want one in our department because, as I mentioned in the very beginning in reply to the Chairman, the executive work on all the votes and the operation of trust funds is done by the departments. If the Treasury liked to give us a trust account similar to the Defence Equipment and Supplies Trust Fund in order to supplement the programme, we would be only too happy to operate it; but, on the other hand, they might not think it appropriate. You know, the Treasury likes to control these things itself. In general principle, I agree on the need for a trust account. As to its location and control, while the Treasury is reasonable about its administration I see no harm in general principle in the Treasury keeping it under its control. On the other hand, if there were any reasons why it should be put under the Department of Defence for the purpose of authorizing its operation by the Services, or its parceling out, I think the Treasury could be assured that our interest in it would be the same as theirs—that we would want a combination of value for the money and economy."

156. Your Committee note that in the Strategic Stores and Equipment Reserve and Defence Equipment and Supplies Accounts there are balances totalling £68,637,000. <sup>Q 121, 122.</sup> The purposes for which these funds may be used are wide, and no further Parliamentary appropriation is required. It appears that decisions regarding expenditures from them have, <sup>Q 167, 163.</sup> at any rate to the present, been made for economic rather than strategic reasons—

"COMMITTEE MEMBER.—I take it that the considerations affecting that decision would be considerations relating to the national economy rather than strategic considerations?—(Sir Frederick Shedden) I think that is correct. The national economy and financial considerations have governed the decisions and the Treasury would lay down the rules under which authorization should be granted."

157. The purposes for which the funds were voted by the Parliament were expressed in terms of the need—

(i) to build up strategic reserves; and

(ii) to equalize Defence Votes for a Programme that is now in its final year of operation.

Your Committee observe (i) that the need for building strategic reserves arose in 1950, and (ii) that the Parliament is now in the process of appropriating the necessary funds for the last year of the current Defence Programme. We question whether any future expenditures from these two Accounts could ever be said genuinely to have been made in fulfilment of the purposes for which the Parliament originally appropriated the funds. It may be that, even if the letter of the law were observed, the situation has now so changed as to suggest the view that a fresh approach might be made to the purposes for which the balances should be expended. We recall in this connexion that any alteration to the purposes of a Trust Account can be made <sup>Q 171.</sup> only after Parliamentary approval by legislation or fresh appropriation.

158. In an Inquiry, the preliminary steps for which have already been taken, Your Committee intend to examine in detail the problems associated with the Trust Fund, including those raised by the existence of these large unspent Defence Reserves.

## CHAPTER VI.—FINANCIAL AND ECONOMIC ADVICE.

159. In Chapter III. we discussed the vital effects that changing conditions in the economy, both at home and overseas, can have upon the ability of the Defence Services Departments to execute the Defence Programme. Upon the execution of that Programme depends, of course, the expenditure of the funds voted by the Parliament. Further, when discussing the two major Defence Reserve Trust Accounts, we noted that the most important reason for the embargo on their use has been the state of the economy.

See Chapter V. above.



160. The responsibilities for finance and financial administration are divided between the various Defence Services Departments. The Permanent Heads of the three Service Departments were recently appointed Accounting Officers within the meaning of the Audit Act. That was in an endeavour to give them more control over financial administration within the Services. The Secretary, Department of Defence, advised us that the results flowing from their appointment had proved as satisfactory as they had been in the United Kingdom.

Qs. 256-258.

Administrative Arrangements Order. See para. 17 above. Para. 27 and Q. 215.

161. The Minister for Defence is responsible for "the formulation and general application of a unified Defence Policy . . . including . . . the financial requirements of Defence Policy, and the allocation of the funds made available". As mentioned earlier, the Defence Division of the Treasury, which was created when the Defence Department was split early in the war, is responsible for "financial aspects of Defence matters, including questions of pay . . ."

Appendix No. 1.

162. In addition, there are two committees within the Higher Defence Machinery that have special functions in the financial field. The first is the Board of Business Administration. It is one of the principal subordinate committees operating within the purview of the Department of Defence. Composed of four members, its function is—

Federal Guide, 1955, page 55.

"To deal with joint Service matters of common interest to the three Services, or important subjects on which the collective advice of the Board is desired."

Ibid. page 49.

163. The Joint War Production Committee is part of the Joint Service and Inter-Departmental Advisory Machinery. It is composed of an outside Chairman and of senior public servants from the Defence Group, including Heads of Departments, and has power to co-opt representatives of other Departments as necessary. Its functions are—

Ibid. page 50.

- (i) To correlate the current material requirements of the Services and the resultant production programmes.
- (ii) To consider production questions affecting the Services which require joint consultation.
- (iii) To study the question of industrial war potential in all its aspects; make recommendations as necessary for the retention of existing capacity and the creation of new capacity in peace as part of war potential; generally to co-ordinate the planning of industrial production to meet requirements in war.
- (iv) To report generally to the Council of Defence, in particular to submit annual reports (a) on the material requirements of the Services and the resultant production programmes for the following financial year; and (b) on its activities during the year under (iii) above.
- (v) To advise the Defence Committee on the particular aspects of matters referred to it by that body."

Q. 194.

164. The Secretary of the Department of Defence told us that the Board of Business Administration has recently been concerned—not whole time, because it is a board of businessmen who give their services voluntarily—with the aircraft production programme. But the Board does not advise on economic trends. Its function is to look at matters of works and supplies.

Q. 254.

"COMMITTEE MEMBER.—The Board of Business Administration does not advise on economic trends—(Sir Frederick Shedden) No. As businessmen, they take the probabilities into account. They are outstanding businessmen who are concerned, in their businesses, with the general outlook. They primarily look at matters of works and supplies which are their own particular speciality. The Chairman is Sir John Allison, the Chairman of Permevan-Wright. The Deputy Chairman is Mr. Arthur Wiggan, the Director of Supply in General Motors-Holden's Limited. These people are fairly close to what is happening. I should have referred to this Board earlier, when you asked if there was any agency in the department.

There is a business adviser in each Service Department and a chairman and a deputy chairman in the Defence Department. The Service Departments refer these problems to their own business advisers. Most of the business advisers take their problems along to the Board and get the collective views as to what they are going to do. This was a most prudent instrumentality to set up. Prior to the war, in the 1930's, we set up an Industrial Advisory Committee with Mr. Essington Lewis and Sir Walter Massey Greene and other leading businessmen. When the war came, we set up a statutory Business Board which was chaired by Sir George Pearce who retired as a Senator. Some outstanding business people were members of that Board. If anybody criticised expenditure the ready answer was that it had been through the Business Board because that Board was composed of such outstanding people. We did not know where we could turn for better advice and, on the works and supply side, I would repeat that now. We have reinforced the administration of the department by the appointment of these outstanding businessmen who are quite independent. They have excellent sub-committees on matters such as standards of building, which eliminates the necessity for a variety of submissions to be made as to this or that type of building. They perform a most excellent service and in an honorary capacity."

Qs. 54, 75, 215.

See para. 46 above.

165. The Department of Defence has set up a working party that keeps the progress of the Programme under constant review. The Committee is under the chairmanship of the Assistant Secretary (Finance) of the Department of Defence, and has on it representatives of the Service Departments and of the Departments of Defence Production, Supply, Works and Treasury.

166. Your Committee note that there is no Department among the Defence Group, nor any committee appointed within its orbit, that is charged specifically with analysing the mutual reactions of economic conditions and the Programme. No doubt many of the committees that exist to watch over supplies are in some way concerned with future supply prospects. No doubt, too, some cognizance is taken of the state of the economy when the probable Votes for future years are under discussion. Nevertheless, it is our view that this matter is so important, and that its dire effects upon estimates of expenditure and achievement have been so clearly manifested in recent years, that systematic, continuous and specialised examination of it is warranted. The value of the examination would be enhanced if, in addition, it resulted in an appraisal of the effects upon the economy of the various alternative Objectives that might be included in the Programme. For example, the import aspect of any re-equipment proposals is a relevant factor, as is knowledge of what portion of the Programme can be met from local sources, and with what effect upon other potential purchasers.

167. When we discussed these matters with Sir Frederick Shedden, he said that he regarded the decision about the economy as one for the Government to make. He said— Q. 25.

"The Government is the judge as to the state of the economy and what the country can afford . . ."

. . . It is only the Government that can weigh (the urgency of doing things) . . . in relation to the state of the economy and of our resources and of the urgency of doing them. I quite agree that under normal circumstances the facts (about over-estimating) speak for themselves. There is no refuting them. We were given these votes and did not spend them all owing to economic exigencies."

Your Committee consider that it should have been possible to take these matters into account at the departmental or advisory level, along with the very much more vital question of the general effects upon the economy of a Defence Programme of a certain extent and emphasis.

168. We recommend that thought be given to obtaining and presenting suitable advice on these matters. We do not say whether the function should be that of the Treasury, already equipped for giving economic advice, or that of the Department of Defence, or even that of a special committee.

169. It is not satisfactory that the finance branches of the Defence Group should have no more than financial supervisors, business advisers and statistical sections. Nor is it adequate that they should handle only the financial aspects of the Programme. When a Programme is under consideration that amounts to one-fifth of the total Commonwealth Budget (or one-quarter, if the amounts paid to the States are deducted), it warrants the best advice on all aspects that can be proffered. Not only the defence of the nation, but the safety of the economy, is at stake.

## CHAPTER VII.—SUMMARY.

### THE INQUIRY.

1. Because of the nature of the discussions that followed the Inquiry of Your Committee into the Defence Estimates in August last, we have decided to publish with our Report the text of the evidence given at that Inquiry. (Paragraph 4.)
2. Your Committee emphasize that we do not discuss Defence Policy. (Paragraph 5.)
3. Our purpose is to inform the Parliament of the manner in which the Defence Estimates are prepared and executed, and to consider the reasons for the inaccuracies revealed in the Estimates in recent years. (Paragraph 5.)
4. Your Committee remind the Parliament of the adverse comments on the Defence Estimates that we made in our First, Fourteenth, Twentieth, and Twenty-fifth Reports. (Paragraphs 6-9.)

### THE HIGHER DEFENCE MACHINERY.

5. The Organization of the Defence Services provides for a Minister for Defence, for Ministers of the Navy, Army and Air, for Ministers of Defence Production and Supply, and for a Defence Division (Finance) of the Treasury. (Paragraph 15.)
6. The Higher Defence Organization operates through a large number of Committees, of which the more important are—
  - (a) the Defence Preparations Committee,
  - (b) the Defence Committee,
  - (c) Defence Research and Development Policy Committee,
  - (d) Principal Administrative Officers' Committees for Personnel, and for Maintenance and Materiel,



(e) the Joint Planning Committee and the Joint War Production Committee.  
(f) In addition, there are the Navy Board, the Army Board and the Air Board, as well as the Chiefs of Staff Committee.  
(Paragraphs 16-39.)

7. Your Committee compare the Australian Organization with that of the United Kingdom and of the United States of America. (Paragraphs 28, 37.)
8. Your Committee refrain from discussing the policy involved in the arrangement described in (5) above. (Paragraph 29.)
9. The Chart annexed to this Report indicates some of the lines of authority that run between Ministers, their Departments, and the many Committees and Boards. (Paragraphs 12, 39, 40.)

#### THE POLICY AND THE PROGRAMME.

10. All the arrangements mentioned have as their purpose—
  - (a) the determination of Defence Policy,
  - (b) the formulation of a Programme to give effect to that policy, and
  - (c) the choice of Projects that become an integral part of the Programme. (Paragraph 41.)
11. The activities mentioned tie into the financial aspects of the Defence organization in that the Cabinet decides the sums it will seek from the Parliament to pay for the Programme, and thereafter the various Ministers, in collaboration with each other and the Treasury, prepare their Estimates in the light of the funds placed at their disposal, the state of the economy, and the possibility of obtaining the men and materiel necessary for the several projects. (Paragraphs 42, 45, 46.)

#### EXPENDITURE ON THE PROGRAMME.

12. The Defence Department reviews the progress of the Programme from time to time, and it has appointed a special inter-departmental committee to watch the rate and nature of defence expenditure throughout the year. (Paragraphs 46, 165.)
13. The three main factors affecting expenditure on the Programme are—
  - (a) the international situation,
  - (b) the state of the economy, and
  - (c) the broad distribution of expenditure between capital spending on the one hand and maintenance on the other. (Paragraph 47.)
14. The international situation may influence the distribution of expenditure as between the several Services. (Paragraph 48.)
15. The state of the economy may influence the extent of orders placed overseas. (Paragraphs 50-53.) It will also have a marked effect upon the personnel that can be attracted to the Services. (Paragraph 54.)
16. It will be seen from the figures given that Maintenance absorbs a little more than 75 per cent. of the total Services Vote, while rather less than 25 per cent. is devoted to Capital works. (Paragraphs 55, 58.) Capital projects count for 27 per cent. of expenditure by the Departments of Defence Production and Supply is taken into the reckoning. (Paragraph 58.)
17. Another factor affecting the flexibility of the Programme is the high level of commitments carried forward. In 1955-56, for every pound spent, the Commonwealth was committed to future liability of fifteen shillings. (Paragraphs 61, 62, 73.)
18. Your Committee noted the difficulty of making reductions in the Defence Vote, and the pressure that can be exerted to compel the reinstatement of even large sums to the expenditure programme. (Paragraphs 63, 66, 74, 76.)
19. Your Committee consider that in framing the Estimates, sufficient allowance has not been made for the problems created by the ever-changing nature of the economy. (Paragraphs 52, 53, 73.)
20. The forecasts of available personnel have been wide of the mark, but we appreciate the difficulties encountered, and the efforts being taken to overcome them. (Paragraphs 74, 75.)

#### DEFENCE PREPAREDNESS.

21. Your Committee were told by Sir Frederick Shedden of the steps taken by the Government in 1950 to ensure that because of the Korean threat to world peace, the country would be ready for mobilization by 1953. (Paragraph 78.)

22. We were also told of the review of the Defence Programme in 1954 to enable the defences of the country to be kept at a level that could be sustained for a "Long Haul". (Paragraph 79.)
23. Sir Frederick Shedden told us that the 1953 objective had not been realized. He explained, however, that there was in existence a basic organization, independent of international stresses, and ready for expansion on mobilization. See paragraph 60 above, and Question 229 there quoted. (Paragraph 83.)
24. Your Committee were told that "mobilization" has many meanings. (Paragraph 80.) It may mean that a force exists that could be despatched ready for action at very short notice.
25. Mobilization may also mean "general mobilization", i.e. the marshalling of the national resources for a total war effort. This point, we were told, was not reached during 1939-45 war until 1943. (Paragraph 82.)
26. The Minister for Defence has no direct control over the Service Departments, which are individually responsible for spending their Votes. Your Committee discussed with Sir Frederick the question whether value had been obtained for the money spent on defence, and were told that in his opinion the Service Departments are "doing quite well." The system of tenders helped to get economy in spending. (Paragraphs 87-91.)  
(We refer also, in connexion with Defence Preparedness, to Summary Paragraphs Nos. 53-63.)

#### THE DEFENCE ESTIMATES.

27. Because Your Committee have been concerned with the discrepancies in the Defence Estimates over the years, we examined the time-table for preparing the Estimates. (Paragraph 93.)
28. Defence Programmes usually extend over three years, and all the Departments are given an indication of the funds they can expect to get. (Paragraph 95.) Since 1951-52 the Votes have been in the order of £200,000,000 annually. (Paragraph 96.)
29. The Defence Preparations Committee meets, after the Budget has been adopted, to authorize expenditures under the Programme, and to look at the general prospects for the next financial year. This meeting usually takes place in October or November. (Paragraphs 97-99.)
30. The Estimates for the next financial year are required by the Treasury by the end of April and are framed in the light of the approvals given by the Defence Preparations Committee. (Paragraph 100.)
31. There will be general consideration of these Estimates by the several Service and other Departments, the Defence Department and the Defence Division of the Treasury between April and July (or early August), and decisions are taken as to the amount of the Vote to be sought from the Government. (Paragraph 101.)
32. When the Cabinet approves of the sum to be voted, the Minister for Defence decides the amounts to be allotted to the several Departments in the Defence Group. (Paragraph 103.)
33. If necessary, the individual Departments revise their Estimates: when approved by the Defence Preparations Committee, they are submitted to the Treasury. (Paragraph 103.)
34. Your Committee discuss at length suggestions that have been made for improving the procedure for the preparation and approval of the Defence Estimates: e.g., Block Votes (which we reject) (Paragraphs 107-112); extending the times for revision of the Estimates after alteration by the Cabinet (which we approve). (Paragraphs 113-118.) (The time for the revision for the 1955-56 draft Estimates was approximately 24 hours (Paragraphs 116-118): the Secretary of the Department of the Navy told us he was embarrassed by having insufficient time to revise his Estimates if he had to bring them into line with Cabinet changes in allocations. (Paragraphs 122, 130.))
35. We repeat our view, expressed in earlier Reports, that there is room for more effective co-ordination between the Departments of Works, Defence Production and Supply, and Service Departments. One cause of inaccuracy in the Estimates of the Department of Air is that the preliminary estimates submitted by the Department of Defence Production were not accurate. (Paragraph 121.)
36. Your Committee discuss the Estimating practices operating in the United States of America and in the United Kingdom, but doubt their suitability for Australian conditions. (Paragraphs 112, 123-128.)

37. Your Committee advert to their Eighteenth Report, in which they recommend that the Estimates should be brought down earlier than at present, and before the commencement of the financial year, particularly for Capital works. We recall that all the Service Departments agreed with the suggestion. (Paragraphs 129, 130.)

## TRUST ACCOUNTS.

38. The Budget Papers for 1955-56 show twenty-five separate Trust Funds or Trust Accounts dealing with some aspects of Defence. (Paragraph 131.)
39. Your Committee are concerned with three Trust Accounts which constitute reserves appropriated by Parliament and are set aside for specific purposes. (Paragraphs 131, 132.)
40. The three Trust Accounts are—  
 (a) Strategic Stores and Equipment Reserve Trust Account;  
 (b) The Korean Operations Pool Trust Account; and  
 (c) Defence Equipment and Supplies Trust Account.  
 The balances in these Accounts at 1st July, 1956, amounted to £78.6 million. (Paragraphs 135, 136.)
41. The *Strategic Stores and Equipment Reserve Account* was created in 1950 "to build up in Australia reserve stocks of certain key materials and equipment needed for the Defence Services and war industries". £50,000,000 was provided in the Estimates for payment to the Trust Account. A further £5,000,000 was provided in the Additional Estimates for that year (1950-51). (Paragraphs 137, 138.)
42. Only about £10,000,000 was spent during 1950-51, but as the Treasurer anticipated heavy commitments the Government announced (1951-52) that £32,500,000 would be paid to the Trust Account. In fact, only slightly more than £10,000,000 was paid in. (Paragraph 139.)
43. Expenditure charged to the Account for the three years 1950-51, 1951-52, and 1952-53 was a little more than £18,000,000. There have been few entries in the Account since 1953, save that £239,000 was debited to the Account in 1955-56. (Paragraph 140.)
44. The *Korean Operations Pool Trust Account* was established in 1952-53 to record the receipt and payment of moneys by the Commonwealth arising from Australian participation in Korea. (Paragraph 141.) A sum of £10,000,000 was credited to the Account.
45. It is understood that the funds at the credit of this Account may shortly be used for the purpose of the Trust. (Paragraph 144.)
46. The *Defence Equipment and Supplies Account* was established in 1953-54 when Additional Estimates provided for a credit of £12,000,000.
47. The purposes of the Account are for—  
 (a) construction and procurement of naval vessels,  
 (b) construction and procurement of aircraft, and  
 (c) procurement of arms, equipment, &c.  
 (Paragraphs 146, 147.)
48. 1954-55 Additional Estimates appropriated a further sum of £8,000,000, bringing the balance at the end of the year to £20,000,000. (Paragraph 148.)
49. Control of these Accounts varies. The Army controls the Korean Operations Pool Account. (Paragraph 150.) The Strategic Stores and Equipment Reserve Trust Account is under the Department of Supply, but is in fact controlled by the Treasury, and no operations of any significance have been allowed since 1952-53. (Paragraph 152.) The Defence Equipment and Supplies Account was created in 1954 by Cabinet direction to meet anticipated commitments, but in fact no payments have ever been made from it. (Paragraphs 153-155.)
50. The total balances to the credit of the Strategic Stores and Equipment Reserve Account and the Defence Equipment and Supplies Account are £68,000,000. (Paragraph 156.)
51. Your Committee note that the decision not to operate upon these two Trust Accounts is based upon economic rather than strategic grounds. (Paragraph 156.)
52. Since it is doubtful whether any future payments from these two Accounts can be regarded as fulfilling the purposes of the Trust, we recommend that the Accounts should be examined afresh. (Paragraph 157.)

## FINANCIAL AND ECONOMIC ADVICE.

53. The several Defence and Service Ministers divide between themselves responsibility for finance and financial administration. (Paragraph 160.)
54. The Minister for Defence is responsible, *inter alia*, for the financial requirements of Defence Policy. (Paragraph 161.)
55. The Defence Division of the Treasury is responsible, *inter alia*, for financial aspects of Defence matters. (Paragraph 161.)
56. There is a Board of Business Administration of four members which, *inter alia*, deals with Joint Service matters of common interest to the three Services. (Paragraph 162.)
57. The Board of Business Administration has recently been examining the aircraft production programme. (Paragraph 164.)
58. There is a Joint War Production Committee whose members are an outside Chairman and senior public servants, and which has power to co-opt. It has comprehensive functions, including the correlation of current material requirements of the Services with the resultant production programmes; the consideration of production questions affecting the Services; the study of industrial war potential; the co-ordination of planning of industrial production to meet requirements in war; and to advise generally, as well as to report annually on defence requirements. (Paragraph 163.)
59. There is an inter-departmental working party advising the Department of Defence upon the progress of the Defence Programme. (Paragraph 165.)
60. Your Committee note, however, that there is no-one specifically charged to watch the mutual reactions of economic conditions and the Defence Programme. The absence of this information has had a serious influence upon the forecasts and estimates of the Defence Group. (Paragraph 166.)
61. Your Committee recommend that thought be given to obtaining and presenting suitable advice upon these matters. (Paragraph 168.)
62. It is not sufficient that the Defence authorities should have no more than financial supervisors, business advisers, or statistical officers, nor that they should handle only the financial aspects of the Programme. (Paragraphs 167, 169.)
63. When one-fifth to one-quarter of the Budget is being hypothesized, the Government needs the best advice obtainable. Not only the defence of the nation, but the safety of the economy is at stake. (Paragraph 169.)

## CHAPTER VIII.—CONCLUSIONS AND RECOMMENDATIONS.

As there are special problems associated with estimating for defence, as distinct from civil requirements, the purpose of this Inquiry has been to describe, for the information of the Parliament, the background to the Estimates for and expenditure upon the Defence Services. The results are fully set forth in our Report, and are summarized in our Observations (Chapter VII).

Further, it has been the endeavour of Your Committee, by an examination of the procedures involved, to ascertain the reasons for the discrepancies that have occurred in recent years between various Defence Votes and expenditure from them. The reasons are—

*The Programme as a Whole—*

- A. The changing international situation, which has affected the Programme as a whole, particularly by altering its Objectives. (Paragraphs 47-49.)
- B. The state of the economy (domestic and international), which has affected the Programme as a whole, particularly in terms of the achievement of stated Objectives, e.g., equipment, personnel. (Paragraphs 47, 50-54.)
- C. The difficulty of making major alterations to a programme which involves a high level of commitments and a high proportion of maintenance expenditure. (Paragraphs 47, 55-69.)

*The Estimates—*

- D. Insufficient time has in recent years been left for proper consideration of the effects of Cabinet decisions about the size of the overall Programme Vote for the year. (Paragraphs 98, 99, 113-118.)
- E. Because the approval of the Parliament is not usually given to the Defence Services Estimates until about four months of the financial year have elapsed, there are difficulties in giving effect, before the end of the year, to new proposals for which funds have been voted. (Paragraphs 98, 99, 113-118.)

*Defence Reserves—*

F. £68,600,000 is held in two Trust Accounts as a reserve for defence purposes. Although voted by the Parliament, the funds have not been used because of prevailing economic conditions. If expenditure from the Consolidated Revenue Fund on the Defence Services is looked at from one point of view, these unspent balances represent still greater under-expenditure on Defence. (Paragraphs 135, 136, 150-153, 156.)

Q. 164.

*Financial and Economic Advice—*

G. It seems that adequate financial and economic advice has not been available about the reactions on each other of the Programme and economic conditions. (Paragraphs 166, 167.)

**RECOMMENDATIONS.**

A summary of the recommendations that we have made in an endeavour to suggest ways of improving the accuracy of the Defence Services Estimates is set out below.

We observe in passing that these recommendations, although designed to improve the accuracy of the Estimates submitted to the Parliament, may have implications that extend beyond the purely financial, and our terms of reference. Your Committee's recommendations are—

- (i) There should be a greater appreciation of the effects of decisions about major items of equipment upon the future capacity of the defence supply network. (Paragraphs 71, 72.)
- (ii) More careful note should be taken of the likely effects of the condition of the economy when estimates are framed involving procurement of supplies or the recruitment of further personnel. (Paragraphs 73-77.)
- (iii) A body to prepare and present suitable advice on the general effect upon each other of the economy and the Defence Programme (both when it is in prospect and when it is in progress) should be set up at an appropriate place, either within or outside the Defence Group. (Paragraphs 73, 168, 169.)
- (iv) We suggest it might be possible to adopt the technique of "input-output analysis" to examine the prospect of achieving Programme Objectives and the effects that alternative Programme Projects might have upon others who draw on the country's resources. (Paragraph 91.)
- (v) We think more time should be given, after the Government has made its decisions on the overall funds available, for revision of the Defence Services Estimates. (Paragraphs 106, 113-118, 122.)
- (vi) Earlier authorization of expenditure for each current year is desirable, but this links with the date of the presentation of the Budget. (Paragraphs 106, 123, 129, 130.)
- (vii) The methods by which co-ordination is achieved between the Service Departments and the various supplying agencies should be improved. (Paragraphs 106, 119-121.)
- (viii) We think that the institution of a system of "Block Votes" such as operates in the United Kingdom would be undesirable. (Paragraphs 106-112.)
- (ix) The practice of continuing appropriations that operates in the United States of America would not be appropriate for our system, which involves annual Votes and audit. (Paragraphs 106, 123-128.)
- (x) In the light of changed conditions, a fresh approach might be made to the use of the balance of £68,600,000 standing to the credit of the Strategic Stores and Equipment Reserve Account and the Defence Equipment and Supplies Account. (Paragraph 157.)

For and on behalf of the Committee,

F. A. BLAND

Chairman.

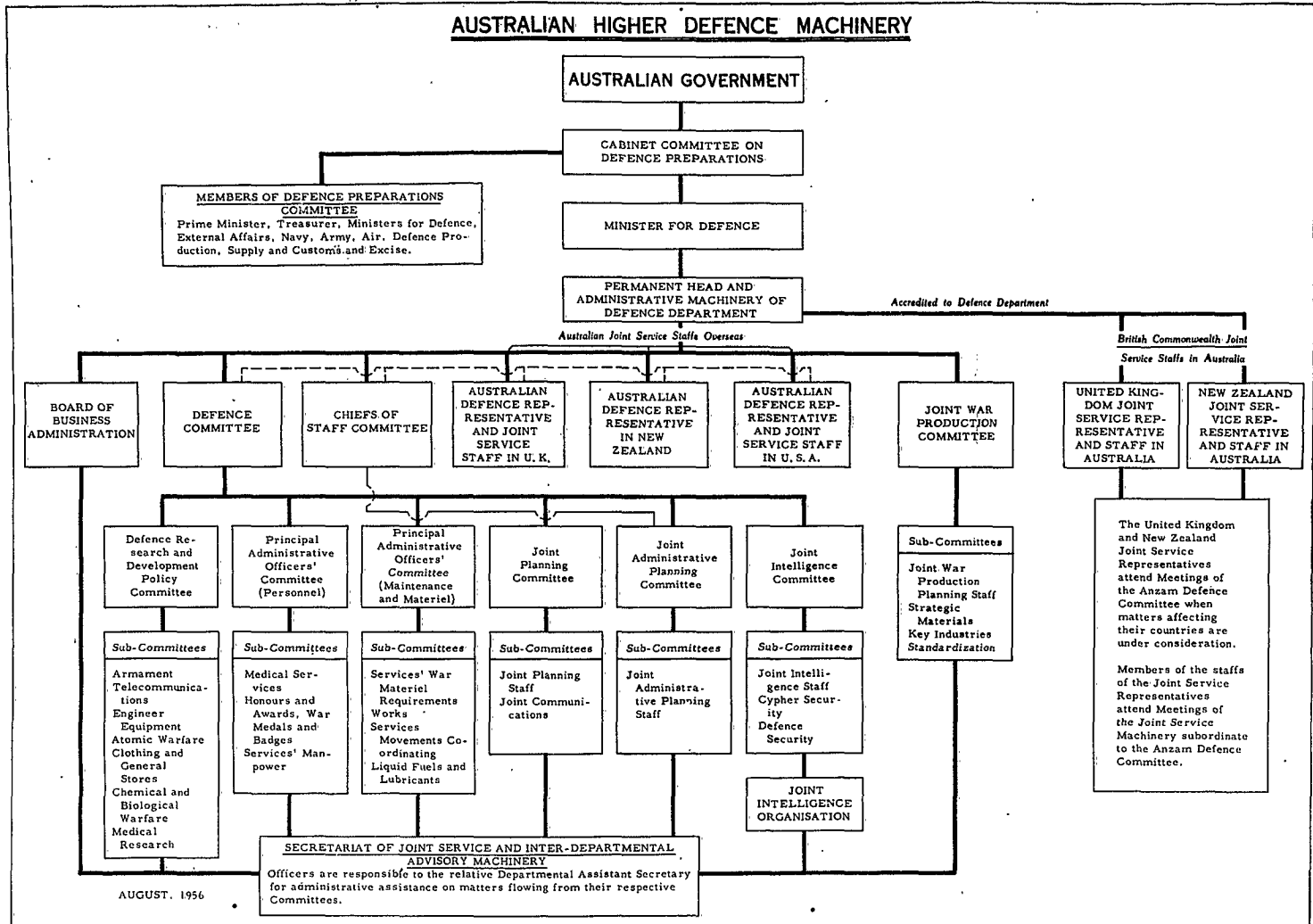
Peter H. Bailey, Secretary,

Joint Committee of Public Accounts,  
Parliament House, Canberra, A.C.T.  
24th October, 1956.

APPENDIX No. 2.  
Report Paragraph 28.

THE FUNCTIONS OF THE MINISTERS FOR DEFENCE IN AUSTRALIA, THE UNITED KINGDOM  
AND THE UNITED STATES OF AMERICA.

Australia.	United Kingdom.	United States of America.
<p><i>Minister for Defence.</i></p> <p>Subject to the authority of Cabinet and the Council of Defence, responsible for—</p> <p>The formulation and general application of unified Defence Policy relating to the Defence Forces and their requirements, including—</p> <ol style="list-style-type: none"> <li>(a) Co-operation in British Commonwealth and Regional Defence aspect of the Charter of the United Nations.</li> <li>(b) The supply aspect of Defence policy, including the review of production programmes and capacity.</li> <li>(c) The scientific aspect of Defence Policy.</li> <li>(d) The financial requirements of Defence Policy, and the allocation of the funds made available.</li> </ol> <p>The Defence aspect of Armistice and Peace Terms, Control Commission, and Forces of Occupation.</p> <p>Matters of policy or principle and important questions having a Joint Service or inter-departmental Defence aspect.</p> <p>The Higher Defence Machinery, the control of the Joint Service Machinery, and Secretariats of the Council of Defence.</p> <p>The Defence aspect of questions relating to the Organization and Machinery for—</p> <p>Co-operation in British Commonwealth Defence.</p> <p>Co-operation in Regional Security, including obligations under the United Nations Charter.</p> <p>Higher Direction in War.</p> <p>Higher Direction of the Services.</p> <p>The Commonwealth War Book, which is a summary of National Plans for an Emergency as developed in Departmental War Books.</p> <p>The administration of Inter-Service Organizations, such as the Joint Intelligence Machinery.</p> <p>The Defence aspect of—</p> <p>The Strength and Organization of the Forces.</p> <p>Higher Appointments in the Services. Honours and Awards.</p> <p>Advice on the military aspect of Civil Defence.</p>	<p><i>Minister for Defence.</i></p> <p>The <i>Ministry of Defence Act 1946</i> provides that the Minister of Defence "shall be in charge of the formulation and general application of a unified policy relating to the armed forces of the Crown as a whole and their requirements."</p> <p>Subject to the authority of Cabinet and the Defence Committee, responsible for—</p> <ol style="list-style-type: none"> <li>(a) The apportionment in broad outline of available resources between the three Services in accordance with the strategic policy laid down by the Defence Committee. This includes the framing of general policy to govern research and development, and the co-ordination of production programmes.</li> <li>(b) The settlement of questions of general administration on which a common policy for the three Services is desirable.</li> <li>(c) The administration of Inter-Service organization such as Combined Operations Headquarters, the Imperial Defence College, the Joint Intelligence Bureau and any other Inter-Service organization that may be formed.</li> </ol>	<p><i>Secretary of Defense.</i></p> <p>Under the direction of the President, and subject to the provisions of the National Security Act of 1947, as amended, and Reorganization Plan 6 of 1953, the Secretary exercise direction, authority and control over the Department of Defense. The purpose of the Department of Defense is to—</p> <p>Provide for the establishment of integrated policies and procedures for the departments, agencies and functions of the Government relating to the national security.</p> <p>Provide for the authoritative co-ordination and unified direction under civilian control of the Departments of the Army, Navy (including naval aviation and the Marine Corps) and the Air Force, with their assigned combat and service components but not to merge them.</p> <p>Provide for the effective strategic direction of the armed forces and for their operation under unified control and for their integration into an efficient team of land, naval and air forces, but not to establish a single Chief of Staff over the armed forces nor an armed forces general staff (but this is not to be interpreted as applying to the Joint Chiefs of Staff or Joint Staff)</p>

**AUSTRALIAN HIGHER DEFENCE MACHINERY**

APPENDIX No. 3.  
Report Paragraph 42.

THE DEFENCE SERVICES ESTIMATES.

MONTHLY EXPENDITURES FROM CONSOLIDATED REVENUE FUND 1952-1956.

Expenditure in—	Three Year Programme.			
	1952-53.	1953-54.	1954-55. 1955-56.	
	£'000.	£'000.	£'000.	£'000.
July .. .. .	11,771	10,504	7,594	9,656
August .. .. .	15,955	11,367	10,623	12,330
September .. .. .	15,224	13,958	11,337	13,973
October .. .. .	18,870	13,019	12,137	14,940
November .. .. .	15,559	14,220	16,083	13,562
December .. .. .	15,080	13,777	13,688	15,332
First Half of Year .. .. .	92,459	77,045	71,462	79,093
January .. .. .	12,996	11,312	11,425	12,213
February .. .. .	11,983	11,044	11,334	15,194
March .. .. .	21,406	20,331	21,339	26,372
April .. .. .	23,996	19,442	11,776	15,189
May .. .. .	13,065	19,181	13,492	17,360
June .. .. .	39,384	31,370	44,306	45,694
Second Half of Year .. .. .	122,833	112,680	114,072	111,622
Financial Year .. .. .	215,292	189,725	185,534	190,715
Less transfer to Trust Fund .. .. .	10,000*	12,000†	8,000‡	..
Expenditure on Programme .. .. .	205,292	177,725	177,534	180,715
Vote .. .. .	200,000	200,000	200,000	180,000

\* Transfer to Korean Operations Pool Trust Account. † Transfer to Defence Equipment and Supplies Trust Account. ‡ Transfer to Defence Equipment and Supplies Reserve Trust Account.

APPENDIX No. 4.  
Report Paragraph 49.

THE ALLOCATION OF THE DEFENCE SERVICES VOTES.

SHOWING THE PERCENTAGE OF THE TOTAL VOTE ALLOCATED TO EACH DEPARTMENT FOR THE YEARS 1950-51 TO 1956-57.

Department.	1950-51.		1951-52.		1952-53.		1953-54.		1954-55.		1955-56.		1956-57.	
	Vote.	%	Vote.	%	Vote.	%	Vote.	%	Vote.	%	Vote.	%	Vote.	%
Defence .. .. .	£'000. 148,218	100.0	£'000. 131,703	100.0	£'000. 109,495	100.0	£'000. 106,495	100.0	£'000. 106,495	100.0	£'000. 106,495	100.0	£'000. 106,495	100.0
Army .. .. .	26,600	18.0	25,000	19.0	25,800	23.5	25,800	24.2	25,800	24.2	25,800	24.2	25,800	24.2
Air .. .. .	29,000	19.5	27,600	20.9	27,600	25.2	27,600	25.9	27,600	25.9	27,600	25.9	27,600	25.9
Naval .. .. .	61,140	41.2	57,100	43.4	56,500	51.4	56,500	52.9	56,500	52.9	56,500	52.9	56,500	52.9
Defence Production .. .. .	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Other Services .. .. .	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Total .. .. .	148,218	100.0	131,703	100.0	109,495	100.0	106,495	100.0	106,495	100.0	106,495	100.0	106,495	100.0

APPENDIX No. 5.  
Report Paragraph 131.

## DEFENCE TRUST FUNDS.

Trust Fund.	Balance Carried Forward to—						
	1st July, 1956.	1st July, 1955.	1st July, 1954.	1st July, 1953.	1st July, 1952.	1st July, 1951.	1st July, 1950.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
SECTION 1.							
Defence Forces Retirement Benefits Fund	2,423	3,167	4,111	5,098	6,119	7,188	8,485
Deferred Pay—							
Air Force .. .. .	159	144	145	132	116	102	98
Naval .. .. .	1,368	1,201	1,051	989	964	937	967
Other Trust Monies—							
Air .. .. .	126	161	159	246	70	17	12
Army .. .. .	1,165	1,349	3,098	298	356	246	2,153
Defence Production .. .. .	214	224	30	32	37	22	131
Navy .. .. .	287	402	267	146	146	43	30
Supply .. .. .							
Total Section 1 .. .. .	5,742	6,648	9,114	7,176	8,249	8,557	11,888
SECTION 2.							
Admiralty .. .. .	11	10	17	17			
Aircraft* .. .. .	168	23	1,239	509	1,303	1,478	225
Aircraft Production .. .. .					1,821	1,863	1,312
Defence Clothing Material .. .. .	882	1,119	109	315	12,000	20,000	20,000
Defence Equipment and Supplies .. .. .							
Defence—Small Arms .. .. .	61	111	66	59	54	54	61
Defence—Small Arms Ammunition .. .. .	102	108	106	105	106	105	106
Defence Production Materials .. .. .			655	272	524	481	524
Korean Operations Pool .. .. .				10,000	10,905	10,390	10,000
Manufacture of Munitions† .. .. .	1,303	295	862	1,068	1,663	1,827	
Munitions Factories .. .. .	1,907	1,547	1,282	2,304	3,266	2,854	2,284
Munitions Material .. .. .	233		337	511	646	66	60
Munitions Production .. .. .							1,277
Munitions Stores and Transport .. .. .	362	418	859	758	920	1,530	1,146
Royal Military College—Working Expenses .. .. .							
Strategic Stores and Equipment Reserve .. .. .	11	21	27	36	47	43	13
Uniform, Clothing and Necessaries—							
Naval .. .. .	246	215	15	5	24	227	363
Total Section 2 .. .. .	5,286	51,877	55,766	65,049	82,148	89,794	86,008
Increase over Previous Year (Section 2 only) .. .. .		46,591	3,889	9,283	17,099	7,646	3,786

\* During 1955-56 this Account was closed, and the Aircraft Production Account, with altered purposes, was established. † During 1955-56 this Account was closed, and the Munitions Production Account, with altered purposes, was established.