



1980

PARLIAMENT OF TASMANIA

PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS

REPORT ON MATTERS ARISING FROM THE AUDITOR-GENERAL'S REPORT 1979

Laid upon the Tables of both Houses of Parliament

The Committee was appointed under the provisions of section 2 of the Public Accounts Committee Act 1970 (No. 54).

MEMBERS OF THE COMMITTEE

Legislative Council

Mr Bisdee
Mr Gregory
Mr W. C. Hodgman

House of Assembly

Mr Robson (Chairman)
Mr Aird
Mr Devine

By Authority:

T. J. HUGHES, Government Printer, Tasmania

WITNESSES EXAMINED

Roger Christie Jennings, Solicitor-General; Frederick Carr Mitchell, Chairman, Motor Accidents Insurance Board; Peter Malcolm Sinclair, Director-General of Planning and Development; Lionel Henry Bates, Director-General of Housing and Construction; Thomas Keith Cubbins, Director of Construction, Department of Housing and Construction; John Leslie Grimsdale, Principal Architect (Construction), Department of Housing and Construction; Edward Montgomery Brooker, Deputy Director of Tourism; Ian Grahame Inglis, Under-Treasurer; John Maxwell Sparrow, Chairman, Interim Ambulance Authority; Peter Murrell, Director, National Parks and Wildlife Service; Roger Smart, Senior Executive Officer, Hospital and Medical Services, Department of Health Services; Lawrie James Baily, Deputy Director of Main Roads; John Maxwell Sparrow, Director of Hospital and Medical Services, Department of Health; Lloyd Albert Koerbin, Industrial Commissioner, Public Service Board; John Bell, Medical Superintendent, Mersey General Hospital; John Roy Lauder, Medical Superintendent, North-Western General Hospital; Robert James Watling, Secretary, Tasmanian Trades and Labour Council; Dennis Graeme Schaffner, Chairman, North-West Regional Water Authority, Cyril Ashton Shirley, Member, North-West Regional Water Authority and Bernard George Jacobson, Secretary/Accountant, North-West Regional Water Authority.

REPORT

As usual the Committee met with the Auditor-General following presentation of his Report to Parliament and had a general discussion with him on a number of matters upon which he had commented.

Hearings were attended by Audit and Treasury observers. Their assistance to the Committee is gratefully acknowledged.

We wish to record our appreciation of the work done by the Secretary, Mr P. T. McKay. Mr McKay has worked diligently for and on behalf of the Committee and has been a source of information as well as an excellent professional research officer.

Tourism and Recreational Development: Failure to Review Interest on Loan

On page 51 of his Report, the Auditor-General commented as follows:—

Loss of Revenue — Interest on Loans.

A material loss in revenue has occurred due to interest reviews on loans not having been made and charges not raised at the appropriate time. The exact amount involved has not been determined at this stage as the Director, following advice from the Solicitor-General's Department, has indicated that he proposed to conduct negotiations with the borrowers concerned.

The matter of interest in general, as provided in loan agreements, together with specific queries regarding each of the cases relating to this loss, were raised at the 1977-78 audit. I was subsequently advised that appropriate remedial action had been taken. However, during the preliminary phases of the 1978-79 audit it became apparent that previously identified administrative and procedural weaknesses were still evident and that the corrective measures advised had not been fully implemented.

The Committee were disturbed by several aspects of this matter: the apparently incorrect assurances made to the Auditor-General following the 1977-78 audit, the loss in revenue to the State, the administrative weaknesses that this reflects, and the possibility that the low interest rates may continue till the next review date.

Evidence was heard from the Department, which advised that there are currently 67 unmatured tourism development loans. The Committee were advised that within the Department of Tourism it is the responsibility of the Accounts Section to advise the Development Division of loans that become due for five-yearly interest rate review. This review is conducted by the Finance Advisory Committee and following Ministerial approval, the Accounts Section is advised so that subsequent six monthly demands can be made at the new rate.

The Department admitted that the entire blame for the breakdown in the system which occurred was theirs:

Unfortunately, the majority of communication on this subject between the relevant officers of the Accounts section and the Development Division was on a verbal basis, and it is in this weakness that the system broke down. There is conflicting advice within the Department on who was, or was not informed in specific instances, dating back to January 1977, which may be partly attributable to key officers being on leave at particular times, and changes in the personnel involved. There is however little likelihood of establishing proof of fault under the verbal communications system that then prevailed. There are instances where no review of interest was effected on the due date, and others where the review was effected and borrowers advised, but the reviewed rate was not being reflected in subsequent demands.

The amounts involved in the loss totalled \$37 462 of which over \$35 000 applies to a single hotel group, Four Seasons.

The situation when the Committee heard evidence on this matter was that negotiations were in progress to attempt to recover the loss from the companies. We have since received advice that the borrowers are not prepared to pay the additional amount.

As mentioned above, the Department did not attempt to defend its performance in this area, though it was unable to fix responsibility within the organization because of the way in which information was exchanged verbally. This is clearly a case in which there has been weakness in the system used, as well as failure by individuals. The Director of Tourism informed the Committee that a system of written communications between Development and Accounts has been introduced, 'which will ensure that all future interest reviews are effected on due dates'.

The Committee believe that particularly in view of the small number of loans involved, the Department's performance has been very poor. Both the Development Division and the Accounts Section should be well aware of any reviews which are due. A foolproof card system should be developed and this aspect should be checked whenever demands are sent out.

Because of our concern with the loss which has occurred, the Committee will follow this matter up next year to ensure that interest rate review is kept up to date.

Bowen's Landing Historic Site

The Auditor-General commented at page 97. as follows:—

I understand an undertaking was given to Parliament that the Bowen Landing Site would be opened to the public to coincide with the 176th Anniversary of the landing. To fulfill this undertaking the Department of Main Roads, on behalf of the Service, engaged the Hobart City Council in May 1979 to complete the access roads, car parks, paths, landscaping and ancillary works on a 'do and charge' basis.

It appears that the work was not put out to tender because of the time factor.

The latest available estimate of the cost of the works being carried out by the Hobart City Council is \$359 000 which is to be funded in 1979-80 and is additional to the payments summarised below.

An amount of \$1 000 was expended in 1978-79 for a model of a sculpture for the site. The cost of the sculpture, \$25 000, will be financed partly by donations from private enterprise (\$8 000 received to date).

The site was officially opened by His Excellency the Governor on 8 September 1979.

The Committee heard evidence from the Director of the National Parks and Wildlife service and the Assistant Director of Main Roads.

The Director of the National Parks and Wildlife Service said that the Department of Main Roads had been contracted to prepare plans, specifications and cost estimates for access roads, carparking, site levelling and filling and other necessary site works to enable the Bowens Landing Historic Site to be opened to the public. Due to a shortage of funds, delays occurred in implementing the work. Plans were ultimately finalised towards the end of 1978, and on 23 January 1979 he recommended to the Minister that the Department of Main Roads be requested to make a start on the site works with the funds then available totalling \$75 000. This was approved on 19 February 1979, However, the Department of Main Roads advised that because of other commitments it would be unable to undertake the construction works. This advice was received on 23 May 1979.

On 30 March 1979 the Director recommended to the Minister that a firm of engineers be engaged as consultants to call tenders for and supervise works at Bowen's Landing Historic Site. This approval was not given and the submission was ultimately returned to the Service on 22 June 1979. On 7 May 1979, a copy of a memorandum from the Minister for National Parks and Wildlife to the Minister for Main Roads and Transport dated 4 May was received by the National Parks and Wildlife Service which read as follows:—

I refer to your Private Secretary's memorandum to my Executive Officer of the 1 May 1979, concerning the construction of access roads and a carpark at Bowen Park.

I note that the Hobart City Council is willing to undertake this work on a 'do and charge' basis and I am pleased to confirm that funds for the project are available for an immediate start and will continue into the 1979-80 financial year until the work is completed.

The Director said that because of his concern at the arrangements made, he wrote to his Minister on 9 May 1979 following detailed discussions with Departmental officers. In this letter he recommended the matter be reconsidered and that the recommendations of the Select Committee of the Legislative Council in relation to Government tendering procedures in construction projects be followed. The Committee saw copies of this and the reply from the Minister. The Director's recommendation was not approved.

The Director said that during discussions he had been advised by the Minister that because an undertaking had been given to Parliament that the site would be open by 12 September, the only practical and expeditious way of executing the works was to use the facilities of the Hobart City Council.

In my view the Hobart City Council did carry out the works in a very competent manner and while it is not possible for me to indicate whether costs would have been higher or lower if tenders had been called, I do believe they carried out the work economically and expeditiously.

The Assistant Director of Main Roads said that when this project became an urgent one, that is in May 1979, it would have been too late to complete documentation, call tenders and let a contract and still have the work completed by September. The following passage from the Assistant Director of Main Road's evidence gives some insight into the suddenness with which the deadline arose:

QUESTION — The item we are concerned about is the expenditure of \$325 000 on roadworks and beautification and things such as that, so that is what I am directing my questions to. The criticism here, of course, is that the work was put in hand without going to tender. Would you agree that it was in January 1979 that your Department was asked to take this work in hand?

ANSWER — That is so. It was not pushed. There is quite a definite gap. We were heavily committed on our own work and it was not regarded as a high priority project.

QUESTION — But was it not at that time that it became known to you that the Minister wanted this thing open in September?

ANSWER — I am not clear on this one. I can best describe it by saying we did not have a final approved plan and funds until January 1979. We did not do a final estimate on it until April 1979. As far as we were concerned it was not being pushed at all. It was very much an incidental activity in the course of our main road works. I think, in retrospect, if they had asked us to push it we would have made every effort to do so. But I must also indicate that the money available initially was far less than was required to complete the project.

QUESTION — Yes. You say in the last paragraph on the first page of your submission:

'In the course of inter-departmental discussions, it was learnt that the Minister for National Parks and Wildlife required the whole project to be substantially completed by September 1979.'

Surely there was ample time for your Department to have put this out to tender?

ANSWER — Not by the time that we knew funds were available to complete the job in its entirety. Initially we only had knowledge of \$75 000 being available.

(The Committee had earlier been told that at Ministerial level funds were arranged for the 1979-80 financial year. This presumably would have been around early May 1979.)

The Committee understood that by August 1978 the main structure of the complex was 90 per cent completed. It seems that work slowed down because only about one-quarter of the funds needed for earth works were allocated in the 1978-79 financial year.

It is an important principle that such works should be put out to tender unless there is a real necessity to do otherwise. The Legislative Council Select Committee referred to by the Director of the National Parks and Wildlife Service criticised a former Minister for Lands and Works on this very point: ' . . . the Minister responsible for control of the largest construction authority in the State was prepared, at the request of any of his Cabinet colleagues, to let contracts in other than emergency situations without calling tenders.'

Having been told that the site works became urgent because an undertaking had been given to Parliament that the project would be open by 12 September 1979, the Committee searched Hansard for particulars of this undertaking.

The only reference we have been able to find is an answer to the following Question without Notice in the House of Assembly on 11 April 1979:

QUESTION — Mr Speaker, a question without notice to the honourable Minister for National Parks and Wildlife whom I ask, when is it now proposed that the pyramids at Bowen Park will be open to the public, what have been the reasons for the delay and when is it anticipated that the problems accounting for the delay will be overcome?

In the course of his reply, the Minister said:

The delays in opening the site have been unfortunate but we are hopeful that the site will be open in September of this year

We also found a reference in the press to a statement made in August 1977 by the then Premier who expressed the hope that the project would be completed in time for the 175th Anniversary of the landing in September 1978.

The Committee do not consider that the answer to the question amounted to 'an undertaking to Parliament'. The desire to have the opening ceremony coincide with the 176th Anniversary of the landing did not constitute an emergency and the advice of the Director of the National Parks and Wildlife Service should have been taken, that is, tenders should have been called.

North-West Regional Water Authority: Delays in Presentation of Accounts for Audit

This Authority was constituted under the provisions of the North-West Regional Water Act 1976 to supply water to North Western districts, Smithton, Stanley, Devonport, Railton, Sheffield, Latrobe, Port Sorell Rural, Tarleton-Spreyton, Penguin, Turners Beach, Ulverstone, Somerset and Wynyard. The Authority is vested with the control and management of the water supply undertaking within the North-West Regional Water District.

Under the Act, from 1 July 1977 all works associated with the storage and distribution of water by the Municipalities of Circular Head, Devonport, Kentish, Latrobe, Penguin, Ulverstone and Wynyard are transferred to and vested in the Authority.

The cost of administering the scheme will be provided by contributions from the constituent municipalities.

The Auditor-General on page 148 commented that —

Concern is expressed at the inability of this newly formed Authority to submit Statements in time for inclusion in this Report, particularly having regard to the materiality of its revenues and expenditures and the impact on the accounts of contributing Municipalities.

Audit examination of the Accounts for the initial period of five months to 30 June 1977 and for the year ended 30 June 1978 was commenced in August 1978 but due to incomplete records and the frequent unavailability of the Secretary/Accountant has only just been completed. This protracted delay has precluded comment being made in this Report.

Statements for the five months ended 30 June 1977 and for the year ended 30 June 1978 have been examined but not yet certified whilst those for the year ended 30 June 1979 have not been received.

The Committee regarded this as a serious criticism of the Authority. It reflects an accounting performance which is unacceptable.

Evidence was heard from the Chairman, a Member, and the Secretary-Accountant of the Authority. They began by explaining the magnitude of the Authority's financial activities and describing the staff available. To June 1979, there had been nearly six million dollars of capital expenditure and three and one-half million dollars in recurrent revenue expenditure.

During this period administrative staff had consisted of the Secretary-Accountant and a clerk-typist who was engaged on work for the Rivers and Water Supply Commission for 40 per cent of the time.

The Chairman, referring to the Secretary-Accountant, said that:—

In July 1979, he suffered a hand injury. This necessitated specialist treatment and eventually an operation. He was unable to write for about three weeks. Following this, he was absent for a short while after a family bereavement. Both these events happened in those weeks when normally he would have finalised the accounts. Completion was therefore held up because of these matters and it was not possible to meet the Audit Department's deadline.

The Committee accept that his explanation is reasonable, though since this was a very critical time for accounting it may have helped to have employed a temporary clerk to work under the Secretary-Accountant's direction during the time he was unable to write himself. There is also the point that he was on recreational leave in June 1979. Apart from being surprising, this certainly did not help in that particular period. The Committee do not consider that this officer should be absent at this time of the year.

Throughout their evidence, the witnesses were at pains to emphasise that the Secretary-Accountant was in his office at all other times and that he was co-operative when dealing with auditors. The Committee received confirmation of this from the Audit Department. But there were, of necessity, times when he could be available, for example when attending or preparing for Authority meetings.

It seemed that the Auditor-General's comments had been received as a criticism of the Secretary-Accountant. But the Committee did not see it in this way. We took it as simply a case of a new enterprise being equipped with too limited administrative facilities. Understandably, there is a tendency for a body like this to have an engineering bias. The Authority has the power to appoint staff under Section 8 (i) of the North-West Regional Water Act 1976:

The Authority shall appoint a suitable person to be Secretary of the Authority, and may employ such staff as it considers necessary.

Therefore the Committee conclude that the Authority must accept the responsibility for staff shortages. It is noted that an additional clerical assistant was appointed in November 1979.

Sale of Lands Building

On page 68, the Auditor-General reported that —

Under the provisions of the Lands Building Agreement Act (No. 76 of 1978) the Minister for Crown Lands sold the Lands Building to the Motor Accidents Insurance Board for \$10 085 332, with the sum of \$5 042 666 being paid in January 1979; the balance is to be paid within one month of the certificate of practical completion of Stage II. The Minister has entered into a lease agreement with the Board initially for 15 years from 1 February 1979, rent being \$453 840 per annum for Stage I and a similar amount when Stage II is completed. The agreement for sale gives the Board the power to require the Crown to repurchase the building.

Clause 3 (b) of the Lands Building Agreement provides for the Board's legal costs to be met by the Minister and an amount of \$50 000 was paid (offset against the proceeds of the sale) to private Solicitors. The Solicitor-General advised in relation to this payment that, although State legal officers would have been capable of performing the legal work, he did not consider they could have afforded the necessary degree of independent service. As well, the decision to engage a private solicitor was the Board's and one over which the Crown was not entitled to exercise any control.

The Committee heard evidence from the Chairman of the Motor Accidents Insurance Board and the Solicitor-General on the Board's investment and on the payment of legal fees.

The Chairman said that this Board did not conceive the transaction, but that it had resulted from an approach from the Treasurer of the day. He said that the Board was 'influenced by a desire to invest the money to the benefit of the State. It was influenced by the fact that the Treasury deemed this a good investment, and the board satisfied itself independently that it was.'

The purchase price was the valuation of the building, as determined by the Land Valuation Branch. He said that the \$10m-odd for the purchase had been readily available, from short term investment at around 10 per cent. The rental rate 9 per cent made the investment attractive as it was an opportunity to invest such a large sum of money 'in one hit and without any homework . . . and without any overhead of collection'. The Chairman said that his Board still had some \$15m invested in the short term money market to meet its claims.

The Solicitor-General read to the Committee the solicitor's account:

To the purchaser's solicitors, professional charges in connection with the preparation, settling and engrossing of the agreement for sale; settling the Lands Building agreement bill; and all necessary attendances in connection therewith as per Schedule 2 of the Solicitor's Remuneration Order — \$748.

To the purchaser's solicitor's, scale charges in connection with the transfer by way of grant as per Schedule 1 of the Solicitor's Remuneration Order — \$70 678.

To the lessor's solicitor's, professional charges in connection with the preparation, settling and engrossing lease of the Lands Building as per Schedule 2 of the Solicitor's Remuneration Order — \$26 000.

Total \$97 426, but say in full . . . \$50 000.

He explained that there was justification for charging proportionate legal fees. In the first place, a small transaction may require a great deal of work, so that fees from large cases do help to subsidize in a sense such cases. There is also the point that a solicitor is answerable to the client for the effectiveness of the work he does, and the liability is of course proportionate to the size of the transaction.

The Solicitor-General said that the Board had made the decision to engage a private solicitor. He said that many statutory authorities do engage their own barristers and solicitors.

He supported the decision by referring to the possibility, if Crown Law had acted for both parties of a conflict of interest between the two clients. He said it is a very difficult matter to act for both parties in a transaction objectively, 'when you are dealing with a very valuable piece of real estate and complex documents, particularly the lease-back, you cannot stand aside and attend to the interests of one party to the exclusion of the other, then change hats and look at the same document as critically as you would if you were acting for only one party . . . if some point has not been considered and something arises in the future, it would be invidious for the Government to be in a position of saying it was acting for the Motor Accidents Insurance Board as well. We would be exposed to the charge that we had looked at it only from its points of view if the point favoured it, or vice versa.' He said that only in the simplest cases do solicitors undertake the risk of endeavouring to act for both parties.

The Committee have no criticism to make of the fees, which the solicitor, having been appointed, charged. The decision to buy the building was a matter of policy and as such it would not be appropriate for the Committee either to approve or to disapprove of it.

It is, however, the Committee's function to examine how policy is implemented. As mentioned above, the purchase of the Lands Building by the Motor Accidents Insurance Board was initiated by the Treasurer. It is plain that at Government level the transaction was seen as beneficial for both the Motor Accidents Insurance Board and the State. This being the case, the Committee feel it was somewhat artificial for buyer and seller then to have been separated again, for conveyancing purposes. There could be other circumstances, where authorities are in conflict, where independent legal advice could be desirable. The Committee do not agree that the possibility of a conflict of interests had Crown Law acted for both parties was sufficient reason in this case for having the Board engage a private solicitor.

The fees are appropriate when the parties are not related. But in a case where both are State instrumentalities, it is obvious that any disadvantage to one of them which is recognised subsequently can be — and would be — resolved not by litigation, but by Government action.

The Committee recommend that in any similar transaction in future, Crown Law should represent both parties.

Department of Planning and Development: Procedures for Investigating Companies Seeking Assistance

The Auditor-General noted at page 35 that during 1978–79 demand continued for assistance to various sectors of industry:

The aggregate value of new loans granted in 1978–79 increased by approximately \$0.6 m whilst new guarantees decreased by approximately \$2.8 m compared with the previous year. In addition, \$1.5 m was made available from Loan Funds for the purchase of shares (refer Electrona Carbide Industries Pty Ltd — page 38). Generally assistance is provided under the Industrial Development Act 1954 unless it exceeds limits in that Act so as to warrant enactment of specific legislation.

Though the Auditor-General was not critical of the Department, the Committee felt it desirable to make some enquiry into how it goes about investigating companies which apply for financial assistance.

The Director-General explained that requests for financial assistance can originate in three ways: where an industry takes the initiative, where a development officer perceives a need for assistance, or where an enquiry is directed from a Minister's office.

The Director-General provided copies of guidelines to be followed in the first two categories, an example of which is reproduced below:

Directorate of Industrial Development and Trade Guidance Sheet for Submission of a Request for Finance (Other than for Primary Production)

A. Description, history, management, ownership:

1. Full name(s); address(es); age(s), in the case of companies the name of directors and the secretary.
2. Brief history of the business; described principal activities and developments proposed; state number of employees — present and contemplated.
3. Names of any holding or subsidiary companies or companies or firms closely associated because of almost identical managements or ownership, and brief details of their activities.

B. Amount sought, purposes, proposal for repayment:

1. State full details of the purposes for which the finance is sought, the amount requested from the Directorate and total needs. Are there firm quotations for any proposed expenditures. Show sources and amounts of funds to come other than from the Directorate, e.g. sale of assets, other borrowings, retained profits and additional capital.

If a cash budget has been prepared, please submit a copy.

2. State what action has been taken to obtain the finance elsewhere.
3. State suggested scheme for repayment.

C. Security offered:

1. Owned and/or being acquired by applicant — submit reasonable detail including any valuations available, etc
2. Guarantees and/or securities available from other parties — state name(s) of guarantor(s) and/or surety(ies) and give full details of securities offered.

D. Financial information:

1. Submit in unabridged form the latest three audited annual balance sheets, trading and profit and loss accounts and supporting statements, if any. Advise any significant change in the financial position since the latest audited balance sheet submitted, or preferably, when date of application is later than three months after the end of financial year, submit up-to-date financial statements, even if not audited.
2. Comment as considered appropriate on main asset items in latest balance sheet, e.g. extent of overdue debtor accounts whether stocks are above or below reasonable needs, extent of slow moving stock, general description and conditions of buildings, plant, vehicles, etc.

3. Comment as considered appropriate on main liabilities items in latest balance sheet, e.g. extent (if any) by which payments to creditors are in arrears, repayment terms and security given for borrowed moneys, taxation position etc.
4. Advise name of bank, approved bank overdraft limit (if any) and reduction arrangements; also any other bank arrangements such as documentary letter of credit limits etc.
5. State nature, amount etc. of any contingent liabilities in respect of guarantees given, legal disputes, arrears of preference dividend, etc.
6. If an individual or a partnership advise brief details of 'private' assets and liabilities (including tax) not shown in the balance sheets submitted. If a private company, are there any substantial liabilities of shareholders for taxation which will require drawings from the company.

E. Trading Results and Prospects:

1. Detailed trading and profit and loss statements to be submitted as mentioned in D. 1 above.
2. Copies of reports normally prepared for management, bearing on costs and profits, should be submitted.
If available also submit reasonably detailed information on comparative sales during the periods covered by the financial statements submitted; if reasonably practicable, this might be dissected into, say, quarterly periods. Comment on any major change during the periods in types and volume of product or service comprising the sales; also significant changes in selling prices.
3. Submit estimate of future sales and profits, and in that regard, comment upon:—
 - (i) Markets available, strength of competition, share of the market, extent of any market surveys undertaken.
 - (ii) Availability of materials, labour and services.
 - (iii) Adequacy of buildings, plant and equipment etc.
 - (iv) The extent by which costs will be reduced or sales expanded as a result of this proposal.
 - (v) Extent of dependence on the special knowledge or connections of an individual for success of the business; terms and conditions of any 'Service agreement' with him or other key personnel.

The Director-General said that where requests or instructions come from either Minister or Cabinet, they usually occur in an emergency situation. He said that the Department is often instructed to find a solution to a problem in a very short period of time, and this often necessitates short circuiting of normal procedures.

The Committee were told that a large amount of the Department's work is involved in advice and the collating of information. This can take many forms varying from Market Statistics to guidance in dealing with local authorities, Government Departments and numerous Commonwealth Government procedural matters. It is often the case that officers of this Department are used to assist industry with discussions with their professional advisors. In fact, the Director-General said that only five to ten per cent of the Department's work is in the field of financial assistance.

When it is remembered that the Department is essentially a lender of last resort and the political decisions can lead to assistance being advanced on social rather than purely economic grounds, the Committee is satisfied that the Department has been carrying out its functions satisfactorily.

We believe that the establishment of a development bank to free the Department of Planning and Development from involvement in financial assistance to industry would assist the Department to carry out its planning and advisory functions by clarifying its role.

Trade Union Training Program: Qualified Certificate Relating to Expenditure of \$7 949

State Government grants totalling \$55 000 were made available to the Tasmanian Trades and Labour Council for a Trade Union Training program under the Consolidated Revenue Appropriation Acts for the years 1973-74 to 1977-78.

Statement of Income and Expenditure for the period 21 January 1974 to 28 February 1979 has received my qualified certificate. The qualification related to expenditure of \$7 949 which was not supported by vouchers. Notwithstanding the qualification, Audit was reasonably satisfied that the expenditure had been properly incurred on the approved purpose of the grants.

The Committee, despite the final sentence above, decided to hear evidence from the Secretary of the Tasmanian Trades and Labour Council on this expenditure. The Committee were told by the witness that he had taken up his position in 1976 and so had inherited a situation as far as the grants were concerned. He did not know what arrangements had existed from 1974 for presentation of accounts for audit. When the Trade Union Training Program became an issue of public controversy early in 1979 he had had an outside audit done. The Audit Department had conducted the audit referred to in the Report a short time later. The Secretary said that the same information was available for both audits:

I am not very familiar with auditing procedures, but I do know that there is a difference between the procedures followed by the Auditor-General's Department and the procedures followed by outside auditors. I cannot answer for the auditors themselves; I do not know. All I know is that there is a difference in what the Auditor-General's Department requires and what is general practice within outside auditing firms in the commercial world.

He said that all payments had been documented to the extent of cheque butts and followed up by audit by checking, for example, that persons reimbursed for lectures had actually attended courses.

The Auditor-General's complaint had been that vouchers did not exist in some cases. The Secretary, asked about the propriety of the procedures followed, said 'if I were doing it now I would do it a totally different way. That is really all I can say. Probably the people who were running it were trade unionists and not accountants and that is the difference as well.'

The Committee accept that there is no reason to suspect the grants were expended other than properly in this case. On the other hand, public moneys must all be accounted for fully and there are two aspects of this occurrence which are striking.

First, Audit had to go to a great deal of trouble to follow each payment through, to establish its legitimacy. In the second place, the audit occurred at the end of a five year period, so that had misappropriation occurred, it would have remained undetected for this long. This delay can also compound the difficulty of checking payments.

Although the Committee were told that bodies receiving grants are informed that audited statements would be required to be submitted, we believe that the Department making the grant should take a more active role in ensuring that these requirements are met.

The Treasury informed the Committee that by Treasury Instruction in June 1979, Departments had been advised of their responsibilities in the treatment of moneys granted by them to outside bodies.

Department of Housing and Construction: Administrative Changes Resulting from the Board of Inquiry into St Johns Park Hospital Laundry Boilers

At page 66 of his Report, the Auditor-General observed that —

The Report of the Cranswick Board of Inquiry into the St John's Park Hospital Laundry Boilers (29 June 1979) includes the opinion that 'the increasing size of the Department (Housing and Construction) with a greater volume and complexity of construction projects has resulted in an unsatisfactory and dangerous situation in the Department. Management is under a duty to consider and to clearly articulate levels of responsibility in such a way as to encourage personal commitment of officers'. Two of the Board's conclusions were that, 'Diffusion of personal responsibility among officers in the Department was such that it adversely affected their sense of professional responsibility' and 'Critical attention should be given to the organisation and proper role of the Department of Housing and Construction and in particular to its tendering and contracting procedures'.

While the Committee did not see any value in conducting another enquiry into the St John's Park Boiler Issue, the Board of Inquiry perceived the need for organizational changes. It was from this point of view that evidence was called from the Department.

A copy of clause 258 of the Board's Report was provided for the Committee. This drew attention to seven management areas.

The need to provide professional satisfaction for officers

The Director-General of Housing and Construction said that a specific response to this was the increased provision of clerical assistance to professional officers thereby providing the latter with more scope for involvement in their own particular fields. He said that there had also been a widening of involvement of project architects in the contract administration and supervision areas.

The need to involve professional officers directly in professional decisions with personal responsibility both in design and implementation

The Committee were told of the establishment of regular design reviews under the direction of Principal Architect (Design). There would be a system of reporting to the Principal Architect (Construction) with regard to any significant problems which may arise during contract document co-ordination meetings. The Director-General said that evaluation of 'feed-back' via recently introduced status reporting will induce prompt reaction to problems occurring during the construction period.

The need for inter-discipline and inter-level teamwork and exchange of views

The Director-General said that regular Management and Branch Heads meetings provide such a forum and should foster the teamwork approach. The Committee agree that this is a good way to go about improving co-ordination within the organization. However, it will be an important and continuing task of management at the top levels to watch critically how effective these meetings are. It may be found advantageous to vary a number of factors such as the size, frequency and composition of meetings.

The need for adequate clerical back up: such simple matters as the provision of office dictating machines, for example, can produce a significant cost benefit

The Department said it had always recognised this need: 'it is catered for within the limits of budgetary and staffing provisions set by the Public Service Board'.

There does exist an arrangement for inter-departmental sharing of equipment of this type.

The Committee sympathise with the views of both the Board of Inquiry and the Department in this. The example of dictating machines is particularly apt. In considering the working relationship of say a professional officer and a typist, provision of a first class dictating machine costing less than one per cent of their combined salaries could be well worthwhile. The question of cost benefits and office equipment is a large and important one and a separate enquiry is contemplated.

The need for continuous critical and constructive examination of contract documentation and procedures to ensure in each contract —

- (1) Co-ordination and consistency.
- (2) Definition of responsibility.
- (3) Reasonable simplicity.
- (4) That the contract is considered as a whole in all its implications.

Co-operation in this regard with the Master Builders Association and similar organisations should be beneficial

The Director-General said that these had become on-going functions which should be improved by better ordered co-ordination (documentation) meetings and by the recent establishment of the Resource Branch with its documentation inspection procedures.

He said that areas of responsibility as established in the General Conditions of Contract require restating from time to time, as they refer to departmental officers, and that regular meetings with Master Builders Association including working parties for specific tasks and with sub-contractor bodies will continue and are recognised as of value in this contract.

Tender documentation should be carefully designed so as not to give unfair advantage to products of named manufacturers

In this connection the Board of Inquiry said —

The suggestion that Tasmanian contracting firms have to be spoon-fed by listing catalogued trade-named products is unconvincing. If local contractors need this type of assistance then surely a standard appendix listing of the commonly available standard products could be prepared in conjunction with the relevant professional and business associations.

I do not consider the Department necessarily needs a legal officer, but it would be of advantage to submit contract documentation which is in common use to the Crown Solicitor or to a professional legal adviser. A conference with an architect, an engineer, a lawyer and an accountant all contributing their points of view as to the form and method of contract documentation might save its cost many times over.

The Director-General said that a committee had looked at this matter and 'current procedures — while not erroneous in this regard — are always subject to review and updating.' But he did point out that in general terms, the Board's observations in this matter of listing 'trade names' was contrary to Government policy in so far as it applied to preference to Tasmanian products. 'However, the criticism will be borne in mind in the continuing review of specification text.'

He said that using trade names in specifications had long been a problem but it had been found that the alternative, of including pages of description on dimensions, colour, performance, etc., was unsatisfactory as in the result, suppliers would tend to ask what was meant and would still operate on a trade name.

The advantages of interstate and overseas communication

The Committee were told that this advantage had long been recognised by the Department and was explored as far as budgetary structures and the requisite Government approvals to overseas travel would allow.

While it is for Government to decide how far funds will be allocated for this purpose, the Committee does not believe the Department can afford to be passive. Where a project is being developed which contains unusual design aspects, there is no doubt that great benefit can be derived from inspecting related projects elsewhere and discussing them with both their designers and the clients.

The Committee, and no doubt the Department as well, are aware of cases in public building projects where design pitfalls might have been avoided in this way. There could be a good case in some instances where it would be desirable for a team of say a project architect and an officer of the client body to make such an investigation. The point is that it is up to the Department to perceive when such a course should be followed and to act by making appropriately strong representations through the Minister.

Ambulance Commission: Payment of Overtime to Former Employee

At page 110, the Auditor-General said that a qualified certificate had been given to the Statement of the former Ambulance Commission for the final period to 6 December 1977. The qualification related to payment of an amount of \$5 062 to a former officer for overtime claimed to have been worked over a period of six years: 'The time involved could not be independently substantiated and payment had been effected at the rate of salary pertaining at the date of the claim rather than at the rates applicable when the overtime was stated to have been worked.'

The officer involved was the Secretary of the former Commission. The Committee were told in evidence by the Chairman of the Interim Ambulance Authority that the officer in March 1977 sought the concurrence of the Ambulance Commission to be paid fully for 92 working days of accrued leave: 'his action was apparently stimulated by a Cabinet decision of February 1977 to amend the terms and conditions of Commission staff to bring them under the jurisdiction of the Public Service Act.'

The Commission agreed in principle with this request and sought the approval of the then Minister, who replied that Commission staff would continue to be employees of the Commission and therefore the question of leave accruals remained for the Commission to determine.

At a special meeting of the Commission on September 1977 the payment for 92 days of accrued leave was approved.

The Committee were provided with the leave record of the officer which showed accruals for overtime worked, and there is no reason to question its authenticity. We were told that the Secretary had been unable to take time off in lieu of leave because he was virtually the only employee of the Commission.

The Committee consider that the Commission was remiss in this matter. It should have approved overtime as it arose and made periodic payments to avoid an accrual of this magnitude. In the circumstances, where there was no way his record could be verified, the Secretary would have been wiser to have seen that this was done.

Totalizator Agency Board: Deadline for Audit of Accounts

The Committee noted that the Auditor-General commented on page 195 of his 1979 Report as follows:—

Following comments on page 167 of the 1976-77 Report, the Public Accounts Committee recommended that section 55 of the Racing and Gaming Act 1952 be amended to remove the requirement that the Board's Accounts be audited prior to 31 October. It is noted that the legislation has not been so amended.

The Public Accounts Committee Report referred to is Parliamentary Paper No. 57 of 1978. The passage dealing with this matter concluded by saying:

The Committee have, of course, complete confidence in the Auditor-General and his staff. No question has ever arisen in the Parliament as to their integrity and efficiency and judgment, shown over many years. Therefore the Committee believe that the logical way to treat the Board's accounts is to leave it to the Auditor-General to use his discretion in programming this audit. The Committee point out that in a given year the Auditor-General alone is in a position to know the priorities are, and accordingly we recommend that the Racing and Gaming Act be amended to remove the deadline, and that the Totalizator Agency Board's accounts continue to be audited by the Auditor-General.

Successive Auditors-General have raised this matter in their Reports and the Committee believe the Government should, therefore, feel it is under some obligation to act.

Infrastructure Borrowings

As borrowing for infrastructure finance is a new development in State finance, the Committee sought advice from the Under-Treasurer, which is reproduced below for general information:

The Committee has requested that I give evidence on Infrastructure borrowings by Tasmanian authorities, the role of the Treasury in such borrowings, and the need for any amendment of the Public Account Act to take account of Infrastructure borrowings.

Tasmanian Infrastructure Proposals

In June, 1978 the Australian Loan Council gave formal approval to Guidelines for special additions to normal semi-government borrowing programs in order to finance Infrastructure. The Guidelines provided that special additions should be confined to exceptional cases which —

- could not be reasonably accommodated within resources normally available to the Government and so to its authorities under 'Normal' Loan Council programs;
- are for the provision of services of kinds normally provided by government or public utility enterprises;
- have special significance for development; and
- require outlay within a relatively short time span.

In examining each proposal, the Loan Council has regard to its viability, special significance and importance and urgency, the extent to which the project could be funded from resources otherwise available to the authority, and the need for the special addition.

The Loan Council has also identified a number of factors which should be considered in examining proposals submitted for its approval. These are whether the project would —

- (a) contribute to the development of national resources and would make efficient use of resources;
- (b) be of national importance;
- (c) contribute to the balance of payments;
- (d) strengthen the structure of industry;
- (e) contribute to employment;
- (f) contribute to the provision of energy; and
- (g) be commercially viable.

Following approval of the Guidelines, the Chairman of the Loan Council invited State Premiers to submit proposals for consideration under the new arrangements. In response to this invitation the Tasmanian Government sought approval for special additions totalling \$110 million (in January 1978 prices) over the five year period from 1978-79 to 1982-83 for the following projects —

Hydro-Electric Commission Power Development — \$75 million;
Water Supply Augmentation — \$35 million

These projects were approved at a special meeting of the Australian Loan Council held in Melbourne in November 1978. Approval was given for the following borrowings under the Infrastructure program in 1978-79:—

Hydro-Electric Commission Power Development — \$15 million;
Water Supply Augmentation — \$10 million

It is a requirement of the Guidelines that each government and its authorities should use their best endeavours to raise the amounts approved by way of special additions within Australia. In the event, the Hydro Electric Commission was successful in raising only \$5 million on the domestic market, while Regional Water Authorities were able to raise only \$1 million from this source. Accordingly, the State sought Loan Council approval for the Hydro-Electric Commission to raise \$10 million and for the Rivers and Water Supply Commission to borrow \$9 million from overseas lending institutions. The borrowing proposal submitted by the Rivers and Water Supply Commission comprised \$3 million for its own purposes, namely the Curries River project near Georgetown; \$4 million on behalf of the Metropolitan Water Board in respect of the Derwent Water Supply Augmentation; and \$2 million on behalf of the North-West Regional Water Authority in respect of the North-West Regional Water Scheme. The Metropolitan Water Board and the North-West Regional Water Authority requested the Rivers and Water Supply Commission to raise overseas loans on their behalf in accordance with amending legislation which was approved by Parliament in December 1978.

In January 1979, the Loan Council authorised an approach to overseas markets, and in February 1979, the Treasury, acting on behalf of the Hydro-Electric Commission and the Rivers and Water Supply Commission sought firm loan proposals from banks and other financial institutions in the United States, United Kingdom, Japan, Germany, France and Australia.

Following receipt of those proposals in March 1979, the firm of Hill Samuel Australia Limited, Merchant Bankers, was appointed as Investment Advisers to assist with the evaluation of sixty separate proposals which were received from seventeen lending institutions. Hill Samuel representatives worked in close co-operation with a three man Working Party from the Treasury, the Hydro-Electric Commission and the Rivers and Water Supply Commission. The Working Party, and the Investment Advisers, both recommended acceptance of an offer submitted by the Dai-Ichi Kangyo Bank and the ANZ Banking Group Ltd for a Japanese Yen Loan.

It is a requirement of the Infrastructure Financing Guidelines that overseas borrowings by statutory authorities should be guaranteed by the government concerned. Accordingly, the recommended loan was submitted to the Treasurer for his approval. This was given on the 4 April 1979. The terms of the proposed borrowing were approved by the Australian Loan Council on 24 April 1979.

It was necessary for the Hydro-Electric Commission and the Rivers and Water Supply Commission to enter into separate loan agreements with the lenders, and for the Government to be a party to both agreements in its capacity as guarantor. The terms of the draft agreements were modified in a number of respects following negotiations between representatives of the lenders, the borrowers, the Treasury, and their respective legal and investment advisers. Legal advice was provided by the Solicitor-General's Department, which acted for the Government and by Messrs Phillips, Fox and Masel, a firm of Melbourne solicitors with extensive experience in the documentation relating to overseas borrowings. This firm acted for the Hydro-Electric Commission and the Rivers and Water Supply Commission. Hill Samuel Australia Limited continued to act as Investment Advisers during the negotiation of the loan agreements.

The agreements were settled late in May 1979. A formal ceremony was held in Tokyo on the 4 June 1979, when the agreements were signed by the Treasurer on behalf of the Tasmanian Government, acting in its capacity as guarantor. The loans were drawn-down by the Hydro-Electric Commission and the Rivers and Water Supply Commission about one week later. The proceeds of the Rivers and Water Supply Commission loan were apportioned between the three Regional Water Authorities on the basis mentioned above.

The main features of the loans may be summarised as follows:—

Term — 15 years.

Interest rate — 7.2 per cent annum (on a 360 day basis).

Grace period — 4.5 years.

Prepayments — option to prepay at any time without penalty provided that the prepayments amount is either the full amount of the loan then outstanding or a multiple of 250 million Yen.

Repayments — principal repayments equal to 3.6 per cent of the amount of each loan are payable on each of the 9th through the 29th interest payment dates with the balance of 24.4 per cent of the loans being repayable on the 30th interest payment date which would be on 4 June 1994.

Management fee — 0.125 per cent flat.

Expenses — Approximately \$13 000.

The Tasmanian Government has received Loan Council approval to undertake further Infrastructure borrowings in 1979–80. The Hydro-Electric Commission has been authorised to raise \$16.5 million and the Rivers and Water Supply Commission \$7 million for the projects previously approved. At this stage, the State has not made any approach to overseas capital markets. However, it seems likely that such an approach will be necessary as present indications suggest that the amounts which the Hydro-Electric Commission and the Regional Water Authorities will be able to raise on the domestic market will fall well short of the amounts which they have been authorised to borrow under the Infrastructure program.

The Role of the Treasury

The Treasury has been very closely involved in all aspects of the Infrastructure borrowing program since its inception. This involvement commenced about two years ago when I served as a member of a Working Party comprising the Heads of the Commonwealth and State Treasuries to prepare draft Guidelines for consideration by the Australian Loan Council.

Following approval of these Guidelines, the Treasury has played a major role in all aspects of the borrowing program. Its main functions have been as follows:—

Discussions with representatives of almost fifty overseas lending institutions, many of whom have visited the State on a number of occasions.

Co-ordination of the preparation of submissions to the Loan Council, and of answers to questions raised by the Commonwealth Treasury and other State Treasuries.

The monitoring of movements in exchange rates and interest rates in overseas capital markets.

Assistance in the preparation of a statement for prospective lenders giving background information on the projects for which loans are sought, and also on the Tasmanian economy, the structure of government and the State's financial system.

Approach to lending institutions on behalf of the Hydro-Electric Commission and the Rivers and Water Supply Commission seeking offers of overseas loans.

Selection of investment advisers.

Membership of the Working Party which evaluated the offers received from overseas lenders and which negotiated the terms of the loan agreements. The Treasury representative was appointed as Chairman of the Working Party.

Preparation of policy advice to the Government on all aspects of Infrastructure borrowings, including the provision of Government guarantees and the need for amending legislation to facilitate overseas borrowings.

Discussions with principals of Japanese lending institutions and the Ministry of Finance in Tokyo, and final negotiations with the Dai-Ichi Kangyo Bank prior to the formal signing ceremony on 4 June 1979.

The Public Account Act

The Committee has asked whether the Public Account Act should be amended to take account of Infrastructure borrowings.

The Public Account Act 1957 provides, inter alia, that moneys borrowed by or on behalf of the State under the Financial Agreement of 1927 shall be credited to the Loan Fund. However, borrowings by semi-government authorities are not subject to the provisions of the Financial Agreement, and the proceeds of such borrowings are retained by the authorities rather than being credited to the Loan Fund.

As Infrastructure borrowings are in the nature of special additions to normal semi-government borrowing programs (and can be undertaken either in Australia or overseas) there does not appear to be any logical reason for treating them on a different basis from that which has applied for many years in respect of public and private borrowings by statutory authorities such as the Hydro-Electric Commission.

Unless there are other aspects of this matter which the Committee has in mind, I cannot see any necessity for amending the Public Account Act to take account of Infrastructure borrowings.

Sessional Service by Visiting Staff to Hospitals

The Auditor-General referred to this matter at page 209:

Page 205 of the 1978 Report provides background information for the Scheme and a reference that a review of the Scheme would be undertaken.

I have been informed that aspects of the Scheme are currently under review.

A survey of earnings by visiting medical officers throughout the State's hospitals indicated there were seven officers employed at General Hospitals whose entitlements for the part-time service exceeded \$30 000 in 1978-79:—

- 3 ranged between \$30 001-\$35 000;
- 1 ranged between \$35 001-\$40 000;
- 1 ranged between \$40 001-\$45 000;
- 1 ranged between \$50 001-\$55 000;
- 1 ranged between \$65 001-\$70 000.

The last two practise in the same area of medicine and are employed by the same Board.

Cost escalation for this item of health expenditure exceeded proportionate cost increases of any other major category of expense. The following comparison illustrates the increase since the initial Medibank year:—

1975-76	1978-79	Increase	Percentage Increase
\$1 123 961	\$2 488 125*	\$1 364 164	121.4%

* Mental Health Services Medical Officers' salaries, accepted for Medibank funding from 1 July 1977, have been excluded to achieve a more meaningful comparison.

The Committee noted that the Auditor-General in commenting as he did made no suggestion that there has been malpractice. But he did point out that the scheme is proving very expensive and clearly some visiting medical officers have received payments which would be very difficult to justify.

The Committee heard evidence from the Department of Health Services, the Industrial Commissioner of the Public Service Board and the Medical Superintendents of the Mersey General Hospital and the North-Western General Hospital.

The Department told the Committee that the honorary system was replaced in 1974 by the scheme. The Director-General said that throughout Australia a strong groundswell of opinion was developing among the medical profession in the early 1970's that the profession should no longer be required to provide its services to the public hospital system free of charge. 'It is my personal belief that this attitude was reflected in the community as a whole, and was not unique to the medical profession. In any event all States were moving at that time towards the introduction of systems of payment for visiting medical staff, and the virtual abolition of the honorary system.'

The Public Service Board, following submissions from the Australian Medical Association, drafted the scheme which was agreed to by the Minister for Health and that Association. It was reviewed by the Board in 1976, when some minor adjustments were made. The parties agreed that the scheme would be reviewed every three years. The Committee noted that a review was due in July 1979, but had not, by March 1980, commenced.

The two doctors whose entitlements under the Scheme exceeded \$50 000 for the 1978-79 year are both employed as Visiting Obstetrician and Gynaecologist to the North-Western General Hospital at Burnie. We received evidence that the level of payments made to those officers had been of concern to the Director-General for some time, 'and an examination is being made of alternative methods of providing a specialist obstetric and gynaecology service at Burnie.'

The two doctors referred to worked for averages of 45 and 49 minutes per visit. However, under the terms of the scheme, they are paid for 3½ hours at each call back. There was general agreement among the witnesses that more realistic payments would result if payments were made on the basis of a one hour period.

The Industrial Commissioner of the Public Service Board pointed out that there are some 200 medical officers affected by the scheme. Most do not receive excessive payments and he was not prepared to concede that the scheme was loose or defective.

However, the Committee believe that when all the factors are taken into account, the waste of public money which must occur where gross overpayments are made, the effect on morale of permanent medical staff and indeed all public servants who work under Public Service Board awards, the reflection on members of the Australian Medical Association at large, and, not least, the reaction of the taxpayer, it is clear that when the review of the scheme does take place, the freak payments referred to by the Auditor-General should be prevented. The Committee were told that it is the intention of the Director-General of Health Services to recommend that call backs be paid on a one-hour basis. We support this recommendation and commend it to the Minister and the Association.

N. M. ROBSON, M.H.A., Chairman.

Committee Room,
Parliament House,
8 July 1980.