AT SYDNEY, THURSDAY, 2 SEPTEMBER, 1982

Present:

Mr M. R. EGAN (Chairman)

Mr J. C. BOYD	Mr S. T. NEILLY
Mr N. F. GREINER	Mr T. S. WEBSTER

NORMAN OAKES, Secretary and Controller of Accounts, The Treasury, and residing at [redacted] sworn and examined:

CHAIRMAN: Did you receive a summons issued under my hand to attend before this Committee?——A. Yes. I did.

Q. We have received a letter from The Treasurer, Mr Booth, in respect of inquiries in relation to the Treasury. Is it your wish that that document be included as part of the sworn evidence?——A. Yes. That letter states:

TREASURER—NEW SOUTH WALES

Sydney, 25th August, 1982.

Mr M. Egan, B.A., M.P.,
Chairman,
Public Accounts Committee,
Parliament House,
Sydney.

Dear Mr Egan,

I refer to your letter of 13th August, 1982, concerning expenditures made without Parliamentary sanction or appropriation in 1981–82 under several Treasury—Head Office items.

Explanations relating to each area where unauthorised expenditure occurred are attached for the Committee's consideration. If required the Secretary of the Treasury, Mr N. Oakes, will be available to appear before the Committee on my behalf.

Yours sincerely,
KEN BOOTH, Treasurer.

Monetary Value of Leave payable in respect of Deceased Public Servants—$567,977.19

In 1981–82 an amount of $726,900 was appropriated for expenditure from this item by all departments within the budget, except the Health Commission, State Lotteries Office and Public Trustee which are provided for separately. The amount was estimated on the basis of the trend of previous years' actual expenditures which were as follows:

	$
1977–78	824,875
1978–79	703,408
1979–80	610,209
1980–81	769,093

In arriving at the amount to be included in the Estimates regard was had to the experience in the four preceding years, particularly the reductions in 1978–79 and 1979–80 following the very high expenditure in 1977–78.

The only factors determining the level of expenditure are the number of Public Servant deaths, the level of salary received and the balance of leave accumulated by the individual officers. At 30th June, 1982, the amount of appropriation available inclusive of transfers from other items had been exceeded by $567,977.19 and the total expenditure amounted to $1,315,012.27. Funds to meet the increased commitment were provided from Consolidated Revenue Expenditure Suspense Account.

Departments which charged expenditure against this item are as follows:

	$
Department of Agriculture	64,243.28
Department of Fisheries	2,693.99
Soil Conservation Service	22,190.47
Department of the Attorney General and of Justice	11,592.69
Department of Corrective Services	52,531.05
Department of Education	539,837.43
Department of Technical and Further Education	58,403.11
Government Printing Office	6,280.27
Government Stores Department	55,412.71
Police Department	215,151.07
Department of Industrial Development and Decentralisation	43,880.64
Department of Industrial Relations and Technology	6,594.13
Department of Local Government and Lands	76,121.74
Valuer-General's Department	5,956.36
Public Works Department	51,304.36
Premier's Department	11,729.50
London Office	5,515.06
Department of Sport and Recreation	5,752.73
Water Resources Commission	36,626.61
Department of Mineral Resources	43,195.07
Total	$1,315,012.72

Remissions and Refunds, as Acts of Grace, of Death Duty in Certain Cases—$300,659.99

The 1981–82 Budget appropriated an amount of $393,000 for expenditure from this item. This estimate was based on the level of expenditure in previous years and the reduction in the rates of duty in earlier years.

Actual expenditures on this item over recent years have been as follows:

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1977–78	290,703.91
1978–79	587,594.96
1979–80	228,538.44
1980–81	334,279.70

Although death duties were abolished from 1st January, 1982, this had little immediate influence on the general volume of applications for refunds received because of delays normally experienced in applications for probate and the lodgment of returns.

The majority of refunds granted by the Treasurer result from the deceased having lived in a de facto relationship. It is not practicable to estimate with any real accuracy the number of refunds which will be claimed during the year and since each refund is dependent upon the value of the deceased's estate, the overall amount involved.

During the year two exceptionally large refunds totalling $180,169.50 were made. There was also a relatively large number of applications involving a de facto relationship (119 in 1981–82 compared with 71 in 1980–81).

Repayment to the Commonwealth of Advances for Natural Disasters—$1,604,335.33

Under the funding arrangements for natural disasters the State is required to repay to the Commonwealth over eight years a proportion of the loan component of advances made to the State for expenditure on natural disaster relief and restoration measures. Repayments commence two years after the year in which the advances were received.

When the 1981–82 Estimates were prepared provision was made for the payment of $997,954 to the Commonwealth on the basis of previous years expenditure. However, subsequent adjustments to the amounts repayable resulted in a further $17,485.33 becoming due.

The balance of the unauthorized expenditure ($1,586,850) resulted from the Commonwealth's decision to recover in full a special advance paid in 1981 for the Cereal Growers Scheme. In the determination of the original estimate it was assumed that this advance would be included under the Commonwealth–State funding arrangements for natural disasters, that is, the amount that was repayable would be repaid over the eight year period commencing on 30th June, 1984.

Under this standing State scheme seasonal assistance for seed, superphosphate, fuel, etc., purchases is made available to cereal growers who are in necessitous circumstances because of crop failure through drought, hail, pests, etc., and who are unable to finance requirements through normal commercial channels. Growers are required to repay the loans from the proceeds of crops for which assistance is granted. These repayments were planned to be made by the cereal growers by the end of February, 1982, and, as the great bulk of the amounts due were paid the Commonwealth's request for repayment in 1981–82 was agreed to. Funds to meet these commitments were provided from Consolidated Revenue Expenditure Suspense Account pending Parliamentary Appropriation.

Assistance to Abattoir Councils—$486,550

An amount of $5,830,000 was provided in the 1981–82 Estimates to meet anticipated advances to councils during the year under section 493A of the Local Government Act in respect of their abattoir undertakings. This provision was determined in the light of Cabinet's decision of 4th August, 1981, to continue to provide such assistance to certain abattoir councils until 31st December, 1985, to the extent of the lesser of loan commitments or operating losses, and to give additional aid of up to $240,000 per annum to Councils which have been forced to close their abattoirs because of the lack of stock for slaughter and retain them on a care and maintenance basis.

On 16th February, 1982, Cabinet approved of assistance, to the extent of interest on loans, being extended to the Lachlan Valley County Council for a 30 months period to 30th June, 1983, during which its abattoir at Forbes is being leased. Pursuant to Cabinet's decision, an amount of $521,263 was approved for payment to the County Council during 1981–82, bringing total assistance to abattoir councils for the year to $6,316,550. To enable this to be paid, it was necessary to provide additional funds from Consolidated Revenue Expenditure Suspense Account to the extent of $486,550, pending Parliamentary Appropriation.

Treasury—Head Office—Railway Mainline Upgrading—Interest on Commonwealth Advances—$579,684.60

A provision of $1,367,400 was included in the 1981–82 Estimates to provide for interest on Commonwealth advances under the National Railway Network (Financial Assistance) Act 1979. The Agreement under this Act provides that the State will pay interest in respect of each advance and that the rate of interest will be the rate applicable at the date of each payment by the Commonwealth to the State. The agreed rate is that approved by the Loan Council from time to time in respect of private semi-government borrowings for the longest term loan.

The estimate of interest payable to the Commonwealth was based on total advances of $9 million being received by the State during 1981–82 and that interest rates of between 13.5 per cent and 13.9 per cent would apply. In the event, three advances totalling $11.4 million were received from the Commonwealth and each carried an interest rate of 16 per cent. Furthermore a large proportion of the assistance was received earlier than anticipated.

The additional expenditure on the item was for committed charges and was accordingly unavoidable.

Funds to the extent of $579,684.60 were provided from Consolidated Revenue Expenditure Suspense Account to provide for the additional payments pending Parliamentary Appropriation.

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Treasurer—Treasury Head Office—	
Revenue Supplements to—	
State Rail Authority—	
Metropolitan Passenger Services	23,985,000
Country Passenger Services	14,668,000
Freight Services	15,802,000
Urban Transit Authority—	
Bus Services	3,275,000

Section 66 of the Transport Authorities Act provides that the Treasurer may, out of money provided by Parliament, pay from time to time sums by way of revenue supplements into the State Rail Authority Fund and the Urban Transit Authority Fund to enable or assist each Authority to exercise its function. In order to ensure that each Authority has sufficient cash available to meet its day to day operating costs and in keeping with the policy followed with the former Public Transport Commission, it is the practice to assess revenue supplements for the Authority each financial year according to the amount by which its total annual operating revenue falls short of its total operating outgoings.

Appropriations which appear in the Treasury Head Office section of the State Budget Papers represent estimates formulated by the Authority and reviewed by the Treasury at the commencement of the financial year in the light of the best information available at that time, of the financial outcome of the year's operations; that is, the expected net revenue shortfall. The sums appearing in the Public Accounts for 1981–82 as expenditure made within the Treasurer's portfolio for revenue supplements without Parliamentary sanction or appropriation reflect the extent to which the operating results, as reassessed at the close of the financial year in the knowledge of the year's actual revenue achievements and expenditure commitments, turned out to be worse than budget. Events during the course of the year which could not reasonable have been predicted when the State Budget was framed were the chief cause of the retrogression on budget.

State Rail Authority—total budget over-run $54,455,000

The provision in the State Budget for appropriation in 1981–82 for revenue supplements for the S.R.A. and the total of the sums actually paid to the Authority from the Consolidated Revenue Fund as revenue supplements during the year were assessed as follows:

State Rail Authority—Financial Operation 1981–82

	Budget 1981–82	Re-assessment at 30–6–82*	Variation*
	$	$	$
Operating Expenditure	987,002,000	1,045,147,000	+ 58,145,000
Less:			
Operating Revenue	654,130,000	657,820,000	+ 3,690,000
Revenue Supplement..	$332,872,000	$387,327,000	+ $54,455,000

*Still a best estimate. The S.R.A. uses a normal commercial "accruals" form of accounting and final figures do not become available until some weeks after the close of a financial year.

Revenue at 30th June indicated an overall $3.69 million improvement on budget for the year. There were several significant factors which adversely affected the revenue in the course of the year. The most important factor was industrial disputes and strikes, both within and outside the Authority—the major ones in the latter category were in the maritime and coal industries. The estimated freight revenue lost for this reason totalled $45 million (40 million due to external disputes). In addition, passenger revenue lost due to strikes amounted to roundly $3.2 million. As well, a delay in effecting an increase of 25 per cent in the freight rate for export coal due to resistance from the coal industry resulted in a revenue loss roundly of a further $1.8 million.

On the other hand, the Authority was able to increase its budgeted levels of haulage of freight traffic (mainly wheat and coal) in dispute free periods and, in exceeding the revenue budget for these periods by around $52 million, it more than recovered the foregoing revenue loss.

The *expenditure* overrun on budget at approximately $58.145 million was much more substantial, although there were still significant economies achieved in some areas. Savings on budgets by S.R.A. Branches as a result of staff freezes and other efficiencies amounted to roundly $9 million and the cost of haulage of additional traffic during the year was less by about $3.5 million than the budget provision for this purpose.

These favourable factors, however, were far overshadowed by a number of other factors totalling roundly $69 million which added to the S.R.A.'s revenue supplement needs. Of the latter, the largest single commitment was the impact of award variations granted during the year. The provisions made in the Budget were reasonably close to the costs of actual award variations other than those flowing to the Public Transport workforce from the Metal Trades Wage Decision. This flow-on which was not anticipated when the State Budget Appropriations were determined, cost the S.R.A. an estimated $48.2 million in 1981–82.

Other major expenditure items which exceeded budget and added to the revenue supplement requirement were:

Payroll tax, long service leave and Workers' Compensation commitments, which vary in line with total payroll costs, exceeded the budget provisions by an estimated $2.5 million.

Electricity prices were budgeted to increase by 18 per cent but in the event, rose to an average of 30 per cent adding about $1 million to budgeted expenditure.

Interest on deferred payment contracts for which no provision was made in the budget amounted to an estimated $1.6 million.

Stores prices were budgeted to rise by an average of 10 per cent but in fact the actual increase was higher, in the larger Branches going as high as 24 per cent. This together with the need to adjust charges to Branches for stores manufactured by the Authority itself and underpriced when initially issued to them added an asessed $15.4 million to the 1981–82 expenditure budget.

Urban Transit Authority—total budget overrun $3,275,000

The provision in the State Budget for appropriation in 1981–82 for revenue supplements for the U.T.A. and the total of the sums actually paid to the Authority from the Consolidated Revenue Fund as revenue supplements during the year were as follows:

Urban Transit Authority—Financial Operations 1981–82

	Budget 1981–82	Re-assessment at 30–6–82*	Variation*
	$	$	$
Operating Expenditure	159,972,000	163,507,000+	3,535,000
Less:			
Operating Revenue	80,100,000	80,360,000+	260,000
Revenue Supplement..	$79,872,000	$83,147,000+	$3,275,000

*Still a best estimate. The U.T.A. uses a normal commercial "accruals" form of accounting and final figures do not become available until some weeks after the close of a financial year.

Available *revenue* figures at 30th June indicated a minor improvement on budget of $260,000 for the year. At roundly $80 million the year's collections were virtually on target.

The indicated *expenditure* overrun on budget at $3.535 million can be attributed almost exclusively to the cost of Award variations in the year which exceeded contingency provisions and resulted in overspending on payroll and wage related costs. As was the case with the S.R.A. the over-riding factor was the unexpected flow-on to the U.T.A. workforce of the Metal Trades Wage Decision which cost the Authority an estimated $7.3 million and without which it would have remained well within budget for the year with regard to its revenue supplement needs.

In rechecking the figures in relation to the explanations for remissions and refunds for acts of grace on death duty there is a figure shown for 1977–78 of $481,961.79. That should have been $290,704. I apologize for the mistake. These figures are normally checked before being sent to the Committee. In this particular case there was a transcription between the death duty and the stamp duty item. They are quite close in the public accounts.

Q. I think we will deal first with the monetary value of leave payable in respect of deceased public servants. Could you tell me how the amount of $726,900 was arrived at?——A. Yes. It is almost impossible to assess the likely expenditure against this item. As the name suggests, it is a payment that is entirely related to the monetary value of leave that arises on the death of a public servant in service. The best we can do at Treasury is to try to have regard to the previous years experience. We look closely at the figures for previous years and arrive at the best guesstimate we possibly can for this item. Quite simply it is nothing more than an estimate based on trends. In some years we underestimate; in other years we overestimate.

Q. In those circumstances I wonder why the appropriation is not a rounded off amount instead of $726,900? ——A. It probably was through a clerical zealousness to get a rounding off in other figures; nothing more.

Q. We will go to the repayment of Commonwealth advances for natural disasters. Are you aware of any reason why the Commonwealth would request early repayment of those?——A. Yes. The advances made under the cereal growers' schemes are for the current crop. It is to meet the expenses associated with the preparation and cultivation and harvesting of that crop. If the crop succeeded the farmers are required to make repayment to the State in the year in which the advance is made. It is always problematical as to whether or not the wheat harvest will succeed or not. In seeking the Commonwealth acceptance of this as part of the national disaster relief arrangements, the Commonwealth understandably said they would have regard to the payments received by the State in respect of the advances. In fact we did receive substantial advances. The wheat crop was quite successful last year and there was a substantial repayment to the State.

Q. The next item is in relation to the revenue supplements to the State Rail Authority and the Urban Transit Authority.

Mr NEILLY: Q. In relation to the railway freight income there has been some dissension in the respect of the coal proprietors in relation to the rail freight charges. The accrual of income there would be based on the income that the State Rail Authority envisaged from these charges that they implemented.——A. On the basis of their accounting systems, they should bring to account the amount actually debited against the particular coal company.

Q. Offhand do you know whether that has been resolved at all?——A. I understand that if it was not resolved it was near to resolution. The particular question now is to try to develop a formula for adjusting the freight rates that has regard to an increase in costs incurred which would be identified as increases in cost and at the same time be acceptable to colliery proprietors. I am not sure whether those negotiations which have been proceeding for some time have been finalized.

Mr GREINER: Q. Could I ask first with respect to the review process during the year. I understand, and you have set it out quite clearly, that the estimates are made prior to the start of the year by the State Rail Authority and presumably checked, or discussed with the Treasury as to revenue supplements that are required. What process of review, if any, is there during the year, or is it in fact carte-blanche?——A. It is far from carte-blanche. The review procedures are the most intensive of any department that I have been associated with in my service in the Treasury. Ministers meet usually once a month. They have all of their senior officers present from the State Rail Authority and the Urban Transit Authority. They have a very comprehensive report from each of those authorities. The Ministry of Transport officers are present, as are myself and my senior inspector from the Budget Branch. Information and progress to date and expectations for the balance of the year are furnished on the best estimates that can be produced in those two authorities. The Ministers and officers are there to question any particular matter arising from those estimates, and they are in fact questioned quite closely.

That is the ministerial side of it. In addition, there is close liaison between the Treasury and the two transport authorities on progress month by month, and more often, as necessary. Because of the disturbances that occurred last year and the probable impact of them as anticipated throughout the year, of a significant drop in revenue, there was even closer contact than normal between the Treasury and the two authorities.

Q. This question is not directly related to the Treasury overrun but perhaps by way of education, at least for me: Does the Treasury have the estimate of total capital debt of the State Rail Authority as at the end of the previous financial year, or the one that has just finished?——A. Because the legislation passed by Parliament virtually says that the Loan Fund advances by the State form a charge against the Consolidated Revenue Fund as it was —now to be the Consolidated Fund—that is a statutory appropriation, so that the debt charges are borne by the State. That is what Parliament passed in the legislation. The Act also provides that the borrowings by the State Rail Authority, the cost of servicing those borrowings in their own right, and in the Urban Transport Authority are also specially appropriated. Therefore, we do not maintain an accurate figure of that loan liability because it is a loan liability of the State as such and would be in the total State loan liability to the Commonwealth in relation to the general loan account. For the purposes of the Grants Commission relativity review we have extrapolated some figures and we maintain a notional set of figures—purely notional for the purposes of that exercise.

Q. The Auditor-General presumably gets a balance sheet from the State Rail Authority, although he did not get one last year in time for incorporation in his report. What sort of item does that balance sheet have?——A. They have a capital debt which is established by a committee of review, which again was appointed under the legislation, and that committee reports on the debts of the authorities.

Q. Can you tell us roughly what the notional figure is? ——A. I am sorry, I could not at this point of time. I do not have the figure. But it is important to note that in the legislation Parliament ruled that a special committee—a technical committee and a finance committee—should look at and investigate and report, and submit a report to the Governor in relation to the debt as it was to be of the two authorities; an apportionment between the two authorities.

Q. With respect to the actual debt charges, and with the cost of servicing the debt, which I understand is subsumed into the total State situation, is it not possible to identify the cost to the State of servicing the capital debt, however determined, of the State Rail Authority?——A. That figure could be taken out if it were considered necessary. And in fact a notional figure, as I have explained, was derived for the purpose of the Grants Commission exercise.

Q. Could you provide me with that figure?——A. I could check with the Treasury. When we do provide figures we like to think they are close to being accurate and it is merely a notional exercise to arrive at a rough apportionment for the Grants Commission exercise.

Q. I want simply the bulk figure. I would be happy to have a margin of error of some millions of dollars, which would not affect the purpose of the exercise. At the same time is it possible to give an estimate, notional or otherwise, of the financial year we are looking at; in other words, last financial year. The notional assessment of the cost, servicing cost, call it what you like, of servicing that debt?

CHAIRMAN: I am not sure how the questions relate to the matter we had in hand.

Mr GREINER: Mr Chairman, I said before I started that my questions do not relate directly to the Treasury overrun but they relate to the transport departments overrun. Given that there is obviously an interrelationship, it is obviously relevant that this committee understand what the interest costs and financing costs of the State Rail Authority are. It would be in a ridiculous position when we finish with Mr Oakes and get the rail authority in and there might be quite possibly an exercise of passing the buck backwards. I was trying to make it simpler by eliciting the information now.——A. I may have misled Mr Greiner—and I hope I did not do so—but neither in the revenue supplement figure nor in the State Rail Authority's figures would the interest on the capital provided by the State be present, because Parliament has taken that out of the accounts of the State Rail Authority. For the purposes of the Public Accounts Committee, could I suggest, therefore, it would not be a factor in considering either the Treasurer's revenue supplement or the State Rail Authority provisions through the Ministry of Transport.

Q. I simply do not accept that. It is perfectly obvious that one ought to be able to look at the operations of the State Rail Authority with a running operating deficit of $400 million before capital charges, and it is perfectly obvious in trying to assess the financial implications to the State, one ought to be able to look at the capital cost. I am trying to reconstruct the overall estimate of the finances of the State Rail Authority and I believe it is necessary that this Committee understand roughly what the financing charges, on top of the operating costs of the statutory authority, are. While I accept that it is not directly in the State Rail Authority accounts or the Treasury accounts, it is nevertheless in my view perfectly appropriate and highly desirable that this Committee understand what the overall costs are rather than simply the operating costs. It relates to the decision between leasing and other forms of financing, which comes directly under the Department of Transport overrun, so it seems to me to be completely relevant.

Mr BOYD: I will raise the further question, where are these figures shown?——A. The figures are shown in the estimates produced for Parliament under the special appropriation, and members are perfectly entitled to ask questions in relation to those estimates relating to the capital debt of the State, the debt charges payable by the State to the Commonwealth, and the amount that is included in the special appropriation relating to the borrowings by the various authorities which Parliament has said are specially appropriated and not subject to annual appropriation.

CHAIRMAN: You will have to sort that information individually. You could in fact be requested to provide it in relation to every department. I think we are getting a bit away from the purpose for which we are here today. ——A. I am taking on board Mr Greiner's questions. I think they are more properly addressed to the Treasurer but I will put them before the Treasurer and see whether the information could be provided with all the caveats I have applied to them. The notional debt of the State Rail Authority would depend on the extent of capital amounts appropriated to different authorities. It would be very much dependent then upon their interest rates, to get the figure that Mr Greiner is suggesting, in a true accounting sense because we apply an average interest rate figure. That is under the Capital Debt Charges Act.

Mr GREINER: I am obviously less concerned with the capital debt amount and more concerned with the annual cost of servicing, and I would be happy with your department's best estimate of that item. Whether in the context of this Committee or otherwise I do not mind. I do believe it is perfectly relevant to any sensible review of finances of the State Rail Authority which are obviously the largest single item in the overrun that we are looking at.

Mr BOYD: I refer Mr Oakes to the statutory authority statement headed "State Rail Authority Financial Operations 1981–82", where we are looking at revenue to 30th June. It refers to losses of $45 million, and in the following paragraph suggests that despite these losses, because of further activity subsequent to the industrial dispute there was a gain of $52 million. It says there "It more than recovered the working revenue loss". The English is all right, but the mathematics do not appear to be right to me. Could you explain that?——A. I apologize if there is confusion in the wording. What we attempted to do in this explanation was to indicate the processes that went on throughout the year. It would have been expected that the industrial disturbances which so much affected the carriage of wheat and coal in the early stages of the year would have had a substantial effect on railway operating revenues. We were predicting that, as a result of the ministerial meetings. It was assessed at that stage that there was a very significant loss of the magnitude indicated here, but subsequently, when the industrial disturbances were settled, the railways achieved some of the best operating performances on record for the last three months of a financial year. There was a very significant increase in the amount of wheat hauled and an even greater increase in the amount of coal. I think that record tonnages were hauled over that period. As a result of that, the initially expected losses arising from the industrial disturbances, resulted in operating revenue exceeding the Budget.

Q. I would have thought that once you lost $45 million with nothing happening in the railway system, it could not be recovered.——A. It was recovered, and that is where these words are perhaps unfortunate in the way we have expressed that.

Q. You are suggesting that you have an extra $52 million income?——A. Yes, because of the tremendous increase in actual tonnage hauled.

Q. That would have happened in any case?——A. No. What happened was that without the special effort conducted by the railways—I pay tribute here to the railway operating staff—that haulage would not have been achieved. They achieved a record haulage of coal and wheat in those few months. In normal circumstances we would have expected, on the budgeted carriage, to have lost that amount of revenue.

Q. You had a period when you did not have any income at all, so you did not pay salaries over that period either?——A. Salaries were paid. Unfortunately you have to provide for salaries and maintain track and signalling and so forth, and what you save is a marginal cost, if you carry little or no traffic. It is merely a marginal cost against a total cost concept.

CHAIRMAN: They were external disputes?——A. Yes.

Mr BOYD: You had full trains and full loads?——A. Yes, and you got greater efficiency, and the turnround time was significantly improved, and the results as discussed at the ministerial meetings were far beyond what it was expected would be achieved.

Q. So it indicates to me that there is a lot of potential for earning capacity in the railway system if we could generate that sort of activity all the time, and we could cut out a certain amount of the deficit?——A. I believe that is an overstatement. I think this was an exceptional performance with the co-operation of the railways and the port authorities and the grain handling authority, and the Maritime Services Board, and the unions involved with loading ships. Members do not need to be reminded of the big queue of ships off Newcastle, which disappeared in three months. That shows what the worker of Australia can do if he puts his mind to it. However, I am not sure that it is correct to say that you could infer, from this very significant performance, that you could achieve that in a total system. What happened in respect of coal was that the colliery proprietors accepted terms and conditions for loading to get the coal moving. That was exceptional, and I believe that it has shown a level of performance which is exceptional and could only be achieved given those circumstances.

Mr NEILLY: I think towards the end of the financial year they increased the capacity of the coal loader and many of the coal trains by about a third, and also rationalized the size of the trains that they could take into the coal loader. The coal loader can handle so many trains a day irrespective of the load, and I think there was a sensible arrangement entered into there and they increased significantly the turnabout.

CHAIRMAN: In the last sentence of a paragraph commencing with the word "revenue" you referred to an increase of 25 per cent and to a revenue loss of $1.8 million. I am not sure exactly what that sentence means? ——A. I do not have the figures here and I am not sure whether the operating date for the increase was changed. I would need to check that out.

Q. You state also that interest on deferred payment contracts for which no provision is made in the Budget amounted to an estimated $1.6 million. Why was that amount or provision for it not included?——A. Because we were not aware at the time we entered into the Budget as to what arrangements could be effected with suppliers of equipment and so forth in relation to the deferred payments procedures authorized under the rules of the Loan Council.

Mr GREINER: At the risk of inviting a comment that this is under the Department of Transport and not under the Treasury, in the explanation we have received from the Minister for Transport he said that existing large cash sums represented proceeds of sale of existing rolling stock with which the State Rail Authority was partly able to discharge substantial accumulated unpaid debt charges to the Consolidated Revenue Fund. These are some of the benefits advanced by way of explanation of the contribution from the Department of Transport. Did the Treasury determine the amount of the repayment that was asked for? If so, how was that amount determined?——A. The amount was determined by the Treasurer under the Capital Debt Charges Act, and had regard to the cash position of the State Rail Authority.

Q. And of the Consolidated Revenue Fund?——A. Yes.

Q. So that decision was made by the Treasurer?——A. It was a determination by the Treasurer under the Capital Debt Charges Act.

Q. Clearly if part of the exercise was to discharge "substantial accumulated capital debt charges", presumably somebody can tell me readily what the total accumulated unpaid debt charges are?——A. That can be obtaned quite readily.

Q. Can you obtain for me that figure?——A. Yes, to be sure.

CHAIRMAN: That takes us to the Urban Transit Authority. There are no questions. The next item is assistance to abattoir councils.

Mr BOYD: I am wondering if this includes Homebush? ——A. No. Homebush is not a council and the advances to Homebush are made from a Treasury item "Grants and Advances for Working Capital and other Purposes". I think the item is C. 22 on the Treasurer's head office estimates. The figure is, I think, set out in our public accounts, and certainly would be in the Auditor-General's report.

Q. Until we get the Auditor-General's report obviously we will not have an understanding of that?——A. I think the amounts in grants and advances were close to the orginal estimate. It will be available in the public accounts.

CHAIRMAN: The next item is Treasury head office, railway main line upgrading, interest and Commonwealth advances".

Mr NEILLY: May I go back to assistance to abattoir councils? There have been significant variations during the year increasing the assistance and the overall overexpenditure there is only about half a million dollars. It must have meant that assistance was not called upon by many councils during the year, or not to the extent of previous years?——A. I have figures there that indicate that there was a total of almost $5.8 million paid to the county councils that are receiving assistance from the Government. It simply means that the method of estimating those amounts was fairly close to the targets expected. That is not surprising: most of these abattoirs unfortunately are closed or are operating on a very reduced basis. The scheme of assistance, as we have explained in the explanations from the Treasurer, relates to debt charges or operating loss whichever is the lesser plus an amount of up to $240,000 for mothballing costs. The reason for the overrun in this particular instance was that the Lachlan Valley County Council at Forbes, while there was agreement in principle to assist the council during the period in which the leasing is operative, there had been no firm Cabinet decision taken at the time as to the extent of the assistance. That was decided late in the financial year and that was the reason for the overrun. The other payments amounted to about $5.8 million.

Q. Is there any estimate of the cost on consolidated revenue in the financial year 1981–82 of an increase in the average interest rate affecting the calculation of debt charges?——A. We would have an estimate, yes. Our officers will be arriving at the average interest rate for the purpose of calculation of debt charges from recoupable authorities. Those figures will be set out in the Auditor-General's Report in relation to the average interest cost on borrowings. Not surprisingly, a very big increase in interest rates occurred in the past twelve months. There could be a significant increase in debt charges particularly as the debt has tended to shorten and at the rollover period.

Mr WEBSTER: In the second paragraph reference is made to railway mainline upgrading. You mentioned that you expected the interest rate to be between 13.5 and 13.9 but, in fact, the Commonwealth eventually charged 16 per cent. Is that accepted?——A. No. But as the agreement entered into between the States and the Commonwealth in relation to the advances is that you pay an interest rate at the private semi-governmental rate at the time of drawdown, and because of the quite significant increases that occurred following the June Loan Council meeting the interest rate we paid was at the date of drawdown of the amount. That is a reflection of the very high interest costs at present operating in Australia.

By way of explanation to help members may I say that all State authorities and governments have suggested that this is quite a high interest rate to be served for railway upgrading works. There have been strong representations, involving the Commonwealth, to apply either nil interest or at least the same interest rate as would be payable in respect of Commonwealth borrowings on the market. Because semi-governmental private rates are significantly higher, the States have to meet that cost.

In theory the amount should be expended on lines that will be commercial in the normal accepted accounting concept. That is the logic behind the Commonwealth's rejection of the request made by all the States. In the end result, after quite protracted negotiations between Treasuries, Ministers for Transport and the Commonwealth it was a case of having to accept those conditions or not get the money.

Mr GREINER: I refer once more to the State Rail Authority and general operating expenditure. Is my understanding correct that all those payments have been agreed by the Government not to be included in operating expenditure as defined here, or does it include some leverage leasing payments?——A. The leverage leasing payments have been agreed to be met by the Government from the Ministry of Transport item. The normal leasing costs either for a computer or a truck, or something of that nature, would be a charge against the revenue of the two authorities.

Q. What is the rationale for that?——A. That it is a substantial additional expenditure, that it is a cost which is quite considerable in operations, and that if it were the wish of the Government and the Parliament that the two authorities be relieved of debt charges it was felt by the Government that the leasing cost would be appropriately met by the general revenue.

Q. It is an alternative form of debt charge?——A. It follows through on that basis. There has been a long history of leverage leasing in the case of buses. If the Urban Transit Authority were to meet that charge it would increase operating losses and require a larger revenue supplement. So, on an accounting concept, an argument could be advanced that you meet the debt in one form or another. The important aspect is the way in which the particular set of transactions was arranged by the Government. It has meant there has been full disclosure of those transactions. In fact, the item appears before this Public Accounts Committee in relation to those costs.

Q. For the record may I say that the Government is to be commended for showing far greater disclosure of that series of transactions than, perhaps, has been done historically. I accept that. But there must be some other government departments which undertake leverage leasing exercises. It is presumably consistent policy to take leverage leasing out of the operating expenses. Is it general policy that leverage leasing be considered as a debt charge rather than as part of the operating expenditure?——A. No. It applies only in the transport area. I may be corrected on this. I should need to have a look at the other authorities. Only in the transport area has Parliament taken particular action in relation to debt charges. It has removed debt charges from the operating results of the two authorities. That decision was taken by Parliament on the recommendation of the Government. I think that probably transport is the only area involved with that, at least in the Budget sector. So, it is consistent with statutory treatment of those particular forms of financial transactions with transport authorities.

I think Mr Greiner is perfectly correct in saying that the leverage leasing transaction was the result of the Treasurer's agreement and the payment there, reflected in the Ministery for Transport estimates, was the result of the determination made by the Treasurer. That, if you like, is my administration rather than the administration of the State Rail Authority or the Minister for Transport when the determination was made by the Treasurer and the payment was then effective.

(The witness withdrew.)

DAVID HILL, Chief Executive, State Rail Authority, sworn and examined:

CHAIRMAN: Did you receive a summons issued under my hand to attend before this Committee?——A. Yes.

Q. What is your full name, occupation and private address?——A. Is my private address to be made public?

Q. No.——A. The members of the press will be ringing me every morning. I can provide you with my private address subsequently.

Q. We have received a letter from the Minister for Transport, the Hon. Peter Cox, about the matter the Committee has raised with you. Is it your wish that that letter be included as part of your sworn evidence?——A. I had better check that letter.

Q. It is a letter to which are appended detailed explanations.——A. Some of these matters do not relate to the railway. As I understand it, this letter was from the Minister for Transport and related to a variety of matters the Committee had raised with him and which were dealt with in parts of his portfolio. I note the section concerning the Minister for Transport and head office but there are two sections there that relate to the Ministry of Transport's Budget allocations and pertain to rail. One is C7 which deals with payments to transport authorities for concessions granted by the Government and other Government assistance. We are not responsible for the driver's licence concession to pensioners. It is my belief that Mr Greiner will be seeking to raise questions concerning contributions to the cost of leasing rolling stock.

Q. The section of the Minister's explanation dealing with the State Rail Authority?——A. I have no problems with that.

Q. You are quite happy to have that included as part of your submission?——A. Yes, but is that a decision for me, because the Minister has written to the Committee? I have no problems with its incorporation. It reads as follows:

MINISTER FOR TRANSPORT—NEW SOUTH WALES

Sydney, 25th August, 1982.

Mr M. R. Egan, B.A., M.P.,
Chairman of the Public Accounts Committee,
Parliament House,
Macquarie Street,
Sydney 2000.

Dear Mr Egan,

I refer to your recent letter seeking Departmental explanations and names of witnesses to appear before the Public Accounts Committee with regard to expenditure made during 1981–82 without Parliamentary appropriation.

I now attach Departmental explanations provided by the Chief Executive of the State Rail Authority, the Managing Director of the Urban Transit Authority and the Commissioner for Motor Transport. In the event that witnesses are required to attend, the following officers will be available:

State Rail Authority—
Mr D. Hill, Chief Executive.

Urban Transit Authority—
Mr K. Edgar, Managing Director, and Mr S. Payne, Senior Manager Accountant.

Department of Motor Transport—
Mr J. Reardon, Budget Officer, and Mr R. de Montfort, Deputy Chief Superintendent.

Yours faithfully,
PETER COX.

MINISTER FOR TRANSPORT—Head Office

C7. Payments to Transport Authorities for concessions granted by the Government and Other Government Assistance—$4,057,780.74

This item is to provide for a variety of payments (as itemized in the Public Accounts in the "C7" items "Schedule showing Contributions to Transport Authorities") from the Consolidated Revenue Fund to the State Rail Authority (S.R.A.) and Urban Transit Authority (U.T.A.) which can broadly be described as:

(a) A contribution for revenue foregone in providing Government sponsored fare concessions (termed "Unremunerative Passenger Services") and freight concessions on public transport.

(b) A Government contribution towards the Authorities' commitments to the Government Railways Superannuation Account (no variation on the 1981–82 Appropriation).

(c) A Government subsidy to meet rental payments on the leverage leasing of government buses.

(d) Compensation to the U.T.A. for costs incurred in administering the Government's transport for the disabled programme.

The sum of $4,057,780.74 shown in the 1981–82 Public Accounts as payments made without Parliamentary Appropriation is the net balance of overpayments and underpayments on appropriations for the range of individual sub-items in the abovementioned schedule. For the purpose of explanation of the total variation, sub-items which contributed to it may be grouped as follows:

Expenditure 1981–82

Category	State Rail Authority		Urban Transit Authority		Total variation
	Appropriation	Actual	Appropriation	Actual	
	$	$	$	$	$
Unremunerative Passenger Services (pensioner, etc. concessions)	37,085,000	39,917,000.00	21,136,000	21,650,000	+ 3,346,000.00
Freight Concessions	12,981,000	14,683,120.50	....	....	+ 1,702,120.50
Transport of the Disabled	....	....	550,000	171,000	– 379,000.00
Lease Charges on Government Buses	....	....	10,600,000	9,990,000	– 610,000.00
Other Minor Sub-items	24,500	23,160.24	....	....	– 1,339.76
Total net variation on item	.. .. ..	.. ..	.. ..	.. .. ..	+ 4,057,780.74

Each of the latter three categories shows a net savings on sub-item appropriations within the overall "C7" allocation. These partly offset over-expenditure on the first two categories for which separate explanations follow. The savings reflect the situation that expenditure on claims processed by the S.R.A. and/or U.T.A. were actually less in total for these particular sub-items than was anticipated when the 1981–82 Budget was framed. The under-expenditure for the disabled was due mainly to a late start to the programme which was introduced in 1981–82, and to a lower initial response by the disabled than was expected. The savings on budget for lease payments for government Mercedes-Benz buses was partly attributable to an improvement in currency exchange rates.

Unremunerative Passenger Services: $3,346,000 (S.R.A. $2,832,000 and U.T.A. $514,000)

The level of payments to the S.R.A. and U.T.A. is recommended in periodical reviews by a Standing Officers Committee. Payments are based on assessments, on the best information available of estimated patronage figures and the latest fare scales, of the revenue foregone in providing concessional travel on public transport on behalf of the Government to pensioners, schoolchildren, students, police, the unemployed and other special groups.

The sums appropriated for this purpose and appearing in the Estimates for 1981–82 (totalling $58,221,000) were assessed at the beginning of the financial year by the Standing Committee before the new public transport fare scales for the year had been decided by the Government. Appropriate rate increases had to be assumed and in an interim report the Committee recommended a final review later in the year to take account of the new fares and other further development in the meantime.

In the event the Committee reassessed the total sum for 1981–82 at $61,567,000 and the resultant additional entitlements were paid to the S.R.A. and U.T.A. The great bulk of the increase (an amount exceeding $3.1 million) related to pensioner concessions. The main reasons for this were two-fold:

(a) the extensive use being made by pensioners of the popular entitlement to two free intrastate rail journeys per year, the second of which was introduced from July, 1981. The revised assessment of this concession at $8.7 million was $1 million higher than was foreshadowed in the Budget allocation; and

(b) Cabinet's approval last October (not anticipated for the Budget) of the extension to take in every day of the week of the pensioner special combined rail, bus and ferry excursion concession available on the day of ticket issue for unlimited travel in either the suburban (50 cents ticket) or outer metropolitan (90 cents ticket) areas. Formerly this concession had been available to pensioners only on Tuesdays, Wednesdays, weekends and public holidays.

Freight concessions: $1,702,120.50

The "Schedule showing Contributions to Transport Authorities" referred to earlier lists under "Freight Services" in its S.R.A. section six individual concessions for classes of goods consigned by rail. Of these, a freight rebate allowed on the consignment of wheat, wheaten products and other grains, with an expenditure of $1,825,606.47 in excess of the sub-item's appropriation of $11 million, was the principal cause of the net over-expenditure of $1,702,120.50. There was a net under-expenditure of $123,485.97 on the remaining five freight concession items—two over budget and three under budget. The extent of each of these concessions is determined by random external factors which govern the volume of consignment each year, and the precise budget requirement is difficult to predict. There is no alternative to meeting claims, as they arise and the results on these five freight sub-items accordingly are considered reasonable.

The concession for wheat and flour mill products financed from State revenue has applied since 1951.

The concession takes the form of a rebate on freight charged for wheat, and the original object was to keep down as far as possible rises in the price of basic commodities such as bread.

The concession represents a percentage reduction in the relevant by-law charge payable by individual consignors for the carriage of grain. The annual cost to the Treasury, as payments to the S.R.A., is purely a reflection of the quantities shipped by rail and the distances hauled. Separate accounts are rendered by the Authority for the consignor's charge and, on the Treasury, for the corresponding rebate amount.

The initial estimates of wheat tonnages expected to be both harvested and carried by rail in 1981–82 were in retrospect significantly understated. The S.R.A.'s estimate from wheat was based on a total haulage of 4 million tonnes for a total revenue of approximately $78 million. The amount actually hauled was 4.9 million tonnes for freight revenue of $89 million. The sum of the corresponding rebates met by the Government is consistent with the increase in S.R.A. revenue. The additional expenditure in anticipation of Parliamentary appropriation was accordingly unavoidable.

MINISTER FOR TRANSPORT—Head Office—Contribution towards the cost of the leasing of rolling stock—$21,534,901.22

When the State's capital works programme for 1981–82 was formulated, allowance was made for the acquisition of railway rolling stock by means of leveraged leases.

As the year progressed it became apparent that the private sector was able to provide greater support for such leases than originally envisaged.

In conjunction with the Treasury the State Rail Authority (S.R.A.) negotiated several leverage lease arrangements under which substantial sums became payable to the Authority spread over 1981–82 and the following four financial years. Under the arrangements, rolling stock was acquired by companies and the S.R.A. leased that and new rolling stock being manufactured to S.R.A. specifications.

So far as the S.R.A. and the State are concerned, the financial arrangements provided considerable benefits including—

assurance that urgently needed rolling stock would be available to improve the performance of passenger rolling stock, improve on-line running (and thereby attract additional patronage), meet increasing demands for freight services, especially in the rapidly expanding export coal haulage area, and achieve significant economies in maintenance costs;

reduction of pressure on scarce Government funds; and

access to large cash sums, representing proceeds of the sale of existing rolling stock, from which the S.R.A. was partly able to discharge substantial accumulated unpaid debt charges to the Consolidated Revenue Fund.

Under policies which have been agreed between the Government and the S.R.A., the annual rental payments under the leverage leases are met from the Consolidated Revenue Fund as part of the annual contribution provided for on the Estimates of the Minister for Transport. Rental charges which fell due in 1981–82 under these arrangements amounted to $21,534,901.22.

The transactions were not effected until after the Budget had been prepared and it was not known at that time whether rental payments would fall due in 1981–82. Accordingly no provision was made in the Budget for such payments.

MINISTER FOR TRANSPORT—HEAD OFFICE—Driver's Licence Concession to Pensioners—$482,578.00

Since 1st January, 1979, pensioners holding a Health Benefits Card have been entitled to driver's and rider's licence fee concessions, with the licences being free of charge since the start of 1980.

The revenue foregone by the Department of Motor Transport is reimbursed from the Consolidated Revenue Fund on the basis of claims submitted by the Department and a provision of $1,360,000 was made for this purpose under the Minister for Transport—Head Office Vote.

The provision in the 1981–82 Estimates proved to be insufficient after it was found necessary to increase licence fees by 50 per cent from 1st March, 1982. The Department's claims for reimbursement required an increase in expenditure from the Consolidated Revenue Fund to the extent of $482,578.00 in excess of the allocation. This additional expenditure has been charged against Consolidated Revenue Fund Expenditure Suspense Account pending Parliamentary Appropriation.

MINISTER FOR TRANSPORT—HEAD OFFICE—Subsidies for Travelling Concessions to Pensioners and others on Privately Operated Omnibuses and Ferries—$521,269.94

Private bus and ferry operators are subsidized for the loss of revenue as a result of fare concessions granted to pensioners, the unemployed and other disadvantaged persons.

An amount of $4,725,000 was provided in the 1981–82 Estimates of the Minister for Transport to meet the cost of these subsidies. However, claims submitted by the operators totalled $5,246,269.94, an increase of $521,269.94.

The main factors contributing towards the increase in claims were as follows:

(1) The increases in private bus and ferry fares were greater than anticipated.

(2) A considerable number of requests for review of subsidies were submitted by operators during the year and when these were carefully examined and verified by the Department of Motor Transport some resulted in payments in 1981–82 significantly higher than provided for.

(3) An increase in the number of bus operators and routes on which a pensioner subsidy is paid.

To enable all the claims to be paid in 1981–82 is was necessary to charge the additional expenditure of $51,269.94 against the Consolidated Revenue Fund Expenditure Suspense Account, pending Parliamentary Appropriation.

Mr GREINER: By way of variation, may I take you back to the Treasury's explanation of overruns in the Treasury, about which Mr Oakes has been speaking. Do you consider the revenue supplement of about $387 million to be an acceptable performance by your administration?——A. The last financial year was a good result.

Q. In other words, you would expect us to accept as a good result an increase from $300 million to $400 million in round figures in respect of the loss incurred by the State Rail Authority for operating costs?——A. I do not know where you get the figures from $300 million to $400 million.

Q. The Consolidated Revenue supplement last year was $299 million and this year it was $387 million.——A. The parliamentary approved appropriation was about $330 million, the end result was about $380 million. The difference is somewhere over $50 million. Under the circumstances that is a pretty good result.

Q. I am taking you from the actual figure last year to the actual figure this year. According to the Auditor-General, the actual figure last year was $299 million and the actual figure this year was $387 million, which is an increase in the loss incurred by the State Rail Authority of almost $100 million in one year. Do you really believe that the Committee should accept that as a good performance?——A. If you let me explain, it is my belief that under the circumstances the State Rail Authority performed pretty well in the past financial year. I should like some clarification. First, the questions submitted to me by the Minister relate to adjustments in the Consolidated Revenue Fund to appropriations through the Ministry of Transport. If the Committee wishes me to explain matters that were addressed to the Treasury, I am willing to do so. The other matter upon which I require clarification is: are we discussing the general performance of the State Rail Authority, or are we discussing—as I understand this Committee has advised us—adjustments to the Consolidated Revenue Fund appropriations by Parliament? Does the Committee wish me to give a two-hour dissertation on the history of rail finances?

CHAIRMAN: The Committee is interested in matters that will explain why the expenditure of the State Rail Authority has succeeded the parliamentary appropriation?——A. The two biggest factors are that we had something like fifty industrial disputes outside the railways during the past financial year. If the Committee wishes, I am willing to give the details of those disputes. Those disputes would have cost more than $50 million in lost freight charges. Most of that was recovered. Task forces were established within the railways to recoup most of the lost revenue.

Q. Mr Oakes stated that it was more than recovered?——A. Yes. That was one of the largest factors. The second major factor was the wages explosion that affected everybody last year. Regrettably since the 1930's the railways has had a direct nexus with the metal trades movement in federal awards. When the metal trades decision was made in December we had discussions with the Government because of its significance. Subsequently the Arbitration Commission approved the metal trades flow-on to railway workers. That decision cost about $50 million.

Q. In percentage terms what increase does that represent over the previous year?——A. About a 20 per cent increase would be the range of increases in wages and salaries in that financial year.

Q. Are you able to inform the Committee of the percentage increase allowed for in your estimates?——A. Not offhand, but it was significantly lower than that. In the determination of the budget of the State Rail Authority we consult with the Treasury on the estimates that we use. Whatever estimates we included for wage increase were known by the Treasury at the time and considered to be reasonable.

Mr GREINER: Would you then explain why the 20 per cent increase in your wage cost is greater than the overall increase in the Government sector or the private sector?——A. I doubt that.

Q. The Premier has said the increase in the public sector of New South Wales was 17 per cent and you would not disagree with the Premier, would you?——A. You should look at each of the other statutory authorities. I do not wish to nominate other statutory authorities, but I bet you will find some with as great, if not higher, wage increases than the railways.

Q. It is clear that 20 per cent is well above the average?——A. I said it is about 20 per cent.

Q. Would you supply the Committee with an accurate figure of the increase in wages?——A. Certainly. Incidentally, I appreciate the two days' notice given to me of this meeting. If all these questions are to be asked, it would have helped if you had let me know beforehand. I was asked to come here and answer two questions.

Q. I am happy to turn to those two questions. I turn to the question that you have obviously come prepared to answer concerning the contribution towards the cost of leasing rolling stock. Who made the decision that the State Rail Authority should pay $221 million to the Consolidated Revenue Fund?——A. The Government asked us to do that.

Q. The Treasury?——A. Yes.

Q. Could you tell the Committee how that $221 million was financed, or what part of it was financed by the leverage leasing transactions referred to in the first page of the Minister's reply?——A. Would you repeat that question?

Q. What part of the $221 million that was repaid to the Consolidated Revenue Fund was financed from the proceeds of the leverage leasing arrangements at which we are looking?——A. All of it.

Q. Would you tell the Committee the total amount of sales of rolling stock in that financial year?——A. It is not exactly sales of rolling stock; we refinanced some rolling stock that had previously been paid for by normal sources of loan funding and we refinanced existing contracts that were earlier planned to have been financed by normal sources of loan funds. Some of the rolling stock was on the assembly line and some of it has not been delivered as yet.

Q. Will you tell the Commitee what proportion of it related to existing rolling stock; in other words, what proportion involved refinancing?——A. May I provide that information later?

Q. Could you give a ballpark figure to the nearest $10 million?——A. It is impossible at this stage. There were seven different pacakes. To give you a run-down, they included: 80-class diesel locomotives, 81-class diesel locomotives, 86-class diesel locomotives, double-deck suburban, newsprint wagons, container wagons, cement wagons, interurban passenger carriages, coal wagons, more container wagons. I can provide that information.

Q. Are you able to say what part of the total rolling stock was involved in that transaction?——A. Of the total fleet?

Q. Yes?——A. It would be a rough ballpark figure. I am on oath and I could say about 10 per cent as a rough figure, but do not hold me to that. When I say 10 per cent of the fleet, that is not necessarily 10 per cent of the existing fleet, but 10 per cent of the fleet as it will be when we have obtained delivery of the rolling stock that is on order.

Q. Are you able to say what the total cost this year will be of that leverage leasing arrangement?

CHAIRMAN: I rule that question out of order because the Committee is inquiring into the expenditure outside parliamentary appropriation for 1981–82.

WITNESS: I am able to help with last year's figure by saying that the cost of the financing on leverage lease was cheaper than standard semi-government borrowing. It was a more efficient form. I have been concerned at some misinformed comments by some people who should know better that that leverage leasing package allowed us to raise capital funds at a lower rate than we would have had to pay if we had gone into the market and borrowed as a semi-government instrumentality. It is a very efficient form of borrowing.

Mr GREINER: Would you give the Committee some evidence to support that?——A. The interest rates on the packages we put together last year ranged between 12 per cent and 16 per cent. All of those rates were below the semi-government rates applying at that time.

Q. The total overall effective cost of the leverage leasing arrangement, you suggest, is cheaper than any alternative?——A. Yes. Not only is it a lower interest rate, but being a leverage leasing package, we do not have to make the same contributions to the sinking fund that you would with normal borrowing. If that is computed, it is even a greater saving to the State Rail Authority and, in turn, to the Government.

Q. Are you able to give the Committee an idea as to the notional total capital debt of the State Rail Authority at any balance sheet date you might care to select?——A. That is something that you will have to ask the Treasury. Following a change in the Act of Parliament, the Treasury assumed responsibility for that matter.

Q. Do you wish me to believe as a chief executive of the State Rail Authority, which is clearly a highly capital intensive undertaking, that you do not know the notional capital debt of the authority?

CHAIRMAN: I rule that question out of order.

Mr WEBSTER: The Treasury has supplied a document which is headed on the second page, "State Rail Authority operation, 1981–82". You mentioned that some significant economies have been made relating to staff freezes and other matters. Would you expand on that statement and can you see how any further economies may be achieved?——A. Yes, I can. The State Rail Authority, in about the last four or five years, has had well over a 20 per cent increase in coal tonnage and over a 20 per cent increase in passengers. The number of passengers we have hauled has gone up from about 180 million a year to about 220 million at the end of last year—an increase of 40 million a year. That is in contrast to every other State, which has been either virtually stagnant or declining. Despite this significant increase in the operations of the railway, there has been a reduction in the number of staff employed. At the end of the 1978–79 financial year, the staff of the railways was 42 600. The most recent information I have, which is for the second accounting period this financial year, shows that the staff is down to 41 100. This is information I have been given by our personnel section.

Our staff is down by almost 1 500 in the past two or three years, despite the fact that we have seen a 20 per cent increase in our task in both freight and passengers. I think that is a reasonable measure of productivity. I am not suggesting that the railways are without inefficiency. Every large organization is vulnerable to that. There are are a lot of practices that have been ingrained in the railways, being an old industry, that are ingrained in any other industry.

The important thing is that we are managing to do a bigger job with less people, which is a reasonable measure of productivity. The financial result last year was affected adveresely by, as I said, something like 50 disputes, principally in the ports or in the export commodity field. These disputes affected our revenue. We more than recovered all that and I think that is to the credit of the railways staff who worked long hours to recover it. One thing we could not recover last year—and I dispute the notion that the railways are unique—is that we were affected, like every large industry in Australia, by a wage explosion that nobody could resist—we could not recover that. We did not, the Treasury did not and the Parliament did not make adequate provision in the Budget for the metal trades explosion.

CHAIRMAN: Q. What was the reduction in staff during the year in question, 1981–82?——A. The information I have from our personnel section is that the total staff at 30th June, 1981, was a little over 42 000 and at the end of 1981–82, in the financial year we are discussing, it was a little over 41 000—close to 41 300. The reduction was more than 700.

Q. Was that reduction taken into account in your estimates of the wage and salary bill for 1981–82?——A. No. When we established the budget for 1981–82 we were not confident that we would be as successful as that in controlling the staff.

Mr BOYD: Q. I want to take you back to the Treasury document that Mr Webster referred to. Mr Oakes has said that the loss through industrial disputes was, in his calculation, about $45 million for the tewelve months. Do you see that in the document?——A. Yes.

Q. That is the Treasury estimate?——A. Ours would be very similar.

Q. I think you said $50 million?——A. Yes.

Q. We shall not quibble about that, for obviously you have not got the figure there with you?——A. The Treasury advice, you will note, is $45 million on freight and $3.2 million on passenger services, so we are close to $50 million. May I say—and I think the Treasury pointed this out—the overwhelming proportion of those disputes was outside the railways. I have here a three page list of them if the Committee wants it. It shows those that affected us. Outside there were 91 separate stoppages and I shall give you an indication of them. They include Balmain loader, Maritime Services Board, Newdel colliery, Preston colliery, northern coalfields, Grain Handling Authority, tugboat operators, ETU at Port Waratah, south coast and western districts mines, all mines in New South Wales, M.S.B. inner harbour Port Kembla, south coast and western district all mining, northern district all mines, northern district weekend loading bans, tugboat operators, deckhands Newcastle, New South Wales coalminers, maintenance fitters Port Kembla, Maritime Services Board Balmain, tugboat crews Port Kembla and Newcastle, tugboat crews overtime bans and strikes, Clarence colliery on strike, Glenleigh and Clutha collieries on strike, tugboat operators all ports on strike.

I am sure the Committee does not want all ninety-one of them, but that perhaps illustrates the problem. As the Treasury has suggested and we would agree, you are getting up towards $50 million worth of losses.

Q. In the following paragraph the Treasury says that because of increased activity after the disputes had finalized and extra effort by the staff of the State Rail Authority, you in fact recouped an extra $52 million, so in their opinion the effects of the strikes were cancelled out. I asked Mr Oakes, but perhaps I should have kept the question for you because it is more pertinent to you; if it is possible to generate an extra $52 million income to offset a $45 million loss through industrial action by a more positive and concerted effort by the whole of the staff of the State Rail Authority, does not that suggest to you that there is an incredible latent potential within the State Rail Authority that should be capitalized on?——A. No. I qualify that with two comments. The first is that we burned the midnight oil to do this last financial year and we cut a lot of corners. We were robbing Peter to pay Paul. You could not do that indefinitely. We were deferring maintenance on locomotives and rolling-stock. We were getting the staff to work extraordinary hours and of course it added to the overtime bill. It cost us money to haul that freight. That is one qualification. I do not think any large organization could continue to do that responsibly. I do not think you could responsibly continue doing what we were doing to the rolling-stock to do it.

The other qualification is this, that a lot of that traffic that we recovered was there to haul.

Q. It was a captive product?——A. Yes, it was there and it was for us to recover. As it turns out this year, certainly there is some scope for increasing our task. We expect that the coal tonnage, for example, will increase by an enormous amount—from something like 24 million tonnes last financial year to about 30 million tonnes. But it will cost us to haul it. Yes, we can gear up to do it.

Q. I am not happy with the Treasury arithmetic. You say the railways cannot sustain that effort because?——A. No, I am sorry. You misunderstood me. We are sustaining the effort this year.

Q. You say you could not sustain the effort you made to recover the $52 million last year?——A. The difference last year—to sustain it—yes, you are right, we could not. The difference is that we have 150 main line locomotives on the assembly line now. We have also another 750 coal waggons coming off the assembly line now. We also had training for additional drivers and guards that will allow us to increase the tonnage this financial year. We could not have sustained it before.

Q. I think you have made the point. I did not specifically ask about latent possibilities. You said that you could not sustain it; now you say you can sustain it?——A. We are gearing up to sustain it.

Q. Looking back on the $52 million that Treasury suggested in its document could be recouped, in fact by short-cutting and various other things that $52 million may not be an accurate figure; it may be an estimate because obviously you had to cut back on maintenance and other things to sustain the effort to get the $52 million extra revenue but there are some hidden factors there in lack of maintenance that are not reflected in the $52 million, I take it?——A. Quite possibly. It is only an estimate. It can only be an estimate. What we do is, we calculate the loss and the recovery and we have said we have had more than ninety disputes. We know how much coal we can haul in a day, so we have calculated all the days we have lost and the lost freight revenue, and then we have looked at the end of year result and seen that we have recovered most of these lost days—more than recovered them. It could only be an estimate.

Q. I am concerned about the latent earning capacity and productivity within the system that is obviously reflected in this effort. How far can that be continued into the future? Is there more latent productivity within the system that we need to be looking at to try to handle this deficit? You have already said that you are chasing that latent productivity by improving rolling-stock, but does not a human factor come into it? How do you see that in the future?——A. I think we will continue to do a bigger rail task without a commensurate increase in staff, so we are going to see further increases in productivity. A lot of people would argue that we have manning arrangements in the railways, like every other major industry in Australia, that should change. As you know, we are in the process of negotiating and arguing with our drivers on a shorter working week to get through-running at some key depots. That is clearly one of the anachronisms on manning. To run an XPT from here to Dubbo we have to change crews at Lithgow, Bathurst and Orange. Clearly that is an anachronism.

Mr GREINER: Q. There may be more crews than passengers?—A. That is another ill-informed comment. The XPT carries twice the number of passengers that are carried by most of our long distance trains and it has the least staff on it. The XPT is the best manned train we have in the service, by a long way. It has almost twice the efficiency of staff to passenger ratios of any other long distance train we have in the service.

I was saying that there are areas of manning arrangements that we are trying to change. Incidentally, these not only pre-date the State Rail Authority but they were there before any of us were born. It should be borne in mind that the industry is 127-years-old. The rostering arrangements and the depot arrangements for drivers are something we still have to work at. But may I say this; in the end, when you get into a big brawl with the unions and they shut the system down, we have got to calculate how long we are prepared to deprive the people of N.S.W. of trains for the sake of winning one of these arguments. We are not just sitting back, hoping the problems will go away. That is always a constraining factor. It is easy for people to say we should get tough with the unions. Indeed, we declared members of the A.F.U.L.E. and the A.R.U. on strike and we stood them up in the past four days. When we can do it, we will do it. But may I say that the constraining factor in the rate of change in productivity in manning arrangements in the railways, like any other service industry, is how long are you prepared to shut the system down and then lose in the end?

Mr NEILLY: One constraining factor is the development of coal loading facilities. You must match your growth in coal freight movement with the growth in export facilities, particularly coal loaders. Would you agree with that?——A. Yes, certainly.

Q. The Treasury report referred to a delay in effecting an increase of 25 per cent in the freight rate for export coal because of resistance from the coal industry, which resulted in a revenue loss of $1.8 million. Could you amplify on that and tell the Committee whether that situation with the colliery proprietors has been resolved?——A. Yes, I can amplify on that. The Government policy is that industry is to contribute for government-supplied infrastructure. The way it is done in the railways is that we are spending something like $800 million gearing up for coal. A lot of it has already been spent and the three major areas of expenditure have been approximately something in excess of $200 million for additional locomotives, doubling of the coal waggon fleet from the current level of 800 to 1 500-odd and a huge amount of expenditure on track. We are virtually rebuilding the railways in the coal areas. In the Hunter it will cost over $100 million to move to 60 kg steel, concrete sleepers, and we will have to have a new technology to handle the 100-tonne waggon loads.

In accordance with government policy the industry is obliged to contribute to the capital cost of providing for transport infrastructure. That was the major component in the 25 per cent freight rate increase announced in January. For many years we have had a non-bylaw freight arrangement, namely a contract arrangement with the coal proprietors and they refused to pay the 25 per cent. By the time that we went through the legalities of cancelling the contractual arrangements and reverting to the by-law arrangement, we had moved into March. So even if we reached an agreement for the freight to be paid from