

# BUDGET CONTROL

*An Introduction to the Financial System of  
New South Wales*

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## BUDGET CONTROL

*By the same Author*

SHADOWS AND REALITIES OF GOVERNMENT  
CITY GOVERNMENT BY COMMISSION

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TO  
L. V. B.

“There was never anything by the wit of man so well devised,  
or so sure established, which in continuance of time hath not  
been corrupted.”

—Preface, *Book of Common Prayer*.

## PREFACE

For an understanding of the methods and principles of Australian Finance, most people have turned to English writers for guidance, because our system has been modelled upon that of England. Anyone familiar with the writings of Bastable, Higgs, Young, Hawtrey, and Hills, will recognize the debt which the present writer owes them. But reliance upon them may lead the unwary Australian reader into pitfalls. We often use the same term to describe officials, funds, and practices; as for example, the Auditor General, accounting officers, or collections in aid. But the English description is not accurate for Australia. Again, the English Treasury is not only differently organized from our own, but it possesses an equipment which enables it to exercise controls over finance with which we are unfamiliar. Each system again has its Parliamentary Public Accounts Committee, but each committee works on different lines.

Modern government is as much an art as a science, and we are constantly being thrown back upon the methods by which men seek to achieve their purposes. Indeed, it has become a commonplace that the form of an organization vitally affects results. This is peculiarly true of our financial system. In explaining the machinery of this financial system, and throwing into relief the methods by which we work it, I have hoped to provide material for constructive reform. A good

commencement has already been made by the measures initiated by the Hon. B. S. Stevens, M.L.A., who was Treasurer in this State during the years 1928-1930. But these reforms need to be consolidated and extended.

While I have described our system in non-technical and popular language, I hope I have not sacrificed accuracy for the sake of simplicity. In this, I have had much help from my friends and former colleagues in the Public Service of this State. The Auditor General, Mr John Spence, has read the greater part of the book in manuscript, as has also Professor Copland. The Clerk of the Legislative Assembly, Mr W. R. McCourt, has read the chapter on parliamentary procedure. The Registrar of Funded Stock at the Treasury, Mr G. Schauer, has read that on borrowing. While their advice and assistance have smoothed my path, they must not be held responsible for any opinions I have expressed. Of the many others to whom I am indebted for help, I should like to mention Mr W. S. Collier, Senior Auditor at the Audit Office, Mr T. D. Kelly, Expenditure Accountant at the Treasury, Colonel R. H. Beardsmore, Chief Accountant of the Lands Department, and Mr C. R. Chapman, Under-Secretary of the Treasury.

Finally, without the co-operation of my colleague at the University, Mr G. V. Portus, I am afraid that the preparation of this material would have occupied much longer time than it has.

F.A.B.

*University of Sydney,  
March 1931.*



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## CHAPTER I

### WHAT THE SYSTEM IS

DURING recent months, few questions have monopolized more attention of Governments, or provided more bewilderment for the average citizen, than the question of the Budget. Many of us have probably claimed to have some knowledge of the manner in which the Government finances its operations. But now that we have become aware of its inability to make ends meet, we realize how vague our knowledge of the system is, as well as our unwisdom in having taken things for granted. How is it, people are asking, that the costs of government have mounted so steeply in recent years, and why is it that expenses cannot be reduced? What is a Budget? And why is it so important for the Government to balance its Budget? What are the reasons for the sudden loss of confidence on the part of overseas investors? Why is the national debt increasing every year, when loans carry with them requirements for sinking funds to discharge them?

In the following pages an attempt will be made to answer some of these questions. But our object is not to discuss whether or not the State ought to tax and borrow, or whether it ought or ought not to spend taxes and loans in a specific way. Rather shall we be concerned with how the State raises funds, how it collects

them, how it spends them. Upon what authority are such things done, and who is responsible for seeing that value is obtained for money spent. In other words, this is an essay upon the administration of public finance, not upon the economics or principles of finance.

At the outset, however, we may notice that the outstanding feature of recent budget experience has been the steady growth in government expenditure. On reflection, it will be admitted that some increase must be expected. We are a young community, and we have been steadily adding to our population. We must therefore expect at least a proportionate increase in our expenditure. We must build new schools for our children and train more teachers for them. We shall have to extend our existing institutions for the care of the sick, indigent, and insane; and, unfortunately, if we wish to retain our peace of mind and our security of person and property, we must recruit more police and extend our prison system. Perhaps the more we spend on schools and public health the less we shall have to spend on gaols and hospitals in future; but for the present, at any rate, we must expand these institutions in proportion to our increase in population.

And what of new social needs? If we are to keep abreast with modern developments, we must also expect to have an increase in our expenditure more than proportionate to our growing population. Industrial conditions are making ever increasing claims for State regulation and control. Commerce and industry demand improved facilities in transport and communication. Housing, parks, and playgrounds are an index of civic spirit. Scientific research in the natural and social sciences is the foundation of future development. But when we have catalogued all the essential as well as all

the desirable projects upon which the Government might embark, either directly or indirectly, it will be a useful corrective to our enthusiasms if we measure these projects in terms of cost, or of the burden of taxation. Has this been done in the past? Did we not first launch our schemes and then look round for means to finance them?

The ease with which money was found for the war contributed to the difficulty of curbing demands for expenditure in the post-war years. Indeed the conditions of those years encouraged many people to believe that there was no limit to the benefits which might be provided from the public purse. For their part governments fostered this credulity. To promise to spend won votes. And to spend was helped by the fact that revenues were buoyant, taxation easy to collect, while government loans found a ready market. Upon the strength of these resources, policies were hastily improvised and extravagantly executed. Occasionally criticism was heard but it was disregarded, and we heedlessly went on piling up burdens for posterity while we enjoyed the immediate benefits.

Just as the war stimulated the policy of lavish expenditure, so it accustomed us to budgeting for deficits. There was no excuse for this State to have had the recurring deficits between 1919 and 1929. But they are a vivid reflection of the laxity in public finance which has been shown by Cabinets, Parliament and the people. Little indignation was shown at the policy of successive Treasurers in increasing expenditure without making provision to cover these deficits; or at their action of funding the deficit and making it a permanent addition to our national debt!

While the cost of old and new services mounted,

expenditure from loan moneys expanded even more rapidly. For we indulged in a policy of heavy internal and external borrowing for so-called developmental works, which, even in time of prosperity, were often unable to meet interest, depreciation, and sinking funds with which they were loaded. Had we had a satisfactory system of keeping public accounts, the tendencies of our policy and its inevitable results might have been apprehended in time to avert the disaster for which we were heading. We should of course have had to reckon with the influence of party politics both in the competition for the honour of providing so-called benefits to voters, and in the stifling of effective discussion in Parliament upon financial and other projects. But we might have counted upon the educative force of that part of public opinion which studies government methods and operations to alarm us before public confidence in the ability of the Government to manage its affairs economically and efficiently had been completely destroyed.

The manner in which the finances of the State are managed is known as its budget system. Some people fail to distinguish between a Budget and a budget system. The Budget is merely a statement or proposal, supported by a number of documents including "the Estimates." A budget system embraces all the operations comprised in preparing the Government's plans for raising and spending money, in presenting them to Parliament and securing its authorization in the form of Supply, Appropriation, or Loan Acts, and in collecting, spending and accounting for the moneys raised and spent.

Under our Constitution the working of the budget

system depends upon the co-operation of the Legislature, the Executive, and the administrative officials in the several government departments. The part of the Legislature is to authorize the collection of revenue, the granting of funds, the raising of loans, and finally to consider the various reports and accounts which are submitted to it with a view to determining whether its directions in the spending of money have been observed. The Executive is responsible for the policy which is to be submitted to the Legislature, and in particular it furnishes the Legislature with estimates of receipts and expenditure, both for revenue and loans. It directs and supervises the administrative officials and harmonizes their activities with the demands of public opinion.

Subject to the wishes of the Executive, and to existing statutory provisions, the administrative officials organize machinery for collecting and spending revenue, devise systems of accounts and records, arrange for the banking and accounting of funds and for the care and preservation of public property. They prepare the Estimates and supply the Government of the day with the material upon which it formulates its financial proposals. They issue the reports which are submitted to the Legislature covering the operations of the several public departments; and they account to the Auditor General, who is a permanent and independent official, for the public funds which they have collected and spent.

All these things must be discussed in any consideration of the budget system. The way in which the system is managed conditions everything the Government does, and it is rightly regarded as the central feature of government activities. The Budget proper is a statement made to the Legislative Assembly by the Treasurer in which he details the Government's plans for raising and

spending money for the financial year under review. He supports that statement with estimates of receipts and expenditure and with other relevant returns and statements. He indicates the financial measures which will be necessary to give effect to the policy outlined. His ability to make a reliable and informed statement depends upon the fidelity with which the accounts have been kept and the skill with which the system has been organized.

It may help us to thread our way through the maze of financial operations of the State if at this stage of our inquiry we stop to point out some of the more important landmarks, constitutional and conventional, which we shall see on our journey.

The initiative in all financial matters lies with the Executive, or more accurately with the Cabinet. It is responsible for the preparation of the various taxation and other bills under which money is to be collected for public purposes, and for indicating plans and purposes upon which the Government will spend the money it succeeds in collecting or earning. But the Executive cannot do any of these things without obtaining the approval of Parliament. That body will not entertain any proposal to collect or to spend money unless it is recommended by the Governor.

The Governor's recommendation is called a message, and the fact that he has been requested by ministers to send the message to Parliament, is that body's assurance that ministers have carefully weighed their proposals before they submit them to the House. This practice throws into relief the convention of ministerial responsibility, which is a fundamental principle in our constitutional practice. For since the Governor will only send



a message to the House at the instance of ministers, no private member is able to get Parliament to consider proposals for raising taxation or spending money. If he were able to do so, ministerial responsibility and cabinet government as we know it would disappear.

It is not strange, therefore, that ministers jealously guard their privilege to be the sole medium for recommending to Parliament what money shall be collected and how it shall be spent. Because finance goes to the root of almost every governmental action, they treat all questions of finance as one involving the confidence of the House in the Government. If they are defeated on such a question, ministers usually resign. Looked at from another angle, however, this practice is not as artless as it seems. Members of Parliament generally like to defer meeting their masters, the electors, as long as possible, and the threat of a Ministry to resign if it is defeated often has the effect of making members find that they are not so opposed to a measure as they were thought to be. Whether ministers domineer over the House is a question which would take us too far afield, but it is clear that Parliament has, in the twentieth century, lost ground in its perennial struggle with the Executive which can effectively coerce members by a threat of dissolution.

When the House approves the ministry's recommendations for raising taxation or spending funds, Bills embodying the proposals are introduced. The procedure for dealing with them in Parliament is different from that followed with other Bills. A Money Bill, that is a taxation Bill, a Supply Bill or an Appropriation Bill, must be introduced in the Legislative Assembly. While it must also be passed by the Legislative Council before it can be submitted to the Governor for his assent, the

Council cannot amend a money Bill in any way, though it may reject it.

The amount of money which the Government proposes to spend, and the purposes for which it is required, are shown in a number of statements called Estimates. The greater volume of this expenditure has to be voted every year. The measures authorizing such expenditure are known as Supply Acts or the Appropriation Act. Some of the expenses of the State, however, are provided for by other Acts and are known as permanent charges. Of this nature are the salaries and pensions of the Judges, and the salaries of ministers, all of which are provided by the Constitution Act. The salaries of some officials, again, are often provided in the Acts which authorized their appointment, as for example, the salaries of the members of the Public Service Board. But the salaries, expenses, and other charges of the great majority of the public servants, and departments, are not "fixed," or permanent charges,\* but are voted from year to year.

Under the New South Wales Constitution Act 1902 and other statutes, all the revenue of the State must be paid into the Consolidated Revenue Fund or to funds which are offshoots of the Consolidated Revenue Fund, and all payments must be made from those funds. No money can be spent for any purpose other than that which Parliament directed, though the Audit Act allows for some slight departures from this principle, subject to certain safeguards.

Since the 1st July 1895, the accounts of this State have been kept on the principle of treating each financial year as a separate and distinct unit. In the words of the Act

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\* For the financial year 1929-1930, more than 20% of the expenditure from the Consolidated Revenue Fund was in respect of "fixed" charges.

of 1895, "the cash receipts within the financial year shall be considered as the actual income, and the cash payments during the same period, the actual outlay." Consequently the authority of an Appropriation Act expires at the 30th June every year, or as the Act describes it, "Appropriations lapse at the close of the financial year." To see that the provisions of Acts of this nature are observed, and that its directions for the spending of money are rigidly followed, Parliament has authorized the appointment of an Auditor General. His tenure of office is "during good behaviour" or till he reaches the age of sixty-five years, and his remuneration a permanent charge which secures him complete independence of the Government of the day. His powers and duties are fully set out in the Audit Act 1902. He holds a key position in our financial system in that he has to sign a certificate before the Governor will issue a warrant for the payment of any money from the Consolidated Revenue Fund or other funds. He also conducts an audit of the transactions of the various officers who handle public funds, and at the close of each year submits reports to Parliament.

Parliament having authorized the collection or spending of money, our next interest is with the officials who carry on the work of administration. These are of two kinds, political officials, or ministers of the Crown, who owe their position to popular election, and permanent officials who are appointed under various Acts of Parliament, e.g., the Public Service Act, 1902.

The political officials constitute the Cabinet, and they retain office as long as they enjoy the confidence of a majority of members of the Legislative Assembly. The number of ministers is fixed by the Constitution Act. In Australia the number is small and there is an absence

of "trappings" such as we find in older countries. The ministers divide the oversight of the several departments between them, the allocation being made by the Premier. Next to the office of Premier, the office of Treasurer is most important. Sometimes the Premier also takes the portfolio of Treasurer, because the effective management of the finances of the State is of vital importance for carrying out the policy of the Government. But the cares of the premiership are so great that some Premiers find that they cannot stand the strain of two such important offices, and accordingly entrust the office of Treasurer to another minister. In addition to the ordinary departments there are several which are managed by commissions. These have varying degrees of autonomy; but it is usual for them to be associated with a minister who is responsible to Parliament for all matters which affect them. We have so far been unable to find a completely satisfactory working arrangement for Parliamentary oversight of these commissions; and it is a question which will test the extent to which democratic government can claim to be efficient and at the same time popular.

While every department has a political or ministerial head, it also has an official who is permanent head. Generally these permanent officials are called Under-Secretaries, to distinguish them from the political head. For example the correct title of the political head of the Department of Lands is Secretary for Lands. Some of the permanent heads have other titles as well as that of Under-Secretary. For example the Under-Secretary of the Department of Public Instruction is also Director of Education.

Some of the departments are primarily spending departments, e.g., the Public Works Department, or the

Education Department as it is now called. Others earn revenue in connection with the services which they render, e.g., the Lands Department, or the Registrar General's Department. The Treasury is different from the other departments in that it is primarily concerned with the book-keeping, collection, and banking of money and with authorizing its expenditure. Associated with the Treasury are a number of departments and branches, either because they are engaged in the work of collecting taxation, e.g., the Taxation Department and the Stamp Duties Office, or because they render services of a general character, e.g., the Stores Department, which supplies stores for the use of all departments, and the Government Printing Office, which does most of the printing required by the State.

In the Treasury are kept all the control accounts of the several departments, and it arranges for the spending officers to be supplied with the funds they need for paying for the day-to-day services rendered to the State. The Treasury thus is able to supervise the spending of all money. It does this chiefly through the revision of estimates of expenditure which have to be submitted annually to Parliament for its approval. These estimates indicate what the departments want to spend and the Auditor General sees that they do not spend money on any other purpose. In conjunction with that official the Treasury prescribes the form in which all the accounts in every department are to be kept. At the close of each financial year, it has to submit to the Auditor General for his examination a statement of the public accounts showing what has been collected, and what spent. When the Auditor General has finished his examination he submits reports to Parliament drawing attention to anything he thinks is unusual.

In addition to these reports of the Auditor General, who is a trained official, Parliament also receives reports from a Public Accounts Committee which is composed of five members of Parliament. The personnel of this committee is elected by the members of the Legislative Assembly from among their number in the first session of every new Parliament. Ministers are not eligible for election. The powers and duties of the Committee are prescribed by the Audit Act. They include inquiring into and reporting upon all matters in connection with the public accounts which may have been referred to the committee either by a minister of the Crown, the Auditor General, or by a resolution of the Legislative Assembly; and also upon all expenditure by a minister of the Crown made without parliamentary sanction or appropriation. When the report of this committee has been submitted to the Legislative Assembly, the cycle of the year's financial operations of the State is completed.

Before we proceed with our discussion of the questions just outlined, a note of warning may not be out of place. Throughout the following pages it will be seen that our financial system is an admixture of statutory requirements and administrative practices. Many of the laws and conventions safeguarding the system are the result of long experience both here and in England. As we unfold this story, it may occur to some that we have preserved the form rather than cherished the substance of many of these safeguards. In *The Exchequer and the Control of Expenditure*, Mr R. G. Hawtrey says: "people assume that Parliamentary government is securely founded on agreement and custom, and they come to regard the procedure through which the responsibility of the executive is ultimately enforceable as an empty ritual. So regarded it tends to lose its virtue, and

there is a danger that infractions, not merely of constitutional usage, but of law, may come to be passed over as tiresome technicalities of no practical significance."

In its control of the purse, lies Parliament's chief defence against the encroachments of the Executive. There are not wanting signs that some of its outposts are being surrendered. If the retreat continues we may yet awake to find that the substance of popular government has also been lost.

## CHAPTER II

### THE ESTIMATES

THE Budget has been referred to as the central feature of the activities of the Government during each year. In formulating it, the preliminary task is to prepare estimates of receipts and expenditure. This operation is the most delicate part of the system of finance for it is at this juncture that plans are hatched for imposing burdens upon the taxpayers, or for conceding them relief. Properly regarded, the Estimates should be an evaluation by the Government of the relative worth of the services which it considers most desirable to render to the community. For example, it may decide to extend the facilities for education, and to curtail expenditure on gaols. The Estimates will reflect that policy.

Apart from ordinary ministerial policy, the taxpayer has to beware of the aspirations of the administrative officials for they, too, have views upon what their departments might do. Every alert official can usually see ways, if he had unrestricted resources, of extending the usefulness of his branch to the community, and he seeks to impress upon his minister the validity of his reasons for wishing to make these extensions. Sympathetic consideration of these plans will be reflected in the Estimates of expenditure, if the Treasurer can also be won over. If there are too many extensions of services, the Treasurer will have to decide whether the total volume of expenditure can be provided from the revenue which he will derive from the various sources. If he is un-



willing to make the necessary effort to raise the sums required, it may mean a reference to the Cabinet to decide upon the disputed claims.

The preliminary discussions upon the Estimates between the officials of the departments and of the Treasury are vital from the point of view of the taxpayer, because once an approval has been given by the Treasurer or the Cabinet to the inclusion of an expenditure, there is little likelihood that it will be eliminated. The way in which a determination is reached to include an item in the Estimates is therefore a question of first importance. In other words, is there adequate machinery for seeing that new administrative proposals are properly scrutinized and costs carefully measured against expected benefits? If there is not, the only redress the taxpayer has is to vote against the Government at the next election. But that does not necessarily discontinue the services which have been commenced because few governments are willing to do this unless the pressure for economy is very great. When power is won so frequently as it is by promises to spend, policies of retrenchment are not likely to be favoured.

The preparation of the Estimates commences in the latter half of the financial year. The initial steps are taken when the Treasury sends circulars to all the departments asking them to submit draft estimates of their receipts and expenditure for the following financial year which commences in July. It is usual to exhort officials to exercise the utmost vigilance in the preparation of their estimates. If the Government is bent on economy special warnings are given. The departments however frequently take the current year's figures and services, and simply insert the sums which they think they will need, taking care not to cut their figures too fine. Simil-

arly they calculate the receipts which the financial conditions of the community suggest, though here the practice is to estimate conservatively. These preliminary returns are forwarded to the Treasury by the time indicated, and they are then collated and scrutinized by the Accounts Branch in regard to expenditure and the Revenue Branch as to receipts.

When the figures are completed, the Treasurer considers them both in respect of departments and totals. If the total is more than the Treasurer is prepared to raise, then the Estimates are returned to the departments with a request that they be reduced to a figure which is indicated. If the Estimates have been faithfully prepared by all the departments, the excision of services to meet the Treasurer's demands is often a matter of great difficulty. The departments will represent to their ministers that the efficiency of services will be seriously impaired by such reductions. If the ministers are convinced, they take the matter up personally with the Treasurer or bring the issue before Cabinet. Whatever is decided becomes the policy of the Government, and the departments have to bow to that decision.

It must not be forgotten, however, that discussions which affect the Estimates are proceeding throughout the year. Thus a policy of reduction in the hours of the working week will probably have been thrashed out with the Treasury and its cost determined. The draft Estimates will make provision for this extra expense. The cost of providing for new pensions, child endowment, or hospital subsidies will all have been settled when those respective measures have been approved by the Cabinet. The Treasury and the departments will be aware of the extra cost for staff to administer these measures, the added amount required for equipment, stores, accommodation, and so on. All these determin-

ations will be incorporated in the Estimates. But neither the departments nor the Treasury can determine with complete exactitude what the extra cost of a new administrative unit will be, for no single agency has final control over the matters involved.

In all these matters, however, the Treasury must in the main, accept the Estimates of the several departments. Obviously they will regard themselves as being in the best position to know just what their requirements are. Long experience in the performance of services will enable them to know what acceptance is accorded those services, and whether they ought to be extended or restricted. At the same time it must be admitted that they tend to emphasize the departmental view to the exclusion of the wider point of view of the community. The wider view should be insisted on by the Treasury, and the relative worth of services compared. To do so, the Treasury must have either within itself, or associated with it, expert officials who are intimately acquainted with the activities of all the departments. In Australia the Treasury has not been specially organized to this end, and the work of check and supervision has not been effectively done. Recognizing this the Government set up in 1928 a Budget Committee which was entrusted with the duty, amongst others, of scrutinizing the contents of the Estimates as well as their form and the relevant accounts. The committee's work was highly satisfactory and should result in a better understanding by Parliament and the community of the actual cost of government. Unfortunately the possibilities of this experiment were not fully explored, and thus many of the suggestions which the committee made have been left in the air. We shall return to the question of a suitable system of control at the conclusion of this chapter.

It will be obvious, however, that the work of control-

ling expenditure may be rendered very difficult if the various purposes for which money is to be spent are not properly classified. Accordingly, recent efforts at budgetary reform, throughout the world, have been directed to devising a form of estimate which will show the expenses of the several agencies for similar services under uniform and standardized headings. In New South Wales, we had been content with a Departmental classification, all the expenses being shown under (1) Salaries, (2) Contingencies, and (3) Miscellaneous. This obscured, rather than revealed the essential facts. For example, "salaries" did not cover temporary employees, or payments and allowances in the nature of salaries. "Contingencies" was so elastic as to be useless for purposes of comparison, and any effective check necessitated a detailed dissection which was difficult for the Treasury to make.

Of the various classifications which have been adopted in different countries, the more important are by organization units, by objects, and by function. The New South Wales Committee adopted these. The objects classification contains uniform and standard headings for each service and department. In some countries, the objects classification is very elaborate. For example, the City of New York classification comprises (1) Personal services, (2) Supplies, (3) Equipment, (4) Materials, (5) Contract and open order service, (6) Contingencies, and (7) Fixed Debt contributions. Each of these main headings is also elaborately sectionalized. The classification which New South Wales has adopted is, of course, experimental, and experience alone will show whether it should be extended.

What the Committee has done, however, will enable the ordinary citizen, who refers to the Estimates of any

department to find out exactly how much it costs to operate it. Formerly he could not have found this out because some of its expenses were not disclosed. They were hidden in other departmental votes scattered through the Estimates; e.g., for stores, rates, printing, interest, cleaning, repairs, etc. Under the revised form, these items are still voted for convenience sake under their respective authorities, such as the Stores Supply Department, Resumed Properties Department, and Government Printing Office. But since in the main these departments supply goods to or perform services on behalf of all the other departments, their estimates may be unduly inflated if the departments for which they work are extravagant. That can be disclosed by dissecting the costs. This is now done and these costs are shown under each department for which the expense is incurred. Thus it is possible to see at a glance not only what the actual parliamentary vote for the department is, but also what will be its total cost.

If we refer to the accompanying table, which contains the estimated expenditure for the Premier's department and its sub-departments for the year 1929-30, we shall notice that the total estimated expenditure is £248,704. This is the sum which Parliament voted in the Appropriation Act, 1929 for the service of the Premier's department, and it authorized that amount to be provided from each of the three sources shown. But the Premier's department controls the cleaning arrangements for the whole Public Service, and also the government advertising. It is unfair to charge the Premier's department with the whole cost of these services, and accordingly they are deducted from the estimated cost of the Premier's department, the net cost of which is shown as £202,313. But since the Premier's department has to be



| 4. Estimated Amounts to be Provided from Consolidated Revenue Fund and Special Purposes (Revenue) Fund for the Services of the Department but Voted on the Estimates of Other Departments (or included in the Estimates of the Premier's Department as a Total for all Departments) or Specially Appropriated—As per details hereunder:— |                                      |          |          |
|--|--------------------------------------|----------|----------|
| Service  | Where Provided                       |          |          |
| Interest on Proportion of State Capital Debt.  | Special Appropriations and Treasury. | 1,446    | 1,613    |
| Sinking Fund Contributions to State Capital Debt.  | Special Purposes (Revenue) Fund      | 118      | 84       |
| State Superannuation Contributions . . . .   | Special Appropriations . . . .       | ....     | 4,079    |
| Stores and Stationery, Furniture, Typewriters, and Office Appliances.  | Government Stores . . . . .          | 808      | 590      |
| Rates (Municipal and other) ..   | Resumed Properties . . . . .         | 2,500    | 1,551    |
| Printing and Bookbinding ..  | Government Printer . . . . .         | 1,054    | 906      |
| Repairs to Buildings . . . . .   | Public Works ..                      | 177      | 966      |
| Telephones . . . . .   | " " ..                               | 734      | 811      |
| Gas and Electric Power . . . . .   | " " ..                               | 416      | 369      |
| Cleaning Service   | Premier . . . . .                    | 3,312    | 3,241    |
|  | Total . . . . .                      | £10,565  | £14,210  |
| Total Expenses   | .....                                | £212,878 | £227,806 |

Another thing which our inquiring citizen would probably like to know is what similar services cost in different departments. He will now be able to ascertain this, because the committee introduced a form of standard headings for each service in all the Departments, the main divisions of which are:—

- (a) Salaries, and payments in the nature of salaries;
- (b) Maintenance and working expenses other than salaries; and
- (c) Other services.

Each of these headings has been further sectionalized, and Parliament is thus afforded information regarding the amounts required under each section. For example while there is little difficulty in determining what are "Salaries," expenditure for "Allowances" can be very elastic. This heading is now used to cover payments, in addition to their salaries, made to employees for special work, or for relieving officers in higher positions, or for the extra cost of living in certain parts of the State. "Maintenance and working expenses" mean the expenses, apart from "salaries," of maintaining or operating the various services which a department controls. "Other services" cover the expenditure which a department incurs, outside its ordinary operating expenses, in discharging its services to the public.

Accordingly the standardized headings of expenditure in respect of all departments are as follows:—

Salaries and payments in the nature of salaries:—

- A1. Salaries.
- A2. Temporary assistance.
- A3. Allowances.
- A4. Officers on retirement leave.



A5. Monetary value of retirement leave payable to dependent relatives of deceased officers.

A6. Overtime.

Maintenance and working expenses (other than salaries\*):—

B1. Subsidiary staff charges, i.e. workers' compensation premiums, tea money.

B2. Expenses in connection with buildings, e.g. fire insurance premiums.

B3. Transport expenditure, e.g. travelling expenses.

B4. General expenditure, e.g. postal and telegraphic services, purchase of books, periodicals, etc., minor repairs.

Other Services\* :—

C1. Commissions.

C2. Rates.

This classification of services and sectionalizing of expenditure is a marked improvement, and is in accordance with standard practices in the more advanced countries. Not only does it facilitate ready comparison of total expenditure from year to year, but it throws into relief the relative expenditure of the several departments for similar services. Formerly each department made its own classification, and comparisons were impossible. The item "Contingencies" appeared in the estimates of all the departments, but this was a dragnet vote which covered objects of expenditure entirely unrelated, from payments for temporary staff assistance to payments of rates on properties.

Equally interesting, and very valuable as showing the trend in the nature of the services rendered to the community, is the functional classification which has been

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\* NOTE.—There are other sub-sections (i.e. B5, B6; C3, C4) to meet the requirements of the several departments.

adopted. Here we get the social evaluation to which we have referred, and an index of the trend in the cost of performing the various services. The accompanying table shows the classification and the estimated cost for the year 1929-30:—

SUMMARY OF ESTIMATED EXPENDITURE FOR THE YEAR 1929-30 CLASSIFIED ACCORDING TO PRINCIPAL FUNCTIONS

| SECTION   | Estimated Expenditure, 1929-30 |  |                           |
|---|--------------------------------|--|---------------------------|
|   | Total                          | Chargeable to—   |                           |
|   |                                | Collections-in-Aid, Special Deposits Account and Special Purposes (Revenue) Fund | Consolidated Revenue Fund |
|   | £                              | £  | £                         |
| A. Legislature and General Administration . . . . .         | 5,405,245                      | 1,416,031  | 3,989,214                 |
| B. Maintenance of Law, Order, and Public Safety . . . . .   | 2,934,200                      | 591,744  | 2,342,456                 |
| C. Regulation of Trade and Industry . . . . .               | 120,217                        | 51,928   | 68,289                    |
| D. Education . . . . .                                      | 4,919,312                      | 112,555  | 4,806,757                 |
| E. Encouragement of Science, Art, and Research . . . . .    | 74,657                         | 100  | 74,557                    |
| F. Promotion of Public Health and Recreation . . . . .      | 2,030,707                      | 180,434  | 1,850,273                 |
| G. Social Amelioration . . . . .                            | 1,581,122                      | 38,723   | 1,542,399                 |
| H. War Obligations . . . . .                                | 62,616                         | ....   | 62,616                    |
| I. Development and Maintenance of State Resources . . . . . | 3,173,994                      | 1,601,330  | 1,572,664                 |
| J. Local Government . . . . .                               | 365,752                        | 42,940   | 322,812                   |
| Totals . . . . .  | £ 20,667,822                   | 4,035,785  | 16,632,037                |

The expenditure under each of these main heads is sectionalized and compared with previous years. The general effect of the classification and comparison is to show modern trends of public expenditure. For example, the services for education, public health, and social amelioration, which a generation ago involved very small expenditures, now assume startling proportions, and challenge the capacity of Treasurers to provide the sums which the administrators of those services demand, without at the same time imposing a burden upon taxpayers disproportionate to the benefits anticipated from them.

Another alteration in the form of the Estimates has been the further separation as a matter of account keeping of the operations of the "business" undertakings of the State from those of the ordinary governmental activities. These "business" undertakings are of three types—Business, Industrial, and Trading Undertakings. Among the business type are the Government Railways, the Sydney Harbour Trust, and the Hunter District Water Supply and Sewerage Board. Among the industrial undertakings are the State Brick Works, the State Metal Quarries, and the State Monier Pipe Works. The trading concerns are illustrated by the Port Kembla Electricity Supply, Broken Hill Water Supply, and the Government Insurance Office. The distinction between these several types is somewhat arbitrary. Until recently it turned, amongst other things, on the way in which they were financed. The business undertakings, for example, were financed through the Consolidated Revenue Fund. The industrial undertakings, on the other hand, were financed through the Special Deposits (Industrial Undertakings) Account. But that distinction has now less significance.

The modern practice of dealing with State activities of this nature is to show them separately as supplements to the Budget proper. This has been done in the revised form of estimates. Each of the undertakings in the several groups is shown under the respective headings—Business, Industrial, and Trading. This system has the advantage of avoiding misapprehensions of the volume of State expenditure. It enables cross entries to be eliminated, and it clearly reveals the actual position of each “business” undertaking.

While it had been the practice to provide Parliament with estimates of receipts and expenditure of the business undertakings, those of the industrial undertakings were not so submitted. The reason for this was that these undertakings operated under the provisions of the Special Deposits (Industrial Undertakings) Act 1912, which allows them to control their own funds, accumulate reserves, and generally to adopt commercial practices. It meant however, that Parliament had no supervision of their activities. The trading undertakings were in a similar position. One undertaking, the Government Dockyard at Newcastle, which had for years been spending more than a million pounds a year, had never had its accounts scrutinized by Parliament and yet at the same time it had not been regarded as strictly coming within the provisions of the Act of 1912.

Although Parliament will not, in ordinary circumstances, be called upon to raise funds for the maintenance of the industrial undertakings, because they have all built up useful reserves, it now appropriates the salaries and wages from their account. Further, the inclusion of the estimates of their receipts and expenditure in the budget papers draws attention to them and permits discussion upon matters of policy. Should, however, losses

occur (as they do in some of the business and trading undertakings) the treatment of the deficit will require budget action.

An item which the Budget Committee inserted in the Estimates is "Collections-in-aid." On the revenue side, under this heading, we find the departments credited with certain earnings, and on the expenditure side, the receipts are appropriated in part satisfaction of and deducted from the total expenses of the department. The committee has applied to New South Wales conditions the English practice there instituted by the Public Accounts and Charges Act, 1891. But there are differences, not only in regard to the right of the departments to use their collections, and the power of Parliament to discuss the expenditure appropriations debited against these receipts, but also in determining what earnings shall be classified as "Collections-in-aid."

In New South Wales all the collections are paid into the Consolidated Revenue Account, and they cannot be used by the departments for their expenses without prior parliamentary sanction. In other words, expenditure which is to be charged against the "Collections-in-aid" is voted by Parliament just as it votes the expenditure from consolidated revenue proper. The real purpose of this item is to show the taxpayer that many of the departments do contribute something towards the cost of their upkeep, although it may also help to put the Treasury upon inquiry whether or not the rates charged are always commensurate with the services which the departments render. The fact that departments are openly credited with what they earn may stimulate them to see if they cannot earn more. On the other hand the revelation of what the departments do earn for fees may prompt the public to demand a revision of the scales.

According to existing practice at the Treasury, "Collections-in-aid" are defined as receipts from services rendered, for produce sold, e.g. by gaoles or government farms, and for interest earned on certain advances made, either to individuals or institutions or corporations by the several departments: a public servant is advanced money, for instance, to enable him to buy a motor car to use in connection with his official duties, or a local government body is given an advance to buy a park. The advance is repaid with interest. That interest is credited to the department as part of its "Collections-in-aid."

A final question which will occur to our citizen investigator is how claims are dealt with which arise subsequently to the passing of the Estimates, and which were then unforeseen. The usual budgeting practice is for these claims to be submitted to Parliament in the form of supplementary Estimates and its approval obtained to their payment. In New South Wales, however, the practice of submitting Supplementary Estimates has been discontinued for some years. This does not mean that the departments and the Treasury have become so adept in estimating expenditure that there are no claims which have not been foreseen when the Estimates were prepared. It is inevitable in every household that unusual and emergent expenses will arise. The State departments regularly find themselves in the same position. The Treasury has adopted two methods of dealing with this kind of expenditure. Every year an advance of £150,000 is made to the Treasurer for the purpose of making payments of an unusual or emergent character, or for supplementing appropriations made by Parliament. When the next year's estimates are prepared, these payments are included in the appropriate votes, and when parliamentary sanction has been obtained, the Advance Ac-

count is recouped. With this practice there can be little quarrel provided the payments are made for services which are of a continuous nature, or are really emergent, as for example providing relief in the event of a public calamity, such as a flood, a drought, or a plague.

Under the Audit Act, Sec. 16 (b) all these payments must be reported to and inquired into by the Public Accounts Committee and Section 58 (1), (a), (ii) requires that special attention shall be drawn to them in the public accounts at the end of the year. But the payments from the Treasurer's Advance Account have not in practice been limited to these matters, or to the amount of the advance of £150,000. This virtually means committing Parliament to the approval of items which have been paid without its prior sanction and without adhering to the constitutional safeguards of obtaining the certificate of the Auditor General and the warrant of the Governor, as in other cases.

The other method of dealing with emergent expenditure is to charge it against a Suspense Account. These payments are scheduled under the title "Payments unauthorized in Suspense" and specially submitted to Parliament with the Estimates for the following year with an intimation that they have been paid in anticipation of sanction of Parliament.

The Auditor General contends that such payments are unconstitutional and require an Indemnity Act to indemnify the Treasurer and other officers who have been associated with their payment. There appears to be no doubt that this contention is well grounded, and it is further evidence of the extent to which parliamentary control of expenditure is being weakened. If payments can be made without prior appropriation by Parliament, and without observance of the procedure that no payment should be made without the Governor's warrant, then it

is conceivable that a Government which felt strong enough to disregard criticism might use this method of financing its operations without consulting Parliament and obtaining its approval to expenditure.

Hitherto we have been dealing with the estimates of revenue and expenditure. There is another class of estimates to which a brief reference must here be made, though the general question will be discussed more fully when we come to deal with borrowing.

In all the Australian States borrowing has hitherto been freely practised to defray the cost of works of a developmental nature, or of undertakings of a permanent character which could not be financed from revenue. Where such works involve an expenditure in excess of £20,000 a special inquiry is conducted by the Parliamentary Public Works Committee to ascertain their desirability. If Parliament is satisfied, a special Act of Parliament is passed authorizing the construction of the work from loan funds. But in addition to these, there are other works which are financed from funds raised under the authority of general loan Acts. So large does this expenditure bulk, that Parliament requires that loan estimates shall be prepared and presented to it annually.

Until the Budget Committee made its investigations, it had been the practice to submit estimates which indicated the amount which was then required for certain works, but they did not indicate precisely how much the Government proposed to spend from loan moneys during the year. It was therefore impossible for Parliament to exercise any effective control over the amount of loan expenditure, because it could not tell from the figures submitted to it whether the various works were costing more or less than had been originally antici-



pated, how much had already been spent, and how much would still be required to complete them. In the new form of loan estimates this and other information is given, which should have the effect of affording a more intelligent appreciation of the trend of loan policy. When Parliament approves the loan estimates, its decisions are embodied in a loan Act, which in addition to authorizing borrowing to meet the anticipated expenditure, specifies the actual works upon which the money is to be spent.

Such, in very brief outline, is a description of the manner in which the Estimates of receipts and expenditure are prepared. But as any system is worth just what its administration is worth, the question at once arises: "How far does our system ensure that no items are included which cannot be justified, or on the other hand that no items are omitted which are essential to providing the most efficient service to the taxpayer?"

It is clear that the net result of the reforms which have been introduced by the Budget Committee in the preparation of the Estimates and in the system of account keeping is that the accounts are more intelligible to Parliament and the public than hitherto, and there is possible a more informed criticism of them. The committee would be the last to suggest that there is nothing more to be done. And its members would also admit that while the improvement in the "form" of the Estimates is very important for purposes of comparison, it is in itself no guarantee of economy. By making the position more obvious, it may incite departmental accounting officers to greater care of their finances. Parliamentary criticism is too uninformed to be an abiding spur to economies, and accounting officers who disburse public funds may indeed grow weary of continually asking

whether money is being well-spent. Experience points to the necessity of some specific authority. The new practice of requiring departments to supply the Treasury every month with a statement of commitments already incurred, as well as of obligations in contemplation, implies the establishment of an authority which can effectively examine and investigate these statements. If this is not done, then additional work has been thrown upon the departments to no purpose.

It may help us in our approach to this problem if we inquire how it has been faced elsewhere. In England the Treasury is organized into three sections, Finance, Supply Services, and Establishment, each under a controller. The Controllers of Finance and of Supply have charge of the estimates of all the spending departments, including the War Office, Admiralty, Home Office, Colonial Office and so on. The Controller of Establishment deals with personnel and his consent must be obtained before any changes are made either in numbers or remuneration. Between them they subject all departmental proposals for inclusion in the Estimates to a rigid scrutiny, and their approval must be obtained to any increases in expenditure. Their actual power is very real, for they have a large and highly skilled staff to conduct any investigations which are necessary. Only larger issues of policy are taken from them to the Chancellor of the Exchequer, or to the Cabinet. It is often complained that the control exercised by these officials at the Treasury is too rigid, but it can at least be said that the system ensures that each new item must justify itself before an expert external authority before it is included in the Estimates.\*

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\* See R. G. Hawtrey's *The Exchequer and the Control of Expenditure*. Oxford University Press, 1921, p. 27.

In the United States the looseness of departmental organization and the absence of ministerial responsibility, as we know it, demanded different measures. In 1921 there was established a Bureau of the Budget under the control of a director. This officer is the personal assistant of the President. He has a large and expert staff, members of which are allocated to each department to scrutinize not merely what is to be included in the Estimates but also the manner in which the appropriations voted by Congress are expended. The Bureau ensures that the wishes of the President are carried out and has been instrumental in securing notable economies in public expenditure.\*

In comparison with these methods, our Treasury is very poorly equipped. It has its officers who collate the Estimates, but it has no provision for conducting the special investigations essential to a proper checking of the departmental proposals. In respect of organization and staffing its powers are very restricted. In fact, these matters are divided between the Public Service Board, various quasi-autonomous Commissions, and the Arbitration Court. But the jurisdiction of the Public Service Board is limited to a section of the public service only. In respect of this section it controls organization, recruitment, and augmenting of staffs, and it shares with the Arbitration Court the fixing of remuneration of officers. The quasi-autonomous Commissions enjoy a similar power. Ministerial approval must, however, be obtained to the creation of new positions. But neither the Board nor the Commissions is necessarily consulted when a new organization is proposed.

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\* See W. F. Willoughby's *The National Budget System*. Johns Hopkins Press, and the *Economic Record*, Macmillan, November 1930, p. 205.

It is, indeed, unfortunate both for the taxpayer and the public service that, for political purposes, every pretext is seized to place new administrative units outside the authority and control of the Public Service Board. Yet it is the peculiar justification of the Public Service Board that it is the agency which can deal with organization, staffing, and remuneration in an atmosphere free from the influences of politics. And it is a matter for comment that the Treasury does not utilize the services of the Board's inspectors for examining the Estimates before they are submitted to the Treasurer and the Cabinet.

In any consideration of staffing and remuneration we must not forget the existence of the Arbitration Court. This agency deals with the remuneration of all officers in receipt of salaries of £750 per annum and under. This is not the place to discuss the suitability of the Court for this function; but it cannot be denied that the incidence of its decisions with regard to remuneration falls heavily upon the taxpayer, and that new awards may upset all the calculations of the Treasury and the departments in respect of staff costs.\*

Finally there is the Auditor General who with his staff of inspectors is busily engaged throughout the year examining the accounts and noting the methods of organization employed by the departments. It is true that his work is mainly *ex post facto*; but in the course of his examinations, the Auditor General must become possessed of much material which would be invaluable to the Treasury in its consideration of the Estimates. But here again, as in the case of the inspectors of the Public Service Board, the knowledge is left unused.

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\* On this question see my *Shadows and Realities of Government*, 1923, chapter v.

It is impossible to escape the conclusion that both in the work of deciding what should be included in the Estimates and of seeing that money voted by Parliament is effectively spent, our Treasury is seriously handicapped. In the result, the taxpayer inevitably suffers. After a careful consideration of our existing agencies, and of the methods adopted in England and the United States, it is submitted that our Public Service Board system might be extended and its organization used by the Treasury for the duties mentioned above. Already it discharges for a considerable section of the Public Service, the work of a Bureau of General Administration. These duties might be extended to cover the organization and staffing of the various Commissions as the establishment section of the Treasury and the Civil Service Commission do for all government agencies in England. And to make its authority paramount, there should be a statutory provision requiring the government to furnish the Legislature with a statement from the Public Service Board containing its recommendations upon the kind of administrative organization necessary for each new unit, and a certificate that there is no existing agency capable of taking over the proposed activities. A similar provision is also essential with regard to all staff appointments. Until we cease paying political debts with administrative appointments we shall continue to be over-burdened with unnecessary agencies and superfluous officials.

An essential condition of the effectiveness of such a Board is the earnest co-operation of the departments. The Board will not supplant the departments in the work of administration; rather will it suggest, exhort, criticize, and restrain. But in the course of its work of organ-

ization, it will inevitably meet the problem of ministerial responsibility. Too often departments now hamper the Board in its efforts at reform by covering their own prejudices with the cloak of the minister's authority.

We need a clearer understanding of the scope of the convention of ministerial responsibility. If democratic government is to become efficient we must relinquish the fiction that a Minister becomes an administrator by the mere process of election. It cannot be too strongly emphasized that a Minister's authority should be limited to directing whether or not a particular policy ought to be pursued. The type of organization necessary to give effect to that policy, or the kind of official to be entrusted with its administration, are matters on which he has no special competence to express an opinion. If any controlling agency is to be successful, its decisions on organization and staffing must be accepted, just as are those of the judiciary in matters of law.

There is still another direction in which this agency might be used. In dealing with the loan estimates we noticed the existence of the Parliamentary Public Works Committee. When this committee was first constituted, it was expected that it would be a quasi-judicial body to safeguard Parliament against embarking upon unwise public works. In practice this is not achieved, for politics enter too much into its decisions. The kind of investigation needed is different from that now undertaken. It must be expert, and detached. And it should not be limited merely to works costing more than £20,000. If, as seems likely, loan money will be restricted in amount for many years to come, we want to be assured that any expenditure is justified both as regards the project to be undertaken, and the return to be secured. The consider-

ation of loan estimates has been amongst the most perfunctory of parliamentary activities.

In place of the Public Works Committee composed of political representatives, there should be an expert authority. The possibilities as well as the immediate value of such an authority may be appreciated by a consideration of the results achieved by the recently disbanded Development and Migration Commission. Parliament would, of course, have the final decision upon any proposed work, but in making that decision it should have before it the same kind of information that any board of directors would insist upon having before they sanctioned the expenditure of shareholders' money. Too often Parliament indifferently votes loan money, and after it has been lost, institutes inquiries to ascertain why it was spent.

## CHAPTER III

### WHAT PARLIAMENT DOES AND HOW IT DOES IT

WHEN the departments and the Treasury have agreed upon the estimates of receipts and expenditure for the next financial year, they are printed at the Government Printing Office, and kept confidential until the Treasurer is ready to submit them to Parliament. Every care is taken to keep the Estimates and Budget proposals secret, for many taxpayers would give much to know what was in store for them. Like the Treasurer, they carefully examine the condition of the community and the prospects of the Government, and sometimes they attempt to forestall taxation proposals. This anticipation is more acute where tariff alterations are suspected, than with other taxes. New South Wales has no power to impose customs and excise duties, which are exclusively a function of the Federal Government under the Commonwealth Constitution. Nevertheless, men engaged in business and commerce closely watch the Budget proposals, for they know that the weight of taxation may make it impossible for them to compete with their rivals in other States. Indeed all citizens ought to be keenly interested, because any increase in what the government takes for its purposes leaves them with that much less for their own affairs.

We have already seen that we must go to Parliament with our Estimates, for under our Constitution no offi-



cial may collect any money from any taxpayer, or spend any money upon any service, unless he has parliamentary sanction. It is the object of this chapter to follow the methods by which that sanction is obtained.

When the Estimates leave the quiet contemplation of the Treasury officials and reach the Legislative Assembly they experience many strange vicissitudes before they finally return to the Treasury clothed with the authority of appropriation and taxation Acts. A realistic picture of the way in which this metamorphosis is effected would take too much space. The public gallery in the House is the best place for the reader to form impressions. He will notice that "His Majesty's" Opposition is always seriously solicitous for the taxpayer, alleging that gravely injurious results will surely follow public consumption of such badly prepared material. The Government on the other hand heroically determines to stand or fall by what it has done, and contends that the community will thrive under its treatment. And so warnings and guarantees are given with varying degrees of assurance as these confident diagnosticians examine the body politic.

Under the driving force of the modern political party machine, a government supported by a majority will find that approval of its policy is almost entirely a formal matter. Where the majority is small, or is split by factional intrigue, the Government has to walk warily with its proposals. This is when the principle of Parliamentary control of the purse tends to become a reality. And it is rightly regarded as the bulwark of the system of popular government. For if a government could obtain money without consulting Parliament, and if it could spend that money upon any projects it fancied without having to render an account of its actions, then the

system of popular government would be displaced by a despotism.

The finances of the Government are dealt with from year to year. Every year is quite self-contained; though, as governments find to their cost, the sins of the past arise to circumscribe the efforts of the present in no uncertain way. The period of time covered by the accounts is not the calendar year, but a specific period which is called "the financial year." That year commences on the 1st of July, and to carry on the services of the State for this new year, the government has to obtain fresh funds. It is this necessity which affords the sanction for the provisions in the constitution requiring a Session of Parliament to be held at least once a year. Under the Audit Act, 1902, Sec. 32, any money in the hands of the departments not spent at the 30th June reverts to the Treasury: to spend it upon the services of the new year requires a new parliamentary sanction.

It is quite unusual for Parliament to pass the Appropriation Act authorizing expenditure by the commencement of the financial year, and yet, of course, the Treasury must have money to carry on. Accordingly the Treasurer is empowered by the Audit Act to continue paying for existing services in anticipation of the Act being passed. But that permission is limited to a period of three months (Sec. 33), and payments must be at the rate which was authorized for similar services in the corresponding period of the previous year. If when the Appropriation Act is passed the rates of expenditure are reduced, then the payments under the authority of Sec. 33 must not exceed the lower rate.

The first business therefore of the Government ought to be to consider its financial plan. And it would be a mark of wise management of the public finances if that

plan were presented to Parliament early in the financial year. But we have become very lax. It is not unusual for a considerable portion of the year to have elapsed before Parliament receives the financial statement. This has grave repercussions upon the community and the public service. Where government activities assume the importance they do in this State, much irritation and confusion are caused by the uncertainty of government policy. Whether further money will be provided for the completion of works and railways which have been commenced is of vital interest to business people in the locality.\*

The administrative officials in the public service are also handicapped. Until the financial policy has been determined they are unable to make the arrangements for the various services projected; and if at a later date provision is made, then the fact that appropriations lapse at the end of the year often causes activities to be pushed ahead with such feverishness as to involve grave waste because of the inability to secure proper supervision of methods. At the same time to estimate receipts and expenditure far ahead is very difficult. A bad winter may completely alter the prospects of the next harvest, and thus the taxable capacity of the citizens. Again members of Parliament like to have in their hands the report of the Auditor-General upon the previous year's accounts so that they may be the better able to criticize the financial proposals for the current year. This report cannot be ready till towards the end of September, and this furnishes the Government with another excuse for delaying its financial plan.

If the Appropriation Act is not passed within three

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\* Cf. the effect of the closing down of the Naval College at Jervis Bay upon the business community in Nowra and surrounding district.

months of the commencement of the new financial year the Government has no legal authority for expenditure. Accordingly it has to go to Parliament for what is called "Supply," that is, for a vote on account of the services. This supply is usually for month to month until the Appropriation Act is passed; although if there are unusual circumstances, supply may be sought for such a period as the government considers sufficient to enable it to mature its financial policy. In this respect the procedure in New South Wales is very different from that in England, where, by financial resolutions passed long ago by the House of Commons, and by its Standing Orders, a fixed schedule is laid down with regard to the time by which the budget speech shall be delivered, and the various financial measures dealt with. There is much need for similar action in this State, for the piecemeal consideration by Parliament of the expenditure of the Government makes it almost impossible to exert pressure in the interests of economical administration.

There is yet another contingency to be considered. Under the Constitution, members of the Legislative Assembly are elected for three years. That is the ordinary duration of Parliament, though, of course, it may be dissolved sooner by the Governor. It sometimes happens, as in 1930, that one Parliament expires before provision is made for Supply, or before the annual Appropriation Act is passed. In these circumstances also there is no legal authority for making any payments on behalf of the Government, except, of course, those which are in the nature of permanent appropriations. Nevertheless it has become the practice for the Government to continue the ordinary services, and at a later date, to obtain from Parliament an Act of Indemnity, indemnifying the Treasurer and public officials against personal liability for

having spent money without authority. But this practice is much to be deprecated. Not only is it a violation of the principle of prior sanction by Parliament to expenditure, but it tends to weaken respect for constitutional safeguards.

Let us now turn to the special procedure which Parliament has instituted to enable it to deal with the financial proposals of the government. In ordinary session the House is presided over by the Speaker in wig and gown, and debate and procedure are studiously formal. Such an atmosphere is unsuitable for the discussion and scrutiny of reasons for raising money and ways of spending it. If each member were allowed to speak once only, he could not readily elicit all the information he desired, nor criticize the items before the House. Accordingly the House abandons its formal methods and assumes the role of a committee. The Speaker is replaced by a Chairman of Committees who is elected by the members from among their number at the beginning of the first session of every Parliament. He presides over the committees, not in the Speaker's raised chair, but at a table on the floor of the House, below the Speaker's chair.

The financial proposals are dealt with by two special committees—that of Supply, and that of Ways and Means. Each of these committees comprises all the members of the Assembly; i.e., it is a Committee of the whole House, and not as the term implies, only a part of the House. In the Committee of Supply, the details of the Government's proposals to spend money are considered, and resolutions are adopted covering the supply of money needed for that expenditure. Accordingly it is in this committee that the Estimates are debated. In the Committee of Ways and Means, the sources from which the Government proposes to provide the money

are decided, i.e., from Consolidated Revenue Fund, Loan Fund, or other funds. It is in this committee that the budget speech is delivered, and in which Supply Bills, Appropriation Bills, and taxation Bills are first discussed.

As these committees represent the traditional machinery we have adopted from the House of Commons, it may be interesting to notice how our system works; for of course it has been found desirable to modify some of the practices to meet our local circumstances.

Every new session of Parliament is opened with the Governor's Speech, which outlines the intentions and expectations of the Government. The speech is a short statement prepared by ministers and read to both Houses who meet together as one body for the occasion. In each House, the first business taken is the Address in reply thanking the Governor for his speech. This occasion is always seized upon by the Opposition to voice its disapproval of the Government's policy, and is highly valued by members, especially those members newly elected, for it enables them to make their debut to the public. The Address in reply having been adopted by the Assembly and on its behalf loyally and dutifully presented to the Governor by the Speaker, accompanied by the mover and seconder and hon. members, the Government settles down to its legislative programme. But it has to prepare the way for its financial measures to be discussed by the House, and accordingly one of its first acts is to move for the Committees of Supply and Ways and Means to be set up. This is done by a motion by the Premier or Treasurer that the House will on its next sitting day, resolve itself into the Committee of Supply, or Committee of Ways and Means. This is put on the business paper of the House, and when it desires to proceed with the motion, the Order of the

Day is read by the Clerk of the House, and the motion "that the Speaker do now leave the chair and the House resolve itself into Committee of Supply" is moved by the Premier or the Treasurer. If approved, the House thereupon goes into committee.

The formal procedure which we have outlined, may, however, be interrupted. It is done by a member moving an intercepting motion, provided he obtains the leave of the House. The purpose of such a motion is to obstruct the government, and prevent it proceeding with its own business. If leave is given, and it will only be given if the member is able to obtain sufficient support from the government benches, then the motion takes precedence over the motion of the Premier that the House resolve itself into committee. The practice of an intercepting motion is now unusual, but it represents in New South Wales the survival of the ancient claim to air grievances before the House proceeds to deal with supply.

Ordinarily, however, the motion to set up the committee is taken without interception and without debate. On this, the first occasion for the setting up of the committee, the motion is that the Speaker do now leave the Chair and the House resolve itself into the Committee of Supply. Thereafter, for the rest of the Session the business paper contains the items "Supply—Resumption of Committee" and "Ways and Means—Resumption of Committee," and whenever it is necessary to go into committee the Speaker leaves the Chair without any motion or debate, and the Chairman of Committees takes the Chair.

For purposes of simplicity, we will assume that the Government is ready with its financial statement, and that it wishes to have it considered immediately. We have already seen that no financial measure may be

introduced to the House for its consideration unless it is heralded by a message from the Governor. This is in accordance with Sec. 46 of the Constitution Act 1902. The message is of course prepared for the Governor by the minister in charge of the measure and is purely formal. At the same time it serves two purposes. It goes to the essence of ministerial responsibility for policy, and it serves to draw special attention to what is being proposed. In the case which we are now considering the message of the Governor is accompanied by the several Estimates of Expenditure. It is delivered to the House by the Treasurer, read by the Speaker, and ordered to be printed together with the accompanying Estimates and referred to the Committee of Supply. Following the receipt of the message the Order of the Day is read by the Clerk of the House, viz.:—"Supply—Resumption of Committee."

Thereupon the Speaker leaves the Chair and the House goes into Committee of Supply, when a resolution is presented to the committee covering some item from the Estimates of a non-contentious character for which expenditure has to be met. Such an item is found in the permanent appropriations in the Constitution Act. A resolution is therefore moved as follows:—

RESOLVED:—That there be granted to His Majesty a sum not exceeding £— as supplement to the schedules of the Constitution Act for the year —.

This may be debated but usually is not, as members are anxious to clear the way for the Budget speech. On the resolution being agreed to the Speaker resumes the Chair. The Chairman of Committee reports progress. He also reports that the committee has come to a resolution which is read, and on the motion of the Minister in Charge of the House the resolution is agreed to.



The House has now to find the money the spending of which it has approved when it adopted the resolution passed by the Committee of Supply. To do this the Speaker is again moved out of the Chair and the House resolves itself into a Committee of Ways and Means. It is now that the Treasurer makes his financial statement or budget speech and he prefaces it by moving a resolution "that towards making good the supply granted to His Majesty during the present session a sum not exceeding £—— be" raised. Members have already received copies of the Estimates. It is usual also for the statement which contains the material of the budget speech to be printed and distributed to members. Frequently also there are provided a number of financial tables which have reference to the general condition of trade and industry, the position of the national debt, and so forth. The rules of the House preclude any speech being read, but, with the indulgence of the House, an exception is sometimes made in the case of the Budget speech, because of the necessity of precision.\*

The speech announces and explains what the Government proposes to do, either in the way of increasing or reducing taxation, of increasing or curtailing services, of pursuing a developmental policy, of meeting maturing debts or obligations, and so on. A forecast is also given of the new financial measures, if any, which will be necessary to carry out the programme of the Government.

Upon the speech having been delivered the debate is adjourned to enable members to familiarize themselves with its principles. Accordingly the Chairman of Committees is moved out of the chair, and reports progress

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\* The reading of speeches has been specially prohibited by the House of Commons as it has been found to be destructive of debate.

to the House, the Speaker having resumed the Chair. Upon a subsequent day the debate upon the budget speech is resumed and continues from time to time on the Order of the Day for its consideration being read. The debate is usually a long and often irrelevant discussion of the general policy of the government. It proceeds until the eloquence of members flags or the patience of the Government is exhausted, whichever happens first, and it concludes with the adoption of the resolution moved at the opening of the budget speech.

The way is then clear for the further consideration of the Estimates by the House in Committee of Supply. The Government usually allots a specified time for their consideration. In this case the Premier intimates to the Speaker, the Chairman of Committees, and the party leaders that the Government has resolved that the debate on a particular section of the Estimates shall be concluded by a specified time. When that time arrives, or at a later hour in the same sitting, the closure is moved and in this case the motion that the question be now put terminates the discussion of all the matters included in the intimation of the Leader of the House. This procedure is sanctioned under Standing Order 175B and is known as the guillotine. If the Government does not adopt this plan of curtailing discussion it may restrict it under Standing Order 175 by applying the closure at any time on any section under discussion by simply moving that the question be now put.

Each group of items in the Estimates is taken in the form of a resolution usually moved by the minister of the department concerned, as, for example, "Resolved,— That there be granted to His Majesty the sum not exceeding £—— for Colonial Secretary for the year——." The Colonial Secretary makes an explanation to the

Committee of the features of his Estimates. He answers questions and the members discuss the items. When each vote has been discussed, and the resolutions agreed to by the committee, the Speaker resumes the Chair and the Chairman of Committees reports progress as well as the fact that the committee have come to certain resolutions which are duly reported. A motion is made by the minister responsible that the resolutions be agreed to. In theory there might now be a further opportunity for debate, but since the only ground for discussion is that the resolutions should be recommitted, in practice there is no debate and the resolutions are agreed to by the House.

The resolutions cover each of the various items shown in the Estimates, and it is now the business of the House to find ways and means for meeting the supply already granted. Accordingly the House goes into Ways and Means on the Order of the Day having been read by the Clerk of the House. In Committee of Ways and Means are moved the several Resolutions covering the total sums to be granted from the various funds, from which the expenditure is to be made. The Committee of Ways and Means cannot debate what has already been decided in Supply, and cannot amend the resolutions in any way. The putting of the resolutions is purely a formal matter. When passed by the committee, the resolutions are reported to the House by the Chairman of Committees and agreed to. A typical resolution taken from the business paper for 1928-9 is:—

(1) RESOLVED:—That towards making good the Supply granted to His Majesty,—

(a) For the Service of the financial year 1928-9, the sum of £16,568,826 be granted out of the Consolidated Revenue Fund.

## BUDGET CONTROL

- (b) In adjustment of the Vote "Advance to Treasurer," 1927-28, for services of the financial year 1927-28, the sum of £67,382 12s. 7d. be granted out of the Consolidated Revenue Fund.
- (c) For Services of the financial year 1927-28, "Unauthorized in Suspense," the sum of £170,918 2s. 4d. be granted out of the Consolidated Revenue Fund.
- (2) RESOLVED:—That towards making good the Supply granted to His Majesty for the Services of the financial year 1928-29, the sum of £18,880,276 be granted out of the Railways and Tramways Fund.
- (3) RESOLVED:—That towards making good the Supply granted to His Majesty for the Services of the financial year 1928-29, the sum of £370,627 be granted out of the Sydney Harbour Trust Fund.

These resolutions which have been passed by the Committee of Ways and Means and adopted by the House have not the force of law, and it is necessary therefore to embody them in an Appropriation Bill. In this case it is not necessary to have a message from the Governor, as the message recommending the Estimates covers the Bill. The Treasurer simply moves, "that a Bill be brought in, founded on Resolutions of Ways and Means (Nos. 1 and 3) to appropriate and apply out of" the various funds certain sums "to make good the supplies granted for the Services of the year 1928-29." Leave being given to introduce the Bill, it is then presented and the title read by the Clerk of the House. The title recites the general purposes of the Bill. The reading of the title constitutes the first reading of the Bill, and the second and third reading are usually carried through at that sitting by a suspension of Standing Orders.\*

It would be possible for the House to debate the Appropriation Bill, although its principles have already

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\* Note that supply Bills go through a similar procedure to appropriation Bills, i.e. debate in Committee of Supply, consideration in Committee of Ways and Means, approval to introduce the Bill, and consideration in the House.

been discussed during the debate upon the budget speech, while in Committee of Supply, the various items of expenditure and the policy implied by those sums have also been considered. But in practice there is no further debate, for it would have to be limited to the question why it should not be passed. The reason for this is that there is a long series of decisions by Speakers and Chairmen of Committees in the New South Wales Legislative Assembly which clearly establish the fact that the Appropriation Bill cannot be altered in any way either by the House or in Committee of Ways and Means. In this respect it is treated differently from every other Bill except Supply Bills. The reason is that the Appropriation Bill simply embodies decisions already arrived at by the House in Committee of Supply. Having already resolved that certain sums shall be granted, the House in another form cannot then resolve that those sums shall not be granted. The passing of the Appropriation Act, is simply a formal matter. All that the House can do with an Appropriation Bill is to pass it exactly as it stands, or entirely reject it. The latter contingency is quite unlikely unless the Government's majority deserts it suddenly. Although many authorities think that this procedure of embodying the resolutions in an Appropriation Bill might be dispensed with, the House has to go through the formality of taking the first reading, second reading, committee stage, and third reading, in order that the Appropriation Bill may subsequently become an Act authorizing the several departments to spend money during the financial year. As soon as the third reading is carried, the Bill is sent to the Legislative Council with a message stating that "the Legislative Assembly having this day passed a Bill intituled 'an Act to appropriate and apply out of the Consolidated Revenue Fund,' . . . .

presents the same to the Legislative Council for its concurrence."

Although the Legislative Council takes the Appropriation Bill through all the stages of three readings and committee consideration, it is by well-established practice denied any right of amendment, and can only pass or reject the measure. In England the relations between the two Houses of Parliament were defined by the Parliament Act 1911, but in this State, although the Constitution provides that money bills shall originate in the Legislative Assembly, the relations are governed by the traditions which developed in England prior to the passing of the Parliament Act. Until the House of Lords challenged those traditions it was considered that the Lords could not amend money bills so as to alter "whether by increase or reduction, the amount of a rate or a charge—its duration—mode of assessment, levy, collection, appropriation, or management—or the persons who pay, receive, manage, or control it—or the limits within which it is leviable."

In New South Wales the relations between the Assembly and Council are governed by these principles. Accordingly the Council usually concurs in the Appropriation Bill, and returns it to the Assembly with a message from the President of the Council as follows:—

"MR SPEAKER: The Legislative Council having this day agreed to the Bill intituled 'An Act to appropriate and apply out of the Consolidated Revenue Fund of New South Wales' certain sums . . . . returns the same to the Legislative Assembly without amendment."

The Bill is then presented to the Governor for the Royal assent. When the Governor gives it, he sends a message to the Speaker which is reported to the House stating that "in the name of His Majesty" he has "assented to

the said Bill, and has this day transmitted it to the Legislative Council, to be numbered and forwarded to the proper officer for enrolment, in the manner required by law." Whereupon the public servants heave a sigh of relief, prepare their vouchers for any "back" pay which is due to them, and settle down to spend the rest of the money on the services which have been specified in the Appropriation Act.

For simplicity in exposition, it will be remembered that we assumed that the Government was ready at the beginning of the Session to present to the House its financial statement and its Estimates. That of course is most unusual. Ordinarily the Government proceeds with its general legislative programme, and brings down its Budget later. But if its programme entails finding more money than had been raised in the previous year, the Government may decide to bring in some of its taxation measures before it makes its budget statement in order that it may have authority to collect extra funds as soon as possible. For taxation measures are very seldom made retrospective in operation beyond, of course, the beginning of the financial year. Here is where the advantage of having set up the Committee of Ways and Means at the beginning of the Session comes in, for the particular taxation measure which the Government wishes to push through early must follow a procedure similar to that already described.

Thus the minister brings or sends to the Clerk of the House a message from the Governor describing the particular taxation measure to be considered. This is read to the House by the Speaker, whereupon the minister in charge of the measure moves that the message be referred to the Committee of Ways and Means. In Committee of Ways and Means the minister moves the

resolution contained in the message, and gives an explanation of the measure. This is debated, and when agreed to, is reported to the House. The minister moves that the report be agreed to, and then obtains permission to bring in a Bill founded on the resolution already agreed to by the House. Thereafter the Bill proceeds through the various stages of first reading, second reading, committee stage, and third reading in each House. This is the procedure that is followed with all measures which involve the imposition of any charge upon the public. They must be first discussed in Ways and Means before they can be considered by the House.

The elaborate procedure which we have detailed at some length has been described for the purpose of showing exactly how Parliament deals with the financial policy of the Government. But the question which persistently recurs as we watch the procedure in the House, is whether any actual advantage accrues to the community from all the formal and informal courses which the Estimates and budget proposals have to run. It is the fashion to-day to scold Parliament for not doing things. Often those who do not accurately comprehend its capacity scold Parliament for not doing things which it is incompetent to do. Is it, or is it not competent to deal with financial policy?

Whatever the opinions the average citizen holds in regard to Parliament, he believes in its claim to control the purse. If we are satisfied with formal authorization, then this contention is justified. But when we watch what happens, and appraise the results in the light of the working of the Cabinet system and party politics we shall be less satisfied. Is there room for complacency when we are told by a House of Commons Committee, appointed as recently as 1918 to inquire into the manner



in which expenditure was dealt with in England, that "there has not been a single instance in the last twenty-five years when the House of Commons, by its own direct action, has reduced on financial grounds, any estimate submitted to it . . . . . So far as the direct effective control of proposals for expenditure are concerned, it would be true to say that if the Estimates were never presented, and the Committee of Supply never set up, there would be no noticeable difference?" This is equally true in New South Wales.

We are far from contending that the formal procedure in Parliament should be abandoned. But we should remember that many of these forms were devised in days when popular control of expenditure was still an aspiration. Then, too, the business of government was comparatively simple. To-day with the emergence of a rigid party system, with the development of Cabinet dictatorship, and with the immense growth of public services, the mere observance of traditional forms is insufficient. They are blinding us to the danger of losing the very substance of popular control of government, by which we rightly set such store. Any reform must obviously take account of these new factors; and we must admit that it will be extremely difficult to devise any system which will safely withstand the debilitating influences of intransigent party-ism.

Perhaps it will help us to see the situation in proper perspective if we remind ourselves what Parliament is supposed to do in regard to public expenditure, and what the present system secures. In the first place, it has to review the whole financial situation of the community, and to decide whether the policy which the government proposes is suitable. Secondly, it has to decide how much it can afford to spend upon the several services of

the State and to pass the taxation measures which will raise the funds necessary to sustain them. And thirdly, it has to examine the Estimates of receipts and expenditure submitted to it, to see whether they accord with the policy enunciated, and whether they do not entail an expenditure greater than the community can afford.

Let us see what is involved in these things. In the first place the effectiveness of any consideration of the financial situation and of the policy of the Government in the light of those conditions depends upon several things.

(a) There must be a definite policy upon which the Government is prepared to stake its existence. Cabinet government is impossible if every minister has independent views upon what should be done, and directs the affairs of his particular department without regard to the incidence of that policy upon the financial situation as a whole.

(b) That policy must be presented to Parliament for its consideration at the earliest opportunity. It is impossible for Parliament to have any effective control over finance if the proposals of the government are not presented to it till a considerable portion of the financial year to which they apply has expired. There should be statutory provision that the budget speech must be delivered before the expiry of the third month of the new financial year. In the United States the budget proposals are finalized by Parliament long before the financial year commences. While that might be difficult in our case, there is no justification for our present laxity.

(c) To make this policy effective there should be a prohibition against the spending of money on new services without prior parliamentary sanction. In other

words we should revert to the system of Supplementary Estimates to cover expenditure which was unforeseen when the original estimates were submitted. To continue our present system of spending first and obtaining approval afterwards simply destroys, or at least discredits, Parliament's claim to control the purse.

(d) Finally the accounts which are presented to Parliament should be complete and intelligible. The present form of the New South Wales Accounts is much better than formerly, though there still remains much which persistent investigation might improve, as we shall attempt to show later.

With regard to the Estimates of Expenditure the present system is satisfactory so far as the formal voting of the money is concerned. In the first place, before any expenditure can be considered it must be recommended by the Governor. This ensures that special attention is drawn to it, and prevents a private member or powerful faction from springing a surprise upon the House. Secondly, no member can move to increase the amount of expenditure indicated in the Estimates. Even a minister cannot do this. If he wishes to alter the Estimates by increasing them, then he must withdraw them and submit new estimates with a fresh message from the Governor. At the same time it is open to a private member to urge the minister to increase expenditure. He can do this by the fiction of moving a motion to reduce a particular item although the tenor of his remarks is for an increase. In this way a private member can test the feeling of the House, and if it is sympathetic it may be taken as a direction to the Minister that the House wishes a larger expenditure than is budgeted for. If the Government agreed, the Minister would thereupon withdraw the estimate and submit a fresh one.

It is open, of course, to any member to move for real reductions, or for omissions of amounts. In practice however, such a motion is seldom carried. In 1904 certain circumstances moved the Government to allow the House to take charge of the Estimates of the Executive Council and the Legislature, and to make such alterations as it desired. But that is most unusual, and, in general, the Estimates are passed as submitted. In other words, the onus of sponsoring expenditure proposals is thrown upon the Cabinet, and this safeguards the conventions of ministerial responsibility and popular government, which in effect are two aspects of the same question: for, if the House is dissatisfied with the ministry's proposals, it can reject them. This will probably involve a change of Cabinet, and it may mean a popular election in which the people have an opportunity of expressing their views upon the dispute.

When it adopts the various resolutions agreed to in Supply, and afterwards passes the Appropriation Act, Parliament decides the specific amounts which shall be allocated to each service, and statutory provisions prohibit any variation in the spending of these amounts without its attention being drawn to the matter. In other days, Parliament was disinclined to concern itself with the way in which the money it voted was spent. It was keenly interested in preventing money being raised without its consent, but the way in which it was spent was held to be the function of the Executive. In theory that position has been changed. Since 1848 in England, and since the coming of responsible government in this State, Parliament, by its scrutiny of detailed estimates of expenditure, has decided how the money shall be spent.

But what is equally important is whether or not all

this action goes to the extent of securing that the public services are efficiently administered at a reasonable cost. To do this Parliament must have some machinery for knowing precisely what each department is doing. Can it set up this machinery, and if it is set up, ought it to be parliamentary in form, or ought we to look elsewhere?

We have seen that the preparation of the Estimates is largely the work of the permanent officials who incorporate in their plans for spending and raising money, the policy which has been determined by the various ministerial chiefs and approved by Cabinet. The Government will usually take its party into its confidence and get its approval before it incorporates its proposals in its financial plan. This, in effect, removes to a secret meeting the determinations which should be made by Parliament. But even if this were not done, it is highly improbable that any of the rank and file of Parliament, whether of government or opposition parties, will have the same intimate knowledge of the requirements of the departments as the permanent officials and ministers have. We cannot expect Parliament therefore to be in a position to offer much useful criticism of the details of expenditure, or to know whether the departments are economically administered. It ought to be aware of tendencies and principles and these ought to be debated. Unfortunately these major questions tend to be obscured by the actual working of the party system. For if it is sure of its majority the Government pays little heed to any criticism. Members speak with the knowledge that the Government will use its numbers to force its proposals through the House. How can debate in such circumstances be realistic? Its effectiveness is further discounted by the frequent resort to the guillotine, under which rule of procedure, all estimates or proposals which

have not been debated when a predetermined time has arrived, are put to the committee without debate. In fact, it very seldom happens that all the Estimates are debated, or that any are effectively discussed.

In the light of these considerations, the conclusion is inevitable that Parliamentary procedure is much more concerned with the form than with the substance of finance. At the same time, any reforms must take account of the new complexity of government, of the position of the Cabinet, and the rigidity and intransigence of party politics. It would be interesting to traverse the many suggestions which have been made by publicists and political theorists in recent years. But they would require a volume in themselves. We must content ourselves with some dogmatic statements which the reader can examine after further study of the growing literature upon the subject.\*

In the first place, current political practices cloud the distinction between politics and administration. The needs of modern government demand for each a special technique, but those practising in the school of politics admit no limitations upon their ability. Whether or not taxation ought to be levied, and the purposes upon which it is to be spent is a matter for politics to determine. The way it is to be collected, and the manner in which the spending is to be organized is a matter of administration. It is true that Parliament will be concerned with the general principles of administration, but its competence should be restricted to approving the system

\* The following works are suggested for further reading:—Higgs: *The Financial System of the United Kingdom*. Higgs: *Financial Reform*. Davenport: *Parliament and the Taxpayer*. Young: *The System of National Finance*. Hawtrey: *The Exchequer and the Control of Expenditure*. Hills: *The Finance of Government*. Muir: *How England is Governed*. Willoughby: *The Financial Administration of Great Britain*. Buck: *Public Budgeting*. Willoughby: *The National Budget System*.

under which the administration shall function. For example, it must not attempt to determine who shall fill a particular office; but only that there shall be machinery for selecting the most efficient incumbent. It should not decide at what rates individuals shall be paid; but only that there shall be an effective system for deciding rates of remuneration. As long as the filling of offices remains the sport of party politics, and the rates of pay of public servants a means of buying votes, there can be no proper demarcation between politics and administration.

Furthermore, the satisfactory working of the parliamentary system depends upon the relationship which exists between the member of Parliament and his constituents. A new relationship has been created in Australia by the interposition of an agency which is presuming to dictate how the member shall act. As a result membership of Parliament is in danger of being confined to a type which is willing to surrender its independence to a junta indifferent alike to the wishes of member and constituents. Admittedly the working of the party system demands the general allegiance of members to broad principles, but when this allegiance is strained to compel acceptance of the exact details in which those principles shall be expressed, the member becomes a mouthpiece of a clique and not a representative of his constituents.

These things condition the effectiveness of parliamentary procedure, and are specially relevant to the problem of finance. Some are matters of form and present no great difficulty. Others go to the substance of parliamentary government, and their full meaning has not yet been realized. At the same time we must not forget that the complexity of government operations itself demands new machinery if parliamentary discussions are

to command respect. We must therefore seek to relieve Parliament of its present complete dependence upon the Cabinet. Two devices suggest themselves. The first is that Parliament should extend its present practice of standing committees. It could most usefully apply to its own methods the system which it has prescribed for the handling of municipal affairs. In other words, each major activity of government should have its appropriate parliamentary standing committee, and, further, at the deliberations of these committees and in the House, the responsible officials should be present for consultation as they are in municipal council meetings. These methods ensure the success of municipal administration, and there is no reason to expect that they would fail in national affairs.

The second is that Parliament should create a Bureau of Administration to which it could look for independent advice upon all problems of organization and finance. Neither of these suggestions would, it is thought, affect the cardinal principle of ministerial responsibility. But with such machinery Parliament would be able to redress the balance which has long been weighted against it in its relations with the Executive, and in consequence it might expect to make its control of the purse a reality. Not only would its raising and voting of money be done intelligently, but it would have at its command agencies which might ensure that value was obtained for what was spent.



### APPENDIX TO CHAPTER III

Extract from the Votes and Proceedings of the Legislative Assembly for 27th November, 1930, showing the course of a Supply Bill. The procedure is similar in the case of an Appropriation Bill, omitting (4) Urgency.

3. SUPPLY BILL:—The following Message from His Excellency the Governor was delivered by Mr Lang and read by Mr Speaker:—

PHILIP GAME,  
*Governor.*

*Message No. 20.*

In accordance with the provisions contained in the 46th section of the Constitution Act, 1902, the Governor recommends for the consideration of the Legislative Assembly the expediency of making provision to meet the requisite expenses in connection with a Bill to supply certain sums out of the Consolidated Revenue Fund, the Government Railways and Tramways Fund, and the Sydney Harbour Trust Fund, towards the Services of the year 1930-1931, and out of the General Loan Account for Services to be hereafter provided for by Loan.

*State Government House,  
Sydney, 27th November, 1930.*

Ordered to be referred to the Committee of Supply.

4. URGENCY—SUSPENSION OF STANDING ORDERS:—

(i) Mr Lang moved, That it is a matter of urgent necessity that so much of the Standing Orders be suspended as would preclude the appointment forthwith of the Committees of Supply and of Ways and Means, and the introduction and passing through all its stages in one day of a Bill, intituled, "A Bill to apply certain sums out of the Consolidated Revenue Fund, the Government Railways and Tramways Fund, and the Sydney Harbour Trust Fund, towards the Services of the year 1930-1931, and out of the General Loan Account for Services to be hereafter provided for by loan."

Question put and passed.

(2) Mr Lang moved, That so much of the Standing Orders be suspended as would preclude the appointment forthwith of the Committees of Supply and of Ways and Means, and the introduction and passing through all its stages in one day of a Bill, intituled "A Bill to apply certain sums out of the Consolidated Revenue Fund, the Government Railways and Tramways Fund, and the Sydney Harbour Trust Fund, towards the Services of the year 1930-1931, and out of the General Loan Account for Services to be hereafter provided for by loan."

Question put and passed.

5. COMMITTEE OF SUPPLY:—Mr Lang moved, That this House will, at a later hour of the Day, resolve itself into the Committee of Supply.

Question put and passed.

6. COMMITTEE OF WAYS AND MEANS:—Mr Lang moved, That this House will, at a later hour of the Day, resolve itself into the Committee of Ways and Means.

Question put and passed.

7. SUPPLY (*Supply Bill*):—The Order of the Day having been read, on motion of Mr Lang, Mr Speaker left the Chair, and the House resolved itself into the Committee of Supply.

Mr Speaker resumed the Chair, and the Chairman reported progress.

The Chairman also reported that the Committee had come to a resolution, which was read, as follows:—

(1) *Resolved*:—That there be granted to His Majesty:—

(a) A sum not exceeding £5,912,000, payable out of the Consolidated Revenue Fund, being the sum of £5,452,000 to defray the expenses of the various Departments and Services of the State during the months of December, January, February, and March or following month of the financial year ending 30th June, 1931, to be expended at the rates which have been sanctioned for the financial year ended 30th June, 1930, subject to the rate of any reduction that may hereafter be made in the expenditure of the year 1930-1931, and the sum of £460,000 (*for services as set forth in Schedule A*).

(b) A sum not exceeding £5,009,000, payable out of the Government Railways and Tramways Fund to defray the salaries, maintenance, and working expenses and other expenses of the Government Railways during the months of December, January, February, and March or following month of the financial year

ending 30th June, 1931, to be expended at the rates which have been sanctioned for the financial year ended 30th June, 1930, subject to the rate of any reduction that may hereafter be made in the expenditure of the year 1930-1931.

- (c) A sum not exceeding £134,800, payable out of the Sydney Harbour Trust Fund to defray the salaries, maintenance, and working expenses and other expenses of the Sydney Harbour Trust during the months of December, January, February, and March or following month of the financial year ending 30th June, 1931, to be expended at the rates which have been sanctioned for the financial year ended 30th June, 1930, subject to the rate of any reduction that may hereafter be made in the expenditure of the year 1930-1931.
- (d) A sum not exceeding £2,192,440, payable out of the General Loan Account in anticipation of Loan Votes (*for services as set forth in Schedule B*).

On motion of Mr Lang, the resolution was agreed to.

8. **WAYS AND MEANS:**—The Order of the Day having been read, on motion of Mr Lang, Mr Speaker left the Chair, and the House resolved itself into the Committee of Ways and Means.

Mr Speaker resumed the Chair, and the Chairman reported progress.

The Chairman also reported that the Committee had come to a resolution, which was read, as follows:—

- (1) *Resolved*:—That towards making good the Supply granted to His Majesty for the Services of the financial year 1930-1931, the sum of £13,248,240 be granted, viz:—£5,912,000 out of the Consolidated Revenue Fund, £5,009,000 out of the Government Railways and Tramways Fund, £134,800 out of the Sydney Harbour Trust Fund, and £2,192,440 out of the General Loan Account.

On motion of Mr Lang, the resolution was agreed to.

9. **SUPPLY BILL:**—

- (1) Ordered, on motion of Mr Lang, that a Bill be brought in, founded on Resolution of Ways and Means (No. 1), to apply certain sums out of the Consolidated Revenue Fund, the Government Railways and Tramways Fund, and the Sydney Harbour Trust Fund, towards the Services of the year 1930-1931, and out of the General Loan Account for Services to be hereafter provided for by Loan.

## BUDGET CONTROL

- (2) Mr Lang then presented a Bill, intituled "*A Bill to apply certain sums out of the Consolidated Revenue Fund, the Government Railways and Tramways Fund, and the Sydney Harbour Trust Fund, towards the Services of the year 1930-1931, and out of the General Loan Account for Services to be hereafter provided for by Loan,*"—which was read a first time.

Ordered to be printed, and now read a second time.

- (3) Bill read a second time.

Mr Speaker left the Chair, and the House resolved itself into a Committee of the Whole for the consideration of the Bill. Mr Speaker resumed the Chair, and the Chairman reported the Bill without amendment.

On motion of Mr Lang, the report was adopted.

Ordered, That the Bill be now read a third time.

- (4) Bill read a third time.

Bill sent to the Legislative Council, with the following Message:—

MR PRESIDENT:—

The Legislative Assembly having this day passed a Bill, intituled "*An Act to apply certain sums out of the Consolidated Revenue Fund, the Government Railways and Tramways Fund, and the Sydney Harbour Trust Fund, towards the Services of the year 1930-1931, and out of the General Loan Account for Services to be hereafter provided for by loan,*"—presents the same to the Legislative Council for its concurrence.

*Legislative Assembly Chamber,  
Sydney, 27th November, 1930.*

## CHAPTER IV

### HOW THE GOVERNMENT COLLECTS, KEEPS, AND SPENDS ITS MONEY

WE have explained how the Government obtains the approval of Parliament to its plan for spending money, as well as to its proposals for imposing taxes, rates, fees, and charges from the proceeds of which, and from certain other sources it will be able to meet that expenditure. Parliament now passes out of our picture, until the Government wants more money. Indeed it is usual for the Government, as soon as it has got all it wants from Parliament in the shape of appropriation Acts, loan Acts, and taxation Acts, to give members a short holiday while ministers and public servants busy themselves doing what they have been given authority to do. For while Parliament is sitting ministers find it a very great strain to attend to their office work as well as their political duties. The same thing applies to some of the more important public servants who must be in attendance at Parliament House to help Ministers while the House is sitting. This difficulty has been seriously aggravated since Parliament has taken to "sitting" in the morning and afternoon, instead of in the afternoon and evening. Indeed it is a very moot question whether the community as a whole will not lose much more than it gains by such a development. Not only does it preclude members

of Parliament from doing anything else, and so encourages "professional" politicians whose livelihood is bound up with their party, but it dislocates the administrative duties of the permanent officials which means that the public have to suffer.

Many people and not a few public servants, especially those who have to prepare answers to the questions which inquisitive members are repeatedly asking ministers, think it is a pity that Parliament does not have longer holidays. Other people who are not so intimately affected, think it would be a good thing if Parliament was always in session so that it might keep a watchful eye on the "New Despotism" which they suspect that ministers and public servants are busy contriving.

Let us therefore concentrate in this chapter upon what the political and permanent officials are doing with the financial powers which Parliament has given them. We want to know whence the State's income is obtained, how it is collected, and what is done with it. And having watched the Treasury cash books filling up as the various collections are noted in them, we want to know how the money is obtained from the Treasury to pay interest, salaries and other claims which the State has to meet; and what is done to ensure that it is not used for any other purposes than were intended by Parliament.

If we turn to the papers which the Treasurer submits to Parliament when he makes his budget speech, we shall find that the State of New South Wales derives its income from several sources. First of all it receives a contribution from the Commonwealth Government towards payment of interest on the public debt under the Financial Agreement (Ratification) Act, 1928. The payment takes the place of the contributions which

were formerly made under the State Grants Act 1927 which superseded the earlier Federal enactments which up to that time had governed the amount which the Commonwealth Constitution and such acts had provided should be paid to the States by the Commonwealth. Ever since the ambitions of the Commonwealth began to outstrip the income which the people originally placed at its disposal, there has been growing disquietude in State Treasury circles at what the Commonwealth was willing to contribute to the States as compensation for its monopoly of Customs and Excise taxes. We shall look at the present position more fully later.

Secondly there are receipts from taxation. Here again the incursion of the Commonwealth Government into the field of direct taxation has seriously depleted the amount available to the States. To-day the needs of the States to carry on their social programmes tax the ingenuity of State treasurers to find fresh sources of income for those rapidly growing services. Indeed there are many who think that the respective Federal and State Governments have between them exhausted the field, and that breaking point has been reached. For this there is some justification. In the ten years following the war, Commonwealth direct taxation increased by 72 per cent, that of New South Wales by 198 per cent, and for all the States combined there was an increase of 160 per cent.

Not only has the weight of taxation increased but the range has been widened. Income tax is still the main source of direct taxation for all the States, but the Governments cannot get enough from that field. Recently we have been familiarized with the wages tax which has had the effect of bringing home to many

electors what direct taxation means, and how heavy it can be. Then there are stamp duties levied on commercial instruments, and death duties on the estates of persons who leave property beyond the value of £1000. The man who makes a bet with a bookmaker is taxed, as well as the man who prefers the totalisator, and each has to pay a tax to get on to the racecourse at all. If I want to keep a pistol I must pay a license fee. And I must also pay a fee to hawk articles for sale, or to sell them in an auction room. So too I pay an entertainments tax when I go to a picture show or to the theatre, and the person who owns the hall or the theatre must also pay a tax for the privilege of letting the public go into it.

These illustrations indicate how widely the government flings its taxation net, and how fine are the meshes. So effective is it from the Government's point of view, that more than half the regular income which it enjoys comes from the operations of the various collecting officials. All the year round they are enthusiastically pulling money out of the taxpayer's pockets, though the income tax which is the most important catch is not obtained till late in the financial year. The reason for this is that there is so much work to be done in obtaining taxation returns, checking them, and making assessments that it is not possible to send out notices to the taxpayers telling them what they have to pay till the latter half of the financial year.

Thirdly there are the receipts from the sale or use of Crown lands. This is a diminishing asset for all the most valuable lands have already been sold. Of course a considerable portion of the Crown lands have been sold on time payment under the conditional purchase system, and there is a regular income from interest on unpaid



principal, and from part payments of the capital sum. So too there are large areas which have been leased, and the lessees of pastoral, agricultural, or mining areas pay rent from time to time for the right to continue in occupation.\*

A fourth important source of income is in respect of services rendered by the several departments. Income from this source is not to be confused with income from the railways, or Harbour Trust, which also render services. Their receipts are shown separately in their respective accounts. But the receipts with which we are now dealing come from such services as pilotage, harbour dues in the various ports outside Sydney, registration of deeds by the Registrar General, support of patients in mental hospitals, handling of wheat at the various grain elevators, and so on.

Then there are a large number of miscellaneous receipts, such as rents of properties other than lands, timber royalties, interest on advances to country towns to construct water supply and sewerage works, and from sources which are difficult to classify.

There are also receipts from the various business, industrial, or other undertakings such as the railways, tramways, Harbour Trust, brick works, irrigation areas, tourist resorts, and so on. These are not paid into the Consolidated Revenue Fund, but are carried by parliamentary authority to their several funds and shown in their appropriate accounts. We shall refer to this form of income when we come to deal with the various accounts.

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\* These revenues fluctuate seriously as they are affected by seasonal conditions, marketing arrangements and price levels.

Finally, there is the question of loans which has assumed great importance in Australian finance, but this too we shall discuss later under the heading of borrowing.

Because it is responsible for the financial operations of the State, notations of some kind have to be made in the books of the Treasury showing all the receipts and payments made on behalf of the Crown. Some money is directly collected by the Treasury, and in some cases it makes direct payment to persons entitled to receive money. But in general, the bulk of the revenue of the State is collected by officials scattered up and down the country, while others check claims and make payments. The Treasury is in constant touch with all these transactions, and exercises some oversight in respect of each one.

The general scheme of the financial system of the State is laid down by Parliament. There are of course two main divisions. There are the several Acts which authorize officers to collect money. Illustrations of these are the Income Tax and the Income Tax Management Acts which prescribe the persons liable to taxation, when they must furnish returns, what must be included, what the rates of taxation are, how assessments can be made, and the powers of the Commissioner for Taxation, and his officers. Or there is the Stamp Duties Act which prescribes what instruments are subject to stamp duty, the manner in which estates liable to death duties shall be assessed, and the rates which shall be paid. But it is equally important to secure that when money is collected it is properly accounted for, and that due check is made on all payments. For this purpose there are other Acts and regulations. Fundamental constitutional checks are

prescribed by the Constitution Act. These principles are elaborated in the Audit Act and other measures, and under the authority of these Acts many regulations have been issued. It is to these Acts and regulations that we must turn to ascertain how the machinery of finance works.

Any person who by any law, regulation, or appointment is charged with the duty of collecting or receiving, or who actually collects or receives, or who is charged with the duty of disbursing, or who actually disburses any public moneys, is declared to be an accounting officer. So runs the language of Sec. 22 of the Audit Act. We have adopted the term Accounting Officer from English practice, but the duties of our accounting officers are very different from those of the public servants who carry that rank in England. There they are responsible to the Treasury for seeing that the underlying principles of finance are adhered to. Here they have the simple duties of transmitting their collections to the Treasury, and of rendering an account to the Treasury and the Auditor General of the moneys which they collect or spend. If an accounting officer has his office in the City of Sydney or the suburbs, he must send in his collections to the Treasury at least once a week. If he is in the country, he remits once a month. In either case, if he collects large sums, he is required to remit those sums at once.

The Treasury has an agreement with the Bank of New South Wales and the Commercial Banking Company of Sydney Limited to transact its banking operations. This agreement is in pursuance of the provisions of Sec. 17 and following sections of the Audit Act. The banks have agreed to allow the Government interest

on all credit balances over a certain sum, and for this purpose or that of overdraft the Act provides that the several accounts at the banks shall be treated as one account. This agreement does not mean that none of the other banks participate in government business. As a matter of fact, the various accounting officers open accounts in any bank which happens to be operating in the town in which they are stationed. But it does mean that the official Treasury accounts are kept with the Bank of New South Wales, and the Commercial Banking Company of Sydney Limited.

Let us take the case of a Crown Land Agent who is stationed in a country town, and watch how he discharges his duties as accounting officer. He is the local officer of the Lands Department and, in this capacity, deals with everything relating to the sale, leasing, or occupation of land in his district. In the course of these duties he collects rents for the occupation of land, or instalments on land being purchased on time payment. If, as is frequently the case, he is also Clerk of Petty Sessions, his range of receipts will be much wider. But for simplicity we will think of him as only a Crown Land Agent. As each lessee or purchaser comes in with his payment, the agent issues a receipt. Every day he makes up a statement of the money which he has received and banks it with the local bank in an account called the "Crown Land Agent's Public Revenue Account." As nearly as possible he must bank the money in the form in which he received it. This and the daily banking are designed to prevent officers using for their own purposes money which they receive, and then paying in other money to cover their receipts. Our agent has to keep a cash-book in which he enters daily the particulars of his

receipts, dissecting them according to the purposes for which the money was paid. At the end of the month, he reconciles his cash-book with his bank-book, and he then draws a cheque on his Account, and either sends the cheque or a bank draft to the Treasury with a voucher giving the totals of his collections together with a detailed list under the several headings of persons who have paid him. The voucher and remittance are checked in the Revenue Branch of the Treasury, and the remittance is banked in one or other of the banks in Sydney to the credit of the Colonial Treasurer's Consolidated Revenue Account, or other appropriate account. Once a quarter the Crown Land Agent sends an attested statement of his receipts and the dates of his Treasury remittances to the Auditor General. This precaution is taken to keep a check on the way in which the local agent is doing his work. Later on when an Audit Inspector visits the town to make his inspections of the accounts, he checks the receipts which the agent gets from the Treasury with his cash books and receipts issued by him to the public.

If the agent is in a town where there is no bank, then he is required to take precautions for the safekeeping of his collections. He sends cheques at once to the Treasury by registered post, and if he has collected any cash then he buys money orders or postal notes and sends them to the Treasury also.

The procedure which we have outlined above applies also to Accounting officers in the Suburbs of Sydney. If, on the other hand, we take the Taxation Department which is in Sydney, we find that it banks its collections direct to the credit of the Colonial Treasurer's Consol-

ated Revenue Account, and not to its own account in the first instance as does the Crown Land Agent. Then the following day, the Taxation Department sends to the Treasury a voucher giving the particulars of the amount deposited. This is the course followed by a number of other large revenue collecting departments.

Let us go back again to our agent. So far we have been dealing with revenue. He may however at times collect money which is not revenue, and to which the Crown has no claim. For example, a number of persons who wish to ballot for the purchase or occupation of land have to deposit a sum with the agent as evidence of good faith. When the ballot is determined, the money has to be returned to the unsuccessful persons. But in the meantime it is desirable that it shall be kept safely, so the agent opens another account, called the Crown Lands Agent Public Moneys Account. It is in this account that he deposits all sums which come into his hands which are not revenue, or otherwise due to the Crown, and it is upon this account that he draws cheques to repay those sums. But these are the only accounts that a local Crown Land Agent pays. All other claims such as his own salary, any local stores, or goods he buys for his office, or any charge whatever will be paid by the Lands Department head office in Sydney. Even his petty cash will be supplied to him from the head office. The reason for this separation of receipts from payments is not to avoid confusion in the accounts: that would be simple. It is because the Constitution lays down a special procedure which must be observed before any money can be paid.

What we have said of the Crown Lands Agent is true also of the Clerk of Petty Sessions, Mining Wardens,

District Foresters, and all the army of officials who in the course of their several duties receive money from the public. From them flows a regular stream of remittances to the Treasury, by it to be banked to the credit of the Consolidated Revenue Account, or other appropriate accounts in the banks which transact the official banking business of the government. Each remittance is duly entered by the Treasury in its books to the credit of the appropriate account and every day the state of the accounts is checked with a "bank sheet" which the banks supply to the Treasurer showing the credit or debit balances of such accounts. The banks supply a similar statement to the Auditor General, who also receives from the Treasurer a daily "cash sheet" which shows the position of the accounts that day in the books of the Treasury.

Although we have not yet dealt with expenditure, it will be obvious that the cash sheet discloses what has been spent, as well as what has been collected. With this cash sheet is sent the supporting vouchers and documents relating to the several accounts which the Auditor General examines and checks. In this way the Auditor General is able to maintain a continuous check upon the state of the public accounts, and it simplifies to some extent his work of periodic audit of the books of the different accounting officers. Both these checks are part of the sanctions by which Parliament is able to enforce observance of its enactments. During the year, the interest of Parliament in the public accounts may appear to public servants to be cold and distant, but accounting officers are under no illusions about that of the Auditor General and his inspectors. Any departure

from the letter of the law and the regulations is followed by a request for an explanation, and if the Auditor General is not satisfied he reports to the Treasury and may draw the attention of Parliament to the matter when he makes his annual report. Every minister and accounting officer wishes to avoid a contest with Parliament especially if the Auditor General appears as informant, and therefore there is every inducement to prevent any irregularities either in collections or payments.

So far we have recorded the system of receiving, recording and banking the revenue of the State. We now pass to consider the procedure by which the State spends its money. When we were dealing with the Estimates, we saw that Parliament does not grant the government a lump sum of money to spend as it likes. It votes money for the specific purposes which were detailed in the Estimates submitted to it, and its final permission to the government to spend is embodied in the Appropriation Act. We have seen that the Treasury has been receiving money from the various accounting officers throughout the State, and that this money has been banked by the Treasury to the credit of the various accounts. It is from these accounts that Parliament has authorized the various payments on behalf of the Crown to be made. What we now wish to know is how the money is obtained from the banks, and whether there is anything to prevent the Treasury drawing cheques and spending the money for other purposes than Parliament has approved. In this case again there is an absence of several of the checks which exist in England, by reason of the fact that our system is somewhat differently designed. Let us see what safeguards and checks we have provided.



In the first case, Sec. 44 of the Constitution Act provides that "no part of His Majesty's Revenue in New South Wales, arising from any of the sources aforesaid, shall be issued, or shall be made issuable, except in pursuance of warrants under the hand of the Governor directed to the Colonial Treasurer." The Audit Act amplifies this restriction, and prescribes the forms of the warrants in the various cases, the procedure which is to be followed by the Treasury, and the Auditor General and the several accounting officers and ministers of the Crown. It also provides for an independent audit of the accounts by the Auditor General, and for his report to Parliament upon the faithfulness with which its wishes have been observed.

It will probably help us to understand the system if we take the Lands Department as a specific example. The Appropriation Act has authorized the payment out of the Consolidated Revenue Fund of the sums necessary for the salaries, maintenance, working expenses, and other expenses of the Lands Department. Salaries are paid once a fortnight, and other expenses are paid as they are incurred. Even though the Appropriation Act authorizes the expenditure under the several headings, no payment may be made unless it has first been approved by the minister (the Secretary for Lands) or by some officer appointed by the minister to do so, and the minister must also satisfy himself that the payment has been authorized by law and is covered by a parliamentary appropriation.

For facilitating payments which the Lands Department has to make, the Treasury authorizes the opening of a Drawing Account for it with the Bank of New South

Wales. When it has to pay its salaries, or other expenses, the Lands Department draws its cheque upon this account in favour of the various claimants. But in order to ensure that money shall be in hand to meet its payments it notifies the Treasury by sending it an abstract showing the sums which it will need, and the votes and items against which the expenditure is to be charged. The Treasury compiles a statement of these claims, and those of other departments. From its experience of their commitments and the Parliamentary appropriation available, it calculates how much will be required by all the departments for a period not exceeding three months. It then prepares a warrant which it addresses to the Auditor General in the following terms:—

The amount of money likely to become due and payable out of the Consolidated Revenue Account during the .... (Month or Quarter) now next is £..... and the services and purposes for which the same is required are provided for under Parliamentary Appropriation for Consolidated Revenue Services under the following Acts, that is to say:—

| <i>Appropriation Act.</i> |       | <i>Amount required.</i> |
|---------------------------|-------|-------------------------|
| .....                     | Total | £.....                  |

Dated this ..... day of ..... 1931.

..... Treasurer.

The Auditor General examines the statement to see that the payment has been authorized, and that payment has not already been made. If he finds that there is no authority, or that payment has already been made, or in certain cases, if there are no funds available, he returns the warrant with a written statement of his reasons for withholding his certificate. But if he is

satisfied that the warrant is in order, he signs the following certificate underneath the warrant:—

I certify that payment of the sum above mentioned has been authorized by Parliamentary Appropriation out of the Consolidated Revenue Account, and that payment thereof has not already been made.

Dated this ..... day of ..... 1931.

..... Auditor-General.

This certificate is forwarded to the Governor who then complies with the provision of the Constitution Act by signing the following authority:—

To the Treasurer of New South Wales, You are hereby authorized to issue out of the Consolidated Revenue Account the amount above set forth, and for so doing this shall be your sufficient warrant.

Given under my hand, the ..... day of ..... 1931.

..... Governor.

Armed with this warrant, the Treasury draws a cheque upon the Consolidated Revenue Account at the Bank of New South Wales or the Commercial Banking Company of Sydney, and deposits the cheque to the credit of the drawing account of the Department of Lands, and such other departments as are covered by the warrant.

It should be noted carefully that the Treasury does not make funds available until they are needed. Under the agreement with the banks mentioned, each department operates upon a spending account with the right to overdraw. But this is not intended to give the departments such control over their own expenditure that they can proceed to draw, and then present to the Treasury an abstract of their payments with a request

for recoupment. The Department of Lands knows what regular payments it has to make and it must see that the Treasury is ready to deposit funds to its credit in time to meet any cheques which the department has drawn. But sometimes there are emergent payments which must be made, and there is no time for the Treasury to make the funds available. In this case it is permitted to overdraw its account, and have it recouped as soon as possible. The advantage of the drawing account is its economy in the use of public funds. If every department had to obtain an advance from the Treasury against which it could draw, there would be possibly hundreds of thousands of pounds lying idle in different accounts and the Treasury would be losing both the use of those funds and any interest which is payable upon its credit balances.

The system also throws the responsibility for the payment of claims upon the individual department. This not merely relieves the Treasury of much detail work, but it enables that office to exercise a measure of supervision of all transactions. In the case of the Department of Lands, that office pays all claims of whatever nature arising out of its operations, except payment for the acquisition of estates for settlement. In these cases the payments are made by the Treasury after notification by the Crown Solicitor that the transfer has been satisfactorily completed.

Each department keeps its own accounts of expenditure, and periodically forwards the vouchers supported by acquittances to the Auditor General for his inspection. These are examined and later compared with the books of the department in the ordinary course of audit.

This brief statement of the manner in which the Lands Department deals with its expenditure will apply in principle to all the other departments. From our review of the system, it will have been noticed that the following safe-guards have been applied to prevent the mis-application of public funds:—

1. No money may be spent until Parliament authorizes it.
2. No cheque may be drawn by the Treasury upon the government accounts in the Banks in favour of the spending departments except under the authority of a warrant signed by the Governor.
3. Nor may the Governor sign the warrant until he receives a certificate from the Auditor General who must satisfy himself that money has been voted for the several services named in the warrant and that payment has not already been made.
4. Even though Parliament has voted the total expenditure of each of the departments, the Treasury does not immediately make available a credit for the full amount. It insists upon its approval being obtained for their day-to-day needs, and only lodges deposits to the credit of their drawing accounts to meet those needs.
5. Applications for funds must contain an undertaking to present, within a prescribed time, acquitted vouchers to the Auditor General in support of the advance applied for.
6. Before it will even make those advances the Treasury has to be assured that the specific ex-

penditure has been approved by a minister of the Crown, and that it is covered by a parliamentary appropriation.

7. Finally all payments are scrutinized by the Auditor General to see that they are in order, and he reports the results of his investigations to Parliament.

If this system were always adhered to, we might pass on to the next chapter, but there are the inevitable exceptions to the rule. We have already noticed three of them, payments made from the Treasurer's advance account, payments unauthorized in suspense, and payments made because one Parliament has lapsed before an Appropriation or Supply Act has been passed. To the extent to which Parliament has approved of the type of payments which the Treasurer is justified in making from his advance account, expenditure under that heading is not rightly regarded as an exception to the rules which we have stated above. But we have noticed that other types of expenditure are met from this account, and these are violations of the system equally with the other two for which the Treasurer and his officials hope to be exonerated by making excuses or explanations to Parliament when the next year's estimates are being considered.

Finally there is a type of expenditure which is sanctioned by Sec. 34 of the Audit Act, provided it is immediately reported to Parliament through the Speaker. It sometimes happens that parliamentary appropriations for certain services are more than sufficient for their needs, while other appropriations are inadequate. In these cases, if reasonable justification can be shown, the Governor is authorized to approve of the

surpluses being used to supplement deficient votes, but this permission is limited to votes for fixed establishments, and it does not apply to balances remaining over from the appropriations for specific public works. In every case a special minute has to be signed by the Governor, which is submitted to the Auditor General, and by him forwarded to Parliament within seven days of his receipt of the minute.

Once again, as we review the system for collecting and spending public moneys we must be impressed with the emphasis on the forms to be observed. Although they do not prevent money being used for other purposes than those previously authorized by Parliament, yet the exceptions themselves are surrounded by sanctions which make irregularities easily detected. We could indeed be happy if we could feel that there were similar precautions to prevent the unnecessary expenditure of funds, even though they may have been voted by Parliament, and if we had as ample an assurance that full value was always being obtained for what was spent. Unfortunately an even cursory perusal of the Auditor General's report dispels our hopes. Just as we have emphasized in dealing with the Estimates the imperative need of seriously weighing the public interest against the enthusiasm of the individual spending departments before any item is included in the Estimates, so here we insist that even after Parliament has voted money to spend, there should be the most vigilant scrutiny of every item in order that its expenditure shall be justified. It is not suggested that these considerations are entirely neglected. Many accounting officers exercise the same prudence in the management and spending of public funds as they do in their private affairs. But these swallows do not make a summer, and there are unnumbered discour-

agements and temptations which beset the accounting officer who attempts to guide his official life by the principle of economy.

We have seen that the Treasury is not concerned primarily with methods of organization, or with the provision of personnel. We have also seen that the Public Service Board which does deal with these matters, is not directly utilized by the Treasury to assist it with financial administration. But its usefulness is also circumscribed by the fact that it has no jurisdiction of any kind over a number of important sections of the public service. So far as the Auditor General is concerned, his functions are admittedly different from those of the modern commercial auditor. In other words he is concerned primarily with seeing that no expenditure is passed except as provided in the appropriation sanctioned by Parliament, and that there is no unauthorized divergence from prescribed conduct. Economy and efficiency are only by-products of his investigations, and in any case, his strictures or recommendations, as the case may be, usually arise as a result of his discoveries of what has been done, and not because his expert advice has been sought beforehand.

While it ought not to be necessary to be continually devising checks, since the public is entitled to expect economical administration as the natural aim of every responsible official, this is a case where, because of the ramifications of governmental activities, some co-ordinating and over-riding agency seems to be required. It must be permanent and it ought to be independent of political intrigue. The first condition rules out such an agency as the Budget Committee to which we have referred. Furthermore that committee, excellent as it was, comprised departmental chiefs who are already carrying a heavy load of administrative responsibility.



And from the nature of the case, its members were being asked, collectively, to pass judgment upon their own individual recommendations. These considerations seem to point to a Bureau of General Administration to which attention has already been directed. The Public Service Board already performs for a large part of the public service some of the functions which should be entrusted to this Bureau, and very little adjustment would be required to extend its operations. If this were done we would have the safeguard (1) that no expenditure was recommended to Parliament without adequate scrutiny and (2) that when Parliament voted money it was not merely spent as Parliament directed, but that it was spent to the best advantage.

But this machinery, like the existing Public Accounts Committee presupposes that Parliament is really interested in the results of the year's operations. It may seem strange to suggest that it is not, but its methods certainly lend colour to this view. It is seldom that there is any discussion upon the report of its officer, the Auditor General, despite the fact that he repeatedly informs Parliament of the several ways in which its financial directions have been disregarded. Again, in accordance with Sec. 16 of the Audit Act 1902, Parliament solemnly appoints a Public Accounts Committee, and gives it specific instructions to inquire into and report upon certain matters connected with the public accounts. These two documents are as important as the Estimates in the scheme of finance, and yet they hardly receive any more notice than that given to other reports which are required by statute to be submitted annually to Parliament. They may be referred to incidentally in the debates upon the Estimates or upon the Budget, but this is not enough. Can anyone imagine the board of directors of a com-

mercial concern confining its attention to authorizing the spending of money, and then ignoring the report of the manager upon the results of that expenditure? Yet this is what Parliament regularly does. The Standing Orders of the Legislative Assembly ought to require that at least one day shall be devoted to a discussion of these reports, and thus enable the House to examine ministers upon the manner in which they have handled the finances during the year.

## CHAPTER V

### FUNDS AND FINANCE

THE essentials of an ideal budget system may be stated in a single sentence. There should be one fund into which should be paid all the receipts of the Government, from whatever source, and no payments should be made from it until duly authorized. A statement of accounts based on such a system would disclose at a glance what the actual cash position of the Government was.

Measured by such a standard, the New South Wales Accounts are disappointing. Indeed, to find his way through the Accounts, the inquiring citizen will require much persistence, an intimate knowledge of the general operations of government, and technical proficiency in book-keeping. If, in addition, he possesses a good pencil and a large sheet of paper, he may succeed in finding out precisely how our public accounts stand.

If we refer to the Constitution Act it will be clear that the framers of our financial system intended that there should be a single fund. Sec. 39 provides that "all taxes rates, and duties, and all territorial, casual, and other revenue of the Crown (including royalties), from whatever source arising within New South Wales, and over which the Legislature has power of Appropriation, shall form one Consolidated Revenue Fund to be appropriated for the public service of New South Wales in the manner and subject to the charges hereinafter mentioned." Of course we must admit that the ramifications of govern-

ment extend much further in 1930 than they did in 1855, and it may be argued that therefore a unitary system of finance is no longer appropriate. Whether the argument is sound or not, the legislature has from time to time passed a number of enactments which have destroyed the unitary principle established in 1855, and to-day there are no less than seven distinct funds, in addition to the Loan Fund, besides several other accounts which are off-shoots of the Consolidated Revenue Fund. The result is that some revenues of the State are carried to each of these separate funds, each of which in seeking to achieve solvency competes with the others. In this confusion of competing sectional interests, the general interest of the community may perhaps suffer. In other words, taxes, rates, or charges of different kinds may be inordinately high in connection with some funds, and unreasonably low in others.

We have already noticed the separation of the operations of the business, industrial, and trading undertakings of the State from the Consolidated Revenue Fund, which contains the transactions of the ordinary governmental activities. They have not been given the status of independent corporations which is enjoyed by, for example, the Government Savings Bank, or the Metropolitan Water Sewerage and Drainage Board. These corporations are entirely independent of Parliament, though of course they are the creations of the legislature and their constitutions may be revised by it.

To give some of our business undertakings complete independence would be difficult though not impossible. The first difficulty is to provide them with a governing body which will be sufficiently representative of the interests affected. Since this body would have powers to fix rates and charges for its services and would have to

decide what services should be provided, its management would have to be so satisfactory that it would be able to withstand all the opportunist politicians who to-day make capital out of their promises to extend benefits from these undertakings either to the public or the employees. A second is that complete separation would involve permission to float loans upon their own security, and this would infringe the financial agreement between the Commonwealth and the States, under which the Loan Council is constituted as the only body to float government loans in the Commonwealth. This is not the place to canvass the various arguments for and against removing government enterprises from political control, though we may remark in passing that while they remain the sport of party politics, they constitute a serious menace to the hopes of popular government.

Although no government has been willing to face this problem, the Hon. B. S. Stevens, Treasurer of the State in 1928, wished to find a way of revealing the true financial position of the several government enterprises. Whether or not the method adopted was the most suitable one, is open to argument. We may notice however that instead of conceding autonomy of management an effort was made to give independent accounting. To this end separate funds were constituted for some of the undertakings. In each case, its capital value was computed. This sum is debited against the undertaking in the Treasury books, and it is required to pay interest upon it. Of course in the final resort the Consolidated Revenue Fund will be liable for meeting the annual interest, whether it actually receives the interest from the undertaking or not.

After making provision for interest, the fund of the undertaking may be used by the management for the

development of the business, with such limited discretion as is allowed it by the Parliamentary enactment. So, for example, provision is made for reserves, renewals, and adequate depreciation. Surplus profits are to be carried to a reserve fund, and used partly for meeting losses, if any, previously sustained, and partly for reducing charges for the services which the Undertaking renders. These provisions are satisfactory if the Undertaking is so uniformly successful that its profits exceed its losses. But such a happy condition is far from being the average experience of governmental businesses. Some of the losses have sometimes been serious, even extending to the whole of the capital originally embarked in the enterprise. In these circumstances, the existence of separate funds may well cause embarrassment to the Treasury.

If we could only introduce some of the reforms which we suggested in Chapters II and III, then, instead of separate funds, we could be content with a single fund, and subsidiary Accounts under that fund. For we should be able to rely upon Parliament treating the various claimants for Appropriations in an equitable and business-like manner.

Past experience however renders one cynical. While the various undertakings were financed from the Consolidated Revenue Fund, they were required to pay all their earnings to the Treasury and rely upon parliamentary Appropriations for capital and working expenses. Under this arrangement all profits, which were sometimes considerable, were used for current governmental expenses. The community as a whole benefited because it was relieved of taxation that would have been justifiable, but the undertaking was frequently starved. Actually it has meant that some of the undertakings have

been crippled, for they are now burdened with such a load of capital debt that earnings are insufficient to meet interest charges in addition to working expenses. If politicians could have realized how culpable they were in buying momentary popular favour at the expense of future taxpayers, they might, while there was yet time and opportunity, have made some provision for reserves, renewals, and depreciation, and our present discontents would have been lessened.

(a) *Consolidated Revenue Fund.*

It is time, however, to pass to an explanation of the various funds. The origin of the Consolidated Revenue Fund we have already mentioned. It is credited with all receipts which are not directed by statute to be carried to any other fund. From it may be paid such charges as Parliament annually directs, although some are fixed by the Constitution Act and other Acts, and are as we have seen, in the nature of permanent appropriations. The fund is now divided into three sections—the fund proper, Collections-in-aid, and the Special Purposes (Revenue) Fund. The fund proper we have already described.

Collections-in-aid are the receipts which a department earns from various services, and which are used as a set off against the expenditure incurred in earning them.\*

The Special Purposes (Revenue) Fund was created in 1928. The purpose of this fund is to provide for the special treatment of receipts derived from the sale or disposal of the State's assets. The fund is credited with receipts from the sale of government property including Crown lands, from royalties on minerals, and from one-half the royalties on timber. Against these receipts are

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\* See chapter on Estimates, p. 27.

charged the expenses of administration, and this reduces the amount which has to be found by taxation for the total administrative expenses of the departments concerned. But when these special expenses have been allowed for, there will still be a surplus, and this is used for the expenses incurred in acquiring land and other assets, in the improvement and subdivision of Crown lands for sale, and in connection with the general development of the State.

The creation of the fund is too recent to permit a discussion of the effectiveness of this arrangement. It has superseded the former Public Works Account, which was a subsidiary account within the Consolidated Revenue Fund, as this Special Purposes (Revenue) Fund is. The old Public Works Account was a fund into which was paid various sums appropriated by Parliament from time to time and also two-thirds of the net proceeds of the sale of Crown lands, exclusive of interest, less 20 per cent which was estimated to cover expenses of administration and other charges. It embodied a similar principle to that underlying the new fund, in that it was used for renewing assets, or acquiring fresh ones. It was a kind of reserve against which these expenses were debited, instead of using loan money for the purpose. If the renewals or purchases had been made from loans, then interest would have had to be paid, and this would have been a permanent inflation of the total cost of the asset, because there has been no separate sinking fund for each portion of loan expenditure, and because, also, the Treasury charges against each asset created from loan expenditure its proportion of the average interest paid on the total existing national debt.

There was no clear line of demarcation between what



was revenue and what was capital expenditure, but the Public Works Fund was used for both purposes. The Special Purposes (Revenue) Fund is designed to remedy this defect, and to secure that when capital assets are sold, they shall be replaced by others. Otherwise it would only be a question of time before the State would have parted with its most valuable assets, its land, timber and minerals, and would have sold its capital to help meet current expenses. One criticism which may be levelled at this proposal is that as the fund is used to provide a grant of £800,000 to the Railways to meet losses on developmental lines, the balance available for creating new capital assets is comparatively small.

(b) *The Closer Settlement Fund.*

The Closer Settlement Fund was created in 1906, though the existing provisions for its administration were only enacted in 1928. It is concerned with all the financial operations arising out of the various efforts at closer settlement, and the settlement of returned soldiers. The fund is credited—

- (i.) with assurance fees paid to the Registrar General under the Real Property Act, 1900;
- (ii.) with receipts from sales or leases or other sources under the Closer Settlement Acts or Returned Soldier Settlement Acts, including repayments of advances made to soldiers under that act;
- (iii.) with all moneys from loan or revenue appropriated by Parliament for the purposes of closer or soldier settlement; and
- (iv.) with receipts from a number of special sources, such as interest on investments from moneys belonging to the fund.

Against the fund is debited, subject to Parliamentary appropriation—

- (i.) the cost of acquiring land for closer settlement;
- (ii.) the cost of sub-division, maintenance, improvement and disposal of land for soldier settlement;
- (iii.) the advances made to soldier settlers; and
- (iv.) the cost of administration.

The Act of 1928 also permanently charges the Fund without any further appropriation by Parliament with the payment of interest accruing on debentures, loans or other advances which have been made under various Acts in connection with closer or soldier settlement, and with certain other payments.\* Appropriations unexpended within two years are to lapse.

A statement of income and expenditure and an annual balance-sheet of the Fund are to be prepared and submitted to Parliament covering the transactions on the fund. This balance sheet has not yet been prepared owing to the difficulties of disentangling all the operations which have been transacted since 1906. The importance of the fund may be illustrated by the fact that its loan liability at the 30th June 1930 amounted to more than thirteen million pounds, and the disbursements for that year to more than £1,600,000.

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\* It should be noticed that the Fund is debited with the interest on its capital, irrespective of whether the settlers have made their payments, or not. In view of the many concessions which have been granted to settlers, and the number of cases in which instalments and re-payments of advances have been deferred, it is a matter for consideration how long the Fund will be able to go on meeting its interest bill, and at the same time fulfil its primary function of closer settlement.

(c) *The Sydney Harbour Trust Fund.*

This fund was created in 1928 in pursuance of the policy of the Government to separate the finances of various business undertakings from the Consolidated Revenue Fund. The principle followed is to credit the fund with specific receipts, and then to make it responsible for meeting every claim against the government which is referable to the Trust. "The Consolidated Revenue Fund shall not be liable for any such claim or demand" says the Act, and there are no limiting words which will be found in other measures such as "provided that so far as the . . . . Fund is insufficient to meet any such claims, they shall be paid out of the Consolidated Revenue Fund." Apparently the framers of the Act of 1928 were so convinced of the stability of the Fund, or of the ability of the Harbour Trust to adjust rates to expenses, that the possibility of a deficit was not allowed to disturb their optimism.

The fund is credited with receipts from all wharfage and tonnage rates, fees, rents, charges, etc., levied and collected by the Trust; all loan moneys raised and appropriated by any Act for the purpose of the Trust; all interest on investments belonging to the Trust; and with certain other miscellaneous receipts, including "sums advanced by the Colonial Treasurer in pursuance of this Act." The Capital value of the Trust's property is to be ascertained, and interest and sinking fund payments are to be made by the fund. Interest paid or accruing upon capital works during construction, and before they are revenue earning, may be treated as part of the capital cost and added to the capital debt. But notwithstanding this separation, the fund is to enjoy any benefits and suffer any burdens proportionate to those enjoyed and

suffered by the State under the Commonwealth Financial Agreement.

In other words, the Trust has simply been charged with the liability formerly borne by the Consolidated Revenue Fund so far as interest and Sinking Fund payments are concerned. It is still dependent upon the Government for any additional capital which it may require, and is prohibited from borrowing in any other way. Nor has the Trust discretion in the matter of investments. "Any money in excess of their immediate requirements . . . . . shall be invested with the Colonial Treasurer at such rate of interest as may be agreed upon." This means that the Treasury has secured the benefits of separation without the disabilities (in its case) of divorce, for the Treasury will under this arrangement still have the use of surplus funds of the Trust as in the past as a help to its general banking account.

In addition to the general fund thus described, there is to be a separate renewals fund, to which shall be credited such sums as the Trust, with the approval of the Governor, shall transfer thereto, and from the fund shall be appropriated by Parliament such sums as it deems desirable for renewals of plant and equipment.

The Trust is also to establish a reserve account in connection with its fund, to which is to be paid net profits, as certified by the Auditor General. The reserve account is to be applied to meeting losses incurred, and for reducing rates or other charges for the use of the port by shippers and the public.

Full accounts are to be kept, including complete and separate financial and cost accounts of all commercial and industrial activities controlled by the Harbour Trust, and are to be submitted annually to Parliament.

(d) *The Government Railways and Tramways Fund.*

This fund was also created in 1928, and the description which we have given of the Harbour Trust Fund applies *mutatis mutandis* to this fund, which is administered by the Railway Commissioners. There is however one important addition. The railways have always been regarded from two aspects. They have been the most important transport agency in the community, and, until the advent of the motor vehicle, enjoyed a virtual monopoly in the carriage of goods and passengers. But they have also been used as an instrument for development. With every extension of settlement has come a demand for the construction of railway lines. Essential as these lines are to the distant settlers for the carriage of their supplies and the marketing of their produce, it is inevitable, with the present sparsity of settlement that earnings on developmental lines will not cover expenses.

In other countries, military exigencies have dictated the building of strategic lines which are unprofitable commercially. That situation has been met, as in India, by special contributions which are charged against defence to the upkeep of the railways. This is the principle which has been applied by the Government Railways Amendment Act of 1928. What are developmental lines is to be determined by a Committee of Review comprising the Auditor General, the Chief Commissioner, and the Under-Secretary to the Treasury. The Railway Commissioners are required to make an estimate each year of the losses which are likely to be entailed by the operation of such lines, and, towards meeting these losses, the Treasurer is to make a contribution from the Consolidated Revenue Fund, if Parliament approves, of a sum not exceeding two-thirds of such losses, "but not in any case exceeding eight hundred thousand pounds."

- (e) *Road Transport and Traffic Fund.* (f) *Metropolitan Transport Trust—General Fund.* (g) *Newcastle and District Transport Trust—General Fund.*

These funds were created by the Transport Act of 1930, which sought a comprehensive treatment of tramway and motor transport in New South Wales. The Act constituted a Commissioner of Road Transport, and made provision for a Metropolitan Transport Trust, and for country transport trusts. So far, the Newcastle and District Trust is the only country trust yet constituted. The Sydney tramway system has been removed from the control of the Railway Commissioners, and its management vested in the Metropolitan Transport Trust. The Newcastle system is vested in the trust for that District.

Separate funds have been created for each of these trusts, and there is also a fund for road transport and traffic generally. This latter fund is credited with receipts—

- (i.) from fees for public vehicles charged under the Metropolitan Traffic Act 1900,
- (ii.) from fees for the registration of motor vehicles and drivers under the Motor Traffic Act 1909, and
- (iii.) from all fees chargeable under the Transport Act 1930, except the annual license fees for omnibus services, which are to be paid into the Special Deposits Account at the Treasury to a fund known as the Public Vehicles Fund.

The proceeds of penalties imposed under these Acts are to be paid into Consolidated Revenue Fund. Subject

to parliamentary appropriation, the fund is charged with—

- (i.) the cost of police supervision of road transport and traffic;
- (ii.) all administrative charges entailed by the Act, except those connected with the specific transport trusts; and
- (iii.) the cost of acquiring or resuming lands, or other works carried out with the authority of the minister.

The commissioner is authorized to draw upon the fund without waiting for parliamentary approval to defray expenditure upon services which cannot be postponed without injury to the public interest. The balance standing at the credit of the Road Transport and Traffic Fund at the close of a financial year is to be transferred to the credit of the Country Main Roads Fund.

The Public Vehicles Fund is to be credited with all taxes levied upon public motor vehicles, with the annual service license fees paid by omnibus proprietors, and certain miscellaneous receipts. These receipts are specially assigned to various purposes, and may be paid thereto without further Parliamentary appropriation. So taxes paid on motor omnibuses are to be paid by the Commissioner of Transport partly to the Main Roads Board and partly to the councils of shires and municipalities within the trust district. The local councils are required by the Act to spend their proportion on the reconstruction, renewal, repair and maintenance of public roads used by the omnibuses. Receipts from service license fees are to be divided equally, one half to the above beneficiaries, and the other is to be used by the commissioner towards reducing the capital indebtedness

of the trust. So far as the taxes for public motor vehicles other than omnibuses are concerned, these are to be used by the commissioner for land resumption, or for facilitating the movement of traffic, relieving congestion, or for protecting pedestrians in public streets.

The capital indebtedness of the Metropolitan Transport Trust is declared to be £7,487,154, but that figure is to be reviewed by a committee whose decision will fix the actual sum. On that sum, the Treasury will charge the trust the average rate of interest which it pays on the current State debt; also a sum of five shillings on every hundred pounds of its capital debt, and such further sums as the Governor directs shall be borne by the trust for sinking fund obligations. The fund is credited with all revenues obtained from the management of the metropolitan transport system, and is debited with all the charges for the sustenance of the system, as well as the capital charges already mentioned.

As part of its accounting system, the trust must establish a renewals reserve which will be used for equalizing annual expenditure in respect of renewals, reconstructions, conversions, and special works. It must also establish a general reserve, to which must be transferred any profits. This reserve fund will be used to meet losses which may be sustained.

The Trust is unfettered in its discretion of the sums to be applied to renewals and reserve. For example, any balances in the renewals reserve not required for other purposes may be used temporarily to defray capital expenditure, and balances invested for the general reserve may be similarly used. The trust is authorized to borrow with the approval of the Governor on the security of its assets for any purposes connected with the Act, and



the interest, which is guaranteed by the Government, is made a charge against the revenues of the trust.

For every loan there must be a sinking fund to discharge it, though the trust may re-borrow to pay off the loan. Money set aside for sinking funds must be invested with the Government of New South Wales, or in such securities as the Governor approves, and interest on such investments is to be added to the sinking fund. All operations in respect of loans are subject to approval of the Governor. The provisions of the Commonwealth Financial Agreement do not apply to these loans.

What has been said of the Metropolitan Transport Trust applies also to the Newcastle and District Transport Trust. In its case, the capital indebtedness has been tentatively fixed at £944,651. This sum, as well as that of the capital indebtedness of the metropolitan trust is deducted from the capital debt of the government railways.

While the foregoing completes the description of the various funds over which Parliament has powers of appropriation, and over which the Treasury has some control, it does not exhaust the total funds which have been created by the Legislature. These other funds are of two kinds. There are those of corporate bodies such as the Metropolitan Water Sewerage and Drainage Board, or the Metropolitan Meat Industry and Abattoirs Board, which have complete autonomy both in management and finance. Neither Parliament nor the Treasury is consulted by these bodies in regard to their financial transactions. Then there are the funds of other corporate bodies such as the Main Roads Board, which also has autonomy of management and finance, but in respect of which the Treasury acts as banker by reason

of the fact that the funds of the Board are deposited with the Treasury in the Special Deposits Account.

It is therefore possible to distinguish the three types of funds. Those of corporate bodies over which Parliament has powers of appropriation, and the Treasury some control; those over which Parliament has no powers, but in respect of which the Treasury acts through the Special Deposits Account as banker for the corporation concerned; and those for which the Treasury does not so act.

From this explanation of the various funds, and of the types of revenues which are assigned to them it should be apparent that the term "Consolidated Revenue Fund" as originally contemplated by the Constitution Act is quite inappropriate to-day. That fund is merely a "Governmental Services Account" and covers only a restricted portion of governmental activities. In its present form it is misleading, and if the unwary citizen relies upon it, he may obtain an entirely wrong view of the financial position of the State. The omission of the accounts of some of the more important governmental agencies offends against the principle of comprehensiveness in budgeting, while the inclusion of others which are not properly tied into the general accounts disturbs the unity of the budget.

According to all competent critics of public finance, comprehensiveness and unity are above all things to be desired in a Budget. And a little reflection will show why this is so. If the Budget only deals with a section of the financial activities of the State, there can be no proper control and criticism of the whole system. For if certain assigned revenues are removed altogether from regular appropriation by Parliament, its power of distributing the burden of expenditure most equitably

amongst all sections of the community is restricted. It may well happen that the proceeds from revenues assigned to a fund are more than sufficient to meet its obligations. But others may prove inadequate and so prevent proper service being given. The system also does not allow that economy of balances which is so important in public finance, for unless special precautions are taken, some balances may be lying unused, while other funds are paying interest upon overdrafts. Or, to take an experience with which we are familiar in this State, the governmental Budget may show a surplus, while those of the subsidiary budgets may show heavy deficits.\*

What might be done in these circumstances will depend upon the undertakings affected. In the case of the railways or Harbour Trust, rates and charges may be raised. But this means that present users are paying for the benefits enjoyed by past consumers. Or the deficiency may be met by a contribution from the general budget, in which case the whole community will pay, to enable users to get services for less than cost. This may be justified on the ground that the whole community benefits by the work of the railways and the Harbour Trust. But if this is a tenable position, then there may be warrant for asking the community to meet part of the regular expenses of the undertaking, though this of course would bring us back to where we were before separation of finance was initiated, and there would be no means of finding out how economically the undertaking was being managed.

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\* In this connection see the report of the Auditor General for 1929-30, p. 6 in which he points out that the Railways dominate the financial situation. Since the principle has been accepted of making a contribution from the Consolidated Revenue Fund towards operating the Railways, the provision of that assistance will have important reactions upon State budgeting.

If the deficiency occurred in an undertaking which was competing with private enterprise, as in the case of the abandoned trawling industry, prices could not be raised above competitive rates without losing trade, while to subsidize it from general revenues would be to give a government business an unfair advantage over private concerns. It might also mean disguising and condoning the incompetence of the management of the governmental trading undertaking.

Though this assignment of specific revenues to meet defined expenses is regarded as a mark of immaturity in financial affairs, such a method is always popular with some sections of the community. Every country is familiar with the demands of motorists, who have been singled out for special attention by governments, to have the taxes on motor vehicles and petrol ear-marked for the construction and conditioning of roads. And expediency has often dictated that these demands should be granted. But it can readily be seen that such a principle might be extended so far as to destroy the utility of a budget. If the estimates of expenditure which are presented to Parliament are an evaluation of the relative merits of each service which is to be supplied to the community, then all the expenditure of the State ought to be considered concurrently. The needs of yesterday when revenue was specifically assigned by Parliament to distinct projects will probably be different from the needs of to-day, and there is greater certainty that to-morrow will have entirely separate problems. And these problems will arise not only when there is a change in the proceeds from the assigned revenues, but when there is a change in the volume of unassigned revenues. It is true that legislation can remedy defects of this nature, but action is usually deferred till the situation can no

longer be ignored, and then it may seriously disappoint the reasonable expectations of those who have been working under the former organization.\* These circumstances have provided the rationale of the consolidated (i.e., aggregate and inclusive) fund, under which each situation can be met as it arises.

We have already suggested some of the reasons which dictated the recent changes in our financial system in this State. Those changes have been helpful insofar as they have (1) retained and even extended the opportunity of Parliament to consider the finances of the several undertakings, (2) separated the gross operations of the business undertakings from the ordinary governmental accounts, thereby avoiding exaggerated impressions of the cost of government, and (3) enabled the public to have a better appreciation of the actual financial results of the several undertakings.

The defects of separate funds and assigned revenues have already been mentioned, though many people, looking at the intransigence of political party-ism, will find it in their hearts to excuse them. In any event, it is suggested that the net results of the working of the various separate Undertakings should be tied into the general Budget, and a definite policy laid down for dealing with their deficits. At present these appear in the balance sheet showing the ledger balances of the various accounts as "Advances for departmental working accounts and other purposes, and advances to be recov-

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\* It must be remembered that it has only been possible to give illustrations of the practice of assigning revenues to specific objects. Two other instances are worthy of mention. The Family Endowment Tax is a direct tax in no way different from an Income tax. The proceeds from the tax however are not paid into the Consolidated Revenue Fund, but into the Special Deposits Account where they are ear-marked for endowment. The Unemployment Relief Tax is similarly treated. In each of these cases payments are made without Parliamentary appropriation. See p. 109 for a description of the Special Deposits Account.

ered." In the case of the railways, the deficit is likely to reach such proportions as to make its recovery from railway earnings uncertain. There seems no escape from the necessity of providing for these deficits in abnormal times from general revenue. But the provision cannot be made during the year in which the deficit occurs. It will have to be taken into the Consolidated Revenue Accounts in the succeeding year, a method which will, of course, be distasteful to Treasurers.

Our criticism of the existing system must not be taken as supporting any desire to destroy the manifest advantages of accurate accounting which have accrued. Rather do we wish to see the reforms carried a step further. It is reasonable to expect that somewhere in the public accounts of the Treasurer a place should be found for an aggregate statement of the whole of the financial transactions of the State, from which could be ascertained the improvement or retrogression in the position as a whole. It would be purely a matter of collation of the total results from each of the accounts.

The information is available, but only an intimate knowledge of the whole financial machinery of government enables one to bring it together in aggregate form.

Hitherto we have been dealing with funds, each of which has its appropriate accounts. There may be a number of accounts in connection with each fund. But in addition to these there are other Accounts kept at the Treasury distinct from the funds which we have been discussing. Some of them have considerable sums to their credit, as will be seen from a perusal of the Treasury cash balances.

In the Audit Act provision is made for the most im-

portant of these accounts, the Special Deposits Account, and the Trust Account. "Special Deposits Account" means an account relating to sums held by or deposited with the Treasurer for store accounts, advance accounts, and moneys (not included in the Consolidated Revenue, General Loan, or Trust Account) which the Treasurer directs to be carried to the Special Deposits Account. "Trust Account" means an account of funds of which the Treasurer is by statutory obligation a trustee and custodian, and of moneys that have been placed to the credit of the trust fund under the Audit Act 1898, or the Audit Act 1870, and of moneys directed to be paid into that account by the Audit Act 1902. In practice the trust funds are not kept separately, but are included in the Special Deposits Account.

There is no provision for Parliament to make annual appropriations from this account, its control being limited to establishing the nature of the receipts and payments to any account, the direction to open such accounts, or the authority to the Treasurer to make such directions.

In his report upon the 1929-30 public accounts, the Auditor General has classified the Treasury's liability in connection with Special Deposits as follows:—

|  |             |
|--|-------------|
| Internal Liability .....                         | £3,614,405  |
| External Liability .....                         | 10,146,089  |
| Advances by Commonwealth Government .....        | 9,595,528   |
| Moneys of which the Treasurer is a Trustee ..... | 782,917     |
|  | <hr/>       |
| Total liability .....                            | £24,138,939 |

By internal liability is meant an obligation for which the

Treasury itself is responsible. For example, in this classification are found all the working accounts of the various departments, the funds of the Government Insurance Office, of the Main Roads Board, suspense accounts, departmental accounts other than working accounts and so on. The funds in these accounts have either been advanced by the Treasury, or are being used for ordinary governmental purposes, and they are included in Special Deposits Account for greater convenience. By external liability is meant a liability which the Treasury is under to other institutions or persons whose funds are temporarily deposited with the Treasury. For example, in this category is included money at fixed deposit or short call with the Treasury, e.g., from the Government Savings Bank, amounting in 1929-30 to £6,900,000, from the State Superannuation Board, the Liquor Compensation Fund, and so on. In these cases the Treasury is simply the custodian of the funds. The Commonwealth Government advances are mainly in connection with the settlement of soldiers and others on the land, and are in this Account pending their final adjustment. The fourth classification is self explanatory.

In addition to the Special Deposits Account there are the special accounts aggregating at the same period, £405,889. These are known in the Treasury as Supreme Court Accounts and cover accounts of the Master in Equity, Master in Lunacy, Public Trustee, Prothonotary, and Registrar of Probates. They are on rather a different footing from the other accounts which we have described in that they are not an integral part of the Treasury system. They form part of the Treasurer's General Banking Account, but are operated upon by the several departmental officers concerned without reference to the Treasury.



## GENERAL BANKING ACCOUNT

All the moneys at the credit of the various funds which we have described, and at the credit of the Special Deposits Account and Special Account, and of certain other accounts, make up the Treasurer's General Banking Account. Each fund or account has its own Banking Account, but under the provisions of the Audit Act and of the agreements made with the banks, the debits and credits of these several accounts are balanced against each other. When this is understood, it will be easy to appreciate why it is that the Treasurer can wait till his major revenues are received, or may have even a recurrence of deficits in Consolidated Revenue Account, in the Railways Account, and an overdrawn General Loan Account of many millions, and yet be able to carry on without accommodation from the banks. He can do so because he uses the funds which are at the credit of the Special Deposits Account and special accounts as if they were a form of Treasury chest. In other words, while these accounts are in credit, he can run into overdrafts on the others. This is not a new practice. It has been resorted to ever since funds of this nature were available. But whereas in the 'eighties the sums so deposited were comparatively small, to-day they have grown to such magnitude that they are a temptation to Treasurers who prefer to permit deficits on current revenue account to be carried over from year to year, and to defer the flotation of loan moneys, rather than risk unpopularity by insisting upon curtailing expenditure.

The use of these funds is especially objectionable in regard to loan expenditure, to which we shall refer later. But it is open to general criticism upon the ground that it is opposed to the provisions of the Audit Act. Under

Sec. 37 (i) no moneys may be drawn from the Special Deposits Account except for the purposes of the account. Ever since that section has been in existence, it has been violated in spirit if not in actual fact. Successive Treasurers whilst not actually withdrawing funds from the Special Deposit Account, have used them to off-set overdrafts on other accounts.

At 30th June, 1930, the debit balance on the whole of the Treasurer's accounts was £2,055,199—thereby showing conclusively that the whole of the funds in the Special Accounts and the Special Deposits Accounts had been off-set against overdrafts in the other accounts of the Treasurer. Seeing that the account is operated upon without parliamentary appropriation the position thus evidenced cannot be lightly disregarded.

What then is the justification for it? It must be remembered that upon the bulk of these funds the Treasury is paying interest. And this is a case where the Treasurer can dictate what rate he will pay. The Government Savings Bank is allowed from 2 per cent to 5 per cent for its deposits, the Public Trustee 5 per cent, the Liquor Compensation Fund 5 per cent. In some cases the rates are higher, in others they are much lower, while upon certain funds no interest at all is allowed. If the Treasurer pays interest upon these funds, and at the same time, is required to borrow to finance his other accounts which might need assistance, then the State would be paying interest unnecessarily.

Naturally the Treasurer wishes to avoid this. Accordingly he justifies the use of the funds on at least two good grounds. It obviates recourse to the loan market, and this is very important if the interest rate is unfavourable. And he can point to the substantial saving

to taxpayers because he gets accommodation at a cost which is less than would be paid on long-dated loans.

Except in times of financial stringency, these arguments may be conclusive. For in the event of any heavy demands upon the account, the Treasurer could at once float a loan and so re-imburse the Special Deposits Account. In existing circumstances, however, the wisdom as well as the expediency of the system is being tested, and it may be desirable to give consideration to regulating the manner and extent of the Treasurer's use of funds for which he is a trustee, or in respect of which he occupies a position analogous to that of a banker.\* In the latter case he has the privilege of using the funds for the purposes of his general finance: in the former, he is under an obligation to protect them by the provision of adequate reserves to meet contingencies.

In successive reports of the Auditor General attention has been drawn to the problem, and warnings have been given. Handled discreetly, the present system may conceivably be justified for the reasons we have mentioned. On the other hand, a point may be reached at which the further use of these funds may be unsound. Banking experience should be a guide in determining that point. If it is generally appreciated that at the 30th June 1930 the amount at the credit of the Special Deposits Account was more than the total collections credited to the Consolidated Revenue Fund for the same financial year, then the significance of the account in the total financial operations of the government will be better realized. Indeed it would be possible for a Treasurer disposed to do so, to use these funds in such a way as to make a serious breach in Parliament's control of the purse.

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\* The Government Savings Bank crisis throws this contention into vivid relief.

The Special Deposits (Industrial Undertakings) Act 1912 has already been referred to. From the account constituted thereunder, the trading operations of certain industrial and trading undertakings are financed. These undertakings have a measure of financial autonomy, the Treasury acting as banker for them. By amending legislation in 1930, they have been required to pay charges which are ordinarily borne by private concerns, including audit fees, and income taxation.

As we are here dealing with Accounts it may be appropriate at this stage to discuss the accounts in respect of tenures under the Crown Lands Acts. These differ from the types of accounts which we have been discussing in that they are personal accounts. Any receipts in connection with them are credited to consolidated revenue. They must also be distinguished from the personal accounts of settlers under the Closer Settlement Fund. It will be remembered that when we were explaining the sources of revenue of the State, we referred to the sale of land on time payment, or conditional purchase, as it is called, and to the annual rents due from lessees under various tenures, such as perpetual leases, homestead selections, homestead farms, western land leases, and mining leases. There are nearly 200,000 persons who are either buying land by instalments or who are paying rent for its use. The sums outstanding on land being purchased amount to many millions of pounds.

It would naturally occur to the casual inquirer that these accounts would be kept in the Lands Department which specializes in Lands matters, and is intimately concerned with the protection of the Crown's landed capital. But he will be surprised to know that the ac-

counts are kept in the Treasury, although most of the action necessary in regard to the purchasers and lessees is taken in the Lands Department. All that the Treasury does in connection with the collection of the accounts is to prepare a list of all debtors in each Crown Land Agent's district. Thereupon the detailed work of collection is undertaken by the Lands Department. If purchasers want extensions, if the Crown decides to cancel leases or sales (forfeiture, as it is called), or to waive conditions which were originally imposed, then the Minister of Lands takes whatever action he deems suitable. The Treasury is not consulted in any way, though it is advised by the Lands Department of any action that is taken. In other words, the Treasury records the entries, but is not concerned with the details of collection, or with the merits of any action which the Lands Department takes.

It is obvious that this system has many disadvantages. If all purchasers paid when their instalments were due, or if rent was forwarded promptly by lessees, the problem of collection would be simplified. But Crown debtors, especially of the type we are considering, are not always eager to pay. And since the State is anxious to keep settlers on the land so that it may benefit by their productive processes, it cannot always be severe with defaulters. Consequently the work of following up settlers in arrears is not simple. This work falls to the Lands Department to do. But before it can act it has to go to the Treasury to find out which settlers have paid. If the Lands Department kept its own set of accounts, there would be complaint of duplication of work. It is not sufficiently appreciated that there is, at present, considerable waste of time, as well as duplication of effort, in that the Lands Department has to keep

notations of the state of each settler's account in its office, in order that it can determine what "follow-up" is necessary.

It seems quite clear that these accounts should be transferred to the Lands Department. If the Treasury demanded that its approval should be obtained to any waiver or reduction of a settler's debt, then it could urge that it was safe-guarding the State's revenue. But it does not. On the other hand, the Lands Department is in a much better position to take effective action in every case, and settlers would not be embarrassed by having to deal with two departments. Now that the Lands Department has been made responsible for closer and soldier Settlement, the ordinary conditional purchase and lease accounts should also be transferred. But here again, another case of divided responsibility appears. The Lands Department does not deal with all closer or soldier settlement. Where irrigation areas have been developed, the settlement of all persons, including soldiers, in those areas is under the jurisdiction of the Water Conservation and Irrigation Commission, which also keeps the personal accounts of the settlers. Irrigation areas are under the oversight of the Minister of Agriculture, and not the Minister of Lands. In other words, there are three different ministers and departments dealing with the collection of accounts from settlers on the land.

In recent years, frequent suggestions have been made that the simple receipts and disbursements system of recording the financial transactions of the State, which we adopted in 1895, should be abandoned in favour of approved commercial methods of income and expenditure

accounts. The accounts of the several business, industrial and trading undertakings have now been reorganized on this basis. There are, however, difficulties in the way of adapting the accrual system, as it is called, to the ordinary governmental accounts. The purpose of any system of accounts is to provide the person examining a business with a picture of its condition. Only the accrual system will give him a complete view of all his earnings and expenses. The present system of keeping the Government accounts provides the Treasurer with information of his revenue, and of his unexpended appropriations, but it does not tell him what his outstanding claims are.

English opinion is on the whole unfavourable to any change from the simple receipts and disbursements system. Only money actually received at the close of the financial year is credited to that year, and only claims actually paid are debited against it. What is not collected or paid in one year will be accounted for in the next. Generally speaking it is felt that these amounts are trifling, and that the "superior simplicity of the cash account is not counterbalanced by any serious want of accuracy." For ordinary government accounts are mainly "running revenue accounts that can be fairly represented by payments and receipts." Nevertheless, in view of the charges of misstatements of the true position of the government accounts which have sometimes been made in this State, an effort has been made to ascertain the real result of any year's operations. This has been done by providing a supplementary statement in the budget speech which includes all the receipts and payments for the two months following the close of the financial year, which are properly assignable to that year. This may not meet the wishes of those who place

accuracy above simplicity, but it avoids the danger which the alternative system runs of delaying criticism of the accounts until all interest in them has waned.\* It is an effective answer to the criticism, for example, that a Government may influence its surplus or deficit by delaying its collections or hastening its payments.

When a change of ministry takes place, the retiring Treasurer has to safeguard himself against subsequent political charges that the accounts were not in the condition claimed by him when he left office. Accordingly there is a practice of longstanding in this State in which the incoming and the outgoing Treasurers each nominate an accountant who is not employed in the Public Service to check and certify to the state of the accounts. These accountants confine themselves to a comparison of the figures established by the Auditor General's officers with the entries contained in the books of the Treasury, for it would be too much to expect that they should themselves go through all the State's transactions. They do however make a physical and complete examination of the securities held by the Treasury, which may be in debentures, fixed deposits, war bonds, etc.

Allied to the question of keeping the State's accounts on an income and expenditure basis, is the problem of preparing a national balance sheet. Although there is not the same advantage to the citizens in disclosing the nature and condition of its capital assets as there is to the shareholders of a commercial enterprise, it is argued that it is desirable to furnish a statement of government assets with the annual accounts. To prepare such a statement would be very difficult. A moment's reflection

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\* In France, where the accrual system is used, the accounts are kept open until all the transactions have been finalized. In practice therefore the Legislature does not have an opportunity of discussing the complete accounts for a financial year until at least two years later.



will convince us of the varied and valuable nature of the capital assets which the State possesses, and of the possibilities of loss and misuse of them. At present their care is distributed amongst the various departments and corporate bodies. Is this system adequate? Under the new system of accounting, many of the State's agencies will disclose in their annual balance sheets the nature and value of the capital and plant used by them. But these balance sheets only cover a fraction of the land, buildings, plant, machinery, stores, and equipment possessed by the State. The Auditor General and the Treasurer have been concerned with the proper accounting for these assets. They are convinced that the existing system is inadequate. A simple but ineffective method of an inventory is generally adopted. Amongst the suggestions which have been made is that an Assets Office should be created which should be responsible for the proper care of all State property, but the question still remains to engage the attention of some official consumed with a passionate zeal for accuracy and order.

## CHAPTER VI

### HOW WE BORROW AND MANAGE OUR DEBT

NEARLY three generations of electors in the Commonwealth of Australia have become familiar with the political slogan—"a vigorous public works policy." Spending is highly popular, and ever since the 'seventies of last century when this special form of spending first captivated the electors, the politician who promised to borrow for public works has been assured of the plaudits of the people. The vigour of the policy has been conditioned by the willingness of other people to lend. When it was first initiated, investors were as eager to lend as politicians to borrow. The "roads and bridges" member of Parliament of the days before the creation of country Local Government authorities, depended for election upon the number of public works in his district which he could persuade ministers to undertake. Buildings sprang up, railways spread out, roads were constructed, and water schemes were developed—the products of borrowed money lavishly spent.

The boom of the 'eighties was followed by the crisis of the 'nineties, and the closing years of the nineteenth century saw the public works policy becoming somewhat sluggish. After the foundation of the Commonwealth it acquired new energy, and the political fortunes of Labour became bound up with it. The war necessarily arrested the policy, but the post war years

have been memorable for its frenzied revival. The war did much more than destroy life and property. It unleashed desires and demolished traditional restraints in governments as well as individuals. For the financial year 1927-28, the several Australian governments borrowed £76,656,544, of which £40,500,000 was new money, while during 1930 maturing loans amounted to over £112,000,000. By an unhappy combination of circumstances, confidence in the financial stability of the governments was severely shaken in that year, and, as in the 'nineties, overseas borrowing became virtually impossible. Once again, the public works policy has languished, and in consequence unemployment has swollen to abnormal proportions. It is outside the purpose of this book to discuss the economics of borrowing, and we reluctantly turn to the less romantic but all-important subject of the way in which New South Wales has floated its loans, and the nature of its existing public debt.\*

### A LOAN ACT

An effective approach to our subject may be made through a study of a Loan Act. This apparently innocent statute usually contains not more than a dozen sections, but upon examination, it will be found to use terms and to refer to other statutes which involve a knowledge of the development of almost the whole of our machinery for borrowing. It is an extremely interesting evolution, but again we must content ourselves with a study of those things which are relevant to an

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\* Two recent works by Australians cover the economics and politics of borrowing. Dr G. L. Wood's *Borrowing and Business in Australia*, 1931, Oxford University Press, shows the relations between borrowing and industrial depression. Professor E. Shann's *Economic History of Australia*, 1931, Cambridge University Press, is more general, but it examines the influence of borrowing upon our overseas trade.

understanding of our present methods. Being a Loan Act, its purpose is to authorize the government to borrow, and there is set out in detail the projects on which the money is to be spent. Against each item is placed the amount which may be spent upon it, e.g. Hospitals—new buildings, improvements, and additions, £100,000. Railways—rolling stock, to meet additional traffic requirements, including equipment of new lines; additions to railway lines, stations, and buildings, and for other purposes; and towards equipment of refreshment rooms, £2,607,400.

The Act fixes the maximum sum which may be borrowed, but the actual amount to be borrowed, the most suitable time to launch the loan, the rate of interest to be offered, and the period for which the money is required are all now matters for determination by the Australian Loan Council constituted under the financial agreement between the Commonwealth and the States. How the money is to be accounted for during the process both of borrowing and spending is laid down in the Loan Fund Amalgamation Act of 1879, and the Audit Act 1902. The form of security in which the loan may be issued is restricted to debentures or stock, which may now be sold not merely in London or New South Wales, as until recently was the practice, but "in such country or cities as the Governor may direct."\* But since the money market may not be favourable for the immediate floating of the loan, power is given to the Governor to issue Treasury Bills to the total amount of the loan, secured upon the Consolidated Revenue Fund. As this action is a form of anticipation of the actual loan, the currency of the Bills is limited to five years, before the expiration of which it is expected they will be redeemed

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\* Cf. the provisions of Act No. 25 of 1926, N.S.W.

by the loan. Treasury Bills of this type are part of the floating debt, and therefore they are subject to special conditions quite distinct from the funded or permanent debt which is regulated by other Acts.

One of the most important sources from which the Government expects to obtain subscriptions to its loans is from trustee investments. These are funds which are held in trust for other persons or institutions, and by virtue of the Trustee Act 1925 or other Acts or rules of court, may only be invested in safe or "gilt-edged" securities.\* The Loan Act accordingly declares the debentures, stock, or Treasury Bills to be government securities in which trustees may invest, and in every prospectus of a loan floated in England there is a clause which certifies that the Government will comply with English law so as to enable trustees there to invest funds.

Until 1914 every Act permitting the raising of loans prohibited paying more than four per cent interest, but since it was difficult even then to induce overseas investors to lend at this rate, the Government had either to consent to pay more or go without a loan. Consequently, in current Loan Acts we find permission given to pay interest at a rate in excess of four per cent. Finally the Act provides for paying off the loan. This may be done by establishing a sinking fund as required by the financial agreement or, if that is insufficient because a long enough term may not be obtained from investors, then a fresh loan may be raised and the proceeds used to pay it off. In this case the Acts dealing with renewal or conversion of loans apply.

\* In N.S.W. the most consistent subscribers to State loans raised locally are the Government Savings Bank, trustee companies, insurance and assurance companies, corporate bodies of the State, and the Superannuation Boards.

In the following pages we shall explain each of the matters to which we have referred, though for convenience we shall vary the order in which we have mentioned them.

### 1.—The Form of Security Issued for the Loan.

#### A. Funded Debt.

(a) *Debentures.* From 1842 when the Government of New South Wales first commenced borrowing until 1883, with one exception, loans were raised by the issue of debentures. Thereafter there was no further issue until the financial year 1904-5 when they again came into favour, and were regularly issued both in London and in New South Wales until the Commonwealth Loan Council assumed the duty of floating loans in 1929. Debentures are a form of bond with interest coupons attached. They may be distinguished from stock by the fact that they may be transferred by mere delivery. In other words, they are negotiable instruments, just as bank notes are. This makes them a convenient security though there is the disadvantage of the liability to loss or theft. The numbers and amounts of debentures issued are recorded, but no notation is made of any dealings in them. On maturity the holder is entitled to be paid the amount of the debenture on presenting it to the Bank transacting the Government's business in either Sydney or London. He is also entitled to interest every six months. He collects this from the bank by cutting off from the debenture the coupon for the particular interest payment.

(b) *Funded Stock.* Under the provisions of the Funded Stock Act 1873 the Government of New South Wales was authorized to borrow for certain public works a sum of £509,780, and to create and issue funded stock

as security therefor. It had to sell £530,189 worth of stock in order to raise the first named sum and this stock is the only funded stock shown in the public debt statement under that name. It is similar in nature to English "Consols" in that there is no obligation to repay the principal. All that the holder of the stock may claim is his interest at the rate of four per cent payable quarterly. It is the one form of interminable stock which this state has issued. Transfer of ownership is effected by making debit and credit entries in the stock-holders accounts in the share registers kept at the Treasury. The form of transfer or deed under which the transfer is effected must be executed by the transferor and accepted by the transferee, or by their lawful attorneys, who, in the case of corporate bodies or limited companies must be appointed under seal, and the power of attorney attested by two witnesses.

(c) *Other Funded Stock.* Under other Acts passed in 1892, 1894, 1895, 1896 and 1897 the Government was authorized to create and issue funded stock in respect of loans raised locally. These Acts were a reflection of the shyness of London investors who were disturbed by the financial crisis through which the State was passing. The stock so issued was different from the funded stock just described in that part had a "fixed" currency, and part a currency of 20 years, which part was then redeemable on giving twelve months' notice. This stock had nothing to distinguish it except in name from what is now known as "inscribed" stock, that is, ownership was evidenced by registration of the stock in the books of the Treasury, and transfer might be made only by a form of transfer or deed executed by the stockholder or transferor personally in the books of the Funded Stock Office at the Treasury, or by his lawful attorney.

Holders of stock were given certificates, but these were only a form of acknowledgment signed by the Treasurer, and could not be used as a negotiable instrument. Of that portion of the stock issued under the Acts mentioned which had a fixed currency, i.e. redeemable at a fixed date, part has been redeemed, and part has been renewed in terms of the Inscribed Stock (Issue and Renewals) Act 1912. The portion however which is redeemable at government option, i.e. on giving notice, is still current (with the exception of stock issued under the 1892 act) and is known as the 3 per cent and 3½ per cent Government Option Stock. There is little likelihood of the Government exercising its option of redemption, unless the current market interest rate falls to the level of the interest carried by those stocks.

(d) *Inscribed Stock.* This security takes its name from the fact that the amount of the stock and the name of the holder are inscribed or written in stock registers kept for the purpose in London and Sydney. The conditions under which the Colonial governments might create and issue Inscribed Stock in London were defined by the (Imperial) Colonial Stock Act 1877 since repealed by the Colonial Stock Act 1900. Provision was made for the keeping of stock registers in the United Kingdom, for the inscription and transfer of Colonial stock forming part of the public debt of that colony by some bank, Colonial officer, or person (called a Registrar). Stock so created is liable to English stamp duty. Every document connected with stock transactions must have printed upon it a distinct intimation that no liability, direct or indirect, is incurred by the British Government in respect of such stock, unless the loan is under Imperial guarantee.



In pursuance of the Act of 1877, the Inscribed Stock Act 1883 was passed by the N.S.W. Legislature. This Act has been consolidated by the Inscribed Stock Act 1902, which, subject to certain amendments, governs the procedure for the raising of loans in London. Power is given to enter into an agreement with any bank in London to act as Registrar of the stock; to conduct all the business of inscribing, converting, transferring, or otherwise dealing with the stock; and to pay the interest as it falls due. Such agreements have been made with the Bank of England, and with the Westminster Bank Ltd. The Bank of England charges a quarter per cent per £100 of stock on all loan issues, and £350 per million per annum for the inscription and management of the stock. It is only concerned with old issues. The Westminster Bank Limited charges one quarter per cent and £150 per million for similar services, and has in recent years been conducting all the London business for the State. These expenses form a fixed charge upon the Consolidated Revenue Fund. Two or more persons of whom the Agent General is one, act as agents in London for the purpose of the Act and other persons may be appointed to act as commissioners to accept transfers of and deal with stock inscribed on the London register, for the purpose of enabling people in New South Wales to hold stock in London. Stock raised under this Act is known as "New South Wales Stock."

Title to the Stock is established by the inscription of the owner's name on the books of the Bank. Holders are given a certificate, as in the case of the other stock we have described, and transfer is effected in a similar manner, i.e. by debiting the account of the transferor in the stock register, and crediting that of the transferee. In the case of new ownership a fresh account is opened in

the name of the transferee. In every case the transactions are made in person or by duly appointed attorneys. Interest is paid by warrant half yearly. Until 1914 interest was limited to four per cent.

The issue of inscribed stock in New South Wales is governed by the provisions of the Funded Stock Act 1892, and the regulations issued under the Inscribed Stock (Issue and Renewals) Act 1912. In Sydney the work of inscription and management including the preparation of interest warrants is discharged by the Registrar of Funded Stock at the Treasury. All the documents to be used, and the procedure to be followed in respect of transactions in the stock are prescribed by regulation, but, in general, the principles which we have stated in regard to the stock inscribed in the London registers apply to New South Wales.

(c) *Gold Bonds.* In 1926 various circumstances combined to make it difficult for New South Wales to raise further loans in London. As money was urgently needed, it was decided to explore the possibilities of New York. Conceding the terms demanded, the State was able to raise two loans in 1927. Next year the Commonwealth Loan Council floated another loan on behalf of the State on rather better terms. Though the security issued is known as "Gold Bonds" to meet the practice of the New York stock market these bonds are in no wise different from our debentures, or from the much more familiar Commonwealth bonds. They have interest coupons attached, and are transferable by delivery. The technical description of the first loan raised is "State of New South Wales External thirty-year 5 per cent Sinking Fund Gold Bonds." The loan raised for this State by the Commonwealth is known as "Commonwealth of Australia 4½ per cent Gold Bonds External Loan of 1928." The

1927 loans were raised under conditions which required that principal and interest would be paid in New York in United States gold coin of the standard of weight and fineness when the loan was issued, without any deduction for any present or future taxes levied or collected by or within the State of New South Wales or the Commonwealth of Australia or any political subdivision or taxing authority thereof, at the office of the Equitable Trust Company of New York, which acted as the agent of the State in the matter.

A sinking fund was required sufficient to retire at least one half of the bonds at maturity. These would be retired by purchase on the market at par, plus accrued interest. If it was not possible to obtain the Bonds by purchase, then by annual drawings after 30 days notice. Principal and interest of the 1928 issue are also payable in gold coin in New York. But at the option of the Commonwealth the whole or part of the loan may be redeemed upon 60 days' notice on any interest payment date, at par and accrued interest, or it may await maturity in 1956.

(f) *Treasury Bills*. This form of security must be distinguished from the English Treasury Bills which are akin to the ordinary commercial bill of exchange. Nor must they be confused with the Treasury Bills now issued by the Commonwealth Loan Council. The New South Wales Treasury Bills are blood relations to the English Exchequer Bills. In form and wording they are similar to our debentures, though no interest coupons are attached. They are transferable by delivery.

When they were first used in this State in 1889 and 1890 it was for the purpose of making good a deficiency in the Consolidated Revenue Fund. These Bills were not issued to the public, but were used as security for

trust funds in the hands of the Government upon which it had drawn to finance its operations. In other words instead of the trust funds having cash to their credit, they had Treasury Bills as security for their cash. In such cases the issue of the Treasury Bills did not increase the State's indebtedness nor entail any additional interest charge, for the State was already paying interest upon the trust funds which it had used.

The possibilities of Treasury Bills however, were being realized, and by reason of the unfavourable condition of the London money market, they were next used for short-term financing of loan services. Under an Act of 1891, several issues of Bills were made during 1892-3 and were placed on the market in London and Sydney. Their currency varied between two and four years. In 1902 a general Act was passed to enable Treasury Bills to be issued for the carrying out of public works. Their currency was not to exceed seven years, and they carried interest not exceeding four per cent payable half yearly. Until 1920 they had to be signed personally by the Treasurer, the Auditor General and such other person or persons as the Governor might direct. By an amending Act of 1920, however, the labour and expense of this method were eliminated and the signatures which appear on the Bills are affixed by engraving, lithography, or any other mechanical process. Apart from the general permission to issue Treasury Bills, the various loan Acts allow loans to be anticipated by the issue of Treasury Bills.

Treasury Bills represent an attempt on the part of the Government to avoid the natural checks which the money market exerts on public borrowing. It is not always possible for the Government to postpone borrowing, and yet, if the money market is disturbed, the flota-

tion of a loan might derange it still further, or the terms on which it may secure the loan might be too onerous to accept. In these circumstances the issue of Treasury Bills may be excused.\* But our practice has degenerated into a vice, for we have made it a regular policy to commence public works without having made any satisfactory arrangements for the flotation of loans to finance them. While the money market was easy, there was little difficulty in retiring the Bills by the proceeds of subsequent long-dated loans, but as soon as any strain was felt, we were faced with the fact that we had overdrawn the loan fund by many millions, and were unable to raise loans to retire the Bills. In this case the Consolidated Revenue Fund bears the obligation, or the Bills have to be renewed.

With these forms of stock we complete the description of the funded debt of the State, but we have not exhausted the ways in which borrowing may be effected. It may be mentioned however that under the financial agreement between the Commonwealth and the States, the Commonwealth Loan Council now conducts all the operations for raising loans for New South Wales and the other States. Such loans take the form of Commonwealth inscribed stock or bonds in Australia, and registered stock or bonds in London. But until such time as the loans raised by New South Wales before the agreement are repaid or converted, the various securities which we have described will remain, and transactions in them will have to be managed by the agencies referred to.

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\* It may be mentioned that it is often an easy matter to get short term money, although there may be no supply of long dated money available.

## B. Floating Debt.

(a) *Ministerial Certificates.* This form of debt is similar to a Treasury Bill, in that the certificates have a fixed currency, and it was the intention to retire them by the proceeds of sales of land. They have been issued by the Minister of Lands, usually in connection with the purchase of land for closer settlement, and their currency was calculated so that by the time the land had been subdivided and sold, there would be sufficient funds in hand to redeem them. It was thus expected that an addition to the public debt might be avoided. In practice these realizations have not always been fulfilled, and in consequence, upon maturity they have been converted into other forms of stock. They are bearer bonds transferable by delivery.

(b) *Overdrafts and Advances.* Other forms of floating debt include overdrafts at the bank. This is permitted by the Audit Act and has occasionally to be resorted to. But, as we have seen in the preceding chapter, the Treasurer is entitled under the agreement with the banks to treat all the accounts as a single fund. By reason of the large sums which are at the credit of the Special Deposits Account or special accounts upon the cash balances of which the Treasurer may operate at any time, bank overdrafts are replaced by advances from these accounts. The advances are recouped when necessary by the issue of Treasury Bills, or by the proceeds of long dated loans. But while they exist, they form part of the floating debt of the State. For the financial year ended 30th June 1930 the General Loan Fund had an overdraft of £13,600,000 all of which had been advanced from the general banking account of the Treasurer. This overdraft is euphemistically referred to as "Arrears of Borrowing"—a vivid reflection of our methods of finance.

Advances by the Commonwealth Government are on a different footing. The most important of these are in connection with the settlement of returned soldiers, and the question of repayment has yet to be decided.

(c) *Commonwealth Treasury Bills.* These are another form of the floating debt of the State. The provisions of the financial agreement require that if the State borrows within its own territory from the public, any securities which are issued in respect of such loans must be Commonwealth securities approved by the Loan Council. Accordingly when the State secures temporary advances from the banks, it cannot issue its own Treasury Bills, but must obtain Commonwealth Bills. In these cases, the Treasury makes application to the Loan Council, and if its request is granted, the Secretary of the Loan Council signs Commonwealth Treasury Bills. These are issued to the Registrar of Funded Stock at the State Treasury, who for this purpose is a Commonwealth Officer. He deposits the Bills with the bank as cover for the advance in an account called the "Commonwealth Public Moneys Account, State Loans," and from the advance which the bank makes against them, draws a cheque for such amount as is required by the State and pays it into the Colonial Treasurer's Consolidated Revenue Account, or other account which needs funds. Sometimes the bank will discount these Bills with other banks, or with the Commonwealth Bank. The Bills usually have a currency of one month, though they may run for a longer period. Upon maturity, they are redeemable at the Commonwealth Bank.

(d) *Contingent Liabilities.* Under the Transport Act we noticed that loans of the Transport Trust were secured on the income of the trust, but interest and principal were guaranteed by the State. Similarly in connection with some local works undertaken by municipal

or other authorities, the guarantee of the State is sometimes given in order that the loans required for the works may be raised at reasonable rates of interest, e.g. the loan raised by Sutherland Shire to construct the George's River Bridge. The liability in these cases is small, but it must be remembered when considering the financial position of the State.

## 2. How Loans Are Raised.

The frequency with which the Commonwealth Government has placed loans on the local market since the war has familiarized us with the general features of borrowing procedure. A prospectus is issued by the Commonwealth Treasurer stating the objects for which the money is required, the rates of interest to be offered, the purchase price of the stock or bonds, the terms and conditions under which subscriptions will be received. The Government is bound by the terms of its prospectus in just the same way as a commercial concern is when it invites investors to take up shares or debentures in a company. But the procedure which the Government follows is not fortuitous. It is all meticulously prescribed by regulations issued under the authority of various Acts of Parliament. All loans raised since the signing and ratification of the financial agreement are arranged under Commonwealth regulations. But since we have described the nature of the existing securities held by persons who have lent money to the State of New South Wales, it may be of interest to explain how we set about persuading them to do so.

The London money market was the principal source from which New South Wales drew its loans until 1900. Since then, an increasing amount of loan money has been raised locally. In 1930 very nearly 40 per cent of the total public debt had been raised in Australia. Only a



small fraction of the debt is registered in New York. The place in which the loan is raised is determined by many considerations, including the favourable state of the money market, the nature of the loan to be floated, and the objects to which the proceeds are to be applied. For instance, a crisis in London might make New York more suitable, while a loan for assistance to rural industries in the State might meet with more sympathy locally than elsewhere. On the other hand, the urgency of providing funds in London to meet commitments, might dictate the desirability of raising a loan there rather than in Australia. Generally however lower rates of interest are obtainable in London than locally.

(a) *London Loans.* The authority to raise loans in London is provided, as we have seen, mainly by the Inscribed Stock Act 1902, which consolidated the earlier Acts dealing with the question. We will assume that the Government has "sounded" the London market and finds it favourable to the raising of a loan. Its first step, then, is to obtain an Order in Council. Accordingly, a Minute is prepared by the Colonial Treasurer recommending the sum to be raised under the authority of some loan Act, and the terms and conditions to be offered. He nominates the Westminster Bank, Limited, London, to float and inscribe the loan, under directions from the Agent General. When this is approved by the Governor and the Executive Council, it becomes an Order in Council. The terms of the order are then communicated to the Agent General in London, who, in association with the other agents appointed under the 1902 Act, makes a declaration required by the (Imperial) Colonial Stock Act, 1900. This is lodged with the Inland Revenue Commissioners of the United Kingdom, who calculate the amount of stamp duty to be charged on the

stock to be sold. Our government compounds this payment in order to allow all subscriptions and transfers of stock to be made duty free to holders. The declaration authorizes the loan to be inscribed in accordance with the provisions of the Act of 1900, and declares that the revenues of New South Wales, and not those of the United Kingdom, are alone liable for the payment of the stock and dividends (interest) thereon. But in addition to this, a further declaration formerly known as a Deed Poll, is also subscribed by the Agent General and his co-agents, which re-capitulates and amplifies the information contained in the first declaration. The purpose of this second declaration is to assure investors of the fact that the agents are acting under the authority of the State Government, and therefore of the authenticity of the loan prospectus. Immediately after the Order in Council is signed in Sydney, a prospectus of the loan is issued in London. This is essential to prevent speculators in colonial securities operating upon them in the light of rumours of proposed loans. The declarations to which we have referred are signed some little time later.

The prospectus which is issued by the Westminster Bank Limited gives particulars of the loan and the terms and conditions under which subscriptions will be received.\* Each applicant must lodge a deposit of five

\* Every prospectus contains a guarantee that "the Government of New South Wales will comply with the requirements of the Colonial Stock Act, 1900, in order that trustees may invest in this Stock, subject to the provisions set forth in the Trustee Act, 1925."

These conditions are (1) the colony shall provide by legislation for the payment out of the revenues of the colony of any sums which may become payable to stockholders, under any judgment, decree, rule, or order of a Court in the United Kingdom. (2), the colony shall satisfy the Treasury that adequate funds (as and when required) will be made available in the United Kingdom to meet any such judgment, decree, rule, or order. (3). The Colonial Government shall place on record a formal expression of their opinion that any colonial legislation which appears to the Imperial Government to alter any of the provisions affecting the stock to the injury of the stockholders, or to involve a departure from the original contract in regard to the stock would properly be disallowed.

pounds per cent on the amount applied for, and it is usual to allow the balance to be paid for in three other instalments. If a subscriber immediately pays in full a discount is allowed. If a loan is oversubscribed, proportionate allotments are made. Stock is inscribed by the Westminster Bank Limited in its capacity as registrar, and the cost of flotation, including stamp duty, brokerage, bank Commission, and other expenses charged against the proceeds of the loan. In the case of the issue of debentures a similar procedure is followed. Debentures are usually issued in denominations of £100, £500 and £1000.

When Treasury Bills are issued in London, there is no need to issue a prospectus. Sometimes the Bills are underwritten by the bank, and sometimes they are offered for tender. In the latter case, the highest tenderers are usually given preference, and those unsuccessful have their deposits returned to them.

(b) *New York Loans.* The procedure in the case of New York Loans is similar to that which we have described, though in this case, of course, the Imperial Act of 1900 has no application. But an agreement is made between this State and some American institution such as an investment trust, or a bank, or a firm of stock brokers to act as fiscal agents for our Government in New York. These fiscal agents take the place of the Westminster Bank in London, although this important difference might be noted. Whereas the greater part of British loans are taken up by financial houses or underwriters and later sold to the public, in New York our loans are issued direct to the public. After the sale of the bonds, the fiscal agents manage the business relating to the loan, including the payment of the half-yearly interest,

and the investment of the sinking fund, for which they receive certain fees and commission. There is no inscription or registration of stock, since the bonds which are issued are merely bearer bonds. In the case of New York loans, the prospectus is supported by very detailed information showing the nature of the government of New South Wales, its wealth, resources, and condition of its finances.\*

(c) *Local Loans.* In the case of loans floated in New South Wales the authority of an Order in Council has also to be obtained. The Treasurer then advertises the loan in the Government Gazette, and public press, giving all the particulars which are ordinarily contained in the prospectus we have discussed. Inscribed stock, debentures and Treasury bills are usually sold at the Treasury.

### 3. The Effect of the Financial Agreement upon Borrowing.

In 1927 an agreement was concluded between the Commonwealth and the States which determined their financial relations. The agreement covered

- (1) an alternative arrangement to the system of per capita payments provided by the Surplus Revenue Act 1910,
- (2) the creation of an Australian Loan Council to co-ordinate and control borrowing,
- (3) the provision of a sinking fund in respect of the

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\* Reference to the various declarations, agreements, prospectuses, and statements may most easily be made in the annual reports of the Under Secretary of the Treasury of New South Wales to Parliament showing the particulars of Inscribed Stock and Debentures issued by the government. The 1928 report contains the American documents, and that of 1929 those relating to issues by the Commonwealth Loan Council on behalf of the State.

public debts of the Commonwealth and the States, and

- (4) the liability of the Commonwealth to the States in regard to transferred properties.

The terms of the agreement were ratified in this State by the Financial Agreement Ratification Act 1928, and on 17th November 1928 an amendment of the Federal Constitution was approved by popular referendum to enable the Federal Parliament to validate the agreement. The amendment to the Constitution is incorporated as section 105a.

As a result of the agreement and the several legislative measures which have been passed, all borrowings by the Commonwealth and the States are supervised by the Loan Council comprising one minister representing each of the seven governments of the Commonwealth, though the Commonwealth Government has two votes and a casting vote. The Council determines the amounts which may be borrowed, the rates of interest, and the conditions of flotation. Each government submits its programme and this is reviewed by the Loan Council. If agreement is reached, the Council arranges to launch the loans at suitable times. If there is disagreement, then the Commonwealth is entitled to one-fifth of the total amount raised by loan, and the States to a proportion of the remainder in the ratio of their respective net loan expenditures to the total loan expenditures of the States in the preceding five years.

After the Loan Council makes the decisions, the arrangements for borrowing are made by the Commonwealth Government, and not by the separate States. In consequence all new loans, or conversions, renewals, redemptions, and consolidations of existing loans of all the

States and the Federal Government are now raised through the Federal Treasurer.

With the unanimous approval of the Loan Council, a State may be permitted to borrow in its own name outside Australia, but such a loan will be guaranteed by the Commonwealth. Similarly, a State or the Commonwealth may borrow within its own territory from any Government institution, or may use any available public moneys for any purpose (e.g. funds in Special Deposits Account to which we have referred in the previous chapter), but in these cases the securities which are issued to the institution or the account must be Commonwealth Securities. These securities are signed by the Federal Treasurer not in his capacity as Treasurer of the Commonwealth Government, but as Chairman of the Loan Council, and are redeemable at the Commonwealth Bank.

If therefore we want to trace the steps which New South Wales now has to take to borrow we shall find that they include

- (1) a statement of its requirements to the Loan Council,
- (2) the approval of that body,
- (3) authority from the New South Wales Legislature in the form of a loan Act to borrow,
- (4) the raising of the loan by the Commonwealth,
- (5) a New South Wales Executive Council order empowering the Treasurer of New South Wales to issue stock in the name of the Commonwealth Government for the share of the loan to which this State is entitled, and
- (6) the inscription of the stock in the books of the Commonwealth Bank.

Instead therefore of the States acting through their respective banking agents, fiscal agents, Agents-General, and registrars of funded stock, the Commonwealth Bank in Australia and London and the High Commissioner will act. Otherwise the procedure which we have outlined before will remain unchanged.

### *Underwriting and Interest*

We have referred to the underwriting of loans. This is a procedure which is sometimes adopted in order to ensure that the loan will be successful. Instead of having to depend upon the hazard of public subscriptions which will reflect the confidence of investors, or the popularity of the borrower, a bank or a firm of stock brokers will take up the whole of the loan at an agreed price. Or they may agree to take up only so much as is not subscribed by the public. The underwriters merely hold the loan until they can "unload" it on the money market, and if it sells immediately at par or at a premium, then they make their profits on the transactions in the stock. If as sometimes happens it sells at a discount, then the underwriters may sustain a loss, or may be compelled to hold the stock for some time until conditions become more favourable.

Let us assume that the Government decides to issue Treasury bills and to invite tenders for them. If the rate of interest fixed for the bills is 6 per cent and the current market rate is  $5\frac{3}{4}$  per cent the tenderer will probably be willing to offer more than £100 for £100 face value of stock. If the current rate of interest is above the rate which the government is offering, then the tenderer will offer less than £100 for that amount of stock. In this case the stock is at a discount. In deciding what he will offer for stock, the tenderer con-

siders the current rate of interest, the rate offered for the stock, the duration of the loan, and the return which he will receive from his investment. In the case of the first New York loans to which we have referred, the loan was offered at a price of 96½ dollars for 100 dollars worth of stock, with interest at the rate of 5 per cent. The actual interest return to investors at this rate was 5.25 per cent. When all the costs of flotation were taken into account, the interest cost to the State was much more than this. But the loan was issued at a discount and at a nominal rate of 5 per cent interest in order to ensure its successful flotation, and at the same time to preserve the appearance of paying a reasonable rate of interest.

A little consideration of this practice, however, will show how costly it is, and how it increases the dead-weight of debt. Although the Government has to repay at par, the amount of the discount is not charged against revenue, but is debited against the General Loan Fund, as are also all the expenses of floating the loan, including brokerage, underwriting, and printing. The cost of management of the loan after flotation, however, is charged against revenue, i.e. it is borne by the Consolidated Revenue Fund.\*

If loans are renewed instead of being repaid, the dead weight of debt is further increased. For example, suppose we float a loan of £1,000,000 at 98, and renew it three times at the same discount, which is not unusual. The actual proceeds of the first loan would be £980,000 from which would be deducted the costs of flotation mentioned which may amount to about £18,000. Yet at the third renewal, we should have to add £60,000 for discount, and

\* For a statement of the cost of floating loans see *The Official Year Book of New South Wales*, sub nomine "Public Finance."



more than £50,000 for expenses, which would make the original loan of £1,000,000 now amount to £1,110,000.

#### 4. State Sinking Funds Prior to 1929.

The adversity which followed upon the borrowing boom of the 'seventies and 'eighties produced the inevitable chafing against the distrust of the money market. Until then no inclination had been shown by the governments of any Australian State to establish sinking funds for redeeming loans. In New South Wales, the epoch-marking Railways Act of 1888 had brought a measure of independent management to the conduct of that undertaking, and one result of the new influence was the passing of the Railway Loans Redemption Act 1889 which required £75,000 to be set aside annually to reduce the public debt on the railways. When the issue of Treasury bills was resorted to in 1889-90 and subsequent years, to meet a deficit in consolidated revenue, provision was made to retire these bills by annual contributions to a sinking fund. Similarly in the loan Acts of 1894-1899, there was a requirement for an annual payment to redeem portion of the loan. But these actions were rather in the nature of a reluctant gesture designed to rehabilitate the Government in the eyes of investors than a convinced declaration of a settled financial creed.

The early years of the twentieth century were also a time of stress and as usual brought their crop of financial measures. In 1904 was passed the State Debt and Sinking Fund Act which came into operation from 1st July, 1905. This Act established a General Sinking Fund and created a Board of State Debt Commissioners. Its prestige, at least, was assured by its personnel which comprised the State Treasurer, the Chief Justice, the Speaker, and the Under-Secretary to the Treasury. The

balances at the credit of the sinking funds provided by the various measures we have mentioned, and certain other balances were transferred to the commissioners of a new Fund, and an annual contribution from the Consolidated Revenue Fund of £350,000 was also authorized. Under the Treasury Bills Deficiency Act 1905 a further annual contribution of £50,000 was approved, provided the surplus on the financial operations of the year was sufficiently large to enable this payment to be made. The funds were to be used in purchasing, redeeming and paying off government stock, debentures, or Treasury bills from time to time, or they might be invested until so required.

The inclusion of Treasury bills simply meant that the sinking fund was partly being used to defray revenue fund deficiencies of previous years. For of the £400,000 available for debt reduction, £300,000 was already earmarked for retiring maturing deficiency bills, an operation which was completed in 1913. Only £100,000 and incidental income was therefore available for real debt reduction, and of this £50,000 was highly uncertain. Worse was yet to follow. By the State Debt and Sinking Fund (Amendment) Act 1914, it was provided "that where at the close of any financial year there is a deficiency on the Consolidated Revenue Account, the Commissioners shall repay to the Consolidated Revenue Fund any amount, not being greater than such deficiency, which has been issued from the said Fund to the Commissioners during the said year." For the whole of the rest of the life of the General Sinking Fund, the burlesque has been acted of drawing a cheque on the Consolidated Revenue Fund and paying it to the commissioners, who gravely signed another cheque for the same amount and paid it back. This was not so much robbing Peter to

pay Paul, as of robbing Paul to debauch Peter. As in so many other matters of financial policy, we conformed to the letter of the law, and violated its spirit.

In 1929 the General Sinking Fund was closed, having been superseded by the National Debt Commission in conformity with the Financial Agreement.\* But in the twenty-four years of its existence, the total funds at the disposal of the State Debt Commissioners were only sufficient to redeem £2,600,000 stock and debentures and £2,000,000 Treasury deficiency bills, though the debt increased from £82,000,000 to £267,000,000 in that period.

It is not suggested that the several governments who practised this method of raiding the sinking fund were singular in their conduct. But it is another illustration of that subordination of austere financial virtue to the gratification of the insatiable appetite of party politics. For in the absence of this fund, if the Treasurer were unable to balance his budget he would have to declare a deficit. Rather than risk his prestige as custodian of the public funds by thus declaring his regular inability to make ends meet he would be forced to practise economies or to impose extra taxation. Each of these methods threatens political disaster, and must be avoided at all costs. What more easy escape therefore than to use the sinking fund. Thus is the appearance of financial skill preserved, and party popularity assured. Votes may be captured by such practices, but investors have no illusions.

Special sinking funds were provided in respect of London loans outstanding at 30th June 1926 and in connection with a conversion loan raised there in 1927, but

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\* It should be noted that the State Debt Commission will still remain to administer as trustee the funds of certain special accounts established by the Treasury Bills Deficiency Act 1889, and the State Debt and Sinking Fund Act 1904.

these sums are to be supplemented by the payments required under the financial agreement. We have already mentioned that the New York loans of 1927 had their own special sinking fund arrangements.

#### **5. Sinking Funds under the Financial Agreement.**

By the 1928 amendment to the Federal Constitution the Commonwealth took over the public debts of the States existing on 30th June 1927 and all other debts accrued by 1st July 1929 other than for temporary purposes. The interest on those debts has been disposed of by the Commonwealth assuming the liability, though the States indemnify the Commonwealth against loss. For a period of 58 years, from 1st July 1927, the Commonwealth will contribute towards this interest charge an amount equal to 25s. per head of population which was paid by it to the States in 1926-27, and the States will make up any deficiency. Thereafter the States will pay the Commonwealth the whole of the interest due upon their loans.

But the Agreement envisaged wiping out the debts altogether. To do this a National Debt Sinking Fund has been established, managed by a National Debt Commission, and a sinking fund contribution has been fixed, calculated to extinguish the debts in 58 years. Of this contribution which is from revenue, 5s. per cent is payable by the States, and 2s. 6d. per cent by the Commonwealth. A similar contribution is to be paid on conversion loans. The New South Wales contribution under the agreement commenced from 1st July 1928. For new loans, the contribution to the sinking fund is to be 10s. per cent, payable in equal shares by the Commonwealth and States. This sum it is calculated will extinguish any new debts within 53 years. For wasting

assets, the States may increase their contributions. When the loan for these purposes is extinguished the States' payments cease, but the Commonwealth payment will continue and be treated as part of the States contribution in respect of other loans.

Loans raised after 1st July 1927 to meet revenue deficits are to be repaid by the States themselves, and in this case, the annual sinking fund payment must be not less than 4 per cent of the loan so raised. Separate accounts for each State are to be kept by the Commonwealth in respect of debt, interest, and sinking funds. And each State pays the whole of the expenses connected with its loans, including conversion, renewal, and management.

When the National Debt Commission purchases securities they are cancelled. This is done in the case of inscribed stock by the particular item being struck off the register, and in the case of debentures or bonds, by their destruction. The State, however is required to pay  $4\frac{1}{2}$  per cent per annum on all the securities so cancelled as from the date of the cancellation for the full sinking fund period then remaining.

## 6. Repayment of Loans.

Apart from the utilization of sinking funds to redeem debt, loans are usually repaid by contributions from revenue, by renewal, conversion or consolidation. Little has been done by this State to redeem its debts either by sinking funds or by repayments from surpluses of income over expenditure. And yet it will be perfectly clear that if the debt is continually being added to, the time must inevitably arrive when the burden of interest will be a serious tax, unless the various projects upon which the money has been expended are self-supporting. In this

State it was estimated in 1928 that more than 75 per cent of our debt is represented by assets which, *on the average*, return full interest to the Treasury, or *equivalent service to the State*. A further 14.48 per cent is represented by assets which return portion of the interest charge, and the greater part of the remainder either represents capital wholly lost or assets which return some community service or convenience. Even in respect of the assets which it is asserted return full interest, the words "on the average" and "or equivalent service" introduce important qualifications, and in practice mean that taxpayers have to make up deficiencies.\*

Generally therefore we may say that our policy has been to repay loans by renewing them, and latterly this has been expensive, because interest rates have been rising. This is partly a reflection of our public credit, for it is irrefutable that our failure to repay any substantial proportion of our debt and our manipulation of our sinking funds have lowered our credit. Had our credit been maintained, then our stock might have been kept at par on the market, and in this case it would be possible to repay the loans either by conversion or consolidation. Conversion in this sense is different from the offer to convert Treasury bills or debentures into inscribed stock, or vice versa. It means that the credit of the State is so good that it can say to its existing creditors "You must accept stock in a new loan at lower rates of interest, or we will pay you off." That implies an abundance of money seeking safe investment, and unimpeachable credit on the part of the borrowing Government. Without these conditions, conversions are impossible. Consolidation is similar. It means the aggre-

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\* It must be mentioned that the former Public Works Fund was often used for capital works, and part of its resources came from current revenue.

gating of a number of loans with differing rates of interest and times of maturing, and an offer of a new stock of a specific duration with a lower rate of interest.

An unorthodox and extremely doubtful method of repaying debt has become familiar since the war in the shape of depreciating the currency. The country which practises this method may gain temporary relief, but it is unlikely that its actions will encourage external investors to lend, except at rates which are available to persons of unsound credit.

#### **7. How Loan Moneys are dealt with.**

From the time of the establishment of responsible government until 1870, moneys raised from loans were paid into consolidated revenue. This was confusing, but since the operations were not of very great magnitude, it was possible to carry on. In 1870 loan expenditure was separated from revenue, and the principle instituted of separate loan accounts for each loan raised. The disadvantage of this plan lay in the fact that the expenditure authorized by a loan Act did not always equal the amount raised. In consequence the accounts were left with credit balances which could not be used, because of the existence of a section in the Acts which declared that "no part of the money so borrowed shall on any pretence be paid, used, or applied directly or indirectly either temporarily or otherwise to or for any public purpose other than the purposes respectively to which the same is hereby directed to be applied."

It was decidedly uneconomical to have money bearing interest lying idle, and yet at the same time to be borrowing fresh sums. Accordingly by the Loan Fund Amalgamation Act 1879, power was given to amalgamate all the separate accounts, and to carry the credit bal-

ances to a single "General Loan Account." This provision is now repeated in Sec. 35 of the Audit Act 1902, which requires all moneys borrowed under any loan Act to be banked in a general loan account. Moneys in that account may be applied "for or towards the purpose of any loan service specified in any loan Act, in such manner and in such proportions as the Governor, by warrant under his hand, addressed to the Treasurer, from time to time, orders and directs."

The principles which we have discussed in regard to the Consolidated Revenue Account apply therefore to Loan moneys. Parliament appropriates them after an estimate has been submitted. Payments from funds so appropriated require a warrant of the Governor. The amount of the warrant is based upon calculations made of the quarterly spending requirements of the several departments. Although these calculations are sometimes difficult to make, the provisions of Section 38 (1) of the Audit Act 1902 clearly limit the amount of a warrant to a sum sufficient to cover expenditure for a period "not exceeding three months," and therefore a fresh warrant must be obtained every three months even though the full amount authorized by a previous one has not been expended.

We have already referred to the use which the Treasurer makes of the balances which are at the credit of his general banking account to finance his operations. This practice has been extended in regard to loan expenditure in a manner which calls for comment. A loan Act is still passed to authorize the borrowing of money for the works specified in the Act. But instead of the Treasurer at once raising a loan, he obtains accommodation through his general banking account, and only resorts to a public loan when he can no longer defer replenishing his ac-



counts at the Bank. Thus instead of the borrowing programme being conditioned by his ability to raise public loans, it is restricted only by the amount of credit which the Treasurer has at the bank. Such a policy is highly dangerous, because it destroys the checks of the money market, and deludes the public into believing that no loans are being floated. By the end of the financial year closing on 30th June 1930, the overdraft on the General Loan Account had reached the figure of £13,603,220, a formidable figure to be dismissed as "arrears of borrowing." The overdraft is being financed on the security of the credits in the special deposits and special accounts.

As in the case of expenditure from consolidated revenue, so in regard to loan expenditure, the law provides that no payments shall be made without parliamentary appropriation, and a warrant from the Governor. In the case of expenditure from consolidated Revenue we saw that this safeguard was sometimes violated. A similar violation occurs in regard to loan moneys. During the financial year ended 30th June 1929, a sum of £1,941,828, was expended in anticipation of parliamentary approval and without warrant. During 1930 further payments were made, though subsequent appropriations reduced the sum unauthorized to £453,240.

It is conceivable that there will be occasions when there is no time to consult Parliament before commencing work, as for example, in the case of provision for the relief of unemployed. In the case of the bulk of the other expenditure which was without parliamentary appropriation, the explanation is that the sums already voted had been exhausted. It would be most uneconomical to close down public works until further funds are made available. Parliament had already authorized the works.

and would naturally be expected to provide further funds for their completion. The explanation is convincing, but nevertheless, the practice of spending loan moneys in anticipation of parliamentary appropriation is to be deprecated. It may be used to cloak criticism of a loan policy by presenting a *fait accompli*. It may mislead by deliberately under-estimating the amount which will be required in a given financial year. In any event, it destroys parliamentary oversight of finance, and it may encourage Treasurers to disregard the conventional restrictions upon public expenditure.

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