

1929.

VICTORIA.

R E P O R T

FROM THE

COMMITTEE OF PUBLIC ACCOUNTS

(STATE COAL MINE—SUBSIDIES GRANTED BY THE RAILWAY
DEPARTMENT);

WITH AN

APPENDIX.

Ordered by the Legislative Assembly to be printed, 9th July, 1929.

By Authority:

H. J. GREEN, GOVERNMENT PRINTER, MELBOURNE.

D.—No. 1.—[6D.]—6693.

EXTRACTED FROM THE VOTES AND PROCEEDINGS.

THURSDAY, 12TH JULY, 1928.

2. PUBLIC ACCOUNTS COMMITTEE.—Motion made and question—That the following Members form the Committee of Public Accounts during the present Session :—Mr. Brownbill, Mr. Greenwood, Mr. Hjorth, Mr. A. Hughes, Mr. Morley, Mr. Murphy, and Mr. Walter; and that the Committee have leave to sit on days on which the House does not meet; three to be the quorum (*Mr. Hogan*)—put and agreed to.

WEDNESDAY, 12TH DECEMBER, 1928.

7. PUBLIC ACCOUNTS COMMITTEE.—Motion made and question—That Mr. Morley be discharged from attendance on the Committee of Public Accounts, and that Mr. West be appointed in his stead (*Sir William McPherson*)—put and, after debate, agreed to.

APPROXIMATE COST OF REPORT.

Printing (300 copies)	£	s.	d.
	8	0	0

REPORT.

THE COMMITTEE OF PUBLIC ACCOUNTS has the honour to report to your Honorable House as follows:—

SUBSIDIES GRANTED BY RAILWAY DEPARTMENT TO STATE COAL MINE.

1. During the financial years 1923-24, 1924-25, and 1925-26 subsidies were made by the Railway Department to the State Coal Mine amounting to £35,625, £80,000, and £25,000 respectively. The reason why financial assistance was required was on account of increased expenditure due to the working of small and faulty seams, and the loss caused by the fire in the McBride Tunnel in 1924.

2. During the financial years 1926-27 and 1927-28, refunds of £37,268 and £43,773 respectively, were made by the Mine, leaving a balance of £59,584, and it was the manner of repayments which was referred to by the Auditor-General in his annual reports that led your Committee to institute an inquiry. Evidence was heard from Mr. H. W. Clapp, Chairman, Victorian Railways Commissioners, Mr. J. A. Norris, Auditor-General, Mr. H. A. Pitt, Under-Treasurer, Mr. T. F. Brennan, Chief Accountant of the Railway Department, Mr. G. H. Broome, General Manager of the State Coal Mine, Mr. G. H. Falloon, Accountant of the State Coal Mine, and Mr. A. H. Harman, Manager, Turbine Furnace Company, Port Melbourne. The evidence of the General Manager and Accountant of the State Coal Mine was heard at Wonthaggi, and your Committee took advantage of the opportunity of making an inspection of the mine and gaining first-hand knowledge of the extent and working thereof.

PRICE OF COAL REDUCED IN 1926-27 TO REPAY SUBSIDY.

3. In the report of the Auditor-General for the year 1926-27 attention is directed to the price of the coal supplied to the Railway Department being below the equated rate. The equated rate is ascertained by taking the calorific value of the Wonthaggi coal at the pit's mouth as compared with the calorific value of Maitland coal in trucks at some point of delivery in Victoria and accepted by the Mine Manager and the Railways Commissioners. A letter from the Chairman of the Railways Commissioners, published in the Report, explains that the difference between the equated rate and the price paid for coal during the year, which amounted to £37,267, represented a repayment of part of the subsidies made to the mine.

4. Your Committee is of opinion that the method adopted by the Railways Commissioners, after consultation with the General Manager of the Mine, though legal, was undesirable. It did not show the true result of the working of the Mine and for the year 1926-27 the working expenses of the railways were £37,268 less, and the railway deficit was £37,268 more, than the railway accounts show.

5. In the Annual Report of the General Manager of the State Coal Mine reference is made to the part repayment of the subsidies, but your Committee considers this was insufficient, and contends that the accounts should be complete in themselves and that an examination of them should disclose the correct result of the year's operations.

SURPLUS APPROPRIATED IN 1927-28 TO REPAY SUBSIDY.

6. In the financial year 1927-28 a further refund of portion of the subsidies was made, the method adopted was to transfer an amount of the surplus or net profit from the mine to the railways. Though not in accordance with section 96 of the Coal Mines Regulation Act, which provides that any surplus must be carried to either a Sinking Fund or Depreciation Fund, it was a better method than that adopted in 1926-27.

Mr. Pitt, in his evidence, stated that Parliamentary sanction should have been obtained before the surplus was applied to repaying the subsidies, but that it was too late to place the item on the Supplementary Estimates when the Treasury directed that method to be followed.

NET RESULT OF OPERATIONS WHEN SUBSIDIES WERE GRANTED AND REFUNDED.

7. The Appendix of this Report contains a statement showing the result of the operations of the State Coal Mine for the years 1923-24 to 1927-28, when subsidies were made and refunded. In 1923-24, 1924-25, and 1925-26, when subsidies of £35,625, £80,000 and £25,000, respectively, were granted, the deficits during those years were £31,678, £79,732 and £24,459. In 1926-27 and 1927-28, when refunds of the subsidies were made amounting to £37,268 and £43,773, respectively, the surplus during those years was £46,042 and £56,910. The accounts of the mine as presented do not clearly show these net results.

SUBSIDIZING OF MINE BY RAILWAY DEPARTMENT UNDESIRABLE.

8. Your Committee is of opinion that it is undesirable for the Railway Department to subsidize the State Coal Mine. The Mine, though under the control of the Railways Commissioners, is in effect an entirely separate entity, and when funds are required they should be obtained direct from the Treasury, and the State Coal Mine should appear on the Treasury books amongst the "Sundry Debtors to Revenue."

PRICE OF COAL SHOULD BE FIXED.

9. Your Committee considers that the price of coal supplied to the Railway Department should be fixed at a rate which would return the Mine the true market value. The equated rate is the best method of doing this, and if adhered to the annual accounts would then show a true and faithful record of the working operations of the Mine.

RESERVE SHOULD BE BUILT UP DURING PROSPEROUS YEARS.

10. Your Committee considers that it is desirable to establish a strong reserve fund in connexion with the State Coal Mine for the following reasons:—

- (a) That according to the evidence submitted, while the life of the Mine is estimated at 25 years, the most payable seams now being worked are expected to last only about ten years at the present rate of output.
- (b) The price of coal may be reduced.
- (c) Owing to the faulty nature of the country worked it has been found necessary from time to time to sink fresh shafts at heavy expense—a shaft being sunk at present is estimated to cost £80,000.
- (d) That calamities such as the recent flooding of the McBride Tunnel and the outbreak of fire which previously occurred therein must be provided against.

In view of the above reasons your Committee considers that, in addition to the provision made for annually recurring depreciation, the Depreciation Fund provided for in section 96 of the Coal Mines Regulation Act, which is a tangible fund, should be allowed to accumulate until there is available a reserve of £200,000. Any surplus over and above that amount should be paid into a Trust Account at the Treasury and utilized for the advancement of the coal mining industry in Victoria by applying it to exploratory work outside the present Wonthaggi coal mine area.

ACCOUNTS AS PRESENTED SHOULD BE REMODELLED.

11. The accounts of the State Coal Mine, as presented, are not in the form usually adopted in commercial accountancy and should be remodelled. The Working Account and the Profit and Loss Account should be kept in accordance with commercial practice and only the items which rightly belong to these respective accounts should be included therein. The balance remaining from the Profit and Loss Account, which would be either a net profit or loss, should be carried to an Appropriation Account and here the manner of disposal of the profit should be shown, or in the case of a loss any advance made would be credited to this account.

VARIATION IN DEPRECIATION SHOULD BE EXPLAINED.

12. In the years 1926-27 and 1927-28 there was shown in the Balance-sheets large increases in depreciation over previous years. Part of the increase in 1926-27 was shown as a separate item in the accounts as "Depreciation McBride Tunnel, £20,000." There was also a comment in the Annual Report of the General Manager of the Mine on this item. Your Committee is of opinion that this practice should always be adopted, and a similar explanation given in regard to the depreciation written off in 1927-28.

AN INCREASE IN THE PRESENT OUTPUT IS DESIRABLE.

13. Your Committee considers it advisable to increase the output of the Mine beyond what it is to-day, provided extensive coal seams are discovered in or adjacent to the present Wonthaggi area. Prospecting operations with a view to discovering such seams should be promptly undertaken. The present financial position is satisfactory, and the output of the Mine, including practically the whole of the slack, is being disposed of.

RECOMMENDATIONS OF THE COMMITTEE.

14. Your Committee makes the following recommendations :—

- (a) That the price to be paid by the Railway Department for coal received from the State Coal Mine shall be the equated rate as set out in paragraph 3 of this Report.
- (b) That in addition to the provision made for an annually recurring depreciation, the Depreciation Fund provided for in section 96 of the Coal Mines Regulation Act, which is a tangible fund, should be allowed to accumulate until there is available a reserve of £200,000.
- (c) Should the Reserve Fund (Depreciation Fund) be depleted and the State Coal Mine be in need of financial assistance, it should be rendered direct from the Treasury and not through the railway accounts.
- (d) That the form in which the accounts of the State Coal Mine are presented should clearly and accurately show the result of the year's operations.
- (e) When during any financial year the depreciation written off is much in excess of previous years an explanation of the increased amount should be given in the Annual Report of the General Manager and shown separately in the Balance Sheet.
- (f) That the present output of the State Coal Mine should be increased only if and when extensive payable coal deposits are found adjacent to the Wonthaggi coal field.

As an amendment of the Coal Mines Regulation Act will be necessary to give effect to the above recommendations, involving an alteration in the powers of the Railways Commissioners, your Committee is of opinion that the powers of the Railways Commissioners in the administration of the Mine should not be otherwise diminished.

A. L. N. WALTER,
Chairman.

Committee Room,
Legislative Assembly,
Melbourne, 18th June, 1929.

APPENDIX.

COAL MINE OPERATIONS FOR PAST FIVE YEARS—AFTER EXCLUDING SUBSIDIES MADE BY THE RAILWAYS IN 1923-24, 1924-25, AND 1925-26, AND THE REPAYMENTS MADE BY THE COAL MINE TO THE RAILWAYS IN 1926-27 AND 1927-28 :—

	1923-24.	1924-25.	1925-26.	1926-27.	1927-28.
<i>Dr.</i>	£	£	£	£	£
Income Gross ..	524,274	420,232	515,295	724,633	733,834
<i>Cr.</i>					
Working Expenses ..	510,760	454,580	489,851	600,448	612,250
Interest ..	8,956	9,148	9,667	9,671	9,674
Sinking Fund ..	6,236	6,236	6,236	12,472	..
Depreciation ..	30,000	30,000	34,000	56,000	55,000
Total ..	555,952	499,964	539,754	678,591	676,924
Deficit ..	31,678	79,732	24,459	..	..
Surplus ..	..	..	..	46,042	56,910
Railway Subsidies ..	35,625	80,000	25,000	..	..
Coal Mine Repayments	..	..	..	37,268	43,773