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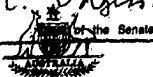
DEPARTMENT OF THE SENATE

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J.R. Olsen



Report

173

Joint Committee of
Public Accounts

Expenditure from the
Advance to the
Minister for Finance
(Appropriation Acts 1977-78)

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Expenditure from the Advance to the Minister for Finance (Appropriation Acts 1977-78)

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

ONE HUNDRED AND SEVENTY-THIRD REPORT

EXPENDITURE FROM THE ADVANCE TO THE MINISTER FOR FINANCE

(APPROPRIATION ACTS 1977-78)

Australian Government Publishing Service
CANBERRA 1978

JOINT COMMITTEE OF PUBLIC ACCOUNTS

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- (1) Discharged 2.5.78
- (2) Appointed 2.5.78, Discharged 18.10.78
- (3) Appointed (ex-officio) 14.3.78
- (4) Discharged 28.9.78
- (5) Appointed 28.9.78
- (6) Appointed 18.10.78
- (7) Discharged 17.8.78
- (8) Appointed 17.8.78

DUTIES OF THE COMMITTEE

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

- B. The duties of the Committee are -
- (a) to examine the accounts of the receipts and expenditure of the Commonwealth and each statement and report transmitted to the Houses of the Parliament by the Auditor-General in pursuance of subsection (1) of section fifty-three of the Audit Act 1901.
 - (b) to report to both Houses of the Parliament, with such comments 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.

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CHAPTER 1

INTRODUCTION

1.1. In July 1978 the Committee obtained from departments explanations relating to expenditure from the Advance to the Minister for Finance 1977-78. Four items were selected for further examination. The Department of Finance provided the Committee with a detailed discussion paper on the development and use of the Advance. That paper forms the basis of this Chapter.

1.2. The Advance to the Minister for Finance (formerly Advance to the Treasurer) is authorised by the annual Appropriation Acts and made available to the Minister for issue in accordance with the terms of the appropriations and section 36A of the Audit Act. Two such appropriations are included both in the Supply Bills introduced in the Autumn sittings and in the Appropriation Bills introduced in the Budget sittings.

1.3. Further appropriations for additional Advances have on occasions been made by additional Supply Bills or Appropriation Bills; for example:

- Supply Bill (No. 3) 1971-72 included a further \$5 million for the No. 1 Advance;
- following the December 1972 election and the re-arrangement of departmental functions, which made it necessary to supplement the Advance that was provided in Appropriation Act (No. 1) 1972-73, an additional Appropriation Bill included a further \$15 million for the No. 1 Advance.

1.4. For the financial year 1977-78 an amount of \$118 million was provided under Division 310/1 - Advance to the Minister for Finance in Appropriation Act (No. 1) to enable the Minister for Finance:-

- "(a) to make advances that will be recovered during the financial year, in respect of expenditure that is expenditure for the ordinary annual services of the Government; and
- (b) to make moneys available for expenditure, being expenditure for the ordinary annual services of the Government -
 - (i) particulars of which will afterwards be submitted to the Parliament; or
 - (ii) pending the issue of a warrant of the Governor-General specifically applicable to the expenditure."

1.5. An amount of \$108 million was provided under Division 850 - Advances to the Minister for Finance in Appropriation Act (No. 2) 1977-78 to enable the Minister for Finance:-

- "(a) to make advances that will be recovered during the financial year;
- (b) to make moneys available for expenditure, particulars of which will afterwards be submitted to the Parliament, including payments by way of financial assistance to a State on such terms and conditions, if any, as the Minister for Finance determines; and
- (c) to make moneys available for expenditure pending the issue of a warrant of the Governor-General specifically applicable to the expenditure."

The Legal Background

1.6. Apart from the Appropriation and Supply Acts which provide the appropriations and define their purposes, section 36A of the Audit Act 1901 authorises the Minister for Finance to charge expenditure in excess of specific appropriation or not specifically provided for by appropriation to such heads as he may direct provided that the Advance appropriations are not exceeded. The text of section 36A is at Appendix A.

1.7. Until 1955-56 the practice was to include in Supplementary Estimates funds issued from the Advances that were not taken up in Additional Estimates. Supplementary Estimates were considered and passed by Parliament after the close of the financial year. In accordance with recommendations by this Committee in its Thirty-first Report (May 1957) (see Appendix B), that practice ceased and was replaced by a requirement for particulars of amounts remaining a charge to the Advances at 30 June to be included in a statement tabled in the Parliament.

1.8. The Department of Finance has issued Directions pursuant to section 71 (2) (a) of the Audit Act Finance Regulation 127A, amplifying those provisions and setting out the processes to be followed in applying for funds and accounting for expenditure chargeable to the Advances. A copy of these Directions is in Appendix C.

Delegations

1.9. The power to issue funds from the Advances is delegated by the Minister to the Secretary and certain other officers of the Department of Finance. This is a practice of very long standing and enables many applications for funds of a straight-forward nature to be dealt with departmentally. The delegated power is not exercised in circumstances where special considerations are involved or there is a need to "ration" the use of the Advances.

Use of the Advances

1.10. The use made of the Advances falls broadly into four categories:-

- "(a) to fund payments pending the issue of Governor-General's Warrants;
- (b) to make advances which will be repaid within the financial year;
- (c) to make moneys available during the Supply period pending the passing of the Appropriation Bills and later in the financial year pending the passing of the additional Appropriation Bills; and
- (d) to make moneys available in supplementation of existing appropriations for specified purposes or to finance new services the need for which arises, or about which a decision is reached, after the Government has determined what provisions are to be included for specified purposes in Appropriation Bills."

1.11. In general, until a Governor-General's Warrant is available issues of funds are made for short-term bridging purposes. For example, Parliament may pass a Bill containing a special appropriation but before the processes of obtaining a Governor-General's Warrant for expenditure from that appropriation can be completed, (e.g. because of the Governor-General's absence from Canberra) it may become necessary to make a payment under the Act; such a payment can then be funded temporarily from the Advance. Many issues are made in this way, being cancelled when the Governor-General's Warrant under the special appropriations is obtained. Although such issues are only short-term they can be very large in amount, e.g. there were issues of \$52 million in this way in December 1976.

1.12. Advances which are repaid within the financial year do not require an extensive call on the Advance Appropriations. For example, the advances made to the Department of Foreign Affairs to enable it to replenish Imprest Accounts at its overseas Posts pending recovery from other departments of expenditure made overseas.

1.13. The Supply Bills cannot be prepared with the same degree of precision as the annual Appropriation Bills, there is some variation from year to year in the timing of the passage of the Appropriation Bills, hence there are frequent instances of shortfalls in the Supply Act appropriations for specified purposes. The Advances to the Minister for Finance are used to meet these shortfalls "pending appropriation" - that is to say, pending the availability of funds in the Appropriation Acts (which subsume the Supply provisions).

1.14. In the Supply period the Advances are also available to finance new services for which there is no provision in the Supply Acts but for which provision is being made in the annual Appropriation Bills. The use of the Advances for this purpose is limited to instances with a degree of urgency. The urgency would normally be apparent; it might however flow from a Cabinet decision or be the subject of a decision by the Minister for Finance. The Department of Finance informed the Committee that the use of the Advances in this way is avoided as much as possible.

1.15. Following the enactment of Appropriation Bills (Nos. 1 and 2), situations can arise where appropriations provided in those Bills for specified purposes require supplementation before the additional Appropriation Bills are enacted in late-May or early-June. Alternatively the Government may require to fund a new service, which was unforeseen at the time of preparing Appropriation Bills (Nos. 1 and 2). In such situations, funds are issued from the Advances in anticipation of the additional Appropriation Bills. Provision for the amounts issued is then included in the additional Appropriation Bills, and when these are enacted, the issues from the Advances are automatically cancelled and the Advances restored.

1.16. The appropriation for the Advance in Appropriation Act No. 2 empowers the Minister for Finance to make payments to a State on such terms and conditions (if any) as he determines. This amounts to a delegation by the Parliament to the Minister to make payments as authorised by section 96 of the Constitution. The Minister's power to make such payments is not used extensively. It is, however, of importance in some circumstances - e.g. to make a grant to a State for special budgetary assistance as a matter of urgency.

1.17. A departmental close-off date must be imposed on bids for inclusion in the additional Appropriation Bills and that the Government must consider the draft Bills and reach a decision as to the provisions to be included in them after that date. Every reasonable effort is made to make provision in the additional Appropriation Bills for all expenditure that is expected to require funding prior to 30 June. Expenditure requirements which do not come forward prior to the cut-off date, but for which funds must be provided, are financed from the Advances. The amounts financed from the Advances after that date are then reported to the Parliament in the "Statement of Heads of Expenditure and the amounts charged thereto pursuant to section 36A of the Audit Act 1904" and examined each year by the Public Accounts Committee.

Conventions Relating to the Advances

1.18. The Advance appropriations (section 36A of the Audit Act) do not require that calls should only be made on the Advances in urgent or special circumstances. Parliament has therefore left the use of the Advances to the judgement of the Minister for Finance. Because the Advances are, in essence, a contingency fund for unforeseen expenditure and limited as to amount, steps

are taken to guard against departments regarding them as a conveniently available source of finance which lessens the need for the best possible estimating. Thus, departments have been advised that funds will be issued from the Advances only in "urgent or special circumstances". (It is worth noting that, when introducing the Audit Bill in 1906 which led to the enactment of section 36A, the then Treasurer described the Advance as being for "unforeseen and extraordinary" expenditure.)

1.19. Judgements, both legal and political, have to be made on applications for the issues of funds from the Advances. When legal issues could be involved, the Department of Finance may seek legal advice which is invariably followed. Judgements involving political considerations are a matter for the Minister for Finance - in consultation, as he may wish, with the Prime Minister and other Ministers.

1.20. In pursuance of a rule of estimating by which many expenditure appropriations do not allow for cost or price increases, it frequently becomes necessary to have recourse to funds from the Advances in anticipation of additional appropriations. This illustrates a convention relating to estimating which has implications for the use of the Advances to the Minister for Finance.

The Form and Size of the Advances

1.21. The Department of Finance informed the Committee that the basic need for the Advance appropriations is to provide some flexibility in the Commonwealth budgetary system by means of a contingency plan. A Government could either, not function efficiently if it had to approach Parliament every time it needed to supplement the funds appropriated for any service or purpose or, resort to the device of building into individual appropriations "padding" so as to have an insurance against the need for additional funds in some cases. The Department of Finance considers that a centrally-controlled contingency fund is a more efficient and realistic resolution of the (inherent) problem.

1.22. The Department of Finance believes that the use of the Advances for temporary issues pending Governor-General's Warrants and for making advances that are recoverable within the same financial year has no budgetary significance. It does not appear to derogate from the prerogative of Parliament to appropriate moneys for the purposes of the Crown.

1.23. Issues from the Advances during the Supply period are generally used to fund expenditure for which provision is made in the Appropriation Bills and which are part of the total Budget than currently before Parliament. Funds may be issued in respect of decisions which are taken too late for inclusion in the Appropriation Bills and which therefore have to be funded from the "contingency fund" in anticipation of provision being made in the Additional Appropriation Bills. There are, inevitably, time lags between final decisions being made on the contents of Appropriation Bills and those

Bills being submitted to Parliament. Sometimes as with the additional Appropriation Bills in 1977-78 - between final determination of the content of the Bills and their consideration by Parliament it happens that particular appropriations may be insufficient and will require supplementation from the Advances. The Department of Finance advised the Committee that every effort had been - and will continue to be - made to prevent this.

1.24. The Department of Finance suggested that an alternative approach might be to split the Advances into two contingency appropriations within each Act - the first to be for funding issues pending Governor-General's Warrant and recoverable advances; the second to be available for funding new services or to supplement existing appropriations. This decision would provide a tighter form of Parliamentary control over the Advances by reducing the degree of flexibility inherent in the present appropriations. It would not, however, follow that the total moneys appropriated for contingency purposes could be substantially reduced. For example, immediately before assent being given to Appropriation Bill (No. 3) 1977-78, issues from the No. 1 Advance for various purposes totalled \$116.3 million, of which \$97 million was in anticipation of services for which provision had been made in Appropriation Bill (No. 3); \$7.1 million was pending Governor-General's Warrant; \$6.7 million was pending recovery and a further \$5.5 million was to remain as a final charge to the Advance. But, while this is illustrative of the situation at a time of maximum pressure on the Advance, it is also true that the mix is variable, depending on circumstances.

1.25. The peaks in demand for funds in the various categories do not necessarily coincide. This means that the sizes of the Advances under the present system are less than would be required under the suggested (special purpose) contingency appropriations.

1.26. The date of enactment of the Appropriation Bills (Nos. 1 and 2) and the additional Appropriation Bills is entirely dependant on the Parliamentary programme. When enactments are late (and, for obvious reasons, this cannot be accurately forecast), greater pressure is placed on the Advances to meet expenditures that have become urgent while the Bills are before the Parliament. This has, in the past, been a significant consideration in the determination of the size of the Advances.

1.27. The Minister for Finance normally decided what amounts should be sought although, on occasions, the decision is taken in consultation with the Prime Minister or as a consequence of consideration by Cabinet. Since by their nature, the Advances are contingency funds no precise estimate of requirements can be made. The Department of Finance explained that consideration is given to such factors as the extent of the issues made in the previous year, the likely Parliamentary timetable and the Government's general expenditure policies.

Accountability to Parliament

1.28. The Department of Finance believes it is axiomatic, (that the Parliament did not intend otherwise) that issues made by the Minister for

Finance from the Advance appropriations are for purposes not specifically authorised by the Parliament. The Parliament provides a contingency fund for the Minister for Finance to draw upon within certain broad rules and requires him to report back "particulars" of the issues he has made for expenditure.

1.29. Particulars of amounts made available from the Advances for expenditure (other than expenditure on advances that are recovered in the financial year) is reported by including those amounts in an Appropriation or an additional Appropriation Bill or, where issues have taken place after the close-off date for an additional Appropriation Bill, in the "Statement of Heads of Expenditure and the amounts charged thereto pursuant to section 36A of the Audit Act 1901" submitted by the Minister for Finance to Parliament and the Joint Committee of Public Accounts after the close of the financial year. Instructions are issued by the Department of Finance each year regarding the preparation of explanations for items of expenditure covered by "Advance to the Minister for Finance", for transmission to the Joint Committee of Public Accounts.

1.30. The Committee does not normally concern itself with the use of the Advances for temporary financing. It does, however, become concerned when a department has recourse to the Advances for temporary finance and then fails to seek adequate funds in the Additional Estimates to recoup them.

1.31. In relation to expenditure from the Advances to the Minister for Finance the Committee examines departments as to whether or not expenditure charged to the Advances could have reasonably been foreseen in time for its inclusion in the Additional Estimates and conforms to the principles of estimating. The Committee also examines departments in relation to the efficiency of their financial administration.

1.32. In view of the importance which the Committee has placed on the sound formation of Estimates the following general principles have been developed by the Committee and the Department of Finance:

- (a) estimates for all items of expenditure must represent a realistic assessment of the sum that is expected to be spent having regard to the information available to the department at the time of preparation. Estimates for supplies and services are based upon current or known costs and provision is not made for possible rises in costs. Where an item is for a type of recurring expense, e.g. office services or travelling and subsistence, it is appropriate to budget on the basis of experience;

- (b) estimates must not include amounts for proposals which are so far from firm that it is not possible to form any real estimate of what payments, if any, will be made in the financial year;
- (c) estimates are furnished under the heads of expenditure and items used in the annual Appropriation Acts and the Estimates of Receipts and Summary of Estimated Expenditure of the then current financial year or as otherwise approved by the Minister for Finance or his delegate, i.e. where new or additional appropriation is required; and
- (d) all continuing expenditure in particular must be examined closely in order to eliminate items which are no longer required.

1.33. The last date for acceptance of the Original Estimates for Appropriation Acts (Nos. 1 and 2) was 19 May 1977. The last date for acceptance of the Additional Estimates, for Appropriation Acts (Nos. 3 and 4), was 9 March 1978.

1.34. Since 1973-74 the Supply and Appropriation Acts have contained a clause enabling the Minister for Finance to issue out of the Consolidated Revenue Fund such additional amounts as he determines for salary increases. Section 5 of Appropriation Act (No. 1) 1977-78 made provision for the appropriation of additional amounts to be determined by the Minister for Finance to cover the payment during the year of increases in salaries and wages and payments in the nature of salaries granted under any law, award, order or determination. Expenditure charged under this Section up to the close of Additional Estimates was included under the respective departments in Appropriation Act No. 3. Appropriation Act No. 3 included a clause which allowed expenditure from 9 March 1978 on salary increases to be charged to the Consolidated Revenue Fund.

1.35. In its examination of expenditure from the Advance to the Treasurer, the Committee sought to ascertain whether or not expenditure has been confined to urgent and unforeseeable requirements for which provision could not have been made in the Original and Additional Estimates. The Committee also sought to find whether the departments concerned have maintained efficient administration in the expenditure of funds under the items selected for examination at the public inquiry.

CHAPTER 2

DEPARTMENT OF DEFENCE

Division 233/1/01: Administrative and Other Expenditure -
Administrative Expenses - Travelling
and Subsistence

<u>Funds Available</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>
	\$	\$	\$
Appropriation Act No. 1	26 005 000	33 910 000	32 635 000
Appropriation Act No. 3	1 874 000	-	3 622 000
Advance to the Minister for Finance	-	-	1 450 000
	<hr/>	<hr/>	<hr/>
TOTAL FUNDS AVAILABLE	27 879 000	33 910 000	37 707 000
TOTAL EXPENDITURE	26 387 328	32 493 798	37 658 191
	<hr/>	<hr/>	<hr/>
UNEXPENDED FUNDS AVAILABLE	1 491 672	1 416 202	48 809

2.1. This item provides for the payment of all classes of fares; travelling allowances; meal allowances, expenses of the members of the Forces and Civilians travelling on duty or posting (including families of Forces personnel on posting); Forces personnel travelling on leave and fares of Citizen Forces/Cadets travelling to camps etc.

2.2. The shortfall in expenditure of some \$1.4m in 1975-76 occurred in the Army Office, and was due to:

- (1) the inability to obtain statutory cover in respect of increased entitlements in respect of Travelling and Meal Allowances in time to permit payment in 1975-76; and
- (2) the effect of curtailment of travel, by Government direction, being greater than anticipated at the time Additional Estimates were finalised."

2.3. In 1976-77 the underexpenditure occurred because restrictions imposed in 1975-76 were partially lifted on 3 August 1976 including the use of service aircraft in lieu of civil aircraft. However, the expected increases

in use of civil aircraft did not eventuate resulting in an underspending of \$1.4m in 1976-77.

2.4. The Department explained that the estimates for the 1977-78 financial year were based on new requirements and the actual expenditure incurred in the first half of the 1976-77 financial year. However, due to tight financial controls imposed in 1975-76 expenditure during this period was unusually low. The Department stated in evidence that to maintain efficiency, some economy measures and restrictions imposed in 1975-76 were partly lifted resulting in a requirement for an additional \$1.07m. The Department became aware of this requirement after the Budget Estimates were closed and obtained these funds under additional appropriation. The \$3.6m obtained in Appropriation Act No. 3 comprised \$2.042m for price increases, \$2 799 for exchange fluctuation and \$1.5m for other variations.

2.5. Early in the 1977-78 financial year expenditure above pro-rata was recorded for this item and instructions were issued to limit travel. (Appendix .A) The Department in its submission stated that:

"While such measures reduced expenditure below that which otherwise would have occurred, the appropriation was overpent mainly because the restraints imposed were based on a continual under-estimate of expenditure yet to be brought to account in respect of movements earlier approved."

2.6. The Department stated that the reason the outstanding commitments had not been taken into account was the fault of centralised management of the travel vote. Over 1 000 personnel were able to authorise expenditure for travel in accordance with general guidelines but were not aware except in the most general terms of the amount of funds allocated. The extent of the commitments which had been entered into was not reported in from all the various cost centres. Consequently insufficient allowance had been made for these commitments resulting in a shortage of funds.

2.7. About 40 per cent of the Department's travel expenditure is of a non-discretionary nature stemming from conditions-of-service determinations such as leave fares, travel costs for discharges; postings; medical and dental movements; support of the civil community (floods, bushfires and other disasters) and unscheduled requirements to support coastal surveillance activities etc. Consequently when an arbitrary percentage cut is made this non-discretionary element pushes the burden of reductions on discretionary travel which therefore becomes about double that borne by other government departments.

2.8. The Department pointed out that because of a number of variable factors it is very difficult to forecast the cost of military training exercises.

2.9. The possibility of separating the Department's travel vote into defence activity and non-defence activity was discussed during the inquiry. The Department was of the opinion that the cost of policing two budgets could be greater than benefits received. Besides the difficulties of separating some activities the use of two votes would not necessarily eliminate the problems of estimating and controls experienced by the Department in this area.

2.10. During the course of the inquiry the Observer for the Department of Finance in a reply to a question stated that..."my Department would certainly expect that, after eight and a half months' experience in the financial year, what was put into additional estimates would be a lot closer to being correct than in this case which is 50 per cent in error".

2.11. The expenditure of some \$1.4m in 1977-78 over the amount specifically appropriated for Defence travel and expended against the Advance to the Minister for Finance was incurred on what the Department claimed were unavoidable requirements by the Army and Air Force.

2.12. The Army Office required \$0.423m for postings and \$0.305m for Schools and courses from the Advance to the Minister for Finance. Of the \$0.423m for postings \$70 000 was required to pay for an unexpected increase in the number of married personnel being posted. The Department had no explanation for the increase except that the increased retention rate of serving members may have increased the proportion of married people. The Department conceded that \$0.353m or (83 per cent) of the funds required from the Advance for postings was directly attributable to underestimating. The Department agreed in evidence that the majority of movements take place during the Christmas/New Year period.

2.13. An additional \$305 000 was required to meet the costs of the schools and training areas. The estimates for this item are based on scheduled courses to be conducted by Training Command and some limited provision was made for unscheduled courses. During the year there occurred an increase which had not been possible to forecast, in the number of unscheduled course vacancies requiring an additional \$120 000 from the Advance. This was partly due to a number of increased vacancies which became available to Army Reservists in accordance with the Report of the Committee of Inquiry into the Citizen Military Forces (see Appendix B).

2.14. The Air Force Office required \$771,000 from the Advance to the Minister for Finance for Leave; Exercises Home Training and Bivouacs; and Visits, Conferences and Unit Office Management.

2.15. Of \$167 000 required for leave fares by the Air Force Office more than \$150 000 was needed because the Department underestimated its requirements. Approximately \$15 000 was required to meet increased costs of rail fares

during the 1977-78 financial year. Travel for this purpose is of a non-discretionary nature; expenditure for 1976-77 was \$0.98m and only \$0.952 was included in the 1977-78 Estimates.

2.16. Due to increases not known at the time the Additional Estimates were prepared, a further \$155 000 was required in charges for accommodation, length of exercises and unplanned expenditure for off-base accommodation.

2.17. For Unit Office Management, Visits and Conferences, \$449 000 was required from the Advance to the Minister for Finance. The Department in its submission stated that:

"The overspend in this area was due to a number of factors not known at Additional Estimates, including:

- a. a significant increase in surveillance activity in the North West Coast area;
- b. unexpected requirements to visit overseas countries including Noumea and Seychelles;
- c. unplanned additional costs to move teachers and their families to Butterworth; estimates were prepared on the basis that all movements would be by charter aircraft, but some teachers and their families (because of family size) travelled by civil air in accordance with PSB Determinations Relating to Overseas Services; (details in relation to the movement of these teachers and further action taken by the Department are set out in Appendix C);
- d. an increase in staff visits associated with essential operational requirements."

2.18. The Department told the Committee that several years ago an exercise had been conducted to establish an improved system of detailed expenditure controls in the travel area. This had shown that the cost of a detailed commitment control system for the Army alone would be \$0.5m per annum and the cost in relation to benefits was considered too high.

2.19. The Committee was informed that new procedures are to be introduced by 1 December 1978, which the Department believes will lead to better control of commitments. The Department does not propose to use additional manpower in this area.

Conclusions

2.20. The Committee recognises the difficulties and complexities involved in estimating and controlling expenditure in this area. But after taking

evidence from the Department on these matters, the Committee believes that some difficulties could have been avoided if there had been a greater liaison between the various cost centres and the central Department, particularly in the area of advising commitments.

2.21. In the interest of effective financial control of overexpenditure the Committee recommends that the extent of commitments available to the various authorizing officers be clearly defined and that commitments entered into be reported to a financial control centre at regular intervals.

2.22. The Committee is perturbed to learn that the Department in preparing estimates for this item used as an historical base, a period which, because of constraints, was unusually low and the Department had not given sufficient consideration to this factor.

2.23. The Committee expects that the new procedures to control expenditure for this item will improve the Department's estimating performance and financial controls and as well keep a close surveillance in this area of expenditure.

CHAPTER 3

DEPARTMENT OF IMMIGRATION AND ETHNIC AFFAIRS

- (i) Division 340/4/01: Administrative - Embarkation and Passage
Costs - Assisted Migration Programme -
Passage and Associated Costs

<u>Funds Available</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>
	\$	\$	\$
Appropriation Act No. 1	8 760 000	11 088 000	6 200 000
Appropriation Act No. 3	-	-	500 000
Advance to the Minister for Finance	-	-	250 000
	<hr/>	<hr/>	<hr/>
TOTAL FUNDS AVAILABLE	8 760 000	11 088 000	6 950 000
TOTAL EXPENDITURE	7 283 713	6 115 358	6 948 114
	<hr/>	<hr/>	<hr/>
UNEXPENDED FUNDS AVAILABLE	1 476 287	4 972 642	1 886

3.1. Estimates for this item are based on an assessment of the number of persons in various categories who are likely to qualify for assisted passages. Economic fluctuations and other factors either in Australia or abroad can affect the rate of applications and the preparation of accurate estimates.

3.2. Since 1 July 1976 migrant contributions towards passage costs are \$300 per family unit and \$200 for single people. Those contributions are credited to revenue.

3.3. The Department in explaining the \$4.972m underexpenditure in 1976-77 stated that "at the time the 1976-77 estimates were prepared there was perhaps more confidence in the prospect of economic recovery than was justified by subsequent events and provision was made for 30 000 assisted passage migrants." In the event the approved occupations listed as being in short supply were less extensive than anticipated resulting in an underexpenditure of \$4.972m of the 1976-77 Appropriation for this item.

3.4. The \$500 000 obtained under Appropriation Act No. 3 was required for the payment of passage and associated costs of moving an additional 2 000 refugees from Thailand and Malaysia before the end of the financial year. This increase in program was approved by Cabinet in March 1978, and raised the 1977-78 Assisted Passage program to 18 000.

3.5. Following discussions between the Prime Minister and the Minister for Immigration and Ethnic Affairs a joint announcement was made on 29 November 1977 by the Minister for Foreign Affairs and the Minister for Immigration and Ethnic Affairs that a task force would be sent to Malaysia to select a further 1 500 refugees. Twelve Officers left for Malaysia on 30 November 1977 to supplement the operations already established in that area. The understanding of the Department was that acceptance and movement of these refugees was to be additional to, and not at the expense of the normal assisted passage program of 16 000 persons for 1977-78, and increased to 18 000 by the additional refugees already approved.

3.6. The Department applied on 3 March 1978 for \$250 000 to be included in the Additional Estimates further to the \$500 000 mentioned in paragraph 5, for these 1 500 movements. However, in the absence of documentary evidence, the Department of Finance considered that proper authority for an additional commitment of funds had not been obtained, and as a consequence, declined to make provision for the increased program in the draft Appropriation Bill No. 3 without the specific approval of the Minister for Finance.

3.7. The Department of Finance stated that the proper authority for the approval of additional commitments was laid down by the Cabinet which vested the authority in the Minister for Finance or itself. As there was no documentary evidence to support the contention that agreement had been reached the Department of Finance considered a decision had to be made by Cabinet and therefore it did not recommend to the Minister for Finance to exercise his authority to approve the additional commitment of \$250 000. At the time of the Additional Estimates agreement was reached between the permanent heads of the Department of Finance and the Department of Immigration and Ethnic Affairs that Cabinet should decide whether or not the additional commitment of \$250 000 should be provided.

3.9. The Observer for the Department of Finance indicated to the Committee that if an application for funds had been made soon after November 1977 when an understanding had been reached between the Prime Minister and the Minister for Immigration and Ethnic Affairs there would have been sufficient time to obtain the necessary approvals.

3.10. On 11 May 1978 it was agreed by the Minister for Finance that funds would be provided from the Advance to the Minister for Finance for the payment of passage and associated costs of the additional movements of refugees.

Conclusions

3.11. The Committee appreciates that there are difficulties associated with preparing estimates for this item. Nevertheless the Committee is concerned that the Department, in view of the considerable amount of time available, did not approach the Department of Finance well before the closing date of the Additional Estimates. Furthermore, the Committee is disturbed to note that the Department, when it initially sought additional funds, did not have adequate approvals for additional commitments in accordance with procedures laid down by Cabinet.

(ii) Division 340/4/02: Administrative - Embarkation and Passage Costs - Movement of Migrants on Disembarkation

<u>Funds Available</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>
	\$	\$	\$
Appropriation Act No. 1	240 000	410 000	250 000
Appropriation Act No. 3	-	-	87 000
Advance to the Minister for Finance	-	-	50 000
TOTAL FUNDS AVAILABLE	240 000	410 000	387 000
TOTAL EXPENDITURE	238 904	197 602	386 093
UNEXPENDED FUNDS AVAILABLE	1 096	212 398	907

3.12. This item provides for payment of baggage removal costs and fares for movement of assisted passage migrants from the point of arrival to migrant hostels and private accommodation.

3.13. The large underexpenditure of \$212 398 for this item in 1976-77 has already been discussed in paragraph 3.2 of this Chapter.

3.14. In its submission the Department explained that it was necessary to obtain \$87 000 in 1976-77 Appropriation Act No. 3 because -

- "(a) The unexpected arrival of Indo-Chinese Refugees by boats at Darwin and the North West Coast of Australia. During the financial year, to the end of February 1978, 901 of these refugees have been moved to accommodation in the Southern States at a much higher per capita cost than that expended on approved assisted migrant arrivals who normally disembark at the nearest appropriate port or airport to their intended place of residence. The cost of these movements was estimated at \$140 000.
- (b) An additional 2,000 Indo-Chinese Refugees approved in March for movement from Thailand and Malaysia. The estimated cost of movement in Australia in 1977-78 was \$22 000.

These increases were largely offset by savings resulting from a lower average per capita cost than that provided for in the estimates for other migrants arriving in Australia."

3.15. In relation to the need to obtain funds from the Advance to the Minister for Finance the Department stated that following discussion between the Prime Minister and the Minister for Immigration and Ethnic Affairs a decision was taken to accept an additional 1 500 refugees. This has already been discussed in paragraphs 3.3 and 3.4 of this Chapter. On 11 May 1978 it was agreed by the Minister for Finance that funds would be provided from the Advance to the Minister for Finance for the cost of movement from point of disembarkation to place of first accommodation of these additional arrivals. The estimated cost was \$16 500.

3.16. Subsequent to 9 March 1978, the closing date for the Additional Estimates the unexpected arrival of Indo-Chinese Refugees by boat in Northern Australia resulted in unforeseeable expenditure on their movement to the southern states. The Department informed the Committee that since 26 March 1978, additional expenditure of approximately \$33 000 was required for movement to, and within, southern states.

Conclusions

3.17. The Committee appreciates and sympathises with the difficulties in preparing estimates for this item. Yet it remains the case, as it was for Item 340/4/01, that if the Department had approached the Department of Finance earlier it would probably have obtained the \$16 500 under Appropriation Act No. 3 instead of the Advance to the Minister for Finance.

3.18. The Committee accepts the Department's explanation relating to the \$33 000 required from the Advance to the Minister for Finance to pay the costs of movement to and within southern states of the Indo-Chinese refugees who arrived unexpectedly by boat in Northern Australia.

CHAPTER 4

DEPARTMENT OF INDUSTRY AND COMMERCE

Division 380/3/01: Administrative - Other Services, Ship
Construction, Purchase of Ships.

<u>Funds Available</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>
	\$	\$	\$
Appropriation Act No. 1	84 343 000	62 750 000	13 876 000
Appropriation Act No. 3	31 560 000	3 636 000	6 751 000
Advance to the Minister for Finance	-	-	500 000
TOTAL FUNDS AVAILABLE	115 903 000	66 386 000	21 127 000
TOTAL EXPENDITURE	115 853 769	66 385 902	19 910 862
UNEXPENDED FUNDS AVAILABLE	49 231	98	1 216 138

4.1. Since 1974 the Commonwealth Government has provided financial assistance to the Australian shipbuilding industry by means of subsidy or bounty. The level of this financial assistance has been reviewed by the Tariff Board (subsequently by the Industries Assistance Commission) on a number of occasions, the last major review being the Tariff Board report dated 25 June 1971. Financial assistance has been provided by the payment of a subsidy or bounty at a percentage of the lowest Australian tender price. The percentage has varied in accordance with Government policy from time to time.

4.2. The method of providing financial assistance has varied. Prior to the enactment of the Ship Construction Bounty Act on 20 June 1975 the legislative authority for provision of financial assistance was section 47 of the Australian Shipping Commission Act 1956, which gave the Minister for Transport authority to buy and sell ships.

4.3. Under Section 47 of the Australian Shipping Commission Act 1956 the Commonwealth entered into an agreement to purchase a vessel and to sell it subsequently to the shipowner immediately for an amount equal to the purchase price less the amount of subsidy. Two variations of these purchase and sale arrangements were used.

4.4. Prior to 31 May 1972 the Commonwealth called tenders on behalf of the shipowner for the construction of a vessel. The Commonwealth then entered

into a building contract with the selected shipbuilder for the construction of the vessel for a specified purchase price, and at the same time entered into a sale contract with the shipowner for the sale of the vessel to the shipowner for a specified sale price which was equivalent to the purchase price less the amount of bounty. The contracts provided for variation to the purchase price and sale price to take account of cost escalation and the cost of modifications made to the vessel during construction. The disadvantage of this method was that it placed the Commonwealth in a contractual position with both the shipbuilder and the shipowner in respect of such matters as construction of the vessel, late delivery penalties, maintenance guarantees, etc.

4.5. A simplified method of providing financial aid was introduced on 31 May 1972 which removed from the Commonwealth any contractual responsibility for construction of vessels. The Commonwealth called tenders on behalf of the shipowner who then entered into a building contract with the selected shipbuilder for the construction of the vessel for a specified purchase price. Simultaneously the Commonwealth entered into a Financial Assistance Agreement with the shipowner whereby on delivery of the vessel the Commonwealth agreed to buy it from the shipowner at the purchase price and immediately sell it back to the shipowner at that price less the amount of subsidy.

4.6. The legislative authority for the existing shipbuilding arrangements is the Ship Construction Bounty Act 1975 which came into operation on 20 June 1975. Section 28 of the Bounty Act provides transitional arrangements from the previous subsidy method of assistance by means of purchase and sale arrangements to the new bounty method of payment direct to the shipbuilder.

4.7. Under the Bounty Act public tenders are called and after receiving advice from the Shipbuilding Board, the Minister determines a "bounty price" based on the lowest acceptable tender, a building contract is entered into between the shipowner and the selected shipbuilder, and bounty at the prescribed rate is paid directly to the shipbuilder. Any variations to that price are approved by the Minister. The Australian Shipbuilding Board is an advisory body established to advise the Minister on financial assistance arrangements for shipbuilding and on other matters affecting merchant shipbuilding. (Appendix A).

4.8. The Government's financial assistance arrangements are administered by the Shipbuilding Division, which was transferred from the Department of Transport in December 1975 to the Department of Industry and Commerce. A more detailed recent history of Government Assistance to the Australian Shipbuilding Industry is set out in Appendix 'B'.

4.9. Claims are submitted progressively by shipbuilders and shipowners. Section 16 of the Bounty Act permits the payment of "advances on accounts of bounty" to the shipbuilder progressively during construction. It is usual for the bounty payments by the Commonwealth to coincide with progress payments

made by the shipowner under the building contract. To ensure that construction is in accordance with the specifications and building contract, they are checked and verified by engineers, and technical officers of the Shipbuilding Division. Any variation to the purchase price arising from claims are submitted to the Shipbuilding Board at its monthly meetings and are subsequently submitted to the Minister for Approval. Variations to contract price arise from:

- cost escalation in variable price contracts
- changes to the vessel's specifications
- price adjustments on prime cost items

4.10. The Department informed the Committee that due to the decline in orders placed for large vessels since about 1972 and the changeover to the payment of bounty under the Bounty Act there has been a substantial decline during the last three years in the amount of expenditure chargeable to this item.

4.11. The Department stated that the estimates for this item are based on known contractual commitments and are assessed by the Shipbuilding Division on the expected rate of construction during the year of vessels on firm order with builders. Amounts included in the estimates for particular vessels are determined by expected progress payments provided in the building contracts. Also included in the estimates are amounts for payments arising from variations in the purchase price due to escalation, modifications or prime cost adjustment, where these variations have been approved by the Minister.

4.12. The Committee was advised that in 1977-78 the Department sought \$6 751 000 in Appropriation Act No. 3 as a result of -

- Carry over from 1976-77 of final handover payments originally programmed for June 1977 but not made due to delays in obtaining from owners certificates of satisfaction for the vessels. +\$ 677 701
- Ministerial approval for escalation, modifications and prime cost adjustments in excess of Budget provision. +\$ 717 299
- Less payments programmed for projects in which delays in building progress have reduced claims below the originally budgeted provision. -\$2 644 000

4.13. In relation to the \$500 000 required from the Advance to the Minister for Finance the Committee was told that this amount was required to effect full settlement (through the Deputy Crown Solicitor) of a claim by Ampol Petroleum Ltd in respect of the finalisation of subsidy on the tanker "U.M. Leonard" and that no allowance could have been made in the 1977-78 Estimates for this payment.

4.14. The "W.M. Leonard" is a 23 500 tons deadweight bulk oil carrier built by BHP Whyalla for the Commonwealth between 1971 and 1973 and delivered by the Commonwealth to Ampol in 1973. Financial Assistance for the construction of this vessel was made available under the first of the two types of purchase and sale arrangements described in paragraph 4.5. During the construction period inspections were carried out by four officers of the Shipbuilding Division Station at Whyalla. The vessel was designed by the Commonwealth, and was sold to Ampol under a Sale contract dated 29 September 1971. A number of disputes arose between the Commonwealth and Ampol after delivery and on 26 September 1971 Ampol informed the Commonwealth of its intention to refer these disputes to arbitration, and nominated Mr J.S. Lockhart, Q.C. as arbitrator. The Commonwealth agreed to this under an Arbitration Agreement dated 29 September 1971 between the Commonwealth, BHP and Ampol.

4.15. The disputes between the Commonwealth and Ampol are summarised below:

	\$
(i) correction of vibration problems ("cavitation") arising from design factors	937 421
(ii) deficiency in deadweight tonnage (alleged to be 350 tons)	185 000
(iii) late delivery (alleged 31 days at \$3 500 per day)	108 500
(iv) aborted sea trials	15 000
(v) maintenance guarantee items	143 962
<u>Less credit for modifications</u>	<u>(93 018)</u>
<u>Plus interest</u>	<u>na</u>
Total	<u>\$1 296 865 plus interest</u>

4.16. Discussions took place between the Commonwealth Crown Solicitor's Office and solicitors representing Ampol, and the Commonwealth sought advice from Counsel (Mr K.J. Carrythere, Q.C.) on the question of an offer the Commonwealth should make to Ampol in overall settlement of its claims against the Commonwealth. Arising from this advice and with the consent of the Minister for Industry and Commerce several offers were made to Ampol for full settlement.

4.17. On 11 May 1978 Ampol's solicitors informed the Deputy Crown Solicitor that Ampol had accepted the Commonwealth's offer of settlement of \$500 000 and asked that payment of the settlement moneys be made as soon as possible. Payment was made on 12 June 1978.

4.18. The Department in its submission states that whilst at the time it sought \$500 000 from the Advance to the Minister for Finance variations were noted in programmed payments for certain vessels the overall effect of these variations on the program for the remainder of 1977-78 did not indicate that savings were available or could be anticipated to offset against the requirement of \$500 000.

4.19. The Department stated that one factor in the decision to seek additional funds was the estimated handover payment of \$1.44m in respect of the bulk carrier "Selwyn Range". This 25 000 deadweight tons vessel was being built by State Dockyard, Newcastle, for the Australian Shipping Commission (Australian National Line) and the Commonwealth agreed to provide financial assistance at a subsidy rate of 40 per cent under an agreement dated 14 November 1974 (the second of the subsidy arrangements described in paragraph 4.5). The contractual arrangements under which the Commonwealth provided financial assistance to the shipbuilding industry prior to the enactment of the Ship Construction Bounty Act 1975 made the Commonwealth liable to make payments at specified stages of production.

4.20. The Departmental Engineer's report, dated 4 May 1978, certified that the vessel was complete according to specifications and on this basis the handover payment was expected to be made in early June 1978.

4.21. However, the owners requested further tests in respect of vessel noise and vibration and it was decided by the owner and builder that certain minor modifications to the vessel were required. At the time the decision to carry out the modifications was made, the Department had not anticipated that this would delay handover beyond June 1978.

4.22. The modifications required to reduce vibration problems had become apparent during trials of the sister ship of the "Selwyn Range", the "Flinders Range". Both those vessels were designed by State Dockyard, and they agreed to rectify the vibration problems at no extra cost because of its responsibility as a designer. As there was no variation to the Basic Purchase Price from these modifications there was no requirement for additional subsidy payments.

4.23. Delay in construction resulted from circumstances beyond the control of the Department, and the handover payment programmed to occur by the end of the 1977-78 financial year was not made. This resulted in the appropriation being underspent. The vessel was eventually handed over to the owner on 11 August 1978, and the final payment made.

4.24. The Observer of the Department of Finance informed the Committee that his Department believed that the Department in view of its commitments had no alternative but to obtain funds from the Advance to the Minister for Finance.

Conclusions

4.25. The Committee accepts that the Department's request for \$500 000 from the Advance to the Minister for Finance 1977-78 was justified.

CHAPTER 5

OTHER ITEMS CONSIDERED

5.1. The Committee was provided with a large number of departmental explanations relating to expenditure from the Advance to the Minister for Finance 1977-78. In Chapters 2, 3 and 4 the Committee has reported upon the items examined during the inquiry. The remainder of the explanations received were considered but have not been commented upon and are listed below.

Division

Description of Item

Parliamentary Departments

101-2-06	Incidental and other expenditure
102-1-02	Overtime - House of Representatives
105-2-03	Postage, Telegrams and Telephone Services
109-1-02	Overtime - Department of Joint House

Department of Aboriginal Affairs

120-3-13	Expenditure on Communications and Transport Facilities in the Torres Strait Islands
120-4-07	Town Management and Public Utilities
813-1-06	Town Management and Public Utilities (Payments to or for the States)

Department of Administrative Services

130-2-12	Advertising - National Song Poll
130-3-19	Protective Security Review
130-3-21	Royal Commission of Inquiry - Matters in Relation to Electoral Redistribution, Queensland 1977
130-6-01	Rent - Overseas Property Services
137-1-02	Overtime Commonwealth Police
140-3-00	Conveyance of Members of Parliament
140-4-00	Visits abroad of Ministers of State

Australian Electoral Office

133-1-02	Overtime
133-2-01	Travelling
133-2-06	Commonwealth Elections and Referendums

Attorney-General's Department

170-2-01 Travelling (High Court)
172-1-02 Overtime (Courts Administration)
173-2-01 Travelling (Family Law)
175-2-07 Payments to private legal practitioners (Australian Legal Aid Office)

Department of Business and Consumer Affairs

199-1-01 Salaries (Trade Practices Commission)
202-2-09 Incidental and other expenditure (Industries Assistance Commission)

Department of the Capital Territory

213-1-02 Overtime (ACT Police)

Department of Construction

224-1-17 Repairs and Maintenance (Department of the Northern Territory)

Department of Defence

233-1-02 Office Requisites
233-2-02 Pensions to former servicemen in special circumstances
234-1-01 New Equipment and Stores, Naval Construction
234-1-02 New Equipment and Stores, Aircraft and associated initial
Equipment and Stores
236-0-00 Repair and Maintenance of Buildings and Works
238-2-06 Incidental and other expenditure (Natural Disasters and
Civil Defence)
240-0-01 Defence Co-operation - Malaysia
240-0-02 Defence Co-operation - Indonesia
241-1-01 Salaries (Defence Science and Technology)
241-2-09 Incidental and other expenditure (Defence Science and Technology)

Department of Education

270-4-03 Secondary Allowances and Commonwealth Senior Secondary Scholarships
270-4-07 Aboriginal Study Grants
270-4-09 Non-State Tertiary Institutions - Payments of Tuition Fees

- 270-5-04 Australian Music Examination Board (Grants-in-Aid)
- 272-2-04 Property Maintenance and Services (Northern Territory)
- 275-2-06 Incidental and Other Expenditure (Tertiary Education Commission)
- 278-1-00 Canberra College of Advanced Education - Running Expenses
- 279-1-00 The Australian National University - Running Expenses

Department of Employment and Industrial Relations

- 290-2-01 Travelling and Subsistence
- 291-0-05 Migrant temporary accommodation assistance (Commonwealth Hostels Limited)
- 292-1-03 Payments in lieu of long leave - Deputy President and Commissioner of the Conciliation and Arbitration Commission
- 294-1-00 Australian Trade Union Training Authority - Running Expenses
- 838-1-00 Australian Trade Union Training Authority - Capital Works and Sources
- 838-2-02 Commonwealth Hostels - Building, Works, Plant and Equipment - Migrant Hostels
- 840-0-01 Tripartite Missions Overseas on Department of Employment and Industrial Relations Matters - cost of travel, equipment allowances and incidental expenses of Tripartite Overseas Missions

Department of Finance

- 306-1-02 Overtime - Australian Government Retirement Benefits Office
- 846-0-01 Payments to or for the States - National Disaster Relief and restoration
- 847-0-02 Payments to South Australia and Tasmania in respect of pensions for former State Railway Employees

Department of Foreign Affairs

- 315-1-02 Overtime
- 315-2-04 Representation at Overseas Conferences
- 315-3-11 Committee on Australian Relations with the Third World
- 315-4-23 United Nations Interim Force in Lebanon

Department of Home Affairs

- 134-1-02 Overtime - Australian War Memorial
- 134-2-07 Transport - Australian War Memorial
- 134-2-08 Compilation and printing of volumes of Official War History - Australian War Memorial

335-2-04 Consultants - Fees (National Library of Australia)
335-2-04 Historic Memorials Committee

Department of Industry and Commerce

380-1-02 Overtime

Department of Immigration and Ethnic Affairs

340-2-01 Travelling and Subsistence

Department of National Resources

430-2-05 Payments under Compensation (Commonwealth Government Employees) Act
430-2-09 Incidental and Other Expenditure
431-1-02 Overtime (Division of National Mapping)
431-2-01 Travelling and Subsistence
432-1-02 Overtime (Bureau of Mineral Resources Geology and Geophysics)

Department of the Northern Territory

455-2-03 Postage, Telegrams and Telephone Services
455-2-09 Incidental and Other Expenditure
455-3-04 Traffic Administration - Operational Expenses
455-3-14 Coastal Shipping Service - Subsidy
455-3-17 Darwin Service - Loss on operations (for payment to the Northern Territory Transport Trust Account)
457-1-00 Northern Territory Legislative Assembly
897-1-05 Stock Routes and Reserves - Reimbursement of half the cost of fences, grids and gates
901-0-01 N.T. Electricity Commission

Department of Postal and Telecommunications

482-1-00 Australian Broadcasting Commission

Department of Productivity

522-3-08 Inventors Association of Australia - Grant
523-1-02 Overtime (Patent, Trade Marks and Design Offices)
523-3-02 Contribution to the International Patent Documentation Centre

Department of the Prime Minister and Cabinet

500-1-02 Overtime
500-2-02 Office requisites and equipment
500-2-04 Distinguished visitors, guests and special occasions - Official hospitality presentations and entertainment
500-3-10 State Funerals
500-3-012 Commonwealth Heads of Government Regional Meeting - Sydney; February 1978
500-3-13 State Visit by His Highness Malietoa Tunamafili II, Head of State Western Samoa
504-0-01 Conveyance of Governor-General, Ministers of State and others by RAAF Aircraft
504-0-02 Conveyance of Governor-General, Ministers of State and others by Department of Transport Aircraft
505-2-02 Wages of staff, other than Governor-General's establishments
516-2-03 Postage, Telegrams and Telephone Services

Department of Trade and Resources

470-3-07 Northern Land Council - Reimbursement of Legal and Other Expenses

Department of Transport

655-1-01 Salaries and allowances
655-1-02 Overtime
655-2-10 Search and Rescue and Accident Investigation
655-2-20 Payments under Compensation (Commonwealth Government Employees) Act

Department of Science

542-1-01 Salaries and allowances (Analytical Services)
545-1-01 Salaries and allowances (Ionospheric Prediction Service)

Department of the Special Trade Representatives

620-2-01 Travelling and subsistence

CHAPTER 6

GENERAL CONCLUSIONS

6.1. In examining expenditure from the Advance to the Minister for Finance, the Committee sought to ascertain whether or not Expenditure from the Advance to the Minister for Finance had been confined to urgent and unforeseeable requirements for which provision could not have been made in the Original and Additional Estimates. It had also sought to ascertain whether or not the departments concerned had maintained efficient administration in the expenditure under the item selected for public inquiry.

6.2. One disturbing feature to which the Committee would invite specific attention relates to an expenditure in the Northern Territory of \$670 460 without Warrant Authority. Investigations revealed that the Allocation of Funds (Appropriation) Ordinance No. 3 introduced on 4 May 1978 in the Northern Territory Legislative Assembly allocated funds in a manner which was at variance with the provisions of the Appropriation Bills. While the funds allocated by the Ordinance did not exceed the total appropriations, officers of the Northern Territory Public Service did not detect the flaws in the Ordinance prior to the discovery of the "overexpenditure". The Department in its submission (Appendix A) stated "that it has been unable to obtain a clear picture of precisely how the failure to recognise the primacy of the Commonwealth Appropriation Acts came about". The Committee was assured that future appropriations will be made in such a way as to prevent any likelihood of a recurrence. The Committee did not take further evidence in public due to the pending transfer of executive authority to the Northern Territory Legislative Assembly.

6.3. The Committee would remind Departments that Section 83 of the Constitution provides that 'No money shall be drawn from the Treasury of the Commonwealth except under Appropriation made by law' and that Section 34 of the Audit Act provides that 'No Authorizing Officer shall authorise the payments of any account....until he shall have ascertained that the payment thereof, in addition to any accounts already authorised for payment will not exceed the amount of the Appropriation.'

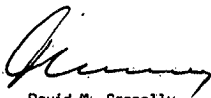
6.4. This inquiry has shown that in most cases expenditure from the Advance to the Minister for Finance was confined to urgent and unforeseeable requirements for which provision could not have been made in the Appropriation Acts. In other cases, in particular the Department of Defence, there was evidence of inefficient estimating procedures and delays in forwarding advice of commitments which caused expenditure to be charged to the Advance when

provision should properly have been made in the Additional Estimates. Attention has been drawn to these inadequacies where they have been discovered.

6.5. For and on behalf of the Committee.



M.J. Valberg
Secretary
Joint Committee of Public Accounts
Parliament House
CANBERRA



David M. Connolly
Chairman

17 November 1978

AUDIT ACT 1901 : SECTION 36A

"Expenditure in excess of specific appropriation or not specifically provided for by appropriation may be charged to such heads as the Minister for Finance may direct provided that the total expenditure so charged in any financial year, after deduction of amounts or repayments and transfers to heads for which specific appropriation exists, shall not at any time exceed the amount appropriated for that year under the head "Advance to the Minister for Finance"."

EXTRACT FROM THE COMMITTEE'S THIRTY-FIRST REPORT

CHAPTER V.—RECOMMENDATION.

94. Your Committee recommend that—

- (i) If it is decided to cease presenting in the present form the expenditure contained in the Supplementary Appropriation measure, and we think that should be done, it would probably be necessary to amend the Audit Act to give effect to the new arrangements.
- (ii) The Treasurer should submit, with a resolution seeking the approval of the Parliament, and in lieu of Supplementary Estimates, a statement indicating the expenditures authorized by him from the Treasurer's Advance, as allocated to various heads of expenditure under section 36A of the Audit Act.
- (iii) The Treasurer's Statement of Section 36A Allocations should be tabled for the consideration of the Parliament as soon as possible within the financial year following the year to which they relate.
- (iv) The Joint Parliamentary Committee of Public Accounts should endeavour to prepare for the Parliament a Report on each Statement as early as possible in the ensuing financial year, and if practicable by the date on which the Treasurer tables it (see Recommendation (iii)).
- (v) The Auditor-General might consider, in the light of the proposed new procedure, the information that should be made available in or attached to his Report.
- (vi) An amendment of the notation in the annual Estimates to the Vote "Advance to the Treasurer" would need to be made to conform to the new procedure. It might indicate that particulars of expenditure from the Advance are subsequently to be considered by the Parliament as provided by the Audit Act (which would probably have to be amended as outlined in (i), (ii) and (iii) above).

In making these recommendations, Your Committee have been anxious to preserve for the Parliament the same opportunity for consideration of the expenditures as it has hitherto enjoyed through the presentation of the Supplementary Appropriation measure.

For and on behalf of the Committee,

F. A. BLAND,
Chairman.

PETER H. BAYLY,
Secretary,
Joint Committee of Public Accounts,
Parliament House,
Canberra, A.C.T.

16th May, 1957.

EXTRACT FROM SECTION 16 OF THE FINANCE DIRECTIONS

(NB References to the Treasurer should be read as references to the Minister for Finance)

ADVANCE TO THE TREASURER

*29. The appropriation "Advance to the Treasurer" enables the Treasurer to make moneys available:-

- (a) pending the passing of an Appropriation Act: Approval may be given to enter into a commitment or to issue a warrant authority in respect of expenditure for which provision has been or will be made in an annual Appropriation Act.

- (b) to meet expenditure which was not covered by an appropriation, particulars of which will afterwards be submitted to Parliament (see Direction 16/33): Approval may be given to enter into a commitment or to issue a warrant authority in circumstances where the expenditure must be incurred and provision has not been made or time does not permit provision to be made in an annual Appropriation Act.

- (c) pending the issue of a Governor-General's Warrant for moneys already appropriated by the Parliament: Approval may be given for the issue of a warrant authority if the Appropriation Act or, in the case of a special appropriation, the relevant Act has been passed by Parliament and the expenditure must be made in advance of the Governor-General's Warrant being obtained by the Treasurer.
- (d) to make advances which will be recovered within the financial year: Approval may be given to issue a warrant authority providing the department can assure the Department of Finance that the payments to be made from the Consolidated Revenue Fund will be recovered within the same financial year; payments which will not be recovered within the same financial year should be dealt with in accordance with (a) or (b) above.

Approval to use "Advance to the Treasurer" in the circumstances mentioned in (a), (b) and (c) above will be given only in urgent or special circumstances and adequate explanation of the reasons for the request should be provided.

*30. Applications for approval to enter into a commitment or to issue a warrant authority from the "Advance to the Treasurer" are to be made in duplicate on an item basis and, if approval is given, the duplicate will be returned to the department with the

necessary approval indicated thereon. Departments should indicate whether the additional expenditure, in respect of applications under Direction 16/29 (a) or (b), can be offset by savings in other appropriations under their control.

"31. Where a service is performed in a department at the special request of another department or authority and an appropriation is not available to which the cost may be charged temporarily pending reimbursement, funds may be provided by way of warrant authority from "Advance to the Treasurer". When required by the department providing the service, the department requiring the service shall provide warrant advice or funds in advance sufficient to cover up to two months estimated expenditure. Funds should be sought in advance from a Commonwealth authority, on behalf of which a service is being performed, on the same basis. Advances shall be credited to the appropriation "Advance to the Treasurer". Monthly reimbursements of expenditure from the advance provided shall be effected in all cases.

"32. The appropriation, "Advance to the Treasurer", is to be cleared of debits and credits before the close of a financial year. Any unexpended balances of advances which originated from annual appropriations shall be refunded to the client department for a credit to the appropriation. Credit balances held to meet

expenditure which will ultimately be chargeable to an Authority, a Trust Account or a Special Appropriation are to be transferred to Trust Fund-Other Trust Moneys pending adjustment in the following financial year.

STATEMENT OF EXPENDITURE FROM ADVANCE TO THE TREASURER

*33. A statement of expenditure during the year for which provision was not available in the relative divisions and sub-divisions of the annual Appropriation Acts, and which was covered by the appropriation, "Advance to the Treasurer", is submitted to Parliament and the Joint Committee of Public Accounts after the close of the financial year. Separate instructions will be issued by the Department of Finance each year regarding the preparation of explanations for items of expenditure covered by "Advance to the Treasurer", for transmission to the Joint Committee of Public Accounts.

PRACTICES IN THE STATES

It is clear that the need for the executive government to have access to contingency fund arrangements is accepted by the various Parliaments. Some of the provisions are relatively larger than others and, indeed, much larger (relatively) than the Advances to the Minister for Finance in the Commonwealth. Queensland, New South Wales and Tasmania have interesting arrangements, with the former evidencing the most open-ended system. New South Wales is open-ended as to new items only; Tasmania appears to have a restriction on new items.

Of the six States, South Australia appears to have the least flexible system although, like the Commonwealth and Victoria, it has a separate provision from which increases in rates of salary or wages can be met.

NEW SOUTH WALES

There is a Treasurer's Advance (\$50m in 1977-78) from which Supplementary Charges are met. It is fully under the Treasurer's control and discretion, and is used to top up existing appropriations as necessary.

In addition expenses of an unforeseen nature are met, at the discretion of the Treasurer, and classified as Unauthorised in Suspense. There is no legal limit to the provision of funds this way to meet urgent claims in anticipation of Parliamentary sanction. The Public Accounts Committee examines this category.

Both the Supplementary Charges and items Unauthorised in Suspense are authorised in the following year's Appropriation Act.

VICTORIA

A Treasurer's Advance (\$60m in 1977-78) is provided to meet urgent claims that may arise before Parliamentary sanction is obtained. In addition to a standing Advance of \$15m is provided for the purpose of making advances which are repaid to the Public Account forthwith on Parliamentary sanction being obtained. It is used for capital works and services only.

There is also a similar provision to section 5 of the Commonwealth Appropriation Act to fund salary increases.

There is no restriction as to the nature of expenditure which may be met from the Treasurer's Advance.

There are no supplementary estimates but an itemised report of expenditure from the Advance is appended to the Budget Papers in order that Parliamentary approval may be obtained.

QUEENSLAND

There is no Treasurer's Advance as such.

The Governor in Council may authorise unforeseen expenditure which is reported to the Parliament for appropriation in the form of a Statement called the Supplementary Estimates presented with the following year's budget.

There is no legal limit to the amount of expenditure that can be dealt with this way and no requirements that the expenditure must be urgent although that is implied.

Unforeseen expenditure of the Consolidated Revenue Fund for 1976-77 was \$118,915,480 (original appropriation \$1,492,639,966) ie about 8%.

SOUTH AUSTRALIA

For expenditure from the General Revenue Account the Governor may appropriate by warrant under a Governor's Appropriation Fund additional expenditure up to 1% of the Appropriation Act. Amounts are issued on the authority of the Treasurer and urgency is not a criterion.

There is a distinction between new and previously authorised purposes. Only 1/3 of 1% is available for new purposes.

A further Appropriation Act operates to recoup the Fund.

In addition there is a process by which Executive Council can increase a "line of estimate" for public works or to provide a new line subject to advances for loan works being included in the first Public Purposes Loan Bill after the advance is made.

The Audit regulations require the use of these funds to be reported to Parliament in the Treasurer's Statement.

WESTERN AUSTRALIA

A Treasurer's Advance is provided (\$65m in 1977-78) for making advances and to pay expenses of an unforeseen nature. These latter include new items and supplementation of existing votes. They are submitted for Parliamentary authorisation in the following year's Appropriation Bill.

The Advance is controlled by the Treasurer and covers General Loan Fund expenditure as well as CRF.

TASMANIA

There is a Treasurer's Reserve comprising a base amount of \$5m plus whatever is appropriated to the Reserve (\$2.2m in 1977-78).

It is issued on the authority of the Governor if in his opinion the expenditure could not reasonably have been foreseen and is essential to financial administration.

Only 1/3 can be spent on new purposes.

There is a further Audit Act provision for the Governor to authorise expenditure in excess of a vote. This is resorted to on occasions when the Reserve is exhausted. \$14.5m was so authorised in 1977-78.

The Governor can approve additional Loan Fund spending up to \$3.5m if loan funds become available.

All authorisations are approved by the Parliament in a Supplementary Appropriation Act early in the following year.

APPENDIX 1.E

DATES OF HEARINGS AND LIST OF WITNESSES.

1.F.1. The items selected from the Statement of Expenditure from the Advance to the Minister for Finance were made the subject of a public inquiry at Parliament House, Canberra on:

Tuesday 26 September 1978

Tuesday 17 October 1978

Thursday 19 October 1978

1.F.2. The following witnesses were sworn or made an affirmation and were examined by the Committee during the public inquiry:

Department of Industry and Commerce

- | | |
|------------------|---|
| Mr G.J. Collopy | - Acting First Assistant Secretary
Shipbuilding Division |
| Mr R.J. Kinsella | - Director
Finance and Management Services
Section |
| Mr G.B. Heeks | - Superintendent of Production
Shipbuilding Division |
| Mr W.E. Sheppard | - Executive Officer |

Department of Defence

- | | |
|-------------------------------|---|
| Mr M.T. Hyland | - First Assistant Secretary
Programmes and Budgets |
| Air Vice Marshall I.S. Parker | - Chief of Air Force Personnel |
| Brigadier J.H. Studdert | - Deputy Chief Material - Army |
| Mr J.S. O'Neill | - Assistant Secretary
Budgets and Estimates
(General and Co-Ordination) |
| Brigadier N.J. McGuire | - Director General
Movement and Transport |
| Mr P.F. McNamara | - Assistant Secretary
Resources Planning (Navy) |
| Mr J.W. Knight | - Assistant Secretary
Resources Planning (Army) |

- Mr A.J. Pond - Assistant Secretary
Resources Planning (Air Force)
- Mr I.D. McLeod - Chief Executive Officer
Budgets and Estimates
(Co-Ordination and Review)
- Commodore W.J. Crossley - Director General
Naval Mining

Department of Immigration and Ethnic Affairs

- Mr D. Volker - Deputy Secretary
- Mr A.W. Burt - Acting Director
Finance and General Services
- Mr B.M. Martyn - Senior Migration Officer
Transport, Policy and Operations

1.F.3. During the public inquiry the Committee was assisted by the following Observers:

- Mr J.L. Carroll - Department of Finance
- Mr J.W. Lous - Department of Finance
- Mr A.M. Finch - Department of Finance
- Mr D.A. Knapp - Department of Finance
- Mr G.L. Bartlezt - Department of Finance
- Mr D. Burdett - Auditor-General's Office
- Mr C. Campbell-Wilson - Auditor-General's Office
- Mr B. McCallum - Public Service Board

APPENDIX 2.A

FROM DEFAIR CANBERRA

TO HQDC
 HQSC
 HQBUT
 RAAFSUCAN
 AUSTAIR WASHINGTON
 AUSTAIR LONDON
 AUSTAIR PARIS

FOR AOC, DC, AIR ADVISER AND CO. FROM CAFP.

TRAVEL AND SUBSISTANCE EXPENDITURE 1977/78. RAAF ALLOCATION IS \$9.979M i.e.,
\$0.748M PER MONTH. ACTUAL EXPENDITURE FOR JUL AND AUG \$0.771M AND \$0.853,
WHICH LEAVES AVERAGE OF \$0.735M TO BE SPENT OVER REMAINING TEN MONTHS.
REQUEST YOU APPLY STEADY BRAKING ACTION NOW TO AVOID A FULL STOP LATER IN
THE FINANCIAL YEAR.

FROM DEFAIR CANBERRA

TO HQDC
HQSC
HQBUT
RAAFSUCAN
AUSTAIR WASHINGTON
AUSTAIR LONDON
AUSTAIR PARIS

FOR AOC, OC AIR ADVISER AND CO FROM CAFP.
TRAVEL AND SUBSISTENCE 1977/78.
MY P631 7SEP77.

SEPTEMBER EXPENDITURE WAS \$1.116M AS AGAINST A DESIRED \$0.735M. AS
AVERAGE PER MONTH REMAINING IS NOW ONLY \$0.693, FIRM RESTRAINTS ARE
NOW ESSENTIAL.

FROM DEFAIR CANBERRA

TO HQOC
 HQSC
 HQBUT
 RAAFSUCAN
 AUSTAIR WASHINGTON
 AUSTAIR LONDON
 AUSTAIR PARIS

FOR AOC, OC, AIR ADVISER AND CO FROM CAFP.

TRAVEL AND SUBSISTENCE 1977/78.

REFERENCE: A. MY P631 OF 7 SEP 77 AND P637 OF 21 OCT 77

1. OCTOBER EXPENDITURE WAS \$.763M WHICH SHOWS IMPROVEMENT BUT WE ARE STILL WELL ABOVE PRO RATA EXPENDITURE FOR REMAINING EIGHT MONTHS. AVERAGE PER MONTH REMAINING IS NOW ONLY \$.685M APPROX. AS DEC/JAN ARE HIGH SPENDING MONTHS IN THIS VOTE WITH END OF YEAR POSTINGS/ATTACHMENTS, LEAVE ETC, FIRM MEASURES ARE NOW NECESSARY TO RESTRAIN EXPENDITURE. FOR EXAMPLE, FUNCTION/PURPOSE COMPUTER RETURN SHOW PROPORTIONATELY HIGHER EXPENDITURE IS OCCURRING IN POSTINGS/ATTACHMENTS, UNIT/OFFICE MANAGEMENT, VISITS/CONFERENCES, LEAVE AND EXERCISES IN THAT ORDER. ALLOWING THERE IS LITTLE SCOPE AT THIS STAGE FOR REDUCING POSTINGS/ATTACHMENTS, LEAVE AND EXERCISES, STRINGENT RESTRICTIO.S ARE TO BE APPLIED TO UNIT/OFFICE MANAGEMENT AND STAFF VISITS/CONFERENCES. ACCORDINGLY ALL DELEGATES SHOULD CLOSELY EXAMINE NEED BEFORE APPROVING TRAVEL PROPOSALS IN THESE TWO MAIN AREAS. MOREOVER WHERE TRAVEL IS CLEARLY JUSTIFIED DELEGATES SHOULD THEN CONSIDER THE MOST ECONOMIC MEANS OF TRAVEL WEIGHED AGAINST OTHER CONSIDERATIONS.

2. THE GOVERNMENT HAS DIRECTED THAT THERE SHOULD BE NO EXPECTATION OF AUTOMATIC PROVISION OF ADDITIONAL FUNDS TO COVER COST OR WAGE INCREASES DURING 1977/78 AND THAT SUCH INCREASES ARE TO BE ABSORBED IN THE BUDGET ESTIMATE OR OFFSET BY ECONOMIES NOMINATED ELSEWHERE. THUS THERE IS LITTLE PROSPECT OF OBTAINING APPROVAL FOR ADDITIONAL ESTIMATES IN THE TRAVEL VOTE WITHOUT OFFSETS. IF CURRENT TRENDS ARE NOT IMPROVED, MORE DRASTIC MEASURES WILL HAVE TO BE CONSIDERED.

FOR AA WASHINGTON. I APPRECIATE PROBLEMS EXPLAINED IN YOUR FO196 28 OCT 77

FROM . DEFAIR CANBERRA
TO HQOC
HQSC
HQBUT
RAAFSUCAN
AUSTAIR WASHINGTON
AUSTAIR LONDON
AUSTAIR PARIS

FOR AOC, OC, AIR ADVISER AND CO FROM CAFP.
TRAVEL AND SUBSISTANCE 1977/78.

REFERENCE: A. MY P640/CAFP OF 4 NOV 77

NOVEMBER EXPENDITURE WAS A DISAPPOINTING \$0.915M LEAVING ONLY \$4.560 TO BE SPENT OVER NEXT SEVEN MONTHS AT AN AVERAGE OF \$0.651 PER MONTH. AS AVERAGE MONTHLY EXPENDITURE TO DATE HAS BEEN \$0.884, MORE DRASTIC ACTION IS NOW ESSENTIAL.

ACCORDINGLY, WITH IMMEDIATE EFFECT, THE DELEGATIONS TO APPROVE TRAVEL PROMULGATED IN DI(AF)FIN 1-2 MAY BE EXERCISED ONLY IN RESPECT OF TRAVEL ON POSTINGS AND LEAVE WITH APPROVAL OF TRAVEL FOR OTHER PURPOSES BEING LIMITED TO DIVISION HEADS, AOCs, OCs, RAAF FORMATIONS AND COs OF INDEPENDENT SELF ACCOUNTING UNITS. TRAVEL IS TO BE RESTRICTED TO URGENT AND ESSENTIAL REQUIREMENTS AND ALL INDIVIDUAL PROPOSALS ARE TO BE SCRUTINISED TO ENSURE THAT EXPENDITURE IS RESTRICTED TO THE MINIMUM LEVEL CONSISTENT WITH OPERATION EFFICIENCY.

AS REGARDS POSTINGS, AUTHORITIES WILL BE ISSUED SUBSEQUENT TO THIS DATE ONLY TO MEET PRIORITY TRAINING AND MANNING REQUIREMENTS AND EVEN THEN, WHENEVER PRACTICABLE, POSTINGS WILL BE MADE WITHIN CURRENT LOCALITY. IN A MANNER SIMILAR TO DIRECTIONS UNDER TRAVEL, COs ARE PERSONALLY TO ASSURE THEMSELVES IN EACH CASE OF THE ESSENTIALITY FOR PERSONNEL ON POSTINGS TO PROCEED ON A SEPARATE ATTACHMENT FOR HANDOVER/TAKEOVER PURPOSES OR, IN THE CASE OF MARRIED PERSONNEL, TO PROCEED UNACCOMPANIED AND SUBSEQUENTLY APPLY FOR COMPASSIONATE LEAVE AND TRAVEL TO EFFECT REMOVAL.

FROM . DEPAIR CANBERRA

TO HQOC
HQSC
HQBUT
RAAFSUCANBERRA
AUSTAIR WASHINGTON
AUSTAIR LONDON
AUSTAIR PARIS

FOR AOC, OC AIR ADVISER AND CO FROM CAFP.
TRAVEL AND SUBSISTENCE 1977/78.

REFERENCES: A. MY P640/CAFP OF 4 NOV 77
B. MY P651/CAFP OF 20 DEC 77

1. DECEMBER 77 AND JANUARY 78 EXPENDITURE WAS \$0.852M AND \$1.124M RESPECTIVELY LEAVING A TOTAL OF ONLY \$2.585M TO BE SPENT OVER NEXT FIVE MONTHS AT AN AVERAGE OF \$0.517M PER MONTH.

2. PREDICTABLY LARGEST PROPORTION OF EXPENDITURE FOR BOTH MONTHS OCCURRED PURPOSE CODE 11 AND THERE WAS A SUBSTANTIAL INCREASE IN PURPOSE CODE 12. EXPENDITURE ON THESE TWO CODES IS EXPECTED TO REDUCE CONSIDERABLY DURING REMAINDER OF FINANCIAL YEAR.

3. ALTHOUGH THERE WAS A REDUCTION IN EXPENDITURE ON PURPOSE CODES 17, 18, AND B6 THE REDUCTION WAS NOT AS MARKED AS EXPECTED BEARING IN MIND THE PERIOD OF REDUCED ACTIVITY.

4. A BID FOR \$0.971M IN ADDITIONAL ESTIMATES HAS BEEN MADE AND I BELIEVE THAT SOME RELIEF CAN BE EXPECTED. HOWEVER THE RESULT OF THIS BID IS NOT LIKELY TO BE KNOWN BEFORE MID MARCH. IN THE MEANTIME IT IS IMPORTANT THAT THE STRINGENT RESTRICTIONS NOW OPERATING BE MAINTAINED.

FROM DEPAIR CANBERRA

TO HQOC
HQSC
HQBUT.
RAAFSUCANBERRA
AUSTAIR WASHINGTON
AUSTAIR LONDON
AUSTAIR PARIS

FOR AOC, OC AIR ADVISER AND CO FROM CAFP.
TRAVEL AND SUBSISTENCE 1977/78

REFERENCES: A. MY P640/CAFP OF 4 NOV 77
B. MY 651/CAFP OF 20 DEC 77
C. MY P658/CAFP OF 17 FEB 78

FEBRUARY 78 EXPENDITURE WAS \$0.888M LEAVING A TOTAL OF \$1.697M TO BE SPENT
OVER NEXT FOUR MONTHS AT AN AVERAGE RATE OF \$0.424M PER MONTH.

FROM DEFAIR CANBERRA
TO HQQC
HQSC
HQBUT
RAAFSUCANBERRA
AUSTAIR WASHINGTON
AUSTAIR LONDON
AUSTAIR PARIS

FOR AOC, OC, AIR ADVISER AND CO FROM CAS.

FURTHER P662/CAFP 21 MAR 78, P658/CAFP 17 FEB 78 AND P651/CAFP 20 DEC 77, INDICATIONS ARE THAT ONLY \$0.7M WILL BE AVAILABLE FOR EXPENDITURE ON DIVISION 233-1-01 TRAVEL SUBSISTANCE FOR THE PERIOD 1 MAY to 30 JUN 78 INCL. THIS AMOUNT INCLUDES ADDITIONAL FUNDS AUTHORISED RECENTLY. AS THE AVERAGE MONTHLY EXPENDITURE TO DATE IS \$0.933M, THE POSITION IS THEREFORE CRITICAL. ACCORDINGLY, WITH THE EXCEPTIONS SPECIFIED BELOW, TRAVEL INVOLVING OTHER THAN SERVICE TRANSPORT AND SERVICE ACCOMMODATION IS NOT TO BE APPROVED FOR THE REMAINDER OF THIS FINANCIAL YEAR. THE EXCEPTIONS ARE TRAVEL AUTHORISED BY AIR FORCE OFFICE, OPERATIONAL NECESSITY, MEMBERS ON APPROVED LEAVE ALTHOUGH EVEN HERE SERVICE TRANSPORT SHOULD BE UTILISED WHERE AVAILABLE, RESETTLEMENT TRAINING, ATTENDANCE AT RESETTLEMENT SEMINARS IN ACCORDANCE WITH PS569 OF 14 MAR 78 (TO HQQC, HQSC AND RAAFSUCAN ONLY). ANY OTHER ACTIVITY CONSIDERED ESSENTIAL SHOULD BE REFERRED TO THIS OFFICE FOR CONSIDERATION. FOR HQQC AND HQSC, PLEASE ADVISE IF YOU FORESEE THESE RESTRICTIONS CAUSING SERIOUS PROBLEMS IN COURSES/TRAINING AREA.

DEPARTMENT OF FOREIGN AFFAIRS

OUTWARD CABLEGRAM

D.CH671112 GAB/110

O.CH671112 1644 3.5.78 CLA

TO

PP CAIRO/S282 KUALA LUMPUR/4363 SINGAPORE/5478
PP WELLINGTON/5354 BANGKOK/2323 ISLAMABAD/7081
PP JAKARTA/BD45 PARIS/1235 RANGOON/4492
PP SEOUL/5481 TOKYO/8485

FM. CANBERRA /

R E S T R I C T E D

O 030642Z MAY 78
FM DEFAIRA CANBERRA
TO AIG 3820

BT

R E S T R I C T E D
PG187/DGM
FROM DGM-AF

POSTINGS, ATTACHMENTS AND TEMPORARY DUTY FOR REMAINDER THIS FINANCIAL YEAR
A. P663/CAFP OF 02MAY78 (TO ACOS, OCBUT, AAS WASH, LON AND PARIS, CD RAAFSUCA:))
1. RESTRICTIONS ON TEMPORARY DUTY TRAVEL, INCLUDING ATTACHMENTS, WHICH INVOLVES
USE OF OTHER THAN SERVICE TRANSPORT AND ACCOMMODATION ARE TO BE APPLIED WITH
THE UTMOST STRINGENCY. THE CRITERION FOR APPROVING TRAVEL IS THAT IT IS AN
OPERATIONAL NECESSITY AND CANNOT BE DEFERRED OR THAT IT IS TRAVEL ASSOCIATED
WITH CONDITIONS OF SERVICE, ADDITIONALLY, MOVEMENTS FOR JULY ONWARDS ARE TO
BE TIMED SO THEY DO NOT REPEAT NOT ATTRACT ADVANCES THIS FINANCIAL YEAR,
2. TEMPORARY DUTY TRAVEL MAY BE APPROVED WHERE ONLY SERVICE TRANSPORT BOTH
AIR AND SURFACE IS INVOLVED AND SERVICE ACCOMMODATION IS USED. THERE MUST BE
NO SUBSTITUTION OF CIVIL FOR SERVICE TRAVEL OR ACCOMMODATION IN THE
EVENT OF DELAYS OR UNSERVICEABILITIES UNLESS PREVIOUSLY MENTIONED CRITERION
IN PARA 1 IS MET. FURTHER, WHEN APPROVING TRAVEL UNDER THESE ARRANGEMENTS,
IT SHOULD BE BORNE IN MIND THAT ADVANCES OF RELEVANT ALLOWANCES MAY NOT BE
AVAILABLE.
3. POSTINGS TO AND FROM BUTTERWORTH ON THE DEFENCE FORCES CHARTERS (DFC)
REPORTING 10 MAY 75 AND 31 MAY 78 (ARMY CHANGEOVER) STAND. STUDIES ARE
BEING CARRIED OUT TO DETERMINE FEASIBILITY OF EFFECTING ECONOMIES BY REDUCTION
TO SOME DFC IN PERIOD JUNE TO SEP 78, WHEN THE OUTCOME OF THE STUDIES IS
KNOWN FURTHER ADVICE WILL BE ISSUED.
4. TO AVOID THE DISRUPTION THAT WOULD FOLLOW FROM FREEZING ALL POSTINGS, EVERY
POSTING IS BEING REVIEWED AND WHERE DEFERMENTS CAN BE MADE AUTHORITIES FOR
SUCH DEFERMENTS WILL BE ISSUED BY SEPARATE MESSAGE.
5. DEFERMENT ARE TO BE RIGIDLY APPLIED. HOWEVER, WHERE IT IS CONSIDERED
THAT:
A. MEMBER IS IRREVOCABLY COMMITTED TO PROCEEDING TO THE CURRENT EFFECTIVE
DATE, OR

DEPARTMENT OF FOREIGN AFFAIRS

OUTWARD CABLEGRAM

2.0.CH671112

B. STRONG COMPASSIONATE GROUNDS EXIST, OR

C. SERVICE INTERESTS MAKE THE MOVE ABSOLUTELY ESSENTIAL, THEN THIS OFFICE (ATTENTION DPO OR DPA) IS TO BE ADVISED OF REASONS WHY THE POSTING OR ATTACHMENT SHOULD PROCEED. EACH CASE WILL BE DETERMINED BY THIS OFFICE AND MEMBERS ARE NOT REPEAT NOT TO PROCEED UNTIL APPROVAL IS GIVEN.

6. WHERE NOTIFICATIONS OF AMENDED DATES ARE ISSUED AND WHERE SUCH MEMBERS HAVE ALREADY DEPARTED AND THEY CANNOT BE ECONOMICALLY RECALLED DETAILS ARE TO BE ADVISED TO THIS OFFICE

BT

C REF A. WA TO ACOCS

DEPT DEFENCE

EXTRACT - REPORT OF THE COMMITTEE OF INQUIRY INTO
THE CITIZEN MILITARY FORCES
MARCH 1974 PP56/74

7.4. Recent experience has demonstrated the value of teaching individual skills in organizations designed for the purpose. Better results are achieved by centralizing with highly qualified instructors who are specialists in their field and have good training aids available, than by leaving such training decentralized to the unit. The commanding officer of a unit must still bear the ultimate responsibility for its training standards. The trend has therefore been to increase army schools in the Regular component and to raise the Reserve component establishments for centralized recruit, specialist, officer candidate and officer training. Our concept envisages a considerable expansion of this process for the Reserve component, and a greater provision for Reserve students at Regular Army training establishments.

7.5. The formal individual military training of both officers and non-commissioned officers should be removed as much as possible from the unit. While a Regular commanding officer can make provision in his training programme to train his officers, there is less scope for this in a Reserve unit, where training time is limited. An officer's time in his unit should be devoted to his men, and in preparation for their training. He should not have other excessive demands on his time, for they undoubtedly will detract from his primary mission. He particularly should not be preparing himself for promotion examinations. Without well-planned, well-executed training programmes, the soldiers will suffer boredom and frustration. There is ample evidence of this today in the Citizen Forces (supported by the Census taken for the Committee) despite the high proportion of officers to other ranks. Badly planned training is inexcusable.

7.6. Accepting this, we are recommending that officers and non-commissioned officers periodically be removed from their units into the training organization, for prolonged periods of training of up to a maximum of one year's duration, to develop their individual skills and knowledge and prepare them for the responsibilities and duties in their next rank or appointment. At the same time, their suitability for such promotion should be assessed on the basis of total capability rather than in the current formal examinations, which are often no more than memory tests giving credit to the natural student rather than to the sound all-rounder performer. We recommend that these examinations be discontinued, and be replaced by assessment courses and assignments. The general scope and organization of the proposed training arrangements have been outlined earlier in this Report. They are, in effect, an expansion of the existing system, with greater coherence and more professional input. We foresee the probability that most officers are likely to spend more than one third of their service in the training organization as students or instructors, and the same should apply, perhaps to a lesser degree, to non-commissioned officers.

REPLY TO QUESTIONS FROM MR CADMAN

Question from Mr CADMAN - page 113 (in relation to Butterworth teachers, wives and families travelling by civil air rather than using the charter aircraft. This was a follow-up question to that asked by the Acting Chairman and recorded on page 112)

'I would like some details on that. It is my opinion that the Department made every reasonable provision for the movement of staff and I would like to know the reasons that were given for choosing the civil service, the number of people who chose to travel that way, and when it was known that they had opted for the civil service rather than for the charter aircraft?'

Answer.

- a. Paragraph 12(c) of Department of Defence Supplement, Explanation - Division 233-1-01 referred to unplanned additional costs to move teachers and their families to Butterworth costing \$M.014.
- b. During Aug/Sep 77 negotiations were commenced with QANTAS to obtain a charter date compatible with the date required to move teachers to Butterworth in Jan 78. Late Sep 77 QANTAS advised that a charter aircraft would be available on 24/25 Jan 78.
- c. On 14 Oct 77 it was established that 17 teachers would be travelling to Butterworth and one to Singapore and that seating requirements would be known in Nov 77. Planning proceeded on the basis of past experience that the group would comprise about 40-50 personnel including dependants.
- d. on or about 16 Dec 77, Air Office was advised that only ten teachers would be travelling by charter and that the remaining eight family groups, all of which included children under 7 (a total of 31), had been booked to travel civil air.
- e. On 16 Dec 77 Air Office questioned the proposed expenditure on civil travel when charter seats were available.
- f. On 18 Jan 78, after consulting the Public Service Board, Air Office found that the situation had arisen because a number of the teachers and their families were entitled to first class air travel and had been advised of entitlements during the briefing session. The January charter had no first class facilities. The Public Service Board confirmed that in these circumstances the availability of seats on the charter flight did not over-ride the level of entitlements.
- g. Details relating to the actual travel arrangements approved for teachers were first advised to those responsible for the preparation of estimates (including Additional Estimates) on or about 2 Feb 78. Whilst notification by this date did give time to have the expenditure included in Additional Estimate bids the fact is that initial efforts were directed towards ensuring that a similar situation involving avoidable expenditure did not arise in the future.

- h. In the event the following advice dated 9 Jun 78 was received from the Public Service Board:

'Your request for clarification on the application of Determination No. 914 of 1977 to teachers with first class fare entitlement has been considered. It is our view that the Determination does not preclude the travel on departmental charter aircraft of staff, including the teachers, with a first-class fare entitlement.

'However, as discussed with your Ms Sloane, it is also our view that the requirement to travel by charter aircraft should be included in the advertisements for the teaching positions and that entitled staff should be allocated first class seats if they are available. If first class seating is not available for all entitled staff, consideration should be given to allocating additional vacant seats to those entitled families with an additional space requirement.'

- i. Accordingly, teachers travelling to Butterworth in 1979 have been advised that they will be expected to travel by Charter Aircraft. We believe that adequate measures have now been taken to ensure that a similar position relating to teacher travel that occurred in 1978 does not again arise.

EXPENDITURE FROM THE ADVANCE TO THE MINISTER
FOR FINANCE 1977/78

EXPLANATORY STATEMENT

APPENDIX 2.0

DEPARTMENT OF DEFENCE

Exhibit 173/8

Division 233 Administrative and Other Expenditure
Sub-Division 1 Administrative Expenses
Item 01 Travelling and Subsistence

Purpose of Item

The item covers payment of all classes of fares; travelling allowances; meal allowances; expenses of Forces and Civilians travelling on duty or posting (including families of Forces on posting); Forces travelling on leave and fares of Citizen Forces/Cadets travelling to camps etc.

Funds Available

	<u>1975/76</u> \$	<u>1976/77</u> \$	<u>1977/78</u> \$
Appropriation Act No 1	26,005,000	33,910,000	32,635,000
Appropriation Act No 3	1,874,000	-	3,622,000
Advance to the Minister for Finance	-	-	1,450,000
Total Funds Available	27,879,000	33,910,000	37,707,000
Total Expenditure	26,387,328	32,493,798	37,658,191
Unexpended Funds Available	1,491,672	1,416,202	48,809

Explanation of Requirements for Additional Funds 1977/78
Appropriation Act No 3

The additional amount was required to meet price increases (\$2,042,000), exchange fluctuations (\$27,000) and other variations (\$1,553,000).

Price Increases

	\$
• Increase in domestic air fares (4% effective 1/7/77 and 3.5% effective 19/9/77)	+ 490,000
• Increase in local travelling allowance and meal allowance effective 18/11/77	+ 684,000
• Increase in hire rates of motor vehicles as notified by Department of Administrative Services effective 8/12/76 and 22/8/77	+ 392,000
• Increased local rail fares (NSW 8% effective 1/10/77 and VIC 12.5% effective 29/1/78)	+ 36,000

	\$
. Increase in UK rail fares of 20%	+ 2,000
. Increased motel/hotel accommodation charges effective 1/12/77	+ 20,000
. Increased rate of Midday Meal Allowance effective 26/1/78	+ 27,000
. Change of entitlement to first class air travel overseas for personnel with dependants under seven years of age effective from 1/8/77	+ 286,000
. Increase in rates of meal, mileage and travel allowances in Canada (effective 26/5/77 and 23/6/77) and USA (23/6/77 and 19/8/77)	+ 105,000
	<u>+2,042,000</u>
. <u>Exchange Fluctuations</u>	+ 27,000
. <u>Other Variations</u>	
. Increased postings generated by a higher than anticipated discharge and consequent recruiting rates	+ 467,000
. The expected increase of 1500 over the forecast strength of the Reserve Army as at 30 June 1978 has resulted in additional requirements associated with recruit training and specialist courses for Corps training	+ 60,000
. Increase in travel associated with medical and dental services for off-base treatment	+ 40,000
. Due to the timing of the preparation of the Budget Estimates the basis of the estimate was the actual expenditure for the first half of 1976/77. However, expenditure during this period was unusually low due to the tight controls imposed in 1975/76. Some of these constraints were relaxed to maintain efficiency; increased expenditure resulting therefrom did not become apparent until after the Budget Estimates were settled	+1,070,000
. Decrease in payment of Mileage Allowance to CMF members due to a change in conditions whereby Attendance Allowance is payable and paid from Division 230/1/05 - CMF and Cadets - Salaries and Payments in the Nature of Salary	- 84,000
	<u>+1,553,000</u>
Additional amount Appropriation Act No 3	<u>\$3,622,000</u>

Advance to the Minister for Finance

At the time Additional Estimates were finalised, expenditure was above pro-rata but the requirement for supplementary appropriation was confined to the absolute minimum in concert with the Government's requirement for expenditure constraint. Administrative measures were taken aimed at confining expenditure to the Additional Estimates proposal. Funds thus available would allow expenditure of approximately \$2.7m per month in the April-June 1978 period. In April and May 1978 expenditure approximated the target figure but in June 1978, expenditure reached \$4.2 million.

It will be noted that in each of the last 3 years there has been an estimating 'error' of some \$1.4m. An examination is in hand of the methods used to forecast expenditure trends with a view to the elimination of this 'error'.

SUPPLEMENTARY EXPLANATION - DIVISION 232/1/71 Exhibit 173/9

The initial explanation provided reported that:

- a. expenditure in June 1978 reached \$4.2m against an average of \$2.7m in April and May 1978; and
- b. an estimating 'error' of \$1.4m had occurred in each of the past three years and that an examination was in progress.

2. In regard to sub-paragraph 1(a) above, the increased expenditure recorded in June 1978 is no longer considered to be of significance; expenditure in May 1978 was depressed due to warrant problems. The over-expenditure in 1977/78 is explained subsequently.

3. In regard to sub-paragraph 1(b) a further examination has been conducted and the following general conclusions were reached:

- a. Centralised management of the travel 'vote' has presented problems. Service Office estimates in the past were compiled on the basis of previous experience modified to reflect Government constraints. Regional requirements and those flowing from central decisions, eg, postings, were merged to form Office bids. Office bids were merged to form Departmental bids. Following determination of the Budget allocation regional authorities were provided with expenditure allocations covering both regional and central requirements. Monthly expenditure reviews were conducted centrally and measured against achievements in previous years in the light of the Budget provision and unusual requirements in 1977/78. In 1977/78 above pro-rata expenditure against Budget was recorded fairly early in the year and instructions were issued to constrain travel approvals; these were progressively strengthened during the year, eg, in December 1977 Army Office had given firm reduced allocations for the rest of the year to expenditure incurring authorities, and by early 1978 Air Force Office had suspended all postings except those justified on compassionate

grounds. While such measures reduced expenditure below that which otherwise would have occurred, the appropriation was overspent mainly because the restraints imposed were based on a continual underestimate of expenditure yet to be brought to account in respect of movements earlier approved. Our examination has led us to move towards more decentralisation to functional areas, and monitoring and control of achievements at that level for both authorisation and expenditure allotments. In this regard an internal study has shown that the cost of implementing a total control system, given the size and dispersion of the Department and the number of delegates (1,000), would be prohibitive;

- b. Much (40% or so) of Defence's travel expenditure has little or no equivalent in the content of travel expenditure of other Departments, i.e. there is a large element of non-discretionary expenditure stemming from conditions-of-service determinations including that on leave fares; travel costs for discharges, postings and attachments; medical and dental movements; support of the civil community (floods, bushfires and other disasters); and unscheduled requirements to support coastal surveillance activities, etc. When an arbitrary percentage cut is made for economic/financial reasons this non-discretionary element is virtually inviolate and the burden of reductions on discretionary travel is therefore about double that borne by other departments;
- c. The underspend of some \$1.4m in 1975/76 occurred in Army Office. This resulted from two main factors:
- (1) the inability to obtain statutory cover in respect of increased entitlements in respect of Travelling and Meal Allowances in time to permit payment in 1975/76; and
 - (2) the effect of curtailment of travel, by Government direction, being greater than anticipated at the time Additional Estimates were finalised.

- d. The underspend of \$1.4m in 1976/77 occurred in Air Office and was mainly due to lower than estimated use of civil transport. Restrictions imposed in 1975/76, including use of service aircraft in lieu of civil aircraft, were partially relaxed on 30 August 1976 but the anticipated increase in use of civil aircraft consequent upon the relaxation did not eventuate to the extent anticipated.
- e. The expenditure of some \$1.4m in 1977/78 over the amount specifically appropriated for Defence travel and expended against the advance to the Minister for Finance was incurred on unavoidable requirements by viz Army and Air Force, and in about equal proportions.

4. To some extent, the underspends in 1975/76 and 1976/77 resulted from an over zealous application by Service Offices of Government directed expenditure restraint inherent in the Appropriations, while in 1977/78 the same two Services overcorrected their application of internal rules used in the previous two years. In 1977/78 the amount sought in the Additional Estimates reflected the departmental assessment of the minimum requirement which, in the event, proved to be inadequate because travel restrictions imposed when expenditure trends exceeded pro-rata failed to produce savings to the extent anticipated.

Army Office

5. The cause of the overspend is attributed to two major areas - Postings, and Schools and Courses which together represent an overspend of \$0.728m.

6. Postings - Overspend \$0.423m. Posting orders are normally issued at least 3 months earlier than the planned date of movement. Hence actual payment for travel and associated allowance for members and families can take place 3-6 months after the posting is authorised. Whilst the majority of the overspend is attributable to an underestimate, some \$70,000 resulted from the higher rate of married personnel posted in 1977/78 compared with 1976/77.

7. Schools and Courses - Overspend \$0.305m.
Expenditure under this purpose is divided between:

- a. The scheduled courses arranged by Training Command; and
- b. Courses arranged by Army Office, Field Force Command and Logistics Command.

8. The estimates for FY 1977/78 were based on the predicted courses to be conducted by Training Command with some limited provision for unscheduled courses conducted by the other authorities mentioned above. In the event there was a small increase in the number of course vacancies filled in the Training Command courses, to which some \$120,000 of the overspend can be attributed. An increased number of vacancies was also made available to Army Reserve students towards meeting the recommendations of the Millar Report. The balance of the overspend was due to an underestimate of the volume of unscheduled training carried out by Commands other than Training Command. Action is being taken to limit the allocation for this unscheduled training, together with an associated control system.

Air Force Office

9. The overspend is attributed to three major areas - Leave; Exercises, Home Training and Bivouacs; and Visits and Conferences/Unit Office Management.

10. Leave - Overspend \$0.167m. In part this variation results from increases in Victoria and New South Wales rail fares which were not included in Air Force Office bids for Additional Estimates 1977/78. However, in view of the fact that travel for this purpose is a non-discretionary approval, that expenditure for 1976/77 was \$m.960, and only \$m.952 was included in the Estimates for 1977/78, the original provision for this purpose was under assessed.

11. Exercises, Home Training and Bivouacs - Overspend \$0.155m. The increased cost of exercises resulted from a number of factors not known when the Additional Estimate was prepared. These included increased rates of charge for accommodation, increased duration of exercises, and unplanned expenditure for off-base accommodation.

12. Unit Office Management/Visits and Conferences - Overspend \$0.449m. The overspend in this area was due to a number of factors not known at Additional Estimates, including:

- a. a significant increase in surveillance activity in the North West Coast area;
- b. unexpected requirements to visit overseas countries including Noumea and Seychelles;
- c. unplanned additional costs to move teachers and their families to Butterworth; estimates were prepared on the basis that all movements would be by charter aircraft, but some teachers and their families (because of family size) travelled by civil air in accordance with PSB Determinations relating to Overseas Service; and
- d. an increase in staff visits associated with essential operational requirements.

Summary

13. The general situation depicted in the overspend reflects continuing difficulties, some externally imposed, experienced in estimating requirements for this vote. The centralised management system in use until 1977/78 reacted to expenditure variations, but restrictions imposed were inadequate mainly because estimates of expenditure yet to be brought to account in respect of earlier approvals was underestimated. An examination undertaken demonstrated that some 40-50 per cent of expenditure against this appropriation item is unique to the Department and that the cost of implementing detailed control procedures would be prohibitive. Decentralised procedures are being evaluated and are expected to produce improved control. The procedures recognise the unique aspects of the Defence 'Travel Vote' including the involvement of over 1,000 delegates in widely dispersed locations with the functional requirement to be able to approve travel, and the fact that so much of travel expenditure is non-discretionary (ie the delegate cannot refuse approval for the travel).

Department of Defence
September 1978

EXPENDITURE FROM THE ADVANCE TO THE MINISTER FOR FINANCE 1977-78EXPLANATORY STATEMENTDEPARTMENT OF IMMIGRATION AND ETHNIC AFFAIRS

Exhibit 173/11

Division	340	Administrative
Sub-division	4	Embarkation and Passage Costs
Item	01	Assisted Migration Programme - Passage and Associated Costs

Purpose of Item

Provides for the payment of passage and associated costs of migrants who are eligible under the various migration schemes for assistance to come to Australia.

Migrants contributions towards passage costs are credited to Revenue.

Funds Available	1975-76	1976-77	1977-78
	\$	\$	\$
Appropriation Act No. 1	8,760,000	11,088,000	6,200,000
" " No. 3	-	-	500,000
Advance to the Minister for Finance	-	-	250,000
Total Funds Available	8,760,000	11,088,000	6,950,000
Total Expenditure	7,283,713	6,115,358	6,948,114
Unexpended Funds Available	1,476,287	5,972,642	1,886

Explanation of Requirements for Additional Funds in 1977-78
Appropriation Act No. 3

The amount of \$500,000 was required for passage and associated costs of moving an additional 2,000 refugees from Thailand and Malaysia before the end of the financial year. This increase in programme was approved by Cabinet in March 1978. This increased the Assisted Passage programme from 16,000 to 18,000 for 1977-78.

Advance to the Minister for Finance

In November 1977 a decision to accept an additional 1,500 refugees was taken after discussions between the Prime Minister and the Minister for Immigration and Ethnic Affairs. The understanding was that acceptance and movement of these refugees was to be additional $\%_0$, and not at the expense of the normal assisted passage programme of 15,000 persons for 1977-78.

Resulting from this decision a task force was sent to Malaysia to supplement the operations already established in that area. The presence of this Task force and the processing of a large number of refugees on the spot, was expected to lessen or lead to the cessation of the movement of refugees to Australia by boat.

The Department's application for funds at the time of Additional Estimates contained provision for these 1,500 movements. However, in the absence of documentary evidence, the Department of Finance considered that proper authority for an additional commitment of funds had not been obtained, and as a consequence, declined to make provision for the increased programme in the draft Appropriation Bill No. 3 without the specific approval of the Minister for Finance.

We have obligations to accept approved assisted migrants from other countries, and it was not then possible to cancel or defer movement of persons approved for entry into Australia, particularly as many must sell homes, relinquish leased premises, or have made arrangements for employment requiring arrival in Australia in the financial year.

On 11 May 1978 it was agreed by the Minister for Finance that funds would be provided from Advance to the Minister for Finance for the payment of passage and associated costs of these movements.

12 July 1978

APPENDIX 3.B

EXPENDITURE FROM THE ADVANCE TO THE MINISTER FOR FINANCE 1977-78

EXPLANATORY STATEMENT

DEPARTMENT OF IMMIGRATION AND ETHNIC AFFAIRS

Exhibit 173/10

Division	340	Administrative
Sub-division	4	Embarkation and Passage Costs
Item	02	Movement of Migrants on Disembarkation

Purpose of Item

Provides for baggage removal costs and fares for movement of assisted passage migrants from the point of arrival to migrant hostels and private accommodation.

Funds Available	1975-76	1976-77	1977-78
	\$	\$	\$
Appropriation Act No. 1	240,000	410,000	250,000
" " No. 3	-	-	87,000
Advance to the Minister for Finance	-	-	50,000
	<u> </u>	<u> </u>	<u> </u>
Total Funds Available	240,000	410,000	387,000
Total Expenditure	238,904	197,602	366,093
	<u> </u>	<u> </u>	<u> </u>
Unexpended Funds Available	1,096	212,398	907
	<u> </u>	<u> </u>	<u> </u>

Explanation of Requirements for Additional Funds in 1977-78

Appropriation Act No. 3

(a) The unexpected arrival of Indo-Chinese Refugees by boats at Darwin and the North West Coast of Australia. During the financial year, to the end of February 1978, 901 of these refugees have been moved to accommodation in the Southern States at a much higher per capita cost than that expended on approved assisted migrant arrivals who normally disembark at the nearest appropriate port or airport to their intended place of residence. The cost of these movements was estimated at \$140,000.

(b) An additional 2,000 Indo-Chinese Refugees approved in March for movement from Thailand and Malaysia. The estimated cost of movement in Australia in 1977-78 was \$22,000.

These increases were largely offset by savings resulting from a lower average per capita cost than that provided for in the estimates for other migrants arriving in Australia.

Advance to the Minister for Finance

(a) In November 1977 a decision to accept an additional 1,500 refugees was taken after discussions between the Prime Minister and the Minister for Immigration and Ethnic Affairs. The understanding was that acceptance and movement of these refugees was to be additional to, and not at the expense of the normal assisted passage programme of 16,000 persons for 1977-78.

Resulting from this decision a task force was sent to Malaysia to supplement the operations already established in that area. The presence of this Task force and the processing of a large number of refugees on the spot, was expected to lessen or lead to the cessation of the movement of refugees to Australia by boat.

The Department's application for funds at the time of Additional Estimates contained provision for these 1,500 movements. However, in the absence of documentary evidence, the Department of Finance considered that proper authority for an additional commitment of funds had not been obtained, and as a consequence, declined to make provision for the increased programme in the draft Appropriation Bill No. 3 without the specific approval of the Minister for Finance.

We have obligations to accept approved assisted migrants from other countries, and it was not then possible to cancel or defer movement of persons approved for entry into Australia, particularly as many must sell homes, relinquish leased premises, or have made arrangements for employment requiring arrival in Australia in the financial year.

On 11 May 1978 it was agreed by the Minister for Finance that funds would be provided from Advance to the Minister for Finance for the cost of movement from point of disembarkation to place of residence of these additional arrivals. The estimated cost was \$16,500.

(b) Subsequent to the Additional Estimates Indo-Chinese Refugees continued to arrive unexpectedly by boat in Northern Australia resulting in unforeseeable expenditure on their movement to the Southern States.

Of the arrivals since 26 March 1978, additional expenditure for movement to and within Southern States was approximately \$55,000.

12 July 1978

AUSTRALIAN SHIPBUILDING BOARD

The present membership of the Australian Shipbuilding Board and its functions were reaffirmed in a directive by the Minister for Transport on 7 February 1974. This directive replaced a directive previously made by the Minister for Shipping and Transport.

Present membership of the Board is as follows:

Sir Reginald Reed, C.B.E. Governing Director James Patrick & Co. Pty. Ltd	Chairman
Professor P.T. Fink, C.B.E. Chief Defence Scientist Department of Defence	Deputy Chairman
Rear-Admiral M.P. Reed, A.O. Department of Defence (Navy Office)	Member
Mr G. Campbell National Assistant Secretary Amalgamated Metal Workers and Shipwrights Union	Member
Mr S.P. Smith First Assistant Secretary Department of Transport	Member
Mr A. Godfrey First Assistant Secretary Department of Industry and Commerce	Member

The functions of the Board insofar as they affect financial assistance to the shipbuilding industry are set out in section 8 of the Minister's directive, as follows:

8. (1) The functions of the Board shall be to advise the Minister on matters affecting the administration of the Bounty arrangements and any other matters which might be referred to it from time to time.
- (2) Pending implementation of specific Bounty legislation the Board is asked -
- (a) to make recommendations to the Minister regarding the prices, and subsidy payable therefor of -
- (i) ships that are intended to be purchased or sold by the Minister on behalf of the Australian Government; and

- (ii) machinery, appliances, equipment or gear for ships that are under construction for the Minister on behalf of the Australian Government
- (b) to consider tenders submitted for the conversion, alteration or outfitting of ships and to make recommendations to the Minister concerning these tenders;
- (c) to advise and make recommendations to the Minister with respect to any matters arising out of contracts for the construction of ships.

4. RECENT HISTORY OF GOVERNMENT ASSISTANCE TO THE SHIPBUILDING INDUSTRY
 4.1 Background

Before the Second World War assistance to the industry was provided by tariffs. Assistance by bounty was introduced in 1940 but, presumably because of wartime conditions, no claims were made and the provision for bounty ended after 3 years. Assistance by subsidy was introduced in 1947. The major reason for its introduction was the question of defence. In adopting a subsidy rather than a tariff the Government was concerned to avoid adding to the costs of shipping operators and hence increasing freight rates. This scheme, which provided for a maximum subsidy equal to 25 per cent of the total construction cost in Australia of each vessel, was supported by an import prohibition. The level of assistance was reviewed by the Tariff Board in 1955, 1959, 1963 and 1971. As a result of the 3 earlier Tariff Board reviews, and of Government decisions on matters of policy and administration, a number of modifications were made to the level of subsidy and to the administrative arrangements. At the time of the 1971 Tariff Board inquiry the main features of the scheme were:

- ships and other floating structures (excluding mining dredgers) exceeding 200 tons constructed in Australia for use in Australian waters were eligible for subsidy when constructed by "recognised yards";
- the level of subsidy was assessed separately for each ship and was the amount required to equate the cost of that ship with the cost if it were built in Britain and delivered to an Australian port - up to a maximum of one third of the lowest tender submitted by an Australian shipyard;
- subsidy from the builder at the tendered price and selling it to the owner at the subsidised price, the various tendering, contractual and building arrangements being supervised by the Australian Shipbuilding Board;
- the importation of new and secondhand ships was prohibited unless specifically authorised by the Minister for Shipping and Transport; and
- the construction of vessels under 200 tons was protected by duties, the most common rates being 40 per cent General and 30 per cent Preferential.

4.2 The 1971 Tariff Board Inquiry

In November 1968 the Minister for Trade and Industry forwarded to the Tariff Board a reference which read in part: "Pursuant to the Government's affirmation of the need for the maintenance of an efficient shipbuilding industry ... what measure and method of assistance should be accorded the production in Australia of ships, boats and other floating structures...". The Board reported to the Minister in June 1971. The Board considered that

the production of many larger ships in Australia was relatively inefficient and would require high levels of assistance, that the price and supply conditions of such ships disadvantaged ship operators, significantly increased freight rates, and consequently affected the competitiveness of other industries; and that capacity for the production of such ships was not a primary defence requirement. The Board considered that most of the production of smaller ships, some larger (usually more specialised) vessels and certain repair facilities, used resources relatively efficiently and in addition constituted the main defence requirement. However, the Board found that the then existing forms of assistance fostered the production of virtually all local ship requirements, irrespective of technical or cost efficiencies. The Board accordingly recommended substantial changes to the levels and methods of assistance to the industry. The Board's main recommendations were:

- import controls to be abolished on both new and secondhand vessels;
- a long term subsidy of 25 percent of the local contract price to be payable to all shipbuilding yards for vessels of 75 tons and above (or 70 feet and above for fishing vessels);
- an interim adjustment subsidy, over and above the 25 per cent, of 2½ per cent for each 1000 tons by which a ship exceeds 1000 tons and above (or 70 feet and above for fishing vessels);
 - 45 per cent for ships then currently under construction and those whose keel was laid not later than 31.12.75;
 - 35 per cent for ships for which the keel was laid after 31.12.75 but not later than 31.12.78;
- a duty of 35 per cent General in respect of vessels less than 50 tons;
- a duty of 17½ per cent General and subsidy of 12½ per cent on vessels not covered by the above provisions;
- subsidy to be payable on all vessels intended for export, for use in overseas trade or for use on the Australian coast or inland waterways;
- the system of "recognised yards" to be discontinued; and
- compensation payments for ship owners (retrospective for 10 years) to compensate for the significantly greater than world prices paid for existing Australian built vessels and to overcome the resultant competitive disadvantages owners would face when overseas ships became freely available.

4.3 Government Decisions Following the Tariff Board Report

The Government accepted the need for changes in the levels and methods of assistance to the industry, and announced its decisions on assistance measures in May and July 1972. For vessels over 200 tons, it was announced that:

- a subsidy (calculated on the lowest Australian tender received) would continue to be payable to Australian vessels, as follows:
 - (1) Keels laid not later than 31.12.1975

25 per cent up to 1000 tg plus 2½ per cent for each additional 1000 tg (or part thereof) up to a maximum of 45 per cent;

(2) Keels laid after 31.12.1975 but not later than 31.12.1980
Sliding scale as (1) with maximum of 35 per cent;

(3) Keels laid after 31.12.1980
25 per cent;

- the subsidy was to apply to vessels ordered on or after 1 June 1972 and all shipbuilders were eligible for subsidy assistance; and
- import controls would apply to secondhand and new ships. Approval to import secondhand ships would depend on whether the vessel was a type available from local yards; whether the vessel was required for temporary use; and whether there was a reasonable relationship between the price of the ship and the cost of a comparable new ship. Approvals to import new ships would be given where no Australian yard tendered or where the price of the vessel from an Australian yard after the subsidy, exceeded the normal delivered price from an overseas builder.

For vessels of 200 tg or less, assistance by means of import duties would apply, the most common rates being 35 per cent General and 25 per cent Preferential.

The policy on the importation of new ships was amended in October 1972, when the import control applying before May 1972 was reintroduced.

4.4 Revision of Assistance Arrangements in 1973

In December 1973, the Minister for Secondary Industry and Supply outlined revised assistance arrangements, retrospective to March 1973, to assist shipbuilding in Australia. The main changes were:

- the reintroduction of the May 1972 policy of import approval for new ships, provided the price of the overseas ship was lower than the after subsidy price of the Australian built ship;
- proceeding with the reduction of the subsidy to 25 per cent, but altering the rate of phasing as follows:

<u>Keels laid after</u>	<u>per cent</u>
30.6.1973	45
31.12.1973	45
30.6.1974	42½
31.12.1974	40
30.6.1975	37½
31.12.1975	35
31.12.1976	33
31.12.1977	31
31.12.1978	29
31.12.1979	27
31.12.1980	25

the subsidy was extended to apply to vessels of 150 tons or more, or in the case of fishing vessels 79 feet or more in length. Vessels of less than 150 tons were still to be protected by duty which, after the July 1973 tariff cut, was reduced to 26 per cent for most vessels;

(PP No 434/76. Shipbuilding Industries Assistance Commission Report 20 September 1976.)

EXPENDITURE FROM THE ADVANCE TO THE MINISTER OF FINANCE 1977/78 APPENDIX 4.C

EXPLANATORY STATEMENT

DEPARTMENT OF INDUSTRY AND COMMERCE Exhibit 173/1

DIVISION: 380, Administrative
SUB-DIVISION: 3, Other Services
ITEM: 01, Ship Construction, Purchase of Ships

Purpose of Item:

This Item relates to contracts arranged under the authority of Section 47 of the Australian Shipping Commission Act 1956. Under the Act a shipbuilding subsidy is provided by the Commonwealth buying ships and then selling them to shipowners at a lower price.

Funds Available:

	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>
	\$	\$	\$
Appropriation Act No. 1	84,343,000	62,750,000	13,876,000
Appropriation Act No. 3	31,560,000	3,636,000	6,751,000
Advance to the Minister of Finance	-	-	500,000
Total funds available	<u>115,903,000</u>	<u>66,386,000</u>	<u>21,127,000</u>
Total expenditure	<u>115,853,769</u>	<u>66,385,902</u>	<u>19,910,862</u>
Unexpended funds available	<u>49,231</u>	<u>98</u>	<u>1,216,138</u>

Explanation of requirements for Additional funds in 1977/78

Appropriation Act No. 3

Additional funds were sought in Appropriation Act No. 3 as a result of

Carry over from 1976/77 of final handover payments originally programmed for June 1977 but not made due to delays in obtaining from owners certificates of satisfaction for the vessels. +\$ 677,700

• Ministerial approvals for escalation, modifications and prime cost adjustments in excess of Budget provision.	+\$8,717,299
• Less payments programmed for projects in which delays in building progress have reduced claims below the originally budgeted provision	-\$2,644,000
	<hr/>
	\$6,751,000
	<hr/>

Advance to the Minister of Finance

The amount of \$500,000 was required to effect full settlement (through the Deputy Crown Solicitor) of a claim by Ampol Petroleum Ltd in respect of the finalisation of subsidy on the tanker "W.M. Leonard".

The Department was advised by the Deputy Crown Solicitor on the 15 May 1978 that agreement for settlement of all claims by Ampol had been reached at \$500,000.

Departmental estimates did not include provision for this settlement.

EXPENDITURE FROM THE ADVANCE TO THE MINISTER FOR FINANCE 1977/78

SUPPLEMENTARY EXPLANATORY STATEMENT

DEPARTMENT OF INDUSTRY & COMMERCE

Exhibit 173/2

Division:	380	Administrative
Sub Division:	3	Other Services
Item:	01	Ship Construction, Purchase of Ships

This supplementary statement is submitted in relation to the unexpended amount of \$1,216,138 for the above item. A copy of the explanatory statement submitted on 17 July 1978 is attached which shows the basis of the requirement for additional funds from the Advance to the Minister for Finance.

Advice was received on 15 May 1978 from the Deputy Crown Solicitor that agreement for settlement of all claims by Ampol Petroleum Ltd in respect of the tanker "W.N. Leonard" had been reached at \$500,000. At that time payments in respect of vessels under this Shipbuilding assistance scheme were progressing in accordance with the program on which the Additional Estimates were based.

No savings were available nor were anticipated as becoming available to offset against this requirement of \$500,000. For this reason the Department sought funds from the Advance to the Minister for Finance.

A factor taken into consideration in the decision to seek additional funds was the estimated handover payment of \$1.2 M in respect of the bulk carrier "Selwyn Range". It was anticipated that the payment would be made in early June 1978. The Departmental Engineer's report, dated 4 May 1978, certified that the vessel was complete as to specifications and on this basis the handover payment was expected to eventuate as planned.

However, the owners requested further tests in respect of vessel noise and vibration and it was decided by the owner and builder that certain minor modifications to the vessel were required. At the time the decision to carry out the modifications was made, it was not anticipated that this would delay handover beyond June 1978.

In the event delay in construction resulted and for this reason the handover payment programmed to occur by the end of the 1977/78 financial year was not made. This resulted in the appropriation being underspent.

DEPARTMENT OF INDUSTRY AND COMMERCE

APPENDIX 4.E

CANBERRA, A.C.T. 2600 TELEGRAMS: INDYCOM TELEX: 62654 TELEPHONE 72 3944

In Reply Quote

15 SEP 1978

The Secretary
Parliamentary Joint Committee of
Public Accounts
CANBERRA ACT 2600

Exhibit 173/3EXPENDITURE FROM THE ADVANCE TO THE MINISTER FOR FINANCE 1977-78

In your memorandum of 9 August 1978 you advised that the Committee had decided to proceed to public inquiry in respect of expenditure under Item 380-3-01 - Purchase of Ships, for the financial years 1975-76, 1976-77 and 1977-78.

The following information is submitted to assist the Committee in its inquiry. The information is grouped under six headings, viz

- (a) Background information on Government Financial Assistance to Shipbuilding
- (b) Departmental procedures for Oversighting Expenditure
- (c) Basis of Preparation of Estimates
- (d) Purpose of the Expenditure under the Advance
- (e) Why it was necessary to seek funds from the Advance
- (f) Explanation of Underspending in 1977-78.

EXPENDITURE UNDER ITEM 380-3-01 - PURCHASE OF SHIPS

<u>Funds Available</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>
	\$	\$	\$
Appropriation Acts	115,903,000	66,386,000	20,627,000
Advance to the Minister for Finance			500,000
Total Funds Available	115,903,000	66,386,000	21,127,000
Total Expenditure	115,853,769	66,385,902	19,910,862
Unexpended Funds Available	49,231	98	1,216,138

(a) Financial Assistance to Shipbuilding

The Commonwealth Government has provided financial assistance to the Australian shipbuilding industry by means of subsidy or bounty since 1947. The level of this financial assistance has been reviewed by the Tariff Board (and subsequently by the Industries Assistance Commission) on a number of occasions, the last major review being the Tariff Board report dated 25 June 1971. The financial assistance has been provided by the payment of a subsidy or bounty at a percentage of the lowest Australian tender price. The percentage has varied in accordance with Government policy from time to time. For example, the maximum level of subsidy in 1956 was 25%, in 1960 the maximum was increased to 33-1/3% and in 1972 it was increased to 45% with a provision for phasing down to 25% by 1981. The present maximum level of bounty payable under the Ship Construction Bounty Act is 31%.

The method of providing financial assistance has also varied. Prior to the enactment of the Ship Construction Bounty Act on 20 June 1975 the legislative authority for provision of financial assistance was section 47 of the Australian Shipping Commission Act 1956, which gave the Minister for Transport authority to buy and sell ships. It is in relation to this assistance that the expenditure chargeable to Division 380-3-01 is incurred and which is the subject of the inquiry.

Section 47 of the Australian Shipping Commission Act

Under this method the Commonwealth entered into an agreement to purchase a vessel and to sell it subsequently to the shipowner immediately for an amount equal to the purchase price less the amount of subsidy. There were two types of these purchase and sale arrangements.

Prior to 31 May 1972 the Commonwealth called tenders on behalf of the shipowner for the construction of a vessel. The Commonwealth then entered into a building contract with the selected shipbuilder for the construction of the vessel for a specified price (the purchase price), and at the same time entered into a sale contract with the shipowner for the sale of the vessel to the shipowner for a specified price (the sale price) which was equivalent to the purchase price less the amount of subsidy. The contracts provided for variation to the purchase price and sale price to take account of cost escalation and the cost of modifications made to the vessel during construction. The disadvantage of this method was that it placed the Commonwealth in a contractual position with both the shipbuilder and the shipowner in respect of such matters as construction of the vessel, late delivery penalties; maintenance guarantees, etc. One of the vessels whose construction was assisted under this method was the Ampol tanker "Wm. Leonard"; it was the settlement of a dispute concerning this vessel that necessitated the Department's request for \$500,000 from the Advance to the Minister for Finance in 1977-78.

On 31 May 1972 the Department introduced a more simplified method of providing financial assistance which removed from the Commonwealth any contractual responsibility for construction

of vessels. The Commonwealth called tenders on behalf of the shipowner. The shipowner then entered into a building contract with the selected shipbuilder for the construction of the vessel for a specified price (the purchase price). Simultaneously the Commonwealth entered into a Financial Assistance Agreement with the shipowner whereby on delivery of the vessel the Commonwealth agreed to buy it from the shipowner at the purchase price and immediately sell it back to the shipowner at that price less the amount of subsidy.

Further changes were made to the financial assistance arrangements in December 1973 to give effect to Government policy decisions. These changes did not effect the contractual method for providing assistance.

The purchase and sale contracts and the Financial Assistance Agreements contain a payment schedule whereby the Commonwealth makes payments progressively during the construction of the vessel. A typical payment schedule is as follows:

Placing of order	10%
Laying of keel	20%
Steel erected	20%
Machinery installed	20%
Launching	20%
Handover	10%
	<hr/>
	100%

Ship Construction Bounty Act 1975

The Ship Construction Bounty Act came into operation on 20 June 1975. This Act gave legislative effect to the Government's existing shipbuilding assistance arrangements. Section 28 of the Bounty Act provided transitional arrangements from the previous subsidy method of assistance by means of purchase and sale arrangements to the new bounty method of payment direct to the shipbuilder.

Under the Bounty Act public tenders are called and the Minister then determines a "bounty price" based on the lowest acceptable tender; a building contract is entered into between the shipowner and the selected shipbuilder, and bounty at the prescribed rate is paid directly to the shipbuilder by the Shipbuilding Division of the Department.

Section 16 of the Bounty Act permits the payment of "advances on account of bounty" to the shipbuilder progressively during construction. It is usual for the bounty payments by the Commonwealth to coincide with progress payments made by the shipowner under the building contract. Funds for assistance under the Ship Construction Bounty Act are provided by Special Appropriation.

Details of payments made in terms of this scheme are:

	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>
	\$	\$	\$
Bounty Act payments	1,552,731 ₇₉	5,696,872	6,674,336

Assistance Provided under Australian Shipping Commission Act

The net amounts of subsidy paid by the Commonwealth charged to Division 380-3-01 are:

	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>
	\$	\$	\$
Purchase and Sale Agreements -			
Purchase of Ships	115,853,769	66,385,902	19,910,862
Sale of Ships	<u>75,308,757</u>	<u>44,808,207</u>	<u>12,306,477</u>
Net Subsidy	<u>40,545,012</u>	<u>21,577,695</u>	<u>7,604,385</u>

(b) Departmental Procedures for Oversighting Expenditure

The Shipbuilding Division of the Department of Industry and Commerce administers the Government's financial assistance arrangements. The Division was transferred to this Department from the Department of Transport in December 1975.

Expenditure takes the form of payment to the shipbuilder or shipowner as the case may be of the purchase price of the vessel. The Minister determines the purchase price and any variations to that price after receiving advice on the matter from the Australian Shipbuilding Board, an advisory Board set up to advise the Minister on shipbuilding financial assistance arrangements and other matters affecting merchant shipbuilding that might be referred to it. A note on the membership and functions of the Australian Shipbuilding Board is at Attachment A.

Claims are submitted progressively by shipbuilders and shipowners during the construction of each vessel and for finalisation of subsidy payments after delivery of the vessel to the shipowner. The Division keeps separate financial records for each vessel.

Claims are checked and verified by engineers and technical officers of the Division to ensure that construction is in accordance with the specifications and building contract. Cost and price calculations are checked and verified by the Division and where appropriate by cost investigators of the Department of Administrative Services. Any variations to the purchase price arising from claims are submitted to the Shipbuilding Board at its monthly meetings and are subsequently submitted to the Minister for approval. Variations to contract price arise from

- cost escalation in variable price contracts
- changes to the vessel's specifications
- price adjustments on prime cost items.

The variations are also subject to examination and verification by the Cost Investigators.

When the above procedures have been completed claims are forwarded to the Department of Finance for payment in accordance with normal accounts procedures.

(c) Preparation of Estimates

The Department's estimates of expenditure chargeable to Item 380-3-01, Purchase of Ships, are based on known contractual commitments under building contracts and Financial Assistance Agreements for individual vessels.

The amount of expenditure chargeable to Item 380-3-01 has declined substantially during the three years under review, reflecting the decline in orders placed for large vessels since about 1972 and the change-over to the payment of bounty under the Bounty Act.

Known contractual commitments are assessed by the Division on the basis of the expected rate of construction during the year of vessels on firm order with builders. Amounts included in the estimates for particular vessels are determined by expected stage payments provided in the building contracts. Amounts are also included in the estimates for payments arising from variations in the purchase price due to escalation, modifications or prime cost adjustments, where these variations have been approved by the Minister. The administrative process involved in approval of purchase price variations can be time consuming, and may in some instances exceed 12 months if delays occur in the submission by builders and owners of invoices and other required documentation.

(d) Expenditure from the Advance

The amount of \$500,000 sought from the Advance was required to effect full settlement (through the Deputy Crown Solicitor) of a claim by Ampol Petroleum Ltd. in respect of the finalisation of subsidy on the tanker "W.M. Leonard".

The "W.M. Leonard" is a 23,500 tons deadweight bulk oil carrier built by B.H.P. Whyalla for the Commonwealth between 1971 and 1973 and delivered by the Commonwealth to Ampol in 1973. The vessel was designed by the Commonwealth, and was sold to Ampol under a Sale Contract dated 29 September 1971. An Arbitration Agreement dated 29 September 1971 between the Commonwealth, B.H.P. and Ampol provided for settlement of disputes by arbitration. A number of disputes arose between the Commonwealth and Ampol after delivery and on 26 September 1977 Ampol informed the Commonwealth of its intention to refer these disputes to arbitration, and nominated Mr J.S. Lockhart, Q.C., as arbitrator. The Commonwealth agreed to this.

The disputes between the Commonwealth and Ampol are summarised below:

(i)	correction of vibration problems arising from design factors ("cavitation")	\$937,421
(ii)	deficiency in deadweight tonnage (alleged to be 350 tons)	185,000
(iii)	late delivery (alleged 31 days at \$3,500 per day)	108,500
(iv)	aborted sea trials	15,000
(v)	maintenance guarantee items	143,962
	<u>Less credit for modifications</u>	<u>(93,018)</u>
	<u>plus interest</u>	<u>n.a.</u>
	Total	<u>\$1,296,865 plus interest</u>

Discussions took place between the Commonwealth Crown Solicitor's office and solicitors representing Ampol, and the Commonwealth sought advice from Counsel (Mr K.J. Carruthers, Q.C.) on the question of what offer the Commonwealth should make to Ampol in overall settlement of its claims against the Commonwealth. Arising from this advice and with the consent of the Minister for Industry and Commerce several offers were made to Ampol for full settlement.

On 11 May 1978 Ampol's solicitors informed the Deputy Crown Solicitor that Ampol had accepted the Commonwealth's offer of settlement of \$500,000 and asked that payment of the settlement moneys be made as soon as possible. Payment was made on 12 June 1978.

No allowance could be made in 1977-78 Estimates for this payment.

(e) Need to Seek Funds from the Advance in 1977-78

The Department was advised on 15 May 1978 by the Deputy Crown Solicitor that Ampol had accepted the Commonwealth's offer of \$500,000 and requested payment as soon as possible. This was after the Department had finalised its requests for additional funds in Appropriation Act No. 3.

At that time whilst variations were noted in programmed payments for certain vessels the overall effect of these variations on the program for the remainder of 1977-78 did not indicate that savings were available or could be anticipated to offset against the requirement of \$500,000. For this reason the

Department sought funds from the Advance to the Minister for Finance.

It is also relevant that at 15 May 1978 the additional funds sought by the Department in Appropriation Act No.3 had not been approved by Parliament. The balance of funds available in Item 380-3-01 on 15 May 1978 was \$12,000.

(f) Underspending in 1977-78

The contractual arrangements under which the Commonwealth provided financial assistance to the shipbuilding industry prior to the enactment of the Ship Construction Bounty Act 1975 made the Commonwealth contractually liable to make payments at specified stages of production.

It will be noted from the attachments that in spite of constant monitoring action by Shipbuilding Division officers of both the financial aspects of ship construction projects as well as the technical aspects, difficulties are encountered in predicting with accuracy the timing of progress payments required under contracts and, consequently, the timing of related subsidy payments.

The Shipbuilding Division, working closely as it does with the industry, is mindful of the need, so far as the payments verification and review procedures will allow, to respond as reasonably quickly as practicable to requests for payments in terms of its financial obligations. This aspect of course also applies in respect of payments which have been withheld usually with the object of ensuring that a situation does not arise where overpayment of subsidy might be involved. When the basis of the withholding action has been satisfied or clarified the Division accepts the responsibility to avoid delay in making the payment.

For these reasons a factor taken into consideration in the decision to seek additional funds was the estimated handover payment of \$1.44m in respect of the bulk carrier "Selwyn Range". This 25,000 deadweight tons vessel was being built by State Dockyard, Newcastle, for the Australian Shipping Commission (Australian National Line) and the Commonwealth agreed to provide financial assistance at a subsidy rate of 40% under an agreement dated 14 November 1974.

It was anticipated by the Department that the handover payment for the "Selwyn Range" would be made in early June 1978. The Departmental Engineer's report, dated 4 May 1978, certified that the vessel was complete as to specifications and on this basis the handover payment was expected to eventuate in 1977-78. It is noted, however, in the examination of the circumstances of this underspending that the Department sought on 11 May and 16 May 1978 approval of the Department of Finance for additional commitment for 1978-79 in respect of the "Selwyn Range" and certain other vessels. This request was made on the basis of reviews carried out in April 1978 for 1978-79 Budget Estimates purposes.

The Department was advised at the end of May 1978 that the owners requested further tests in respect of vessel noise and vibration and it was decided by the owner and builder that certain minor modifications to the vessel were required. At the time the decision to carry out the modifications was made, it was not anticipated that this would delay handover beyond June 1978.

In the event, delay in construction resulted and for this reason the handover payment programmed to occur by the end of the 1977-78 financial year was not made. Towards the end of June when it was known that the "Selwyn Range" payment would not occur certain other approved payments were made resulting in the underspend of \$1.2m.

The vessel was eventually handed over to the owner on 11 August 1978, and the handover payment has been made.

(G.J. COLLOPY)
Acting First Assistant Secretary
Shipbuilding Division

15 September 1978

Explanatory Statement

- Division: 457 - Northern Territory Legislative Assembly
- Sub-Division: 1 - For operating expenditure in respect of matters specified in determinations made under Section 4ZE of the Northern Territory (Administration) Act 1910, being expenditure in accordance with an Ordinance or Ordinances of the Northern Territory making provision with respect to the expenditure of moneys appropriated by the Parliament by virtue of this Item.

Purpose of Sub-Division

1. As the description in the Appropriation Act indicates, the purpose of the sub-division was to provide funds to meet operating expenditures on functions transferred to the control of Executive Members of the Northern Territory Legislative Assembly. A similar provision (Division 899/1) was also made in respect of capital expenditures for such functions.

2. The relevant provisions of the Northern Territory (Administration) Act (Sections 4ZE and 4ZF) are given in Attachment A.

3. At the commencement of the 1977/78 financial year, Executive Members had responsibility under Section 4ZE for a limited range of functions formerly administered directly by the Department of the Northern Territory. Additional functions, including all state-type activities of the Attorney-General's Department other than the Supreme Court were transferred on 1 January 1978. A copy of the Northern Territory Government Gazette of 19 December 1977 which details the matters in respect of which Executive Members exercised authority and, hence, for which funds were provided under Division 457/1 is at Attachment B.

4. Funds Available

	1975/76	1976/77	1977/78
			\$
Appropriation Act No. 1	-	-	25,400,000
Appropriation Act No. 3	-	-	1,937,200
Advance to the Minister for Finance	-	-	-
Total Funds Available	-	-	27,337,200
Total Expenditure	-	-	28,007,690
Overexpenditure	-	-	670,490
	85		

Explanation of Overexpenditure

5. In order that Executive Members might be seen to be responsible for the functions placed under their control by virtue of Section 4ZE Determinations, procedures were devised to enable the Northern Territory Executive to determine financial priorities in respect of such activities. Those procedures were, of course, subject to the constraints arising out of the constitutional framework then applying to the Northern Territory.

6. Briefly, those procedures provided for the Northern Territory Executive to decide its priorities between operational and capital expenditures within an initial allocation of \$50 million. That decision by the Executive was reflected in the provision of \$25.4 million (Division 457/1) and \$24.6 million (Division 899/1) in Appropriation Acts Nos. 1 and 2. The allotment of priorities within the funds provided for operational and capital purposes was achieved through the vehicle of the Allocation of Funds (Appropriation) Ordinances Nos. 1 and 2 which were presented to the Legislative Assembly.

7. The principles to apply to the expenditure of funds by the Northern Territory Executive in 1977/78 were outlined in a letter dated 2 June 1977 (Attachment C) from the Minister for the Northern Territory to the then Chief Secretary and Majority Leader. The attention of the present Chief Minister was also drawn to that letter in February 1978.

8. Consistent with the foregoing, the administrative arrangements associated with the processing of accounts for expenditures on behalf of the Northern Territory Executive extended to the appointment by the Department of Finance of a Northern Territory public servant as Authorising Officer to authorise expenditures from the appropriations in question and the use of the accounting services provided by the Accounting Office, Department of Finance, in preference to those of the Department of the Northern Territory.

9. For the purpose of explaining the manner in which the overexpenditure of Division 457/1 came about, it is necessary to describe the transactions which took place in relation to both that Sub-Division and Sub-Division 899/1.

10. As indicated earlier, the situation at the time of the passing of Appropriation Acts 1 and 2 was as follows:

Appropriation Act No. 1 Division 457/1 - \$25.4M	Appropriation Act No.2 Division 899/1 - \$24.6M.
Allocation of Funds (Appropriation) Ordinance No. 1 - \$25.4M	Allocation of Funds (Appropriation) Ordinance No. 2 - \$24.6M

11. On 10 March 1978, the Department of Finance received a request from the Northern Territory Department of Finance and Planning to include the following amounts in the Additional Estimates Bills:

Division 457/1	
Functions transferred on 1 January 1978	\$1,396,700
Increased District Allowance etc.	<u>540,000</u>
	\$1,937,200
Division 899	
Beef Carry-on Finance	\$ 600,000
Establishment Grant	<u>400,000</u>
	\$1,000,000

The above amounts were included in Appropriation Bills 3 and 4 respectively.

12. On 4 May 1978, the Executive Member for Finance and Planning introduced into the Legislative Assembly the Allocation of Funds (Appropriation) Ordinance No. 3 (Attachment D). That Ordinance purported to allocate the additional funds made available by the Commonwealth, as well as "savings" in the provisions made under the earlier Allocation of Funds Ordinances, among the functions controlled by the Northern Territory Executive. A copy of the Second Reading Speech by the Executive Member for Finance and Planning is at Attachment E.

13. It was the Allocation of Funds (Appropriation) Ordinance No. 3 which gave rise to the overexpenditure of Division 457/1. Investigations subsequent to the discovery of the overexpenditure have revealed that the Ordinance purported to allocate funds between operational and capital expenditures in a manner which was at variance with the provisions in the Appropriation Bills. The situation as revealed by that investigation is as follows.

	<u>Funds Available</u>		<u>N.T. Allocations</u>	
	<u>Operational Expenditures</u>			
Division 457/1		\$		\$
Approp. Act No. 1	25,400,000		Alloc. Ord. No. 1	25,400,000
Approp. Act No. 3	<u>1,937,200</u>		Alloc. Ord. No. 3	<u>2,956,200*</u>
		<u>\$27,337,200</u>		<u>\$28,356,200</u>
Expenditure	\$28,007,690	=	\$670,490	overexpenditure

*includes \$619,000 "capital savings"
and \$400,000 Establishment Grant (Division 899/2)

Funds AvailableN.T. AllocationsCapital Expenditures

Division 899/1	\$.		\$
Approp. Act No. 2	24,600,000	Alloc. Ord. No. 2	24,600,000
Approp. Act No. 4	<u>600,000</u>	Alloc. Ord. No. 3	<u>19,000</u>
	\$25,200,000		<u>\$24,581,000</u>
Expenditure	\$24,490,430	=	\$709,570 underexpenditure

Establishment Grant

Division 897/2

Approp. Act No. 4 \$400,000

Expenditure \$264,032 = \$135,968 underexpenditure

It will be noted that in aggregate, the funds made available by Parliament were underspent. Neither the Department of the Northern Territory nor the Department of Finance were consulted in the preparation of the Allocation of Funds (Appropriation) Ordinance No.3. Also, neither Department detected the flaws in the Ordinance prior to it receiving assent on 31 May 1978 or, indeed, prior to the discovery of the overexpenditure although they both had copies of the Ordinance before that date.

14. We have been unable, from discussions with the relevant Northern Territory Government officers, to obtain a clear picture of precisely how the failure to recognise the primacy of the Commonwealth Appropriation Acts came about. We do, however, know that at the time the Northern Territory Department of Finance and Planning was under extreme pressure to complete preparations for self-government on 1 July 1978 and it would appear that because of that pressure, the officers concerned overlooked the need to regularise the action they were contemplating through either the mechanism of Appropriation Bill No. 4 or Advance to the Minister for Finance.

15. While the overexpenditure of Division 457/1 had its origin in decisions taken by the Northern Territory Executive and implemented by officers of the Northern Territory Public Service, we acknowledge that a contributing factor was the failure of this Department to recognise the course adopted by the Allocation of Funds (Appropriation) Ordinance No. 3. However, even with the benefit of hindsight, we wonder whether an arithmetical check in the detail necessary to uncover the error was called for. In this regard, we would make the following points:

- it is an axiom of financial administration that appropriations are not to be overspent;

- . the senior officers of the Northern Territory Department of Finance and Planning had extensive experience in Commonwealth budgetary practice and were aware of the foregoing; and
- . The Minister for the Northern Territory's letter of 2 June 1978 was quite explicit as to the requirement that the allocation of funds by way of Ordinance be accommodated within the single line appropriation in the relevant Appropriation Bills.

18 August 1978

CHAPTER 2
Division 380-3-01

APPENDIX 7.A

<u>PARAGRAPH NO.</u>	<u>REFERENCE</u>
2.1	Exhibit 173/8
2.2	Exhibit 173/9
2.3	Exhibit 173/9
2.4	Exhibits 173/8, 173/9 and pp 79, 88, 90, 91 and 95
2.5	Exhibit 173/9 and Committee File 1978/1
2.6	Exhibit 173/9 and pp 80, 83, 84 and 119
2.7	Exhibit 173/9 and pp 85 and 90
2.8	p 87
2.9	pp 85, 87-89
2.10	p 106
2.11	Exhibit 173/9
2.12	Exhibit 173/9 and pp 96 and 97
2.13	Exhibit 173/9 and pp. 92-94, 99 and 100
2.14	Exhibit 173/9
2.15	Exhibit 173/9 and p 102
2.16	pp 103 and 104
2.17	Exhibit 173/9 and pp 109-113
2.18	p 114
2.19	pp 114, 119, 120 and 121

CHAPTER 3

PARAGRAPH NO.

REFERENCE

(1) Division 340-4-01

3.1	Exhibit 173/11
3.2	Exhibit 173/11 and pp 123 and 124
3.3	Exhibit 173/11
3.4	Exhibit 173/11
3.5	Exhibit 173/11 and pp 125, 126 and 127
3.6	Exhibit 173/11 and pp 126 and 127
3.7	pp 129 and 130
3.8	p 129
3.9	Exhibit 173/11

(ii) Division 340-4-02

3.11	Exhibit 173/10
3.12	Exhibit 173/10
3.13	Exhibit 173/10
3.14	Exhibit 173/10
3.15	Exhibit 173/10

CHAPTER 4

<u>PARAGRAPH NO.</u>	<u>REFERENCE</u>
4.1	Exhibit 173/3 and pp 15, 16 and 44
4.2	Exhibit 173/3 and p 16
4.3	Exhibit 173/3 and pp 7, 8, 9 and 17
4.4	Exhibit 173/3 and p 10
4.5	Exhibit 173/3 and pp 11, 12, 13, 35, 36, 37, 38
4.6	Exhibit 173/43 pp 38 and 48
4.7	Exhibit 173.3 and pp 37, 37, 49 and 51
4.8	Exhibit 173 and p 6
4.9	Exhibit 173/3 pp 3,4, 25 and 39
4.10	Exhibit 173/3 pp 23 and 24
4.11	Exhibit 173/3 pp 1 and 2
4.12	Exhibit 173/1
4.13	Exhibit 173/1, 173/3 and 173/3
4.14	Exhibit 173/3 pp 21, 32 and 33
4.15	Exhibit 173/3 pp 34 and 63
4.16	Exhibit 173/3 and p 33
4.17	Exhibit 173/3
4.18	Exhibit 173/3 and p 57
4.19	Exhibit 173/3 and pp 69 and 70
4.20	Exhibit 173/2 and 173/3
4.21	Exhibit 173/3 and p 75
4.22	Exhibit 173/3 pp 6 and 75
4.23	Exhibit 173/3 pp 60, 61, 63 and 64
4.24	p 74

The Fawnmac Group of Companies

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21.11.78 *PHW*

The Honourable Mr. R. J. D. Hunt, M.P.,
Minister for Health,
Parliament House,
CANBERRA, A.C.T. 2600

My Dear Minister,

I am pleased to submit the Annual Report and Financial Accounts of the "Fawnmac Group" for the year ended the 30th June 1978.

The Group earned a combined Net Profit before Tax of \$812,872 which is a decrease of \$273,867 when compared with the year ended 30th June 1977.

After providing for Tax the combined Net Profit was \$490,872, which is a decrease of \$195,867 compared with the year ended 30th June 1977.

Individual Company results are as follows:

	<i>Fawns & McAllan</i>		<i>Rotary Tableting Corporation</i>		<i>Croydon Investments</i>		<i>Barker House</i>	
	<i> Pty. Ltd.</i>	<i> Pty. Ltd.</i>	<i> Pty. Ltd.</i>	<i> Pty. Ltd.</i>	<i> Pty. Ltd.</i>	<i> Pty. Ltd.</i>	<i> Pty. Ltd.</i>	
	1977	1978	1977	1978	1977	1978	1977	1978
Net Profit before Tax	697,443	544,971	389,296	267,901	—	—	—	—
Provision for Tax	275,000	243,000	125,000	79,000	—	—	—	—
Net Profit after Tax	422,443	301,971	264,296	188,901	—	—	—	—

The Balance Sheets and Statements of Profit and Loss for each Company are set out on the following pages.

Gwyn Howells
Chairman of Directors