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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA.

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JOINT COMMITTEE OF PUBLIC ACCOUNTS.

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THIRTY-SECOND REPORT.

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DEPARTMENT OF HEALTH  
CANBERRA ABATTOIR.

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By Authority:

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JOINT COMMITTEE OF PUBLIC ACCOUNTS.

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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.

DEPARTMENT OF HEALTH  
CANBERRA ABATTOIR.

CHAPTER I.—INTRODUCTION.

Pursuant to the duties imposed upon the Committee by section 8 of the Public Accounts Committee Act 1951, Your Committee have examined successive Reports of the Auditor-General. We noted that in the Annual Reports for the years ending 30th June, 1955, and 30th June, 1956, mention was made, under the Department of Health, of the accounts of the Canberra Abattoir.

2. For the year ending 30th June, 1955, the comments of the Auditor-General on the Abattoir are—

"The Canberra Abattoir is operated by the Department of Health under the provisions of the Australian Capital Territory *Meat Ordinance* 1931-1953.

The Ordinance does not include provision for the preparation and audit of annual financial statements.

Since the establishment of the present Abattoir, slaughtering has been carried out under licence by local butchers and the Departmental trading activities have been confined to the manufacture and sale of by-products.

Financial statements for 1952-53 and 1953-54 have been prepared and certain aspects are under discussion between the Department and the Treasury. In the view of the Audit Office, however, it will not be practicable to certify financial statements of the Abattoir's transactions until improvement is effected in the accounting procedures and controls. In this regard, following recent Audit inspection it was necessary to suggest improvement in the systems concerning control over production, charges for killing and chilling, sales of by-products, payment of wages and consumable stores. An adequate register of fixed assets is not maintained and a stocktake has not been undertaken since January, 1953."

3. For the year ending 30th June, 1956, the Auditor-General's comments are as follows:—

"Mention was made in the Annual Report for 1954-55 of a number of unsatisfactory features associated with the accounting and controls at the Canberra Abattoir.

During the year, some defective procedures and controls were remedied by the Department and further improvements are intended. A register of fixed assets as at 30th June, 1955, was compiled and a stocktaking of tools and equipment was effected in May, 1956.

The Department of the Treasury has not yet indicated principles to be adopted in the calculation of interest on capital and amortization charges, with the result that annual financial statements have not been completed by the Department of Health and submitted to me for audit."

4. It can be seen that the Auditor-General has raised two distinct issues in connexion with the accounts of the Abattoir. In the first place, he indicates that he is unable to certify statements of the Abattoir's financial transactions until improvements in procedures and controls have been made. In addition, two matters of general financial procedure need to be clarified before the financial statements can be completed for audit purposes. They relate to the calculation of interest on capital and to making a charge for amortization.

5. In following up the first of the matters raised by the Auditor-General we examined both the accounts of, and the accounting arrangements made for the Abattoir. The results of that examination are reported in Chapters II-IV, below.

6. In following up the other matters, we discussed with representatives of the Department of Health and of the Treasury, and with the Auditor-General, the various possibilities available for including in the accounts charges for interest and depreciation, and the means by which those charges could most readily be made. In the latter connexion we gave some attention to the possibility of operating the finances of the Abattoir through a Trust Account. These matters are reported in Chapters V and VI.

7. For the purposes of this inquiry we have not sought to reach final conclusions about either of the general points relating to financial procedure. Both have implications extending beyond the operations of what is, after all, a relatively small undertaking of the Commonwealth. What we have done is to prepare notes that may be of use in subsequent

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Annual Report, presented 6th September, 1955, paragraph 12.

Annual Report, presented 4th September, 1956, paragraph 71.

See also comments made in Fifth Report (Department of Works), tabled 4th October, 1953, and Bulletin, tabled 29th March, 1957.

and more general inquiries, and have included them in Chapters V. and VI. below. As to interest and depreciation charges, Your Committee hope to be able at some future date to embark on a complete examination of the issues involved in charging interest and depreciation into the accounts of governmental commercial undertakings. We are at present engaged upon a general inquiry into the Trust Fund, and expect to present a Report upon it during this Session.

8. In December, 1956, Your Committee advised the Department of Health that we intended to follow up the comments made by the Auditor-General by undertaking an inquiry into the accounts of the Canberra Abattoir. Public hearings were conducted on 25th and 26th February, 1957, and again on 25th and 26th March, 1957. At those hearings Dr. A. J. Metcalfe, C.B.E., Director-General of Health, appeared before us, as did Mr. R. N. Wardle, Director of Veterinary Hygiene, and Mr. D. G. Dunlop, Senior Administrative Officer, both of the Department of Health. We were assisted in our inquiries by the Auditor-General and the Chief Auditor, Canberra, and by representatives of the Treasury and the Public Service Board.

## CHAPTER II.—HISTORY, FUNCTIONS AND STAFFING OF THE ABATTOIR.

### (a) HISTORY.

9. The Canberra Abattoir is a public health utility under the control of the Department of Health. The original Abattoir was established on the site of a private slaughter house, and was conducted by the Federal Capital Commission. The site and some elementary facilities were taken over from the private slaughterer, under powers conferred in 1920 by the Australian Capital Territory Meat Ordinance of that year.

10. Thus by 1927, when the Commonwealth Parliament was opened in Canberra, there was a Government-controlled slaughtering yard. It had very limited capacity, and was equipped with no chilling rooms and only relatively crude facilities for handling by-products. Nevertheless, as the Department of Health pointed out in a statement submitted to us, the production of meat in the Australian Capital Territory was even at that stage under veterinary supervision.

11. Until 1930, the *Meat Ordinance* 1920 (as amended in 1926, 1927 and 1929) provided the legal authority for the conduct of the Abattoir. The Ordinance conferred powers on the Minister of State for Home and Territories to establish and maintain such public abattoirs, and to provide such slaughtering places, as he thought fit. Supervision of the Abattoir was a responsibility of the Federal Capital Commission until its dissolution in 1930.

12. Since 1930, control and supervision have been vested in the Minister and Department of Health. The Department advised us that—

"With the dissolution of the Federal Capital Commission the Canberra Abattoir, along with other health services of the Australian Capital Territory, came under the control of the Minister of State for Health and consequently supervision became the responsibility of the Department of Health. This transfer of control was provided for in the 'Meat Ordinance 1931'. This Ordinance has since been amended in the years 1933, 1940, 1950 and 1953, but the main provisions are substantially the same as ordained in 1931."

13. The Abattoir was removed in 1944 to a new site. The old site and Abattoir, which were quite near to Canberra, were closed, and any useful equipment was transferred to the new site. The reason for the transfer was that insufficient provision had been made in the original Abattoir for the rapid growth that has taken place, more especially since the late 1940's, in the population of Canberra.

14. Because the new Abattoir (which is situated some 6 miles from Canberra, close to Queanbeyan and the railway, and just inside the Territory border) was built during the 1939-45 war years, economies had to be made in its construction, and less provision was included for the expected needs of an expanding population than had originally been intended. The facilities are therefore not as adequate as they might have been had circumstances been more propitious. The immediate result is that additions to the chilling facilities are now being made: they involve the provision of rather more extensive facilities than had been contemplated under the plan of 1939-44. We understand that they are expected to be ready for use late in 1957 and that they are to cost approximately £160,000. It now seems that increased killing facilities will also before long be necessary. Bearing in mind the difficulties associated with the construction of the present Abattoir, Your Committee recommend that, before further costly alterations or extensions are made, an expert review of its operations and layout be undertaken.

See Exhibit No. 324, page 17.

ibid.

See Exhibit No. 321, page 1.

See Exhibit No. 321 and 324, page 2. Qs. 47, 48 and 53. Qs. 211-213.

See Exhibit No. 321, page 2.

Q. 90.

Q. 206.

### (b) THE FUNCTIONS OF THE ABATTOIR.

15. The Canberra Abattoir was established by the Minister of State for Home and Territories under the *Meat Ordinance* 1920. Its activities have now developed so that it is the only source of supply to the Australian Capital Territory of meat slaughtered within the Territory. It performs all the normal activities associated with the disposal of inedible offal, and in consequence all the portions of animals slaughtered at the Abattoir that are not classed as edible are disposed of through the Abattoir. Whereas it merely provides slaughtering facilities for butchers who wish to use them, its own staff process all the inedible offal (with the exception of animal runners, which are sold under contract).

For meat slaughtered outside the Territory see paragraph 58-51 below.

See Chapter IV, below.

16. At the same time, the Abattoir is a public health utility. For this reason, it may not be legitimate to apply to it the same criteria in regard to profit and pricing policy as would be applicable to an ordinary commercial undertaking of the Government. The Department of Health stated that—

"This Department considers that the Abattoir, as well as being a trading concern, is also a public health utility. There is a real need to ensure that the waste and by-products from any slaughtering place be disposed of as economically as practicable, but due regard must always be had to the hygienic and sanitary aspects of such disposal."

Exhibit No. 321, para. 2.

17. Your Committee asked Mr. Wardle, Director of Veterinary Hygiene in the Department of Health, to elaborate this statement. He explained that—

"A government establishment, especially, must ensure that the sanitary aspect is as far as possible beyond reproach. In many country towns the disposal of slaughterhouse waste is a problem for health authorities. In the early days the Abattoir took over a slaughterhouse run by the butchers. There were no facilities for treating by-products—except the usual application of tallow by individual butchers. The resultant waste must be buried, burned or otherwise disposed of."

Qs. 43-46.

COMMITTEE MEMBER.—You have stated that the diseased cattle remain in the property of the Abattoir. What becomes of them?—(Mr. Wardle) They go into the digester.

COMMITTEE MEMBER.—Wholly?—(Mr. Wardle) Most of our condemned animals are simply light weight and have not reached the meat inspection stage. We have very few diseased beasts. In the case of the odd tubercular animal, either the Superintendent or the Meat Inspector will decide whether portion ought to be burned but, in the main, it goes into the digester, which is of course a sterilizer.

COMMITTEE MEMBER.—What happens to the revenue from the portion of the animal that is saved?—(Mr. Wardle) If a portion only is condemned, the remainder of the carcass is the property of the butcher. An inspector may condemn either a portion or the whole of a carcass."

18. The scope and functions of the Abattoir are given definition by the *Meat Ordinance* 1931-1953. The relevant provisions read as follows:—

"5.—(1.) The Minister may appoint meat inspectors and such other officers and employ such persons as he thinks necessary for the purposes of this Ordinance and such officers and persons shall have such authority and powers as are conferred upon them by this Ordinance.

Appointment of meat inspectors and officers.

Meat Ordinance 1931-53, sections 5, 6, 19-15 and 17.

(2.) The officers or persons mentioned in the last preceding sub-section shall be appointed or employed subject to the *Commonwealth Public Service Act* 1922-1930.

6. The Director-General shall have all the authority and powers conferred by this Ordinance upon any officer or person.

Powers of Director-General.

13. No person other than a person employed by the Minister shall, without the permission of the Director-General, salt any hide or dry any skin at any public abattoir, and no hide or skin shall be removed from any public abattoir until salted or dried.

Salting hides and drying skins.

14. All viscera and offal at any public abattoir, other than that which is ordinarily used in a butcher's retail trade, and which is required for that purpose and all meat condemned by a Meat Inspector or other authorized person shall become the property of the Minister.

Viscera and offal, how dealt with.

15.—(1.) The Minister shall have the exclusive right to engage in any of the following processes:—

- fat melting or tallow extracting;
- bone grinding or manure manufacturing;
- blood boiling or drying;
- glue making;
- soap or candle making;
- gut scraping;
- tripe cleaning or tripe cooking;
- fellmongering or tanning; or
- any other trade which the Minister declares by notice in the *Gazette* to be a noxious process.

Powers of Minister to engage in certain processes.

(2.) The Minister may grant permission on such terms as he thinks fit to any person to engage in any of the processes set out in the last preceding subsection.

(3.) Any person, who, without the permission of the Minister (proof whereof shall lie upon the person) engages in any of the processes set out in this section shall be guilty of an offence.

Penalty: Fifty pounds.

(4.) The Minister may dispose of the products from any such process in such manner as he thinks fit.

17. The Minister may from time to time determine the fees, charges or prices in respect of—

- Minister to fit facts. See, Submitted by No. 5 of 1955, a. 2.
- the lairage, pasturage, examination or slaughter of animals at public abattoirs or approved slaughtering places;
  - the chilling or storage of meat at the abattoir;
  - the acquisition or treatment of fat, bones, viscera, offal or condemned meat under this Ordinance;
  - the disposal of tallow, blood, bonemeal or other products produced at abattoirs; or
  - salting, rolling, drying or other treatment of hides or skins."

19. The only activity that is regularly associated with abattoirs but that is not carried on by the Canberra Abattoir is that of slaughtering. The position in Canberra is that, although the Department provides full and exclusive slaughtering and chilling facilities for the Australian Capital Territory, it employs no slaughtermen of its own.

(c) STAFFING OF THE ABATTOIR.

20. The Canberra Abattoir is under the general superintendence of a field Veterinary Officer of the Department of Health. He occupies the position of Superintendent of the Abattoir, and the duties involved represent for him one of a number of functions associated with his position as a veterinary officer. The immediate control and supervision of the operations of the Abattoir are exercised by a Meat Inspector, Grade 2.

21. The Secretary of the Public Service Board advised us that—

"With the exception of two permanent positions of Meat Inspector, the staff employed by the Department at the Abattoir, comprising one Engine Driver, one Fireman, and eight Slaughterhouse Labourers, are exempt from the provisions of the Public Service Act and are employed under local award conditions."

22. Prior to the middle of 1955, only one Meat Inspector had been employed at the Abattoir. Because of the steady increase in slaughtering that has taken place in recent years, the Public Service Board approved the appointment of an additional permanent Meat Inspector to work at the Abattoir. The functions of the Inspectors are, in addition to supervising generally operations at the Abattoir, to inspect the activities associated with slaughtering and the manufacture of by-products.

23. The Department of Health provided us with a statement of staff employed as at the end of the last five financial years. It is as follows:—

	1951-52.	1952-53.	1953-54.	1954-55.	1955-56.
Staff Employed—					
Meat Inspectors .. .. .	1	1	1	1	(b) 2
Boilermen .. .. .	2	2	2	2	2
Others .. .. .	7	(a) 8	8	8	8
Total .. .. .	10	11	11	11	12

(a) Additional labourer employed from March, 1953.

(b) Additional Meat Inspector employed from February, 1956.

24. Because the Department performs no slaughtering with its own staff, eight of the twelve staff employed at 30th June, 1956, are associated with the by-products side. Two more are the Meat Inspectors, and the other two are an Engine Driver (for the refrigeration plant) and a Chilling Room Attendant, who brands the meat as it is passed from the slaughtering floor to the killing chambers.

25. The Department said that staff is kept to a minimum compatible with the efficient running of the Abattoir.

26. As can be seen from the above statement, no staff are employed by the Abattoir for clerical or accounting purposes. The Department stated that this work is integrated with its own activities, enabling the Abattoir to be run at a lower cost than would be the case were it to employ such staff of its own. Your Committee inquired whether any charge is made in the accounts of the Abattoir to recoup the cost to the Department of these services. We were informed by Mr. Dunlop, Senior Administrative Officer, Department of Health, that although no entry actually appears in the accounts, a notional charge of £500 per annum is taken as applicable to the Abattoir. The only effect of this charge is in its application to the overall costing figures taken out by the Department for general pricing and Estimates purposes. It does not relate in any way to the accounts actually kept, because they are subsidiary to the appropriation ledger—

"COMMITTEE MEMBER.—You mentioned that the expenses at head office are taken into account. Is that in relation to your costing only or also in relation to the accounts which are prepared?—(Mr. Dunlop) It is only in relation to the costing. We have tried to line up the accounts with the figures that appear in the appropriation ledger in regard to the expenditure at the Abattoir, thereby not putting in a nominal figure for the work performed in the Department."

27. The existing arrangement for assessing an administrative charge is therefore designed purely in order to make an accurate overall costing analysis. The charge has no effect upon the actual financial results as disclosed in the statements submitted to us. This means that the operating loss of £291 for 1953-54, and the operating profits of £1,861 and £4,230 for 1954-55 and 1955-56 respectively are subject to an adjustment of £500 if the true position is to be revealed.

28. Your Committee question whether the amount of £500 is sufficient to cover the time spent on the Abattoir by those officers of the Department of Health whose regular functions include clerical and accounting work in connexion with it. (By mentioning only clerical and accounting work we mean to exclude the time of persons who hold offices such as that of Director-General or Minister for Health and are concerned essentially with policy matters, and that of other persons before whom the affairs of the Abattoir would come seldom if at all.) We recommend that this charge be reviewed, even if it is to remain on a notional basis, because charges should, in principle, be such as to meet the overall outlay, irrespective of their appearance in the operating accounts.

29. Your Committee have given careful consideration to the question of principle involved in charging into the final statements of account of the Abattoir the Department's administrative contribution to it. We have no hesitation in approving the general principle of including a charge. But the question still remains: should the administrative cost be included in the annual statement of accounts prepared for the Abattoir? Or should it be excluded as at present?

30. The answer is dependent in part upon the way in which the Abattoir is to be financed. At present, all its outgoings are appropriated by the Parliament, and all its revenues are credited to the Miscellaneous Revenue head of the Department of Health (without any itemization). The alternative is to create a Trust Account to enable its accounts to be kept separate from those of the Department of Health. The general issue whether the Abattoir should continue to be financed by a covering appropriation (which is similar in effect to the Appropriations in Aid Votes of the United Kingdom Parliament), or whether it should be financed from a trust account, is further discussed in Chapter VI, below.

31. Whatever the conclusion may be about the method of financing the activities of the Abattoir, we regard it as important that its costing should be assessed on a realistic basis. This would include a reasonably accurate determination of the administrative cost at present borne by the Department of Health. We are not satisfied that at present such a determination is made.

(d) APPROPRIATIONS FOR THE ABATTOIR.

32. The Minister for Health is responsible for the conduct of the Canberra Abattoir. But because the services provided through the Abattoir are essentially connected with the Australian Capital Territory, the appropriation for them is contained in the section of the Estimates devoted to the Territory. In the Estimates for 1956-57, "Abattoir Services" appears as Division No. 283; item 3. Division No. 283 is entitled "Health Services", and is in Part 3 of the Estimates, which is devoted to the Territories. It is noted as being under the control of the Department of Health.

## 33. Votes and expenditure for Abattoir Services over the last few years have been—

Years.	Vote.	Expenditure.	Supplementary Estimate.
	£	£	£
1956-57 .. .. .	25,400	..	..
1955-56 .. .. .	(a) 23,700	24,783	1,083
1954-55 .. .. .	22,000	20,933	..
1953-54 .. .. .	20,480	20,379	..
1952-53 .. .. .	18,000	20,310	2,310
1951-52 .. .. .	15,100	17,736	2,636
1950-51 .. .. .	10,980	14,065	3,085
1949-50 .. .. .	8,350	10,322	(b) 1,971
1948-49 .. .. .	8,000	9,274	1,274
1947-48 .. .. .	5,900	6,650	750
1946-47 .. .. .	5,000	6,207	1,207
1945-46 .. .. .	4,800	5,664	864
1944-45 .. .. .	4,800	6,141	1,341
1943-44 .. .. .	4,310	4,212	..
1937-38 .. .. .	2,660	2,603	..

(a) An amount of £1,200 was provided in Additional Estimates.

(b) An amount of £141 was transferred from items 2, 4 and 5 under Section 37 of the Audit Act.

These figures show how substantially the activities of the Abattoir have expanded over the last ten years. Although in the normal course of events the record of repeated applications for Supplementary Estimates would reveal an unsatisfactory state of affairs, we note that in this case the excess expenditure was caused by increased slaughtering resulting in greater revenue from service charges and the sale of by-products. As we have already indicated, increased activity involves, under the present system of financing, an increased appropriation of funds, even if increased expenditure is offset by increased revenue.

34. The Estimates do not reveal anything except the gross expenditure of the Abattoir. No indication is, or can be given in the Estimates of the trading results of the Abattoir, or of how they have (except in gross) turned out in comparison with the forecast. Nor is the information available in any report that must be presented to the Parliament. Your Committee were informed that it is not necessary for the Department to provide a report, even for the Minister, in respect of the operations of the Abattoir. It appears that neither a report nor any statement of its financial position is regularly given to the Minister, except insofar as the notes provided for him in preparation for the Estimates debate would give some information.

"COMMITTEE MEMBER.—Under the heading 'Administration and Staff' is reference to an annual vote of £25,400 under Division 283. What does that cover exactly?—(Mr. Dunlop) The £25,400 covers all the expenses at the Abattoir other than such items as depreciation and interest, if and when that is included in the accounts. All the ordinary day-to-day expenses, salaries and wages, the cost of water and coal and that type of thing are included in that figure.

COMMITTEE MEMBER.—Apparently the revenue is shown on the revenue side of the Estimates?—(Mr. Dunlop) It is not shown separately in the Estimates. It is included in the revenue of the Department as a whole.

COMMITTEE MEMBER.—From the Estimates, it would be impossible to calculate the surplus or deficit on revenue transactions excluding depreciation?—(Mr. Dunlop) In the Estimate Papers, yes."

35. Your Committee draw attention to the lack of information placed before the Parliament in respect of the activities of the Canberra Abattoir. We discuss the general problem of presentation of the accounts of the Abattoir in Chapters III. and VI. below. Here we simply note that it is our view that the present situation is unsatisfactory. Either additional information should be made available by the use of a trust account and the consequent one-line entry in the Estimates that would reveal losses incurred by the Abattoir; or it should be shown by the preparation and publication, to appropriate persons, of a statement of the activities, and particularly of the financial activities of the Abattoir.

## CHAPTER III.—THE ACCOUNTS OF THE ABATTOIR.

## (a) THE FORM OF THE ACCOUNTS.

36. The Meat Ordinance does not provide for the making of any accounting arrangements for the Abattoir. It appears that the reason for this is that, when the Abattoir was established, it was envisaged as an offshoot of the Department that would operate within the normal sphere of its activities. The figures quoted in paragraph 33 above

indicate that, for at least the first fifteen or twenty years of the Abattoir's existence (the last five or ten years being under the control of the Department of Health) its operations were small. Thus its total expenditure in 1937-38 was only £2,603 (from a vote of £2,660). Even by the end of the war (1945-46), its total expenditure was only £5,664 (against a vote of £4,800).

37. Since then the population of Canberra has increased rapidly, and with it the services performed by the Abattoir. In the present year, 1956-57, the estimated expenditure of the Abattoir is £25,400; over the last twenty years gross expenditure has shown a substantial annual increase.

38. Hence the manner in which the accounts of the Abattoir are at present kept is the result of a relatively long process, which had very humble beginnings. There has so far been no occasion upon which an overall review of the methods of financing the Abattoir was felt to be imperative, even if the move in 1944 could have provided a suitable opportunity. Financing gross expenditure by an appropriation has therefore remained as the method used for it.

39. Your Committee think that the time has now arrived when a review might be made, and, moreover, that it could now appropriately be made. We have come to this conclusion partly because the queries made by the Audit Office since 1953 are beginning to bear fruit, and partly because our inquiries have brought to light several other relevant features in the accounts. Our view is influenced by the now substantial proportions of the work of the Abattoir, and by the prospect of further rapid expansion. We discuss the vexed questions of interest and depreciation charges in Chapter V., and draw the various threads together in Chapter VI. We proceed now to a detailed examination of the financial statements prepared specially for us by the Department.

40. At our request, the Department prepared for us Operating Statements and Trading and Profit and Loss Accounts for 1954-55 and 1955-56, and a balance-sheet as at the end of each of those years. The Department also submitted a statement showing receipts and expenditure for the last five years, and produced for our inspection the Assets Register as at 30th June, 1955.

41. The accounts as submitted to us do not include the administrative charge mentioned in paragraphs 26-30 above, because they have been regarded as subordinate to the Appropriation Ledger, and therefore must be reconciled with it. The administrative costs are borne on the ordinary Administrative Vote of the Department of Health (Division No. 81 in the 1956-57 Estimates) and are, therefore, not shown in the accounts of the Abattoir. Further, there was until relatively recently no reason for including charges for interest or depreciation. Thus the Operating Statements have been regarded purely as subsidiary to the Appropriation Ledger. The result is that they have not been published in any way, either to the Director-General of Health or to the Minister. We understand that in fact they have until the last few months simply been in the form of filed documents, partly in manuscript. The subordination of the accounts to the Appropriation Ledger is also no doubt the reason why the Ordinance contains no directions as to preparation or publication of accounts. Furthermore, it contains no direction as to audit: since the accounts were regarded as part of the ordinary departmental accounting system, there was no need to make any separate provision for their audit in the Ordinance.

42. During the hearings we discussed these matters with Mr. Dunlop of the Department of Health, and with the Auditor-General. The relevant passage reads as follows:—

"COMMITTEE MEMBER.—We discussed these matters before you became Auditor-General, Mr. Newman, when we were dealing with the trading undertakings of the Department of the Interior and the Department of Works, such as the brickworks and so on. The question of the form of accounts that ought to be prescribed in regard to these things was left more or less in the air to be dealt with at a later stage.—(Mr. Newman) That is right.

COMMITTEE MEMBER.—Mr. Mitchell has said that these balance-sheets and statements have not been presented to the Auditor-General. When were they prepared?—(Mr. Dunlop) These statements were prepared for this particular inquiry.

COMMITTEE MEMBER.—Is it the intention to prepare these statements each year from now on?—(Mr. Dunlop) I would say yes.

COMMITTEE MEMBER.—And they will be presented to the Auditor-General for audit?—(Mr. Dunlop) They will be submitted to the Auditor-General if he requires them, and no doubt for audit.

COMMITTEE MEMBER.—I assume that if he raises any queries, &c., they will be taken into consideration in the preparation of future statements?—(Mr. Dunlop) Yes,

See Appendix No. 1 for 1954-55 Statements and Appendix No. 2 for 1955-56 Statements. See Appendix No. 3 for Receipts and Expenditure Statement. See Appendix No. 4 for extracts from Assets Register.

Qs. 418-421.

See also Chapter VI. below.

See Qs. 93-95.

Qs. 423-426 and see Chapter III. below.

Qs. 93-95

COMMITTEE MEMBER.—I suppose that since these were prepared particularly for this Committee they have not been presented to the Minister. It has not been the usual practice to present balance-sheets and profit and loss accounts to the Minister, has it?—(Mr. Dunlop) The Minister has not seen any of this information.

COMMITTEE MEMBER.—The only information he has are the statements in relation to parliamentary appropriations. Is any statement presented to him, on an annual basis, of receipts and income and that kind of thing, on which he could make a general survey of the position of the Abattoir financially?—(Mr. Dunlop) I do not think any detailed information in the form of, say, the result of the operations, has been submitted, but in the preparation of the Estimates each year we show, naturally, the previous year's expenditure and any reasons for increase or decrease, and he has a comprehensive statement of the whole of the Department's activities, of which the Abattoir is one.

COMMITTEE MEMBER.—He would not have, at regular intervals, a statement of costs and the charges which are being made for the various products which would enable him to exercise a judgment as to whether there should be increases in the selling prices, and so on?—(Mr. Dunlop) Not that I know of. Mr. Wardle is of the same view.

COMMITTEE MEMBER.—It has never been considered by the Department as desirable that such information should be made available to the Minister at regular intervals?—(Mr. Dunlop) I think the answer to that is that the information has not been presented in the past.

COMMITTEE MEMBER.—It is not an obligation of the Department to give information unless the Minister asks for it?—(Mr. Dunlop) That is not necessarily so.

Q. 414. 43. In 1953 the Chief Auditor, Canberra, gave special attention to the accounts of the Abattoir. As a result of his examination he suggested to the Department that each year they should prepare for examination by the Auditor-General a balance-sheet and operating statement for the Abattoir, just as do other departments carrying on trading activities. The Audit Act and Treasury Regulations do not prescribe any particular form in which the accounts of commercial undertakings are to be kept, nor indeed do they prescribe that commercial accounts of any kind must be kept for undertakings such as the Abattoir. However, it is clear that when an undertaking reaches a certain size, the keeping of only Appropriation Ledgers and subsidiary accounts ceases to be adequate for the exercise of proper financial controls. Your Committee consider that the Auditor-General acted properly in suggesting that such accounts should be kept. The following passage of evidence given by Mr. Mitchell, Chief Auditor, Canberra, and by Mr. Newman, the Auditor-General, sets out the position:—

Q. 414-416. (Mr. Mitchell) The Audit Act and Treasury Regulations do not set out to prescribe the kind of accounts that are to be kept and audited, except in the very barest outlines. For example, there is nothing in the Audit Act or Treasury Regulations to say that where departments provide goods or services on credit they shall keep a debtors' ledger. Yet we would say to a department who did not keep a debtors' ledger, "We expect to see one." If the department did not keep it we would certainly report that the accounts were not being properly kept, although there is nothing in the Audit Act or Treasury Regulations to require that. Similarly, where a department carried on a trading operation we would say that we expected to see the accounts that are necessary when carrying on a trading operation. That is why, back in 1953, we requested the Department of Health to supply us with a balance-sheet and trading statement for the Abattoir, just as we did with other departments in respect of the brickworks, timber mills, and so on. There is no requirement, but we consider it just as essential to do that as it is to keep a debtors' ledger for the tallow sold on credit.

COMMITTEE MEMBER.—And you do audit them?—(Mr. Mitchell) they have not been properly prepared yet and presented to us. That is the only reason they have not been audited.

COMMITTEE MEMBER.—In view of the fact that the Treasury makes requests to departments for balance-sheets and I agree that it should—I am wondering whether we should not try to bring the Audit Act in relation to this matter up to date so that it will become a statutory requirement of the Auditor-General rather than just something he does because he believes it is the right thing to do.—(Mr. Newman) There is nothing laid down as to the manner in which the Auditor-General shall conduct his audits. That is entirely a matter for himself. If, in the Audit point of view, we consider that a trading and profit and loss account is necessary to adequately cover and record the expenditure and transactions under any parliamentary appropriation we have a perfect right to ask for it, without any direction from Treasury or any one else.

44. The process of preparing a balance-sheet and operating statements for the Abattoir has been protracted. We understand that it is only in the last few months that a balance-sheet has existed—and the one still under consideration by the Auditor-General is that as at 30th June, 1955. Operating statements also have taken time to prepare. Those submitted to us (they are set out in Appendices Nos. 1 and 2) were prepared specially for Your Committee. We think that they should continue to be prepared. Each year the activities of the Abattoir will without doubt expand, and the demand made upon its facilities during the next five or ten years may very well double itself. If that should happen, the operations of the Abattoir will represent an annual turnover of some £50,000 to £60,000. It would be wrong for such an undertaking not to prepare a full range of financial statements.

See Qs. 418-422, quoted in paragraph 42 above.

45. Your Committee have also given some consideration to the publication of these statements. Various forms of publication could take place—

- (i) to the Auditor-General alone, who could then report on the results of his investigation to the Parliament;
- (ii) to the Minister, who would then be in a position to take any action he thought necessary;
- (iii) to the Parliament, as a means of accounting for the funds entrusted to the Abattoir.

Your Committee consider that publication to the Auditor-General and to the Minister is the minimum obligation that should be imposed upon the Department of Health in respect of the statements of account of the Abattoir. Without such publication there is no means by which supervision of the accounting and policy activities of the undertaking can be ensured. We think our Inquiry has demonstrated the need for both kinds of scrutiny.

46. The question whether the statements of account should also be presented to the Parliament is part of a much wider issue. Should commercial undertakings of the Commonwealth be obliged to submit to the Parliament reports and statements accounting for their activities over the previous financial year? Your Committee are inclined to the view that in principle, such statements of activities and accounts should be presented. However, considerations of economy may well warrant the exclusion of some of the smaller undertakings from the full extent of this obligation. It may be that the proper course in the case of the Abattoir is to provide for presentation of statements of account to the Minister and the Auditor-General alone. But a restricted obligation of this kind makes the more imperative its proper performance in respect of the Minister and the Auditor-General.

47. Your Committee were advised by the Auditor-General, both orally and in his statement, that no provision is made in the Meat Ordinance for audit of the accounts of the Abattoir by the Auditor-General (or by any other auditor). Your Committee recommend that at some appropriate stage an amendment of the Meat Ordinance be made to provide for—

- (i) the preparation of annual financial statements; and
- (ii) the audit by the Auditor-General of those statements.

See Q. 411 and also Qs. 412-414, and Exhibit No. 327, paragraph 2

#### (b) OPERATING STATEMENTS AND PROFIT AND LOSS ACCOUNTS.

48. As we have already mentioned, the accounts presented to us by the Department of Health in respect of the Canberra Abattoir are the first that have been prepared for it. For this reason, we examined them carefully and have included them as Appendices to our Report. We wish to mention, in doing so, that they are still subject to approval by the Auditor-General, and, therefore, cannot at this stage be regarded as finally settled and certified statements of account.

See Appendices Nos. 1-4.

49. An examination of the Operating Statements, of the Trading and Profit and Loss Accounts and of the Statements of Receipts and Expenditure reveals some interesting variations in figures between the two years they cover (1954-55 and 1955-56). We set out below the results of our investigations of the more outstanding variations in items.

See in general Qs. 428-452.

50. Bags.—Consumption of bags in 1954-55 was to the value of £256, and in 1955-56 was £387. Yet stocks held at the Abattoir declined from a value of £43 at 30th June, 1955, to £11 at 30th June, 1956. The Department explained that the reason for the apparent anomaly is that on 26th July, 1955, claims were paid for second-hand bags that had been delivered during 1954-55. The amount involved was £58 12s. 6d., and was included (without adjustment to the 1954-55 accounts) in the 1955-56 accounts. Thus the cost of bags consumed for each of the years was approximately the same, as the following table of bags consumed indicates:—

	1954-55.	1955-56.
Consumption of bags—		
As shown .. .. .	£ s. d. 256 2 3	£ s. d. 386 10 11
Adjustment .. .. .	+ 58 12 6	— 58 12 6
Actual .. .. .	314 14 9	327 18 5

See Exhibit No. 374, pages 2 and 3, Statement dated 25th April, 1957, page 3.

Exhibit No.  
324, 1949-50.  
Q 322.

51. *Stocks of By-products.*—The Department advised us that stocks of by-products held at the Abattoir at the conclusion of the last three financial years were as follows:—

At 30th June.	Value of Stock held.				
	£				
1954	..	..	..	..	185
1955	..	..	..	..	100
1956	..	..	..	..	1,569

We asked the Department for an explanation of the increase in value of stocks revealed in the stocktaking on 30th June, 1956.

See Statement  
dated 29th  
April, 1957,  
page 3.

52. The Department subsequently advised us that—

"Of the total stocks of by-products on hand on the 30th June, 1956, £876 6s. 6d. was on account of tallow and £355 7s. 3d. for Osatein and Blood and Bone. In the case of tallow the last delivery prior to the 30th June, 1956, was made on the 19th June. For the previous year the last delivery prior to the 30th June, 1955, was made on the 29th June. This was a factor which caused additional stocks on hand at the end of 1955-56.

In the case of Osatein and Blood and Bone, sales are made from day to day. The variation in stocks on hand would be due to the volume of production coming forward and the actual demand both of which may fluctuate."

See Statement  
dated 27th  
April, 1957,  
page 3.

53. *Wood.*—The Operating Statement reveals that wood consumed during 1954-55 was valued at £100 and at £37 for 1955-56. Yet stocks increased from a value of £40 at 30th June, 1955, to a value of £60 at 30th June, 1956. The Department explained that the higher consumption in 1954-55—

"... could be due to a number of causes such as more wood being used and less coal with a corresponding saving in coal consumption; and an under-estimation of stock on hand. It will be appreciated that to estimate the weight of wood in a wood heap is not a particularly easy task."

It appears that no further information about this item is available.

See Q. 432,  
149-152, 253.

54. *Coal.*—The Operating Statement for 1955-56 shows that in 1955-56, £3,922 worth of coal was consumed. Yet the expenditure as entered in the Appropriation Ledger indicates an amount of £5,462. Stocks carried forward from 1954-55 were valued at £902, and those carried forward to 1956-57 were £1,419, an increase of £517. On the face of it, these figures cannot be reconciled, and we were provided with the following explanation of them:—

Q. 335.

Year 1955-56.		£	£
Total expenditure as per Appropriation Ledger	..	..	5,462
Less creditors at 1.7.1955	..	..	1,246
Less stock on hand at 30.6.1956	..	..	1,419
			<u>2,665</u>
			2,797
Add creditors at 30.6.1956	..	..	223
Add stock carried forward at 1.7.1955	..	..	902
			<u>1,125</u>
Expenditure as per Operating Statement for Y/E. 30.6.1956	..	..	<u>3,922</u>

55. *Drums.*—Drums are used by the Abattoir to contain the tallow which, with osatein and blood and bone fertilizer, form the main by-products of the Abattoir. The Operating Statement for 1954-55 indicates that £966 worth of drums were used in that year, and the Statement for 1955-56 indicates that £1,225 worth were used. Stocks of drums declined over the period from £112 at 30th June, 1955, to £100 at 30th June, 1956, while production rose from 199 tons in 1954-55 to 232 tons in 1955-56.

56. The Department explained that—

"... The variation in stock on hand would be due to the number of drums received at any one time and in particular to the date of the last consignment received prior to the end of the financial year.

The increased expenditure on drums is due to a greater production of tallow and increased prices paid for drums."

See Statement  
dated 29th  
April, 1957,  
page 3.

57. *Salt.*—During our examination of the Operating Statements we noticed that an item of expenditure for salt was included only in the Operating Statement for the year ended 30th June, 1956 (it was for an amount of £99). The Department explained that in the 1954-55 Statement purchases of salt were included in the "Miscellaneous" item.

58. *Water.*—Expenditure on water in 1954-55 was £1,276; but in 1955-56 was only £596. The reason for the heavy expenditure in 1954-55 was that the water meter was defective. After the meter had been adjusted, the average quarterly recorded consumption fell from 6,626,000 gallons to 2,878,000 gallons.

See Statement  
dated 29th  
April, 1957,  
page 4.

59. *Transport.*—Three items connected with transport appear in the Operating Statement. The most substantial is for tallow, and that we discuss in the next Chapter. There are also items for "car mileage" (£141 in 1954-55 and £151 in 1955-56) and for "Transport—Other" (£61 in 1954-55 and £176 in 1955-56). We understand that the car mileage is an assessment of the cost incurred by the Superintendent of the Abattoir in going to and from the Abattoir.

See paragraphs  
91-103 below  
Q 351

60. The Department advised us that the main reason for the substantial increase in expenditure on the "Transport—Other" item in 1955-56 was—

"... due to the difference in charges made by the Department of the Interior for the transport to Sydney of glue pieces, &c., the amount in 1954-55 being £38 1s. 9d. and in 1955-56 £172 2s. 6d. The difference may be due to adjustments for back-loadings."

See Statement  
dated 29th  
April, 1957,  
page 4.

61. Your Committee regard the explanations provided by the Department as generally satisfactory, though the results of our examination indicate that a much closer scrutiny of the details of the accounts should be made by the Department. We would therefore expect that in future a watch be kept by those concerned with the finances of the Abattoir to ensure that it is functioning smoothly and according to plan.

### (c) BALANCE-SHEET AND ASSETS REGISTER.

62. For reasons similar to those applicable in regard to the Operating Statements, no Balance-sheet or Assets Register for the Abattoir was prepared until the Auditor-General began to take special notice of the Abattoir Accounts in 1953. The Department has now prepared both an Assets Register, which is at present made out as at 30th June, 1955, and tentative Balance-sheets as at 30th June, 1955 and 1956. It is questionable whether any Assets Register prepared years after the commencement of trading operations can be accurate.

See paragraphs  
146-147 above  
and Q. 95.

For extracts  
from Register,  
see Appendix  
No. 4.

63. Your Committee, however, have no specific comments to make upon the Balance-sheet and Assets Register, or upon any of the items contained in them. We note that they are not yet certified as correct by the Auditor-General because of—

See Appendix  
No. 5 and 6  
for Balance-  
sheets.

- (i) defective financial procedures, which we understand are either now remedied, or are being attended to, but which caused complications in respect of the certification of the accounts for the year ended 1954-55;
- (ii) the need for a decision concerning the principles to be adopted in calculating an interest charge: the decision has now been made; and
- (iii) the failure to implement a Treasury instruction concerning depreciation: the matter has now been clarified, and depreciation charges are made.

See paragraph  
3 above.

See Chapter V,  
below.

64. We discuss in Chapter V. the problems raised by charging into the accounts amounts for interest and depreciation. Here we simply note that, since the defective financial procedures have now been remedied and the necessary decisions and action taken in regard to interest and depreciation charges, it should be possible for the accounts of the Abattoir rapidly to be adjusted and prepared for certification by the Auditor-General.

But see also  
Qs. 165, 166.

65. Reliable and regular stocktaking is the basis of all adequate financial statements. It appears that, until the 1939-45 war, annual stocktakings had been conducted at the Abattoir. During the war annual stocktakings were not made—and until recently that was the situation. Your Committee have been assured that from now on stocktaking will be conducted regularly—

"COMMITTEE MEMBER.—Is this going to be an annual stocktaking in future?—(Mr. Dunlop) Until recent years the stocktaking at the Abattoir was on an annual basis. During the war years, due to staff problems and so on, the annual stocktaking did not go ahead; but I think it will be taken regularly from now on.

Q. 167-169.

COMMITTEE MEMBER.—At the end of June?—(Mr. Dunlop) It would be at the end of June.

COMMITTEE MEMBER.—When you last took it, was any discrepancy revealed in comparison with your stock sheets?—(Mr. Dunlop) The discrepancies were, one might say, negligible. I suppose the discrepancies over the last two stocktakings would amount to about £6 or £7. Of those items, I think one was a chair and another was a step-ladder that had virtually served its period of usefulness."

We note that discrepancies revealed by the last two stocktakings are for very small amounts. Nevertheless, it is our opinion that, as the activities of the Abattoir increase, all reasonable steps should be taken to preserve its assets: a regular stocktake represents such a step.



## CHAPTER IV.—COSTING THE SERVICES AND PRODUCTS OF THE ABATTOIR.

## (a) COSTING AND BASIC PRODUCTION RECORDS.

66. Until the financial year 1955-56 no detailed costing of the products of the Abattoir had been undertaken. About eighteen months ago, the Department decided that it was desirable to make some cost analyses of its various services and products. The results of the examination are only now becoming available, and the Department provided us, at our March hearings, with a cost statement for the year ended 30th June, 1956—

Qs. 521-525.

"COMMITTEE MEMBER.—You said that you were going to apply to the Minister for an increase in price. Was your reason for doing that because the price was so much below that in other places?—(Mr. Wardle) It would be lower in comparison with other prices, but I think at the time the extra cost of bags or some such things was being taken into consideration.

COMMITTEE MEMBER.—This return you have just given us was prepared for this meeting?—(Mr. Wardle) Yes.

COMMITTEE MEMBER.—Were you aware, before this return was produced, of the difference between the cost of production and the selling price of osatein and blood and bone?—(Mr. Wardle) This costing has been under way for about eighteen months.

COMMITTEE MEMBER.—But it was this return that brought to your knowledge the big difference between the cost of production and the selling price?—(Mr. Wardle) Mr. Dunlop has just brought to my notice that the figures in this return were the first that were actually produced in relation to these products, but it was not done just last week. A system of costing has been going on for some time.

COMMITTEE MEMBER.—You had not been worrying about the cost when fixing your prices?—(Mr. Wardle) No."

67. On many previous occasions Your Committee have emphasized the importance we attach to costing statements. Without these, it is not possible for Government undertakings of a commercial character to examine the comparative efficiency with which they operate from year to year, and they cannot ascertain, in respect of any selected product, where losses or profits are being made. The necessary consequence is that they are unable, with any precision or assurance, to levy appropriate charges for the services they provide. Again, if it is decided that as a matter of policy those services should be provided below cost, e.g. in order to provide an element of subsidy for the consumer, it is impossible accurately to advise those who are responsible for determining the extent of the subsidy.

68. The activities of the Abattoir can, for many purposes, be divided into two sections. In the first section are the activities connected with the provision of satisfactory slaughtering facilities for butchers. It includes the slaughtering facilities, the chilling rooms and the disposal of animal runners. The activities of the second section are associated with the disposal of inedible offal. From it come the by-products of the Abattoir—tallow, osatein and blood and bone fertilizer, and hair, horns, glue pieces, &c. Before examining in detail the costing statements for the two separate sections into which the activities of the Abattoir can be divided, we think it important to consider whether or not they should be regarded independently for profit and loss purposes. Should a profit on one section be allowed to offset a loss on the other? (In this case, a profit is made on the by-products section of the Abattoir: it more than offsets a loss on the killing, chilling and runners section and thus enables the undertaking as a whole to yield a small profit.)

See table at paragraph 72 below.

Qs. 501-505.

69. Your Committee accept the view of the representatives of the Department of Health that the two sections should be considered together when charges and the overall profitability of the enterprise are under discussion. Although costing must necessarily be carried out independently for each of the activities, that need not preclude an overall balancing of profit and loss when prices and charges are being examined—

Qs. 503-505.

"COMMITTEE MEMBER.—We have been questioning you about making no revision of your cost of slaughtering and it seems to me that we are on sound ground that in trying to dissect the various costs and charges. If the poorer section is to be sold to cover the overall costs, are you justified in your other charges imposed to make a profit on tallow? You say that they all ought to be included?—(Mr. Wardle) From a practical point of view the operational costs connected with by-products should all be included. If for other reasons they should be dissected, we would have to do the best we could with the dissection.

COMMITTEE MEMBER.—In your first statement to us relating to production costs, did the costing go to the extent of spreading the cost of each of these items that Mr. Thompson has been talking about?—(Mr. Wardle) Yes.

COMMITTEE MEMBER.—So that there is some statement that you can turn to which will show that the production of each of these particular items costs so much?—(Mr. Dunlop) It is a straight-out dissection of our annual expenditure over the various sections on a basis that we think is reasonable, in regard to all the circumstances. I have mentioned on a number of occasions before this Committee that we feel that all these dissections are so closely interwoven with the running of an abattoir that it must, of necessity be arbitrary, and we have always looked upon the overall result as being the important result. Even on the raw materials such as tallow and some of these other things, we get this as a result of

our killing activities and, I think, at no charge. The whole lot must be considered as a whole rather than as we have set out here. It is all right here as an indication of how you are going and whether you can do anything further to improve the position of any particular section, but the overall result is what we have looked to. Many of these items would probably continue even though we did not carry out some of these activities. All our fixed costs would remain and would have to be spread over a smaller number of sections."

70. One of the basic elements in a satisfactory system of costing and controls is to have an accurate and reliable record of inputs. The audit of the accounts of the Abattoir revealed that the basic production records, especially those relating to the number of animals actually slaughtered, were not being kept as carefully or as reliably as might be considered desirable. Although the slaughtering tally may still not be all that could be desired, the Chief Auditor for the Australian Capital Territory, Mr. Mitchell, told us that, as now kept, it represents an appreciable improvement on the position two years ago—

"COMMITTEE MEMBER.—Mr. Mitchell, are you satisfied with the replies that have been given about the suitability of the records for the purposes of Canberra?—(Mr. Mitchell) The record that is now kept is a great improvement on what was being kept when we looked at it in the early half of 1955. It will be appreciated that this record is vital to any system of controls. It is not an easy record to get down correctly. As Mr. Wardle has said, the head slaughterman takes figures at the end of the day and gives them to the meat inspector. I have talked to the head slaughterman of the principal butcher there, and I can see that he has a tough problem to get his figures correct. I would say that the record, as it is being maintained now by the Senior Meat Inspector, is about as good as one could hope to get. I would make it clear also that Audit did not make any suggestion that would involve putting on a clerical officer. Our inspectors have been instructed time and time again not to put forward any proposals that mean more staff or more accounting if it can be avoided. This record has been kept but we felt that it was not reliable. It is reliable now but, to a large extent, it depends on the competence, zeal and integrity of the Senior Meat Inspector. They are undoubtedly, and the record is a lot better since he has been there. It seems to me, from the point of view of control and audit of the trading results, that eventually it would be desirable to have some overall, simple method, which would enable one to know whether this record was being maintained efficiently. We ought to be able to know soon if it goes back to what it was earlier. I think that could be done fairly simply without expense, without putting on additional officers and perhaps without mechanical counters. It occurred to me that it would be quite reasonable to ask the firms, who kill there to submit direct to the Health Department each month a certified statement from their books of what stock they slaughtered. That would give a very good check of what is being done. If there was any deterioration in efficiency, it would soon show up. That would be more effective than mechanical counters.

COMMITTEE MEMBER.—Perhaps Mr. Wardle could study that suggestion in the evidence and make some comment later."

The Department of Health has since advised us that it is examining the suggestion "with a view to obtaining from the firms concerned a monthly certified statement of stock slaughtered."

See Exhibit No. 374, dated 20 April, 1957, page 1.

71. The production figures provided by the Department for the Abattoir over the past five years are as follows:—

	1951-52.	1952-53.	1953-54.	1954-55.	1955-56.
<b>Staff Employed—</b>					
Meat Inspectors .. .. .	1	1	1	1	(b)
Butchers .. .. .	2	2	2	2	2
Others .. .. .	7	(a) 8	8	8	8
Total .. .. .	10	11	11	11	12
<b>Animals Slaughtered—</b>					
Cattle .. .. .	9,132	7,488	8,176	8,124	8,588
Sheep .. .. .	38,185	65,376	64,292	69,451	65,700
Pigs .. .. .	4,385	3,110	3,209	4,295	5,003
<b>Runners Sold—</b>					
Cattle .. .. .	Not Available	6,187	6,330	6,830	6,892
Sheep .. .. .	Not Available	59,511	59,884	67,372	63,289
Pigs .. .. .	Not Available	2,835	3,000	4,276	4,888
<b>By-products Produced—</b>					
Tallow .. .. .	Not Available	tons. 248	tons. 206	tons. 199	tons. 232
Osatein .. .. .	Not Available	139	146	158	163
Blood and Bone .. .. .	Not Available	75	66	55	51

(a) Additional labourer employed from March, 1953.

(b) Additional Meat Inspector employed from February, 1956.

72. As we indicated in paragraph 66 above, the Department has only very recently had available to it a detailed costing statement. We print it below because it shows clearly the division of the activities of the Abattoir into two sections, the costs of each by-product, and the profitability of the various activities. Much of the remainder of this Chapter is devoted to a discussion of matters revealed in it or in the financial statements that were also prepared specially for Your Committee and are printed in the Appendices.

COST STATEMENT FOR YEAR ENDED 30th JUNE, 1956.

Particulars.	Slaughtering Section.			By-products Section.					Grand Total.
	Killing, Chilling and Runners.			Tallow.	Osatein and Blood and Bone.	Hair, Horns, Glue, Pieces, &c.	Total.		
	Killing and Chilling.	Runners.	Total.						
	£	£	£	£	£	£	£	£	
Salaries and Wages* ..	5,582	76	5,658	2,787	3,221	1,338	7,346	13,004	
Materials ..	1,435	..	1,435	2,531	1,456	378	4,365	5,800	
Electricity and Water ..	2,126	179	2,305	183	164	21	368	2,673	
Fats, Bones, &c. ..	..	..	..	1,361	304	20	1,685	1,685	
General Operating Costs—	..	..	..	..	..	..	..	..	
Telephone, Transport, Car mileage, Miscellaneous, &c.*	607	6	613	1,265	166	118	1,549	2,162	
Maintenance ..	927	..	927	654	541	..	1,195	2,122	
Depreciation ..	1,798	..	1,798	582	477	7	1,066	2,864	
Total Costs (A) ..	12,475	261	12,736	9,363	6,329	1,882	17,574	30,310	
Production, &c., at Selling Price (B) ..	17,668	3,941	11,609	16,977	4,645	1,309	22,931	34,540	
Difference between Production at Selling Price and Total Cost (B—A) ..	-4,807	+3,680	-1,127	+7,614	-1,684	-573	+5,357	+4,230	
Production in Tons where Applicable ..	..	..	..	232 tons	214 tons	..	..	..	

\* The administrative cost of £500 per annum is not included here or elsewhere in this analysis. See also paragraph 26 above.

PRODUCTION FIGURES FOR OSATEIN AND BLOOD AND BONE FERTILIZER.

	Production—Tons.*	Cost per ton.*	Selling Price per ton.*	Loss per ton.
Osatein ..	163	£ s. d. 29 6 10	£ s. d. 21 0 0	£ s. d. 8 6 10
Blood and Bone ..	51	32 17 3	21 0 0	11 17 3

\* Osatein figures are short tons—2,000 lb. Blood and Bone figures are long tons—2,240 lb.

(b) KILLING AND CHILLING CHARGES.

73. By section 17 of the Meat Ordinance the Minister is empowered to determine fees or charges in respect of the slaughtering of animals and the chilling or storage of meat at the Abattoir. We were advised that the last occasion on which charges for killing and chilling had been reviewed with any effect upon their level was in May, 1949. The new charges were actually put into effect in August, 1949. It appears that during 1948-49 the Treasury had indicated that they were to be fixed at a rate such as would yield a certain amount of additional revenue from the Abattoir. The 1948-49 review was therefore not made on the basis of any detailed costing information. In fact, no such information was available.

74. On the other hand, the charges as decided upon in 1948-49 have since yielded sufficient revenue to enable the Abattoir to cover its expenditure each year (with the exception of one year, 1953-54), and to yield modest profits. The net results in recent years have been—

1952-53 ..	..	..	..	..	..	..	..	..	£ 5,005*
1953-54 ..	..	..	..	..	..	..	..	..	291*
1954-55 ..	..	..	..	..	..	..	..	..	+1,861†
1955-56 ..	..	..	..	..	..	..	..	..	+4,230‡

\* Includes an amount of £2,500 allowed for "amortisation".

† Includes an amount for depreciation of £2,844.

‡ Includes an

Qs. 108, 109, 372, 373.  
See Statement dated 25th April, 1957, page 2.  
Qs. 107, 377, 378.

Q. 110.

See Exhibit No. 5271, page 6, and Appendices Nos. 1 and 2. See for a history of the charge increases in 114-116 below.

75. The Director of Veterinary Hygiene, Mr. Wardle, told us that a review of charges was also made in 1952. The charges were not, however, altered because at that time there had been a request by the Government to all authorities not to raise prices on goods under price control. In the event, no increases occurred, even after the general freeze in prices ceased.

76. The current scale of charges has been under review since 1955. In the interest of making only one alteration to it, a final determination is being left, we understand, until the extensions at present being made to the chilling facilities are completed. It is anticipated that these will cost some £160,000, and that charges will inevitably have to be increased as a result. As well as this reason for the Department's postponement of a final determination, there is another. It is that the interest to be included in the accounts (as distinct from depreciation) has been under discussion and will necessarily have an effect upon the level of charges. In Chapter V, below we comment in detail upon the question of an interest charge. Here we simply observe that, because the killing and chilling fees represent virtually the only portion of the revenue of the Abattoir that can be altered by decision of those controlling it, they would have to bear the main burden of any increases in operating expenditure (that were not the result of increases in output from the same facilities).

77. The charges at present levied for the use of the killing and chilling facilities provided by the Abattoir are as follows:—

	Slaughtering Charge.	Chilling Charge.	Total.
Cattle ..	s. d. 7 0	s. d. 2 0	s. d. 9 0
Calves ..	2 6	2 0	4 6
Sheep ..	0 7	0 4	0 11
Pigs ..	4 0	0 4	4 4
Sucking Pigs ..	2 6	0 4	2 10

Because of the congested chilling accommodation, carcasses remain in the chillers for only some 48 hours (with a minimum of 24 hours). The Department hopes that when the new chilling accommodation is complete, it will be possible when desired to keep carcasses in the chillers for a longer time.

78. Because of the powers conferred upon the Minister by the Ordinance, any alterations in charges would be made on the recommendation of the Department. It is the proper authority for initiating reviews, and would advise the slaughtermen of alterations when they had been approved by the Minister.

79. Your Committee consider that the Department is now, perhaps for the first time, in a position to make a proper review of its killing and chilling charges. As we have described, it is only recently that any detailed costing information has been available to assist in their determination. Nevertheless, it appears that overall and approximately they, taken together with revenue received from the sale of by-products, have been appropriate.

80. We think it important that at a fairly early date the charges and the revenue they yield should be compared in detail with the costs involved, and a decision made about the appropriate level of fees. Any issues that arose, e.g. as to the policy of making the killing and chilling and by-products sections of the Abattoir earn sufficient revenue to cover their costs, could then be placed before the appropriate authorities for decision. At the same time, we observe that because a review of killing and chilling charges will be necessary in connexion with the extensions to the chilling facilities, it may well be that the most sensible course of action now would be to await their installation before making the review.

81. By making the above observations, Your Committee do not wish to be misunderstood on two points. The first is that we think regular reviews of charges are desirable, even if they merely serve to confirm the existing level. It is unwise for any enterprise to levy charges without reasonably accurate knowledge of the costs involved. Second, we do not wish to suggest that, in the short term, the charges levied for the use of the killing and chilling facilities provided by the Abattoir should necessarily meet the full on-cost as at the date of installation—

"COMMITTEE MEMBER.—I think this was dealt with previously, but repetition will not hurt. What we have been considering is the financial result which is related to a capital investment of somewhere between £80,000 and £100,000. The whole of the charges, I take it, will be reviewed by the Department when the present building programme is completed (Mr. Dunlop) It could be reviewed earlier. It is not obligatory to wait until the building programme was completed. I do not know when it will be completed, but it might be considered desirable or necessary to review some of the items before then.

**COMMITTEE MEMBER.**—In relation to the capital expenditure one could reasonably expect a review of the whole financial set-up—(Mr. Dunlop). Depreciation charges will increase when the new plant goes into operation. Then, of course, there is the matter of interest, when it is resolved. The interest charge on the additional capital expenditure will mean a considerable increase. If the policy is that depreciation is to be recovered, plus interest at 5 per cent. as suggested by the Treasury, that will substantially increase costs which in turn will mean that revenue will have to be substantially increased in order to cover those costs.

**COMMITTEE MEMBER.**—That in itself will have some relation as to whether you are building an Abattoir that is going to be available to you for the next 60 or 70 years. You may be building an economical unit which is not an economic unit at the present time, but will be in the future. I think that aspect has to be taken into consideration. That is why I put it on the basis of a general review in relation to increased expenditure of money rather than trying to get down to any precise basis?—(Mr. Dunlop). I gather from what you say that you are referring to the fact that with an expansion such as we are carrying out, we are expending money with an eye to the future, and that by virtue of that there will be some unused capacity immediately and the question then will be whether the current consumer should bear any increased charges for products, depreciation and interest on that unused capacity.

**COMMITTEE MEMBER.**—Something along those lines. I am not trying to be specific but am just referring to a broad basis of review in relation to increased capital expenditure?—(Mr. Dunlop). Yes.

As Mr. Dunlop indicated in the passage of his evidence just quoted, it may very well be that the level of charges determined for the extended chilling facilities should not in the short term be such as to recover the additional interest and depreciation charges that result from the extensions. But that is a matter of policy. Your Committee, while anxious that it should be determined in the light of all relevant information, do not wish to commit ourselves to a definite recommendation on questions of pricing policy.

82. For costing purposes, the disposal of animal runners has been grouped with the killing and chilling section of the Abattoir's operations. The Department has from time to time called for tenders for the purchase of animal runners. The conditions of the tender are such that the purchaser operates at the Abattoir and is responsible for the cleaning there and subsequent disposal of the usable runners. Some Audit criticism of the arrangements has been made on the ground that the runners are not being sold on business-like lines, and that in this way the interests of the Commonwealth are not fully protected.

83. The Department advised us that—

“ . . . Enquiries in the trade revealed that market prices were being obtained for this item. The market price recently increased and the purchaser (Botany Casing Co.) varied their prices accordingly. As late as 16th January, 1957, it was ascertained that identical prices to those received are being charged by the Goulburn Abattoir.”

84. It appears that the Department has not called tenders for some three or four years. The reason is that the present purchaser has been providing satisfactory services, and that in the past the Department has had unfortunate experiences with the successful (and highest) tenderer. Thus Mr. Wardle told us that—

“ . . . When we have called for those tenders, we have been unfortunate in taking the highest tenderer, for want of a better word. On two occasions we have unfortunately had a bad tenderer for the conditions under which we operate. In the last instance, the man was unable to fulfil his obligations and keep to our requirements within the time allowed for payment. Eventually, his contract lapsed. We were lucky to be able to go back to the firm from which we have had complete satisfaction all along. On more than one occasion we have written to the contracting firm asking whether there has been any variation in the price of runners. The price has been reviewed in that way and by an appreciation of the market and inquiries from other abattoirs. I think I can say that on more than one occasion the present firm, the Botany Casing Co., has of its own volition written and told us that from a certain date the price of the casings had been increased.”

**COMMITTEE MEMBER.**—You do not have a firm price, do you?—(Mr. Wardle). Yes.

**COMMITTEE MEMBER.**—You have a firm price in your agreement, but you say the firm has adjusted it?—(Mr. Wardle). Yes.

**COMMITTEE MEMBER.**—Could the firm adjust it down?—(Mr. Wardle). They could, but they have not done so up to the present. I must not say that because during the war years I think there was a down grade on one of the lines.

**COMMITTEE MEMBER.**—It is really not a firm price; it is a price that is adjustable?—(Mr. Wardle). It is a price that is adjustable with the market price.

**COMMITTEE MEMBER.**—Related to fair market value?—(Mr. Wardle). Yes. One thing about it is that, to call for applicants every twelve months, would throw the place into confusion if we had to take a new man or change the firm. The firm employs a man and a boy to deal with the runners. As I explained at the Abattoir yesterday, none of our men handle the runners at all. They are put down from the slaughter-floor and the Botany Casing Co., the present purchasers, have their two employees there. We merely provide the

facilities for them to wash out the runners and take them into the next room to salt them. They have an enormous stock of salt running into many tons and they have their casks there. It would be out of the question to do it every twelve months.”

85. The arrangements now made for the disposal of runners seem to Your Committee to be adequate. We agree with the view of the Department that, because this is a quasi-commercial undertaking, it may not be desirable to comply with the strict requirements of the Treasury Regulations concerning the acceptance of tenders: they were designed to govern the operations of administrative departments and not those of business enterprises. We observe also that prices and purchase arrangements for the runners are reviewed from time to time. Provided the Department ensures that upward adjustments in the prices are made within a reasonable time of the alteration in general market prices, we think the present position is satisfactory.

86. The production figures for animal runners show a considerable difference between the number of runners sold and the number of animals slaughtered. Your Committee were assured that there is no unnecessary wastage or chance of deficiencies occurring. Although it would be possible to keep a virtually unchallengeable record, it could only be achieved by the employment of a tally clerk. We agree with the view of the Department that, in the conditions under which the Abattoir at present operates, the extra expenditure involved would not be justified.

87. Moreover, the Department explained that the substantial variations in the number of runners sold and in the returns obtained from them each year are largely the result of alterations in selling prices. The prices obtained over the last four years are—

Runners.	1952-53.	1953-54.	1954-55.	1955-56.
Sheep and Lamb .. .. per set	1s. 2.4d.	9d. to 1s.	9d. to 10.8d.	1s.
Oxen .. .. per set	1s.	6d. to 7.2d.	6d.	6d. to 1s.
Pigs .. .. per set	2s.	1s. 6d.	1s. 6d.	1s. 6d.

88. One other matter connected generally with the killing and chilling charges engaged the attention of Your Committee. It is the fact that a considerable amount of carcass meat is brought into the Australian Capital Territory each week from abattoirs outside the Territory. The two main sources of supply are Goulburn and Cootamundra. Some of the meat is brought in for retail sale, and we were informed that it is used to supplement certain cuts of meat slaughtered at the Canberra Abattoir. For instance, additional hindquarters of beef are brought in because the demand for them is greater than for other cuts, and it would not be economical for the animals to be slaughtered in the Territory. The amount of carcass meat brought into Canberra weekly for this purpose is approximately 2 tons a week.

89. The main demand for meat slaughtered outside the Territory comes from the hostels. These are controlled by the Departments of the Interior and Works, and it appears that the practice has only developed recently. The Department of Health stated that—

“The Department was advised on the 19th September, 1956, by the Director of Works, Canberra, that a contract had been let to a firm in Goulburn for the supply and delivery of meat and smallgoods for the period 1st October, 1956—31st March, 1957.”

The supply by the tenderer is based on ‘Estimated weekly requirements’ and the carcass meat consists of—

Beef forequarters .. ..	2,308 lb.
Beef hindquarters .. ..	3,323 lb.
Mutton .. ..	4,338 lb.
Pork .. ..	425 lb.
Veal .. ..	171 lb.
Raw silverside .. ..	921 lb.

11,486 lb. per week =  
5.1 tons

On the 25th March, 1957, the Department received from the Director of Works particulars of the contract let to the same firm at Goulburn for the six months 1st April to 30th September, 1957.

The ‘Estimated weekly requirements’ of carcass meat is a reduced total of 9,950 lb. = 4.44 tons.”

Thus some 4½ tons of carcass meat is at present being brought in each week under contract, for supplying to Government hostels in the Australian Capital Territory.

See also  
Q. 215

Production  
figures quoted  
in paragraph  
71 above.

See Qs.  
257-263.

See Statement  
dated 20th  
April, 1957,  
page 4.  
See paragraph  
71 above and  
Appendices  
Nos. 1 and 2.

See Statement  
dated 20th  
April, 1957,  
page 4.

Q. 135.

See Exhibit  
No. 571,  
page 3.

Qs. 221-231,  
272-317.

See Statement  
dated 20th  
April, 1957,  
page 2.

Qs. 137-142.

See Statement  
dated 20th  
April, 1957,  
pages 1 and 2,  
172, 276-317.

90. The Armed Services are one further importer of carcass meats. The Department of Health informed us that, again until quite recently (November, 1955), sole suppliers of meat to the Navy, Army and Air Force stations in Canberra had been Australian Capital Territory contractors. Since then contracts have on occasions gone to contractors at Goulburn. Thus—

"For the three months 1st January to 31st March, 1957, a Goulburn supplier held the contract for all three Services.

The estimated requirements are set out as a guide to the tenderers, but greater or less quantities than those stated may be ordered.

The amounts of carcass meat shown in the tender for the above-mentioned three months are—

Beef and veal	.. .. .	37,250 lb.	= 2,865 lb. per week
Mutton and lamb	.. .. .	14,910 lb.	= 1,147 lb. per week
Pork	.. .. .	6,960 lb.	= 535 lb. per week

Total 4,547 lb. = 2.03 tons

No advice has been received from the District Contract Board since, but it is understood that at the present time an A.C.T. tender has a new contract."

When the Armed Services are receiving meat from Goulburn, they add to the imported total by approximately 2 tons a week.

91. In summary, the Canberra Abattoir produces in the vicinity of 70 tons a week, most all of which is sold in Canberra. A further 6½-8½ tons, slaughtered elsewhere, is brought in to supplement beasts killed at the Abattoir. This represents approximately 10 per cent. of the Abattoir's production, or rather less (approximately 9 per cent.) of the total of carcass meat consumed in the Australian Capital Territory.

92. Your Committee were told that the Department of Health prefers, that, where possible, all meat sold in the Australian Capital Territory should have been slaughtered there. It seems strange that it should be possible to bring meat into Canberra from centres 70 or 130 miles distant, and still to sell it at competitive prices, especially when killing and chilling charges at the Canberra Abattoir compare favorably with those at other centres. We venture to suggest that this state of affairs may warrant investigation by those whose concern it is.

#### (c) SALE OF BY-PRODUCTS.

93. In contrast with the revenues obtained from the killing and chilling facilities, which the Department can itself determine, are the revenues derived from the sale of by-products. The prices of the by-products of an Abattoir—tallow, osatein (meat and bone feeding meal) and blood and bone fertilizer, and hair, horns and glue pieces, &c.—are determined on a general market. For that reason, they are virtually not subject to any adjustment by the Department. The main task of the Department is then to ensure that the most profitable sales of by-products are made. Some of the methods of sale adopted have been the subject of Audit criticism, as a result of which they are at present being improved. We set out the position in later paragraphs in this section.

94. Another general consideration appertaining to the sale of by-products is that it is this portion of the activities of the Abattoir that specially represents its "public health utility" function. Nevertheless, Mr. Wardle gave it as his opinion that the hygiene measures associated with the by-products should not interfere materially with the commercial aspects of the Abattoir—

"COMMITTEE MEMBER.—Mr. Davis has referred to the last paragraph of the section dealing with the necessity always to have due regard to hygiene and the sanitary aspects of disposal, and the question occurred to me whether that might not conflict with the economic aspects of trading in relation to the Abattoir?—(Mr. Wardle) All that I can say with reference to that matter is that by centring the slaughtering at the Abattoir and dealing with the by-products, we consider that we are handling them in a hygienic manner. If we were not producing these by-products, we could not dispose of the waste as hygienically as we are doing at the present time.

COMMITTEE MEMBER.—Yes, but the hygiene measures really do not interfere with the commercial aspects of the conduct of the Abattoir, do they?—(Mr. Wardle) They should not.

COMMITTEE MEMBER.—If the Abattoir was conducted by private enterprise, the Department would still insist on the same high standard of hygiene, I presume?—(Mr. Wardle) We would, yes.

COMMITTEE MEMBER.—So that there should not be a conflict between the two matters. Actually, they should go hand in hand?—(Mr. Wardle) Yes."

95. Tallow represents the major by-product of the Abattoir. Approximate gross annual revenue derived from the sale of tallow amounts to almost half the Abattoir's gross revenue: in 1954-55 it was £14,437 (of a total revenue of £29,959) and in 1955-56, £16,101 (of a total revenue of £33,071). The profit on tallow in 1955-56 was £7,614: this is rather more than 80 per cent. of the costs involved in its production (£9,363).

96. The tallow is sold to a Queanbeyan company, but delivery is made in Sydney. The price received by the Abattoir is that prevailing for the "medium" grade of tallow at Sydney auctions, plus a small margin. (Tallow is graded for sale purposes as "prime", "good", "fair", "medium" or "inferior"). The agreement with the Queanbeyan company, Green and Co. Pty. Ltd., is that the Department delivers the tallow in drums in Sydney and receives for it the top medium price plus 5 per cent. The price was

"... by going through our figures for some considerable time previously and finding we were graded and getting a price between the top medium price and 4 per cent. above the top medium. That was into the next grade of 'fair', so that extra 1 per cent. was added to these figures and they accepted that at 5 per cent. above the top medium price delivered in Sydney. Q. 349-351.

COMMITTEE MEMBER.—I suppose Green and Company expect to make a profit out of it? Would it be to your advantage to sell it in Sydney in your own name by auction?—(Mr. Wardle) Well, what we are doing at present is that we are saving £4 in warehousing on a consignment of 40 drums and 2½ per cent. in commission."

97. The cost to the Department of transporting the tallow to Sydney is something over £1,000 per annum (£1,026 in 1954-55 and £1,062 in 1955-56). The alternative to making this arrangement with Green and Co. is for the Department to transport the tallow to Sydney and to sell it on their own account. In that case they would have to bear the additional charges of £4 in warehousing on each consignment of 40 drums and of 2½ per cent. in commission. The additional expenditure involved would seem to be of the order of £500 or more each year.

98. The position is that the tallow is sold by private treaty. The price and quality is thus not subject to testing as is tallow sold at auction, and therefore the price may or may not represent a fair return for the quality of tallow being produced at the Abattoir. It may well be, in fact, that the grading is rather higher than as stated by the Department. Your Committee recommend that samples of the Abattoir tallow be tested for quality, and that the selling arrangements be looked into in the light of the tests made. Q. 352-353.

99. As for the selling arrangements, the Department informed us that the prices they receive for their tallow are based on auction market values that have been tested from time to time. But since April, 1955, tallow has been sold on the basis described above. Although we have no evidence that the arrangement with Green and Co. has been anything but satisfactory, we are, as we have already indicated, unable to be certain that the price received by the Department for its tallow is appropriate. In the circumstances, we are inclined to accept the Department's assurances, though it might be worth testing the market again to ascertain whether the tallow could be sold more advantageously. As mentioned above, we think a test of the quality of the tallow produced would be advisable. Q. 171.

100. The tallow is transported to Sydney in drums. It is carried not by rail, but in vehicles belonging to the Department of the Interior. The reason is that the Department found, after investigation, that it was considerably cheaper to use Interior transport than to consign it by rail—

"COMMITTEE MEMBER.—You do not have a Transport Board which forces you to make an offer at a reduced rate to get our tallow business, but their lowest quote was considerably higher than road transport by the Department of the Interior. Q. 346-350.

COMMITTEE MEMBER.—The charge works out at £4 11s. 6d. a ton. That would be a very heavy rail charge?—(Mr. Wardle) The charge by rail is in the vicinity of £5. In addition, there is the road cartage from the Abattoir to the railway and from the rail head in Sydney to either the auction or the soap firm's factory. We used to send it by rail until we began to explore with the Department of the Interior the possibility of using the transport branch. That has been introduced since the war."

It appears that the tallow taken to Sydney is considered by the Department of the Interior to be "backloading". The heaviest loadings are, we understand, on the journey from Sydney to Canberra, and the full drums of tallow go to Sydney with the otherwise empty trucks. On the other hand, we note that it is necessary for the empty drums to be brought back to the Abattoir at Canberra for further use. Q. 347

101. One other point raised with us was the method by which tallow drums are numbered. It appears that until recently the drums were filled with tallow, and that after they had been cleaned up and had cooled off, they were weighed, white-washed and F.3326/57—4 Q. 325.

numbered. One of the reasons for numbering the drums in this way, instead of numbering them when they came empty to the Abattoir, was that occasionally drums (which are used many times) would develop leaks and would have to be rejected. If they had been numbered before filling, the sequence would be interrupted. The drawback to this procedure is that no check can be made that tallow is not being removed unlawfully, because there is a time when drums are filled but are unnumbered. Their removal at that time would not easily or necessarily be traceable by reference to the physical records.

102. The Department informed us that they are now recording the number of drums filled each week, and that they are satisfied with this procedure—

Qs. 329-331.

"COMMITTEE MEMBER.—You are satisfied with the procedure at present followed? There is no chance of leakage anywhere?—(Mr. Wardle) We have always felt that the surest safety device in that regard is an honest man, but now we are trying to make doubly sure by recording the numbers of so many drums each week, and the Meat Inspector puts his initials on these drums and that is recorded in a book.

COMMITTEE MEMBER.—Is there any chance of substituting an unnumbered drum? (Mr. Wardle) I think that if a man is dishonest there are ways of circumventing any system, but I do not think it can be done. In any case the gate is locked at night and we have two employees living on the premises, so only an organized system of theft would enable a drum to be stolen.

COMMITTEE MEMBER.—Are you satisfied with the present procedure?—(Mr. Wardle) Yes."

103. *Oseatin and Blood and Bone*.—The other major by-product of the Abattoir is alternatively oseatin (feeding meal) or blood and bone fertilizer. The production process for both is very similar, and the proportion of either that is produced can be varied according to requirements.

Q. 353.

104. In paragraph 72 above we quoted the cost statement provided by the Department. It indicates that oseatin costs £29 6s. 10d. per short ton to produce, and that it is sold at £21, a loss of £8 6s. 10d. a ton. Blood and bone fertilizer costs £32 17s. 3d. per long ton to produce, and is sold at £21, a loss of £11 17s. 3d. per long ton sold. Because oseatin is sold in short tons, its price is somewhat higher than that of blood and bone fertilizer. Overall, the loss on sales of feeding meal and fertilizer in 1955-56 was £1,684, or some 36 per cent. of the cost of production.

105. We asked the Department to advise us of the price per ton of feeding meal and fertilizer in places other than Canberra. The following table indicates prices:—

Abattoir.	Oseatin (Feeding Meal).			Blood and Bone Fertilizer.		
	Protein.	Fat.	Price (per short ton).	Nitrogen.	Phosphoric Acid.	Price (per long ton).
Canberra .. .. .	%	%	£	%	%	£
Homebush—	50	13	21	8.5	9.25	21
(i) .. .. .	42	14	36*	7	5	27
(ii) .. .. .	48	12	38†	..	..	..
Newcastle .. .. .	46	9	38	5	14	24
Goulburn .. .. .	50	10	41½	No fertilizer marketed		
Melbourne—						
(i) .. .. .	Figures not available			5	17	26
(ii) .. .. .				4.75	15	24½
Tasmania—						
(i) .. .. .	Figures not available			7	11.5	28
(ii) .. .. .				7.25	11.9	39½

\* Oseatin. † Feeding meal.

See also Qs. 117-117.

It can be seen that the Canberra prices for both oseatin and blood and bone fertilizer are less than those charged in other centres. The difference is more marked in the feeding meal than in the fertilizer.

Qs. 353-365.

106. The Department explained that they are content to provide a service to the residents of the Australian Capital Territory, even if the cost of production of feeding meal and fertilizer is not completely recouped by revenue from sales. They regard the cheaper sales not so much as a subsidy as an advantage in price. Your Committee accept this explanation. We observe, however, that it may be possible for additional revenue to be recovered from the sale of these by-products when it becomes necessary to charge into the accounts the additional amounts that will be required for interest and depreciation. This is another of the matters that we think should be taken into consideration when the impending review of pricing policy is undertaken.

Qs. 364-366.

107. Mr. Wardle, Director of Veterinary Hygiene, told us that before the war the oseatin had been produced, but could not be sold. The result was that the Superintendent of the Abattoir—

".. . virtually acted as a salesman by pointing out the advantages of the meal, as part of his extension services. The population of the Territory was small and there were not many poultry or pig keepers. The poultry keepers were not able to use all the meal that was produced and the Veterinary Officer approached the dairymen and introduced the feeding meal as a dairy cattle concentrate. That business has continued since then. We have sufficient demand for the feeding meal. In the past two years, the poultry industry has developed in and around the A.C.T. and the poultry people are the main users of oseatin. The dairymen have reduced their demand for the feeding meal because of the availability of other concentrates and, in many cases, because of good salesmanship. Poultry farmers are also getting many new concentrates which are easy to feed. As labour costs are high, it is easier to feed these concentrates than to feed meat meal which has to be introduced to cattle progressively before they will take it. They cannot be given a full supply at the start of the winter. Because of competition from the other concentrates the demand for feeding meal has gone down so far as dairy cattle are concerned. We are still able to sell all of it, however, because of the heavier requirements of the poultry industry in the A.C.T. . . ."

Thus any substantial increase in the price of oseatin might well result merely in reduced sales. Promotional activities would then be necessary, and these would cost money. The end result might in fact be less advantageous than sales at the present lower prices.

108. Nevertheless, Your Committee recommend that attention be given to the prices fixed for the sale of both oseatin and blood and bone fertilizer. These have not been reviewed since early in 1953, and the time that has elapsed would certainly justify a review, even if not, *a priori*, an increase in prices. In order to cover its costs, the Abattoir will in future have to trim its sails much closer to the wind, and any additional revenue that can conveniently be obtained should not be left uncollected. It is possible that some sales of either oseatin or fertilizer could be made outside the Territory. This possibility also might be investigated by the Department when prices and market outlets are being investigated.

See Statement dated 25th April, 1957, Page 2.

Qs. 318-320.

109. *Hair, Horns and Glue Pieces, &c.*—The cost statement quoted in paragraph 72 above indicates that the loss on the production of hair, horns and glue pieces is approximately as high in proportion to cost as is that on the production of oseatin and blood and bone fertilizer. Total costs for the year ended 30th June, 1956, were £1,882 and revenue was £1,309, a loss of £573 or approximately 30 per cent. on production costs.

Qs. 487-489.

110. It appears that the glue pieces are considerably in demand, though they only bring £35 a ton. The Department prefers to process them at a loss rather than merely to burn them, and doubts whether there is any more satisfactory alternative method of disposal—

"COMMITTEE MEMBER.—Would it be a matter of doing three things—of processing them at a loss as you do at present, or of burning them . . . (Mr. Wardle) Which we would hate to do.

Qs. 488-489.

COMMITTEE MEMBER.—Of exploring some alternative method of disposal? Is there any possibility of their purchase and treatment on the same basis as the purchase and treatment of runners so that somebody else could carry the loss?—(Mr. Wardle) I think the output would be too small for that. I do not think it would pay anybody to put men in to save our labour on them. I would mention, at this point, that we have had requests from firms that deal with glue pieces, which are small pieces of skin off the head and legs and the sinews, to send them direct to their industry in Sydney at the market price, but it would become involved. Only small amounts would be concerned. All that we would save, if we could arrange it on a satisfactory basis, would be a little bit of commission. We would still have to pay freight and deliver them at Sydney."

111. Provided the Department carries out the necessary investigations as outlined by Mr. Wardle, and keeps the matter under review, Your Committee can see no reasonable alternative to allowing the present disparity between costs and prices to persist.

#### CHAPTER V.—INTEREST AND DEPRECIATION CHARGES.

112. There has been much discussion about the charging of interest and depreciation into the accounts of Government enterprises. Your Committee do not attempt in the following paragraphs to set out in final form our conclusions about the general policy that ought to be followed by the Commonwealth in respect of its undertakings, if indeed a general policy can be formulated. To do that would require far more investigation of current practices than we have yet had opportunity to make. Moreover, to decide a general question of such import in relation to the accounts of only a relatively minor undertaking—the Canberra Abattoir—would hardly be appropriate.

113. In this chapter our purpose is to set out the facts as we found them in connexion with the charging of interest and depreciation into the accounts of the Abattoir, and to expose the issues that seem to us to need discussion before any general conclusions can be reached. At a later date, we hope to take further an inquiry into the methods by which charges for interest are and should be made in the accounts of governmental undertakings.

See Exhibit  
No. 316.

114. Between July, 1948, and May, 1949, the inclusion in the accounts of the Canberra Abattoir of charges for interest and depreciation was discussed by the Departments of Health and Treasury. Subsequently, the Treasurer and the Minister for Health gave the matter consideration. The Department of Health is still (in the financial year 1956-57) making no charge in the accounts of the Abattoir for interest, though depreciation is now included. We set out below the history of and the reasons for this state of affairs.

115. In 1948 the Treasury drew the attention of the Department of Health to the omission from the estimated financial operations of the Abattoir for the financial year 1948-49 of amounts for—

- Repairs and maintenance.
- Amortization of capital expenditure.
- Administrative overhead.

See Exhibit  
No. 326 (c).

The Department of Health having confirmed that the charges were not included in the Estimates of financial operations, the Treasury advised that the revenue of the Abattoir should be such as would meet charges including "direct running expenses and amortization of capital invested". An interest rate of 3½ per cent. was suggested for amortization purposes.

116. At this stage, the Treasurer took up the matter with the Minister for Health. It was agreed between them that the Abattoir should be regarded as a trading service, and that its charges should be sufficient to cover direct running expenses as well as other items including interest and amortization.

117. In October, 1953, the Audit Office reported to the Treasury that the Department of Health was providing in its accounts only for an interest charge, and that the rate was 3 per cent. No provision was being made for amortization of the capital invested. The Department was later advised by the Treasury (in September, 1954) that it should provide for depreciation.

118. The Treasury delayed a further decision upon the raising of a charge for interest because it had been hoping to be able to establish uniform procedures for Commonwealth undertakings. Your Committee were advised that, as a result of matters discussed in our Fifth and Twelfth Reports (on the Department of Works and the Postmaster-General's Department), the Treasury had been giving consideration to the appropriate method of treating interest on capital invested in departmental undertakings. This is a complicated question with wide ramifications, and the Treasury has indicated its willingness to discuss the matter further with Your Committee before a conclusion is reached.

Tabled  
respectively on  
6th October,  
1953 and 13th  
April, 1954.

119. The present position is that, in connexion with—

*Repairs and maintenance*, the Department is now making provision in its accounts—see the financial statements printed as Appendices Nos. 1 and 2.

*Amortization of capital expenditure* (for which the title "depreciation" is now preferred), rates are being charged according to taxation practice and on a prime cost ("straight line") basis.

*Administrative overhead*, a notional charge is raised in the accounts as described in paragraphs 26-31 above.

*Interest charges*, the Department of Health was advised by the Treasury in December, 1956, that it should provide in each financial year "a return of 5 per cent. on the net liability to Treasury (for funds provided for building, plant, working capital, &c., less amounts appropriated in the Abattoir accounts for depreciation and paid to revenue) at the beginning of that year".

120. The Department of Health has indicated that it is willing to include charges in accordance with whatever directions are finally promulgated by the Treasury. It can therefore be expected that until further notice the Department will make provision in the accounts of the Abattoir for repairs and maintenance, depreciation, interest on net liability and administrative overhead. Where such provision is not being made, Your Committee would expect to see an adjustment effected without delay.

See Exhibit  
No. 327,  
paragraph 4.

121. In connexion with the decisions to provide for depreciation and to raise an interest charge only on the net liability, we observe that one of the difficulties that have on occasions been associated with the financing of public enterprises is avoided. This difficulty is that of meeting an ever-increasing interest charge on capital advances made by the Government whose responsibility the undertaking is. Q. 232, 233.

122. Notwithstanding its willingness to comply with whatever instructions are issued by the Treasury concerning a charge for interest, the Department has indicated a preference for operating the Abattoir without entering such a debit in its accounts. It provided us with a statement concerning interest and amortization charges and, because it appears to us admirably to set out the relevant factors, we quote it in full—

"The question of the payment of interest on capital provided by the Commonwealth for public utilities has always been considered to be one of Treasury policy and any direction given by the Treasurer would, of course, be complied with, so far as this Department is concerned. See Exhibit  
No. 321,  
pages 5 and 6.  
See also Q. 234.

However, as the Committee has invited comments on this matter, it might be appropriate to point out that there is no payment of interest by the Commonwealth on the funds provided to erect and equip the Abattoir, all these funds having been provided out of revenue.

If an interest charge is to be made, it might be considered that the Abattoir should then be required to break even in its annual operations. Over the years there have been two schools of thought on whether interest notionally should be treated as a component of costs or a component of profit. From the Department's point of view, it is thought that it would be undesirable to treat interest as a cost component in this case and we would prefer to continue to conduct the Abattoir in such a way as to at least break even on actual costs (excluding notional costs), and should there be any profits, as has been the case in the past, to pay these into revenue as had been done for some years. This view is reinforced by the fact that the Abattoir is primarily a public health utility and is established to safeguard the health of the community.

Concerning amortization charges, it is not clear exactly what is being referred to. In the accounting sense amortization is understood to mean either the gradual extinction of a liability, usually by means of a sinking fund; or the process of absorbing into costs over a pre-determined period, or quantity of production, the value of wasting assets such as leases and royalties. It is not thought that amortization in either of these senses applies to the Abattoir. There is no original debt or liability to be extinguished by payments into a sinking fund insofar as the Commonwealth is concerned; neither are these wasting assets the cost of which is to be recovered in this way.

On the other hand, depreciation in the sense that it is a charge included in costs to provide for the loss in original value due to the physical deterioration of an asset through use or effluxion of time, has been provided for and it is considered that this is the correct accounting procedure to follow.

However, as pointed out previously, the matters of interest and amortization are questions of financial policy upon which this Department would take instructions from the appropriate authority."

123. The Treasury has, we understand, at present no fixed policy in regard to charging interest in the accounts of Government undertakings. Nor is there, at the present time, a standard rate applicable where a charge is raised. However, Treasury thinking on this matter has been active and Mr. Hewitt, First Assistant Secretary of the Budget and Accounting Branch of the Treasury, provided us with some very interesting comments during the course of our February hearings. Among other things, he said— Q. 530.

"... As for the principle of depreciation, I think that should be reasonably clear and without question. As for interest or a return of some figure, that is a matter on which the Treasury has not finally come to a conclusion for uniform application. In some cases the basis is to levy the interest and in others not to levy interest but to plan for a return on the investment. Specifically this was given a slightly different designation although the net result is not vastly different in terms of money. Q. 201.  
Q. 202.

On the general subject, I think the Committee has a substantial field of study first of all in considering whether the financing of undertakings of this nature should be through a trust account or through the annual appropriation. There are advantages and disadvantages in each. Mr. Leslie this morning referred to some of the disadvantages of the present form of appropriation through the Consolidated Revenue Fund. You have been cross-questioning me in recent days about the disadvantages of doing it through the Trust Fund and using trust accounts. I mention that merely to point up that there are difficulties in whichever one is followed. And according to the method which is followed, I think there are substantial principles which the Committee might very well consider and perhaps give a lead in establishing. For example, if an undertaking is financed through a trust account, should the element for the depreciation of the assets remain and accumulate in the trust account and be used progressively to replace the assets from the trust account, or should the element for depreciation be paid to revenue as it is in a case such as the Abattoir, which is financed through appropriation. Similarly with the charge for interest. With an undertaking that is financed by a trust account, would it not be more appropriate to go the further step not only of including the interest in the costs which form the basis for determining the scale

of charges, but also to adopt the bookkeeping practice of levying an interest debit in the trust account so that if the interest is not recovered in the scale of charges and credited to the trust account, then a parliamentary appropriation will have to be sought to meet the loss, which includes the notional interest that should have been earned on the investment?

That, very briefly, is the way I see the problems which I think require a fairly detailed examination of interest and depreciation charges, and it is affected very substantially by the form of financing be it through the Trust Fund or through the annual appropriation."

The question raised by Mr. Hewitt in connexion with financing the undertaking through a trust account is discussed in the following Chapter. It has a bearing upon the degree of autonomy that should be conferred upon the undertaking, and has clear implications for the form in which the accounts of the undertaking are to be kept.

124. As we have already indicated, we do not wish in this Report to set out any final conclusions in regard to interest charges. On only three of the several issues raised are we at present prepared to make a firm statement. They are on the inclusion in the accounts of charges for repairs and maintenance, depreciation and administrative overhead. It is the considered opinion of Your Committee that provision for repairs and maintenance and depreciation should be made in the accounts of all governmental undertakings of a commercial nature, whether they are administered within the organization of a department, as is the Abattoir, or are given a measure of autonomy. Provision should also be made, where appropriate, for administrative overhead, though we observe that undertakings granted substantial autonomy will not have cause to enter such a cost in their accounts: it will be part and parcel of the undertaking. Thus this part of our recommendation applies only to organizations in a relationship to a Department similar to that of the Canberra Abattoir to the Department of Health.

125. The issues involved in deciding whether interest should be charged into the accounts are complex, and we do no more at this stage than indicate some of the factors that will have to be taken into consideration in making a balanced decision. The major question is whether interest should be charged at all. If the answer be yes, then, in broadest outline, the following seem to us to be the major issues:—

- (i) Whether the interest is to be charged on the gross or net liability of the undertaking.
- (ii) The appropriate rate of interest.
- (iii) Whether the interest charge should be wholly or partially waived in years when revenue is inadequate to meet it in full.
- (iv) The course that should be taken when net liability becomes small.

Other issues that arise in connexion with interest charges can best be dealt with when considering whether a trust account or a departmental ledger account is the appropriate means for financing the activities of the undertaking. We discuss these in Chapter VI. below.

#### CHAPTER VI.—THE ADMINISTRATIVE STATUS OF THE ABATTOIR AND THE METHODS OF FINANCING ITS ACTIVITIES.

126. The Canberra Abattoir was described to us by the Department of Health as a public health utility. Hitherto, its operations have been conducted under the general control of departmental officers and its accounting arrangements have been subsidiary to those of the Department as a whole.

127. Whether or not the Abattoir is now large enough to make appropriate, or even to require its separation from the Department is a matter of policy: Your Committee make no comment upon it. However, we think it proper to state that it is our view that the existing financial arrangements can no longer be described as satisfactory. The Abattoir is now an enterprise with an annual turnover of nearly £30,000, an amount that is likely to increase substantially in the near future. To conduct its finances within the limits set by an ordinary one-line appropriation, and to convey to the Parliament no information about the proportion of that amount that represents the net appropriation, seems to us inapposite.

128. We have already recommended that proper financial statements be prepared and published for the Abattoir. A closely associated problem is what are the most fitting arrangements for keeping and publishing such statements? Is the single-line entry in the Estimates of Expenditure for each year, with the accounting records subordinated to that entry, sufficient? The result of this arrangement is, of course, that on the expenditure side the Parliament is informed only of the gross figure. No indication whatever is given, even in the most general terms, of the profitability of the enterprise. On the revenue side, gross

See Exhibit No. 32/1, page 2.

See paragraphs 43-45 above.

See discussion in Qs. 178-184.

receipts are paid into Consolidated Revenue Fund together with the other miscellaneous revenue from the Department of Health (the total of that revenue item was £93,642 in 1955-56 and is estimated at £83,000 in 1956-57). Thus no information whatever is given about the revenues derived from the Abattoir. Indeed, there is no suggestion in the financial documents presented to the Parliament that the Abattoir is a body that has incomes as well as outgoings. Such shortcomings in the information automatically presented to the Parliament may well be inevitable if the financing of the Abattoir is to be through annual appropriations. But the position is in some respects even more unsatisfactory, for not only do the published figures reveal only a part of the position: they are positively misleading in that they suggest that the Abattoir needs each year an amount of fresh money that is in fact its gross expenditure, and not its annual net drawing from Consolidated Revenue Fund. Thus, if one leaves aside considerations of parliamentary control and considers only the adequacy of the information presented to the Parliament, one must conclude that the present arrangements are unsatisfactory.

129. On the other hand, it would be possible to convey to the Parliament through the annual Appropriation measure information far more adequate than is at present made available in respect of the Canberra Abattoir. The method would be to use some form that would result in a net appropriation. Where, as with the Abattoir in recent years, the enterprise or activity has in fact yielded a profit and thus has made no call on revenue, a token Vote might be included, and some notation inserted to indicate the amount of profit made. This method has the advantages of retaining the undertaking within the Budget and of keeping it before the scrutiny of the Parliament. The main disadvantage is that it would make the Estimates document more bulky and more complicated. And from the point of view of the undertaking, it would suffer from the inconveniences attendant upon the annual lapse of funds. We recall also that there is some doubt as to the legal validity of so-called "net appropriations". For the present, we leave this matter aside. It also raises issues too complex to be decided in the course of the present inquiry.

130. An alternative to the existing arrangement would be to finance the activities of the Abattoir through a trust account. Were a trust account to be created for this purpose, an advance would be necessary to serve as a revolving fund. The Department suggested that an amount of approximately £7,000 is all that would be required. The only recourse then to parliamentary appropriation would (after the initial appropriation of the working balance) be in the event of the operations running at a loss in any given year. That loss might or might not be determined after the inclusion of the charges for repairs and maintenance, depreciation, interest and administrative overhead that we have discussed in Chapter V.

131. The Department advised us that they are willing to comply with whatever instructions are given by the appropriate authority (the Treasurer). However, their view is that the operations of the Abattoir are hardly large enough to justify the separate accounting arrangements made necessary by operations on a trust account. The Department stated, in regard to the financing of the Abattoir through a trust account, that—

"This is largely a matter of financial policy and one on which this Department has no strong views. The present arrangement is working satisfactorily but should a change be made it would be essential for an adequate advance to be made to start the Trust Account off.

It must be borne in mind, however, that the Abattoir is integrated to a considerable extent with the Department itself, as for example, most of the clerical work being done in the Department and not at the Abattoir, and as a result it is felt that a Trust Account would not achieve its real purpose. To change the present system and to make the Abattoir virtually a self-contained unit would only lead to increased costs of operation with no apparent advantages."

132. We asked Mr. Dunlop (Senior Administrative Officer (Finance) of the Department of Health) whether he would be willing to express a personal view about using a trust account instead of the existing arrangements. He elaborated upon the statement provided by the Department in the following way:—

"COMMITTEE MEMBER.—The Treasury would not impose that (i.e. a Trust Account) upon you without you expressing your view first?—(Mr. Dunlop) No doubt our view would be sought. On the other hand, I personally cannot see a great number of advantages accruing from a Trust Account. I think the pros and cons are about 50-50 on it. It would not present a great deal of difficulty to the Department to operate on a Trust Account. On the other hand, there are no difficulties in operating it under a vote on the present system. From the personal point of view and also from the point of view of the Department, we would follow any system laid down. I am inclined to think that with a Trust Account the amount of clerical work involved in operating in that way would be greater. We would ourselves pay accounts which now do not come to us for payment. I have in mind, for instance, maintenance. If the maintenance was to be financed out of

Qs. 181-183.

See Qs. 331-334.

See Exhibit No. 32/1, page 5.

Q. 52.

the Trust Account, we would have to receive accounts from the Department of Works and pay them, whereas at present the vote for maintenance is under the control of the Department of Works and we have no direct say over it. We put in requisitions for whatever work we want done. The Department of Works carries it out and charges it against their vote. There would be a re-assessment of problems of that nature, but I cannot see any great difficulty in operating it under one system or the other. I think we would prefer to operate as we are at present."

133. Your Committee also obtained the views of the Treasury. Mr. Hewitt expounded some of the advantages and disadvantages in a section of the evidence already quoted (see paragraph 123 above). In that passage it can be seen that he indicates clearly the advantages accruing from operating an undertaking through a trust account. In particular, it is possible to handle charges for interest and depreciation on a basis uncomplicated by the lapse of funds available at the end of each financial year.

134. It is generally accepted that the system of annual appropriations, with the lapse of unexpended funds at the end of each year, is designed fundamentally to give to the Parliament a control over government through its power to vote or withhold funds. If a trust account is created, there is on the face of it a diminution in parliamentary control. This is so because, providing the undertaking can finance itself from the conduct of its own operations, it is able to carry on indefinitely without recourse to the Parliament.

135. On the other hand, it may well be said that the intentions of the Parliament or the Executive to create an autonomous body will be more effectively and completely complied with if that undertaking is freed from the annual requirement to seek funds for carrying on normal operations. The undertaking is then, regarded from a positive viewpoint, required to return to its creator an account for itself only when it deems it necessary to obtain additional funds in order to discharge effectively the purposes for which it was created. (Though, of course, further obligations to report could well be imposed upon it).

136. Although the creation of a trust account to provide for the financial operations of an undertaking does appear to have the effect of reducing direct parliamentary control over its finances, there are two mitigating features that should be mentioned. The first is the general intention of the creating authority. It was discussed in the last paragraph. The second is that operations on trust accounts are regulated in much the same way as are expenditures and receipts handled in the ordinary course of departmental activities.

137. It is probable that financing through a trust account imposes heavier obligations upon the Treasury and the Auditor-General. To them is delegated the power of the Parliament to scrutinize the financial and other activities of the undertaking in question. Upon them lies the responsibility of ensuring that the will of the creating authority is observed, and of bringing any irregularities before the notice of the Parliament and the Executive.

138. Your Committee make no specific recommendation whether or not the activities of the Canberra Abattoir should in future be financed through a trust account. We see clear advantages in such a step. But there are also disadvantages, and we wish to consider this matter further in connexion with our general inquiry into the Trust Fund, and in the Report upon which we are at present working for submission to the Parliament.

139. However, there is another reason why we refrain from making a positive recommendation. In our opinion, the decision whether or not to create a trust account should be made in conjunction with a decision about the status of the Abattoir. Is it or is it not to be considered an undertaking of a business character? If it is to be considered such an undertaking, we think the implications are clear. It should be given the necessary autonomy financially and otherwise: and in this connexion we recall the decision of the Treasurer and Minister for Health, given in 1948 and reported in paragraph 115 above, that the Abattoir should be regarded as a "trading service". The full operation of this decision may in fact settle the issue. If so, and the decision is interpreted as being in favour of autonomy, it might be necessary to consider also whether, as an autonomous body, the Abattoir should remain under the administrative jurisdiction of the Department of Health or whether it might fall more appropriately within that of the Department of the Interior.

140. The other general issue raised by the discussion of the use of a trust account to finance the activities of a commercial undertaking is whether in all cases, and as a matter of principle, a trust account should be used. Your Committee wish on this matter to reserve our opinion until we have completed our Inquiry into the Trust Fund as a whole. We consider that it would be undesirable at this stage, and with only the present instance before us, to attempt to formulate any general rule.

## CHAPTER VII.—SUMMARY AND RECOMMENDATIONS.

### THE INQUIRY.

1. Adverse comments on the Department's accounts and financial procedures in respect of the Canberra Abattoir were made by the Auditor-General in his Reports for the years ending 30th June, 1955 and 1956. (Paragraphs 2-4.)
2. The Canberra Abattoir is a public health utility under the control of the Department of Health, and is situated near Queanbeyan. Its fixed assets (at cost) amount to £103,673; additions costing about £160,000 should be completed late in 1957. (Paragraph 14.)

### THE ORGANIZATION OF THE ABATTOIR.

3. The scope and functions of the Abattoir are defined by the *Meat Ordinance* 1931-1953. (Paragraph 18.)
4. The Abattoir does not engage in slaughtering, but it provides full facilities for slaughtering and chilling. (Paragraph 19.)
5. The Abattoir is under the general superintendence of a field Veterinary Officer of the Department of Health, and under the immediate control of a Meat Inspector. Its clerical and accounting work is integrated with the administration of the Department. (Paragraphs 20-26.)
6. For overall costing purposes the Department raises against the Abattoir a notional charge of £500 to cover overhead expenses. Your Committee doubt whether this charge is adequate and recommend its review. (Paragraphs 26-28, 31.)

### FINANCIAL STATEMENTS FOR THE ABATTOIR.

7. It is not mandatory to report to the Minister or the Parliament on the operations and financial position of the Abattoir. This is an unsatisfactory state of affairs. (Paragraphs 34-35.)
8. The Abattoir is financed by annual appropriations from the Consolidated Revenue Fund. We recommend that the financial methods should be reviewed, and that operating statements and balance-sheets should be regularly prepared and submitted to the Auditor-General, notwithstanding that they are not required by the Audit Act and Treasury Regulations. (Paragraphs 32, 33 and 36-44.)
9. The Meat Ordinance makes no provision for either the preparation of statements of accounts for the Abattoir, nor for their audit. We think amendments should be prepared to provide for both, and that suitable information should regularly be made available at least to the Minister. (Paragraphs 29-35, 43, 46-47, 128-130.)
10. The statements of accounts presented to us are the first to be prepared, and they have not yet been accepted by the Auditor-General. (Paragraphs 40, 48.)
11. The statements examined by us reveal interesting variations in figures for the past two years, and though generally satisfactory it was not always possible for the explanations to be comprehensive. (Paragraphs 48-61.)
12. The Balance-sheet and Assets Register, prepared initially in respect of the year ending 30th June, 1955, have not yet been certified by the Auditor-General. (Paragraphs 62-64.)
- Annual stocktakings are now being made. (Paragraph 65.)
13. The Auditor-General has reported that defective procedures are being improved, and other unsatisfactory accounting practices remedied. (Paragraphs 2-4.)

### COSTINGS AND PROFITS.

14. Until 1955-56 no detailed costing of the products of the Abattoir had been made. We emphasize our oft-stated view that without effective costing, a Department cannot know the results of its operations and what charges should be made for products. (Paragraphs 66-67.)
15. The activities of the Abattoir comprise—  
the provision of satisfactory slaughtering facilities for butchers, and the disposal of inedible offal. (Paragraph 68.)  
These activities are considered together when calculating profits: the former operate at a loss, the latter show a profit, and together they show a small profit. (Paragraph 69.)
16. The basic costing records necessary for a determination of prices and profits have not been thoroughly reliable, but the Audit Office reports a recent appreciable improvement. (Paragraphs 70-72.)  
Production figures and a cost statement are set out in paragraphs 71 and 72.



## KILLING AND CHILLING CHARGES.

17. Charges for slaughtering and chilling were last altered in May, 1949, but no detailed costing information was then available. The changes resulted in a slightly increased profit, and with the exception of one year, the Abattoir has since operated at a profit. (Paragraphs 73-74.)
18. Charges have been under review since 1955, but have not been altered. (Paragraph 76.) (For rate of charges see paragraphs 75-77.)
19. Because some detailed cost figures are now available, a review of the charges at the Abattoir is desirable. (Paragraphs 78-79.)
20. The question of fixing prices to cover all costs including interest and depreciation is a matter of policy. (Paragraphs 81, 120-125, 127.)
21. The method of selling and of keeping a tally of animal runners has been criticized by the Audit Office. Your Committee think the present arrangements are, in the circumstances, satisfactory. (Paragraphs 82-88.)
22. In connexion with killing charges at the Abattoir, Your Committee note that 64-8½ tons of carcass meat are brought into Canberra weekly (as compared with weekly production at the Abattoir of 70 tons); the outside meat comes mainly from Goulburn and Cootamundra. Most of the Abattoir's production is sold in Canberra. (Paragraphs 88-91.)
23. The demand for outside supplies comes mainly from the hostels (4 tons a week). The Departments of the Interior and Works let the contracts. (Paragraph 89.)
24. Outside meat has in some recent periods been ordered by the Armed Services. On those occasions the contract has been for about 2 tons a week. (Paragraph 90.)
25. Given the low level of killing charges at the Abattoir, it is worth investigating why meat can be transported 70 to 130 miles and yet sell at competitive prices in Canberra. (Paragraphs 91-92.)

## SALE OF BY-PRODUCTS.

26. Unlike the killing charges, which are fixed by the Department, the prices of by-products are fixed on the open market. (Paragraph 93.) Some of the methods used to market these by-products have been criticized by the Audit Office. (Paragraph 92.)
27. Tallow represents the major by-product. It is sold by private treaty, and because its quality is not accurately known Your Committee are unable to say whether the price received is appropriate. It yielded £16,101 (£9,614 of which was profit) in 1955-56. (Paragraphs 94-102.)
28. Osatein (feeding meal) and blood and bone fertilizer are other major products. Both are sold at a loss (representing 36 per cent. on production costs). They are sold to local residents at a price less than the market rate. (Paragraphs 103-107.)  
The policy involved in pricing these commodities should be examined. (Paragraph 108.)
29. Hair, horns and glue pieces are sold at a loss of approximately 30 per cent. on production costs. Your Committee were told that the alternative to selling at a loss is to burn these articles. (Paragraphs 109-110.)

## INTEREST AND DEPRECIATION CHARGES.

30. In 1948 the Treasury discussed with the Department of Health the inclusion of interest and depreciation in the accounts of the Abattoir. It was agreed by the Ministers that the Abattoir should be regarded as a trading service whose charges would be sufficient to cover direct running expenses and other items including interest and amortization. (Paragraphs 114-116.)
31. In 1948-49 the Department was directed to include in the Abattoir accounts, charges for repairs and maintenance, amortization, and administrative overhead. In 1953 the appropriate charges were not all being raised; but the Treasury finally advised the Department in December, 1956, that it should allow 5 per cent. as interest on the net liability to the Treasury. (Paragraphs 114-120.)
32. The Department would prefer not to debit the accounts with an interest charge before government policy in regard to charging interest has been decided. (Paragraphs 122, 123.)
33. Your Committee discuss the issues involved in charging interest but leave the matter for the general review of policy. (Paragraph 125.)

## STATUS, TRUST ACCOUNT AND GENERAL FINANCIAL ARRANGEMENTS.

34. Hitherto the accounts of the Abattoir have been incidental to the main financial activities of the Department of Health. Such an arrangement can no longer be regarded as satisfactory. (Paragraphs 126, 127.)
35. At present Parliament is provided with scant information about the finances of the Abattoir. The Estimates contain a gross figure of expenditure in a single line entry, while the receipts from the Abattoir are hidden in the miscellaneous receipts of the Department of Health that are credited to the Consolidated Revenue Fund. In that they represent gross figures, the expenditure items in the Estimates are also misleading, and Your Committee consider that the present arrangements should be altered. (Paragraphs 29-35, 128, 129.)
36. An alternative to the present method of financing the Abattoir from the Consolidated Revenue Fund is to do it through a Trust Fund or Account. The Department, however, believes that the Abattoir accounts are hardly substantial enough to justify such a course. (Paragraphs 130-137.)
37. Your Committee are currently engaged in a comprehensive review of the use of the Trust Fund mechanism for financing various governmental operations, and therefore reserve our judgment upon the use of an Account for the Abattoir until we consider the whole field. (Paragraphs 138-140.)

On behalf of the Committee  
F. AND,  
Chairman.

R. C. DAVEY  
for PETER H. BAILEY  
Secretary  
Joint Committee of Public Accounts  
Parliament House  
Canberra.

28th August 1957.

*P. H. Bailey*  
for  
*Peter H. Bailey*

APPENDIX No. 1.  
Report Paragraph 40.

CANBERRA ABATTOIR.

OPERATING STATEMENT FOR YEAR ENDED 30TH JUNE, 1955.\*

Materials consumed—					
Bags	£	s.	d.	£	s.
Coal	256	2	3		
Wood	3,509	12	0		
Drums	99	10	0		
Fodder	966	9	5		
	111	4	8		
Purchase of Fats, Bones, &c.				4,942	18
Salaries and Wages				1,408	19
Maintenance				10,930	2
Electricity				2,844	19
Water				2,038	11
Telephone				1,276	6
Transport—Tallow				106	16
Transport—Other				1,026	3
Car Mileage				61	0
Miscellaneous				141	9
				391	7
Total Operating Costs				5,041	17
				25,168	16

TRADING AND PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 30TH JUNE, 1955.\*

To stocks by-products 1.7.1954	£	s.	d.	By Sales and	£	s.	d.	£	s.	d.
To operating costs (as per above statement)	185	0	0	Charges:						
	25,168	16	0	Killing and Chilling	7,592	6	3			
Less stocks 30.6.1955	25,353	16	0	Tallow	14,436	13	8			
	100	10	9	Animal Runners	2,963	18	9			
				Oxsteak, Blood and Bone	4,552	4	9			
Depreciation	25,253	5	3	Glue Pieces, &c	413	13	8			
Net profit	2,844	2	0					29,958	17	1
	1,861	9	10					29,958	17	1
	29,958	17	1							

\* The Committee notes that at this stage the accounts are subject to certification by the Auditor-General.

APPENDIX No. 2.  
Report Paragraph 40.

CANBERRA ABATTOIR.

OPERATING STATEMENT FOR YEAR ENDED 30TH JUNE, 1956.\*

Materials consumed—					
Bags	£	s.	d.	£	s.
Coal	386	10	11		
Wood	3,922	8	9		
Drums	36	10	0		
Fodder	1,225	4	11		
Salt	128	19	6		
	99	7	5		
Purchase of Fats, Bones, &c.				5,799	1
Salaries and Wages				1,685	8
Maintenance				13,004	2
Electricity				2,121	3
Water				2,077	8
Telephone				595	4
Transport—Tallow				140	2
Transport—Other				1,062	9
Car Mileage				175	15
Transfer Expenses				151	5
Miscellaneous				141	15
				490	18
Total Operating Costs				4,835	18
				27,445	14

TRADING AND PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 30TH JUNE, 1956.\*

To stocks by-products 1.7.1955	£	s.	d.	By Sales and	£	s.	d.	£	s.	d.
To operating costs (as per above statement)	100	10	9	Charges:						
	27,445	14	11	Killing and Chilling	7,667	10	3			
Less stocks 30.6.1956	27,546	5	8	Tallow	16,100	15	4			
	1,569	18	3	Animal Runners	3,877	18	2			
				Oxsteak, Blood and Bone	4,190	16	8			
Depreciation	25,976	7	5	Glue Pieces, &c	1,234	0	5			
Net profit	2,864	0	0					33,071	0	10
	4,230	13	5					33,071	0	10
	33,071	0	10							

\* The Committee notes that at this stage the accounts are subject to certification by the Auditor-General.

APPENDIX No. 3.  
Report Paragraph 40.

## CANBERRA ABATTOIR.

## STATEMENT SHOWING RECEIPTS AND EXPENDITURE FOR THE LAST FIVE YEARS.

Particulars.	Year.				
	1951-52.	1952-53.	1953-54.	1954-55.	1955-56.
	£	£	£	£	£
Ossatein, Blood and Bone, &c. .. ..	3,497	3,986	4,451	4,537	4,151
Runners .. .. .	3,087	5,008	3,495	2,991	3,802
Tallow .. .. .	9,168	12,674	12,860	15,637	16,101
Gluepieces, &c. .. .. .	1,199	1,362	737	413	1,039
Chilling and Killing .. .. .	5,386	5,676	5,372	5,676	6,342
<b>Total Receipts .. .. .</b>	<b>22,337</b>	<b>28,706</b>	<b>27,115</b>	<b>29,254</b>	<b>31,435</b>
<b>Expenditure—</b>					
Bags .. .. .	1,725	225	331	267	354
Coal .. .. .	2,911	3,768	2,880	3,435	5,462
Wood .. .. .	127	338	20	28	56
Drums .. .. .	464	1,001	679	1,019	1,213
Fodder .. .. .	97	47	89	123	118
Salt .. .. .				19	111
Salaries and Wages .. .. .	8,828	9,739	11,101	10,930	13,004
Electricity .. .. .	992	1,781	1,965	2,039	1,665
Water .. .. .	418	851	1,352	1,276	496
Telephone .. .. .	81	100	111	107	166
Transport—Tallow .. .. .	817	1,543	1,249	1,026	1,062
Transport—Other .. .. .	170	273	11	69	180
Car Mileage .. .. .	49	123	95	142	151
Transfer Expenses .. .. .					142
Purchase of Fats (other than from usual butchers) .. .. .	17	9	65	77	104
Miscellaneous .. .. .	1,040	512	317	372	490
Maintenance .. .. .			114	4	8
<b>Total—Department of Health Vote— Division 257-3 (now Division 283-3)</b>	<b>17,736</b>	<b>20,310</b>	<b>20,379</b>	<b>20,933</b>	<b>24,782</b>
Excess of Receipts over Expenditure .. .. .	4,601	8,396	6,736	8,321	6,653
Department of Works—Maintenance .. .. .	1,500	2,000	2,803	2,841	2,113

APPENDIX No. 4.  
Report Paragraph 40.

## CANBERRA ABATTOIR.

## ASSETS REGISTER.

Item.	Value.				Depreciation Rate.
	Original (at Cost).		At 30th June, 1955.		
	£	£	£	£	%
<b>Chilling Building and Refrigeration Equipment .. .. .</b>		28,789		14,870.0	5
<b>Slaughtering Section—</b>					
Slaughter Building .. .. .	13,801		12,920.2		3
Beef Hoist .. .. .	500		87.5		7 1/2
Steel Work .. .. .	500		87.5		7 1/2
Rails .. .. .	300		52.5		7 1/2
Hoists .. .. .	250		43.7		7 1/2
Beef Saw .. .. .	1,353		986.1		7 1/2
Hooks, Rollers .. .. .	500		424		7 1/2
Blood Blower .. .. .	210		74.2		7 1/2
Rumblers .. .. .	300		162.7		7 1/2
Tripe Machine .. .. .	100		52.5		7 1/2
Grindstone .. .. .	100		77.5		7 1/2
Fan and Baffle (Tripe Room) .. .. .	100		85.0		7 1/2
		18,338		14,716.9	
<b>Boiler Section—</b>					
Boiler House .. .. .	7,834		7,834.0		..
Boiler Foundations .. .. .	5,000		4,320.0		2
Boilers .. .. .	2,000		900.0		5
		14,834		13,054.0	
<b>Miscellaneous Section—</b>					
Office Building .. .. .	1,200		1,200.0		..
Mess Room .. .. .	4,031		4,031.0		..
Skin Shed .. .. .	1,800		1,800.0		..
Roads and Grounds .. .. .	5,651		5,651.0		..
Pens and Yards .. .. .	2,551		2,551.0		..
		15,233		15,233.0	
<b>By-products Section—</b>					
By-products Building .. .. .	15,704		15,097.8		3
Digesters .. .. .	6,955		4,346.2		7 1/2
Runway Lifting Gear .. .. .	120		21.0		7 1/2
Rail Track .. .. .	280		70.0		7 1/2
Rail Trucks .. .. .	200		50.0		7 1/2
Settling Pots .. .. .	100		17.5		7 1/2
Tallow Tanks .. .. .	250		43.75		7 1/2
Spinner .. .. .	2,300		1,348.1		7 1/2
Chain Blocks .. .. .	120		21.0		7 1/2
Hopper .. .. .	100		17.5		7 1/2
Mill .. .. .	200		35.0		7 1/2
Pulley .. .. .	50		8.75		7 1/2
Scales .. .. .	100		17.5		7 1/2
		26,479		21,094.1	
<b>Totals .. .. .</b>		<b>103,673</b>		<b>78,968.0</b>	

APPENDIX No. 5.  
Report Paragraph 62.

CANBERRA ABATTOIR.

BALANCE-SHEET AS AT 30TH JUNE, 1955.\*

<i>Liabilities.</i>				<i>Assets.</i>			
	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.	£ s. d.
Current liabilities—			Current assets—				
Creditors ..	1,245 18 0		Debtors ..	1,297 6 4			
Delivery charges			Less Payments in ad-				
—prepaid ..	3 12 0		vance ..	1,200 0 0			
Funds employed ..		1,249 10 0				97 6 4	
		79,027 4 7					
			Stocks on hand:				
			By-products ..	100 10 9			
			Coal ..	902 0 0			
			Wood ..	40 10 0			
			Drums ..	112-10-0			
			Bags ..	43 17 6			
			Fodder ..	12 0 0			
					1,211 8 3		
			Fixed assets—				1,308 14 7
			Plant and buildings (at cost) ..	103,673 0 0			
			Less provision for depreciation ..	24,705 0 0			
						78,968 0 0	
		80,276 14 7					80,276 14 7

\* The Committee notes that at this stage the Balance-sheet is subject to certification by the Auditor-General.

APPENDIX No. 6.  
Report Paragraph 62.

CANBERRA ABATTOIR.

BALANCE-SHEET AS AT 30TH JUNE, 1956.\*

<i>Liabilities.</i>				<i>Assets.</i>			
	£ s. d.			£ s. d.	£ s. d.	£ s. d.	£ s. d.
Current liabilities—			Current assets—				
Creditors ..	735 8 3		Debtors ..	1,377 11 5			
Funds employed ..	97,545 11 9		Less Payments in ad-				
			vance ..	1,200 0 0		177-11 5	
			Stocks on hand:				
			By-products ..	1,569 18 3			
			Coal ..	1,419 0 0			
			Wood ..	60 0 0			
			Drums ..	100 14 0			
			Bags ..	11 8 9			
			Fodder ..	1 0 0			
			Salt ..	11 0 0			
					3,173 1 0		
			Fixed assets—				3,350 12 5
			Plant and buildings (at cost) ..	123,096 19 2			
			Less Provision for depreciation ..	28,166 11 7			
						94,930 7 7	
		98,281 0 0					98,281 0 0

\* The Committee notes that at this stage the Balance-sheet is subject to certification by the Auditor-General.