

DEPT. OF THE SENATE
No. 1063
Presented <i>K. R. P. S.</i> DEC 1957
CLERK OF THE SENATE

1957.

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA.

JOINT COMMITTEE OF PUBLIC ACCOUNTS.

THIRTY-FOURTH REPORT.

THE TRUST FUND.

By Authority:
A. J. ARMOUR, Commonwealth Government Printer, Canberra.
(Printed in Australia.)

JOINT COMMITTEE OF PUBLIC ACCOUNTS.

THIRD COMMITTEE.

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

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

Senator A. M. BENN

Senator the HON. H. S. SEWARD

Senator I. E. WEDGWOOD

L. H. BARNARD, ESQUIRE, M.P.

J. F. COPE, ESQUIRE, M.P.

F. J. DAVIS, ESQUIRE, M.P.

A. S. HOLME, ESQUIRE, M.P.

H. A. LESLIE, ESQUIRE, M.P.

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

DUTIES OF THE COMMITTEE.

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

8. The duties of the Committee are—

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth and each statement and report transmitted to the Houses of Parliament by the Auditor-General in pursuance of sub-section (1.) of section fifty-three of the *Audit Act 1901-1957*;
- (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question, and include such other duties as are assigned to the Committee by Joint Standing Orders approved by both Houses of the Parliament.

JOINT COMMITTEE OF PUBLIC ACCOUNTS.

THE TRUST FUND.

CHAPTER I.—INTRODUCTORY.

(a) THE INQUIRY.

Under section 8 of the *Public Accounts Committee Act 1951* the Committee is enjoined, *inter alia*—

"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." No. 61 of 1951, section 8 (6).

2. From the inception of Your Committee in 1952, inquiries have been conducted not only into specific aspects of financial administration and into details of the accounts of governmental agencies, but also into the form in which the accounts of the Commonwealth are kept by the Treasurer. We recall in this connexion the Eighth Report of the Committee, entitled "Parliamentary Procedure in the House of Representatives on the Supply and Appropriation Bills". That Report was prepared by the First Committee, which also took evidence relating to the current form of the Estimates, but was unable comprehensively to present its findings in a Report before the dissolution of the Parliament in May, 1954 (although a Progress Report—the Committee's Thirteenth Report—was presented on 8th April, 1954).

Tabled on 20th November, 1953.

3. The evidence taken before the First Committee was considered by the Second Committee and resulted in the presentation of the Committee's Eighteenth Report on 11th November, 1954. The Report is on "The Form and Content of the Financial Documents presented to the Parliament". The Committee was able only to present Part I, which relates to the Budget Speech, the Estimates of Receipts and Expenditure, and the Appropriation Bills.

4. More recently, Your Committee have submitted a Report on the manner in which expenditure from the Vote "Advance to the Treasurer" should be presented to the Parliament. The position in law is that no appropriation by the Parliament (in the form of a Supplementary Appropriation measure) is necessary. We therefore sought a suitable procedure for future presentation of the expenditures made from the Advance.

Thirty-first Report, tabled on 21st May, 1957.

5. This Report has connexions with both the Thirteenth and Eighteenth and with the Thirty-first Reports of Your Committee, for it deals with the Trust Fund, one of the three Funds which go to make up the public accounts of the Commonwealth. Our Inquiry has embraced not only the form in which the financial operations of the Trust Fund are presented, but the legal and accounting problems associated with it and the general questions of Parliamentary control of the expenditure of public moneys involved in its existence.

6. We have been much assisted in our Inquiry by Mr. C. L. S. Hewitt, First Assistant Secretary in the Budget and Accounting Branch of the Department of the Treasury. It can be seen from the Minutes of Evidence that are presented with this Report how much Your Committee are indebted to him. We have also received assistance from the Auditor-General, Mr. H. C. Newman, O.B.E., and from the Public Service Board in the person of Mr. L. O. Brown, Assistant Commissioner. To these gentlemen and to the representatives of departments operating trust accounts whom we invited to appear before us in that connexion, we extend our acknowledgments and thanks.

7. Many departments operate trust accounts. It would have been impracticable for us to examine each of the 134* heads of the Trust Fund and trust accounts listed in the Finance Statement and Budget Papers tables. Consequently, we invited departments operating representative trust accounts to appear before us in order to explain—

- (i) how they are used;
- (ii) whether their existence is regarded as conducive to greater economy and efficiency of operations than would be possible if the operations were conducted by means of an annual appropriation; and
- (iii) to advise us of any other relevant circumstances connected with the existence of the account in question.

* As at 30th June, 1956.

TABLE OF CONTENTS.

	PAGE.
I. INTRODUCTORY—	
(a) The Inquiry	5
(b) The Purposes of the Inquiry	6
II. THE TRUST FUND: HISTORY AND LEGAL PROVISIONS—	
(a) The Three Funds of the Commonwealth	7
(b) The Surplus Revenue Provisions of the Constitution and their Sequel	10
III. PUBLIC INFORMATION ABOUT THE TRUST FUND—	
(a) The First Trust Fund table included in the Financial Statement and the Budget Papers	14
(b) Estimates for the Trust Fund	20
(c) The Remaining Tables in the Budget Papers	22
IV. ESTABLISHING AND CLOSING TRUST ACCOUNTS—	
(a) The Establishment and Closing of Funds and Accounts	22
(b) The Problem of Amending the Purposes of Trust Accounts	25
V. THE USE OF TRUST FUND BALANCES—	
(a) Balances and the Expenditure of Free Funds	27
(b) The Machinery of Investment	29
(c) Special Loans	33
VI. WHAT TRUST ACCOUNTS ARE USED FOR—	
(a) Introductory	36
(b) Working Accounts	36
(c) Stores Purchasing and Holding Trust Accounts	42
(d) Transport Trust Accounts	48
(e) Defence Reserve and Debt Redemption Trust Accounts	51
(f) Trust Accounts with No Opening and Closing Balance	52
(g) Miscellaneous Trust Accounts	56
VII. TRUST MONEYS NOT INCLUDED IN THE TRUST FUND	58
VIII. NOTES ON PRACTICE IN OTHER COUNTRIES	63
IX. ANNUAL APPROPRIATIONS AND THE TRUST FUND	68
X. SUMMARY AND RECOMMENDATIONS	72

APPENDICES.

	REPORT PARA. NO.	PAGE.
Appendix No. 1.—The Fourth Schedule to the <i>Audit Act 1906</i>	22	83
Appendix No. 2.—Details of Special Loans raised between 1952 and 1956	130	84
Appendix No. 3.—The Munitions Factories Trust Accounts as at 30th June, 1956	157	85
Appendix No. 4.—Statement of Receipts to Trust Accounts that originated from a Parliamentary Appropriation of the Consolidated Revenue Fund and of Expenditure from those Accounts—1955-56	319	87

Those who appeared before us are—

Department of Defence Production:

Mr. L. F. Bott, Assistant Secretary, Policy and Administration.
Mr. D. J. O'Connor, Accountant, Finance and Administration.

Attorney-General's Department:

Professor K. H. Bailey, C.B.E., Solicitor-General.
Mr. J. Q. Ewens, O.B.E., Parliamentary Draftsman.

Commonwealth Scientific and Industrial Research Organization:

Dr. S. H. Bastow, Chief Executive Officer.
Mr. M. G. Grace, Secretary, Finance and Supply.

Department of Supply:

Mr. J. Curran, Director of Finance.
Mr. C. F. Owen, Accountant.

Postmaster-General's Department:

Mr. E. W. Easton, Director, Finance and Public Relations.

8. Hearings were conducted on five separate occasions, first on 2nd November, 1956, and subsequently on 22nd and 25th February and 10th and 23rd May, 1957. In addition, Your Committee have in numerous private meetings spent a considerable time discussing the progress of the Inquiry and the terms of our Report.

(b) THE PURPOSES OF THE INQUIRY.

9. In the first place, Your Committee have been anxious to obtain facts about the Trust Fund. The Trust Fund has been associated in the minds of many people with various forms of financial juggling, even if not with actual financial mismanagement. We have attempted to set out in the Chapters below the information we have obtained. We believe that it is in itself valuable to make available to Members and to the public accurate and disinterested information about the Trust Fund and the transactions carried out through it. It is our view that many of the misconceptions at present existing about the nature of the Trust Fund can be ascribed to the lack of written material on the subject available to the public; it is hoped that this Report will, in some measure, remedy the situation. We have also, where appropriate, discussed whether the present procedures are soundly based in principle, and have made suggestions for their modification.

10. But our purpose is much more than to assemble and make available information about the Trust Fund, or even to suggest modifications to existing practice. One of our guiding purposes has been to ascertain the effects upon Parliamentary control of expenditure of the existence of the Trust Fund. Does its very existence derogate from Parliamentary control of expenditure? Is the Parliament's supervision of expenditure inevitably diminished by having a Trust Fund alongside the Consolidated Revenue and Loan Funds? Much of the contents of the following Chapters of this Report deal with detailed aspects of this question, and we attempt in Chapter IX. to draw the various threads together.

11. There has been some discussion in recent years of the vast "hidden reserves" of the Commonwealth. In support of the views expressed in some sections of the press, citation is made of the balances standing to the credit of the Trust Fund: at the end of the financial year 1956-57, for example, £904,447,426 was carried forward. On the face of it, such balances, representing as they do an amount equivalent to approximately three-quarters of the expenditure on the Budget each year, detract substantially from the principle of annual budgeting. When it is observed that in addition, £821,093,924 in 1956-57, there also appear to be grounds for suggesting that the transactions of the Consolidated Revenue Fund placed annually before the Parliament for approval are well-nigh overshadowed by those of this second-line Fund and set of accounts.

12. It can be seen from the Chapters that follow, and especially Chapters V. and VI., that Your Committee have come to the conclusion that these suspicions are, for the most part, unfounded. But it is upon this kind of problem that our Report has been centred. Through our examination of the Trust Fund, of the problems involved in its existence, and of the circumstances surrounding its creation and its use, a focal strand has been the effect it has upon Parliamentary control of finance.

CHAPTER II.—THE TRUST FUND: HISTORY AND LEGAL PROVISIONS.

(a) THE THREE FUNDS OF THE COMMONWEALTH.

13. All public moneys held by the Commonwealth or its agents comprise what is known as the "Commonwealth Public Account". Thus Treasury Instruction No. 1/1 reads—

"1. The Audit Act directs that, unless the contrary intention appears, 'Commonwealth Public Account' shall include the Consolidated Revenue Fund and all public moneys whatever. 'Public Moneys' are defined to include all revenue, loan, trust and other moneys whatsoever received for or on account of the Commonwealth or Commonwealth public moneys, whether such moneys be in the hands of any officer or in any bank account."

G.P. No. 212/52,
page 133.

14. The Commonwealth Public Account has within it the moneys of three major Funds. The first is the Consolidated Revenue Fund, to which under the Constitution all revenues or moneys are to be paid and from which no issue may be made except under appropriation. Thus sections 81 and 83 of the Constitution read—

"81. All revenues or moneys raised or received by the Executive Government of the Commonwealth shall form one Consolidated Revenue Fund, to be appropriated for the purposes of the Commonwealth in the manner and subject to the charges and liabilities imposed by this Constitution.

"83. No money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law."

15. In addition to the Consolidated Revenue Fund, the Audit Act provides for the keeping of separate accounts called "The Loan Fund" and the Trust Fund.* Sections 55 and 60 of the Audit Act read as follows:—

"55.—(1.) A separate account shall be kept in the Treasury of all moneys which shall be raised by way of loan upon the public credit of the Commonwealth and which shall have been placed to the credit of the Commonwealth Public Account.

Audit Act
1901-1927.

(2.) Such account shall be called 'The Loan Fund' and shall be kept under such separate heads as are specified in the several Loan Acts under the authority whereof the moneys were raised.

60. A separate account shall be kept in the Treasury to be called the Trust Fund of all moneys which shall be placed to the credit of that fund under such separate heads as may be directed by the Treasurer."

16. It is important at the outset to appreciate the distinction between the unified Commonwealth Public Account, which includes all public moneys of the Commonwealth, and the separate accounts kept within it for various purposes. Thus there are no physically separate moneys that can be pointed out as the Trust Fund or the Loan Fund. The moneys are all within the Commonwealth Public Account, but for accounting purposes are kept separate. Another factor that assumes importance in any discussions of the Trust Fund is that moneys credited to it from the Consolidated Revenue Fund require an appropriation. It will be seen from the discussion in Chapter IV. that this legal provision has implications for the manner in which funds can be credited to the Trust Fund, i.e. to any head of Trust Fund or trust account.

17. The original Audit Act (enacted in 1901) enabled the Treasurer to direct that moneys standing to the credit of the Trust Fund should be placed under "separate heads". These heads of Trust Fund constitute a distinct section of the Trust Fund, though in terms of amount they are not very large. They can most easily be understood as "trustee funds", funds held by the Commonwealth for or on behalf of persons or authorities other than the Commonwealth. Such moneys have already been held in the Trust Fund, and for them every system of government accounts has to make provision. The 1901 provisions of the Audit Act relating to the Trust Fund and its separate heads (with the exception of section 60, which is quoted in paragraph 15 above and a minor amendment to section 62 (2.)) read as follows:—

No. 4 of 1901.

Qs. 6-12.

"61. It shall not be lawful for the Treasurer to expend any moneys standing to the credit of the Trust Fund except for the purposes of such fund or under the authority of an Act."

62.—(1.) All the provisions of this Act relating to the issue and expenditure of public moneys and the authority for such issue and expenditure shall apply to the issue and expenditure of moneys standing to the credit of the Trust Fund, and the Governor-General shall have the same authority with respect to such moneys and the expenditure thereof as he has with respect to moneys standing to the credit of the Consolidated Revenue Fund.

* This is the manner in which reference is made in the Audit Act to these Funds.

(2.) All the provisions of this Act relating to the collection and receipt of moneys and the audit of the Public Accounts and the powers and duties of the Auditor-General with respect to the expenditure of public moneys and the duties and liabilities of accounting officers and other persons whomsoever shall in like manner apply to moneys collected received or expended on account of the Trust Fund."

18. It will be noted that the original Trust Fund provisions included in the Audit Act conferred upon the Treasurer no power to establish what we now know as trust accounts. All he was empowered to do was to keep under separate heads moneys received by him for credit to the Trust Fund. Expenditure of the moneys standing to the credit of the Trust Fund was expressly made permissible only for the purposes of the fund or under the authority of an Act.

19. Sir George Turner, then Commonwealth Treasurer, in introducing the Audit Bill on 19th June, 1901, made special mention of the provisions being included to establish the Trust Fund. He said—

" . . . A very important fund in many of the States is what is called the Trust Fund. Unfortunately in years gone by that fund has been at the disposal of the Treasurer, to draw upon it as he thought fit without any check. The result has been—I know it has been so in Victoria—that expenditure has been incurred by the Treasurer paying for it out of Trust funds, hoping that revenue might come in to recoup those funds afterwards, when he would not have authorized the expenditure if he had not had the Trust Fund to fall back upon. While for some years the Commonwealth may have no such fund to draw upon, still as years roll on we shall have Trust funds to a considerable amount. From past experience I have come to the conclusion that we should on the face of this Audit Bill tell the Treasurer and Auditor-General that no money belonging to the Trust Fund is to be applied to any purpose except Trust fund purposes, unless Parliament has thought fit to authorize that expenditure by passing a special Act.

Sir WILLIAM McMILLAN.—Where does the right honorable gentleman propose to keep the Trust fund?

Sir GEORGE TURNER.—The Trust Fund will be part of the public account. It will be kept in the Treasury, and if any attempt is made to draw on the Trust Fund for purposes other than those authorized the Treasurer will have standing him in the face the fact that he is directly and deliberately contravening an Act of Parliament. I think that will make him more cautious. Rather than draw upon the Trust funds, he probably will prefer to go to Parliament and ask for such authority as may be necessary to raise the money required; or if he proposes that a portion of the Trust Fund should be lent to the Government for loan purposes—as may very well be done—he will obtain the necessary Act of Parliament and the Trust Fund will obtain the security of the Commonwealth, just as any ordinary lender would obtain security for an amount advanced.

20. Whilst the 1901 provisions were found to be adequate in respect of the type of funds that might be described as "trustee funds", they were felt to be insufficient to cover the needs of the Commonwealth for certain purposes, particularly in connexion with working accounts operated by certain departments. Examples are the Commonwealth Ammunition Materials Account, the Small Arms Ammunition Account and the Government Printer Account.

21. Consequently, the Audit Act was amended in 1906 to empower the Treasurer to establish Trust Accounts. At the same time, seventeen accounts already established without proper authority were by the Act made Trust Accounts. With the exception of sub-section (1.) of section 62A, which served the immediate purpose of providing that the accounts specified in the first column of the Fourth Schedule of the Act should be Trust Accounts for the purposes that were also set out in the Schedule, and of other relatively minor alterations, the 1906 amendments of the Audit Act with which we are concerned are now incorporated as sections 62A and 62B. They read—

"62A.—(1.) The Treasurer may establish Trust Accounts and define the purposes for which they are established.

(2.) Subject to this section, the Trust Accounts established by or under this section and existing immediately prior to the commencement of this sub-section shall continue as trust accounts under this section.

(3.) All moneys standing to the credit of an account which is a Trust Account established under, or continued by, this section or established under any other Act as a Trust Account for the purposes, or within the meaning, of this section, shall be deemed to be moneys standing to the credit of the Trust Fund.

(4.) The Treasurer may direct that any Trust Account shall be closed and thereupon after all liabilities of the Account have been met the shall be closed accordingly.

(4A.) The Treasurer may direct that any moneys standing to the credit of any Trust Account which are not required for the purposes of that Account and the balance of moneys standing to the credit of a Trust Account closed under the last preceding sub-section shall be paid as provided in the next succeeding sub-section.

(4B.) Where any amount is required in accordance with the last preceding sub-section to be paid, that amount shall, to such extent as it was appropriated out of moneys standing to the credit of the Loan Fund, be paid to the Loan Fund and any balance of that amount shall be paid to the Consolidated Revenue Fund.

(5.) * The following moneys may be paid to the credit of the Trust Account to which they relate—

(a) All moneys appropriated by law for the purposes of any Trust Account;

(b) All moneys received from the sale to any person or Commonwealth Department of any articles purchased or produced, or for work paid for, with moneys standing to the credit of a Trust Account; and

(c) All moneys paid by any persons for the purpose of any Trust Account.

(6.) Moneys standing to the credit of a Trust Account may be expended for the purposes of the account.

62B.—(1.) Moneys standing to the credit of the Trust Fund may be invested by the Treasurer—

(a) in any securities of, or guaranteed by, the Government of the Commonwealth or of any State; or

(b) on deposit in any bank.

(2.) The Treasurer and his successors in office shall, for the purposes of the investment of any moneys in pursuance of this section, be deemed to be a corporation by the name of 'The Treasurer of the Commonwealth', and any securities or deposits taken or made in pursuance of this section may be taken or made by him in his corporate name.

(2A.) A deposit receipt for moneys deposited under this section for a fixed period with any bank shall, for the purposes of this Act, be deemed to be a security.

(3.) Except where otherwise provided in a *Act* any interest received from the investment of any moneys standing to the credit of the Trust Fund shall be paid to the Consolidated Revenue Fund.

22. Because the validating amendment of the Act mentioned in the previous paragraph reveals interesting facets of the original thinking in regard to the establishment of trust accounts (as distinct from heads of Trust Fund), we set out in Appendix No. 1 the Fourth Schedule to the *Audit Act 1906*. It shows the Trust Accounts already in existence in 1906, and whose existence was validated by section 62A (1), together with their purposes. In addition, we quote below the relevant section of the second reading speech of Sir John Forrest, then Treasurer. He said—

" . . . The principal clause of the Bill is clause 13, which is to legalize certain accounts which have been in existence for some time. The following may be termed 'trading accounts', namely: The Commonwealth Ammunition Material Account, the Small Arms Ammunition Account, the Defence Clothing Material Account, the Small Arms Account and the Defence Force Stores Collection Account (Queensland). A strict reading of the law would probably require the proceeds to be paid into revenue, and the fresh purchases to be charged to a vote of Parliament. Such a course would, however, show the expenditure of the Commonwealth as much more than the amount which is really borne by the general taxation of the people; and it is thought that these special receipts should be devoted wholly to the purpose of replacing the goods sold. This practice was followed by Victoria and Queensland before the Defence Department was transferred to the Federal control. . . . It may be stated, however, that the Defence Force Stores Collection Account (Queensland), the Deferred Pay account and the Ocean Mails account, are included in the Bill principally to validate past transactions, it being intended to close them almost immediately. Honorable members will see that the object of the Bill is merely to legalize certain methods adopted at the inception of Federation, and to provide for the manner in which these matters shall, in future, be dealt with. In a fourth schedule which appears in the Bill, the names of the accounts, and the purposes referred to in section 62A are given, and this schedule it is proposed to insert in the principal Act.

Question resolved in the affirmative.

Bill read a second time."

23. Thus the Trust Fund of the Commonwealth had very humble beginnings. It was in the first place intended as a repository for funds held by the Commonwealth in trust for persons and authorities outside the Commonwealth Government. But these functions were found to be far too limited. As just described, they were extended to permit the

* The operation of sub-section (5) is affected by the *Suppl. Revenue Act 1908*, s. 5.

Trust Fund to be used by agencies of the Commonwealth for what might be termed "working account purposes". The use made of the Trust Fund in accordance with the provisions of the *Surplus Revenue Act 1908*, described in the following paragraphs, represents yet another extension. In Chapter VI. we set out in some detail these and yet other activities that are currently being financed from the Trust Fund. The short conclusion can only be that the Trust Fund as it is used to-day fulfils enormously wider and more varied functions than were originally planned for it. Your Committee have examined, and now report upon, both the uses of the Trust Fund as originally envisaged and also the extensions made since then.

(b) THE SURPLUS REVENUE PROVISIONS OF THE CONSTITUTION AND THEIR SEQUEL.

No. 15 of 1908.

24. It is probably not too bold to suggest that the passing of the *Surplus Revenue Act 1908* represents a qualitative alteration in the nature of the Trust Fund. We set out below a brief history of the introduction and passing of this measure.

The scheme of the Constitution which is embodied in these provisions is broadly as follows:—

- (a) under section 87 (the "Braddon Clause"), for ten years after the establishment of the Commonwealth, and thereafter until otherwise provided by Parliament, the Commonwealth could not spend more than one-quarter of the customs and excise duty collected by it, and the balance, being not less than three-quarters of the net revenue from customs and excise, had to be paid to the States, or applied towards interest on State debts *in accordance with the Constitution*;
- (b) for the period prior to the imposition of uniform duties of customs, section 89 provided a scheme for crediting Commonwealth revenues and debiting Commonwealth expenditure on a State basis; each State was credited with the revenue collected by the Commonwealth in the State and debited with the Commonwealth expenditure in the State on transferred Departments and a proportion of other Commonwealth expenditure; the balance was paid to the State monthly;
- (c) section 93 applied a modification of this formula for the five-year period after the establishment of uniform duties of customs and thereafter until the Parliament otherwise provided. The balances (including, of course, at least three-quarters of the net revenue from customs and excise for so long as section 87 continued to operate) were to be paid to the States month by month;
- (d) section 94 permitted the Parliament to provide, after five years had elapsed from the imposition of uniform customs duties, for the monthly payment to the States, on such basis as it (the Commonwealth Parliament) deemed fair, of all surplus revenue.*

Appendix B of Auditor-General's Report 1907-1908, P.F. 1908 Section, Vol. II., page 1081, page 1083.

Page 1083.

No. 15 of 1908.

25. In 1908 the Attorney-General (Sir Littleton Groom) advised the Auditor-General that under the provisions of sections 89 and 93 it was probable that the Commonwealth could not, to avoid the obligation to pay its "surplus revenue" to the States, validly vote moneys into a Trust Account: some "actually accruing obligation" would be necessary. However, he gave it as his opinion that it would not be desirable for the Parliament to continue to vote moneys to the Trust Fund under the arrangements made possible by those sections. He suggested that "a better way can be found", and that the appropriate course would be for the Parliament to place the position beyond doubt by enacting legislation under section 94.

26. The result was the *Surplus Revenue Act 1908*. The Act had a twofold purpose. First, it provided that section 93 of the Constitution, in relation to the crediting of revenue, the debiting of expenditure and the payment of balances to the several States should not continue beyond the commencement of the Act (13th June, 1908). Secondly, it provided that, in order that the expense of large Commonwealth projects could be spread over a number of years, moneys appropriated to a trust account or for any purpose for which a trust account is established should not lapse at the end of the financial year, and that the Governor-General might decide what amounts should be credited to the Trust Account from such an appropriation. Section 5 of the Act reads as follows:—

"5. Where any Trust Account has been established under the *Audit Payments to Trust Accounts Act 1901-1906*, and moneys have been appropriated by the Parliament for the purposes of the Trust Account, or for any purpose for which the Trust Account is established—

- (a) notwithstanding anything in the *Audit Acts 1901-1906*, the appropriation shall not lapse nor be deemed to have lapsed at the close of the financial year for the service of which it was made; and

* For much of the material contained in this paragraph and in paragraphs 22 to 26 below, Your Committee acknowledge the advice of the Solicitor-General who, at our request, provided us with a brief history of the "surplus revenue" provisions of the Constitution.

- (b) the Treasurer may in any year pay to the credit of the Trust Account, out of the Consolidated Revenue Fund, such moneys as the Governor-General thinks necessary for the purposes of the appropriation."

27. Sir William Lyne, then Treasurer of the Commonwealth, in moving the second reading of the *Surplus Revenue Bill* on 31st March, 1908, explained clearly the reasons why the *Surplus Revenue Bill* was before the Parliament. He said—

"The result of the system hitherto adopted has been that works which should have been spread over a number of years, and paid for out of the surplus revenue, have been held in abeyance, and that certain services have no doubt been starved. This year, all the Departments are making urgent demands for works which, as I have said, should have been spread over a number of years. . . . It is sufficient to say that I am called upon this year to find money, in many cases, for works which, had we been able to make the provision for which this Bill provides, would have been spread over a number of years. . . . Perhaps the principal object that I have in view in introducing this Bill is to enable the Government to keep in hand sufficient money to meet our liabilities in respect of works which this Parliament has declared shall be carried out, so that the liability incurred in respect of any one year shall not be carried forward to burden the next financial year."

Harvard, Vol. XLV., page 2846-9.

28. In the further quotation from his speech that follows, one of the issues subsequently litigated in the High Court by the State of New South Wales was raised. It concerns the meaning of "expenditure" in connexion with the relevant sections of the Constitution. He said—

" . . . Section 89 of the Constitution directs that the Commonwealth shall credit to each State the revenue collected therein by the Commonwealth, and shall debit to each State—

- (a) the expenditure therein incurred solely for the maintenance or continuance, as at the time of transfer, of any Department transferred from the State to the Commonwealth; and
- (b) the proportion of the State, according to the number of the people, in the other expenditure of the Commonwealth.

Mr. JOSEPH COOK.—The Minister is leaving the accountancy side of the book-keeping alone.

Sir WILLIAM LYNE.—Yes, except so far as concerns the trust funds. The balance is directed to be paid over monthly to the States.

Mr. JOSEPH COOK.—That is the point, and the only point.

Sir WILLIAM LYNE.—Probably it is the great point.

Mr. DUGALD THOMSON.—And there is an endeavour to interpret 'new revenue'.

Sir WILLIAM LYNE.—Probably, but the interpretation of 'expenditure' is the more important.

Mr. W. H. IRVINE.—We have to find the interpretation of 'expenditure', for the purpose of the Bill, in the Bill itself.

Sir WILLIAM LYNE.—Yes, but not the interpretation of the words in the Constitution. So long as this section stands, there is a doubt as to the legality of crediting any amount to a trust fund in the manner desired. That is not my opinion, but the opinion of the law officers I have consulted. The words 'debit to each State the expenditure therein' might possibly be held not to include payments to a trust fund with a view to further expenditure. It has been thought wise, therefore, to ask Parliament to exercise the powers which it undoubtedly possesses, under section 94 of the Constitution, to virtually repeal sections 89 and 93, and to provide a new basis for distributing its surplus revenue.

Mr. HENRY WILLIS.—We cannot repeal an English Act.

Sir WILLIAM LYNE.—We cannot actually repeal, and, therefore, I use the word 'virtually'. The Constitution gives us power to alter these sections. The present Bill will effect the object I have indicated. It directs that from a date to be fixed by proclamation new book-keeping provisions are to be followed by the Treasury instead of the old provisions enacted by sections 89 and 93 of the Constitution."

29. In the opinion of the Attorney-General already referred to, emphasis was laid upon the significant difference between arrangements under sections 89 and 93 and those that could be made by the Parliament if it availed itself of the provisions of section 94. Among other things, the "constitutional appropriation" as it was termed (i.e., under sections 89 and 93) would, once the Parliament enacted legislation under section 94, give way to an ordinary appropriation duly made by the Parliament. For our present purposes, the kernel of the Attorney-General's opinion is contained in the following extract:—

" . . . 'Surplus' ordinarily means that which remains over and above what has been used or is required (*Standard Dictionary*). In the *Oxford Dictionary* the synonymous word 'overplus' is defined as meaning 'that which is over in addition to the main amount, or to what is allotted or needed'."

See paragraph 25 above.

Appendix B of Auditor-General's Report 1907-08, P.F. Vol. II., page 1083.

It should be noticed that the words relating to debiting expenditure against revenue, and striking a balance, which occur in the two temporary sections (89 and 93) are not repeated in the permanent section (94), and that the new phrase 'surplus revenue' is substituted.

This change of phraseology is coincident with a most important change of substance. Under sections 89 and 93, the balances payable to the States are specially appropriated to them, and they have a vested right to receive those balances. But once a new basis, established by Parliament under section 94, comes into operation there is a complete change. The constitutional appropriation ceases, and a Parliamentary appropriation is substituted.

But I do not think that legislation under section 94 could enable revenue to be retained, in a Trust Fund or otherwise, unless definitely appropriated by law to a specific purpose."

30. In a certain sense the Opinion was prophetic. The very points discussed in it were subsequently raised in the High Court by the State of New South Wales. That State contended that, for the purpose of ascertaining the amount of its surplus revenue for any given period, the Commonwealth was entitled to take into account as "expenditure" only moneys which had been disbursed or paid away by the Commonwealth. The Commonwealth on the other hand contended that, in calculating its expenditure for any period, it was entitled to take into account all moneys which had been appropriated during the period for a specific purpose and paid into Trust Accounts to be retained for disbursement after the expiration of the period.

31. The High Court unanimously held that there was a valid appropriation to the Invalid and Old-age Pensions Fund and the Harbour and Coastal Defence (Naval) Account, on the basis that, in ascertaining what is the "surplus revenue" of the Commonwealth, appropriations to Trust Accounts for subsequent expenditure on Commonwealth purposes constitute expenditure by the Commonwealth. (Once money is expended on a lawful purpose, it can of course no longer be regarded as surplus revenue and, therefore, is not available for the States under section 94.) (See Judgment of Isaacs J. at pages 200, 202.) The opinion was also expressed (by Griffith C.J.) that it would not be possible for the Commonwealth to calculate accurately month by month the surplus available to the States. The reason given was that the accounting period in respect of which a surplus can be said to exist is "the financial year". Thus any monthly payments would only be an approximation to the amount ultimately due: the balances available could not be finally struck, even if amounts were paid monthly, until the end of the year.

32. To continue with the history of the legislation dealing with surplus revenue, it can be said that the passing of the *Surplus Revenue Act* 1908 did not, and could not, affect the liability imposed on the Commonwealth by section 87 of the Constitution, to pay to the States not less than three-fourths of its net revenue from duties of customs and excise for at least ten years after Federation. That liability continued until 31st December, 1910, when the operation of section 87 was brought to an end by section 3 of the *Surplus Revenue Act* 1910. Section 4 of that Act, however, made other provision for payments by the Commonwealth to the States which can only be regarded as in the nature of payments of surplus revenue. Insofar as is relevant, that section provided—

"4.—(1.) The Commonwealth shall, during the period of ten years beginning on the first day of July One thousand nine hundred and ten, and thereafter until the Parliament otherwise provides, pay to each State by monthly instalments, or apply to the payment of interest on debts of the State taken over by the Commonwealth, an annual sum amounting to twenty-five shillings per head of the number of the people of the State."

33. These payments have usually been referred to as the *per capita* payments. In addition, section 6 of the 1910 Act required the Treasurer of the Commonwealth to pay to the several States in proportion to the number of their people all surplus revenue (if any) in his hands at the end of each financial year.

34. The *per capita* payments under section 4 of the 1910 Act continued to be made during each year until 30th June, 1927, when sections 4, 5 and 6 of the *Surplus Revenue Act* 1910 were repealed by section 2 of the *States Grants Act* 1927.

35. Section 6 of the *States Grants Act* made provision, "subject to the terms of any agreement made between the Commonwealth and all the States", for annual payments, by monthly instalments, to the States of amounts shown in the Schedule to the Act. These amounts, which were, it appears, approximately equal to the then rates of *per capita* payments to the States, totalled £7,734,990. However, section 6 did not operate, as the Financial Agreement made other provision. Under the Agreement, which was executed on 12th December, 1927, the Commonwealth assumed liability to contribute to the interest payable on the public debts of the States which were taken over by the Commonwealth (clause 11) and to the sinking fund established for the repayment of those debts (clause 12).

The Commonwealth obligations under the Financial Agreement commenced on 1st July, 1927, i.e. the day after the repeal of section 4 of the *Surplus Revenue Act* 1910, and are still in force.

36. In addition, section 5 of the *States Grants Act* 1927 in substance repeated section 6 of the 1910 Act. It is still the operative legislative provision for the payment of surplus revenue to the States. With certain formal amendments made in 1934 and 1950, it reads as follows—

"5.—(1.) The Treasurer shall pay to the several States of the Commonwealth, in proportion to the number of their people, any surplus revenue in his hands at the close of the financial year commencing on the first day of July One thousand nine hundred and twenty-seven, and at the close of each financial year thereafter.

(2) For the purposes of this section, the number of the people of a State shall be deemed to be the number as ascertained according to the laws of the Commonwealth by the Commonwealth Statistician as at the thirty-first day of December in the financial year in respect of which a payment under this section is to be made to that State."

37. Quite apart from the legal history of the Surplus Revenue Acts and their successors, the Parliament has since 1908 made frequent appropriations to the Trust Fund. These have all been for purposes of the Commonwealth—for war, for works, for social service payments, for the operation of quasi-commercial undertakings, and for a host of other purposes.

38. It appears that from time to time it has been suggested that a particular trust account has been used as a repository for moneys that might otherwise have been surplus revenue payable under one authority or another to the States. Thus at an early stage in the history of the Commonwealth, the Invalid and Old-age Pensions Trust Account was frequently used to receive moneys additional to those disbursed for this purpose in the course of the year of appropriation. Later, the *War Pensions Account* was used for the same purpose (and there was still, at 1st July, 1956, a balance of £13,399,000 carried forward in that Account).⁹ Your Committee observe that it would be difficult to ascertain whether or not this was so. For our purposes, it is sufficient that the Government and Parliament of the day so disposed of the funds available that there have been no surplus revenues for payment to the States since 1908.

39. In more recent times, the Trust Fund has been the recipient from Consolidated Revenue Fund of some very large appropriations for debt redemption and loan investment purposes. The most interesting of these is the Loan Consolidation and Investment Reserve Trust Account, established by the *Loan Consolidation and Investment Reserve Act* 1955. This Account was used in 1955-56 to receive from Consolidated Revenue Fund a sum the precise amount of which was determined by the Treasurer, within an overall limit set down in the Act.

40. The clause enabling the Treasurer to determine the amount to be paid into the Account is section 5 of the 1955 Act. It reads as follows:—

"5.—(1.) The Treasurer may, during the financial year which commenced on the first day of July, One thousand nine hundred and fifty-five, pay to the credit of the Reserve, out of the Consolidated Revenue Fund, which is appropriated accordingly, such sums as he from time to time determines, but not exceeding in the aggregate Forty-eight million five hundred thousand pounds.

(2) There shall be paid to the credit of the Reserve—
(a) the amount standing to the credit of the Debt Redemption Reserve Trust Account at the commencement of this Act; and
(b) interest received from the investment of moneys standing to the credit of the Reserve."

In addition, section 4 of Appropriation Act (No. 2) for 1955-56 provided that "Such sums as the Treasurer from time to time determines" were thereby appropriated "for the purposes of the Loan Consolidation and Investment Reserve". In the event, an amount of £61,612,952 was paid to the credit of the account in 1955-56.

41. Your Committee note that in 1956-57 no special Act was passed. Instead, a clause was included only in the *Appropriation Bill* (No. 2) 1956-57. Section 4 reads as follows:—

"4.—(1.) In addition to the sum referred to in the last preceding section, the Treasurer may issue out of the Consolidated Revenue Fund, and apply towards making good the supply hereby granted to Her Majesty for the service of the year ending the thirtieth day of June, One thousand nine hundred and fifty-seven, such sums as the Treasurer from time to time determines.

(2.) The sums granted by the last preceding sub-section are appropriated for the purposes of the Loan Consolidation and Investment Reserve established by the *Loan Consolidation and Investment Reserve Act* 1955."

⁹ The balance to the credit of this Account was used during 1956-57 in conjunction with the purposes for which the Account was created, and a nil balance was carried forward to 1st July, 1957.

42. It may well be that the Additional Estimates are the proper place for such an appropriation. However, Your Committee incline to the view that some maximum amount should be specified. We are of the opinion that an open appropriation that may amount to £100,000,000 or more in a year, i.e., approaching one-tenth of the entire Commonwealth Budget, is undesirable, even if it be to an already established Trust Account. We therefore recommend that in future clauses of this type some maximum amount be specified, as it was in section 5 of the *Loan Consolidation and Investment Reserve Act 1955*. When amounts of this magnitude are in question, we would favour the initial approach for an appropriation to be made at the time of the introduction of the main Estimates.* The additional amount (if any) in respect of which, towards the end of the financial year, a further appropriation was desired, could then be included (with a ceiling figure) in the Additional Estimates. It seems to us to be wrong in principle that no ceiling is expressed, just as it would be in the case of any other appropriation.

43. A balance of £317,333,000 was carried forward to 1st July, 1957. We discuss in Chapter V. below the problems created by the existence of such large sums in the Trust Fund. Here our purpose has been to indicate what has been the final outcome of the supersession by section 94 and the *Surplus Revenue Act 1908* of the commencing clauses of the Constitution.

CHAPTER III.—PUBLIC INFORMATION ABOUT THE TRUST FUND.

(a) THE FIRST TRUST FUND TABLE INCLUDED IN THE FINANCE STATEMENT AND THE BUDGET PAPERS.

44. Public information about the Trust Fund is contained in most of the documents published annually in connexion with the Budget or its out-turn for the previous year. Special sections on the Trust Fund are included in the document entitled "The Budget", normally referred to as "the Budget Papers" and presented to the Parliament along with the Estimates for the coming year, and also in the document entitled "Finance—The Treasurer's Statement of Receipts and Expenditure for the Year . . .", normally referred to as "the Finance Statement". The Annual Report of the Auditor-General, which is attached to the Finance Statement, usually devotes considerable space to analysing and reporting upon various aspects of Trust Fund transactions. Finally, there are scattered references to the various heads of fund and trust accounts, and occasionally to the overall movement of Trust Fund balances in the Budget Speech and the statements attached to it.

45. For our purposes, the important documents are the Budget Papers and the Finance Statement. They alone set out separate and systematic information about the Trust Fund. Yet the information they contain is virtually identical. The main difference between them in this context is that the Budget Papers are produced at the same time as the Estimates are tabled, and are thought of as an adjunct to the legal document (the Schedule to the Appropriation Act) that constitutes what is usually known as "the Estimates". In contrast, the Finance Statement is to be made available only when the Annual Report of the Auditor-General upon its statements is ready to accompany it. Section 53 of the Audit Act provides, in respect of the Auditor-General's Report, that he is to transmit to both Houses of the Parliament "the statement transmitted (to him under section 50 of the Act) by the Treasurer accompanied by such report".

46. The earlier preparation and presentation of the Auditor-General's Report and therefore of the Finance Statement make it desirable, in our view, to compare the two sets of statements to see whether there is any unnecessary duplication of information. Your Committee intend to examine the form and content of the Budget Papers in some detail. Here we confine our comments to the part devoted to the Trust Fund. It seems to us that, at any rate on a first examination of that part, much of the information contained in the Budget Papers is otiose. (The proposition is not reversible, because the Finance Statement must by law be a complete statement of the accounts of the Commonwealth, and in such a statement the Trust Fund plays an important part.)

47. On closer examination, however, it can be seen that there are slight differences between the Budget Papers and Finance Statement tables. They occur chiefly in the first table appearing in each collection of papers, and in the table giving particulars of investments of the balances standing to the credit of the Trust Fund.

48. The first table in each collection is a summary statement of the receipts and expenditure of the Trust Fund, classified under the various heads of Trust Fund and Trust Accounts. Opposite each fund or account are set out the balances brought and carried forward, and the revenue and expenditure (in gross only). Whereas the Finance Statement sets out in alphabetical order and in one long table each head of Trust Fund or Trust

* In the Appropriation Act 1957-58 a specific amount of £119,363,000 has been appropriated.

Account (there were 128 in the 1956-57 Statement), the Budget Papers break the list into two sections. In section 1 are listed "Moneys held in trust for persons and authorities other than the Commonwealth Government", and in section 2 are "Working Accounts covering certain factories, stores and services and moneys held in trust under the authority of Parliament to meet future expenditure".

49. Your Committee note that in 1936 the then Treasurer, Mr. R. G. Casey, issued a "Memorandum by the Commonwealth Treasurer, 1936, Regarding the Nature and Management of Trust Funds". The aim of that Memorandum was "to throw full light on the Commonwealth Trust Funds". In pursuing that aim "the individual accounts have been classified . . . according to their nature and purposes . . .". The division made in the Memorandum was threefold. In section 1 were "Moneys held in trust for persons and authorities other than the Commonwealth Government". Section 2 comprised "Working Accounts covering certain factories, stores and services". In section 3 were "Moneys placed in Trust Accounts under the authority of Parliamentary Appropriation to meet expenditure in current and later years".

50. The 1936 divisions thus correspond almost exactly to those now included in two sections: the first section in each case being the same, the present second section comprising the same accounts, with virtually the same description, as did sections 2 and 3 in the 1936 division.

51. Mr. Hewitt described the basis on which the heads of Trust Fund and trust accounts are grouped in the Budget Papers as follows:—

"Table 8 in the Budget Papers 1956-57 are sectionalized in two groups with, I think explanatory headings. They comprise two types of account. One is heads of the Trust Fund established under section 60 of the Audit Act and best described, in a shorthand way, as moneys which are held in trust by the Commonwealth on behalf of other persons or authorities. The balance of the accounts are trust accounts for the purpose of section 62A of the Audit Act established in one of two ways—either by individual statute dealing with the subject-matter, such as the Loan Consolidation and Investment Reserve Trust Account, which was established by specific Act of Parliament, or by the Treasurer pursuant to the power vested in him by section 62A of the Audit Act. The trust accounts themselves are of different kinds. For example, there is the group first referred to in the heading and providing working capital and circulating capital for governmental factories and undertakings. There are accounts which are used primarily in the nature of clearing accounts, for channelling expenditure from the Consolidated Revenue Fund and in which there is no opening or closing balance—a useful accounting device for dealing with the year's transactions. Finally there is a group of accounts which are best described as providing a continuing Parliamentary appropriation as distinct from those which lapse on the 30th June, for the expenditure of money for certain determined purposes at any time. I have spoken on the assumption that it is best to be quite brief on the subject at this stage and then to elaborate any of the points in response to questions."

52. We were informed by Mr. Hewitt that in at least some cases, e.g. the Canberra Cemetery Trust Account, the Account, although in its nature a working account, had been placed in section 1.—

"COMMITTEE MEMBER— . . . Would you say that the descriptions at the top of each of these sections is completely accurate in relation to the funds listed below? The first one is 'Moneys in trust for persons and authorities other than the Commonwealth Government'. The second includes working accounts. Would there be any working accounts in section 1?—(Mr. Hewitt) There are at least four which I think should be removed from section 1 and which will, in future, be shown in section 2. The first is the trust account for financing of the Canberra Cemetery. The second is entitled 'Forestry'. The third is 'Papua and New Guinea Services', and the fourth is the 'War Damage Fund'."

Your Committee appreciate that the evidence given by Mr. Hewitt indicates that the Treasury is at present examining the status of the heads of fund and accounts included in section 1 of the Budget Papers table.

53. Whilst that examination is no doubt necessary and is revealing hitherto unnoticed matters, it raises further issues. Should there be a statement of the Trust Fund divided into three or more sections? Would it add materially to the information already contained in the Finance Statement? Alternatively, is the single alphabetical list contained in the Finance Statement sufficient?

54. Your Committee have given careful consideration to the most suitable method of presentation of an overall statement of the Trust Fund heads of fund and trust accounts. Our general conclusion is that the heads of fund and trust accounts should in some published statement be separated into various sections. In this way it would be possible to see how many of the individual heads of Trust Fund or trust accounts in the Trust Fund are contained in any particular section, and what balances are involved.

Quoted in P. A. Hand: Government in Australia, at pages 600-602.

For a discussion of the different terminology, see Qs. 231-237.

Q. 201.

See also Qs. 34-37.

Q. 202.

55. The sections we have in mind would show separately such groups of accounts as relate to "trustee funds", working accounts of Commonwealth agencies, statutorily created accounts making possible expenditure from previous appropriations, and any other group that might appear desirable, including the four Funds described in Chapter VII. below. We cannot, however, ignore the fact that the larger the number of groups, the more difficult becomes the task of finding details of any particular head of fund or account. Moreover, duplication of tables inevitably involves further expenditure on printing and more bulky documents for circulation. We think the following explanation by Mr. Hewitt summarizes accurately most of the relevant points—

"COMMITTEE MEMBER.—I have not looked to see whether the Finance Statements of 1936-37 and onwards carried out the classification that you had in that statement of Mr. Heathershaw of 1936.—(Mr. Hewitt) They never appeared. The statement of the Trust Fund appears in two places publicly, once in the Finance Statement, and once in this group of Budget Papers. The statement, I think, prior to 1953-54, in both documents always appeared as one single list of account headings. Mr. Casey, as I say, circulated a statement which was prepared for a specific purpose in a particular context at that time, to explain the Trust Fund and its activities. Mr. Heathershaw did prepare a very exhaustive analysis of the Trust Fund in pre-war days. He was trying to—and did—sort out the confusion which undoubtedly exists in relation to the Trust Fund, confusion which I try to illustrate, in part, by this historical summary of what has taken place in the last fifty odd years. Mr. Heathershaw suggested that it might add to public understanding if the account headings were published in three different groups. It was not until 1953-54 that the decision was implemented to publish in the one document—this document only, and not in the Finance Statement—a dissection in two parts. Even in two parts it provides a very fruitful field for disputation as to what ought to be where. I have not satisfied myself, and I have not been through every one of these account headings for the purpose of satisfying myself about Sections 1 and 2. I would like to give only a tentative answer to your suggestion that you might have only three or four classifications. It might assist, or it might merely lead to greater confusion.

COMMITTEE MEMBER.—I do not want you to be more than tentative at this stage. You would suggest that that classification by Mr. Casey, who was Treasurer at that time, was merely an academic exercise?—(Mr. Hewitt) It was a very practical exercise, which, I think, came out of a public disputation between the Treasurer and the Auditor-General, and it was prepared for very practical purposes."

56. In our opinion, the difficulty of classifying the various heads of Trust Fund and trust accounts into categories should not be the decisive reason for or against presenting a separate statement showing various groupings. At the same time, it does suggest that in some way any grouped statement of heads of fund and accounts should not be relied upon as official and definitive in the same sense as is the one that now appears in the Finance Statement.

57. Your Committee incline to the view that the twofold division of the receipts and expenditure statement of the Trust Fund that has appeared in the Budget Papers since 1953-54 hardly justifies its existence. It is so similar to that appearing in the Finance Statement as to suggest that it is merely a duplication. It does not commit itself to a group treatment of the heads of Trust Fund and trust accounts with a decisiveness sufficient to make it apparent that a quite different type of statement is being produced. In short, we consider that it makes the worst of both worlds. It has neither the advantages of ready reference that result from the unclassified alphabetical list appearing in the Finance Statement, nor those that would result from a list fully divided into sections according to the type of fund or account in question.

58. Our conclusion that in its present form the table in the Budget Papers is unsatisfactory leads us to our next point. It is to ask whether a statement of the heads of Trust Fund and trust accounts divided into various groups is desirable. In our opinion it is. We have reviewed the various kinds of statement that might be included in the Budget Papers to serve the dual purpose of being clearly distinct in nature from the one appearing in the Finance Statement and of conveying further and useful information to the Parliament. We think that the best form of such a statement would be one repeating the financial information contained in the Finance Statement table and in addition, including information about the legal authority for the heads of fund and accounts, about their purposes and the administering departments, and some information about the extent of the funds involved.

59. In suggesting such a table, we have in mind the very full statement of trust funds incorporated in the Budget of the United States of America. It may be that the information contained in that document is more extensive than would be necessary for our purposes, at any rate for the present. We quote below a short extract from a statement appearing in Part III of the 1956 Budget of the United States Government. Part III is entitled "Estimates for Trust and Working Funds". The first of the statements included in it sets out Trust Receipts and Appropriations, and following that is a full statement for each trust fund. Separate sections of this statement show respectively the trust funds, and

the working funds. An example of one of the detailed statements on the trust funds is quoted for information. It relates to the Treasury Department, and is one of the funds under the control of the Bureau of Customs. It reads as follows:—

"REFUNDS, TRANSFERS, AND EXPENSES, UNCLAIMED, ABANDONED, AND SEIZED GOODS, BUREAU OF CUSTOMS. Budget 1956, page 1099.

Appropriated (estimate) 1955, \$360,000.
Estimate 1956, \$360,000.

AMOUNTS AVAILABLE FOR OBLIGATION.

	1954 actual.	1955 estimate.	1956 estimate.
Appropriation or estimate	\$ 360,713	\$ 360,000	\$ 360,000
Unobligated balance brought forward	130,074	228,854	326,854
Total available for obligation	490,787	588,854	686,854
Unobligated balance carried forward	—228,854	—326,854	—424,854
Obligations incurred	261,933	262,000	262,000

OBLIGATIONS BY ACTIVITIES.

Description.	1954 actual.	1955 estimate.	1956 estimate.
1. Assessment and collection of duties, taxes, and fees	\$ 49,945	\$ 50,000	\$ 50,000
2. Payments to receipt accounts	211,988	212,000	212,000
Obligations incurred	261,933	262,000	262,000

PROGRAM AND PERFORMANCE.

All proceeds of the sale of abandoned and seized merchandise are deposited to this account. Expenses of sale are paid and net proceeds transferred to miscellaneous receipts (19 U.S.C. 528, 1491, 1493, 1559, 1613, 1624).

OBLIGATIONS BY OBJECTS.

07 Other contractual services—1954, \$261,933; 1955, \$262,000; 1956, \$262,000.

ANALYSIS OF EXPENDITURES.

Obligations incurred during the year (total expenditures)—1954, \$261,933; 1955, \$262,000; 1956, \$262,000."

60. An example of a detailed statement from the working funds section is quoted below. It can be seen that in respect of these funds no statement is given of the purposes ("Program and Performance") of the account. Presumably it is considered that they are made clear by the statements of accounts set out. This working fund relates to certain expenditure by the Office of Education (which is under the Department of Health, Education and Welfare)—

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE. Budget 1956, pages 1118-1119.

OFFICE OF EDUCATION.

Consolidated Working Fund, Department of Health, Education, and Welfare, Office of Education.

AMOUNTS AVAILABLE FOR OBLIGATION.

(Balances for 30th June, 1954, are as certified under sec. 1311, Public Law 663.)

	1954 actual.	1955 estimate.	1956 estimate.
Advanced from other accounts	\$ 45,682	\$ 56,000	..
Unobligated balances, estimated savings	—236
Obligations incurred	45,446	56,000	..

OBLIGATIONS BY ACTIVITIES.

Description.	1954 actual.	1955 estimate.	1956 estimate.
1. College housing loan program (Housing and Home Finance Agency)	\$ 29,637	\$ 30,900	..
2. Clearing house program (Department of State)	15,809	25,100	..
Obligations incurred	45,446	56,000	..

OBLIGATIONS BY OBJECTS.

Object Classification.	1954 actual.	1955 estimate.	1956 estimate.
Total number of permanent positions	6	7	..
Average number of all employees	6	7	..
Number of employees at end of year	6	7	..
Average salaries and grades—General schedule grades—			
Average salary	\$6,057	\$5,795	..
Average grade	GS—5.6	GS—5.4	..
01 Personal services—			
Permanent positions	\$35,004	\$40,339	..
Positions other than permanent	930	600	..
Regular pay in excess of 52-week base	139	156	..
Total personal services	36,073	41,095	..
02 Travel	2,197	3,000	..
04 Communications services	150	250	..
06 Printing and reproduction	89	300	..
07 Other contractual services	52	235	..
Services performed by other agencies	6,338	9,235	..
08 Supplies and materials	151	300	..
09 Equipment	174	450	..
15 Taxes and assessments	222	355	..
Obligations incurred	45,446	56,000	..

ANALYSIS OF EXPENDITURES.

(Balances for 30th June, 1954, are as certified under sec. 1311, Public Law 663.)

	1954 actual.	1955 estimate.	1956 estimate.
Obligated balance brought forward	\$ 208,321	\$ 1,695	\$ 3,000
Obligations incurred during the year	45,446	56,000	..
	253,767	57,695	3,000
Reimbursements	— 45,682	— 56,000	..
Adjustment in obligations of prior years	— 138,013
Obligated balance carried forward	— 1,695	— 3,000	..
Total expenditures	68,377	— 1,305	3,000
EFFECT ON BUDGET EXPENDITURES.			
Funds applied to operations	\$114,059	\$54,695	\$3,000
Funds provided by operations	45,682	56,000	..
Net effect on budget expenditures	68,377	— 1,305	3,000
The above are charged or credited (—) to net receipts of the fund ..	68,377	— 1,305	3,000

A further statement in connexion with the Office of Education appears analysing expenditure from the Special Fund of that Office. The complete statement for the Department of Health, Education and Welfare contains in addition, details of the working funds established for the Public Health Services, the Social Security Administration and the Office of the Secretary.

61. Part of the detail that appears in the United States Budget is the result of their system of providing statements of obligations. Because of the different budgetary principles applicable, it might not be necessary for precisely the same details to be provided for the statement of accounts of the Trust Fund as administered in Australia. If they are not all included, the statements produced here might not need to be so large. However, the underlying objective we have in mind is the same. It is that reasonable information should be published about the Trust Fund and its mode of operation.

62. We therefore suggest that a new statement, in substitution for the statement now appearing in the Budget Papers, should be published. In the first place, we think it should be divided into several sections. We recommend that the three groupings as indicated in the 1936 Memorandum of the Treasurer should form the basis of the divisions. However, that would leave in the third section certain heads of fund and accounts that we have discussed in the course of our inquiry. In particular, we have in mind four funds which, although not formally part of the Commonwealth accounts for which the Treasurer is responsible, are shown at present in the Finance Statement. Others receive no mention there.

63. We discuss these funds and accounts in detail in Chapter VII. below. Here we epitomize our recommendation by stating that we think that some ought to be shown: but that at the same time it ought to be made clear that they are shown for information and not because they are strictly within the Treasurer's accounts. See Ch. 54-57 and Chapter VII. below.

64. Thus the four groups into which we suggest that the first of the Budget Papers tables on the Trust Fund should be divided are—

(I) moneys held in trust for persons and authorities other than the Commonwealth Government;

(II) working accounts covering certain factories, stores and services;

(III) other moneys (not in (II)) held in trust under the authority of Parliament to meet future expenditure; and

(IV) funds and accounts not part of the Treasurer's accounts but included in the Budget Papers table purely for information.

65. We recommend further that in respect of each of the four groups of heads of Trust Fund or trust accounts described above, the following information be added to the details of balances, receipts and expenditure already shown in the Budget Papers table:—

(i) a note of the legal authority for the head of Trust Fund or trust account, together with the administering department;

(ii) the purposes of the head of Trust Fund or trust account; and

(iii) where applicable, an indication of the advance made to the account from Consolidated Revenue Fund.

66. In regard to (i), we think it important that the legal authority for the head of fund or account be made clear in order that it may be apparent how the Treasurer is using the powers conferred upon him by section 62A of the Audit Act and how many heads of fund or account the Parliament is itself establishing or authorizing by special legislation. We consider it important also that the administering department should be mentioned. We include (ii) because we think relatively ineffective any list of 128* heads of Trust Fund and trust accounts that does not give also some reasonably accurate indication of the purposes for which they are used. We cannot overlook the fact that an annual expenditure of some £800,000,000 is now made from the Trust Fund. Finally, we suggest the inclusion of (iii) in order that it may be clear what funds have been appropriated by the Parliament for the purposes of the account, and how much of the advance has been utilized.

* As at 30th June, 1957.

67. By way of example we set out below, as it would appear if our recommendation is adopted, the additional information in connexion with the Post Office Stores and Services Trust Account (it would be included in group II., relating to working accounts)—

(i)	(ii)	(iii)
Legal Authority and Administering Department.	Purposes.	Advance from Consolidated Revenue.
Audit Act, section 62A, Postmaster-General's Department	(1) For expenditure on— (a) the purchase and acquisition; (b) the receipt, storage, issue and conveyance; and (c) the processing, manufacture, assembly, reconditioning, conversion and repair of stores, materials and equipment for— (i) the Postmaster-General's Department; and (ii) sale to any Commonwealth or State Department, Authority of Instrumentality and any person (2) For expenditure on the maintenance, upkeep and running of transport services and transport equipment	£ 16,059,035

See also paragraphs 59-63, 118, 121 below.

We propose also that the new table be concluded with a summary of the investments of the Trust Fund along the lines of that given in paragraph 121 below:

68. Your Committee appreciate that the additional information which we propose be shown might give rise to printing problems. Whether or not the complete table should be reproduced each year in the Budget Papers rather than, say, periodically, we leave to the authorities concerned to determine. However, the arrangements made should be such as to ensure that the information is readily available to the Parliament and the public.

(b) ESTIMATES FOR THE TRUST FUND.

69. Another matter that we think it important to discuss in connexion with information made available about the Trust Fund is whether Estimates should each year be presented for expenditure from it. We recall that the Joint Select Committee of Public Accounts, reporting in 1932 the results of the Inquiry of the Joint Committee of Public Accounts into the form the Estimates and other financial documents should take, indicated its preference for an annual presentation of Estimates for the Trust Fund. That Committee reported—

"As the Estimates constitute the fundamental basis of the financial policy of the Government, it is most important that they should show clearly, not only the estimated expenditure from Revenue and Loan Fund but also the estimated gross expenditure from Trust Fund in all cases where money is regularly appropriated by Parliament for transfer to specific Trust Accounts. It is, of course, recognized that all Trust Accounts cannot be treated in this way, because in some cases Trust Accounts are created which do not involve the receipt or payment of Commonwealth moneys, while in other cases they are purely in the nature of trading accounts which, for the most part, are self-contained. At the same time, where moneys are provided annually from Revenue and Loan Fund to finance Trust Accounts, details of the estimated expenditure therefrom should be supplied to Parliament in the Estimates.

A comparison of the actual annual expenditure from certain Trust Accounts with the amounts transferred from Revenue and Loan Fund to Trust Fund each year clearly indicates that the estimates of expenditure shown in the annual Estimates are often very much understated, while in other cases the amounts transferred to Trust Fund are greatly in excess of the actual annual expenditure therefrom.

In view of the defects herein disclosed, it is recommended that the principle should be laid down that where moneys are regularly voted by Parliament for transfer to specific Trust Accounts details of estimated gross expenditure should be shown in the Estimates, together with a line deducting from the total gross expenditure all moneys expected to be available in the Trust Account for expenditure."

70. Your Committee wish to leave over until further stages of our Inquiry into the form of the Estimates a full discussion of the desirability of including in the annual Estimates some special section devoted to Estimates for the Trust Fund. Although not wishing to prejudice our future consideration of this matter, we think the notion of separate Trust Fund Estimates may be based on what is in fact a false analogy from the practice in connexion with expenditure from Consolidated Revenue Fund.

71. What seems to us to be of more importance is to ensure that, in the main Estimates, which are the source of most of the moneys standing to the credit of the Trust Fund, adequate attention is drawn to the appropriations made to the Trust Fund. We think the most appropriate way in which attention could be drawn to these appropriations would be by—

- (i) including in the Index printed in the front pages attached to the Estimates comprehensive entries covering the Trust Fund; and
- (ii) the use of a clear and standard form of notation in the body of the Estimates, on occasions when an amount is being appropriated to a trust account.

See Chapter IX. for further details.

72. We suggest that one way of dealing, in the Index to the Estimates, with the entries relevant to the Trust Fund, would be to insert an entry entitled "Trust Fund" (or separate entries entitled "Trust Fund—Heads of" and "Trust Fund—Trust Accounts"). We observe that at present there is no entry as such for the "Trust Fund" or for any "Trust Account". There are, of course, numerous references by title to heads of Trust Fund and to trust accounts. But even there, the reference is often not made clear. For example, no mention is made, under the reference to "Postmaster-General's Department", to the existence of a trust account, nor under "Commonwealth Scientific and Industrial Research Organization" to the existence of the Science and Industry Trust Account, nor under "Australian Capital Territory" to the numerous trust accounts in respect of which funds are voted.

73. Some indication of where, in the Estimates, appropriations are made to trust accounts or heads of Trust Fund would, we think, be of great value. It is not merely that the entries would serve the convenience of those seeking to ascertain what trust accounts are involved in the annual votes, and that they would convey additional information to those seeking it. There is a matter of principle involved. It is that to construct and introduce a separate set of Trust Fund Estimates is tantamount to recognizing a second group of accounts. Moreover, it would have the most far-reaching implications for the principles accepted in connexion with the existence of the Consolidated Revenue Fund. The proper course seems to be to keep the transactions between Consolidated Revenue and Trust Fund within the ambit of the Consolidated Revenue Fund. If this procedure does not prove satisfactory, consideration could be given at a later stage to including estimates for some of the larger accounts in the Budget Papers, e.g. the Post Office Stores and Services Trust Account.

74. Although Your Committee freely recognize the need for the existence of the Trust Fund, we think it important that it should only exist (except for the heads of Trust Fund that we have called "trustee funds") in a relation directly and explicitly subordinate to the annual Appropriation measure. We therefore recommend that, at this stage, steps should be taken to provide adequate indexing. Should it later be decided that, as a matter of principle, separate Estimates should be presented for the Trust Fund, it would naturally be necessary to reconsider the entire relationship between the annual Estimates and expenditure from the Trust Fund.

75. Furthermore, while the arrangements for the presentation of Appropriation measures remain basically as they are at present, we are of the opinion that separate Estimates for the Trust Fund would be likely to cause confusion. The reason is that they would not be "Estimates" in anything like the same sense as are the two sets of Estimates now submitted to the Parliament (we recall that "Supplementary Estimates" as such are no longer to be presented). Expenditure from the Trust Fund may, by express authority of the Audit Act, be made for any of the purposes of the head of fund or account. No "appropriation" is needed and the "estimates" would therefore be of information value: they would, as the law stands at present, have no legal effect.

Audit Act, sections 61 and 62A (6).

76. We turn now to the second of the methods by which attention could be drawn to appropriations to the Trust Fund, that of standard notations in the Estimates themselves. The Treasurer has already gone some way towards notation in the Estimates when an appropriation is made to a trust account. As examples, we cite the Australian Capital Territory Trust Accounts already mentioned. The Postmaster-General's Department Estimates also make reference to the Stores and Services Trust Account operated by that Department. It might be possible to settle some standard form of reference to trust accounts in the Estimates in order that appropriations to them could be picked up at a glance over the items. In the present form of the Estimates there is already a standard form of wording for such items as Salaries, Travelling and Subsistence, Postage, &c. It might be possible to entitle appropriations to trust accounts "Trust Account: for payment to . . . (here would appear the name of the account)". If there were appropriations to several trust accounts (as in the case of the Australian Capital Territory Accounts) they could all appear under the "Trust Account" item.

77. There is one further possibility upon which we make no definite recommendation at this stage. It springs from the suggestion in the 1932 Committee's Report that where there is a regular appropriation to a trust account (or head of Trust Fund), details of the estimated gross expenditure from the account in the year of appropriation should be shown in the Estimates, with a line deducting from that amount moneys expected to be available in the trust account for expenditure. The net figure would be the amount in respect of which an appropriation is sought. A reference to the Finance Statement would then indicate whether the balance brought forward was being maintained at approximately the existing level, or whether it was being substantially changed.

78. Since this is a matter that must be determined in the light of other decisions on basic questions concerning the form of the Estimates, we do not at this stage wish to make a final decision. We note it for discussion at a later date. A further comment upon the problem of "net appropriations" is included in Section (b) of the following Chapter. (Paragraph 94.)

(c) THE REMAINING TABLES IN THE BUDGET PAPERS.

79. As we indicated in Section (a) of this Chapter, the main issues of principle concerning the publication of information on the Trust Fund arise in connexion with the first table included in the Finance Statement and the Budget Papers.

80. In addition to this first table, the Finance Statement includes ten others devoted to some aspect of the Trust Fund. The Budget Papers include only nine further tables. The different number is explained by three detailed statements in respect of Coinage being excluded from the Budget Papers.

81. Your Committee are of the opinion that, with the earlier presentation of the Auditor-General's Report and accompanying Finance Statement, repetition of all these tables is no longer called for. We recommend that those included in the Finance Statement should continue to be presented, and in their present form, but that, with the exception of the revised table that we have already outlined, no special tables should be included in the Budget Papers. However, should, at some future time because of an earlier Budget or some other reason, the submission of the Finance Statement and Auditor-General's report lag behind the presentation of the Budget Papers, then the contents of those papers might need to be again reviewed.

82. We think it important, however, that the Budget Papers contain a reference to the additional information about the Trust Fund that will be available in both the Report of the Auditor-General and the Finance Statement. On many occasions suggestions have been made that there should be more adequate cross-referencing of the Financial Documents annually presented to the Parliament. This is a matter that in its full application is likely to take a considerable time. Rather than wait for the whole job to be done, we suggest that a start be made with the matters we have been discussing. Progressively, and in the light of experience, further cross-referencing could be included.

83. Finally, it will be observed that we have at this stage not recommended that any changes should be made to the information concerning the Trust Fund currently included in the Finance Statement. That is because the information there contained is in a category different from that contained in the Budget Papers. It is part of the annual statement of accounts prepared by the Treasurer at the direction of the Audit Act. We think it better to defer final consideration of these statements until we are able to consider in greater particularity the Finance Statement and the principles governing the selection of its contents. We defer that consideration for another reason: it seems to us to be linked to the question of presenting Estimates for the Trust Fund. That matter, we have already indicated, should be considered in the context of the Estimates rather than of the Budget Papers, a purely information-giving document.

CHAPTER IV.—ESTABLISHING AND CLOSING TRUST ACCOUNTS.

(a) THE ESTABLISHMENT AND CLOSING OF FUNDS AND ACCOUNTS.

84. As explained earlier, the Trust Fund is divided into two kinds of detailed accounts. In the first are the heads of Trust Fund and in the second are the trust accounts. These two types of account are created in rather different ways.

85. Heads of Trust Fund are the original type of distinct fund within the broad Trust Fund section of the Commonwealth Public Account that are provided for by the Audit Act. Unless there is in existence a separate head of Trust Fund that has been created by the Treasurer under section 60 of the Audit Act, moneys received in trust for a person or authority other than the Commonwealth Government by any person associated with the Commonwealth Government are placed to the credit of the Trust Fund under the heading, "Other Trust Moneys". (There is only one head of Trust Fund entitled "Other Trust Moneys", though most departments operate their own section of the Fund, and each

department's balance at the end of the year is shown separately in the first Trust Fund table.) But if at some stage it is considered that the moneys in question should be held under a separate head of Trust Fund, the Treasurer is given power by section 60 of the Audit Act so to direct. The heads of Trust Fund ("Funds") so created are set out in section 1 of the first Budget Papers table on the Trust Fund.

86. Sections 27-29 of the Audit Act 1901-1957 provide for the payment to the appropriate head of Trust Fund of private moneys collected by Commonwealth agents. They read as follows:—

"27.—(1) When under any Act any money (which by such Act is directed to be paid into the Treasury or to the Treasurer) shall come to the possession or control of any person in the public service or subject to the provisions of this Act by virtue of his office service or employment for or on account or for the use or benefit of any other person, such first-mentioned person shall pay the same and act in respect thereof and in regard thereto in like manner as accounting officers are required to pay and act with reference to moneys which shall come to their possession or control for or on account of the Consolidated Revenue Fund or as near thereto as the circumstances of the case will permit.

(2.) Such money shall be placed to the credit of 'The Trust Fund' and under such separate heads as may be directed by the Treasurer.

28.—(1) When by virtue of his office service or employment or of any legal process whatsoever any money shall come to the possession or control of any person in the public service or subject to the provisions of this Act for or on account or for the use or benefit of any other person and shall have remained in such possession or under such control for such period as may be prescribed, such first-mentioned person shall pay the same into such bank at such place and in such manner as the Treasurer shall direct.

(2.) Such money shall be paid by such person as aforesaid to an official account to be opened by him in such bank; and all interest which shall become due from such bank for or in respect thereof shall form part of the Consolidated Revenue Fund.

(3.) No such person shall be answerable or accountable for any loss that may happen through any such bank.

29. When any such money as last aforesaid shall have remained in such bank for three months, and thereafter for such period (if any) not exceeding three months as the Treasurer directs, such person shall pay the same and act in respect thereof and in regard thereto in like manner as accounting officers are required to pay and act with reference to moneys which shall come to their possession or control for or on account of the Consolidated Revenue Fund, or as near thereto as the circumstances of the case will permit; and such money shall be placed to the credit of the said Trust Fund under such separate heads as may be directed by the Treasurer."

87. As described in Chapter I, above, the 1906 amendment of the Audit Act enabled the Treasurer to establish trust accounts and to define the purposes for which they are established. Most of the accounts now shown in section 2 of the Budget Papers table are trust accounts created under section 62A of the Audit Act. Frequently the method by which an Act other than the Audit Act will establish a trust account is to direct that it be an account similar to those established under section 62A. Thus section 25 of the Science and Industry Research Act 1939 provides that, for the purposes of that Act, a trust account is to be established and "shall be a Trust Account within the meaning of section sixty-two A of the Audit Act 1901-1957".

88. There is a number of funds established by Acts of Parliament that do not appear in the Treasurer's Statement of Receipts and Expenditure of the Trust Fund for last year. The reason is that only funds statutorily placed within the Trust Fund (under the authority of the Audit Act or of another Act) are shown in the Treasurer's statement of accounts. Other funds and accounts, to which one or perhaps several appropriations may be made, and for which there may be other sources of revenue, are not shown, except for a few that are included for reasons that we discuss in Chapter VII, below.

89. It has not in the past been the practice of the Treasurer to make any special mention of heads of Trust Fund or trust accounts that have been established or closed during any financial year. Naturally attention would be drawn to the opening of a new account because there would be no balance brought forward from the previous year. Thus in the Finance Statement for the year ending 30th June, 1956, several of the Australian Capital Territory Trust Accounts established during the year for use as working accounts are shown with no balance brought forward from 30th June, 1955. But there is no separate and comprehensive note of new funds or accounts opened during the year. The closure of an account is indicated by the appearance of a nil balance carried forward to the following year. Again, however, there is no drawing together of all the information for any given year. (To this general statement of the position regarding balances brought

Sections 27-29 of Audit Act 1901-1957.

Parliament.

§ 22, Q. 4;

N.Z., § 4;

Sub-section (1)

§ 8, 1906,

§ 2.

Public servants

collecting

private moneys

to their credit

in bank.

N.S.W., § 5;

§ 21, Q. 5;

N.Z., 11.

Payment to

bank account

of private

money

collected by

public servants.

Substituted by

§ 23, 1920,

§ 4.

See paragraph

21 above.

See Q. 306.

See Q. 57.

Paragraphs

264-281

below.

Qn. 311-312.

Paragraphs
230-244 below.

and carried forward there are certain exceptions, to which we refer further in section (f) of Chapter VI. The exceptions are accounts that continue from year to year, but carry forward no balance from one year to the next.)

90. Your Committee think it desirable that some indication other than that described above should be given when a fund or account is put in funds for the first time; or when it is finally closed. We think the most appropriate method of doing this might be to add a footnote to the table that we have suggested should be included in the Budget Papers. Alternatively, or in addition, a footnote could be added to the main table in the Finance Statement. Its effect would be to note that during the year the fund or account had been closed or put in funds. This would provide yet another means of conveying information to the Parliament: in this case, whether the Treasurer is increasing or decreasing the number of heads of Trust Fund and trust accounts in existence.

91. We discussed in some detail with the Treasury representative, Mr. Hewitt, the arrangements made for closing trust accounts. We recall that trust accounts may be closed by the Treasurer under the authority of section 62A of the Audit Act. The relevant sub-sections of section 62A read as follows:—

"62A.—(4A.) The Treasurer may direct that any moneys standing to the credit of any Trust Account which are not required for the purposes of that Account and the balance of moneys standing to the credit of a Trust Account closed under the last preceding sub-section shall be paid as provided in the next succeeding sub-section.

(4B.) Where any amount is required in accordance with the last preceding sub-section to be paid, that amount shall, to such extent as it was appropriated out of moneys standing to the credit of the Loan Fund, be paid to the Loan Fund and any balance of that amount shall be paid to the Consolidated Revenue Fund."

Qn. 204, 207.

92. In the normal course of events, trust accounts are closed by the Treasurer when the purposes of the account have been discharged, or when there are no further funds in the account and there is no likelihood of further credits being made to it. There are also occasions when, before the Act itself was repealed, an account established by an Act of Parliament has been closed by the Treasurer under section 62A (4).

Q. 294.

93. On the face of it, the power to close Accounts may be rather more extensive and hedged about with less qualifications than might be considered expedient. However, bearing in mind the general principle that the number of trust accounts should be kept to a minimum, Your Committee can hardly take exception to it. Moreover, we were assured that the Treasurer would never use the power except in general furtherance of the purpose for which the Parliament had enacted the necessary legislation, or for which the account had been established.

Q. 305.

94. The Treasury gave us information concerning four Accounts that were closed by the Treasurer before the parent Act was repealed. Reference is made to these Accounts in the first section of the following quotation from our Minutes of Evidence. They are Accounts established under the *Geophysical Survey Act 1928*, the *Gold Tax Collection Act 1939*, the *Petroleum Oil Search Act 1936* and the *Post Office Works Act 1937*—

Qn. 293-299.

"COMMITTEE MEMBER.—In the statement you have supplied I notice you say that from time to time, pursuant to section 62A (4), the Treasurer has directed the closing of trust accounts which have been established by Act of Parliament. You specify four accounts which were closed. Were they closed by the Treasurer or by the repeal of the Acts?—(Mr. Hewitt) By the Treasurer.

COMMITTEE MEMBER.—In those cases, when does legislative authority come into operation to close an account and when is it closed merely by act of the Treasurer?—(Mr. Hewitt) The repeal of a statute may fail to close an account in legal terms and the account has formally to be closed under the authority of the Audit Act. The examples that I have given are examples of accounts the purposes of which were exhausted and which were closed by the general authority given to the Treasurer under the Audit Act, in advance of eventual repeal of the Act under one of the periodic Statute Law Revision Acts. For example, the *Geophysical Survey Act 1928* established a Trust Account for the purposes given in the statute and provided a sum of £20,000 for those purposes. By February, 1935, the survey had been completed, the book describing it had been published and sold and, as a matter of the facts of life, there was no further use for the Account. So the Account was shut in 1935, although the Act was not repealed until the Statute Law Revision Act of 1950.

COMMITTEE MEMBER.—Therefore, an account can be closed before the necessary legislation concerning it has been passed?—(Mr. Hewitt) Before it is repealed, yes. I gave that as an example of an obvious case where the purposes provided by statute had been exhausted. There was no question of the Parliament establishing a trust account and the Treasurer, for other reasons, closing the account. There was no suggestion of that.

COMMITTEE MEMBER.—In that case, the Treasurer would notify you that the fund was no longer required—or what would be the initiating procedure?—(Mr. Hewitt) The initiating mechanism would be either from the Audit Office, the Treasury or the department utilizing the account—a query or a voluntary admission that the account was no longer required and that there were surplus funds in it which should be repaid to revenue. The Treasurer would be advised to write on a piece of paper words to the effect that he hereby closed the trust account pursuant to section 62A of the Audit Act.

COMMITTEE MEMBER.—The term 'write on a piece of paper' does not appeal to me very much. I suppose that there would be a proper letter?—(Mr. Hewitt) It would be more formal than that. There would be a formal document which would be endorsed in the customary manner, 'Approved', and then the initials and name of the competent authority, followed by the date.

COMMITTEE MEMBER.—Has there been any case where money has been kept in an account after the repeal of the legislation?—(Mr. Hewitt) I know of one.

COMMITTEE MEMBER.—Was there any particular reason for that?—(Mr. Hewitt) I do not know the reason. You have here this morning officers from the Department concerned who might be able to answer that question. It was the Aircraft Production Trust Account, established by Part 3 of the *Supply and Development Act 1939*, which was repealed in 1948. The Account was not closed until 1956."

95. Your Committee were informed that hitherto there has been no regular review by the Treasurer of trust accounts to determine whether or not they should be permitted to continue in existence. It is our opinion that such a review ought regularly to be undertaken. Unless this is done, heads of Trust Fund and trust accounts can be allowed to languish on the books of the Commonwealth for many years although, were the rationale of their existence to be examined, they would be closed. We note with satisfaction the indication by the Treasury representative that in future a regular review will take place—

"COMMITTEE MEMBER.—I gather from what you have said that the Treasury is now keeping an eye on these accounts with a view to seeing whether they have fulfilled their purposes and are no longer required?—(Mr. Hewitt) That is correct. Qn. 308-310.

COMMITTEE MEMBER.—You are making a regular survey of the situation?—(Mr. Hewitt) It will be regular.

COMMITTEE MEMBER.—Will that be done in connexion with the Budget each year?—(Mr. Hewitt) I think it would be preferable to do it in the off period."

96. We cannot regard it as part of our function to make such account by account reviews as the Treasury will henceforth undertake. We conceive it as our function to exercise a general supervision over the use made of the Trust Fund and to examine particular problems when they arise. Part of the necessary sequel to the establishment of the Trust Fund is that the Treasurer should be responsible for its proper working, and as much as anything else that means, in our view, that the number of heads of Trust Fund and trust accounts on the books, and the balances in them, should be kept to a minimum. We discuss the problem of the balances in Chapter V. below.

Paragraphs
108-116.

97. Perhaps we might add here that the review we have made of the Trust Fund in connexion with our present Inquiry has not concentrated upon details. Our purpose has been to elucidate and discuss the various principles governing the present use of the Trust Fund. In addition, some of the detailed results of our inquiries are mentioned in various sections of this Report, particularly in Chapter VI. It will there be seen that the Treasury has already been active in connexion with some of the less useful existing heads of Trust Fund and trust accounts.

(b) THE PROBLEM OF AMENDING THE PURPOSES OF TRUST ACCOUNTS.

98. During 1953 the Auditor-General asked the Solicitor-General for an opinion whether or not the purposes of trust accounts established by the Treasurer under section 62A of the Audit Act can subsequently be amended by the Treasurer. The short answer to the question was that he has no such power.

The Opinion
is quoted as
Appendix F of
Auditor-
General's
Report for
1952-1953.

99. The result has been that whenever the purposes of an account need, for some reason, to be amended, it has been necessary to close that account and to establish another. Since the year in which the opinion was given, the Treasury has invariably followed the practice of closing an account, the purposes of which would under other circumstances have been amended, and of opening another with similar title and with the purposes altered as required. An example appearing in the 1956-57 Budget Papers is that of the Aircraft Trust Account (now closed) and the Aircraft Production Trust Account (opened instead of the Aircraft Trust Account).

100. One method of closing an account and opening another is to pay back to Consolidated Revenue Fund (or if necessary to Loan Fund), under section 62A (4A) and (4B) of the Audit Act, the moneys standing to the credit of the account to be closed. They are credited in the Treasurer's accounts as miscellaneous revenue. Parliament

would then appropriate fresh money to the new account. A further appropriation would be necessary if stocks were transferred that had been purchased from the original trust account (and in that case there would be an additional and equal credit to miscellaneous revenue). The general effect would be to increase both the revenue and expenditure side of the overall Budget.

101. By adopting a special notation in the Estimates, the Treasurer has attempted to avoid the effect of increasing by an equal amount both sides of the Budget. In the case of the Manufacture of Munitions and Munitions Production Trust Accounts and of the Aircraft and Aircraft Production Trust Accounts the notation in the Additional Estimates for 1955-56 is as follows:—

“DEFENCE PRODUCTION TRUST ACCOUNTS.

	£	Appropriation. £
1. Amount for payment to credit of Munitions Production Trust Account	1,064,714	..
1A. Less unrequired balance of Manufacture of Munitions Trust Account	1,064,714	..
2. Amount for payment to credit of Aircraft Production Trust Account	300,608	..
2A. Less unrequired balance of Aircraft Trust Account	300,608	..

On some occasions, as for example that of the Commonwealth Mica Pool Trust Account, a small appropriation has also been made because the amount to be credited to the newly formed account from the other account is less than that required by the new account. In the case of the Commonwealth Mica Pool (to which a portion of the assets of the Minerals Production Trust Account were paid under the authority of Additional Estimates 1954-55) an amount of £30,000 was appropriated to supplement the unrequired balance, amounting to £405,037, of the Minerals Production Trust Account. The relatively small actual appropriation has the advantage that an approach to the Parliament for funds is necessary. Your Committee would favour the continuation of such practice, even if it only involved a token amount, such as £10, in future transactions of this kind.

102. But to this method of avoiding an identical gross increase in both revenue and expenditure (often called “net appropriation”) there are legal objections. The Auditor-General brought the practice to our notice, at the same time questioning its legality. The reason the doubt arose is that no appropriation is considered by the legal authorities to have been made in a case such as that of the Aircraft Production Trust Account mentioned above. We asked Mr. J. Q. Ewens, O.B.E., Parliamentary Draftsman, to appear before us to explain the legal position. He quoted a portion of the advice prepared by the Attorney-General's Department for the Secretary and Chief Inspector of the Audit Office in connexion with the purposes of the Aircraft and Aircraft Production Trust Accounts. The relevant paragraphs read as follows:—

“FORM OF EXISTING APPROPRIATION.

14. I have based my advice on the assumption that the moneys in the existing Trust Account have been validly appropriated for the purposes of the Account. I should, however, point out that, in my opinion, no appropriation is made for those purposes by the *Appropriation Act (No. 2) 1955-56*, Part I. of the Schedule to which mentions the Aircraft Production Trust Account (Division 180k). The Schedule merely notes that there is an ‘amount (of £300,608) for payment to credit of Aircraft Production Trust Account’, but does not include any sum in the appropriation column.

15. In my opinion, the sum to be appropriated should appear in the appropriation column, with a note to the effect that a similar amount has been placed in the Consolidated Revenue Fund as a result of the closing of the Aircraft Trust Account.

16. The proper course is, in my view, to close the present Trust Account and to open a further account, with, if so desired, purposes wide enough to cover clearly expenditure under headings (a), (b), (c), (d) and (e) above, and to appropriate, in the manner described in paragraphs 14 and 15, for the purposes of the new Account, an amount equivalent to the balance of the existing Account.”

103. The Treasury have for some time been discussing the general question of “net appropriations” with the Attorney-General's Department. Indeed, correspondence on this matter has been passing between the Treasury and the Parliamentary Draftsman since 1954. The Treasury view is that it is undesirable for the gross receipts and expenditures of the Commonwealth to be swelled by entries in the Estimates such as we have been describing. With that view Your Committee find ourselves substantially in agreement. Basically the Estimates are a document indicating, as accurately as may be, the actual disbursements that are to be made during a financial year from Consolidated Revenue Fund. Such entries as

the ones we have mentioned, involving merely a minor change in the purposes of an Account, and particularly when they involve amounts as large as are concerned in the Munitions Production and Aircraft Production Trust Accounts, are apt to be positively misleading.

104. Nevertheless, we observe that the opinion of the Solicitor-General has the effect of preserving for the Parliament the power to scrutinize the actions of the Executive when the purposes of a Trust Account are being amended. Many amendments will be of minor import; but occasionally there will be one of a kind that warrants Parliamentary scrutiny. For that reason, Your Committee think that the present provisions of the Audit Act are satisfactory, and would be averse from suggesting a provision that would enable the Treasurer on his own decision to amend the purposes of a Trust Account.

105. Your Committee note that the Treasury has asked the Attorney-General's Department for advice of a convenient method by which a net appropriation only need be made to a newly established Trust Account whose purposes constitute in effect an amendment of those of an Account concurrently closed. The suggestions made to the Parliamentary Draftsman in a letter from the Treasury dated 29th June, 1955, were that a special provision might be inserted either in the Audit Act, or in each relevant Appropriation measure. As yet, the Parliamentary Draftsman has not given a final reply.

106. Your Committee do not wish at this stage to make a final pronouncement of our views on this matter. Not only has it been raised with the Parliamentary Draftsman by the Treasury; but the Second Committee, in the course of its Inquiries into the accounts of the Postmaster-General's Department and into the Form and Content of the Financial Documents Presented to the Parliament, also raised this and associated matters with the Attorney-General. It seems to us that this is a question properly relating rather to the form and content of the Estimates than to the Trust Fund as such. Partly this is because the net appropriation technique affects the Trust Fund only indirectly. More especially, it is because the question of net appropriations arises in connexion with a large number of entries in the Estimates that have no relation to the Trust Fund. Indeed, it is chiefly these entries that will be affected by whatever solution is reached to the problem.

107. It seems that, before a final decision is made on this matter, further discussions should be had between Treasury and the Parliamentary Draftsman. At a later stage, the matter might again be discussed by the officers concerned with Your Committee. In the meantime, we recommend that steps be taken forthwith by the Parliamentary Draftsman, in consultation with the Treasury, to settle what are the alternative courses that might be followed.

CHAPTER V.—THE USE OF TRUST FUND BALANCES.

(a) BALANCES AND THE EXPENDITURE OF FREE FUNDS.

108. The first table produced in the Finance Statement and in the Budget Papers in connexion with the Trust Fund shows, for each head of Trust Fund and trust account, both the balances brought forward from the previous year and those carried forward to the next year. In each case the balances are aggregated. The total balances carried forward to 1st July in recent years have been as follows:—

	Carried Forward to 1st July.	Section 1.	Section 2.	Total.
		£	£	£
1950*	278,647,307
1951*	363,051,257
1952*	489,728,706
1953	276,873,385	289,698,100	566,571,485
1954	272,589,350	374,700,246	647,289,596
1955	278,488,606	454,909,212	733,397,818
1956	325,849,557	492,540,271	818,389,828
1957	340,750,763	563,696,663	904,447,426

* The separate Sections were not shown in the Budget Papers until 1953-54.

109. It can be seen that over recent years there has been a very substantial increase in the balances held in the Trust Fund. Although much of the increase has resulted from appropriations to the trust accounts included in section 2, the increase in balances to the credit of the section 1 heads of Trust Fund and trust accounts has not been inconsiderable.

Division
No. 180k,
Appropriation
(No. 2)
1955-56.

Exhibit No.
347, page 3.

Ibid., page 5 and
Qn. 101, 240.
See also
Twelfth Report,
tabled on
13th April,
1954, paras
418-422, esp.
446 ff.

Q. 543.

See Q. 552.

See
Committee's
Twelfth and
Eighteenth
Reports, tabled
on 13th April,
1954, and
11th November,
1954,
respectively.

110. At the same time, however, the amount of investments held by the Trust Fund has increased substantially. Consequently, the great rise in balances has not resulted in even a proportionate increase in free balances. In 1950, of a balance carried forward to 1st July, 1950, of £278,647,307, investments to the cost of £271,887,477 were held by the Trust Fund at 30th June, leaving free balances of £6,759,830. The same figures in respect of 1957 are that the total balance of £904,447,426 (£818,389,828) was invested to the extent of £893,770,065 (£809,695,765), leaving free balances of £10,677,361 (£8,694,063) (1956 figures in parenthesis).

111. Thus it can be said that at the present time (and indeed it is true of the whole of the period during which the Trust Fund existed) there have been few free funds with which the Government could affect materially the pattern of the Budget or of anticipated expenditure as disclosed in the annual Estimates. It is true that, in respect of each head of Trust Fund and trust account, the operating authority has power to spend the funds standing to its credit. But expenditure can only be made for the purposes of the fund or account. The purposes are usually carefully defined and with intent to prevent expenditure except in furtherance of them. It is the duty of the Auditor-General or of the Treasury promptly to bring to notice any unauthorized expenditure. Therefore Your Committee conclude that, with the investment of Trust Fund balances being handled as it is, there is no danger of substantial financial juggling. Nevertheless, we consider that the Parliament ought to keep a careful watch over the extent to which free balances are invested. If at any time substantial disinvestment were to occur, there might be real dangers that a government could finance projects substantially in excess of the amounts approved by the Parliament for expenditure during the year from the Consolidated Revenue Fund.

112. The eventuality to which we have just alluded will be merely hypothetical unless it is possible for the government to disinvest the Trust Fund in such a way as to make the moneys available to it in cash form. We discussed this matter with the Treasury representative who told us that in the first place there is a regular review of the free balances standing to the credit of the Trust Fund. In connexion with the £8,694,063 not invested at 1st July, 1956,* we received the following information:—

“COMMITTEE MEMBER.—Roughly £9,000,000 appears not to be taken out in investments. Where would most of this balance be found? Would it be scattered through all the accounts or is it mostly in the general Trust Fund?—(Mr. Hewitt) It would be scattered through the accounts. One would have to compare the invested amount of each of these funds with the balance of the particular trust account to find what was the uninvested balance although the great majority of them are grouped under the heading of the General Trust Funds.

COMMITTEE MEMBER.—I think you indicated that there is a more or less continuous review of the funds which are available for investment. Is it a continuous process or periodical process?—(Mr. Hewitt) There is a continuous—daily—review of the cash requirements of the Commonwealth, that is the amount required to be kept in the banking account. In the case of the trust funds, the balances are reviewed periodically as cash becomes available from interest payments or maturing securities and there is, in the latter part of the financial year, a formal investment of the General Trust Fund balances to provide for subscription to loans.

COMMITTEE MEMBER.—What exactly do you mean by periodic?—(Mr. Hewitt) Let me take one particular account, the Lend Lease Settlement Fund. It is reviewed periodically in the sense that our United States colleagues and ourselves either make a note on the calendar or follow the date on which additional credit will come into the account such as when securities or fixed deposits mature. We are advised a few days before the cash balances become available and following that the Treasurer agrees to the investment being made.

COMMITTEE MEMBER.—With regard to the General Trust Fund did I understand you to say that it is reviewed towards the end of the year?—(Mr. Hewitt) There are quarterly investments of the General Trust Fund.

COMMITTEE MEMBER.—I was wondering whether the review was related to new issues of Commonwealth loans, the Treasury Bill situation or the general credit of the Trust Fund?—(Mr. Hewitt) An investment is made during the course of the year, in the first three quarters. It is a temporary investment in Treasury Bills. Then, in the last quarter of the year, the terms and conditions of the Special Loans are settled and, on the maturity of the Treasury Bills, the General Trust Funds are invested in the Special Loans raised.”

113. We also inquired what procedure would be followed were a government at any stage to decide substantially to reduce the level of investments of the Trust Fund or of any particular head of Trust Fund or trust account. The discussion took place in connexion with the National Welfare Fund. At 1st July, 1956, the balance standing to the

* The amount at 1st July, 1957, was £10,677,361.

credit of the Fund was £193,124,340,* virtually all of which was invested in Treasury Bills. The methods by which the invested balances could be replaced by cash are:

- (i) to appropriate funds for the purpose of redeeming the securities;
 - (ii) to fail to renew investments as they mature (which, in the case of the Treasury Bill investments taken up by this Fund, would not involve a long waiting period); and
 - (iii) to borrow money and with the proceeds of the loan redeem the securities.
- If the operation were simply to be one by which long-term securities replaced Treasury Bills (thus yielding a higher rate of interest), it could, as explained by Mr. Hewitt, be performed in the following ways:—

“COMMITTEE MEMBER.—In June, 1946, there was a credit of £193,100,000 in the National Welfare Fund. The interest on that was £1 per cent. In the event of it being decided that the Fund should be increased by taking advantage of the normal rate of interest that is available to other people, what would be the procedure? If you wanted to disinvest the National Welfare Fund, how would you go about it?—(Mr. Hewitt) The Treasury Bills would be redeemed or looking at it from the point of view of the National Welfare Fund itself, the Treasury Bills would have to be released, that is either held until maturity on 30th June next or sold. Looking at it from the Commonwealth point of view, if on 30th June these internal Treasury Bills were not renewed and the balance of the National Welfare Fund Trust Account had to be replaced by cash, then the cash would have to be found in another manner. One other manner available would be to borrow money under a loan-raising authority which would provide cash for redemption of the Bills. There would then be a holding of cash in the public account attributable to this balance in the National Welfare Fund Trust Account. The cash could then be invested in another form of security, e.g., another Special Loan carrying a long-term rate of interest and a long-term maturity rate. The cash would then flow back into the Loan Fund and from the Loan Fund it could be used to redeem the Bills issued to the bank for raising cash.”

114. Your Committee observe that if invested balances are cashed by means of a further appropriation, there is no cause for complaint. The Parliament has had full opportunity to examine the appropriation and its likely consequences. The only ways to find cash for securities that had been allowed to mature and were then redeemed would be to use funds already appropriated to the National Debt Sinking Fund or a similar account, e.g., the Loan Consolidation and Investment Reserve Trust Account, or to borrow money from the Commonwealth Bank on the security of Treasury Bills not held as an investment of the Trust Fund.

115. The third method mentioned above is to use loan funds. We note that, under standing legislation, it is possible to raise a loan without the authority of a new and specific Act. Although the Parliament has, in accordance with the provisions of section 57 of the Audit Act, exclusive right to authorize the expenditure of moneys standing to the credit of the Loan Fund, there is standing statutory authority for the use of loan funds to redeem securities. The Parliament would really have little opportunity to examine, in advance of its being done, an encashment of this kind that was made possible by a loan raising, and although in the recent past such a procedure has not been used to any significant extent, it could be followed in the future.

116. Thus it appears that the only currently available means of redeeming securities held as an investment for a head of Trust Fund or trust account which would provide that fund or account again with free funds but would not require specific Parliamentary approval would be for the Government to use the cash available from an issue of Treasury Bills. It is possible that loan funds might in the future constitute a further source from which a Trust Fund could be placed in cash without specific Parliamentary approval. Your Committee state categorically our view that the kind of transactions just mentioned cannot effectively be proscribed by legislative process. Were action such as this ever to be taken, it would be a matter of the highest political import. It would cease to be a matter concerning Your Committee: it would be a question that ought to be taken up (if at all) by the Parliament, and possibly the country, as a whole. We feel certain that nothing of this kind is likely and are confident that, were it to come about, appropriate steps would be taken.

(b) THE MACHINERY OF INVESTMENT.

117. Section 62B of the Audit Act provides that the Treasurer may invest moneys standing to the credit of the Trust Fund in securities or guaranteed by the Commonwealth or any State, or may place them on deposit in any bank. As we have already described, the Treasurer has used this power to ensure that very little money is left lying idle. The

* At 1st July, 1957, the balance was £195,062,310.

reason for this is, of course, that by thus investing the moneys the Commonwealth is making the most economical use of its cash—

Qs. 358-359.

"COMMITTEE MEMBER.—I understand there is nothing to compel the Government to invest money standing to the credit of the Trust Fund. Can you explain the main reason why this money is invested where there is no compulsion to do so?—(Mr. Hewitt) It is to ensure the most economical use of the Commonwealth's cash.

COMMITTEE MEMBER.—I am not speaking of the Welfare Fund?—(Mr. Hewitt) I appreciate that. Cash comes to the Commonwealth from three sources, the Consolidated Revenue Fund, the Trust Fund and the Loan Fund and it is required for expenditure from any one of those three funds. Clearly if any large balance in the Trust Fund of say £800,000,000 is not to be invested but to be held in the form of cash then the cash needs for payments from the Loan Fund and Consolidated Revenue Fund have to be met by borrowing from somebody else, which would be just a waste."

118. The investment of moneys standing to the credit of the Commonwealth's Trust Fund as it now exists is a task of considerable magnitude. Full particulars of the investments are contained in the Finance Statement. A similar, but not so complete statement is included also in the Budget Papers. The difference between the two is that details of some of the major funds, e.g., the Defence Forces Retirement Benefits Fund and the Superannuation Fund, are not given in the Budget Papers. Your Committee recommend that in future the Budget Papers table be not prepared. We think the fuller details included in the Finance Statement are preferable. For reasons discussed above at paragraphs 44 and 45 and 84-87 we think it unnecessary to duplicate this information.

119. We inquired whether any central investment authority exists to advise those who have charge of heads of Trust Fund or trust accounts. We were informed that there is no such central authority. In respect of most of the heads of Trust Fund or trust accounts, the Treasurer makes the necessary decisions. The funds and accounts for which he is not directly responsible, and which we discuss in Chapter VII. below, are normally invested at the discretion of the administering board or trustees. The Treasury representative gave us the following interesting information on this matter:—

Cr. 258-330.

"COMMITTEE MEMBER.—When Mr. Hulme was speaking earlier on Treasury advice he read a portion of a statement. What we are interested in is the machinery that exists and the method of investment of trust funds. You informed us in November on the general question of investment of funds standing to the credit of heads of fund or accounts. The Committee found that, with the exception of the funds listed in the Financial Statement Table 21, available balances were grouped together under the heading of 'General Trust Funds that have been invested'. Is there an independent body deciding upon the investment that should be made out of the funds as separately listed in Table 21?—(Mr. Hewitt) There are some of them. The Defence Forces Retirements Benefits Fund operates under the control of a board, as does the Superannuation Fund and the Parliamentary Retiring Allowances Trust. The Insurance Deposits Fund merely lists the deposits which the individual insurance companies themselves have lodged with the Treasurer, so they make their own decisions under the statute. There are others such as the Endowments Fund and the Forestry Fund, the investment of which is provided for by an Act which is administered by a Minister, and thereby the Minister is the authority controlling the money. For the rest, looking quickly at them, the Treasurer is the authority deciding upon the investment, subject to the qualification that in the case of such a fund as the Lend-Lease Settlement Fund he is guided by the advice of the persons who are to derive the benefit of the money—that is, the United States Government through its Embassy here in Canberra.

COMMITTEE MEMBER.—Is that only a fairly small proportion of the total?—(Mr. Hewitt) The moneys in that group include the National Debt Sinking Fund of £238,000,000, which is under the control of a commission and the Superannuation Fund of £45,000,000. On the other hand the Parliamentary Retiring Allowances Trust has £200,000 and the Forestry Fund is £17,000. They vary in magnitude.

COMMITTEE MEMBER.—Do those bodies review regularly the securities they hold or do they only consider investments as funds become available from maturing securities or outside sources?—(Mr. Hewitt) I have no real knowledge of the activities of the National Debt Commissioners or the Superannuation Board or the Defence Forces Retirement Benefits Board. My impression is that the Superannuation Board, for example, watches very keenly and carefully their investment portfolio. They are very active in their examination of it, or at least the Actuary is very active in watching over it. The United States authorities are keenly interested in maturity dates and interest payments in their particular account. More than that I really cannot tell. The insurance companies are. We quite often have changes in the form of deposit. A company may decide to withdraw a deposit of inscribed stock because it wants the security and may replace it with title deeds."

120. Your Committee record that we are satisfied with the arrangements as described. While there is some merit in the suggestion that an independent investment advisory board should be established, we consider that the Treasury is at present exercising the right degree of surveillance, and have in mind also that there may often be matters of policy involved in deciding upon the government portfolio. For that reason an independent

body is unlikely to be suitable (or acceptable). We note also that the Commonwealth Actuary watches over the general balance of the portfolios held by independent bodies such as the Superannuation Board and Defence Retirement Benefits Board, which have power to make investments. We consider desirable some relationship of this kind to investing boards.

121. Since under the Audit Act the Treasurer may invest in Commonwealth or State Government securities, we inquired what proportion of investments held by the Trust Fund are those of the Commonwealth and what proportion of funds is invested in securities other than those of the Commonwealth. In round figures, investments of the Trust Fund represented by Commonwealth securities were £770,000,000 out of a total investment of £809,000,000 at 1st July, 1956, leaving some £39,000,000 for other approved securities. Of the amount of £770,000,000, £232,000,000 was held in the form of Treasury Bills, and the remaining £538,000,000 in other Commonwealth securities. The Auditor-General provided us with a statement in which he set out a summary of the investments of the Trust Fund at 30th June, 1956. They were—

	£	Exhibit No.
Commonwealth Stock and Bonds	537,539,729	247, page 3.
Commonwealth Treasury Bills	231,600,000	
Semi-Governmental and other guaranteed investments	37,081,878	
Silver and Bronze Bullion, &c.	3,474,158	
	809,695,765	

We suggest that it might be appropriate to publish these details each year either in the Finance Statement or in the Auditor-General's Report upon it as well as in the Budget Papers.

122. Most of the £232,000,000 of Treasury Bills on issue at 1st July, 1956, were invested on behalf of the National Welfare Fund (£193,000,000 at 30th June, 1956). Your Committee asked why that Fund was invested solely in Treasury Bills, rather than being taken out in other forms of Commonwealth securities. We understand that, for policy reasons settled prior to the inception of the Fund, the Government decided that its balances should be invested in short-term securities. The general purpose seems to have been to prevent the balances in the Fund being tied up in such a way as to make their rapid utilization difficult. The Treasurer, in the second reading speech on the National Welfare Bill 1943, said—

"In the earlier stages, however, the Fund will build up some credit balances. These will be used later when the Welfare scheme reaches full operation.

These balances will not be allowed to remain idle. Section 62s (1) of the Audit Act provides for the investment of Trust Account balances.

If the balances are invested in Government securities, a useful source of temporary finance for war purposes will be provided. Later, as greater demands are made on the Welfare Fund, the securities would be realized as required for the social welfare purposes approved by Parliament."

123. In 1952 the National Welfare Act was amended. The effect of the amendment was to alter the basis of the appropriation from Consolidated Revenue Fund for the purposes of the Welfare Fund. The Treasurer indicated that, under the policy of investing the balances in Treasury Bills, they would increase each year by approximately £1,800,000. The Treasury advised us that—

"Had the policy of investment in Treasury Bills been varied, the balance of the Fund would have been increasing at a greater rate, contrary to the advice given to the Parliament in 1952."

124. The remainder of the £231,000,000 worth of Treasury Bills on issue at 1st July, 1956, was invested on behalf of the Loan Consolidation and Investment Reserve (£10,000,000) and the "General Trust Funds" (£29,000,000).

125. The Finance Statement table showing particulars of investments of the Trust Fund sets out details of investments under the relevant heads of Trust Fund and trust accounts. In addition, there is an item entitled "General Trust Funds", under which heading an amount of £151,269,404 is shown as being invested at 30th June, 1956. In "General Trust Funds" are included the balances standing to the credit of the Trust Fund after all the individual decisions in relation to particular funds or accounts have been taken. This conglomerate entry is used to simplify the procedure of investing Trust Fund balances. The aggregate balances are taken and invested without attributing the investments to each individual and separate account.

126. Under section 62s (3) of the Audit Act, all interest received from the investment of moneys standing to the credit of the Trust Fund is, unless an Act otherwise provides, to be paid to Consolidated Revenue Fund. This provision was included because

it was considered desirable that, unless there were a special reason why interest should be credited to the individual head of Trust Fund or trust account, it should be paid to Consolidated Revenue Fund. This had the effect of avoiding the accumulation of undue credits in the funds or accounts. Moreover, when it is borne in mind that most of the investments of the Trust Fund are in Commonwealth securities, it seems only sensible that the actual burden upon the Consolidated Revenue Fund should wherever possible be avoided. The general principles involved were explained to us by Mr. Hewitt in this way—

Q. 280.

Qn. 278, 279.

"COMMITTEE MEMBER.—When we eliminate, as I take it we have, the special trust accounts, we come to the main bulk of trust accounts where the interest is paid to Consolidated Revenue. Is the provision in the Audit Act that the revenue should be paid into the Consolidated Revenue Fund in the nature of a dragnet clause to cover all funds or is it a statement of a principle of finance which applies unless legislative provision is made otherwise?—(Mr. Hewitt) I think it is the latter. There is no recorded reason for this provision in the Audit Act. The decision was put on the file in 1905 by the then Treasurer that the Bill should be drafted on the basis of providing that interest from the investment should be paid to the Consolidated Revenue Fund unless Parliament determined otherwise. I infer, therefore, that it was the principle of paying all moneys received to the credit of Consolidated Revenue and that if Parliament wanted to provide more money for the purposes of any one trust account it should be by deliberate decision to appropriate and the trust account should not be allowed to increase, without Parliamentary approval, by investment leading to interest receipts.

COMMITTEE MEMBER.—This matter raises the question of the Commonwealth lending money to itself. Is it the general feeling that the Commonwealth should pay interest into the Revenue Fund only when somebody else's money is not concerned? If so, how does one justify the payment of interest on some of the funds in Table 21 that are solely comprised of Commonwealth funds—for example, the National Welfare Fund, the Swiss Loan Fund and the National Debt Sinking Fund?—(Mr. Hewitt) I think that where moneys belong to other persons there is little reasonable alternative to crediting the particular account with interest that might be earned from any investment of moneys temporarily unused. For the other exceptions let me illustrate by taking the example of the National Debt Sinking Fund which you mentioned. The purpose of the Fund were well established by Statute to be for the long-term redemption of the Commonwealth Debt. I think it was recognized in the discussions at the time that necessarily the National Debt Commission's activities on the market would be circumscribed by what was offered and the prices of security that were offered. Its purposes for cancelling debt could not be exactly matched with the cash it had available. It was recognized that there would be times when balances would exist because the money could not be conveniently used for debt redemption purposes. It was quite proper to provide that any interest earned would accrue to the National Debt Sinking Fund. On the other hand I think the opposite holds good in connexion with the bulk of the accounts. For example, take the Law Libraries Trust Account. Parliament decided that a sum should be set aside for the purchase of law books for court libraries. If the administering department finds itself unable to purchase the books at a particular moment and the money is resting in the account, there is no reason why there should be more cash to spend on law books just because interest might accrue on the balance held."

Exhibit No. 347d, page 2.

Q. 159.

127. In general, the interest accruing on the investments of the heads of Trust Fund and trust accounts set out in the table of the Finance Statement showing particulars of investments is credited to the fund or account concerned. But to this general rule there are certain exceptions. Interest on the investments of the numerous accounts making up the "General Trust Funds" is paid to the Consolidated Revenue Fund. The interest on the investments of the Bankruptcy Estates Fund is credited to the Bankruptcy Suitsors Trust Account, and is the only source of revenue for that Account. Interest on the Insurance Deposits Fund is paid to the depositors.

Q. 282.

See paragraph 13-15 above.

128. The policy of actually paying interest from Consolidated Revenue Fund to heads of Trust Fund and trust accounts involves the Commonwealth in a considerable annual internal interest burden. Although the transaction is only a transfer from one part of the Commonwealth Public Account to another—from Consolidated Revenue Fund to Trust Fund—real funds are involved; within the Commonwealth Public Account there is a suitable bookkeeping entry; but the entries relate to actual public moneys. In 1955-56 the interest payment from Consolidated Revenue Fund to Trust Fund was of the order of £25,900,000* of a total Commonwealth interest burden for the year of £53,000,000 (excluding interest paid by the States on Commonwealth-State Housing Agreement Advances). But, as already indicated, the interest on "General Trust Funds" investments is returned to Consolidated Revenue Fund. Using figures computed on the same basis,* this was of the order of £5,500,000 and thus reduced the net Commonwealth liability for internal investments to approximately £20,400,000.†

* The amounts of £25.9 million and £5.5 million are taken from the Budget Papers 1955-56, Table 16 and represent the amount that would have been paid during 1955-56, had the portfolios during the year been as they were at 30th June, 1956. (The comparable figures for 1954-55 are £20.2 million and £2.0 million.) No figures are available in respect of the gross Commonwealth liability for interest on bills and securities held by it; but the Finance Statement for 1955-56 shows an actual credit to Consolidated Revenue Fund in respect of interest on investments of "General Trust Funds" of £7.0 million (£5.9 million in 1954-55).
† £28.2 million in 1946-51.

(c) SPECIAL LOANS.

129. In recent years the Commonwealth has floated what have been called "Special Loans". These have usually been subscribed at the end of the year and from moneys standing to the credit of the Trust Fund. The issue of securities has been made with the approval of the Loan Council and the terms and conditions have approximated to those applicable to the previous loan raised on the open market. In the six years since 1951-52, when the first Special Loan was raised, the amounts subscribed from the resources of the Commonwealth have yielded almost exactly the same as have other loans raised under Loan Council governmental borrowing programmes.

See Generally Qs. 272-273.

130. We print in Appendix No. 2 details of Special Loans raised between 1952 and 1956, together with the Trust Fund sources from which they were subscribed. The amounts raised (face value) have been as follows:—

	£
June, 1952	160,000,000
June, 1953	123,000,000
June, 1954	80,000,000
June, 1955	48,000,000
June, 1956	93,000,000
June, 1957	99,000,000

Appendix No. 2, page 84, below.

131. Your Committee asked that the procedures connected with the raising of Special Loans should be explained and were informed by the Treasury representative that—

"The first step is the appropriation from the Consolidated Revenue Fund for the purposes stated in the legislation. This story could well commence with the 1955 Act which established the Loan Consolidation and Investment Reserve Trust Account as a trust account for the purposes of the Audit Act. The purposes of the Trust Account are stated in the legislation itself and, paraphrased, they are the redemption of the Commonwealth debt. That Act appropriated the sum of £48,500,000, I think, for the purposes from the Consolidated Revenue Fund. That amount, under the authority of that special appropriation, was debited to the Consolidated Revenue Fund and paid to the Account for the Trust Account. It then becomes available for expenditure from the Trust Account for the purposes of the Account which are debt redemption. Until such time as the balance is used for the purchase of securities on the market and the cancellation of securities, or in paying off non-converters on maturity, the cash is available, in any case, under the authority of the Audit Act, for investment, but also under the authority of the establishing Act, itself, which provides that moneys may be used for investment in Commonwealth securities.

Q. 284.

During the course of the financial year Loan Council approval is given to the loan raising which will be subscribed to by the Commonwealth in accordance with its stated intention and a subscription will be made from the balance standing to the credit of this Trust Account. The mechanics are the equivalent of drawing a cheque which does not extinguish the balance of the Trust Account because it is not expenditure for the purposes of the Trust Account. The amount is for the purpose of an investment which is represented by Commonwealth securities which are thereafter held as the investment of the Trust Account. The cash represented by the subscription becomes, in the normal course, a credit to the Loan Fund. It is part of the loan raisings of the Commonwealth and from there is allocated in accordance with a programme approved by the Loan Council to the States for their works requirements. That is the investing part of the story—the investment of the available cash balance.

See Report, paragraph 40 above for provisions of the Act.

There remains the use of the moneys appropriated and paid to the Trust Account for the purpose of debt redemption. That depends on the securities which have to be redeemed and are not converted. There is an entry in a table in the Budget Papers on page 130 which shows, for example, the cost of the Commonwealth securities which were redeemed during the last financial year from the Loan Consolidation and Investment Reserve. I refer to the sum of £28,000,000 in the column at the bottom right hand corner of the table. That represents, not an investment from the Trust Account, but expenditure from the Trust Account for its purpose of debt redemption."

132. The Commonwealth has in the past raised only one Special Loan during each year. The loan is floated late in the year because it is only towards the end of the financial year that the overall cash position of the Commonwealth becomes favorable. Subscriptions to Special Loans have often included the Australian currency proceeds of loans raised overseas. There is, it seems, no special reason why the loans raised overseas are included with domestic funds in the single Special Loan. Partly it would be because it is convenient to conduct only one internal loan operation; basically the two operations are merged in pursuance of the Government's undertaking to make available for domestic use the Australian currency proceeds of overseas borrowings.

Qn. 258-259.

133. Securities issued for a Special Loan are identical with those issued for public loans and are therefore marketable, should that course be desired. They are, as we have mentioned, issued on terms and conditions similar to those determined for public borrowings, and there is nothing in the securities themselves to differentiate them from

Q. 284.

ordinary publicly issued bonds. The terms of the overseas loans range through periods of maturity similar to those of Commonwealth securities; but would not necessarily correspond exactly to those of the Special Loan in respect of which the Australian proceeds are used. However, though such differences might conceivably create difficulties, we think there is no cause for concern because they represent so small a proportion of the total borrowings of the Commonwealth. It is in fact possible, with obvious limitations, for the Commonwealth at any time to dispose of the securities issued for Special Loans—

Q. 271.

"COMMITTEE MEMBER.—Do these internal loans always remain as internal loans? Are the securities never sold so that they become a public issue rather than a private issue? —(Mr. Hewitt) They could be sold. The securities are identifiable with and are the same as the securities that are marketed and they could be sold. I think some have been sold to the Commonwealth Bank. These are very large sums and none have been passed out to brokers for sale on the Stock Exchange. It would be just out of all proportion with the current turnover."

134. As we indicated in Chapter II, when discussing the surplus revenue provisions of the Constitution, the Commonwealth has in recent years used the Trust Fund as repository for large amounts of money that have been, as a matter of Government policy, set aside to provide for the enormous volume of securities that mature over the next few years. Pending disbursement the funds have been used to assist in meeting commitments in fields outside those for which provision has in the past been made in annual Budgets. Those commitments derive from the shortage of loan funds at the present time. Had it not been for the existence of the Trust Fund, the Commonwealth would have found it difficult to provide for the heavy obligation it finds itself called upon to meet.

135. Your Committee regard these arrangements for the disposal of substantial portions of the total Commonwealth Budget as pertaining to matters of high financial and economic policy. In that context they do not, and may not concern us. Our function is to ensure that the accounting arrangements made for them are in all respects satisfactory. It is at this point that we suggest that improved methods might be adopted.

136. In Chapter II, (paragraphs 41-43) we indicated our view that it is desirable for the Treasurer to make explicit, when presenting the annual Estimates of expenditure, the order of the amount he anticipates will be appropriated to the Trust Fund for loan consolidation or redemption purposes. We consider that the raising of Special Loans is a corollary to those credits. We therefore recommend that some means be devised that would relate the credits to the Trust Fund for loan consolidation and redemption purposes with the investment of it in Special Loans. There is at present, attached to the Budget Speech, a statement that tells the story in retrospect, and one that tells part of the story in prospect. What we are seeking is a method by which the Parliament can be advised in advance of the arrangements being made, as it is of all major proposed expenditures from Consolidated Revenue Fund. Since the Loan Council has already met, the decisions have all been made, and more details should be included than are at present.

137. Your Committee recognize that, in contrast to expenditure from Consolidated Revenue Fund or Loan Fund, there is no need to obtain particular Parliamentary approval to investment of Trust Fund balances: it has been given in section 62a of the Audit Act. In respect of trust accounts, the necessary authority for expenditure of any balances (as distinct from their investment) exists in a special Act or in a determination by the Treasurer under section 62a of the Audit Act of the purposes of the account. However, for the trust moneys to be available for investment in Special Loans a prior appropriation must have been made by the Parliament. Hitherto, as we have already observed, only the minimum information has been given, and no ceiling amount is fixed for these Special Loans. We think it a matter of great importance that full advice should be given to the Parliament. Thus, when being asked to appropriate up to a defined amount for the purposes of the Loan Consolidation and Investment Reserve (or whatever other trust account may from time to time be used for this purpose), the Parliament should be advised also of the details, or if no details are available of the general order of magnitude, of the amount which it is anticipated will be available for investment pending application of the money for redemption purposes. Not to be advised whether, of an amount of £100,000,000, one-tenth or the whole is to be used for investment in Special Loans or for redemption purposes seems to us to leave something to be desired.

138. Your Committee venture the opinion that the investment provisions included in the Trust Fund portion of the Audit Act were never envisaged as authorizing procedures such as are now in operation for Special Loans. Just as the original conception of the Trust Fund and of the purposes for which it would be used have expanded, so now are the investment clauses of the Audit Act being used to sustain investment on a scale never conceived by their framers. Nevertheless, Your Committee can see no alternative. It is essential that Trust Fund moneys be invested. It is also probable that any attempt to place a limit on the amount of investment that might be made by the Treasurer without

See Chapter II above.

some sanction of the Parliament would result in substantial impediments to the efficient handling of the balances available in the Trust Fund. Such a situation Your Committee would not wish to bring about.

139. It is true also that the highest loan raising authority in the land, the Loan Council approves the amount, terms and conditions of Special Loans raised by the Commonwealth. Nevertheless, we confess that we are uneasy with this state of affairs. Unless arrangements such as we have adumbrated in paragraphs 42 and 137 above can be made to ensure Parliamentary scrutiny at the appropriation stage, there is no opportunity for the Parliament to examine the use that is intended for the funds being appropriated. In the case of ordinary revenue, the Parliament has an opportunity to discuss both the methods by which it will be raised and then its appropriation from Consolidated Revenue Fund. In the case of Special Loans it has had very little opportunity even to ascertain the position until the following year.

140. Your Committee have already quoted the appropriation clause of the Loan Consolidation and Investment Reserve Act 1955. We now quote the purposes for which the funds standing to the credit of the Reserve were authorized by the Parliament to be used—

See paragraph 46 above.

"6—(1) Moneys standing to the credit of the Reserve may be applied in repurchasing or redeeming securities which represent portion of the public debt of the Commonwealth. No. 55 of 1955.

(2) Securities so repurchased or redeemed shall be cancelled and the amount of the public debt of the Commonwealth shall be reduced accordingly.

(3) Until moneys standing to the credit of the Reserve are applied as provided by sub-section (1) of this section, those moneys may be invested in accordance with section sixty-two b of the Audit Act 1901-1955, as modified by the next succeeding section."

141. The Act specifically permits the Treasurer to invest the moneys standing to the credit of the Reserve as if they were invested in accordance with the normal provisions for the Trust Fund, except that they may not be invested in the securities of the Government of any State. By implication, these clauses suggest that Special Loans are a possible intermediate outlet for investment moneys standing to the credit of the Loan Consolidation and Investment Reserve. In fact, as we have pointed out in the preceding paragraphs, large amounts have been invested from the Reserve in Special Loans, and we think the Parliament should be advised in advance of these circumstances. Your Committee realize that it is never likely to be possible to estimate with final accuracy what is the exact amount of funds likely to be used for Special Loans in any year. That depends upon too many tenuous occurrences. For example, it could depend upon the yield of the loan market, conversion decisions of maturing stockholders, the reserves of the National Debt Sinking Fund and the decisions made about their application, the proceeds of overseas borrowings, or the general out-turn of the Budget. But it should at least be possible, as we have already indicated in discussing the appropriation clause of the Loan Consolidation and Investment Reserve Act, to give some indication of the amounts likely to be involved.

142. Failure to give an indication such as this pays, we think, insufficient regard to the duties incumbent upon the Treasurer to make available each year a full statement of his plans for the ensuing year. It matters not that the funds in question (either for credit to the Loan Consolidation and Investment Reserve or its successor, or to other sections of the Trust Fund for ultimate use in a Special Loan) cannot be credited to the Trust Fund until late in the financial year. What does matter is that at the outset of the year a reasonably accurate overall presentation of the financial transactions of the year is made. Difficulties of estimating should not prevent or deter those concerned from making, at the outset of the financial year, an estimate of the whole of the Budgetary commitments (including those of the kind that will be met from the Reserve) in a direct and clear manner. This seems to us fundamental to the principles of Parliamentary government.

143. Despite what we have said above, we emphasize that we make no suggestion whatever that there has been any deliberate attempt to conceal information from the Parliament. Events have moved fast and on all occasions the pressure has been considerable upon those responsible for the sound management of the Commonwealth's finances. What is more, the circumstances of large surpluses, works projects on a developmental scale and tight money market conditions have only recently prevailed. The arrangements we have been describing were all made to meet a rapidly altering situation and were necessarily unable at times to take account of all the implications we have been considering. It is our view that the time has now arrived when a more satisfactory basis could be arrived at that would enable the Parliament to be advised of Special Loan arrangements and that would give it an opportunity to consider them proleptically.

CHAPTER VI.—WHAT TRUST ACCOUNTS ARE USED FOR.

(a) INTRODUCTORY.

144. In this Chapter Your Committee describe in some detail the various categories under which the trust accounts listed in both the Finance Statement and the Budget Papers can be set out.

145. Different principles operate in respect of each of the categories: the accounts in one category, for example, are used to facilitate the operations of trading undertakings. (Some mention of these accounts was made in Chapter II. above, when we recounted the history of the Trust Fund.) In general, it seems to us that accounts of this type are unexceptionable. They are created to facilitate some administrative or trading purpose. If that purpose is in fact furthered, we would not wish to interfere with it by recommending their closure.

146. But there are other accounts, that might be termed "suspense" accounts, the desirability of whose existence is much more debatable. When these accounts merely act as a reserve against unforeseen expenditure (that rightly should have been anticipated), or otherwise to cushion the effects of bad estimating, we think them undesirable. The Parliament has seen fit to vote a substantial amount of money each year to the Treasurer as an Advance to meet unforeseen and emergent expenditures, and it is our view that it should, in the normal course of events, be used in such circumstances. Expenditure from the Treasurer's Advance as at the end of the year is subject to annual scrutiny by Your Committee, and to all the checks operating upon expenditures from Parliamentary votes. Unless a very good case can be made out for them, it is our opinion that trust accounts of this type should not be created: if their chief objective is to lighten the burden upon the Treasurer's Advance, it seems to us that they are undesirable. If further funds are required, they should be obtained in Additional Estimates or by increasing the amount of the Advance (not that we think that ought to occur), rather than by creating special trust accounts. On yet other occasions it has been put to us that the control of the Parliament is in fact facilitated by the existence of a trust account. This point we fully discuss below in connexion with Stores Purchasing and Holding Trust Accounts.

147. We deem it appropriate to add at this point a brief exposition of our view of the rationale of the existence of trust accounts. On the face of it, any trust account that is created derogates to some extent from the control by the Parliament (through the annual appropriation and lapse of funds) of the disbursement of public funds. Yet there are occasions when a purpose for which the Parliament has made funds available may or can more efficiently be achieved by creating a trust account and putting it in funds than by insisting upon its accomplishment under the normal arrangements. Again, the intention basic to the submission to the Parliament of annual Estimates of expenditure from the Consolidated Revenue Fund, which as we see it is to show what is the proposed "net appropriation", i.e. cash expenditure of public funds, may best be served by creating a trust account that constitutes a "revolving fund". When such justifications can be advanced for the creation and existence of a trust account, we think that account may fairly be allowed to exist.

148. Our approach throughout the Inquiry has been, by inviting written submissions and by the process of question and answer, to ascertain what are the reasons for the existence of any trust account or category of accounts. We have then weighed up the principles and the issues of expediency (if they may not be subsumed under the principle of "efficiency") involved, and have indicated our conclusion in respect of each account or category of accounts. These more detailed findings are set out in the paragraphs that follow.

149. However, we make no mention in this Chapter of the Trustee Funds, normally referred to as heads of Trust Fund. It seems to us that, provided some examination is made from time to time of their continued necessity, there is no need for us to examine the category as a whole. Every government must make some provision for holding moneys in trust for persons and authorities not part of the government itself, and the mechanism of the Trust Fund seems for this purpose to be entirely appropriate.

(b) WORKING ACCOUNTS.

150. Your Committee examined closely a number of working accounts. Among them were those operated upon by the Department of Defence Production. They include the—

- Munitions Factory (Factories) Trust Account(s).
- Munitions Production Trust Account.
- Aircraft Production Trust Account (formerly the Aircraft Trust Account).
- Defence Production Materials Trust Account.
- Munitions Material Trust Account.

151. In addition to these Trust Accounts, we examined the Munitions Stores and Transport Trust Account operated by the Department of Supply, and, in its relevant aspects, the Post Office Stores and Services Trust Account.

152. There are numerous other trust accounts included in the working accounts category, e.g., the Australian Capital Territory undertakings' trust accounts (brickworks, electricity supply, forestry, hostels, housing), Cafeteria trust accounts operated by various departments, and various Department of Works trust accounts. Because our purpose is not to report upon each and every account, but to attempt to lay down some general principles, we examined in detail only the trust accounts operated by the Department of Defence Production.

153. *Munitions Factory Trust Account.*—In the Trust Fund tables there has in recent years been a reference to the "Munitions Factory Trust Account". In 1955-56 expenditure from this "Account" was approximately £18,979,000, receipts £18,408,000. The balance carried forward at 30th June, 1956, was £2,283,545. In fact this was a consolidated entry and included the figures for fifteen separate factory trust accounts.* The Department of Defence Production stated that—

"The use of Factory Trust Accounts has been found particularly suitable, over a number of years, in the operation of Government factories. Factories recover their full costs on orders and therefore each Account acts as an imprest, reimbursement of which stems from appropriations to Service Departments."

154. The purpose of the accounts is to finance factories concerned with the production of various kinds of munitions. Some of the factories are for explosives, some for ammunition, some for aircraft. They have been created over a period of years—the first being the ammunition factory at Footscray, the Trust Account for which was created by the Treasurer under section 62A of the Audit Act on 30th December, 1920. The Department gave the following explanation of the operation of these Trust Accounts:—

"In each instance the Account was created by the Treasurer under section 62A of the Audit Act. Each factory has its own accounting organization and directly meets all labour and material costs and the full overhead expense of the establishment. Monthly financial statements are prepared to a chart of accounts common to all factories. Basically each of the factory accounts finances factory operations in the same manner, viz., factory costs (no more or no less) are recovered from Central Administration and it is the function of factory management to maintain proper balance between the cash and non-cash components of Trust Fund capital. From a Treasury accounting viewpoint, the 'no profit no loss' basis of factory accounting is an assurance that each factory will be able to maintain an accepted level of production without further recourse to Treasury finance—at the same time there is the knowledge that the factory cannot accumulate surplus cash in its Trust Account."

155. Thus the trust account in each case acts as a kind of bank account that yet remains under Treasury control. Mr. Bott, Assistant Secretary, Policy and Administration, Department of Defence Production, told us that to open an actual bank account instead of using the trust account would reduce Treasury control. With that view we agree. Indeed, we have already expressed opinions in this effect in connexion with our Inquiry into the Accounts of the Australian Aluminium Production Commission.

156. In addition to the factory accounts, there is an account entitled the Central Drawing Office Trust Account operated by the head office. We understand that although, owing to a misunderstanding between the Department and the Treasury, approval for the establishment of the Account was not sought until March, 1957, an Account with this title has in fact been operated upon since 1950.† Its purpose was described to us by Mr. Bott and Mr. O'Connor, Accountant, Finance and Administration, Department of Defence Production, as follows:—

"COMMITTEE MEMBER.—Can you tell me why it was created?—(Mr. O'Connor) Well, the purpose of the Central Drawing Office, as we submitted to the Treasury, was that it provided a common service to the other departmental establishments as far as drawings were concerned. In our letter to the Treasury we stated that it was for the production of drawings, printed matter, photographs and associated processes. It was preferable to give this common service to our factories rather than have each factory set up its own drawing office."

"COMMITTEE MEMBER.—At the present time it is reimbursed monthly?—(Mr. O'Connor) Yes."

"COMMITTEE MEMBER.—Just as if a trust account did operate?—(Mr. O'Connor) Yes."

"COMMITTEE MEMBER.—You have taken action to have it put on a permanent basis?—(Mr. O'Connor) Yes."

Your Committee would expect the irregularity here revealed to be corrected as soon as possible.

* In the Budget Papers for 1957-58, the accounts have been shown separately.
† The question whether the Account should be formally established was still under consideration at 30th June, 1957. The 1956-57 figures for the Account were incorporated in the 1957-58 Budget Papers with those for the Ordnance Factory, Maribyrnong.

157. Another matter that we examined in some detail is the purposes that have been approved for the various factory Accounts. Some sixteen* in number, these accounts were all created by the Treasurer under Section 62A of the Audit Act, and the Treasury provided us with a statement of them: it is included as Appendix No. 3. We note that very few of the purposes are similarly expressed, although the operations they are intended to facilitate are virtually identical. Your Committee suggest that, in conjunction with the general review now being made of the Trust Accounts being operated by the Department of Defence Production, some examination should be made of their purposes. In the first place, we think it desirable that, whenever possible, the purposes should be identical. If in fact the factories' operations are similar, different formulations of the purposes of the Accounts is misleading. In the second place, we consider that the purposes should be defined restrictively rather than widely. At the same time, we recall the difficulties associated with amending the purposes of a trust account, and would not therefore expect them to be too rigidly defined. We are of the opinion that the purposes of the Munitions Factories Trust Account, described to us by the Department as being "for the payment of salaries, wages and all other expenses in connection with the production of munitions, and providing any other service which may be approved by the Minister", are too wide. [Committee's italics.]

158. Your Committee suggest that the point we have in mind could be met by some such general phrase as "any service associated with the production of munitions". It is our view that, were a factory to be used for widely different purposes, then the authority of the Minister is not adequate: the matter should be submitted again to the Parliament for approval. Such a form of words as we have suggested would, we think, provide reasonable flexibility of operations; but would ensure the proper reference back to the Parliament of any major proposed changes. Nevertheless, we record also the assurance given us by the Department of Defence Production that the power of direction given to the Minister would not in fact be abused—

"COMMITTEE MEMBER.—On the first page of your statement, in referring to Munition Factories Trust Account, you refer to the payment of salaries, wages and all other expenses in connexion with the production of munitions and the provision of any other services which may be approved by the Minister. That is the Minister for Defence Production?—(Mr. Bott) Yes."

COMMITTEE MEMBER.—Which means that you can use this Trust Account for almost unlimited purposes?—(Mr. Bott) Yes—if approved by the Minister. We do not, of course."

159. The points in favour of operating the factories through a trust account are first, the general one that the gross figures do not have to be entered each year in the Estimates. Instead, a balance is noted in the Finance Statement, and only a further recourse to the Consolidated Revenue Fund for an additional advance comes to the notice of the Parliament. The aggregate balance standing to the credit of the several Accounts at 30th June, 1956, was £2,283,545.† We were told that the balance is usually some six to eight weeks' working capital which means that in itself there is fairly strong central control. Furthermore, stockholding is kept to a minimum because the advance has to cover production costs as well as stocks held. The controls over the factories might not be so effective were they simply to be authorized to continue working until a specified project was completed, without the need to operate within the balance in the Trust Account—

"COMMITTEE MEMBER.—Have you any idea what is the magnitude of the balances carried forward through these working accounts?—(Mr. O'Connor) It is usually about six to eight weeks' working capital, perhaps. They can not carry expenditure beyond two months. In all these big orders, they claim regularly, every month, progress payments on the work being done. Their capital is not sufficient to enable them to carry a big job to completion."

160. Another advantage claimed for the Factories Account is that, under them, the system operates efficiently:

"COMMITTEE MEMBER.—What do you think of these trust accounts generally?—(Mr. O'Connor) I think that they operate very well in the factories.

COMMITTEE MEMBER.—Are they an incentive to efficiency generally? (Mr. O'Connor) I think that, generally, our factories are considered quite efficient. We have, within the factories themselves, the production control sections which prepare estimates on production orders for the Services. Prior to a factory receiving an order, it prepares this estimate, from which funds are subsequently stated on the Service order. There is a limit, and to go beyond that figure, we have to approach the Services and explain why we want the extra money. So there is an incentive to keep the cost below those estimates.

* This includes the Central Drawing Office Trust Account. † The individual balances can be found at page 76 of the Budget Papers for 1957-59.

In our stores accounting and stockkeeping in our factories, we are, I think, better than you will find in any Commonwealth department. They are actually show places in some of our ordnance establishments, and we are visited by other Commonwealth departments which wish to see what the ultimate in stores accounting is. We have unit piling, &c., with very tight stores control. I recall visiting the Ordnance Factory at Bendigo. Out of a stock of approximately £750,000, their total discrepancy over the year was less than £20 on a full count of stock.

COMMITTEE MEMBER.—Do you think that the scheme is a good one?—(Mr. O'Connor) Yes.

COMMITTEE MEMBER.—Would you say that the trust accounts system makes it easier for those operating under the trust accounts to obtain funds?—(Mr. O'Connor) Yes. They are reimbursed only the money that they spend in the production of these munitions for the Services. As I said in the statement, there is a "no profit, no loss" basis, and they cannot accumulate funds in their account.

COMMITTEE MEMBER.—Could it all not be done with an appropriation account?—(Mr. O'Connor) I think it would be rather difficult."

161. Finally, it was pointed out to us that without the use of these trust accounts, annual estimates of gross expenditures would have to be prepared for and submitted to the Parliament. Estimates are difficult enough to prepare accurately for ordinary direct administrative expenditure; but when the rate of expenditure varies with the fluctuating requirements of the Services, and is in any case offset by similar increases in revenue, the estimates cease to have very significant meaning. Indeed, the Votes of the Service Departments should reveal the necessary information—

"COMMITTEE MEMBER.—All these factories and undertakings could obtain an appropriation just as easily as they obtain money for their trust accounts?—(Mr. O'Connor) To estimate what their appropriations would need to be would be rather a difficult process. They are selling to the Service Departments, and the Service Departments, in their votes, appropriate the amounts to reimburse our factories for the work being done for them. There would not be much point in appropriating amounts to our Department and then issuing materials free of charge to a Service Department. I think that the Service Department is the proper Department to pay for goods which are manufactured in our establishments."

162. Your Committee consider that in many cases, trust accounts in the nature of working accounts have distinct advantages over the system of annual appropriations. We think that a number of qualifying conditions should normally be complied with both before such accounts are established, and in connexion with their operation—

- (i) There should be a policy decision that the body in question (normally it could appropriately be termed an "undertaking") is to operate on a quasi-autonomous basis (we have already referred to this matter in our Report on the Canberra Abattoir); and we place strong emphasis, in this context, on the word "operate". In our view, it connotes the day-to-day activities of the organization, activities that in a Department are generally subject to the direction of the Minister; but which in these organizations are usually not so: they operate only subject to general directives as to the ends to be achieved.
- (ii) There should be an obligation upon the undertaking to keep a Profit and Loss Account, and a Balance-sheet, and in other ways to operate on the basis that its incomings should match its outgoings (subject, of course, to any policy direction about the level of profit or subsidy involved; and the "subsidy", where needed, should be shown as such in the Estimates and should be kept distinct from capitalization measures, which should be shown in the Capital Works and Services section of the Estimates.)
- (iii) The annual Profit and Loss Account and Balance-sheet should be certified by the Auditor-General.
- (iv) The working advance representing the appropriation to the trust account should be determined at a level that would facilitate the efficient operation of the undertaking; but not at a level such as would enable it to branch out, without appropriate directives and additional advances, into new fields of activity.
- (v) Unless policy requirements are expressly to the contrary, the undertaking should prepare annual reports. Preferably these should be made to the Parliament; but there may be occasions when report to the responsible Minister would be adequate. We would think inappropriate any lesser obligation than that of annual report to the Minister.

See 32nd Report, Chapter VI, Tabled 10th September, 1957.

Appendix No. 3, pages 85-86 below.

See discussion in Paragraphs 98-107.

Exhibit No. 34/2.

See Qs. 894-711.

Qs. 414, 415.

Q. 722. See also Q. 466.

Qs. 715-719.

(vi) A regular review of the level of the Advance should be made by the appropriate authorities (which, we consider, include both the Auditor-General and the Treasurer) in order to ensure that it is not larger than is essential for the efficient operation of the undertaking.

(vii) In any event, the Budget Papers should include, along the lines discussed in Chapter III. above, information concerning the balance, level of advance and purposes of the account.

163. The preceding discussion on working accounts leaves unmentioned two important aspects of the detailed operation of them and of the undertakings whose purposes they serve. They are whether charges should be raised in respect of—

- (i) interest on the capital advanced to the undertaking; and
- (ii) depreciation on the assets of the undertaking.

We canvassed these issues in connexion with our Inquiry into the accounts of the Canberra Abattoir. The Auditor-General had, it will be recalled, commented that until these issues were settled, appropriate charges could not be raised by the Department of Health in the accounts of the Abattoir, and a satisfactory Balance-sheet was in consequence not in existence. In our Report, we made no final recommendations concerning the question of interest charges, although we indicated our view that a depreciation charge in some form is desirable.

164. In each undertaking some decision has had to be made (or has gone by default) in respect of interest and depreciation. Your Committee view the necessary decisions as not directly at issue in the instant Inquiry. As with the problem of "net appropriation", we think an Inquiry into the Trust Fund is not the context in which it should be settled. Nevertheless, the issues are of such importance that we think they might well provide the subject-matter of a later and independent inquiry by Your Committee. Suffice it now to say that the existence of a trust account would facilitate the charging of the amounts, and in the event of successive major losses would, by virtue of a diminishing free balance, reveal when a further advance was necessary. In the event of successive substantial profits being made by the undertaking, it would no doubt become necessary to refund the excess balance to Consolidated Revenue Fund. Those are matters that could conveniently be handled by the responsible Department in consultation with the Auditor-General and the Treasury. The debiting of actual charges would make possible a sense of autonomy that the system of "gross appropriations" cannot be said to foster.

165. Turning now to our concluding comments on this matter, we are of the opinion that, as a general proposition, and with the necessary safeguards, working accounts can facilitate the achievement of the purposes for which the Parliament or the Government has created an undertaking. When that is the case, we would have no hesitation in approving the existence of a trust account used for working purposes. On some of the practices in connexion with charges to be made to these accounts we have just reserved our opinion. On others we express our views in the Section of this Chapter devoted to Transport Trust Accounts.

166. The alternative is, of course, entirely to abandon the use of trust accounts, and in their stead to adopt some form of "collections-in-aid". In this way a "net appropriation" only would be necessary, representing the amount by which the undertaking was in deficit. One way to deal with an expected surplus would be to provide for some form of token vote.

167. This is a matter that may need to be discussed again by us in connexion with our review of the Form of the Estimates. However, it is our view that the balance of advantage lies in retaining the trust account system, with the publication of adequate information along the lines we have already described. If this method is adopted, the Consolidated Revenue Fund Estimates would show in each case the true (net) call being made upon the Fund in the undertaking, and the facts would not be obscured by details that are more appropriately included in the other documents dealing with further sections of the accounts of the Commonwealth, in particular with the transactions of the Loan Fund and the Trust Fund. Although there may be some suggestion of circularity in the above line of argument, we think we have already indicated clearly enough why we consider the advantages lie in establishing working accounts for appropriate undertakings.

168. Your Committee are fortified in our conclusions by experience overseas. We have already drawn attention to the existence in the United States of America of working accounts for just such purposes as we have been discussing. We also mention that in the United Kingdom real difficulties have been found in successfully operating undertakings that in effect require working accounts or "revolving funds". Distinguished persons have given it as their view that the system of "Appropriations-in-Aid" in operation in the United Kingdom is unsatisfactory. They have recommended that, for undertakings such as we have been describing, the technique of the "revolving fund" should be adopted.

See paragraphs 64-67 above.

See 32nd Report, Chapters V. and VI.

See also paragraph 219 below.

See paragraphs 205-221 below.

See Chapter III. above.

See paragraphs 55-61 above.

169. Thus the "Final Report of the Committee on the Form of Government Accounts" (the "Crick Report") recommends that a revolving fund should be established for the Ministry of Food for use as a food trading fund. The Crick Committee outlines the scheme as follows:—

"... The day-to-day trading operations of the Ministry would be financed, not by direct supply of funds through the ordinary Vote procedure, but by the establishment and operation of what might be called a Food Trading Fund, fluctuating in amount according to variations in requirements of working capital. Transactions between the Exchequer and the Fund, by way of advances from time to time, would appear 'below the line' in the Exchequer Return. On the other hand, the estimated subsidy requirements of the year, enlarged, if need be, in accordance with Supplementary Estimates, together with expenses agreed to be attributable to administrative functions of the Ministry, would be provided for by the ordinary Vote procedure, outgoings in respect of these items thus taking their place within the figure for Supply Services 'above the line'."

The advantage to be achieved by this method is that the 'Revenue' section of the Financial Statement would be purged of purely 'Capital' items arising from the trading operations of the Ministry of Food—operations which distort the picture so far as expenditure is affected by fluctuations in current trading assets and liabilities of the Department. An increase in stocks, a decrease in creditors or an increase in debtors would be reflected (subject to fluctuations in its holding of cash) simply in fresh advances to the Fund recorded 'below the line'; while a running down of stocks, a shrinkage in the volume of business due to the turning over of a section of trade into other hands, an enlargement of the amount of creditors or a diminution in debtors would correspondingly find expression in a repayment of advances, again entered 'below the line'. There would be no need to compile, so far as the Ministry of Food is concerned, an 'Alternative Classification' with items for 'Rise in stocks of food, &c.' and 'Argentine Agreement adjustment'. As a result the element of subsidy in food trading would be separately and explicitly stated in the Vote. The 'Trading and Profit and Loss Account' of the Fund to be prepared under this procedure would be no different in essentials from that already produced and published in the volume of Trading Accounts and Balance Sheets, though it might well be made available at an earlier date.

We do not believe that our proposals would weaken Parliamentary control; in particular, there would be none of the objections on this ground that might be directed to a proposal for a statutory corporation. The effect of our scheme would be as follows:—

- (a) Normal Parliamentary Supply procedure would still apply to the administrative expenses of the Ministry, including the salary of the Minister, and to the amount of the subsidy included in the Estimates.
- (b) A Supplementary Estimate would be necessary if the amount required by the Fund in any year to meet trading losses was expected to exceed materially the subsidy originally voted for the year.
- (c) The amounts required by the Fund for capital would not be included in the Estimates, but would be advanced from the Consolidated Fund. Amending legislation would be necessary if the Fund required advances for capital in excess of its statutory borrowing powers.

It follows from (a) and (b) that neither the opportunities for nor the scope of Parliamentary Debate would be impaired by the change in accounting procedure. Examination by the Comptroller and Auditor-General, the Public Accounts Committee and the Estimates Committee would be unaffected and there would be no diminution of Treasury control."

Your Committee find this a very persuasive piece of writing. Although no such revolving fund has been established in the United Kingdom, we note that the Public Accounts Committee did in 1952 express the view that such a fund would offer solid advantages over the existing method of accounting. The Treasury Minute was to the effect that the present was not opportune for such a fundamental change.

170. If further support be needed for the opinions we have expressed in this Section of our Report, we would mention also the work of J. R. Hicks, entitled "The Problem of Budgetary Reform". It is a closely reasoned monograph whose aim is to demonstrate that the traditional system of Treasury accounting cannot readily be adapted to the needs of the modern governmental trading undertaking. Let us quote the pungent phrases in which he poses the basic problems—

"The nature of the problem confronting us now becomes apparent. The British Government has been conducting its affairs on the basis of a set of accounting and administrative principles which were, in their great days, a simple and efficient solution to the problem of controlling the public finances. But we have now reached a point when it is hardly too much to say that this traditional structure is in a state of ruin. The ruin is partly a result of the war—it has always been difficult to enforce the traditional principles in war-time—but to a large extent the causes lie deeper. The main reason for the collapse is the development of trading services, which will not fit into the traditional categories. The trading services are much more like businesses than they are like government departments of the traditional type; like businesses, they borrow and lend (they have to borrow and lend), and like businesses, they accumulate real assets, their stock of which

Cmnd. 7269,
June 1951.
Appendix B,
page 65

Ibid.,
paragraphs 5,
6 and 10.

Third Report,
1951-52
Session,
paragraph
104, 105.

Oxford, at the
Clarendon
Press, 1948.

Pages 1, 12-13.

risers and falls. To apply the conventions of the traditional Exchequer accounting to these trading services makes nonsense; it has been found that it makes nonsense. But because there has been no systematic attempt to reformulate the traditional principles to meet the new situation, the failure to fit these principles to the trading services has had a whole series of destructive consequences. On the one hand, there has been the tendency to push some of the government's trading responsibilities (in particular the nationalized industries) outside the budget altogether. Because we cannot deal with them by the traditional methods, we will not deal with them at all. On the other hand, those trading services which have not been excluded in this way have exercised a baleful influence in weakening the authority of the traditional principles in their traditional applications. Because the old system no longer makes the sense it did, there seems less and less reason to conform to the old rules. It follows as a result that just at a time when the national government is undertaking so immense a programme of new responsibilities, its strength and authority, at the very heart of its activities, is being gravely weakened."

171. It is our view that we are fortunate that in Australia we have in operation various forms of working accounts. Our desire is not to see them abolished, but to see that they work efficiently and in conformity with the principles and practices we have described above.

(c) STORES PURCHASING AND HOLDING TRUST ACCOUNTS.

172. Numerous departments purchase and hold extensive quantities of stores in connexion with their operations. Some have stores purchasing and holding trust accounts to assist them in their control over stores; but most do not. Examples of departments that hold stores purchased from a trust account balance are the Department of Defence Production, the Postmaster-General's Department and the Department of Supply. The Accounts in question are the—

Munitions Material Trust Account.
Defence Production Materials Trust Account.
Post Office Stores and Services Trust Account.
Munitions Stores and Transport Trust Account.

Examples of departments holding substantial stores, but not operating trust accounts for them, are the Service Departments and the Department of Civil Aviation.

173. Your Committee have found widely differing views as to the desirability of stores purchasing and holding trust accounts. On the one hand, we were told by representatives of the Department of Civil Aviation that they consider a stores trust account would complicate accounting procedures; but would not facilitate overall control. (This evidence was received by the Second Committee when inquiring into the accounts of the Department of Civil Aviation, and we reported upon it in the Twenty-fourth Report.) We understand that the Department of Civil Aviation still holds this view. On the other hand, the Postmaster-General's Department has suggested that the existence of their Stores and Services Trust Account (in respect of its stores element) not merely does not jeopardize, but in fact facilitates Parliamentary control over its operations. The Department of Defence Production holds similar views concerning the Defence Production Materials Trust Account. Midway between these two points of view stands that of the Department of Supply. Its representatives suggested in effect that although the Munitions Stores and Transport Trust Account is useful for certain purposes in connexion with the Department's storage activities (mainly to assist in combining for accounting purposes the store and transport operations of the organization), it was probably not essential.

174. In these circumstances, Your Committee have found it difficult to arrive at a conclusion about the general desirability of stores trust accounts. Whatever solution we suggest, if it be framed in general terms, will cause one group of departments to alter their practices, probably against their firmly held convictions. But is it possible to arrive at a conclusion that is not general in its terms? Can a practice that is considered best for one group of departments be not so viewed in relation to another group?

175. We have been strongly pressed, in connexion with the Post Office Stores and Services Trust Account, to regard it as *sui generis*. That is, even if on general principle, and in agreement with the views expressed by the Department of Civil Aviation, we conclude that stores trust accounts are not in general desirable, we should make an exception of that operated by the Postmaster-General's Department. In the following paragraphs we analyse the arguments for and against stores holding trust accounts. The views of the proponents are set out more fully because of the care with which they were expounded to us by representatives of the Postmaster-General's Department, and because, as a matter of general principle (and, on the face of it) we think that those who wish to operate stores trust accounts, just as those who wish to operate trust accounts for any other purpose, should justify what is after all an exception from the general rule that government agencies obtain their funds from annual appropriations of the Consolidated Revenue Fund.

See 24th Report, Table on 13th June, 1956, pages 76-77.

See Q1, 879, 880, 922-926, 950, 955.

See Q1, 781, 784, 874, and Telegraph 212 below.

176. *Parliamentary Approval to Expenditure*.—In the case of a normal vote, Parliament approves the expenditure of funds on the purpose stated in the Estimates. Thus, if one were considering the nature of the expenditure authorized by the "General Stores and Equipment" Vote for the Department of Civil Aviation (Division No. 75, Item 9, in the 1956-57 Estimates), one would assume that it represented what is expected will be spent by the Department on stores during the year. It would be understood that, in addition to the amount there shown, funds for purchases of stores would be made available under various specific votes, e.g. that for air navigation equipment. The procedure adopted by the Postmaster-General's Department is in contrast to that just described in that all proposed expenditures on stores purport to be shown in the Stores Sub-division of the relevant Vote. However, the amounts there shown do not represent actual purchases of stores. They represent issues of stores from the Stores Trust Account to jobs. Thus the bulk of the funds voted under the Stores Sub-division can be deducted and can then be shown also under various "purpose" Votes (in this context the Votes for stores and administration are known as "nature" Votes). No actual purchase figures are shown in the Estimates: only issues from store.

177. Here is, we think the basic issue that has to be decided by the Parliament. Does it wish to control purchases to store, or issues from store? The argument in favour of controlling purchases to store is that the Estimates are drawn up on a cash basis: to include Votes that do not represent actual calls on the general resources of the economy, but only on the Department's already purchased stocks, may be misleading.

178. Mr. D. J. O'Connor, speaking for the Department of Defence Production, indicated that the Defence Production Materials Trust Account is a stores trust account and that there are advantages in it as against holding the stores without such an Account. He explained the position in the following way:—

"COMMITTEE MEMBER.—What is the advantage of having it under a trust account?"

(Mr. O'Connor) I was just suggesting the fact that our materials are not used within the Department. They are simply being held for sale to our own factories or to industry for making up into Service orders. The Services eventually will pay for those materials, and amounts are appropriated to the Services for the payment of our factories. If the amount were appropriated to our Department and the items were sold again to the Services—as they will be—and the Services paid for them, there would be something in the nature of a double appropriation. You would have to appropriate amounts to the Services as well as to our Department which purchased the stocks in the first place. That is one factor. The other factor is that it is a very difficult matter to decide, as far as a purchasing programme for this material is concerned. It is quite a difficult matter, in liaison with the Service Departments, to decide just what your production needs will be at a particular time. Allied with that is the fact that sales are made in the year of purchase, and naturally that would result in a credit to the Vote—if there were a Vote—and would offset expenditure in that year. So that there would be two Estimates for that year: Purchasing needs and anticipated sales. That would be just a guess, actually.

COMMITTEE MEMBER.—And that is a justification for having the trust account system?

(Mr. O'Connor) Not of itself. I would say that the justification is—as I said before—the fact that we do not want the stores purchases of this nature to be a charge to our Votes when, in fact, they are to be used for the manufacture of goods for the Services and the Service Departments will themselves be paying for those goods."

179. We also invited the Postmaster-General's Department to send a representative to explain to us the reasons for which they favour a stores trust account. Mr. E. W. Easton, Director of Finance and Public Relations, appeared before us for this purpose. When asked a similar question about the usefulness of the Trust Account as compared with operations under an appropriation he gave a similar answer—

"COMMITTEE MEMBER.—What are you doing now that you could not do under an appropriation?"

(Mr. Easton) May I put it this way: we are ensuring that when materials are on issue to a vote which has been approved they are issued within the limits of that vote, and in the correct way. I do not think that that could be done if they were charged direct to an appropriation. You would have to guess in advance, for you are buying the materials in advance. You would have to guess in 1956, for you have to order materials in advance and quite a lot of materials are being delivered which you are going to use in 1957-58. If you charge those to an appropriation, are you going to charge them to the 1956-57 appropriation? They are not going to be used on the programme for which that money is voted. Obviously, you cannot charge them to what is not yet a 1957-58 appropriation. You do not know what your vote is going to be for 1957-58. You do not know precisely at this stage how much of it is going to be maintenance material, how much capital works, and what particular emphasis is to be placed on phases of a capital works programme in accordance with government policy. All those things are unpredictable. Therefore, you may issue them direct to one part of the appropriation, if you do have some advance appropriation, and in 1957-58 you have to correct that by re-issuing them to another part of the appropriation."

180. At other times during his evidence, Mr. Easton suggested that the existence of the Trust Account, far from frustrating Parliamentary control of the operations of the Post Office, actually furthers it. The argument runs that, because the Post Office works to the advance made to the Trust Account, the Parliament has placed an overall limit upon its capacity to purchase and hold stores that is at least as effective as a stores-purchasing vote would be. In addition, though, the Parliament controls the year by year activities of the Post Office through authorizing issues from store (under the authority of the "purpose" votes). Thus there is in a double sense a control by Parliament. In the succinct words of Mr. Easton, the utility of the Trust Account in the general scheme of control by the Parliament of the store and works activities of the Post Office can be described in the following way:—

Q. 1048.

" . . . We can hold materials securely and safely and devote them to use wherever the programme needs are in the year in which funds are voted by Parliament for the use of those materials. That is, we feel, one of the utilities of it."

181. In its essence, we find this an attractive and important argument. We think that, for an undertaking of this magnitude, its clear rebuttal would be necessary before a suggestion could reasonably be made that the Account be closed. It will be seen from the paragraphs that follow, in which some of the detailed points made in connexion with stores trust accounts are discussed, that, in one form or another, this argument is central to the whole problem. Indeed, now that the general problem is set in terms of the principles of Parliamentary control, we see our task as to examine the various aspects that have been presented to us for consideration.

182. *Accuracy of Estimating.*—A point upon which Mr. Easton laid some stress throughout his evidence, and mentioned in the evidence quoted above, is the difficulty they would experience in making accurate estimates of expenditure for purchases to store. Both the Department of Defence Production and the Postmaster-General's Department indicated that accuracy of estimation is very difficult to achieve when respectively the basis of ordering is a fluctuating defence programme or involves amounts as large as are concerned in the operations of the Postmaster-General's Department. Thus Mr. Easton described the position as follows:—

Q. 765-768, 704, 1028-30 and 1045.

" COMMITTEE MEMBER.—In paragraph 26 of your statement you say that the alternative to the Trust Account would be to charge materials on receipt directly to the appropriation accounts. This system has been tried in the Department but is not favoured, and you give various reasons. You point out that the Trust Account was not established until 1933. You say also that there would be no allowance for changes in delivery dates, which are considerable in some cases, particularly where overseas purchases are concerned or developmental work is involved. Can you explain how, in financing stores from the Trust Account, adjustments are made for changes in delivery dates?—(Mr. Easton) We might order £1,000,000 worth of material for a specialized purpose, for delivery in May or June, 1957. Under the present system we plan for that and budget for it in the Trust Account, so that if it does arrive we can pay for it. But we might receive advice that it will not arrive until July or August. What happens then is that at the end of June there is a credit in the Trust Account of £1,000,000 which is available to pay for those goods when they arrive. If we charge it to appropriation and appropriation is under-spent by £1,000,000 what happens in the next year is that the Appropriation Account will have £1,000,000 to be voted for something that arrived late. That has happened fairly consistently.

Q. 1024, 1050, 974, 984, 987, 989, 991, 992, 993, 994, 995, 996, 997, 998, 999, 1000, 1001, 1002, 1003, 1004, 1005, 1006, 1007, 1008, 1009, 1010, 1011, 1012, 1013, 1014, 1015, 1016, 1017, 1018, 1019, 1020, 1021, 1022, 1023, 1024, 1025, 1026, 1027, 1028, 1029, 1030, 1031, 1032, 1033, 1034, 1035, 1036, 1037, 1038, 1039, 1040, 1041, 1042, 1043, 1044, 1045, 1046, 1047, 1048, 1049, 1050, 1051, 1052, 1053, 1054, 1055, 1056, 1057, 1058, 1059, 1060, 1061, 1062, 1063, 1064, 1065, 1066, 1067, 1068, 1069, 1070, 1071, 1072, 1073, 1074, 1075, 1076, 1077, 1078, 1079, 1080, 1081, 1082, 1083, 1084, 1085, 1086, 1087, 1088, 1089, 1090, 1091, 1092, 1093, 1094, 1095, 1096, 1097, 1098, 1099, 1100, 1101, 1102, 1103, 1104, 1105, 1106, 1107, 1108, 1109, 1110, 1111, 1112, 1113, 1114, 1115, 1116, 1117, 1118, 1119, 1120, 1121, 1122, 1123, 1124, 1125, 1126, 1127, 1128, 1129, 1130, 1131, 1132, 1133, 1134, 1135, 1136, 1137, 1138, 1139, 1140, 1141, 1142, 1143, 1144, 1145, 1146, 1147, 1148, 1149, 1150, 1151, 1152, 1153, 1154, 1155, 1156, 1157, 1158, 1159, 1160, 1161, 1162, 1163, 1164, 1165, 1166, 1167, 1168, 1169, 1170, 1171, 1172, 1173, 1174, 1175, 1176, 1177, 1178, 1179, 1180, 1181, 1182, 1183, 1184, 1185, 1186, 1187, 1188, 1189, 1190, 1191, 1192, 1193, 1194, 1195, 1196, 1197, 1198, 1199, 1200, 1201, 1202, 1203, 1204, 1205, 1206, 1207, 1208, 1209, 1210, 1211, 1212, 1213, 1214, 1215, 1216, 1217, 1218, 1219, 1220, 1221, 1222, 1223, 1224, 1225, 1226, 1227, 1228, 1229, 1230, 1231, 1232, 1233, 1234, 1235, 1236, 1237, 1238, 1239, 1240, 1241, 1242, 1243, 1244, 1245, 1246, 1247, 1248, 1249, 1250, 1251, 1252, 1253, 1254, 1255, 1256, 1257, 1258, 1259, 1260, 1261, 1262, 1263, 1264, 1265, 1266, 1267, 1268, 1269, 1270, 1271, 1272, 1273, 1274, 1275, 1276, 1277, 1278, 1279, 1280, 1281, 1282, 1283, 1284, 1285, 1286, 1287, 1288, 1289, 1290, 1291, 1292, 1293, 1294, 1295, 1296, 1297, 1298, 1299, 1300, 1301, 1302, 1303, 1304, 1305, 1306, 1307, 1308, 1309, 1310, 1311, 1312, 1313, 1314, 1315, 1316, 1317, 1318, 1319, 1320, 1321, 1322, 1323, 1324, 1325, 1326, 1327, 1328, 1329, 1330, 1331, 1332, 1333, 1334, 1335, 1336, 1337, 1338, 1339, 1340, 1341, 1342, 1343, 1344, 1345, 1346, 1347, 1348, 1349, 1350, 1351, 1352, 1353, 1354, 1355, 1356, 1357, 1358, 1359, 1360, 1361, 1362, 1363, 1364, 1365, 1366, 1367, 1368, 1369, 1370, 1371, 1372, 1373, 1374, 1375, 1376, 1377, 1378, 1379, 1380, 1381, 1382, 1383, 1384, 1385, 1386, 1387, 1388, 1389, 1390, 1391, 1392, 1393, 1394, 1395, 1396, 1397, 1398, 1399, 1400, 1401, 1402, 1403, 1404, 1405, 1406, 1407, 1408, 1409, 1410, 1411, 1412, 1413, 1414, 1415, 1416, 1417, 1418, 1419, 1420, 1421, 1422, 1423, 1424, 1425, 1426, 1427, 1428, 1429, 1430, 1431, 1432, 1433, 1434, 1435, 1436, 1437, 1438, 1439, 1440, 1441, 1442, 1443, 1444, 1445, 1446, 1447, 1448, 1449, 1450, 1451, 1452, 1453, 1454, 1455, 1456, 1457, 1458, 1459, 1460, 1461, 1462, 1463, 1464, 1465, 1466, 1467, 1468, 1469, 1470, 1471, 1472, 1473, 1474, 1475, 1476, 1477, 1478, 1479, 1480, 1481, 1482, 1483, 1484, 1485, 1486, 1487, 1488, 1489, 1490, 1491, 1492, 1493, 1494, 1495, 1496, 1497, 1498, 1499, 1500, 1501, 1502, 1503, 1504, 1505, 1506, 1507, 1508, 1509, 1510, 1511, 1512, 1513, 1514, 1515, 1516, 1517, 1518, 1519, 1520, 1521, 1522, 1523, 1524, 1525, 1526, 1527, 1528, 1529, 1530, 1531, 1532, 1533, 1534, 1535, 1536, 1537, 1538, 1539, 1540, 1541, 1542, 1543, 1544, 1545, 1546, 1547, 1548, 1549, 1550, 1551, 1552, 1553, 1554, 1555, 1556, 1557, 1558, 1559, 1560, 1561, 1562, 1563, 1564, 1565, 1566, 1567, 1568, 1569, 1570, 1571, 1572, 1573, 1574, 1575, 1576, 1577, 1578, 1579, 1580, 1581, 1582, 1583, 1584, 1585, 1586, 1587, 1588, 1589, 1590, 1591, 1592, 1593, 1594, 1595, 1596, 1597, 1598, 1599, 1600, 1601, 1602, 1603, 1604, 1605, 1606, 1607, 1608, 1609, 1610, 1611, 1612, 1613, 1614, 1615, 1616, 1617, 1618, 1619, 1620, 1621, 1622, 1623, 1624, 1625, 1626, 1627, 1628, 1629, 1630, 1631, 1632, 1633, 1634, 1635, 1636, 1637, 1638, 1639, 1640, 1641, 1642, 1643, 1644, 1645, 1646, 1647, 1648, 1649, 1650, 1651, 1652, 1653, 1654, 1655, 1656, 1657, 1658, 1659, 1660, 1661, 1662, 1663, 1664, 1665, 1666, 1667, 1668, 1669, 1670, 1671, 1672, 1673, 1674, 1675, 1676, 1677, 1678, 1679, 1680, 1681, 1682, 1683, 1684, 1685, 1686, 1687, 1688, 1689, 1690, 1691, 1692, 1693, 1694, 1695, 1696, 1697, 1698, 1699, 1700, 1701, 1702, 1703, 1704, 1705, 1706, 1707, 1708, 1709, 1710, 1711, 1712, 1713, 1714, 1715, 1716, 1717, 1718, 1719, 1720, 1721, 1722, 1723, 1724, 1725, 1726, 1727, 1728, 1729, 1730, 1731, 1732, 1733, 1734, 1735, 1736, 1737, 1738, 1739, 1740, 1741, 1742, 1743, 1744, 1745, 1746, 1747, 1748, 1749, 1750, 1751, 1752, 1753, 1754, 1755, 1756, 1757, 1758, 1759, 1760, 1761, 1762, 1763, 1764, 1765, 1766, 1767, 1768, 1769, 1770, 1771, 1772, 1773, 1774, 1775, 1776, 1777, 1778, 1779, 1780, 1781, 1782, 1783, 1784, 1785, 1786, 1787, 1788, 1789, 1790, 1791, 1792, 1793, 1794, 1795, 1796, 1797, 1798, 1799, 1800, 1801, 1802, 1803, 1804, 1805, 1806, 1807, 1808, 1809, 1810, 1811, 1812, 1813, 1814, 1815, 1816, 1817, 1818, 1819, 1820, 1821, 1822, 1823, 1824, 1825, 1826, 1827, 1828, 1829, 1830, 1831, 1832, 1833, 1834, 1835, 1836, 1837, 1838, 1839, 1840, 1841, 1842, 1843, 1844, 1845, 1846, 1847, 1848, 1849, 1850, 1851, 1852, 1853, 1854, 1855, 1856, 1857, 1858, 1859, 1860, 1861, 1862, 1863, 1864, 1865, 1866, 1867, 1868, 1869, 1870, 1871, 1872, 1873, 1874, 1875, 1876, 1877, 1878, 1879, 1880, 1881, 1882, 1883, 1884, 1885, 1886, 1887, 1888, 1889, 1890, 1891, 1892, 1893, 1894, 1895, 1896, 1897, 1898, 1899, 1900, 1901, 1902, 1903, 1904, 1905, 1906, 1907, 1908, 1909, 1910, 1911, 1912, 1913, 1914, 1915, 1916, 1917, 1918, 1919, 1920, 1921, 1922, 1923, 1924, 1925, 1926, 1927, 1928, 1929, 1930, 1931, 1932, 1933, 1934, 1935, 1936, 1937, 1938, 1939, 1940, 1941, 1942, 1943, 1944, 1945, 1946, 1947, 1948, 1949, 1950, 1951, 1952, 1953, 1954, 1955, 1956, 1957, 1958, 1959, 1960, 1961, 1962, 1963, 1964, 1965, 1966, 1967, 1968, 1969, 1970, 1971, 1972, 1973, 1974, 1975, 1976, 1977, 1978, 1979, 1980, 1981, 1982, 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1990, 1991, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 2679, 2680, 2681, 2682, 2683, 2684, 2685, 2686, 2687, 2688, 2689, 2690, 2691, 2692, 2693, 2694, 2695, 2696, 2697, 2698, 2699, 2700, 2701, 2702, 2703, 2704, 2705, 2706, 2707, 2708, 2709, 2710, 2711, 2712, 2713, 2714, 2715, 2716, 2717, 2718, 2719, 2720, 2721, 2722, 2723, 2724, 2725, 2726, 2727, 2728, 2729, 2730, 2731, 2732, 2733, 2734, 2735, 2736, 2737, 2738, 2739, 2740, 2741, 2742, 2743, 2744, 2745, 2746, 2747, 2748, 2749, 2750, 2751, 2752, 2753, 2754, 2755, 2756, 2757, 2758, 2759, 2760, 2761, 2762, 2763, 2764, 2765, 2766, 2767, 2768, 2769, 2770, 2771, 2772, 2773, 2774, 2775, 2776, 2777, 2778, 2779, 2780, 2781, 2782, 2783, 2784, 2785, 2786, 2787, 2788, 2789, 2790, 2791, 2792, 2793, 2794, 2795, 2796, 2797, 2798, 2799, 2800, 2801, 2802, 2803, 2804, 2805, 2806, 2807, 2808, 2809, 2810, 2811, 2812, 2813, 2814, 2815, 2816, 2817, 2818, 2819, 2820, 2821, 2822, 2823, 2824, 2825, 2826, 2827, 2828, 2829, 2830, 2831, 2832, 2833, 2834, 2835, 2836, 2837, 2838, 2839, 2840, 2841, 2842, 2843, 2844, 2845, 2846, 2847, 2848, 2849, 2850, 2851, 2852, 2853, 2854, 2855, 2856, 2857, 2858, 2859, 2860, 2861,

Auditor-General that in respect of the Post Office Stores and Transport Trust Account at 30th June, 1956, goods delivered and taken to store to the value of £1,879,414 were not paid for.* At the same date, the balance in the Trust Account was only £71,746.

187. Your Committee observe that, had the purchases in question been made from a stores (or other) vote, the outstanding liabilities would have been reported as required by section 36 (2) of the Audit Act. Section 36 (2.) reads as follows:—

"36.—(2) The Minister of each Department shall within thirty days after the close of the financial year prepare and transmit to the Treasurer a statement of all claims in respect of the services of his Department outstanding at the close of such year which might by law have been paid out of the Consolidated Revenue Fund during such year."

The Auditor-General publishes in his Report the major amounts of outstanding claims.

188. We recommend that in future the Auditor-General should consider as a general practice disclosing circumstances of this kind that arise in connexion with the Trust Fund. Because there is not in the same sense as there is for appropriations a final day of reckoning for trust accounts (no lapse of available funds occurs), 30th June may not be the only occasion on which a trust account is over-committed. Over-ordering (or under-use) may result from a miscalculation or it may even represent a reasonable working practice. But on the other hand, it may represent a means of escaping from the restrictions upon stores purchases and holdings intended by the Parliament in making its advances to trust accounts. It is such cases that ought, in the opinion of Your Committee, to be the subject of report by the Auditor-General.

189. It was put to us by Mr. Easton that not only does the advance constitute a limit to store holding; it also is in itself what might be regarded as a Parliamentary appropriation of a permanent kind—

"COMMITTEE MEMBER.—So if the evidence you are giving to-day is on the case of trust account versus appropriation account, you are pinning your case on the acquisition of materials and equipment?—(Mr. Easton) No. I think we are saying that we have an appropriation, which enables the Department to maintain a stock holding account. That appropriation limits the amount of stock we can hold. Under the present system of not charging materials or equipment to the appropriation until requisitioned for the jobs, it ensures that the expenditure on materials on the vote is within the Parliamentary appropriation. That is basically the point I have been trying to make."

190. Your Committee understand that in certain spheres of business activity there has been a recent tendency to return to quantity accounting for stores in preference to quantity control allied with accounting on a value basis involving reconciliation between the financial accounts and the stores records. Reliance on quantity accounting is not a new development. It has been followed in many Commonwealth administrative departments since federation and is the current general procedure in the Service Departments. It is eminently suited to organizations in which a detailed cost record is not an important requirement for efficient operation.

191. The Post Office is one public business undertaking which adopts quantity and value control of stores as an integral part of its cost accounting arrangements. These arrangements would doubtless be maintained whether or not a trust account was utilized.

192. On the other hand, the use of a trust account to transact the purchase and issue of stores of itself makes necessary accounting on a value as well as a quantity basis, regardless of whether the nature of the organization's operations warrants the use of the more complicated accounting arrangements involved. However, in our opinion, neither this nor any of the other accounting problems that we mention in the following paragraphs are sufficient to decide the issue for or against a stores trust account.

193. Accounting Problems.—The Postmaster-General's Department argued strongly that the use of the Trust Account means that Parliament controls the actual work performed by the Department in any year. Without issues of stores (and all stores have to go into store and be paid for from the Trust Account balances), no work can be undertaken by the Department. The position was explained to us by Mr. Easton in the following way:—

"(Mr. Easton)—Our present system gives us no more elasticity on the vote whatever. If you give us a vote, for instance, for item 1 of capital works of £20,000,000 and we issue materials through the year to such an extent to item 1 that our expenditure becomes £20,500,000, in that case we would have to come back to Parliament and ask for provision to be made of additional estimates as a transfer between items. Parliament would know if we were over-expending on any item in the appropriation. On the maintenance side if our issues of materials in any one year were so great that we were tending to exceed the appropriation, Parliament would know from Section 37 Transfers what we were doing."

* The figure at 30th June, 1957, was £818,331, which the Auditor-General considered "not abnormal"; the balance of the Account was £149,823 (Annual Report of the Auditor-General for the year ended 30th June, 1957, paragraph 133).

194. When the issues from store may be to a number of different kinds of jobs and may also have to be allocated as between maintenance and capital works projects, there are very considerable difficulties in the way of accurately charging to appropriations purchases to store. The problem is clearly almost non-existent if the charges are made to the relevant "purpose" head of appropriation when the store items are issued to the job. But if the charge to the appropriation is made at the time of the purchase of the stores item, the situation is more complex. With a large programme such as is being undertaken by the Postmaster-General's Department, it is likely that substantial re-allocations of charges to appropriations (for both ordinary and capital services) would have to be made in years following that in which the charge was made. It is even possible that on some occasions Votes might show a surplus (i.e. a negative expenditure) in one year.

195. Although we were assured by the Treasury representative that such a matter need not nowadays cause great concern from a technical point of view, we think it has implications when looked at in relation to the principle of Parliamentary control. Your Committee would prefer to decide this matter on more fundamental grounds than purely accounting difficulties. It is our view that the latter are not insuperable. Nor, in our opinion, would the use of the appropriation system involve so much additional accounting work that it would add appreciably to the expenditure by the Post Office on accounting services. But the issue of principle still remains: at which point does the Parliament wish to exercise its control over expenditure? Does it wish to exercise control at the time of when the Postmaster-General's Department is about to put its own work force on to a particular job?

196. The accounting problem also has implications for our general Inquiry into the form of the Estimates. The principle of showing in the Estimates "net appropriations" has already been mentioned in passing in this Report. We again note that, if it is decided that stores Estimates are undesirable, that decision will have implications for the form of the Estimates. As Mr. Scott, Director of Finance in the Department of Civil Aviation, indicated to us in evidence during our Inquiry into that Department, it would be necessary occasionally to make transfers from one Vote to another, particularly between the Maintenance and Capital Votes. He suggested that for the Department of Civil Aviation the problem would not be very great. However, it is conceivable that, for an organization the size of the Postmaster-General's Department, and facing its particular problems, the adjustments would have to be unacceptably large. That is not a matter upon which we think there is an easy answer. Any satisfactory answer, indeed, would involve extensive research and the making of some difficult judgments, both technical and on matters of principle.

197. The Postmaster-General's Department also indicated that it would be difficult to handle stores for emergencies, with the associated need for stocking up in advance, without the use of a trust account, chiefly for the reason that at the time of purchase no charge could readily be made to the appropriate head of expenditure. It seems to us that for purchases of stores that cannot be allocated, a general Stores Vote will always be necessary. We note that one such exists already for the Department of Civil Aviation. There would be no objection to charging stores of this kind to the general Vote in the first instance, later showing them as expended from a "purpose" vote (e.g. Engineering Services), with appropriate deductions from the Stores ("subject") Vote.

198. Your Committee note one further interesting factor in connexion with stores trust accounts. It is that, with the information being made available at the present, no indication is given to the Parliament of the size of the store holding lying behind the account. Thus the fact that there was at 1st July, 1956, only a balance of £71,746 in the Post Office Stores and Services Trust Account gave no suggestion that behind the balance stood stores to the value of some £16,000,000. This is true of any stores trust account. For example, we were informed that in the case of the Munitions Material Trust Account the book value of stocks at 30th June, 1956, was £4,866,000.* Yet examination of the Finance Statement table would have revealed figures containing at least an implication that no such amounts were in existence. Receipts to the Trust Account during 1955-56 were as little as £16,045. Correspondingly, expenditure from it was £22,228 and the balance at 30th June, 1956, £59,626. This kind of information could mislead a person not familiar with Governmental accounting practices.

199. It is for this purpose that Your Committee have suggested that, in the revised statement we have recommended for the Budget Papers, information should be given of the amount of the advance made to a trust account from Consolidated Revenue. We also suggest, in passing, that the Postmaster-General's Department might prepare for publication

* Subsequently, in June, 1957, the Account was closed. The book value of stock was £4.82 million at 30th June, 1957.

in the Budget Papers, along with the other statements concerning it, an estimate of its purchases from the Trust Account. This is a matter that might be considered by the Committee of inquiry suggested by us in paragraphs 203-204 below.

200. Your Committee also observe that, should it be decided to close a stores trust account, no intrinsic difficulties are involved. The Department of Defence Production advised us of the Crown Law Authority's opinion that a trust account can be closed while substantial stocks purchased from it are still held. The relevant portion of the opinion received by the Department of Defence Production in connexion with the Munitions Material Trust Account reads as follows:—

"I would consider that there is nothing in the proposal which offends any of the provisions of Section 62A. This Section deals with the establishment and operation of trust accounts which must of course deal with moneys and not with stocks of materials purchased from the funds drawn from the accounts.

Sub-section 62A (4) provides that the Treasurer may direct that any Trust Account shall be closed and the fact that there may exist stocks of goods or materials which have been purchased out of moneys from the Trust Account does not, to my mind, act to restrict the Treasurer from closing the account.

As to the method of treatment of any such stocks where the Trust Account is closed, this appears to be a matter to be dealt with in accordance with usual Departmental practice regarding Commonwealth stores."

201. This opinion suggests to us that there are no great difficulties involved in closing a stores trust account.

202. *Conclusions.*—Your Committee are unable to come to any final conclusion about store purchasing and holding trust accounts. In general we doubt whether it is necessary for departments to operate them. In this regard we are influenced by the views of the Department of Civil Aviation and by the experience of the Service Departments. Nevertheless, the Postmaster-General's Department has for many years operated successfully a stores trust account. Moreover, an informative document was submitted to us by that Department indicating the process by which a Trust Account was obtained for this purpose. The document shows that from the very earliest days various authorities considered the Department should operate a stores trust account. Indeed, it appears that as early as 1916 the Treasury and the Postmaster-General's Department had almost come to an agreement to establish an account. It was not, however, until 1933 that the Post Office Stores and Services Trust Account was created.

203. To decide whether or not the Stores Trust Account operated by the Postmaster-General's Department should constitute an exception from the general principle we have already enunciated is a task that we think requires the attention of officers intimately concerned with the working of the system. It has clearly been a vexed question in the past. We consider that the only appropriate course of action, bearing in mind the circumstances described in connexion with stores trust accounts, is that a full-scale review be made of the success with which the trust account system has operated.

204. Your Committee suggest, therefore, that a committee of inquiry should be constituted. It might be representative of the Treasury, the Auditor-General and the Postmaster-General's Department. Its purposes would be to examine in detail the advantages and disadvantages of the Postmaster-General's Department conducting its stores accounting without the use of a trust account. It should also examine whether any alternative scheme would produce better results. One obvious alternative system would be for the Postmaster-General's Department to operate its votes on a purchase basis, as do the Department of Civil Aviation and most other departments. When the Committee has drawn up a considered report, which if necessary could contain a minority view, Your Committee might again discuss the matter. At that point of time we would expect that, even if no unanimous conclusion could be reached, the facts and principles at issue could be clearly stated and identified. In the meanwhile, we consider that the system at present operating in the Postmaster-General's Department should be continued.

(d) TRANSPORT TRUST ACCOUNTS.

205. Some Commonwealth Departments, such as the Postmaster-General's Department and the Department of Works, operate their own transport fleets. The requirements of the remaining Commonwealth departments are, with minor exceptions, met from transport pools operated by the Department of the Interior in Canberra and by the Department of Supply in other States. These operations are financed by separate Trust Accounts, the larger being the "Munitions Stores and Transport Trust Account" controlled by the Department of Supply. The other is the "Australian Capital Territory Transport Trust Account" for which the Department of the Interior is responsible.

206. The general order of magnitude of the operations carried on by the two Departments under their respective Trust Accounts can be seen from the following figures, extracted from the Budget Papers for 1956-57:—

	Balance Brought Forward from 30th June, 1956.	Expenditure.	Receipts.	Balance Carried Forward to 1st July, 1957.
Department of Supply ..	£ 1,145,687	£ 4,517,073	£ 4,821,988	£ 1,450,602
Department of the Interior ..	321,940	729,534	522,834	117,240

Because the same principles apply to both Accounts, we decided to examine in some detail the larger of the two—that controlled by the Department of Supply.

207. The Munitions Stores and Transport Trust Account was created by the Treasurer on 20th September, 1941, under section 62A of the Audit Act. The purposes of the Account were defined as follows:—

"For the purpose of paying salaries, wages and other expenses in connexion with the operation of the stores, transport and garage and in providing for other services which may be approved by the Minister".

The Department informed us that there has been no amendment of these purposes.

208. In 1947 the Government, acting on the recommendation of an Inter-Departmental Committee, approved the establishment of a Central Transport and Storage Authority under the control of the Department of Munitions. In 1950, the Acting Prime Minister further directed that—

- (i) Member Departments be required to make provision in their estimates for transport services and that they be billed for such services; and
 (ii) The present rates charged for hire be deemed to include depreciation and that replacement of existing vehicles when scrapped be made from a Trust Fund".

209. The directive of 1950 altered the basis upon which the Department of Munitions had been operating. Until then, there had been one annual vote from which all the transport requirements of the "Member Departments" were met. Thenceforward, Departments have made in their own estimates provision for the cost of the transport services they think they will require during the year. At the same time, the (now) Department of Supply has to keep the cost of operations within the limits of the revenue received—or approach the Parliament for further funds. No such approach has been made since 1952-53, when an additional £100,000 was made available for working capital. In 1955-56 the balance in the Account was reduced by £200,000; £100,000 coming from each of the Operations and Vehicle Replacement Sections of the Account.

210. From the funds standing to the credit of the Account the Department pays the salaries and wages of its employees engaged in transport and storage activities, purchases vehicles, workshop plant, fuel, tyres and spare parts, and meets other costs associated with its transport and storage functions. Receipts to the Account are the recoveries made for services rendered—charges for the hire of cars and trucks and the storage of goods—and the proceeds of the disposal of vehicles and spare parts.

211. An indication of the amounts involved in the transactions on the Account is given by the following table:—

	Total.	Working Capital.	Depreciation Reserve.
Balance as at 30.6.55	£ 1,529,896	£ 737,639	£ 792,257
Receipts 1.7.55-30.6.56	4,248,968	3,615,216	435,752
	5,778,864	4,552,855	1,226,009
Expenditure 1.7.55-30.6.56	4,633,177	3,912,501	720,676
Balance as at 30.6.56	1,145,687	640,354	505,333

212. In this section of our Report we are concerned only with the transport activities financed by the Account. We have mentioned already, in connexion with stores trust accounts, the storage activities connected with the Account. One of our main purposes has been to ascertain what arrangements are made for the replacement of the transport fleet owned and maintained by the Department.

Exhibit No.
54/21, page 6.

213. The basic control over the fleet is exercised through an approved Establishment of Vehicles. This is approved by the Minister, and may be varied by him from time to time. As a subsidiary control, the Stores and Transport Board of Management, to which the Minister has delegated the task of running the fleet, is only permitted to authorize purchases (within the Establishment) "up to £10,000 in any one transaction". All purchases exceeding £10,000 are referred to the Minister for approval. Your Committee were assured that the Board would not abuse the powers vested in it by authorizing at the one time a large number of transactions each within the prescribed limit of £10,000—

"COMMITTEE MEMBER.—I take it that when your Board holds its monthly meeting it could spend £100,000 and provided no one line exceeded £10,000 you would not require to get any authority from the Minister?—(Mr. Curran) That could possibly happen but the Board does not operate in that manner.

"COMMITTEE MEMBER.—Out of that £100,000, if there were five orders at £8,000 each—that would be £40,000—and of two orders at £30,000 each, the total would be £100,000. You would not require to get the Minister's authority for the five orders at £8,000 each but you would require his authority only for the two orders of £30,000 each. Is that the position?—(Mr. Curran) We could do that, but in such a case we would put the whole lot up to the Minister for his approval as being one purchase.

"COMMITTEE MEMBER.—In other words, the responsibility is with the Board? We are not questioning the integrity of the Board—far from it—but there does appear to be a weakness in the way it could operate?—(Mr. Curran) That is so.

"COMMITTEE MEMBER.—So then it would be possible, working on this principle, for the Board to meet twelve times a year and on eleven of those occasions could agree to purchases of £9,500 a month without seeking the Minister's approval, but on the twelfth occasion it might decide to make a purchase of £50,000 and that would be the only time of the year that the Board would have to seek the Minister's approval?—(Mr. Curran) That is the position."

214. Whilst Your Committee have no doubt as to the integrity and efficiency of the Board—and we note that the transport pool has in recent years operated at a profit (£157,030 in 1954-55 and £197,000 in 1955-56) and had accumulated profits at 30th June, 1956, of £760,928 after providing for depreciation—we consider the terms of the delegation to the Board of Management have hardly been formulated with sufficient precision. We suggest that perhaps a maximum of authorizations in a given period, e.g., a month, should be set as well as a maximum in respect of single transactions.

215. Another point that concerned us was how the Department arranges for replacement of the fleet. Is there any possibility that the value of the fleet—or its size—is being increased without recourse to the Parliament for further capital advances?

216. The answer to this question is intimately associated with the provisions made for depreciation. It appears that depreciation is allowed for at 12½ per cent. for cars and 15 per cent. for trucks, with cars being disposed of after 50,000 miles instead of after five years' use, as was until recently the practice—

"COMMITTEE MEMBER.—Can you explain how the depreciation reserve is built up?—(Mr. Curran) The transport establishment carries out a service for various Commonwealth departments. In providing that service we make a charge of so much a mile for the use of motor cars. If a vehicle is hired on a weekly basis the charge is so much a week. In all hire charges there is an element for depreciation to provide for the replacement of the vehicle when it is worn out. The amount of that depreciation is paid periodically into a separate section of the trust account which we call the depreciation reserve and from that depreciation reserve new vehicles are financed.

"COMMITTEE MEMBER.—Will you tell us the rate of depreciation decided for the various items of equipment?—(Mr. Curran) For motor cars it is 12½ per cent. and for trucks 15 per cent. (Q. 806) In assessing the life of a vehicle we work on a percentage of about 37½ per cent. residual value for all the light fleet, that is cars. That is made up this way: We depreciate at the rate of 12½ per cent., giving an eight-year life but we sell our vehicles approximately at the end of five years which leaves a residual life of three years, or 37½ per cent.

"COMMITTEE MEMBER.—Irrespective of the mileage?—(Mr. Owen) In practice we find that in five years our vehicles do about 50,000 or 60,000 miles. There has been a recent change of the time of disposal from five years to 50,000 miles, but the difference will mean hardly anything in the actual writing-off of the vehicle. As far as spare parts are concerned, the sale of spare parts came about through the standardization of the vehicles that we have in the fleet. During war-time, we obtained vehicles wherever we could. In doing so, of course, we accumulated a number of makes of vehicles which, in the ultimate, made our servicing very difficult. We had to carry quite a large value of spare parts simply by reason of the diversity of makes in the fleet. Standardization was put into practice for reasons of economy and, as a result of standardization of makes, we have had to dispose of the spare parts for the makes of vehicles that we no longer had."

Q. 860-861,
864, 867.

Q. 801-802,
806, 807.

217. Charges for operations and for depreciation are separately computed, and any profit or loss on one or other of these two would no doubt lead to a re-examination of charges. In an internal service of this kind there is, in our opinion, no purpose in accumulating substantial profits in the Trust Account. Either charges should be fixed on a basis that will cover costs (including depreciation), or if, for other reasons, e.g. the desirability of charging commercial rates, the charges are such as to yield substantial profits, those profits should be paid to revenue. Q. 819.

218. In this case it appears that the charges are such as to enable replacement of the fleet with vehicles costing on average more than those they replaced:

"COMMITTEE MEMBER.—Are the vehicles on the establishment cheaper than those with which they are being replaced?—(Mr. Curran) In some instances, yes. The purchase price of earlier vehicles may have been less than present prices. There has not been a great deal of variation over the last few years." Q. 822.

Your Committee are firmly of the opinion that the depreciation rates charged should enable replacement at prime cost and not at current replacement cost. It seems to us that when further capital funds are necessary for expansion of the fleet in size or value, the Parliament should be informed of that fact by an approach for whatever is required. Otherwise, the effect is that the Department of Supply obtains further capital funds from the Ordinary Services Votes of Departments, and never need seek further moneys from the Parliament. We think it unnecessary that the Department's transport operations should in this sense be a self-financing undertaking, and recommend that the charges for depreciation should be reviewed with this general principle uppermost in mind.

219. One further point which interests us (and this is quite distinct from the questions of increases in the size and value of the pool already discussed) is the ability of the Department to purchase substantial numbers of vehicles for replacement purposes without needing to seek the approval of the Parliament to the expenditure involved. This, in our opinion, is the most important feature of the present arrangement whereby the receipts from the depreciation charge remain in the Trust Account as a reserve fund for vehicle replacement. An alternative would be for those receipts to be transferred annually to Consolidated Revenue and amounts appropriated, as required, for the purchase of replacement vehicles. This would achieve two things. Firstly, the Trust Account would be used solely as a working account to meet day-to-day expenditure connected with the operation of the pool (which would, perhaps, be more in line with the defined purposes of the Account) and, secondly, would return to the Parliament control over the substantial capital expenditure incurred annually.*

220. We say nothing at this stage about the question of interest on the capital advanced, though we venture the suggestion that, because the Munitions Stores and Transport Trust Account finances purely internal governmental operations, such a charge would be inappropriate.

221. Incidentally, we note that the title of the Account, "Munitions Stores and Transport Trust Account", is now somewhat anomalous if not misleading. No Department of Munitions has existed for several years. Nor does the Department of Supply provide on any regular basis for the transport needs of the Service Departments. We recommend that a more suitable title be sought for the transport section of the Account. We have already commented upon the necessity for the stores section of the Account. Q. 824.

(c) DEFENCE RESERVE AND DEBT REDEMPTION TRUST ACCOUNTS.

222. During our Inquiry into the Defence Services and the Estimates, we commented upon the existence of certain Trust Accounts the purposes of which could no longer be said to be achievable. The reason was that they had been created to receive for specified purposes large appropriations from Consolidated Revenue Fund. One, the Defence Equipment and Supplies Account, was designed to enable expenditure on the procurement of Service equipment and the other, the Strategic Stores and Equipment Trust Account, was designed to enable the building up in Australia of stocks of key materials. Twenty-ninth Report, tabled on 9th October, 1956, at page 29.

223. In the upshot, neither of these Accounts had been used to any extent since 1952-53. Indeed, the Defence Equipment and Supplies Trust Account was never used for the purposes for which it was created and for which it was put in funds.

224. We record the comment we made in our Report. It was as follows:—

"... Your Committee observe (i) that the need for building strategic reserves arose in 1950, and (ii) that the Parliament is now in the process of appropriating the necessary funds for the last year of the current Defence Programme. We question whether any future expenditures from these two Accounts could ever be said genuinely to have been made in fulfilment of the purposes for which the Parliament originally appropriated the funds. It may

ibid, page 29, paragraph 157.

Thirty-third Report, tabled 9th October, 1957.

* This problem arises in other fields also. In the course of the Inquiry leading up to the Committee's Report on Expenditure from Advance to the Treasurer 1956-57 we were informed that substantial capital expenditure on plant and buildings for the Commonwealth Serum Laboratories was met from funds accumulated in the Serum Laboratories Trust Account.

be that, even if the letter of the law were observed, the situation has now so changed as to suggest the view that a fresh approach might be made to the purposes for which the balances should be expended. We recall in this connexion that any alteration to the purposes of a Trust Account can be made only after Parliamentary approval by legislation or fresh appropriation*.

Both of these accounts have since been closed. We regard this as a welcome move, one that has had the effect of removing one of the anomalies existing in the Trust Fund.

225. Our purpose in recording this information is to show how easy it is for trust accounts, created in good faith, and put in funds by the Parliament in good faith, can become anomalous. The circumstances brought to light in our earlier Inquiry suggest that a regular review should be made of the use of trust accounts and of the balances existing in them bearing especially in mind the purposes for which the account was created. This review should, we think, concentrate especially on those falling within the category "to meet expenditure in later years".

226. We have already mentioned in Chapter II. above the trust accounts used to establish reserves for debt redemption. These accounts have been used to receive large amounts appropriated each year by the Parliament for purposes of assisting in redeeming the large amounts of debt maturing in the next few years. It is conceivable that in a few years' time problems may arise similar to those we have discussed in connexion with the defence trust accounts. However, that time has not yet come. Then again, we have mentioned the suggestions made in earlier years that appropriations to some accounts, although ostensibly for the purpose of creating reserves for what we now know as Social Service benefits and for pensions to servicemen,* were made to avoid the existence of any "surplus revenue" that would be payable to the States under the provisions of the Constitution.

227. As we said earlier, Your Committee do not wish anything we say to be understood as trespassing upon policy duly laid down by the Government. Our objective is to ensure that proper account is given to Parliament, and that appropriate accounts are kept, of the Government's use of the funds appropriated by the Parliament. This includes, in our way of thinking, both a forecast of the purpose for which specified amounts will be used and an explanation after the event of how those estimates have in fact turned out. This forecast should include the use of Trust Fund moneys where these have an effect upon Parliamentary appropriations.

228. When all that is said, Your Committee feel compelled to draw attention to the real dangers that may lie concealed in the use of trust accounts in the manner in which we have just been describing. Our point is that, laudable as may be the attempts of a government to equalize expenditures over the years by using a trust account to spread extra burdens through several years before or after, they may lead to great and dangerous possibilities in the realm of finance. Indeed, in some circumstances they may even jeopardize the stability of the economy.

229. Here again Your Committee are approaching a field of discussion not committed to us. Nevertheless, as it borders upon those that have been, we think it only right that we should mention the existence of the problem and the dangers. The remedies that must be looked to in any emergency are, of course, not such as can be found by the adoption of any particular method of handling the public accounts of the Commonwealth. Accounts should not and could not be asked to bear such a burden. The remedies lie with the Parliament itself, and with that note Your Committee let the matter pass.

(f) TRUST ACCOUNTS WITH NO OPENING AND CLOSING BALANCE.

230. In the Treasurer's Finance Statement for the year ending 30th June, 1956, are shown five Trust Accounts that carry forward no balance to the new financial year. They are—

Science and Industry Trust Account.
War Service Homes Trust Account.
Australian Soldiers Repatriation Trust Account.†
Immigration Centres Trust Account.
Serum Laboratories Trust Account.

The funds upon which these Trust Accounts operate are each year appropriated to the Account, and, as with an ordinary annual appropriation, any amounts unspent at the end of the year are surrendered to the Consolidated Revenue Fund. (Although a balance is carried forward each year in the Serum Laboratories Trust Account, we understand that to all intents and purposes this Account is the same as the four others mentioned above.)

* We note that the balance standing to the credit of the War Pensions Account was disbursed during 1956-57 to pay for pensions, relieving the Consolidated Revenue to this extent. Our only comment is that it would have been preferable to allow for this credit in the Estimates, rather than freeing money that was appropriated by the Parliament for the purpose by a subsequent decision to draw down the Trust Account reserves. † This Account is, it appears from the 1957-58 Budget Papers, no longer to be used.

See also the discussion in Chapter II. (c) above.

231. As in our examination of the other categories of trust account, we selected a single account for detailed investigation. It was the Science and Industry Trust Account. This Account was established by the *Science and Industry Research Act 1949*, and is a Trust Account within the meaning of section 62A of the Audit Act. The Science and Industry Research Act provides that no money is to be expended from the Account except in accordance with Estimates of Expenditure passed by both Houses of the Parliament.

No. 13 of 1949.
See generally
Sec. 337A-350.
Section 23.

232. The original Trust Account was operated by the Council for Scientific and Industrial Research and was known as the Science and Industry Investigation Trust Account. To it was appropriated, on its establishment in 1926, an amount of £250,000, and a further sum of £250,000 was appropriated in 1926-27. Originally, then, the Account was envisaged as a standing fund from which the Council for Scientific and Industrial Research was able to finance its expenditures.

Exhibit No.
3470, page 1.

233. However, the funds standing to the credit of the Account were exhausted in 1932-33 and finance has since then been provided for the Council (and latterly for the Organization) on an annual basis. Until 1938-39, unexpended funds were allowed to remain in the Trust Account for use in the subsequent year as a portion of the approved Parliamentary appropriation. The Commonwealth Scientific and Industrial Research Organization (C.S.I.R.O.) described the position as follows:—

Ibid, page 3.
See also
Qc. 600-606.

"Following the exhaustion in 1932-33 of the £500,000 credited to the Fund in 1925-26 and 1926-27, finance has been provided on an annual basis by including in the Appropriation Act, for payment in to the Trust Fund, the sum approved for expenditure in respect of the financial year concerned. Until the year 1938-39, if the amount appropriated was greater than the actual expenditure, the unexpended funds remained in the Trust Fund and were carried forward to the ensuing financial year for use during that year as portion of the approved Parliamentary appropriation. Commencing with the financial year 1938-39, the amount paid into the account from the approved appropriation has been the sum required to meet the actual expenditure for the financial year, so that, if the expenditure for the year was less than the approved Estimates, the unexpended amount reverted to Consolidated Revenue and thus would not be in the Trust Account to be carried forward to the new financial year."

Exhibit No.
3470, page 3,
paragraph (ii).

234. The financial arrangements for the Commonwealth Scientific and Industrial Research Organization were in 1952-53 brought still further into line with those for the ordinary Commonwealth department, because the revenue received by the Organization has since then not been credited to the Account for use in a later year. It is estimated at the beginning of the year and treated as part of the funds made available each year. The Organization explained the position in this way—

"Apart from the amount credited to the Trust Fund from the approved appropriation, other revenue is received each financial year and credited to the Trust Fund. This revenue is derived from sales of goods, produce, products, livestock, &c., and fees for services rendered. Until 1952-53 it was not available for expenditure during the year of receipt, as provision for its expenditure had not been included in the Estimates for that year. Thus, the proceeds remained in Trust Fund-Receipts, and were carried forward as the opening balance for the ensuing financial year.

Ibid, pages 3-4.

Commencing with the year 1952-53, an estimate of the revenue to be received during the year has been included in the annual Estimates submitted for Parliamentary approval and budgetary provision made for the expenditure of such revenue within the year of its receipt. If the actual receipts fall short of the estimate, supplementary funds are provided by the Treasury. On the other hand, if the receipts exceed the estimate, the excess is used to reduce the amount credited to the Trust Fund from the approved Parliamentary Appropriation for the financial year concerned. Thus, all receipts obtained during the year are applied as a reduction in the expenditure, so that the Trust Account will then show a nil balance at the end of the year."

235. The developments outlined above indicate a gradual process of assimilation of the finances of the Commonwealth Scientific and Industrial Research Organization to those of an ordinary Commonwealth department. They are the result of a policy that has no doubt been deliberately determined and put into effect. Since it is a matter of policy, Your Committee make no comment upon it. We mention the fact in passing—noting as we do that the process in the case of the other organizations operating under this category of trust account has been similar. What concerns us is to know how the financial arrangements made for the Organization affect the efficiency with which it operates. If having a trust account demonstrably increases efficiency, we would, as we have elsewhere indicated, be loath to recommend its closure. On the other hand, if it makes no significant difference to the working of the agency in question, our view would be that it should be closed.

236. One of the main problems of a governmental research organization is to retain the flexibility so vital to successful research, while still obtaining the funds so necessary to conduct the research. Your Committee sympathize fully with the desire of the Organization to preserve its freedom of action insofar as research activities are concerned. We do not intend to examine or comment upon this matter at all: our purpose is confined to assessing

the adequacy of the financial arrangements made for the Organization. In connexion with the importance of administrative flexibility, we quote with approval the following comments of the United Kingdom Select Committee on Estimates:—

"The object of financial control is to bring about economical and efficient administration, as well as to guard against the abuse of public funds. Your Committee's primary concern must be to satisfy themselves that the controls imposed are so devised as to achieve these objects. But methods of controlling and accounting for expenditure need to be applied with a clear recognition of their implications. A system which produces economies and is eminently sound when applied to normal administrative expenditure may not have the same beneficial results when applied to certain types of research. From what has been said in earlier paragraphs it will be obvious that for some kinds of research projects a reasonable flexibility in the detail of expenditure is essential to the success of the research and to the most economical use of the money. The need of this flexibility has been recognized in the varying financial arrangements that have been made for the conduct and fostering of research, as opposed to development. Your Committee are impressed with the economies that can accrue in such expenditure from allowing the greatest freedom compatible with safety, and they are not entirely satisfied that the same degree of freedom and flexibility is always accorded to the same kind of undertaking. They therefore recommend that the existing arrangements should be reviewed with the object of freeing the responsible officer, so far as is practicable, from over-detailed or harassing external control".

237. Does, then, the Commonwealth Scientific and Industrial Research Organization feel that the financial arrangements under which it operates at present are unduly restrictive? It seems that, with the inevitable reservations, the C.S.I.R.O. considers them satisfactory. We quote the following interesting evidence given to us by Mr. M. G. Grace, Secretary, Finance and Supplies, of the C.S.I.R.O., who appeared before us to explain the operation of the Trust Account:—

"COMMITTEE MEMBER.—It is suggested, at page 6 of the statement, that, under the new mode of operation of the Trust Account, administrative flexibility is no greater than would be if the organization were to work under an ordinary annual appropriation. Can you explain whether that is so?—(Mr. Grace) We would not be greatly concerned, I feel, if the pattern of the Estimates was retained as it is at present and we retained whatever flexibility we now possess. If this Trust Account was abolished, I personally do not think there would be any serious disadvantage to us.

COMMITTEE MEMBER.—In other words, you would prefer to work under an ordinary appropriation and not have a Trust Account?—(Mr. Grace) No, I would not say that. I would say that, so long as our Estimates are in the present pattern, inasmuch as we have money voted for investigations in that form under Sub-division C, we would see no disadvantage. Take, for example, Animal health and production. We have a total vote for that of £659,100. So long as we retained the authority to spend that money for any purpose associated with those investigations, we would see no disadvantage from abolishing the Trust Account and relying upon direct appropriation. This is where, perhaps, I am not fully knowledgeable. But, possibly, the fact that the Trust Account does not exist confers upon us a greater flexibility between the sub-divisions. There are four sub-divisions—A, B, C, and D. As I said before, if that pattern was maintained, and if the top line—For payment to credit of Science and Industry Trust Account—was crossed out, and we got our funds by direct appropriation, I think our operations could be conducted just as well as at present."

238. Thus the C.S.I.R.O. would not find operating under an annual appropriation less satisfactory than under the present arrangements, provided, of course, the necessary flexibility is preserved. Dr. S. H. Bastow, Chief Executive Officer of the Organization, who also appeared before us, confirmed this view:—

"COMMITTEE MEMBER.—But forward planning is an essential thing in a job like yours. How satisfactory to you is this system of having to base your requirements on an annual system?—(Dr. Bastow) I think that we would all prefer to carry the amounts five years ahead, but we can see the danger in that because we could not foresee how much we would have to spend and we might be just as limited by a five-yearly amount as by any other appropriation.

COMMITTEE MEMBER.—But you admit that by this method you can get what you want although if you got something else in addition such as more liberal funds you would be happier still?—(Dr. Bastow) The essential thing is to get speed. These amounts are not very great in terms of our annual expenditure. A sum of £50,000 in that total amount means all the difference between flexibility and inflexibility. We would like to be able to plan this work ahead by five years; but, financially, we are probably as well off under the present system as under a real trust account. It would have to be a big thing to be of any use.

COMMITTEE MEMBER.—The present arrangement is quite satisfactory?—(Dr. Bastow) It is fairly satisfactory. It could be freer.

COMMITTEE MEMBER.—You have a sub-heading in your Estimates to the effect that the money is for payment to the credit of this Trust Account. If that heading were removed, what difference would it make?—(Dr. Bastow) I could not tell you at the moment. So long as we could continue to operate, as we do at present, we would not mind.

Third Report,
Session 1946-47,
paragraph 86,
Exhibit No.
1470, pages
4, 5.

Q. 673.

Qs. 620-621,
See also Q. 615.

Qs. 657-661.

COMMITTEE MEMBER.—It would make no difference if you did not have a Trust Account.—(Dr. Bastow) So far as I can understand, No.—(Mr. Grace) So long as we did not lose flexibility in our A, B, C and D Sub-divisions.—(Mr. Hewitt) The Trust Account would still exist but it would become inoperative. I think that that would make a difference. It would represent a considerable improvement in administrative and accounting practice. It would make no difference to the Organization but it would make a substantial improvement in current conditions in the way that I have mentioned."

239. Your Committee recommend that the Science and Industry Trust Account be closed. It seems to us that it has become an anomaly. In its current mode of operation, it appears to serve no useful purpose. Its only effect is, apparently, to enlarge the figures of receipts and expenditure shown in the first of the Trust Fund tables in the Finance Statement and Budget Papers. On the other hand, Your Committee wish to make it clear that the recommendation we have just made indicates no judgment upon the overall adequacy of the arrangements made for the administration of the Commonwealth Scientific and Industrial Research Organization. It might, for example, be considered advantageous to revert to the original conception behind the Science and Industry Trust Account—the existence of a large corpus that could be used by the Organization over a period of years. Such a proposal would, of course, involve a large amount of money: Mr. Grace ventured the opinion that the amount would have to be of the order of £20,000,000 to £40,000,000. Even then, as Dr. Bastow observed, a five-yearly limit on funds available might prove just as restrictive as an annual appropriation.

240. However, these are matters beyond the scope of our present inquiry. All we have done is to recommend that, in the circumstances as they exist now, the Trust Account be closed. We note also that Mr. Hewitt, First Assistant Secretary of the Department of the Treasury, expressed the view that, examined purely on the basis of the present mode of operation of the Account, it would be better if it did not exist.

241. Your Committee recommend that the three other continuing Trust Accounts that fall within the same category as the Science and Industry Research Trust Account be examined, bearing in mind the comments we have made above. If no further reason be found for their existence than for the Science and Industry Trust Account, they also might be closed.

242. One other matter in connexion with the financial and accounting arrangements of the Commonwealth Scientific and Industrial Research Organization seems to Your Committee to warrant report. It concerns the numerous "Specific Research Trust Funds" held by the Organization. There are some 50 of them, shown in the published statements as one single head of Trust Fund—

"COMMITTEE MEMBER.—They are not shown in the financial statement of the Auditor-General nor in the Estimates?—(Mr. Grace) Not in detail—merely in total."

243. A record of these heads of Trust Fund is contained in an appendix to the Annual Report of the Commonwealth Scientific and Industrial Research Organization. The aggregate balance is shown in the Treasurer's Finance Statement. At 1st July, 1956, it was £25,185. The funds represent donations to the Organization for some specific purpose, and are used as necessary to supplement funds from Consolidated Revenue that have been made available for the same purpose—

"COMMITTEE MEMBER.—A few minutes ago, Senator Wedgwood asked you some questions in relation to tobacco research. I think you said there was a special account for that. Is that money set aside in a special trust account?—(Mr. Grace) Yes.

COMMITTEE MEMBER.—It is different from the mother trust account?—(Mr. Grace) Yes.

COMMITTEE MEMBER.—The Trust Fund Specific Research Account is a holding account for moneys that you get from outside bodies?—(Mr. Grace) Yes, and when we receive a donation we put it into that account. We budget to spend so much, and we estimate the amount that will be recovered in respect of the various items in the account.

COMMITTEE MEMBER.—What about the efficiency of this scheme?—(Dr. Bastow) We are extremely anxious to get as much money as we can from industry to finance our industrial research. We believe that that is a more healthy practice than obtaining all our money from the Treasury. But we cannot get an industry to finance research if it has no certainty that the money donated will be used for a specific purpose. Therefore, such money is put in a trust account. We might receive £10,000, perhaps, for a specific job of work on copper, or £5,000 for expenditure on plaster research. Many timber firms have made donations and we hope that there will be a great many more. But these people do not want to feel that the money will be swallowed up in Consolidated Revenue. Concerning the scrutiny of funds, we probably receive ten times as many requests for scientific research from industry as we can possibly carry out. There is an enormous amount of work requiring attention for industrial organizations and Government departments. We cannot do it all. That circumstance always has the effect of making us scrutinize work in order to see that

Q. 619.

Q. 657.

Q. 662.

Q. 668.

Q. 669.

See Qs. 640-642.

Qs. 651, 652.

Qs. 640-642
and Q. 656.

what we are doing is more important than requests that are coming in. I suppose that dozens of small pieces of work are stopped during the year while other work is started. As a result, people's careers are also stopped. We have to say to a research man, 'You will have to stop this work. We have another job for you to do'. It is necessary for us to have power to do that or we would become sterile."

244. Your Committee observe that, in the financial information made available to the Parliament, no indication is given of the purpose of the Specific Research Trust Fund, nor of the agency by which it is administered. Nor does the Science and Industry Research Trust Account reveal in any way the parallel existence of these funds, although it is true that the Annual Reports of the Commonwealth Scientific and Industrial Research Organization contain full details. We consider that here again is an example of the need for the kind of Budget Paper table discussed by us in Chapter III. above.

(g) MISCELLANEOUS TRUST ACCOUNTS.

245. In addition to the five types of trust account mentioned in the earlier sections of this Chapter, there are, of course, others whose purpose is in some way to further the processes of administration. They cannot readily be placed into further categories: their object is to promote efficiency by the use of a trust account as an immediate source of funds, rather than an annual (or occasional) appropriation.

246. We mention three only of these trust accounts because it is our view that, at any rate at this juncture, our purpose is not to investigate in detail every account that exists. It is to lay down some general principles upon which a decision can be made whether a trust account ought to be created or whether, if it is in existence, it ought to be closed.

247. Although once again Your Committee's inclinations have been to view critically the need for these trust accounts, we wish once more to emphasize that we have not approached the problem with our minds made up. If a genuine case can be put showing that a demonstrable advantage can be derived from operating a trust account, then we would find no objection to it. On the other hand, if the main weight of the case for the trust account rests, for example, on the inadequacies of the established system for providing funds, our conclusion would be that the system should be improved, not that a trust account should be established.

248. The three Trust Accounts we examined in this field were the—

- Aircraft Production Trust Account.
- Munitions Production Trust Account.
- Law Libraries Trust Account.

The first two are administered by the Department of Defence Production, the third by the Attorney-General's Department.

249. *The Aircraft Production Trust Account.*—The Aircraft Production Trust Account, established in March, 1956, "to finance the manufacture or assembly of aircraft or parts thereof by the Commonwealth or any authority of the Commonwealth", supersedes the Aircraft Trust Account that was closed on the same date. It had been established in 1939.

Qn. 422-424.

250. It seems that, because of the amendment of the *Supply and Development Act* in 1948, there is some doubt about the validity of operations upon the Aircraft Trust Account between 1948 and 1956. It also appears that the validity of operations upon the Aircraft Production Trust Account may be open to question, in this case because of the lack of reference in the enabling Act to the Department of Defence Production, and to the failure to include in the Administrative Arrangements Order appropriate functions for the Department.

251. Your Committee consider it improper to permit operations on trust accounts without due authority and recommend that the matters in doubt be clarified and put on a proper footing without delay.

252. In a statement prepared for Your Committee, the Department of Defence Production explained the use of the Aircraft Production Trust Account in the following way:—

"The Aircraft Production Trust Account is used to finance, by way of reimbursement, the production in Government Aircraft Factories, annexes and industry of the requirements of the Department of Air in the following categories:—
Aircraft Construction.
Modifications.
Repairs and Servicing.
Spares.

In addition, it provides finance for the stock holdings of Aircraft Maintenance Branches of the Department of Defence Production.

Exhibit No. 34/10.

Amounts totalling £1,000,000 were credited by way of advances on orders to Aircraft Trust Account in past years to enable this Department, pending recoupment from Department of Air, to meet the claims of factories and contractors for expenditure incurred on construction, modification, &c.

The Trust Account meets the needs of this Department as an imprest account clearing expenditure as between Aircraft Factories, &c., and the Department of Air. In effect, the scale of expenditure from the Trust Account is dependent on the annual appropriations to the Department of Air."

253. Thus the Account operates as a kind of imprest account, serving to deal with the time lag that occurs between the actual construction or modification of aeroplanes or the production of parts in aircraft factories, and the ultimate payments by the Department of Air for the finished job. As the Department explained, the Account is, except within the limits of its advance, dependent upon "purpose" appropriations to keep it in operation. Were the Department of Air to receive no appropriation for aircraft construction or maintenance, the resources of the Trust Account would soon be exhausted.

Qn. 443-450

254. While Your Committee can see the need for a central Account for Munitions Factories, each of which has only a small working advance, and each of which may only produce a portion of the total requirement of the ordering department, we find it more difficult to appreciate the purpose of the Aircraft Production Trust Account. It seems that, on the face of it, the accounts falling due from factories might be paid direct from appropriation, rather than through the Trust Account, with subsequent claim on the Vote.

255. We recommend that the reasons for the existence of this Trust Account be re-examined by the Department, in consultation with the Treasury. If it be found that without additional inconvenience to the Departments of Defence Production or of Air the Account could be closed and charges made direct to the appropriation, we think that should be done.

256. *The Munitions Material Trust Account.*—Your Committee have already, at paragraphs 197-198 above, mentioned the opinion given by the Crown Law authorities that no legal difficulty stands in the way of closing a stores trust account for which there is no further use, even though stocks are still held against the account.

See generally Qn. 450-452.

257. The Department of Defence Production explained that the Munitions Material Trust Account was established by the Treasurer in 1942²⁶ for the purchase and manufacture of all classes of materials and supplies needed in connexion with the production of munitions, aircraft and war material generally". Until 1951, it was used for the purchase of reserve stocks for production, but thereafter was not used for that purpose because of the creation of the Defence Production Materials Trust Account.

Exhibit No. 34/12.

258. From 1951 the Account was used only for "minor expenditure associated with reconditioning items of stock". The Treasury asked that it be liquidated as early as possible and the Account was finally closed in June, 1957. The book value of stocks on hand at 30th June, 1957, was £4,820,000.

1946.

259. Your Committee question whether the stocks might not have been liquidated rather more rapidly than in fact they have been, and suggest that this should take place without further delay. It seems to us too that the Account, which had long outlived its purpose, could have been closed much earlier as closure should have presented no difficulties in handling, disposing and accounting for the remaining stocks. Furthermore, another of the prolix series of accounts complicating the financial operations of the Defence Group would then have been eliminated.

Qn. 728-731.

260. *Law Libraries Trust Account.*—The Law Libraries Trust Account was established by the Treasurer in 1928 under section 62A of the Audit Act. Its purpose is, somewhat cryptically, to provide for "the establishment of departmental law library for the Attorney-General's Department and library for the High Court". There was some argument as to the precise ambit of the purposes: either they cover only High Court and strictly departmental law libraries, or the latter phrase includes also libraries established for the federal judiciary in general. (But that point does not here concern us: our inquiry was as to the use of the Account, and whether it promotes the efficiency of operation of the Department.)

See Qn. 1086-1096.

261. The Solicitor-General and Secretary, Attorney-General's Department, Professor K. H. Bailey, C.B.E., appeared before us to explain the purposes and use of the Account. He said that it might be used up to six times a year, although it was not in fact used in 1954-55 and 1955-56. Its chief value is that it enables special, unforeseeable purchases to be made when the delays consequent upon recourse to the Treasury for finance might mean that the offer would lapse. Moreover, its use avoids the occurrence of inaccuracies in the Estimates resulting from either not including amounts for unforeseeables, and then having to obtain additional funds (which in our opinion is the proper course), or else from including

Qn. 1092, 1104.

them in the hope that a library might become available during the year, finding that none could be purchased, and in consequence having under-expenditure on the Vote.

Qs. 1067-1069.

262. The Solicitor-General told us that the ordinary Votes of the Department carry items for the maintenance of their libraries. The Trust Account is used strictly for establishment purposes—

Qs. 1069-1071.

" . . . Perhaps the neatest illustration of the Trust Account is the need that brought it into existence.

COMMITTEE MEMBER.—Establishment would become less and less important and maintenance more and more important?—(Professor Bailey) In respect of any one library, yes. The Account was brought into existence by two moves made in the financial year 1927-28. The High Court of Australia moved out of the Supreme Court of Victoria, where judges had shared chambers, into its own building, neighbouring but not under the same roof in Melbourne, and the administrative office of the Department moved from Melbourne to Canberra. It became necessary to provide for two completely new libraries, one for the High Court and a library for the Canberra office of the Department. The Canberra office could, of course, have moved its library from Melbourne, but that would have meant that you had to provide a new library in Melbourne, so it was done the other way. The establishment of a new library is a matter not only of finance but of time, and the events of the last war and since have emphasized the time factor. At no stage in my lifetime has it ever been possible for anybody who was establishing a law library to go into a law bookseller's and give him a list of all the series of reports, statutes, and the like that he wants to buy and get the order fulfilled then and there. The destruction of the stocks of law reports in England during the war-time bombing has only accentuated a problem that existed before. The main source of supply of the English law reports, which are an essential ingredient of every even reasonably well-equipped law library in Australia, is now the second-hand sale. Sets of the law reports are now out of print. Sets of the English Reports, which are the reports from the earliest times up to 1865 and which used to cost a couple of hundred pounds and now are worth £1,000, are available only sporadically, and unpredictably. You have the offer of somebody's library, perhaps when he dies, perhaps when he retires from office and moves into a smaller house, perhaps when he wants to realize some of his disposable goods and pay a deposit on a new house, perhaps when he takes a new job, but you can never predict it. The books may come on the market in small quantities or in large quantities. We had the offer in the last few months of a library independently valued at £1,750. I had a very warm and strenuously pressed request from the Chief Judge of a federal court only a few days ago for a set of law reports which would cost £1,000.

COMMITTEE MEMBER.—The total amount of the operations, according to the figures I have for 1956, was only £1,250. What is the order of magnitude usually of operations through the Trust Account?—(Professor Bailey) Perhaps the illustration I just gave might serve as what I think would be a maximum. If we had in the Trust Account so much as £1,750 we would have wished to buy that library. It was an extremely advantageous offer."

263. Your Committee were impressed by the manner in which the Solicitor-General presented the arguments in support of the continued operation of the Trust Account. We note also that at the present it has only a small balance, and that its closure is under discussion between the Attorney-General and the Treasurer. In our view there is really no satisfactory alternative to recommending that the Account be closed, which we do.

CHAPTER VII.—TRUST MONEYS NOT INCLUDED IN THE TRUST FUND.

Exhibit No. 3477, paragraphs 10-12.

264. The Auditor-General brought to our notice the fact that figures for some trust funds are included in the Finance Statement table, although they are not heads of Trust Fund or trust accounts within the meaning of sections 60 and 62A of the Audit Act. In addition, there are numerous funds that partake of the character of a trust, but in respect of which particulars of neither balances, expenditure, nor investments are included in the Trust Fund statement.

265. In the first category, i.e. trusts established by Act of Parliament, but not within the meaning of sections 60 or 62A of the Audit Act, there are four funds—

Defence Forces Retirement Benefits Fund.
Parliamentary Retiring Allowances Fund.
Superannuation Fund.
National Debt Sinking Fund.

266. In his statement the Auditor-General advised us that—

"The legislation concerning these funds places their control under a Board, Trust or Commission and does not vest it in any way in the Treasurer. None of the Funds is named either as a Trust Fund or a Trust Account in the relative Act. Control of investments is in each case vested in a Board, Trust or Commission.

The legislation also usually provides that the accounts relating to the Fund shall be audited by the Auditor-General.

Ibid., paragraphs 10, 11, See also Qs. 44, 48.

In regard to the National Debt Sinking Fund, although all moneys received and expended pass through the Treasury accounting system they are paid to a separate bank account under the control of the Commission."

267. The three Funds first mentioned are of a type to which the Commonwealth makes contributions in respect of the retirement pensions paid from them. In addition to the amounts paid in by the Commonwealth, there are, of course, extensive funds contributed by the eventual recipients of the benefits. These contributions normally exceed substantially those made from Consolidated Revenue Fund. Thus, in 1956-57 contributions by members to the Superannuation Fund amounted to £5.8 million, whilst those from Consolidated Revenue amounted to £3.7 million. Contributions to the other two Funds are in similar proportions.

268. It seems to Your Committee that these Funds are indubitably trust moneys held by the Commonwealth or one of its agencies for persons other than the Commonwealth Government. In that sense, they fall within the ambit of the heads of Trust Fund shown in section 1 of the table in the Budget Papers. However, there are reasons for and against the inclusion of these Funds in the Treasurer's annual Finance Statement. We received from Mr. Hewitt the following evidence:—

" . . . I refer now to paragraph 10 which describes four substantial accounts, each one of which has been established under a separate Act of Parliament, the management of each of which is placed under the control of a Board or Trust or Commission and the expenditure from each of which is determined by the Act. For that reason they bear an apparent identity with those illustrated in paragraph 12, and others. The question is, if those in paragraph 12 are excluded from the Trust Fund and the Treasurer's Statement, why are these four included? There is no doubt that there is room for difference of opinion on the inclusion of these four in the Trust Fund. Mr. Newman's predecessor formally took up with the Treasury the inclusion of these accounts in the Trust Fund. I am not sure what argument is relied on for excluding them from the Trust Fund. There are two possible arguments, one is that the moneys paid to the four accounts are not moneys described in section 27 or section 29 of the Audit Act, e.g., because none of the Acts require the money to be paid to the Treasurer or the Treasury. If you rely on an interpretation that the Trust Fund described by Section 60 of the Audit Act can only comprise moneys described by Sections 27 and 29, that is a line of reasoning to exclude these accounts from the Trust Fund. I think that legal opinion is that there can be Heads of the Trust Fund created under Section 60 of the Audit Act in addition to the moneys described in Sections 27 and 29. So I hold the view that reliance on there not being moneys described in Sections 27 and 29 does not exclude them from the Trust Fund. The second argument put forward, and the Auditor-General of the day used it, was that the Acts establishing these four funds specifically empowered the Boards, Trusts or Commissions in each case to invest the balance of the account. Therefore, if the moneys are held to be part of the Trust Fund there is a conflict because the Treasurer, under section 62b of the Audit Act, is empowered to invest the Trust Fund. Because of that the conclusion was reached that they should be excluded from the Trust Fund. I think there is legal opinion to support my view that the two provisions are not inconsistent, and that the specific provision in each of the four Acts for the investment of money is the operative one, and the general provision in section 62b of the Audit Act is overridden by the specific provision in the four establishing Acts. Therefore, that second line of reasoning is not one to support the exclusion of these four accounts from the Trust Fund. I think there are also positive reasons for including them in the Trust Fund, and here again there is room for differences of opinion. I believe that it is not inappropriate to include the funds in the Trust Fund and the positive reasons which lead me to that conclusion are twofold. The first is that the entire accounting for three of the funds is part of the Treasury accounting. Those funds are the Superannuation Fund, the Parliamentary Retiring Allowances Fund and the Defence Forces Retirement Benefits Fund. All the cash that comes in and goes out of those funds is part of the Commonwealth Public Account. The accounts of the National Debt Sinking Fund are kept within the Treasury and are not part and parcel of the Treasury accounts in the sense of the other three funds. But the cash receipts and payments of the National Debt Sinking Fund do enter and flow through the Commonwealth Public Account to a separate banking account. My second positive reason is that those controlling the first three funds, in accordance with their statutory powers, have lodged at call with the Treasurer their daily uninvested cash balances. Consequently, whether the total transactions of those three funds do or do not form part of the Trust Fund, there is not the slightest doubt that the daily cash balances of the funds are moneys correctly described as being included in the Trust Fund. The National Debt Sinking Fund does not formally lodge at call with the Treasurer its uninvested cash balances, but the Commission in 1937 considered a statement of the practices followed by the Treasurer as Chairman of the National Debt Commission in investing the funds of that body. The Commission adopted the practices, which included the practice of setting off against the overdraft in the Commonwealth Public Account any credit balance in the National Debt Sinking Fund bank account. The Treasurer pays to the National Debt Commission interest on the amount of the credit balances in the Commission's bank account, which is set off against the Commonwealth Public Account overdraft. That means that the two bank accounts are merged and treated as if they were one by the Bank, and the Treasurer has available to him the uninvested cash balance in the National Debt Commission bank account. I think it can be argued forcibly that the Commission and the Treasurer, having made an agreement, have not brought the National Debt Sinking Fund within the full legal definition of the Trust Fund. But I believe, in the light of that explanation, that it is not inappropriate

See Finance Statement for year ending 30th June, 1957, Table 11, 13, 14.

Qs. 44-47.

Q. 57, See also Exhibit No. 3477.

to include the Fund in, and that it would be most inappropriate to exclude the Fund from, the statement of the Trust Fund which includes money held by the Treasury in trust. There is wide room for differences of opinion as to whether this should or should not be included in the Trust Fund, and Mr. Newman's predecessor argued both for its exclusion and for its inclusion. While I would not use the argument that he used for including it, it is a forcible line of reasoning. He used the argument for refusing to sign the Auditor-General's Certificate for \$18,500,000 to be paid to the National Debt Commission."

269. Your Committee consider all the relevant issues adequately set out in the foregoing passage of evidence. It seems to us that it is desirable that details of these three Funds, together with those of the National Debt Sinking Fund, should be included in the Finance Statement prepared each year by the Treasurer. These are large funds and are all in some way available to the Treasury for use in conjunction with its general operations on the Commonwealth Public Account. In the case of the three retirement benefit funds, the available uninvested balances are at the disposal of the Treasurer. Moreover, their entire accounting arrangements are dovetailed with those for the Treasury. In the case of the National Debt Sinking Fund, the National Debt Commission has permitted the overdraft in the Commonwealth Public Account to be offset by credit balances in the National Debt Sinking Fund. Although not in the same sense as the other three Funds part of the Treasurer's accounts, the accounts of the National Debt Sinking Fund are also kept within the Treasury.

Q. 57. 270. The Treasury representative indicated to us that it is the Treasury's view that it is "not inappropriate" to include these accounts in the Treasurer's annual Finance Statement. Your Committee deem somewhat modest this statement of the desirability of publishing details of these four Funds in the Finance Statement. We think that, bearing in mind their size, their importance to the whole of the Commonwealth Public Service and Defence Forces on the one hand and to the public debt of the Commonwealth on the other, there are positive reasons why they should be included.

271. We have already indicated in Chapter III, where we discuss the information made public concerning the Trust Fund, that we think it desirable that these Funds should be placed in a new and separate section of the revised Budget Papers Trust Fund table. There is force in the Auditor-General's contention that these Funds are not, in significant respects, on all fours with other heads of Trust Fund included in the present section 1. We, therefore, recommend that they be shown in a new fourth section. It would no doubt be possible to devise some caption to this section that would indicate that the funds shown in it are included for various reasons, though perhaps not in the strict sense comprising a part of the Trust Fund proper.

See paragraphs 267-58 and especially C-108 above.

Exhibit No. 347, paragraph 12.

Q. 110.

272. The Auditor-General also brought to our notice the existence of numerous funds whose existence is not disclosed in the Finance Statement or Budget Papers. As examples he mentioned the Science and Industry Endowment Fund, the Services Canteens Trust Fund, the Royal Australian Navy Relief Trust Fund, the Australian War Memorial Fund and the Aboriginals Trust Account. It appears that these funds and accounts were established by special legislation and that they are vested in and administered by a board or trustees. None of these funds are, he stated, "heads of Trust Fund" within the meaning of section 60 of the Audit Act; nor, it seems, are the "Accounts" trust accounts within the meaning of section 62A of the Audit Act.

273. These funds were discussed by us with both Mr. Hewitt and the Auditor-General (Mr. Newman). Many of the bodies administering the "Funds" are in fact entirely separate from the Commonwealth Government. They may be conducting tractor-testing or may be engaged on any one of a multitude of activities over which the Commonwealth has no immediate influence or control. Their only connexion with the Commonwealth is that certain public funds have at some time or on some occasions been appropriated to them. In this sense, there is a very fine line to be drawn between what could in any sense be considered "Trust Funds" and what are in fact more properly classified as "Grants-in-Aid". The following quotation from evidence given by Mr. Hewitt and Mr. Newman seems to us to explain adequately the status of these Funds:—

Q. 400.

Q. 26, Exhibit No. 347.

"COMMITTEE MEMBER.—Considering section 1, should they be related to funds under the control of the Treasury? These are not accounts under section 62A of the Audit Act, but should be grouped with funds which are audited by the Auditor-General?—(Mr. Newman) That is so.—(Mr. Hewitt) Two questions arise out of the paragraphs numbered 10 and 12 in the Auditor-General's statement. Considering first No. 12, these moneys are not included in the Trust Fund statement. The examples given in paragraph 12 are examples of moneys which are quite outside the Treasurer's accounts. Each one of these is described as a trust fund, but they are moneys which have been put under the control of some group of persons for particular reasons as set out in the relevant Act of Parliament. They are not very different from other moneys which are quite outside the Treasurer's statements of account. For example, the Canberra University College and the Australian National University derive money from the Commonwealth, but their accounts have nothing to do with the Treasurer and there is no question of including in the Treasurer's

statement of receipts and payments of the Trust Fund any of the cash receipts and payments of the Australian National University. For like reasons, there is no reason for showing the Royal Australian Navy Relief Trust Fund, which is money to carry out statutory functions, as forming part of the Treasurer's statement of receipts and expenditure.—(Mr. Newman) I do not disagree with that at all. I was drawing attention to the fact that there are these and other funds not shown. I do not suggest that they should be shown in that statement.—(Mr. Hewitt) I do not think that these moneys and other moneys illustrated in paragraph 12 should come back and form part of the Treasurer's statement of account."

274. We think it important to mention that the use of the word "trust" in connexion with the Funds we are now discussing is somewhat misleading. This is because, within the Treasurer's accounts, the phrases "head of Trust Fund" (often termed "Trust Fund") and "Trust Account" are used in a very special sense. The Treasury representative explained the difficulty in this way:—

"... (Mr. Hewitt) ... When Parliament passes statutes establishing these funds—I think the word 'trust' is unfortunate in being picked up and put beside this very formal Trust Fund which is properly defined in the Audit Act—when Parliament passes its statutes providing for money to be given to trustees, say, the Australian National University or the R.A.A.F. Veterans' Residences Authority, it passes the money right out of the Treasury, right out of the Treasurer's control. In many of the statutes, it is provided that the persons charged with the expenditure of the money shall report to Parliament and in many cases the Auditor-General is charged with the responsibility of auditing the accounts. The responsibility for reporting to Parliament, for Parliament to ensure that it gets its reports and the responsibility of the Auditor-General to audit them in accordance with the statutes are very important responsibilities which quite outweigh the fact that they are no part of the Treasury accounts and the Treasurer's statements."

Q. 384.

275. Some of the funds are audited by the Auditor-General and a report upon them is contained in his Annual Report. In respect of trusts which have received a once-for-all payment from the Commonwealth it is clear that while, from the Commonwealth's point of view, some audit may be desirable, the Treasurer has in many cases no further concern over the use to which the moneys are put. Once duly disbursed from Consolidated Revenue, they are no longer funds for which he must by law account to the Parliament. They are, therefore, not shown in the Finance Statement. But at the same time the Commonwealth may, because for example of the likelihood of a further application by the body for funds, or because of the high proportion that the Commonwealth grant bears to the total funds available to the body, desire to exercise some further supervision over the expenditure of these moneys. To achieve that end it seems that in many cases the Auditor-General has by the enabling Act been instructed to examine the accounts of the body in question.

Q. 212.

Q. 396.

276. Your Committee regard audit by the Auditor-General as a satisfactory form in which further scrutiny can take place of the way funds made available by the Commonwealth are expended. At the same time, however, we recall our previous observations in this regard. They are contained in our Twenty-sixth Report, on the Commonwealth Office of Education. We there emphasize that, because the bodies in question are not subject to the Audit Act and Treasury Regulations, the conditions of his audit may necessarily be different than are those for the ordinary government instrumentality. Indeed, the autonomy of the recipients of Commonwealth grants-in-aid could easily be prejudiced by the manner in which the audits were conducted. Your Committee hasten to add that we wish no implication to be drawn that we have had occasion to question the methods of audit previously used for such bodies as these. We have not. Our only purpose is to ensure that the Commonwealth, which has by granting funds to independent bodies acknowledged their independence, should not unwittingly yet in effect become their master.

Tabled on 26th September, 1956, see paragraphs 92-95.

277. Your Committee report that we have been unable to receive all the assurances we think necessary in connexion with the provisions for report and audit included in the Acts constituting some of the bodies whose funds we have been discussing. Thus, for example, we mention the obscurity with which the Aboriginals Trust Account is cloaked, and the steps now being taken by the Treasury to ascertain its status. In themselves these circumstances mean little; but they do suggest the need for an examination of the numerous trusts not included within the Treasurer's accounts, yet in some way associated with the Commonwealth. The following passage of evidence seems to us to indicate an undesirable lack of certainty in regard to these trusts:—

Q. 1105-1111.

"COMMITTEE MEMBER.—Is there a general rule that when such funds are created they are subject to (a) a report to the Parliament by the trustees and (b) an audit by the Auditor-General?—(Mr. Hewitt) I do not know of that. It would become apparent in the instructions given to the Parliamentary Draftsman by the departments whose Ministers are responsible for the laws establishing the bodies or providing for the grants."

Q. 395, 396.

COMMITTEE MEMBER.—You cannot say whether that is as a rule?—(Mr. Newman) That is the practice in very many cases. In most cases we are aware of, that provision is made."

278. Circumstances will necessarily alter rules. Nevertheless, Your Committee recommend that the accounts of independent boards or trustees appointed by the Commonwealth under Act of Parliament should be subject to audit by the Auditor-General. We regard this as the prime obligation. Its performance should not, as we have mentioned, violate the independence of the bodies. At the same time, it would provide a means by which any irregularities could promptly be brought to the attention of the Parliament. In addition, we think it would be desirable that, where substantial Commonwealth funds are involved or where for other good reasons it might be desirable, a report should be made to the Parliament by the board or trustees in question. We note that this is already done by the Superannuation Board. But because the audit we have in mind would relate to bodies created or given a special status by the Commonwealth, it would not extend Commonwealth scrutiny and control into an unnecessarily or undesirably wide field.

279. Where the funds represent a once-for-all grant, there is very little need to take any specific steps to convey information to the Parliament through either the Auditor-General or a report from the body in question. The grant will appear in the Estimates and its conferring is subject to debate. Any irregularities in the payment would subsequently be reported to the Parliament by the Auditor-General. But where there is a likelihood that the grant will be repeated in later years, or where the Commonwealth funds form part of a trust corpus, or where other special circumstances pertain, it may be that some statement of their existence should be available, and even that the accounts should be subject to audit by the Auditor-General. There are arguments for and against such a list, and such an audit. As the arguments appear clearly from the evidence, we quote the relevant passages—

Qs. 224-226.

“COMMITTEE MEMBER.—What amount of money would be involved in these at a particular balancing date?—(Mr. Hewitt) I would not hazard a guess.—(Mr. Newman) In regard to the point about recording what the various trust funds are, that was done indirectly at paragraph 137 of my last Annual Report where for the first time I published a statement of audits carried out in pursuance of the provisions of other Acts. These are referred to in the provisions of section 51A of the Audit Act. I published a fairly comprehensive list. It is a complete coverage of the audits we undertake which are outside the ambit of the Audit Act. If it is thought to be desirable to amplify that statement to give an indication of the extent of Commonwealth contributions in establishing these various funds, I should be quite happy to give consideration to it if the Treasury view is that it is not a matter for inclusion in the Treasurer's statement. This was merely published as a matter of information about the various types of audit we carry out, but perhaps it does not give the information you want in relation to the extent to which some of these trust funds have been financed.

COMMITTEE MEMBER.—As I look at the list, it seems to me that there is a tremendous amount of money somewhere under somebody's control which belongs to the Commonwealth or for which the Commonwealth is responsible and which, broadly speaking, is not indicated anywhere?—(Mr. Newman) They are reported upon individually of course, but that again does not give the information you have in mind. A report is made on the operations and the results of the audit, but you are more concerned with a statement to show just what the financial position is and particularly what has been the Commonwealth contribution?

COMMITTEE MEMBER.—That is right.

COMMITTEE MEMBER.—In many cases the Commonwealth made a grant in the first place and intended that it should not give any more but that the fund should be self-supporting for the purposes for which it was created. If you begin to publish these things, there might be a demand for Treasury control over the operations of the accounts, more particularly if it stemmed from comments, adverse or otherwise, which you might make as a result of your investigation. It might be that you would therefore cut across a policy that was inclined to allow these funds to be administered independent of any controls other than the necessity to make a report to you?—(Mr. Newman) There could be complications in certain circumstances. Mr. Haines mentioned the Australian Aluminium Production Commission. Speaking from memory, the Commonwealth contribution to that was about £10,000,000. A Commission is responsible for that undertaking. If we started publishing figures, perhaps we would have to get down to what they do with the profits from the undertaking, some of which might be turned back into additional plant and various other forms of expansion. It could become quite complicated in such a case, instead of being a straight-out informative statement showing the original contribution or the total contribution by the Commonwealth.”

Q. 385.

280. The Auditor-General volunteered to show in his Annual Report a list of the funds in question. The Treasury representative also said that, should Your Committee think that desirable, an inquiry could be made to ascertain what Commonwealth moneys are held outside the Treasury and the Treasurer's accounts, though he pointed out at the same time that the responsibility for the money, if issued from the Consolidated Revenue Fund, is placed by Parliament in the hands of persons outside the Treasury and beyond its normal sphere of control. Your Committee doubt whether a full-scale inquiry is necessary. On the other hand, it may be that a simple and unqualified list of funds created by statute would

be of advantage. Any more than a simple list, with the constitutive Act shown opposite the fund, could become very cumbersome, particularly if the contributions from Consolidated Revenue Fund were to be isolated.

281. Your Committee recommend that a review be made of the existence of trust funds outside the Commonwealth Budget and in which substantial Commonwealth moneys are involved. Where necessary, an audit by the Auditor-General might be provided in the terms discussed above for the accounts of the body in question; in addition or alternatively a report to the Parliament might be required from the administering board. While we think it important that their accounts should be audited, we doubt whether a complete and published list is called for. We find it difficult to decide whether or not there should be publication of lists of these funds and of associated details: there are advantages on both sides and they cannot easily be weighed until more complete knowledge of the extent of the problem is available. Your Committee leave this matter to be decided by the Treasury and the Auditor-General in consultation. Whatever the outcome, Your Committee would rely on the Auditor-General to bring to the Parliament circumstances surrounding expenditures of any of the boards that warrant its attention. Gradually, no doubt, the Auditor-General and the Treasury between them will, even if there is no full-scale investigation, survey the field and clear up any anomalies that they come across. When appropriate, the anomalies could be brought to the notice of Your Committee.

CHAPTER VIII.—NOTES ON PRACTICE IN OTHER COUNTRIES.

282. In Chapter II. is described the inter-relationship between the “surplus revenue” provisions of the Constitution and the power of the Commonwealth to appropriate funds to the Trust Fund for the purpose of meeting anticipated future obligations. As we observed in that Chapter and in Chapter V.(c), the Trust Fund has been used extensively to receive funds set aside to meet such obligations. But quite apart from these arrangements for the existence of the Trust Fund it is noteworthy that other countries whose financial arrangements are of the British pattern have also adopted the Trust Fund in one form or another. The exigencies of a system of an annual vote and lapse of funds have, in most modern polities, made necessary, or at least expedient, the adoption of devices to avoid its application in all cases. The United States of America, as we shall describe below, has, though no doubt for good reasons, made most inroads on the rigours of annual appropriation and lapse of funds. The United Kingdom, on the other hand, appears less than other countries to have made breaches in the system.

283. Your Committee include some notes on the practice in other countries in regard to operations carried out in Australia through the Trust Fund because, without such notes, the setting of our Inquiry might seem to be unnecessarily local and our conclusions might appear too readily to admit the necessity for the existence of various forms of trust account. The notes do not set out to be, nor should they be taken as being, exhaustive comparative analyses of the practice in other countries. Such an endeavour would represent an entirely fresh, albeit fascinating inquiry. All we can hope to do here is to show in broadest canvas how four other countries have adapted their financial machinery to meet the stresses imposed upon it by modern fiscal and economic requirements. The countries we have chosen are the United Kingdom, the United States of America, France, and Canada.

284. Each country has adopted a form of trust fund to hold moneys that are in the possession of but are not owned by the Government. These are the funds termed by us “trustee funds”, and are those shown in section I. of the first Budget Papers table on the Trust Fund. The necessity for keeping distinct from the moneys making up the public account the funds owned by private persons or authorities but for some reason in the possession of the Government is so obvious that we do not mention it below. Each country has made provision for these moneys in some kind of trust fund, and, except in the case of France, whose arrangements form the subject of a special note, keep them absolutely separate from the finances of the Government itself.

285. *The United Kingdom.*—In the United Kingdom the main annual Appropriation Act authorizes in some cases the use by a department of receipts incidental to its ordinary course of business. The direct use of these receipts is sanctioned by “Appropriations-in-Aid” (not to be confused with “Grants-in-Aid”). Thus no trust account mechanism is used, even where in Australia a working account of some kind would be used. Your Committee have already mentioned the views held by authoritative persons in England that revolving funds would in some cases be desirable. As a matter of interest we quote also the

Third Report, 1951-52, Section, paragraph 104, 105.

section of the Treasury Minute covering a recommendation by the 1951-52 Public Accounts Committee that the institution of a Food Trading Fund for the Ministry of Food would offer "solid advantages" over the existing method of accounting—

Treasury Minute, bound with 1952-53 Report, page xx.

"My Lords note that the institution of a Food Trading Fund would, in the Committee's view, offer solid advantages over the present method of accounting. They appreciate the nature of the arguments which have led the Committee to this conclusion; but they consider that it would be premature to establish a Trading Fund for any commodities while the future of Government trading in many commodities is under review. My Lords, therefore, while agreeing that the question might well be reviewed from time to time, are not persuaded that the present moment is opportune for the introduction of legislation fundamentally affecting the financial administration of the Ministry of Food."

286. In a few cases the receipts from miscellaneous sources may be sufficient to cover the whole of the cost of the service provided by a Department. In those cases the Parliament makes a "token" Vote of a small amount—often £10—in addition to authorizing as *appropriations-in-aid* the use of the revenues received from sources other than the Consolidated Revenue Fund.

287. Should receipts occur in excess of the amount authorized by the Parliament as an *appropriation-in-aid*, no set-off is allowed against excess expenditure. We quote an example contained in "Notes for the Use of Accounts Branches of Government Departments". It is of a case in which a gross, but not a net excess occurs upon a vote—

	Estimated.	Actual.
	£	£
Gross total	20,000	21,000
Appropriations in Aid available	5,000	7,500
Net total required	15,000	13,500
The 'token' Supplementary Estimate would be for—		
Further gross expenditure		1,010
Additional Appropriations in Aid		1,000
Net vote		10

	Estimated.	Actual.
	£	£
The Appropriation Account therefore runs—		
Gross Total:		
Original	20,000	
Supplementary	1,010	
Appropriations in Aid:		
Original	5,000	
Supplementary	1,000	
	6,000	*6,000
Net total	15,010	15,000

* The remaining £1,500 of receipts available being surrendered as extra receipts to the Exchequer.

The Appropriation Account here shows a surplus of £10—the amount of the 'token' Vote. The £10 is not issued from the Exchequer, but is written off at the time the surplus is disposed of (see 143).

The £1,500 of surplus 'Appropriations in Aid' is paid over in cash to the Exchequer (see 293)".

288. The system of "Grants-in-Aid" enables another departure from the ordinary rules of Treasury accounting. If the Vote indicates that it is a *grant-in-aid*, the rule that the unexpended portion lapses at the end of the financial year does not apply. Furthermore (though this is not germane to our present purpose), a detailed account of the expenditure is sometimes not required. The purpose of exempting the *grant-in-aid* from the ordinary rules is to enable the grantee to carry on activities without being tied entirely to the financial year and the amount of *grant* made therein by the Parliament. It is interesting to note that, in order to escape the lapse of funds, the *grant-in-aid* must be paid over to the recipient before the end of the financial year, "or paid out of the Vote account to a special deposit account opened for the purpose with Treasury authority".

289. These are the only significant exceptions to the principles that all receipts must be credited to Consolidated Revenue, and that all payments therefrom authorized by the Parliament must be made within the financial year, or the appropriation will lapse. As can be seen, while the *appropriation-in-aid* does not comply with the first principle, the *grant-in-aid* does not comply with the second. Both are devices designed to cope with difficulties that in Australia have been met by creating a trust account.

Ibid, paragraph 13.

290. Your Committee note in conclusion that in the United Kingdom stores are held in store accounts, to which no advances from Consolidated Revenue are made. Thus they are similar to the stores operated by our Department of Civil Aviation and many other departments, and are distinct from those operated by the Postmaster-General's Department, the Department of Defence Production and others.

Ibid, paragraphs 130-132, see also paragraphs 287-288 above.

291. *The United States of America*.—Your Committee have already quoted excerpts from the Budget of the United States of America in connexion with Trust Fund statements. We there showed the detail in which expenditure from the trust funds is set out. It can be seen that the detail includes estimates of expenditure for the coming year, how much was spent in the previous year, and how much was committed for expenditure ("obligated"). We also noted the distinction made in American practice between the "Trust Funds" and "Working Funds", resulting in the two types of account being shown in separate Parts of the Budget.

See paragraphs 61, 62 above.

292. In the case of both trust and working funds the accounting and legal rules and principles governing their operation are similar to those governing the receipts to and expenditure of moneys from the general fund of the Treasury.

293. But the appropriation system in the United States of America in itself departs from the principle of the annual lapse of funds. Thus the very appropriation system adopted by Congress permits some of the relaxations that are in Australia only made possible by the use of the Trust Fund. In addition to the ordinary annual appropriation, there are current appropriations that are available for differing periods; annual appropriations of indefinite amount but with a specified purpose; and permanent appropriations (analogous to our special appropriations). Authority is on occasions given to incur contractual obligations up to certain amount, without providing funds to liquidate them; and funds are voted to liquidate previously authorized contractual commitments. Finally, recoverable expenditure is occasionally authorized from public debt receipts. The following passage from "Government Accounting and Budget Execution", published by the United Nations Economic and Social Council, summarizes the complicated network of arrangements:—

"The principal types of budget authorizations are the following:—

- (1) Ordinary current appropriations are for a definite, specified amount, but vary in accordance with the period of availability. One-year appropriations are commonly used for the ordinary salaries and expenditures of general government departments and agencies. Multiple-year appropriations extend beyond a single fiscal year and are used for programmes of a seasonal or non-recurrent type. No-year appropriations are available indefinitely and are used primarily for construction projects.
- (2) Annual indefinite appropriations are indefinite in amount but specified as to purpose. They are used for the allocation of earmarked revenues and for such specialized purposes as the covering of the Post Office deficit.
- (3) Permanent appropriations are those under which additional amounts become available from year to year without new action by the Congress. Interest on the public debt is paid under a permanent appropriation.
- (4) Contract authorizations permit obligations to be incurred, but do not provide the funds to liquidate the obligation. This type of authorization has been used frequently for military and naval procurement and for public roads, although in recent years its use has been increasingly limited in favour of multiple-year or no-year appropriations.
- (5) Appropriations to liquidate contract authorizations are voted as a separate type of budget authorization.

SY/CA/116, Page 74.

(6) Authorizations to spend from public debt receipts are sometimes used in lieu of appropriations where it is anticipated that the outlay will be repaid at a future date. For example, money for the lending programme of a government corporation may be provided by this type of authorization. It has also been employed for such purposes as the United States subscription to the International Bank for Reconstruction and Development and to the International Monetary Fund. Expenditure from public debt receipts has the same effect on the budget totals as expenditure of appropriated moneys.

It is customary for obligational authority to expire at the end of the budget year, unless Congress has specifically authorized its continuance. However, expenditure may be made to liquidate obligations for a period of two years after the close of the fiscal year during which the obligational authority was utilized. After the two year period the unexpended portions of appropriations are transferred to a special account known as 'Payment of Certified Claims'. The Controller-General may then certify for payment from this account where the claim is properly chargeable against the unused balance. This means that in any one fiscal year a considerable portion of expenditures may be in liquidation of authority which was committed in the two prior fiscal years."

Thus the American system permits considerable flexibility even within the appropriation system—and it is still, apparently, found necessary to operate a large number of trust accounts of the working fund type.

294. Your Committee note, however, that the prevailing system of appropriation is not without its critics. The Commission on the Organization of the Executive Branch of the Government, reporting to Congress on Budgeting and Accounting in February, 1949, had this to say—a comment that we understand still in substance applies—

"The appropriation structure is further complicated by several different kinds of authorizations such as annual, no-year, and permanent appropriations, re-appropriations, contract authorizations, and appropriations to liquidate contract authorizations. Congress, the press, and the public are therefore often confused about the total amount of appropriations in any major appropriation bill. Certainly a comprehensive survey of existing appropriation practices looking towards simplification of appropriation structure, language, and procedure is long overdue. The revision of these practices should be made along the general lines and in accordance with the underlying purpose of the performance budget."

295. *France.*—In France appropriations are in the ordinary course of events made for one year, and lapse at the end of it. There are certain exceptions, especially in the case of expenditure relating to works programmes or works spread over a number of years. Appropriations for these programmes, if approved by Parliament, are allowed to stand until the funds are exhausted. Capital investment receives a "commitment authorization" and a "payment appropriation". The former stands until the programme is completed (unless, of course, it is subsequently altered by Parliament); but the latter must be expended within the financial year.

296. In addition, a system of "Special Treasury Accounts", playing a role similar to Australian working accounts, has since the First World War assumed some prominence in the financial operations of the government. Many of these Special Accounts are created to finance the operations of bodies that are supposed to balance their own accounts. Their importance can be seen from the fact that in 1946 there were 312 Special Accounts, expenditure from which was equal to approximately one-half of that on the civil budget.

297. Since 1946 measures have been taken to bring the Special Accounts under Parliamentary control. The United Nations document "Government Accounting and Budget Execution" sets out clearly the steps taken to bring about future control: in essence they are the submission of estimates to Parliament, with the consequent opportunities for scrutiny and criticism. We quote again—

"Two Statutes, of 6 January, 1948, and 8 March, 1949, respectively, were enacted for the purpose of remedying this situation. The Special Accounts were reduced in number and their administration and accounting subjected to strict regulation. The Act of 6 January, 1948, lays down the principle that the operations of the Special Accounts shall be subject to the same procedure of estimation, authorization, execution and regulation as the operations of the State budget. Parliament now receives a statement of their total annual estimated receipts and expenditure and each year must vote the necessary funds to cover their expenditure. Lastly, their operations have been made subject to the normal budgetary procedure of commitment and approval. Commercial accounts, however, are subject to the rules of commercial, not government, accounting.

Control of the Special Accounts has been tightened up. Under the Act of 6 January, 1948, the Administration of Finance, the administrative and judicial bodies and especially the parliamentary Assemblies can now, by means of a special statement, scrutinize all operations carried to these Accounts and put through on the responsibility of the public authorities."

298. In addition to these provisions, the Treasury uses for its current accounts some funds that in Australia would not be so used. Thus deposits of private persons and deposits made by some corporate bodies (including local bodies that are required to deposit their funds with the Treasury) are used, as are deposits made by the Credit Foncier and the Credit Nationale, and the Caisse des depots et consignations (The Bank of Deposits). The latter include substantial social security funds and the idle funds of savings banks. Nevertheless, in its essentials the practice appears to be similar to that adopted in Australia in regard to "Section 1" trust funds.

299. *Canada:* In Canada there is no formally created "Trust Fund" in the sense in which there is such a separate Fund in Australia, nor in the sense in which one can be said to exist in the United States of America. However, the trust fund mechanism is availed of for many of the purposes for which it is used here.

300. In addition to the use of trust funds to hold moneys of the general public not in the ownership of the government, the mechanism is used for two broad purposes. The first is to enable the government to give a true and fair view of the financial position of

Canada—a position that includes a statement of the assets and liabilities of the Dominion—by the establishment of such reserves as are required. Thus section 63 of the Financial Administration Act reads—

"63. (1) The Minister shall cause accounts to be kept in such a manner as to show— 1951, c. 12.

- (a) the expenditures made under and commitments chargeable against each appropriation,
- (b) the revenues of Canada, and
- (c) the other payments into and out of the Consolidated Revenue Fund.

(2) Subject to regulations of the Treasury Board, the Minister—

- (a) shall cause accounts to be kept to show such of the assets and direct and contingent liabilities of Canada, and
- (b) may establish such reserves with respect to the assets and liabilities,

as in his opinion are required to give a true and fair view of the financial position of Canada."

301. In an informative paper prepared by H. R. Balls, and made available to us by the courtesy of His Excellency the High Commissioner for Canada, the following comment is made upon the manner in which the net debt is determined:—

"... The net debt is determined by offsetting against the gross liabilities only those assets that are regarded currently as readily realizable or interest- or revenue-producing. Consequently loans and advances to national, provincial and municipal governments, Crown corporations, the exchange fund, the old age security fund, international organizations and individuals, are recorded as assets on the Government's statement of assets and liabilities and repayments as received are applied to the reduction of these assets rather than being reported as budgetary revenue.

Budgetary and Fiscal Accounting in the Government of Canada by H. R. Balls, January, 1956, page 9. A Study prepared by Treasury officials in the Department of Finance, Ottawa.

On the other hand, costs of fixed capital assets are charged to expenditures at the time they are acquired or constructed, and government buildings, public works, national memorials, aircraft, naval vessels, army equipment and other capital assets are not set up on the balance sheet of Canada nor is any annual charge for depreciation included in the years expenditure. In other words, while financial assets are recorded on the balance sheet, physical assets are not unless they are held for disposal or resale. A reserve available for possible losses on the realization of assets is set up on the balance sheet and from time to time some provision for this reserve is included in budgetary expenditures."

302. The reserve mentioned in the quotation above is linked directly to the system of accounting adopted by Canada that has already, in our Eighteenth Report, been mentioned by Your Committee. The reason for the existence of the reserve is that the government presents, in addition to the cash basis accounts that are incorporated in and directly associated with, the Estimates, statements of account that approximate to the balance-sheet of an ordinary commercial undertaking.

See 16th Report, Table on 11th November, 1954.

303. The Canadian Government has also established revolving funds whose function is very similar to that of the trust accounts used in Australia for working accounts and for stores purchasing and holding accounts. We again quote for your perusal by H. R. Balls, as it summarizes clearly the general position. In doing so we observe that the points he makes have a direct relevance to our earlier discussion of the stores purchase and holding trust accounts operated by the Postmaster-General's Department and others, and to our investigation of the accounts operated by the Department of Defence Production—

"... Under the Public Stores Part of the Financial Administration Act revolving funds for the acquisition of stores of materials, supplies and equipment or for manufacturing, processing or dealing in such stores, are operated by several departments. Under these provisions, stores acquired are not charged to expenditures when the cash outlays occur; instead they are treated as assets on the Government's balance sheet, the charge on acquisitions is made to the revolving fund and the charge to expenditures is made only when the stores are issued for use. This revolving fund procedure is not in operation in all departments, but it is applied in most of those which provide materials and services to other departments or which undertake trading or manufacturing operations on a commercial or quasi-commercial basis, or where stockpiling assumes significant proportions in relation to the department's operations. In other cases it is assumed that the advantages resulting from the adoption of accrual practices would not be sufficient to warrant the additional work entailed.

Op. cit., page 9-3.

A similar revolving fund arrangement prevails in the operations of the Department of Defence Production. Cash outlays for the procurement of materials for use in the manufacture of defence equipment are not recorded as budgetary expenditures. For purposes of accounting and control materials so acquired are treated as assets on the books of the Government and are charged to the defence production revolving fund until they are billed to the Department of National Defence or sold to defence contractors for use in the manufacture of defence equipment.

The replacement of equipment and supplies acquired by the Department of National Defence prior to March 31, 1950, and subsequently transferred to parties to the North Atlantic Treaty Organization also involves cash outlays that are not reflected as budgetary expenditures. To ensure Parliamentary control over the disposition of the property, the estimated value of the defence equipment and supplies is charged to budgetary accounts when they are transferred from Canadian stocks to NATO countries and credited to a special defence equipment account to which the cash outlay for replacements is eventually charged. It is of some significance that in adopting this procedure, Parliament is using the budgetary accounting system to control the transfer of real goods; the financial transactions involved in the subsequent cash outlay for replacements are controlled through the fiscal accounts."

304. Your Committee consider that the points made above in favour of what is described as the "accrual basis" of accounting have both merit and force. Nevertheless, as we have observed in this Report, and as we have indicated at some length in Part I. of our Report on our Inquiry into the Form and Content of the Financial Documents presented to the Parliament, it is our conviction that the cash basis is that most suitable for present and foreseeable needs in Australia.

305. Again, the Government of Canada keeps separate accounts to take care of various accrued liabilities, including those for pensions and other social services. Mr. H. R. Balls describes these as follows:—

"Accrued liabilities (except for interest accrued on the public debt and the actuarial calculations of the government's liability under certain annuity, pension and insurance plans) are not taken into account in determining the obligations of the government. These annuity, insurance and pension accounts are treated in effect as trust funds and the practice is to exclude them from the budget calculations, except to the extent that they involve government contributions or the payment of interest on cash balances held by the government. The most important are the unemployment insurance fund, the old age security fund, the Government's annuities account, the public (or civil) service superannuation account and the permanent (or Defence) services pension account. The first two of these are of something more than passing significance from the standpoint of their impact upon the Canadian economy but in so far as their relationship to the budgetary accounts is concerned, they are considered much as any other borrowing operation."

306. Finally, there are accounts that were created to receive the undisbursed balances of appropriations to special funds. In them would be held, for example, amounts appropriated for the Colombo Plan Fund, or the National Defence Equipment Account. These also are shown up in the balance-sheet as part of the liabilities of the government.

CHAPTER IX.—ANNUAL APPROPRIATIONS AND THE TRUST FUND.

307. The evolution of the principles now governing the financial administration of parliamentary democracies of the British kind has taken centuries. In its beginnings there was virtual equality, in terms of the financial resources devoted to central government, of Crown and Parliament. In the nineteenth century sense of the term, however, Parliamentary control of the purse had come to mean the virtual elimination of separate Crown revenues. One Consolidated Revenue Fund was seen as the objective towards which financial reforms should be directed. From it all payments for the purposes of the government would be made, and those only after due appropriation by the peoples' representatives, the Parliament. To it all revenues of the government would be credited.

308. At no time, however, has it been possible to base the whole of the finances of government on the simple principles that underly the operations of the Consolidated Revenue Fund. In the preceding Chapter we indicated briefly how various countries following British financial precedures have adapted the system or their practices to meet the exigencies of government. Our Report has been devoted to discussing in detail the way in which the Commonwealth of Australia has used the Trust Fund as a means to furthering the purposes of government.

309. As Your Committee have on many occasions observed, it has not been our object in this Report to discuss the merits of any policy of the Government. That is not our function. Our purpose has been to examine the way in which the trusts reposed by the Parliament in the government and its agents have been discharged. Again, our Inquiry has not so much run to examining in detail the *modus operandi* of this or that head of Trust Fund or trust account; that might all too easily have involved us in discussing matters of policy, and would certainly have resulted in an Inquiry whose scope and complexity would have been beyond the resources of a standing committee of the

18th Report, tabled on 11th November, 1954.

Op. cit., page 10.

Parliament. Rather have we attempted to search out and to elucidate what practices are adopted, and where necessary, to suggest alterations. Our report upon these inquiries, and our findings, are contained in the preceding Chapters.

310. But that report and those findings are of their nature detailed and specific. It leads us to ask: what general conclusions have we reached in connexion with the whole operation of the Trust Fund? Can such general conclusions be drawn? Does the existence of the Trust Fund constitute a threat to the system of Parliamentary control built up so slowly and with such labour? Is it serving adequately the needs of those for whom its protagonists claim it was created?

311. The system of annual appropriation and lapse of funds is one of the characteristic features of the British system of financial control. By it, the Executive is only entrusted for a limited term with funds. After that it must seek fresh authority for further expenditure. Each request for funds has the effect of placing before the Parliament for scrutiny the object of expenditure and this, supplemented by the examination of the accounts made by the Auditor-General and Your Committee, is the central feature of the system.

312. At the heart of the appropriation procedure is the requirement by the Parliament that the Government should obtain prior approval to the expenditure of public moneys. In each case there is opportunity for detailed consideration of projected actions before funds are provided, and a further opportunity, at the end of the year, to compare the actions with results. On the other hand, the opportunities for requiring justification of particular actions involving expenditure from trust accounts may not occur until well after the event.

313. It would be easy to consider the technique of annual appropriation and lapse of funds as indispensable to the proper functioning of Parliamentary control, to make it, as it were, the foundation upon which Parliamentary control rests. While in many cases this may be true, Your Committee doubt whether it is universally so. It is our view that there are some circumstances that may call for a control exercised in a different manner. That is, while annual appropriation and lapse of funds is one important way in which the control of Parliament over expenditure is exercised, it is not the only form, nor necessarily the most appropriate form, by which that control can be exercised.

314. Your Committee have already indicated that there are classes of trust fund or account which to our way of thinking are unexceptionable. We instance the "trustee funds" and the existing account for debt redemption described above, and also the "working accounts" used by quasi-commercial undertakings. We recall also that it was suggested to us by the Postmaster-General's Department that the Stores and Services Trust Account operated by them does in fact facilitate and make more effective Parliamentary control of the relevant expenditure. (In this context we observe that this is precisely the point made in one of the quotations from H. R. Balls, describing the system in Canada, that we included in the previous chapter).

See Chapter VI. (c) above.
See paragraph 303 above.

315. It may be that in respect of these and other trust accounts the submission to the Parliament of full information about expenditure—even, perhaps, of estimates of expenditure—may give the necessary degree of control. Especially if a body has been given some autonomy of action, the type of control exercised by the Parliament through an annual vote may be inappropriate. Then the function of the Auditor-General and of Your Committee is to make sure that the trust conferred is not abused: and to bring to the notice of the Parliament any abuses that may from time to time occur.

316. There are other accounts whose existence cannot be justified. These also have been mentioned in the foregoing Chapters, and demonstrate how necessary it is to make from time to time fresh examinations and assessments of their *rationale*. Yet we cannot claim that, simply because an item of expenditure is subject to the annual scrutiny of the Parliament, it is *ipso facto* in all points unexceptionable. Over the years since Your Committee have been re-appointed, there is ample evidence in our Reports to show that this is not the case.

317. We conclude, therefore, that no system is proof against error, nor is the adoption of any one principle or single practice a panacea that will solve all the problems of financial control. The unremitting vigilance of the Parliament and its agents is the only way to safeguard the financial rectitude of the government. With that vigilance can and should be linked the adoption of sound practices.

318. Another way of looking at the effect on the transactions of the Consolidated Revenue Fund of the existence of the Trust Fund is to ascertain what proportion of the expenditure from Consolidated Revenue is in the first place made to the Trust Fund. The Treasury provided Your Committee with a statement indicating that in 1955-56 £725,367,000 was appropriated from Consolidated Revenue to some forty-two funds and accounts within the Trust Fund, £47,890,000 to funds in the section 1 group and

See Qs. 176-177.

£ 677,477,000 to accounts in section 2. Total expenditure from Consolidated Revenue in that year was £ 1,138,358,000. Total expenditure from the Trust Fund in the same year was £ 758,184,000, comprising £ 87,048,000 from section 1 and £ 671,136,000 from section 2.

Appendix
No. 4.

319. The details of receipts and expenditure of the forty-two funds and accounts making up the figures quoted in the previous paragraph (termed the "appropriation accounts") are contained in Appendix No. 4. These are, in summary form, compared below with the total receipts and expenditure from the Trust Fund in 1955-56—

	Expenditure from Trust Fund.		Receipts to Trust Fund.	
	Appropriation Accounts.	All Funds and Accounts.	Appropriation Accounts.	All Funds and Accounts.
	£	£	£	£
Section 1	73,025,412	87,048,460	47,899,738	134,409,410
Section 2	648,743,254	671,136,074	677,467,046	708,767,134
Total	721,768,666	758,184,534	725,366,784	843,176,544

It can be seen that the "appropriation accounts" comprise a substantial proportion of the total receipts and expenditure of the Trust Fund, especially of expenditure from trust accounts.

320. Thus the Trust Fund forms, to a large extent, a "second line" of accounts, fed annually by appropriations from the Consolidated Revenue Fund. Since its annual expenditures are and have been of the same order as its receipts, it can be seen that there is little danger that an enormous corpus of free funds will aggregate in the Trust Fund. For that to happen, much significant and necessary expenditure would, in the meantime, have to cease.

321. Your Committee observe in passing that the figures here set down reveal the fallacy inherent in the view that a second fund looms threateningly behind the Consolidated Revenue Fund, placing it in jeopardy and rivalling it in magnitude. In fact, the Trust Fund is shown to be but a mechanism by which moneys appropriated from the Consolidated Revenue Fund are applied to their intended purposes. But it buttresses our view that in some way this fact should be made clear. We recall that we have already recommended that the entries in the Estimates should, wherever practicable, make it clear that the appropriation being sought is to be credited to a trust fund or account.

See paragraphs
69-78 above,
and also
Qs. 524-532.

322. Your Committee quote the following extract from our Minutes of Evidence because it seems to place the position in the correct perspective:—

"COMMITTEE MEMBER.—What I and other Members of the Committee are concerned about is this: the system of public accounting is based on the principle of an annual or periodic appropriation by Parliament of funds, for specific purposes, and the thought occurs that the system of trust accounts can and perhaps even does defeat the principle of regular Parliamentary appropriation and to some extent may even affect the annual budgeting system. To what extent could that happen?—(Mr. Hewitt) That is a very wide question.

COMMITTEE MEMBER.—Do you concede the point that it could happen?—(Mr. Hewitt) It affects the basis of annual appropriation by Parliament quite clearly. The amounts that are held in trust accounts are available for expenditure under the authority of appropriation at any time. Quite clearly, that is not an annual appropriation; it is a standing-forever appropriation until it is cancelled. As to the effect upon the annual Budget, I have endeavoured to show in that table* of figures that the greater part of the expenditure from the Trust Fund at the present time is from moneys which were fed in in the course of the year from the Consolidated Revenue Fund and that there is nothing like an amount of £800,000,000 being spent out of the Trust Fund over and above what appears in the conventional budget for payments from the Consolidated Revenue Fund. . . .

COMMITTEE MEMBER.— . . . The trusts I am concerned with are those which are set up by the Treasury, or the Treasurer if you like, under the Audit Act as a matter of convenience to facilitate the operations of a department or perhaps the Treasury itself. It is possible with the use of those accounts to defeat the annual budgeting system which is the system under which the Parliament appropriates a specific amount for expenditure. In that year. When it gets to the Treasury, that department might say 'We are going to set aside so much in this trust, that trust and another trust', the proportions of which are carried over subsequently into future years and can accumulate into substantial amounts. What proportion of the trust accounts come within this latter category? Let us look at the list of the 6th February which we have received from you. How many of those trust accounts that you mention are set out in the statement before the Parliament and in relation to which the Parliament is aware it is appropriating a specific amount for a specific

* See Appendix No. 4.

Qs. 507-511,
513-515.

See Appendix
No. 4.

purpose as a trust? Take the first one—Aircraft—the receipts for which in 1955-56 were £10,615,000. Did the Parliament appropriate that sum for a trust for this purpose or was it part of a general appropriation?—(Mr. Hewitt) Can we use the second instead of the first? The first one has been closed.

COMMITTEE MEMBER.—Take Aircraft Production.—(Mr. Hewitt) First of all, I can say, in relation to your opening remarks, that this quite true that the Treasurer has a responsibility and an authority under the Audit Act to open trust accounts, but he cannot by the same authority pay money into them. He can create a trust account, but it is an impotent vehicle until such time as a Parliamentary appropriation takes place for the payment of money to the credit of that account. On the second point, the Draftsmen tries, however ineffectively, to ensure that the nature of the appropriation is made quite clear. The one we are talking about—Aircraft Production—was named specifically in the schedule to the Appropriation Act (No. 2) 1955-56. In addition to that, these trust accounts of working accounts will obtain receipts from the sale of their production and they will 'sell' their production to departments of the Commonwealth which will pay the undertakings for what they produce, be it aircraft or aircraft parts, from an appropriation provided to the department for that type of equipment.

COMMITTEE MEMBER.—It is not incumbent upon the department that proceeds to operate the trust to expend the amount of the annual appropriation in that year? Let us take the Aircraft Production amount of £5,895,121 about which we are talking. In principle and in actual fact, when Parliament approves that amount of money it is in anticipation of its being spent in that year unless at the time advice is given that it is to be paid into a trust account for some future expenditure or to be expended over a period of years. I am only using that as an illustration. . . .—(Mr. Hewitt) The creation of departmental working accounts has followed on since Federation. The first list of trust accounts included accounts of the very nature about which you are speaking.

COMMITTEE MEMBER.—I did not ask you whether it was designed for that purpose?—(Mr. Hewitt) Or without regard to it. I am not sure whether or not the form of presentation of these figures is misleading. I was asked some time ago questions about the effect on the economy of an £1,100,000,000 Budget supplemented by another £800,000,000 from the Trust Fund. I did not attempt to analyse the whole of the Trust Fund down to the last penny or the nearest pound, but I provided a table setting out the expenditure of certain trust accounts together with the probable receipts during the year which came directly or indirectly from Parliamentary appropriations. My purpose was related solely to the assertion that the total Commonwealth expenditure was £1,900,000,000, and my point in producing this table was to show that a large part of the annual appropriation was channelled through the Trust Fund. For example, the Loan Consolidation and Investment Reserve Fund took its income from the Consolidated Revenue Fund and the National Debt Sinking Fund took half its revenue from the Consolidated Revenue Fund of the year.

COMMITTEE MEMBER.—Under the system it would be possible for substantial trust fund balances to be accumulated?—(Mr. Hewitt) Yes.

COMMITTEE MEMBER.—And for the Treasury to reach a state of substantial financial buoyancy which could be used at any particular period to allow a government to make itself popular by using the Trust Fund accumulated over a number of years and so in a particular year refraining from imposing imposts on the public?—COMMITTEE MEMBER.—Do you think it would get away with it?—COMMITTEE MEMBER: I do. In other words a position could be reached where the people of Australia are meeting the expenses of the next five or ten years hence instead of the next few years. That could arise under the present system?—(Mr. Hewitt) I think I can only say that the control of the expenditure rests with Parliament."

323. Although we have indicated that under the present manner of operating the Trust Fund no substantial balances have accrued that could be used to defeat the control of the Parliament as exercised through annual appropriations, Your Committee consider that we should enter one caveat. It is that if large sums are appropriated to the Trust Fund for general purposes, e.g. the purchase of Securities, they could be used for purposes not originally intended by or currently acceptable to the Parliament. These dangers are those discussed under the heading "Defence Reserve and Debt Redemption Trust Accounts". As we earlier indicated, the remedy for any misuse that might occur is with the Parliament itself and falls beyond the matters committed to Your Committee.

See Chapter VI,
paragraphs 228,
229 above.

324. Another point of view from which one may examine the suspicion that the Trust Fund is a large, dangerous corpus of free moneys available at the whim of the government is to analyse what is done with the balances standing to the credit of the Trust Fund at any one time. If they are held in cash form, then presumably a government could at any time mobilize considerable financial resources without resort to the creation of credit on a wide scale.

325. About this possibility three things may be said. In the first place, and as we have just pointed out, the total annual expenditure of the Trust Fund approximates fairly closely to its total annual receipts. This means that, although the gross figures have substantially increased over the years, free balances have not. At the same time, it is also

See paragraphs 108-111 above.

true that over short periods gross figures have remained relatively constant and that over longer intervals they have represented a similar proportion of total Budget expenditure.

See paragraph 127 above.

326. In the second place, each head of Trust Fund and trust account has been created with carefully defined purposes. We have already indicated that they should be defined restrictively rather than widely. The purposes prescribe the uses to which the moneys in the fund or account may be used. Any failure to observe the limits set by the purposes will call into operation all the machinery devised to prevent expenditure not authorized by law.

See paragraph 110 above.

See paragraphs 111-116.

327. In the third place, the balances of the Trust Fund are heavily invested. As we showed in Chapter V., there is at any given time only a relatively small amount of uninvested balances. We have commented already on the small proportion of uninvested balances to the total—£10,677,000 in £904,447,000, or one per cent., at 30th June, 1957—as revealed in the Treasurer's annual Finance Statement. We have no reason to suppose that at any other balancing date the figures would be markedly different. The consequence of the heavy investment of Trust Fund balances is that only by appropriation, further calling on trust funds, by credit from loan raisings or by resort to bank credit could substantial disinvestment occur. As we have already pointed out, such an eventuality is unlikely; and we reiterate our conclusion that the ultimate sanction in such a case is political and in the hands of the Parliament, not a matter for Your Committee.

See Chapter VIII. above.

328. Your Committee conclude that viewed as an instrument of financial control, the Trust Fund has its weaknesses. Some of these are inherent in the fact that it is distinct from the Consolidated Revenue Fund; some in the manner in which it has been used. On the whole, however, it is our considered opinion that the Trust Fund is a necessary and useful instrument. Our conclusion is supported by the evident need governments in other countries have had for some such mechanism. If the principles of operation to which we have made reference during our Report are adhered to, and if the recommendations we have formulated are followed up, we think the Trust Fund is, and must be regarded as, a useful—even an essential—adjunct to the financial system within which the Commonwealth Government operates. As we have already indicated, we have found that those who administer and those who operate heads of Trust Fund and trust accounts are doing so, taken all in all, in a proper manner.

CHAPTER X.—SUMMARY AND RECOMMENDATIONS.

INTRODUCTORY.

1. This Report further develops the financial principles examined in Your Committee's 8th, 13th, 18th and 31st Reports. (Paragraphs 1-5.)
2. It deals with the form in which the financial operations of the Trust Fund are presented, with the legal and accounting problems associated with it, with the general question of Parliamentary control of the expenditure of public moneys involved in its existence, and in particular with whether or not the existence of the Trust Fund derogates from control by the Parliament over expenditure. (Paragraphs 1-5.)
3. Expenditure from the Trust Fund for the year 1956-57 amounted to £821,093,924. (Paragraph 11.)

THE TRUST FUND—HISTORY AND LEGAL PROVISIONS.

4. All public moneys held by the Commonwealth or its agents comprise the Commonwealth Public Account. (Paragraph 13.)
5. In that Account are the Consolidated Revenue Fund, the Loan Fund and the Trust Fund. Separate accounts are kept of the moneys at the credit of each of these funds. (Paragraphs 14-16.)
6. The *Audit Act* 1901-1957 prescribes the manner in which the Trust Fund shall be dealt with, and in particular, lays down that Trust moneys shall only be used for the purpose of the fund or under the authority of an Act of Parliament. (Paragraph 17.)
7. The original *Audit Act* enacted in 1901 did not give the Treasurer power to establish trust accounts. He was merely empowered to keep under separate heads moneys received by him for the credit of the Trust Fund. (Paragraph 18.)

8. To permit the Treasurer to establish trust accounts to cover, amongst other things, the operations of working accounts, the *Audit Act* was amended in 1906. (Paragraph 21.)
9. The provisions of the 1906 Act are now incorporated in sections 62A and 62B of the present Act 1901-1957. (Paragraph 21.)
10. The passing of the *Surplus Revenue Act* 1908, represents a qualitative alteration in the nature of the Trust Fund. (Paragraph 24.)
11. That Act declared that moneys appropriated to a trust account should not lapse at the end of a financial year, and authorized the Governor-General to decide the amount that should be credited to the trust account from such appropriation. (Paragraph 26.)
12. The State of New South Wales challenged the provisions of the *Surplus Revenue Act* 1908 contending that in ascertaining surplus revenue, the Commonwealth was only entitled to take into account as "expenditure" moneys which had been disbursed or paid away by the Commonwealth as provided by the Commonwealth Constitution. (Paragraph 30.)
13. The High Court held that the appropriation of moneys by the Parliament to a Trust Account for a purpose of the Commonwealth is not available to the States as Surplus Revenue under section 94 of the Constitution. (Paragraph 31.)
14. The provisions of the *Surplus Revenue Act* 1910 and the *States Grants Act* 1927, insofar as they affect the Trust Fund, are set out in paragraphs 32 to 36 of this Report. Pages 12-11 above.
15. Since 1908 Parliament has made frequent appropriations to the Trust Fund for war, for works, and for social services; since that date there has been no surplus revenue for payment to the States. (Paragraphs 37-38.)
16. In recent times, the Trust Fund has received large sums from the Consolidated Revenue Fund for debt redemption purposes. (Paragraph 39.)
17. Included in these are the large sums appropriated for the purposes of the *Loan Consolidation and Investment Reserve Act* 1955-1957. The amounts have for the most part been left to the discretion of the Treasurer. Your Committee recommend that for appropriations of such magnitude a maximum amount should be specified in the original appropriation Act even if it becomes necessary to provide a further appropriation in the Additional Estimates. (Paragraphs 40-42.)

PUBLIC INFORMATION ABOUT THE TRUST FUND.

18. Information about the Trust Fund is shown, *inter alia*, in the Finance Statement and in the Budget Papers tables. (Paragraphs 44-47.)
19. In the Finance Statement, the heads of Trust Fund and trust accounts are set out together in alphabetical order in the first table (No. 10) and Your Committee consider this arrangement is satisfactory. (Paragraphs 48, 57, 58.)
20. In the Budget Papers the first table (No. 8) is set out in two sections, the first purporting to show moneys held for persons and authorities other than the Commonwealth Government, the second purporting to record departmental working accounts and moneys held in trust under the authority of Parliament to meet future expenditure. (Paragraph 48.)
21. Your Committee consider this table in the Budget Papers is unsatisfactory in its present form and suggest that a new table be substituted. (Paragraphs 57, 58, 62.)
22. Your Committee recommend that the statements of Trust Funds shown in table No. 8 of the Budget Papers should be divided into four groups:
 - I. Moneys held in trust for persons and authorities other than the Commonwealth Government;
 - II. Working account covering certain factories, stores and services;
 - III. Other moneys (not in II) held in trust under the authority of Parliament to meet future expenditure; and
 - IV. Funds and accounts not part of the Treasurer's accounts but included in the Budget Papers table purely for information. (Paragraph 64.)

23. The four groups of heads of Trust Funds and of trust accounts should set out:
- the name of the head of Trust Fund or trust account;
 - the balance brought forward from the previous year, the receipts and expenditure for the year and the balance carried forward to the next year.
 - a note of the legal authority for the head of Trust Fund or trust account, together with the administering department;
 - the purposes of the head of Trust Fund or trust account; and
 - where applicable, an indication of the advance made to the account from Consolidated Revenue Fund. (Paragraphs 65-68.)

We recommend also that the table be concluded with a summary of the investment of balances standing to the credit of heads of Trust Fund and trust accounts.

24. The 1932 Joint Select Committee on the Public Accounts proposed that Trust Fund Estimates should be presented to the Parliament but Your Committee reserve judgment on this question until the study of the form of the Estimates generally is completed. (Paragraphs 69-70.) However, while the arrangements for the presentation of appropriation measures remain basically as they are at present we consider that separate Trust Fund Estimates might cause confusion. (Paragraph 75.)
25. At this stage Your Committee would be satisfied if adequate attention were drawn to the appropriations regularly made to the Trust Fund. (Paragraph 71.)
26. Your Committee consider there should be included in the Index printed in the front pages attached to the Estimates comprehensive entries covering the Trust Fund. For example, at present there is no entry (as such) for the "Trust Fund" or for any "Trust Account". (Paragraphs 71-74.)
27. In addition, we consider a clear and standard form of notation should be used in the body of the Estimates to denote an amount being appropriated to a trust account. (Paragraphs 71, 76.)
28. Your Committee think it important that the Trust Fund should only exist (except for the heads of Trust Funds that we have called "trustee funds") in a relation that is directly and explicitly subordinate to the annual Appropriation measure. (Paragraph 74.)
29. Your Committee recommend that the repetition in the Budget Papers of the remaining table relating to heads of Trust Funds and trust accounts should cease while the tables shown in the Finance Statement should be retained and presented in their current form. (Paragraph 81.)
30. Your Committee, at the same time, consider that the Budget Papers should contain a reference to the additional information about the Trust Fund that will be available both in the Auditor-General's Report and in the Finance Statement. (Paragraph 82.)

ESTABLISHING AND CLOSING TRUST ACCOUNTS.

31. The amendment of the Audit Act in 1906 enabled the Treasurer to establish trust accounts and to define their purposes. (Paragraph 87.)
32. Private moneys collected by Commonwealth agents are paid to the appropriate head of Trust Fund in terms of sections 27-29 of the Audit Act. (Paragraph 86.)
33. There is a number of trust funds established by Act of Parliament that do not appear in the Treasurer's Statement of Receipts and Expenditure. (Paragraph 88.)
34. Your Committee consider that specific reference should be made in the Finance Statement and the Budget Papers when a fund receives an appropriation from Consolidated Revenue Fund for the first time, and also, when a fund is closed. (Paragraphs 89-90.)
35. Normally trust accounts are closed by the Treasurer when the purposes of the account have been discharged. (Paragraph 92.)
36. The Treasurer has ample authority to open and close accounts. Your Committee mention in paragraph 94, four accounts that were closed before the parent Act had been repealed and one that continued for some years after the repeal of the parent Act. (Paragraphs 92-94.)

37. It has not been the policy of the Treasurer regularly to review trust accounts to determine whether or not to continue them. We consider that a regular review should be made. One result would probably be that the number of heads of Trust Fund and trust accounts would be kept to a minimum. (Paragraphs 95-96.)
38. In 1953, the Auditor-General obtained an opinion from the Solicitor-General to the effect that the Treasurer had no power to alter the purposes of a trust account established under section 62A of the Audit Act. (Paragraph 98.)
39. When it has been necessary to amend the purposes of a trust account, the account has had to be closed, and a new one established with similar but amended purposes. (Paragraphs 99-101.)
40. Your Committee note that since 1954, discussions have been proceeding between the Treasury and the Attorney-General's Department regarding the validity of the present method of showing an appropriation to a newly established trust account whose purposes constitute in effect an amendment of those of an account concurrently closed. We think the question of the form to be followed should be settled without delay. (Paragraphs 102-107.)

THE USE OF TRUST FUND BALANCES.

41. The balances held in the Trust Fund have increased rapidly in recent years and at 1st July, 1957, stood at £904,447,426. (Paragraphs 108-109.)
42. The increase has not been accompanied by a proportionate increase in uninvested or free balances. At 1st July, 1950, balances were £278,647,307, of which £6,759,830 was uninvested. In 1957 the respective figures were £904,447,426 and £10,677,361. (Paragraph 110.)
43. Hence at no time have there been free moneys in the Trust Fund that could have materially affected the pattern of the Budget. (Paragraph 111.)
44. Should substantial disinvestment occur, a Government could spend well in excess of the expenditure authorized by the Parliament from the Consolidated Revenue Fund. (Paragraph 111.)
45. Invested balances could be replaced by cash by appropriating funds, by not renewing investments on maturity, by raising loans to redeem securities, or by the issue of Treasury Bills. Prior Parliamentary approval is necessary except in the case of the last two methods, when it is rendered unnecessary by provisions contained in standing legislation. (Paragraphs 112-116.)
46. The Audit Act authorizes the Treasurer to invest moneys standing to the credit of the Trust Fund in securities of, or guaranteed by, the Commonwealth or any State or to deposit them at a bank. (Paragraph 117.)
47. There is no central investment authority to advise those whose duty it is to invest funds. The funds for which the Treasurer is not responsible are invested by the administering board or trustees. (Paragraph 119.)
48. Having reviewed the machinery that now exists for investment Your Committee express satisfaction with what is being done. (Paragraph 120.)
49. At 30th June, 1956, investments of the Trust Fund were:—
- | | |
|--|-------------|
| | £ |
| Commonwealth Stock and Bonds | 537,539,729 |
| Commonwealth Treasury Bills | 231,600,000 |
| Semi-Governmental and other guaranteed investments | 37,081,878 |
| Silver and Bronze Bullion, &c. | 3,474,158 |
| | <hr/> |
| | 809,695,765 |
- (Paragraphs 121-125.)
50. Under section 62b (3) of the Audit Act, all interest received from the investment of sums at the credit of the Trust Fund, is paid into the Consolidated Revenue Fund, unless Parliament has provided otherwise. (Paragraphs 126-128.)
51. In 1955-56 interest paid from the Consolidated Revenue Fund to the Trust Fund was £25,900,000 out of a total interest payment for the year of £53,000,000. (Paragraph 128.)

52. In recent years, the Commonwealth has floated "Special Loans", in which moneys at the credit of the Trust Fund are invested. (Paragraphs 129-130.)
53. Since the practice has operated, only one Special Loan has been raised each year. The loan is floated towards the end of the financial year, by which time the Treasurer is in a position to know the over-all cash position at the Treasury. (Paragraph 132.)
54. In recent years the Treasury has used the Trust Fund as a repository for large sums of money to provide for the enormous volume of securities that mature over the next few years. (Paragraph 134.)
55. Had that policy not been followed, the Commonwealth would have found it difficult to provide for the heavy obligations it finds itself called upon to meet. (Paragraph 134.)
56. While we think that the investment provisions in the Audit Act were never envisaged as authorizing procedures such as are now in operation for Special Loans, we can see no alternative to their being continued. (Paragraph 138.)
57. Your Committee consider it a matter of great importance that Parliament, when being asked to appropriate substantial amounts for the purposes of the Loan Consolidation and Investment Reserve, should be informed of the amount intended for investment and for redemption purposes. (Paragraphs 136-139.)
58. It is our view that more satisfactory arrangements could be made to enable the Parliament to be advised of Special Loan arrangements and to give it an opportunity to consider them proleptically. (Paragraphs 141-143.)

WHAT TRUST ACCOUNTS ARE USED FOR.

59. Different principles are involved in respect of each of the various categories of trust accounts. (Paragraph 145.)
60. In one category are trust accounts used to facilitate the operations of trading undertakings. With this use Your Committee agree. (Paragraph 145.)
61. In another category are what might be called "suspense" accounts. When these serve merely as a reserve against expenditure that should have been anticipated or to cushion the effects of bad estimating, we think them undesirable. (Paragraph 146.)
62. In examining the several categories, it should be noted that any trust account will derogate from the power of Parliament to control expenditure. At the same time, there are occasions when the use of a trust account may more efficiently achieve the purposes sought. (Paragraph 147.)
63. Your Committee have, therefore, directed their attention to weighing the merits of the Trust Fund against the use of the annual appropriation.
64. There are numerous trust accounts included in the working accounts category. We examined in detail only the trust accounts operated by the Department of Defence Production. (Paragraphs 150-152.)
65. The Munitions Factories Trust Accounts finance factories concerned with the production of various kinds of munitions. Some of the factories have been operated since 1920. There are 15 accounts in all. (Paragraphs 153-154.)
66. The use of a trust account rather than a bank account increases Treasury control. (Paragraph 155.)
67. An account entitled the Central Drawing Office Trust Account is operated from the Department's Head Office, and serves all the Factories. It has operated since 1950 but at 30th June, 1957, had still not been formally established by the Treasurer. (Paragraph 156.)
68. Although the purposes of the several Munitions Factories trust accounts are virtually identical, in few cases were the purposes similarly expressed. (Paragraph 157.)
69. We think that, where the functions are similar, the purposes should be couched in identical terms. (Paragraph 157.)
70. Your Committee think that the purposes should be defined more restrictively and consider that the existing authority, which includes the clause— "providing any other service that may be approved by the Minister" is too wide. A power such as "any service associated with the production of Munitions" should be ample. (Paragraphs 157-158.)

71. Your Committee consider that in many cases trust accounts used as working accounts have distinct advantages over the system of annual appropriations. But it is desirable that they should conform to a number of conditions. (Paragraphs 159-162.)
72. For example, the undertaking should have a degree of autonomy; it should produce a Profit and Loss Account and Balance-sheet, it should prepare annual reports, its accounts should be certified by the Auditor-General and the level of advance to the trust account should be regularly reviewed. (Paragraph 162.)
73. In dealing with these governmental factories, we have not considered the question of interest on capital advanced, and the provision for depreciation of assets. In our Report on the Canberra Abattoir Your Committee thought a depreciation charge in some form was desirable. (Paragraphs 163-164.)
74. Of the numerous departments purchasing and holding extensive quantities of stores, some operate trust accounts and others do not. (Paragraph 172.)
75. We were presented with widely differing views as to the desirability of stores purchasing and holding trust accounts. (Paragraph 173.)
76. The Department of Civil Aviation thought that a stores trust account would complicate accounting procedures, and would not facilitate over-all financial control. (Paragraph 173.)
77. On the other hand, the Postmaster-General's Department and the Department of Defence Production submitted arguments in support of their trust accounts. The arguments cover such points as effective Parliamentary control, accuracy of estimating and more effective accountancy methods. (Paragraphs 173-197.)
78. In the case of the Post Office Stores and Services Trust Account at 30th June, 1956, goods delivered and taken to store to the value of £1,879,414 were not paid for; at the same date the balance of the trust account was £71,746. (Paragraph 186.)
79. We recommend that, in future, the Auditor-General should consider, as a general practice, disclosing circumstances of this kind in his reports to the Parliament. (Paragraph 188.)
80. The very use of a stores holding trust account involves accounting arrangements, which may not be essential to the operations of an organization. (Paragraph 192.)
81. At present, no indication is given to the Parliament of the size of the store holding lying behind an account because the advance to it is not disclosed. (Paragraphs 198-199.)
82. There are no great difficulties associated with closing a stores trust account even though substantial stocks might still be held. (Paragraphs 200-201.)
83. Your Committee have not reached any final conclusions about stores purchasing and holding trust accounts, although in general we doubt whether it is necessary for departments to operate them. (Paragraph 202.)
84. Whether the stores trust account operated by the Postmaster-General's Department should constitute an exception is a matter that requires examination by officers intimately concerned with the working of the system. (Paragraph 203.)
85. Your Committee suggest that the examining body might be representative of the Treasury, the Audit Office and the Postmaster-General's Department. (Paragraph 204.)
86. Some Commonwealth Departments such as the Postmaster-General's Department operate their own transport fleets. The requirements of the majority of the remaining departments are met by transport pools operated by the Departments of Supply and Interior and financed by separate trust accounts, viz. the "Munitions Stores and Transport Trust Account" (controlled by the Department of Supply) and the "Australian Capital Territory Transport Trust Account" (for which the Department of the Interior is responsible). (Paragraph 205.)
87. Because the principles applying to the two accounts are the same Your Committee decided to make a detailed examination of the larger of the two, that controlled by the Department of Supply. (Paragraph 206.)
88. The Munitions Stores and Transport Trust Account was established in September, 1941, to pay "salaries, wages and other expenses in connexion with the operation of the stores, transport and garage and in providing for other services which may be approved by the Minister". These purposes have not been altered. (Paragraph 207.)

89. In 1950 changes were made in the manner in which funds were provided for the purposes of the Trust. The more important required that departments should be billed for transport services rendered and that the cost of operations should be kept within the limits of the revenue received. (Paragraphs 208-212.)
90. Control over the size of the fleet of vehicles is exercised through an approved Establishment of Vehicles. This is approved by the Minister, who has delegated the task of running the fleet to a Stores and Transport Board of Management. (Paragraph 213.)
91. The Board of Management can authorize purchases within the Establishment up to £10,000 in any one transaction. The Minister must approve purchases above that sum. (Paragraph 213.)
92. Your Committee consider that the terms of delegation to the Board by the Minister should be more precisely formulated. (Paragraph 214.)
93. As at 30th June, 1956, profits of £760,928, after providing for depreciation, had been accumulated in the Account. We consider there is no purpose in accumulating substantial profits in an account of this kind. (Paragraphs 214, 217.)
94. Funds for the purchase of new vehicles are provided from the balances in the Account built up by the charges for depreciation. Depreciation is allowed for at 12½ per cent. for cars, and 15 per cent. for trucks; vehicles are disposed of after 50,000 miles. (Paragraphs 215, 216.)
95. Your Committee consider that depreciation rates charged should allow replacement at prime cost and not at current replacement cost; when further capital funds are needed for expansion of the fleet in size or value the Parliament should be informed. (Paragraph 218.)
96. If the receipts from depreciation were required to be transferred to the Consolidated Revenue Fund, the Parliament would recover control over the substantial capital expenditure incurred annually on replacing vehicles. (Paragraph 219.)
97. We recommend that a more suitable title be sought for the Account. (Paragraph 221.)
- * * * * *
98. Your Committee report on the use made of certain Trust Funds to give effect to Government policy. Since some of the Trusts have been closed following our Twenty-Ninth Report and others have not been used in recent years, Your Committee suggest that such Trusts should be regularly reviewed to see whether they are still required. (Paragraphs 222-229.)
- * * * * *
99. Shown in the Treasurer's Finance Statement for the year ended 30th June, 1956, are five trust accounts that do not carry forward any balance to the new financial year. In each case, their funds are provided by an annual appropriation and unspent balances (unlike other trusts) are surrendered at the end of the financial year. (Paragraph 230.)
100. Here again Your Committee decided to examine the operations of one of these funds, viz., the Science and Industry Trust Account, controlled by the Commonwealth Scientific and Industrial Research Organization (C.S.I.R.O.). (Paragraph 231.)
101. The original Account, known as the Science and Industry Investigation Trust Account, was administered by the Council for Scientific and Industrial Research, which received from the Parliament a grant of £250,000 in 1926 and a further sum of £250,000 for the financial year 1926-27. (Paragraph 232.)
102. Since 1932-33 when the sums mentioned were exhausted, an annual appropriation has been made. Until 1938-39, unspent funds were left in the trust account to be used as part of the annual appropriation for the new year but since then have lapsed. Other changes made in 1952-53 brought the financial arrangements of the Organization still further into line with those for an ordinary department. (Paragraphs 233-235.)
103. Your Committee's concern with this Account has been to ascertain whether the efficiency of C.S.I.R.O. would in any way be diminished if its whole operations were financed by an annual appropriation, as in the case of ordinary departments, rather than through the medium of a trust account as now. (Paragraphs 235-236.)

104. On the evidence given by C.S.I.R.O. representatives, Your Committee do not think that the efficiency of the Organization would be affected. We accordingly recommend that the Science and Industry Trust Account be closed. (Paragraphs 237-240.)
105. Your Committee also recommend that the three other currently operating accounts that come within the same category as the Science and Industry Trust Account, should be examined in the light of our comment. (Paragraph 241.)
106. Your Committee were informed that the C.S.I.R.O. is the recipient of donations and grants for specific research projects, which go to make up some fifty "Specific Research Trust Funds". A record of these donations, &c., is found in an appendix to the C.S.I.R.O. report, and the consolidated annual balance is shown in the Treasurer's Finance Statement. (Paragraphs 242-244.)
- * * * * *
107. Some Miscellaneous Trust Accounts have been created, allegedly to facilitate the processes of administration. (Paragraph 245.)
108. If their existence can be justified after inquiry, Your Committee would not object to their retention. (Paragraphs 246-247.)
109. Your Committee examined in some detail three of the trust accounts, viz. the Aircraft Production Trust Account, the Munitions Production Trust Account, and the Law Libraries Trust Account. (The first two are administered by the Department of Defence Production, and the third by the Attorney-General's Department.) (Paragraph 248.)
110. The Aircraft Production Trust Account was established in 1956 *inter alia* to finance the manufacture of aircraft. It superseded the Aircraft Trust Account established in 1939. (Paragraph 249.)
111. For various reasons the validity of the operations of this Account has been called in question. Your Committee consider it undesirable that trust accounts should be operated without proper authority, and that the position in regard to this one should be clarified without delay. (Paragraphs 250-251.)
112. The Aircraft Production Trust Account is a kind of imprest account to cover the time lag between the construction, &c., of aircraft and the actual payment by the Department of Air for the finished job. (Paragraphs 252-253.)
113. Your Committee consider it possible to conduct these operations through an annual appropriation, and we recommend that the need for the existence of the trust account should be examined. (Paragraphs 254-255.)
114. The Munitions Material Trust Account was established in 1942 for the purpose, *inter alia* of purchase or manufacture of all classes of materials and supplies needed for the production of munitions, aircraft and war material generally. (Paragraphs 256-257.)
115. Since 1951 it has been used for minor expenditure associated with reconditioning items of stock. The Treasury asked that the Account should be liquidated and it was accordingly closed in June, 1957. (Paragraph 258.)
116. At 30th June, 1957, the book value of stocks held was £4,820,000. Your Committee question whether the stocks might not have been liquidated more rapidly and suggest that the Account, which had long outlived its purposes, could have been closed much earlier. (Paragraphs 258, 259.)
117. The Law Libraries Trust Account was established in 1928 to provide for "the establishment of departmental law library for the Attorney-General's Department and library for the High Court". The Account is used infrequently, its chief value being that special purchases may be made with a minimum of delay. (Paragraphs 260-261.)
118. Having considered all the features of this Account Your Committee recommend that it be closed. (Paragraphs 261-263.)
- TRUST MONEYS NOT INCLUDED IN THE TRUST FUND.
119. Some figures of trust funds are included in the Finance Statement table, although they are not heads of Trust Fund or trust accounts within the meaning of sections 60 and 62A of the Audit Act. Again, there are numerous funds that have the character of a trust, but none of their operations is included in the table. (Paragraph 264.)

120. There are four funds in the first category, viz.—
Defence Forces Retirement Benefits Fund.
Parliamentary Retiring Allowances Fund.
Superannuation Fund.
National Debt Sinking Fund.
(Paragraph 265.)
121. These Funds are placed under the control of a Board, or Commission and are not vested in the Treasurer. (Paragraph 266.)
122. The first three Funds attract contributions from both the beneficiaries and the Commonwealth. *Those of the beneficiaries are at present larger than those of the Commonwealth.* (Paragraph 267.)
123. These Funds are trust moneys held by the Commonwealth for persons other than the Commonwealth Government and are in some way available to the Treasury: Your Committee therefore think it desirable that particulars of them and of the National Debt Sinking Fund should be included in the Finance Statement. (Paragraphs 268-270.)
124. The balances of the three Retirement Benefit Funds are at the disposal of the Treasurer and their entire accounting arrangements are dovetailed with those for the Treasury. In the case of the National Debt Sinking Fund, the National Debt Commission has permitted its credit balances to be offset against the overdraft in the Commonwealth Public Account. (Paragraph 269.)
125. Your Committee reiterate that these Funds should be included in a new and separate section in the revised Budget Papers Trust Fund table (see page 19 above).
(Paragraph 271.)
* * * * *
126. The Auditor-General told us of the existence of numerous funds which were not mentioned in the Finance Statement or Budget Papers, such as the Science and Industry Endowment Fund, the Services Canteens Trust Fund and the Royal Australian Navy Relief Trust Fund. *These funds are established by special legislation and are vested in and administered by a board or trustees.* (Paragraph 272.)
127. Many of the bodies administering the funds are entirely independent of governmental control. (Paragraph 273.)
128. The use of the word "Trust" to describe these funds is somewhat misleading. (Paragraph 274.)
129. From the point of view of report and audit, Your Committee recommend that the accounts of these Boards and Trustees should be subject to audit by the Auditor-General. In addition, where the funds are substantial, an annual report should be submitted to the Parliament. However, the carrying out of these suggestions should not curtail the independence of the Boards or Trustees. (Paragraphs 278-279.)
130. The Auditor-General has volunteered to show in his annual report a list of the funds in question, noting at the same time the constitutive Act. (Paragraph 280.)
131. Your Committee think that the Treasury and the Auditor-General should review the need for existence of trust funds outside the Budget and we leave them to decide whether or not there should be publication of lists of these funds and of associated details. (Paragraph 281.)

NOTES ON PRACTICES IN OTHER COUNTRIES.

132. In Chapter VIII. Your Committee include notes on practices in the United Kingdom, the United States of America, France and Canada. Common to the governmental financial systems of all four countries are the principles of annual appropriation and lapse of funds. (Paragraph 282.)
133. However, all these governments have adopted some form of trust fund to hold those moneys described by Your Committee as "trustee funds". (Paragraph 284.)
134. *The United Kingdom.*—The principles of annual appropriation and lapse of funds are departed from in two ways; firstly, by Appropriations-in-Aid, which authorize in certain cases the use by a department of receipts incidental to its ordinary course of business, and secondly, by Grants-in-Aid, whereby an unexpended portion of an appropriation may not lapse at the end of the financial year. These two devices are designed to cope with difficulties that in Australia have been met by creating a trust account. (Paragraphs 285-289.)


135. The manner in which stores are held is similar to that adopted by our Department of Civil Aviation and many other Commonwealth departments, and is distinct from the method followed by the Postmaster-General's Department, the Department of Defence Production and others. (Paragraph 290.)
136. *The United States of America.*—A system of "Trust Funds" and "Working Funds" has been evolved in the United States of America and the accounting and legal rules and principles governing their operation are similar to those governing the receipts to, and the expenditure of moneys from, the general fund of the United States Treasury. (Paragraphs 291-292.)
137. Although considerable flexibility is permitted within the appropriation system, it is still, apparently, found necessary to operate a large number of trust accounts of the working fund type. Your Committee note, however, that there has been criticism of the prevailing system of appropriation. (Paragraphs 293-294.)
138. *France.*—Here again there are exceptions to the general principles, firstly, in the case of expenditure relating to works programmes or works spread over a number of years and, secondly, in relation to a system of "Special Treasury Accounts", which play a role similar to Australian working accounts. (Paragraphs 295-296.)
139. Since 1946 steps have been taken to bring the Special Treasury Accounts under Parliamentary control. (Paragraph 297.)
140. *Canada.*—While the Canadian system does not provide for a formally created "Trust Fund" the trust account mechanism is adopted for many of the purposes for which it is used in Australia. (Paragraph 299.)
141. The mechanism is used in conjunction with the requirement that the government should give a true and fair view of the financial position of Canada by enabling the establishment of reserves in respect of assets and liabilities. (Paragraphs 300-302.)
142. Revolving-funds have also been established, whose function is very similar to the trust accounts used in Australia for working accounts and for stores purchasing and holding accounts. (Paragraph 303.)
143. *Separate* accounts are kept to provide for certain accrued liabilities, including those for pensions and other social services. Accounts have also been created to receive undistributed balances of appropriations to special funds such as the Colombo Plan Fund or the National Defence Equipment Account. (Paragraphs 305-306.)

ANNUAL APPROPRIATIONS AND THE TRUST FUND

144. In Chapter IX., Your Committee trace the evolution of the system of Parliamentary control of the Purse. The idea of the one consolidated Fund into which all governmental receipts are paid, and from which all payments are made, has had to be modified in Australia by the creation of other funds such as the Loan and the Trust Funds. (Paragraphs 307-308.)
145. The system of annual appropriation and lapse of funds is a characteristic feature of our system of financial control. (Paragraph 311.)
146. Another characteristic is the prior approval by the Parliament to the expenditure of public moneys by the Executive. (Paragraphs 311-312.)
147. At the same time, it has been suggested that certain categories of trust fund or trust account can be used in such a way as to facilitate effective control by the Parliament. (Paragraphs 313-314.)
148. The control exercised by the Parliament through an annual vote may be inappropriate in some cases; on such occasions it may be that the use of trust accounts, together with the submission to Parliament of additional information, would give the necessary degree of control. (Paragraph 315.)
149. *There are trust accounts whose existence cannot be justified and this bears out our belief that they would have been closed had there been a regular review.* (Paragraph 316.)
150. Your Committee remind the Parliament that only unremitting vigilance will safeguard the financial rectitude of the government. No system is proof against error, nor will the adoption of any one principle or practice solve all the problems of financial control. (Paragraph 317.)
151. Your Committee indicate the financial influence the operations of the Trust Fund have upon those of the Consolidated Revenue Fund. (Paragraphs 318-320.)

152. The figures mentioned expose the fallacy of the view that the Trust Fund is a second Fund looming threateningly behind the Consolidated Revenue Fund, placing it in jeopardy and rivalling it in magnitude. But the facts must be made clear if the fallacy is not to persist. (Paragraphs 320-321.)
153. However, we again draw attention to the dangers inherent in appropriating large sums to the Trust Fund for general purposes. (Paragraph 323.)
154. The suspicion that the Trust Fund is a large, dangerous corpus of free money to be spent at the whim of the government can be removed by examining what is done with Trust Fund balances at any one time. (Paragraphs 324-327.)
155. Your Committee conclude that, although the Trust Fund has its weaknesses as an instrument of financial control, it must be regarded as a useful—even an essential—adjunct to our government financial system. We find too that those who administer and those who operate heads of Trust Fund and trust accounts are doing so, taken all in all, in a proper manner. (Paragraph 328.)
156. In presenting this Report Your Committee express their warm appreciation of the signal services rendered to them by Mr. Peter H. Bailey, M.A. (Oxon.), LL.M. (Melb), who has recently returned to the Department of the Treasury after having worked for two and a half years as Secretary to the Committee. For much of that time Your Committee were hearing evidence, and collecting and examining Trust Fund material and Mr. Bailey's technical knowledge and Treasury experience were invaluable in enabling Your Committee to find their way through the voluminous material presented to them.
157. Much of the draft Report on the Trust Fund had to be completed after Mr. Bailey returned to the Department of the Treasury and we are indebted to that Department for its courtesy in allowing him to finish his drafting while carrying out the duties of his new position.

On behalf of the Committee,


F. A. BLAND,
Chairman.


R. C. DAVEY,
Secretary,

Joint Parliamentary Committee of Public Accounts,
Parliament House,
Canberra, A.C.T.
27th November, 1957.

APPENDIX No. 1.
Report Paragraph 22.

THE FOURTH SCHEDULE TO THE AUDIT ACT 1906.

TRUST ACCOUNTS.		Section 62A.
Name of Account.	Purpose.	
The Commonwealth Ammunition Material Account	Purchase of ammunition material	
The Small Arms Ammunition Account	Purchase of small arms ammunition	
The Defence Clothing Material Account	Purchase of material for Defence uniforms	
The Small Arms Account	Purchase of small arms and parts	
The Unclaimed Militia Pay Account	Payment of unclaimed pay to members of the Militia Forces	
The Customs Officers' Overtime Account	Payment to the Consolidated Revenue Fund or to officers of the Department of Trade and Customs out of moneys received from the public for the services of officers	
The Government Printer Account	Payment for labour employed and material used in the Government Printing Office	
The Naval Agreement Act—Special Pay Account	Payment at special rates to Australians and New Zealanders, in accordance with Article V. of the Agreement set out in the Schedule to the <i>Naval Agreement Act 1903</i>	
The Naval Agreement Act—Registry Account	Payment of expenses connected with registration offices established in connexion with the Agreement set out in the Schedule to the <i>Naval Agreement Act 1903</i>	
The Pensions Account	Payment to officers on retirement	
The Guarantee Fund Account	Payments into the Defalcation Account in connexion with loss arising from the fraud or want of fidelity of officers	
The Defalcation Account	Payment of loss arising from the fraud or want of fidelity of officers	
The Money Order Account	Remittances by Money Orders and Postal Notes	
The International Postal and Money Order Account	Settlement of Accounts between the Commonwealth and other Governments	
The Defence Forces Stores Collections Account (Queensland)	Purchase of Defence Material	
The Deferred Pay Account	Payment of Deferred Pay of Members of Defence Forces	
The Ocean Mails Account	Settlement of accounts between the Postmaster-General's Department and Governments of other countries	

APPENDIX No. 2.
Report Paragraph 130.
SPECIAL LOANS RAISED BETWEEN 1952 AND 1956.

Date.	Terms.	£000,000	Subscriptions.	£000,000
June, 1952 ..	2 per cent. 1955 at par ..	160.0	National Debt Commission—Investment of Funds from Commonwealth revenue ..	98.5
			National Debt Commission—I.B.R.D. Counterpart Funds ..	27.0
			General Trust Funds ..	34.5
		160.0		160.0
June, 1953 ..	3 per cent. 1955 at 99½ ..	35.0	National Debt Commission—	
	4½ per cent. 1962 at par ..	88.0	I.B.R.D. Counterpart Funds ..	18.5
			National Welfare Fund ..	10.6
			General Trust Funds ..	93.9
		123.0		123.0
June, 1954 ..	3 per cent. 1957 at 98½ ..	16.0	National Debt Commission—	
	4½ per cent. 1967 at par ..	64.0	I.B.R.D. Counterpart Funds ..	18.0
			Swiss Loan Trust Account ..	5.75
			General Trust Funds (Debt Redemption Reserve) ..	56.25
		80.0		80.0
June, 1955 ..	3 per cent. 1957 at 99½ ..	10.0	National Debt Commission—	
	4½ per cent. 1963 at par ..	38.0	I.B.R.D. Counterpart Funds ..	22.15
			Swiss Loan Trust Account ..	6.15
			General Trust Funds (Debt Redemption Reserve) ..	19.7
		48.0		48.0
June, 1956 ..	Cash ..		National Debt Commission—	
	3½ per cent. 1957 at 99½ ..	76.0	I.B.R.D. Counterpart Funds ..	10.8
	5 per cent. 1963 at 99½ ..	17.2	Canadian Loan Trust Account ..	6.4
			Swiss Loan Trust Account ..	0.5
			Loan Consolidation and Investment Reserve ..	62.0
	Conversion ..	6.8	General Trust Funds ..	13.5
		100.0		93.2

* All amounts based on face value of the securities.

APPENDIX No. 3.
Report Paragraph 157.

TRUST ACCOUNTS INCLUDED IN A BALANCE OF £2,233,544 10s. 7d. UNDER "MUNITIONS FACTORIES" AT 30th JUNE, 1956.

Account.	Purpose.	Date Opened.	Date of Notification to Department.	Balance 30.6.56.
Ammunition Factory (Footsray) (Originally Small Arms Ammunition Factory)	Payment of salaries, wages and all other expenses in connexion with the production of munitions and in providing any other services which may be approved by the Minister. (Alter amendments in 1928 and 1930)	30.12.1920	Latest notification 22.1.1930 (Department of Defence)	£ 171,120 18 8
Ammunition Factory, Finchbury (Originally Fuse and Cartridge Case Factory)	Payment of salaries, wages and all other expenses in connexion with the production of munitions and in providing any other services which may be approved by the Minister. (Alteration in Title)	5.2.1941 27.7.1942	7.2.1941 (Supply and Development) .. 27.7.1942 (Munitions) ..	10,900 5 5
Clothing Factory	Payment of salaries, wages and all other expenses in connexion with the production of munitions and in providing any other services which may be approved by the Minister. (Alter amendment in 1930)	19.8.1911 22.1.1930	21.8.1911 (Defence) .. 22.1.1930 (Defence) ..	42,291 9 10
Explosives Factory, Albion	Payment of salaries, wages and all other expenses in connexion with the production of explosives and in providing any other service which may be approved by the Minister.	5.7.1935	6.7.1935 (Defence Production)	100,000 0 0
Explosives Factory, Martignyong	Payment of salaries, wages and all other expenses in connexion with the production of munitions and in providing any other service approved by the Minister.	22.1.1930	22.1.1930 (Defence)	226,798 9 1
Explosives Factory, Mulwala	Payment of salaries, wages and all other expenses in connexion with the production of explosives and in providing any other service approved by the Minister.	30.1.1943	2.2.1943 (Munitions)	187,915 15 6
Explosives Factory, Salisbury	Payment of salaries, wages and all other expenses in connexion with the production of explosives and in providing any other service approved by the Minister.	11.9.1941 (Closed 5.10.1956)	18.9.1941 (Munitions)	13,216 14 10
Explosives Factory, St. Mary's	Payment of salaries, wages and all other expenses in connexion with the production of explosives and in providing any other service approved by the Minister.	10.6.1942	11.6.1942 (Munitions)	44,404 12 3
Ordnance Factory, Bendigo	Payment of salaries, wages and all other expenses in connexion with the operation of the Ordnance Factory at Bendigo and in providing for other services which may be approved by the Minister.	21.1.1942	29.1.1942 (Munitions)	162,987 5 2
Ordnance Factory, Echuca	Payment of salaries, wages and all other expenses in connexion with the operation of the Ordnance Factory at Echuca and in providing for other services which may be approved by the Minister.	11.12.1946	11.12.1946 (Munitions)	48,338 18 11
Ordnance Factory, Martignyong	Payment of salaries, wages and all other expenses in connexion with the production of munitions and in providing any other services which may be approved by the Minister.	20.1.1930	22.1.1930 (Defence)	213,107 17 4

APPENDIX No. 3—continued.
Report Paragraph 157—continued.

Account.	Purpose.	Date Opened.	Date of Notification to Department.	Balance 30.6.56.
				£ s. d.
Small Arms Factory, Lithgow ..	Payment of salaries, wages and all other expenses in connexion with the production of munitions stores in other factories which are operated by the Minister (After amendment in 1930) Established "to enable the formation of self-contained Accounting Sections at the respective centres as from 1st July, 1947." The object was stated by the Department to be "to provide working capital for the two factories . . . and to bring them into line with other Munitions Factories." "It is assumed that expenditure on these accounts is to be brought to the attention of the House of Representatives. For this purpose approval for the establishment of a Trust Account with this title was not sought until 4th March, 1957, although an account with this title has been operated upon since 1.7.1950	19.8.1911	21.8.1911 (Defence)	502,121 7 2
Aircraft Factory, Fishburn's Bend ..		20.1.1930	22.1.1930 (Defence)	413,514 5 10
Aircraft Factory, Parafield ..		3.7.1947	3.7.1947 (Munitions)	68,410 12 6
Marine Engine Works, Melbourne ..		15.12.1947	15.12.1947 (Munitions)	56,357 7 2
Central Drawing Office ..				28,058 10 11
				2,283,544 10 7

86

87

APPENDIX No. 4.
Report Paragraph 319.

RECEIPTS TO TRUST ACCOUNTS THAT ORIGINATED FROM A PARLIAMENTARY APPROPRIATION OF THE CONSOLIDATED REVENUE FUND AND EXPENDITURE FROM THOSE ACCOUNTS.

Trust Account.	1955-56 Expenditure.	1955-56 Receipts.
	£	£
Section 1—		
Canberra Cemetery	9,935	8,579
Coal Mining Industry—Long Service Leave	310,829	565,347
Commonwealth Aid Roads	26,581,038	27,469,123
Defence Forces Retirement Benefit Fund	1,325,904	692,210
Deferred Pay—Air Force	8,341	4,572
Deferred Pay—Naval	94,354	124,482
Parliamentary Retiring Allowances Fund	29,289	19,912
Medical Research Endowment Fund	155,830	150,000
National Debt Sinking Fund	39,535,606	15,416,972
National Fitness Fund	71,278	72,743
Superannuation Fund	4,903,008	3,375,798
Total Section 1.	73,025,412	47,899,738
Section 2—		
Aircraft	12,579,232	10,615,963
Aircraft Production	5,838,091	5,895,121
Atomic Energy	2,147,736	2,147,842
Australian Soldiers' Repatriation	15,546,327	15,546,327
Commonwealth Literary Fund	9,960	12,000
Commonwealth Stores Suspense	636,427	562,949
Defence Clothing Material	1,659,204	1,107,879
Defence Production Materials	348,593	391,107
Fisheries Development	125,000
Government Printer	507,569	467,675
Immigration Centres	1,489,893	912,902
Interest Suspense	96,921,757	96,909,508
International Development and Relief	3,900,573	4,011,327
Loan Consolidation and Investment Reserve	28,701,010	64,012,577
Manufacture of Munitions	8,927,286	6,008,681
Munitions Factories	18,978,978	18,408,393
Munitions Production	4,613,744	5,602,655
Munitions Stores and Transport	4,633,177	4,248,968
National Health Campaign	29,693	30,000
National Welfare Fund	214,865,671	216,952,107
Pensions Suspense	70,092,168	70,247,228
Post Office Stores and Services	41,536,244	38,709,091
Railway Accident and Insurance Fund	14,782	9,797
Railway Plant and Stores Suspense	1,507,399	1,525,909
Science and Industry	4,716,313	4,716,313
Taxation Refunds Suspense	28,693,895	28,719,124
Uniform Clothing and Necessaries—Naval	303,945	226,410
War Pensions	47,307,315	47,307,315
War Service Homes	31,014,523	31,014,523
War Service Homes Relief	5,505	2,908
Works Suspense	1,216,244	1,019,447
Total Section 2.	648,743,254	677,467,046
GRAND TOTAL	721,768,666	725,366,784