



1985

PARLIAMENT OF TASMANIA

PARLIAMENTARY STANDING COMMITTEE

PUBLIC ACCOUNTS

REPORT FOR 1984-85

MEMBERS OF THE COMMITTEE

Mr *McKay* (Chairman)
Mr *Archer*
Mr *Batt*

Mr *Bonney*
Mr *Graham*
Mr *Robson*

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The Parliamentary Standing Committee of Public Accounts has the honour to report on enquiries undertaken in the financial year ending 30 June 1985.

As is usual for the Committee, its enquiries were mainly based upon the Auditor-General's Report and discussions with him. Hearings were attended by Audit and Treasury officers, and their assistance is greatly appreciated.

The Committee appreciates the dedication of the staff in its work towards producing these reports. However we believe we could extend our influence over expenditure if more resources were available. In other states it is recognised that for this phase of accountability to Parliament for public expenditure it is impossible to be thorough without the necessary research back-up.

The Public Accounts Committee of the House of Commons at Westminster has a system whereby, rather than carrying a separate staff, it is fully serviced by the Audit Office. This system is favoured by the Tasmanian Committee and it is hoped that it can be introduced when present staff shortages in the Audit Department have been overcome. The problem is one of recruitment in that Department, rather than a lack of funds, so that there is a real prospect of the Committee being able to receive the assistance it needs.

During the year Mr Oliver Gregory retired from membership of the Legislative Council. He had been a member of the Public Accounts Committee since it was first established in 1971. The Committee takes this opportunity to place on record our appreciation of his work as a member.

DEPARTMENT FOR COMMUNITY WELFARE

ACCOUNTING DEFICIENCIES

The Auditor-General, on pages 74 and 75 of his 1984 Report, commented as follows:—

In December 1983, the Director for Community Welfare was advised that it was disturbing to note the nature and number of errors which had been discovered as a result of the audit, and that it was not possible to form an opinion on the validity and accuracy of transactions in respect of many aspects of the Department's activities.

. . . . there was a serious breakdown in a number of operating systems, including essential internal controls, that no effective action had been taken by management, and that there was also the possibility that substantial over and under-payments had occurred in certain areas which remained undetected.

In the light of these deficiencies, the Director undertook to take immediate action, particularly in relation to salaries.

An interim audit review was undertaken in June 1984, to ascertain the effectiveness and appropriateness of action taken by the Department to overcome the various deficiencies raised by Audit. This review indicates that although there had been improvement in some areas, there were nevertheless a number of underlying system problems which had not been resolved.

Continuing problems exist in the following areas:—

- *Salaries.* A re-examination of salary payments by the Department, as requested by Audit, was only approximately half-completed. The Director advised in August 1984 that it had been established that twenty-five employees of the 142 employees so far examined had been overpaid by a total amount of \$7 908, and that action had been taken to recover the overpayments.
It was noted that whilst there had been a substantial improvement in salary processing, there was nevertheless no pre-checking of input being undertaken and as a result errors could continue to occur. The Director recently advised me that an additional staff member will be transferred into the Salaries Section in the near future, which will enable crucial internal checking procedures to be performed.
- *Personnel.* The Director advised that all leave card records would be checked in accordance with Audit's request of January 1984, although checking had not yet commenced. The Director also advised me that he was endeavouring to have a position of Executive Officer (Personnel) created and that when appointed, one of the officer's first assignments would be to perform a thorough review of the personnel work processing area and associated duty statements of personnel staff.
- *Inventory.* The Department has now developed a new inventory system which was implemented on 1 July 1984. Its effectiveness will be assessed at the next audit. With regard to the maintenance of inventory records to 1 July 1984, I was informed that substantial progress had been made in this area. An assessment of the adequacy of inventory records will be carried out shortly.
- *Heating Allowance.* Departmental investigation revealed that a number of overpayments had occurred which were subsequently written off by the Minister. The Department has recently amended the Heating Allowance computer program in an attempt to reduce the possibility of duplicate payments.
- *Administration.* There is a lack of Head Office control over some accounting functions performed at the Southern Regional Office. There are also a number of matters relating to policy guidelines regarding payments for clothing allowances and sundry debtors still to be resolved and follow-up procedures regarding irregularities in relation to the payment of grants that must be resolved with Treasury.
- *Institutional Accounts.* I was advised by the Director that this matter is progressing and that improvements made will be demonstrated at future audits.

Every endeavour must be made to raise the Department's accounting procedures and systems to an acceptable standard. It is important that immediate, positive and effective action be taken. This is necessary in order to minimise the potential risk if further wastage of public funds due to inadequate staff management and supervision, and to limit the excessive amount of time which my Department is having to devote to the conduct of this particular audit.

The Committee decided to investigate the extent and speed with which the Department for Community Welfare was implementing change to rectify its adverse situation. On the committee's request information was forwarded regarding the Department's corrective action prior to November 1984.

The Committee was further updated at a hearing on 12 March 1985 at which Mr Daniels, Director; Mr Davies, Accountant; and Mr Evans, Administrative Officer of the Department for Community Welfare, attended. Mr Daniels identified the areas where the Community Welfare had implemented reform in response to the Auditor-General's criticism of its operations.

He told the Committee that in regards to salaries substantial improvements had been made. An experienced paymaster had been reinstated to the section and he is training two subordinate officers, which has allowed for important internal checking. Three audit trained officers were seconded from other departments and they have conducted a complete internal salary audit. Attempts are now being made either to reimburse those who were underpaid or regain funds where overpayment occurred. In regard to personnel, the Director has called for greater control of pay and other employee related records. The personnel unit has gained extra staff and has begun an overview of training requirements. A new position of Executive Officer (Personnel) has been created and when appointed he will conduct a review of personnel work processing areas and associated duties. The possibility of implementing computer technology into the personnel units operation is also being reviewed.

The Department has been involved in developing a new inventory system which was implemented on 1 July 1984. Subsequent audits have revealed that the new system is operating satisfactorily and has overcome the problems which had been raised by the Auditor-General's Report.

Mr Daniels submitted that invalid heating allowances had amounted to only \$681 which was an error of .001%. He told the committee that while the Minister had decided to write off the overpayments, the Department has recently amended its heating allowance computer program in an attempt to reduce possible duplication of payments. The situation in the administrative sector is also improving due to the changes in duties of certain personnel and the Department is also seeking the creation of a position for a full-time auditor.

When the Committee questioned Mr Daniels on the course of the accounting crisis he referred back to the Department's historical development since the mid 1970's when the Community Welfare Department's structure was last reviewed. Since then there has been a rapid increase in the responsibilities and duties falling under its jurisdiction. These included—

- An increase in the community grants program from 5 per cent of the Department's budget in 1975-76 to 20 per cent in 1983-84. From one sundry grants item the Department now operates eight separate grants programs with outlays of nearly \$2 million in 1983-84. There has been a need to introduce guidelines against which submissions can be assessed, as well as stricter management and accountability procedures, not only because of Audit and Treasury instructions but to ensure optimum use of the welfare dollar in a high demand area.
- The development of an emergency and financial assistance program, a Tas. Youth Unit, a Multi-cultural Affairs Officer, Domestic Violence Intervention Services and Neighbourhood House Program.

The Commonwealth's involvement in community welfare matters has placed increased demand on skilled staff who can negotiate on a range of issues, such as emergency relief and aboriginal affairs.

While the Department's responsibilities and demand for skilled staff have been increasing the necessary additional resources have not been forthcoming. This has meant that the standardisation procedures and the establishment of guidelines to accommodate the new duties has not advanced at a compatible rate. Resources were not made available as the escalation in Departmental responsibilities was in line with an economic recession. The Government, instead of increasing funding to the Department in order for it to cope with the additional load that such a period of economic recession would inevitably produce, cut the Community Welfare budget. The Department had to face increased workloads and decreased resources along with demands for greater Government accountability.

The changes that occurred within Community Welfare caused two major difficulties for the Department. Firstly when extra resources became available, it was difficult to know where to position the new staff. Mr Daniels stated that—

‘. . . the choices in the past have been difficult when we have been told we can have two or three extra staff and we have a child abuse problem out there. Should it be an extra clerical officer in paid personnel or should it be a worker in the field at the service end?’

Second, the increase in the Department’s work load is accompanied by an increase in the mass and complexity of administrative needs. With a shortage of resources to employ skilled staff capable of handling their additional administrative requirements, the Department had to rely on existing staff who may well be unqualified for such a position.

Mr Daniels submitted that a review had been conducted by the Public Service Board and the Department into the senior management structure of the Department. With the support of the Minister for Community Welfare and the Minister for Public Administration it was successfully submitted to Government that the structure be changed from a basic hierarchical one with the Director and Deputy Director at the top to one of line management with three Assistant Director positions being responsible to the Director and the Deputy Director position being abolished.

At present the Director and Deputy Director are responsible for making the day to day decisions concerning services and administration for each of the Department’s seventeen units. The division into seventeen areas will be reclassified into three different areas of control, with each of the Deputy Directors taking responsibility for one area only. The Director and his three Deputy Directors will form a Policy Executive Committee which will allow for regular and consistent high level interchange between the three areas thus facilitating the development of cohesive integrated Departmental policy. Each Deputy Director will be expected to develop and chair a similar working committee within his division. The Director will merely sit in on these divisional meetings, thus exemplifying and reinforcing the Assistant Director’s responsibility to manage his division.

These changes will help to tighten up control and introduce a high level of management and executive skill into the Department’s top levels. The proposed restructuring represents merely the first step of review which will be conducted in an orderly fashion down to the base levels of the organisation.

Mr Davies submitted that Community Welfare will be conducting a feasibility study into the computerisation of non-financial aspects of the Department called DOCWIS (Department of Community Welfare Information Systems). It is a five year plan beginning in 1985–86 which will initially involve the gathering of data for the identification of the three division’s requirements. Having completed data collection, consultants will be called to advise on how best resources can be used in computerisation. While these stages of DOCWIS are developing the Department plans to implement a training scheme for its staff as existing employees have very little knowledge of computer terminals.

The implementation of DOCWIS will involve both the Department’s personnel and financial records. Mr Daniels told the committee that he believed the introduction of computerisation will be very helpful to the management of field services.

Mr Daniels concluded by informing the Committee that the long-term plans will eventually keep Community Welfare out of the Auditor-General’s Report, although he believes that reference will be made to his Department for at least another two years.

The Committee decided to hear evidence from two Community Welfare Field Officers. Mrs McGuire and Mr Ricketts were called. Mrs McGuire submitted that the role of a field officer had dramatically changed over the past ten years. The Department has started to expand its services into community development which requires the linking of resources within the community. Mr Ricketts told the Committee that while the role of a Child Welfare Officer has changed more towards community service activities, the demand for accountability has increased. Officers have great demands on their services which is restricted as they could spend up to half their time performing administrative duties.

The Committee agrees with Mr Daniels that there have been major external forces causing changes to and increasing demands on the Department for Community Welfare. However, the Committee believes that the accounts crisis is largely due to the Department’s organisational lag. While the Department’s responsibility and functions have been changing, the development of standard procedures and the establishment of guidelines to accommodate the new duties have not advanced at a compatible rate.

The Committee believes that the personnel section of the Community Welfare Department is in need of dramatic reform. It is the personnel section's responsibility to ensure that positions are filled by employees with the necessary skills to implement the changes required to accommodate the Department's changing responsibilities and functions. While the committee agrees that the Department could use the services of additional staff it also believes that the personnel section should have utilised its existing human resources to strengthen certain areas of its activities at the expense of others as the functions of the Department have changed. There is also a need for an increased emphasis on training programs which would teach employees the necessary skills required to perform their duties in a changing environment.

The Committee recommends that the Department increase the distinction between staff and line career paths. The administration of the Department for Community Welfare has become increasingly complex which requires appropriately skilled employees. The Committee recommends that the Department act with haste to implement the proposed reform aimed at rectifying the existing situation.

FORESTRY COMMISSION

INCREASING DEFICITS

The Auditor-General, on page 97 of his 1984 Report, commented as follows:—

‘As at 30 June 1982, the Commission had accumulated a profit of \$10 857 000 from softwood operations; a capital loss of \$14 734 000 from non-productive softwood plantings; and a loss of \$15 059 112 from native forest operations. The softwood operating profit was written back against the softwood capital loss, while the loss from native forest operations represented the accumulated deficit in the Revenue Appropriation Account at 30 June 1982.

The balance in that Account increased to \$23 244 853 as at 30 June 1983, and by a further \$9 946 078 to \$33 190 931 as at 30 June 1984. These increasing deficits are directly related to the Commission being required to meet interest on its total loan debt at 30 June of the preceding year, excluding advances for working capital. The Commission has estimated that interest charges will escalate to approximately \$22 800 000 by 1989–90, and that annual deficits in the order of \$13 500 000 are expected from 1985–86, if present funding arrangements continue. I am advised that a submission has been prepared for consideration by Cabinet.’

The Committee decided to enquire into this matter and the Commission was called to give evidence. Mr Anderson, Accountant, Mr Quick, Chief Commissioner and Mr James, Commissioner (Commercial) appeared before the Committee and submitted a briefing paper on 29 November 1984. In its briefing paper the Commission explained the reasons for the escalating interest bill.

Since 1937 loan funds have played a major part in financing the Commission. Essentially they were used for capital works but as revenue from royalties fell behind recurrent expenditure, it became necessary to finance progressively more recurrent expenditure from loan funds. Prior to 1966, the interest bill had been capitalised, after which the Commission began to pay interest on their accumulated loan debt of the previous ten years. In 1982–83 the ten year moratorium was discontinued and interest became payable on the loan debt at the close of the previous year. Payment of the increased interest and a part of capital works is made possible by a special appropriation of interest free loan funds from the State designated ‘working capital’.

Mr Quick identified the problems, other than accounting and funding, that such a situation gives rise to:—

‘It reflects on the public attitude to the Commission because the public does not understand the complexities of the accounts and therefore views it as an organisation which is making a considerable loss’.

Mr James continued by telling the Committee that a substantial element responsible for the Commission’s deficit was its non wood or social costs. The large loan debt and the high social cost make it difficult to establish the true cost of production. In the past, wood production costs have not been identified, which has made it difficult to establish a base for royalty rates.

To overcome these difficulties, the Commission, in association with Treasury, have developed a new system of accounts which was detailed in their last annual report.

Mr Quick described the new system as revolving around the concept of having two different types of accounts. The first is for developing forest where new growth is proceeding. An example of this is pine plantations where money is spent today but a return is not anticipated for some thirty odd years. Within this area interest is capitalised.

Once forests are operating on a sustained yield basis, they can be viewed as going concerns wherein this year’s expenditure can be placed against this year’s income. This form of accounting gives a fairer representation to the public of how an industry with anything up to 80 or 100 years rotation period operates.

Mr James told the Committee that the Commission, in conjunction with industry, was attempting to identify the social cost involved in forestry. The Commission proposes that social costs should be funded out of Consolidated Revenue because they are not really expenses which should be charged to industry. These changes would allow the Commission to establish a cost basis upon which royalty negotiations could be conducted rather than being set by an Act of Parliament as is the case with Australian Newsprint Mills Ltd and other private companies. If industry could not support royalty rates based on cost of production, it would then be up to Government to make a decision on subsidies.

The Commission made a submission to Cabinet regarding its funding. The submission argues that forestry should operate on a commercial basis. The Government would become an owner of equity in the Commission by supplying money for capital works and gradually paying off the large loan debt thus enabling forestry operations to become profitable. Any profits made by the Commission would be directed back to the Government.

The Committee agrees that it is important for the Commission to identify its costs of production. However the question of social costs is more complex than that presented by the Commission. It is common place for companies to meet certain social costs which are included as part of their cost of production.

Furthermore, on the question of fighting wild fires, it can be argued strongly that by engaging in such activities the Forestry Commission is looking after its assets with part of its normal running costs.

The committee believes that to generate profits solely to create the impression that the Government is making a profit out of forestry is probably misleading. Whether the Government continues to supply working capital or pays off their loan debt, the Commission is being funded by public monies.

The Committee recommends that a Board of Inquiry be appointed to establish the best means of financing the Commission and the basis upon which royalties should be set.

DEFICIENCIES IN PATIENT BILLING SYSTEM

The Auditor-General on pages 220 to 222 of his 1984 Report, commented as follows:—

‘Developments to implement a new patient billing system in the State’s four general hospitals can be summarised in the following way—

- New categories of out-patient fees were introduced from 1 September 1981, as a result of Commonwealth policy changes. Prompt action had to be taken within a short period to implement billing systems throughout the State’s major hospitals, in order to cope with the increased volume of transactions.
- A Working Party was set up in June 1981 to report on the billing requirements.
- Following submissions by the Working Party, the State Computer Policy Committee approved the acceptance of a proposal by a private company for a computerised interim in-patient/out-patient billing system, to be operative in all general hospitals from 1 September 1981 for a period of twelve months, pending a long term solution to hospitals’ billing requirements.
- The patient billing system did not become fully operative in the four general hospitals until mid 1983. However, the system contained improvements/enhancements which were not envisaged in the early stages of development.

There have been further significant developments in relation to patient billing since the 1983 Report. namely:—

- When the Commonwealth advised the State of its requirements in respect to the forthcoming operation of Medicare, which was due to commence on 1 February 1984, it became clear that the volume of billing transactions would be considerably reduced.
- Three companies were invited to quote in respect to the revised requirements, and a new temporary patient billing arrangement was accepted.
- The agreement with the previous contractor was terminated as at 31 March 1984.

The day-to-day problems of the system implementation were left to the Department of Health Services to control. It appears that the Department did not have appropriately qualified personnel available at the time to oversee the system development, nor could it readily appoint a suitable person.

Audit has conducted a review over the system which was developed by the initial contractor; that is, the system which eventually became operative in mid 1983 for both in-patient and out-patient services at the four general hospitals. The review indicated that there were deficiencies in certain basic controls, namely:—

- lack of supervisory controls by appropriately qualified personnel;
- inadequacies in system design which required continued modification and enhancement following numerous complaints by the user Hospital Boards;
- lack of adequately clear documentation to define the precise contractual arrangements, variations and obligations.

To date approximately \$350 000 has been spent on hardware and software licence and development costs on a system which, although it only came into full operation in mid 1983, has already been terminated and replaced. This amount does not include the contractor’s recurrent, management and maintenance charges, nor the initial training charges.

Audit directed certain questions to the Department of Health Services on 29 February 1984 and 1 May 1984 in an attempt to finalise the review. They included the following matters:—

- the inability to account for certain items of computer equipment, which have apparently been paid for;
- details of contractual arrangements between the Department and the initial contractor, including any specific settlement payments made or to be made upon termination of the contract;
- details of contractual arrangements between the Department and the new contractor;
- compilation of a computer assets register.

At the date of finalising this segment of the Report (14 September 1984), the Department had not provided the information requested, despite several reminders.’

On 5 November 1984 the Committee wrote to the Director-General of Health Services to ascertain whether the questions presented by the Auditor-General on 29 February 1985 remained unanswered. The Committee was informed that the Auditor-General had been furnished with the requested information on 12 November 1984.

Following correspondence with the Auditor-General the Committee was supplied with a copy of the Department of Health Services' reply. Dr Mackay-Smith, Director-General of Health Services, reported that the original contractors were Nicholson and Partners. It was believed that there was an inherent problem in the development of contracts based upon decisions which are taken by Government outside of the normal guidelines for the engagement of consultants. Therefore no formal contractual documents were prepared. There were no specific settlement payments made upon termination of the contract. Payments were made on a monthly basis and a 'termination' as such did not occur.

The Department of Health Services was advised by the Law Department that through the exchange of letters an implied contract existed. As the new contractors, Medical Management Systems, were engaged merely to continue the Nicholson's System, the exchange of letters was considered an appropriate course of action.

As the situation is now changing and Medical Management System is required, pending approval by the Computer Policy Committee, to replace the existing 11-40's with 11-73 equipment contract documents have been prepared, and examined by the Law Department. To date no problems have been identified due to the lack of contract, and in effect, due to the uncertainty in the Medicare data requirements. The advantages of greater flexibility lie with the Government and not the consultants.

In relation to computer equipment, the Department of Health Services reported that:—

'User equipment was delivered direct to hospitals whilst disc drives and mainframes, etc. were delivered direct to Interact.

Invoices were forwarded direct to the Department for payment from Loan Funds.

The Department's policy, as referred to in the Hospitals's Manual of Accounting, requires hospitals to maintain computer and equipment inventories. The Department is not responsible for keeping a combined inventory of any equipment purchase by or for hospitals.'

Since the Auditor-General had discovered a number of anomalies the Department has undertaken a more comprehensive reconciliation. The reconciliation has been difficult as equipment requiring servicing had been replaced, hence rendering original serial number records redundant. The Department had accounted for all its video display terminals while only two of its LA120 printing terminals have yet to be located. The existence of the seventh disc drive, supposedly purchased as part of major spares in September 1982, is also being examined. Particulars of the unaccounted for equipment has been sought from Nicholson, and his advice is expected to resolve these matters.

The Auditor-General, in response to the Department of Health Services' reply dated 12 November 1984, stated that, given the uncertainty regarding the whereabouts of equipment, he found it difficult to accept the argument that the Department had no evidence of any problems of a contractual nature. The Auditor-General required additional information as to whether the difficulties in locating the two printing terminals and the seventh disc drive had been resolved. The forthcoming information was in turn passed on to the Committee:

'During the time that the equipment was purchased from Nicholson and Partners, the Department did not have an ADP Section. As a result of this, administrative control and authorisations were fragmented throughout the Department.

The termination of the arrangement for the provision of interim systems between Nicholson and Partners and the Department in 1984 has resulted in any queries addressed to Nicholson and Partners being dealt with in a most unco-operative manner.

Site inspections by officers of this Department and officers of your Department have failed to locate either the disc drive or the two LA120 printers.

The Department has developed processes aimed at ensuring that problems of this nature will not recur. A hardware register and clerical procedures covering the acquisition, placement and disposal of computer equipment have now been implemented and are under the administrative control of the Director of Administration. Day by day administration of the system has been delegated to the ADP Manager. All ADP matters are now the responsibility of the ADP Section.

The Department feels that due to the lack of any firm contract and arrangements in this matter, together with the time that has elapsed since this problem was reported, no further efforts should be made regarding legal action to recover any possible overpayment to Nicholson and Partners.'

The Auditor-General on 1 October 1985 stated that his Department is satisfied with the corrective action taken by the Department of Health Services. 'It is considered that the Department has learned from its experience with Nicholson and Partners in establishing the new patient billing system. Departmental officers appear to be determined that there will be no repetition of the problems they have experienced in recent years'.

Having examined the difficulties incurred by the Department of Health Services, the Public Accounts Committee has decided to conduct a general review of the problems emerging within the public sector due to the implementation of computer technology. This project is currently underway and its findings will be reported to Parliament at a later date.

EDUCATION DEPARTMENT VACANT PROPERTY

The Auditor-General in his 1984 Annual Report on pages 41 and 49 commented as follows:—

'The property at 64 Brisbane Street, formerly occupied by the Department of Film Production, was purchased by the Education Department in 1979 for \$165 000, for use by its administration and service branches.

Apart from full-time use during most of 1982-83, and for storage purposes, the property has been virtually vacant for five years. It is currently vacant, and is the subject of a feasibility study. It is of concern that the Department has been renting other buildings for educational purposes whilst this property has been vacant.'

The Education Department, in response to a request for an explanation, informed the Committee that the Department of Construction was conducting a feasibility study to establish the potential of the property as a Science Equipment Centre. The Committee decided to enquire into this matter and representatives of the Department were called to give evidence. Mr Gill, Director, Finance and Facilities, Mr Mulcahy, Executive Director Resources, and Mr Siddins, Superintendent of Buildings, appeared before the Committee and submitted a briefing paper and the Department of Construction's feasibility study on 4 December 1984.

Mr Siddins told the Committee that soon after the purchase of 64 Brisbane Street it became obvious that the property did not lend itself to an administration office space accommodation. In February 1981 the Director-General of Lands was requested to dispose of the property by auction, an attempt which proved to be unsuccessful. In 1982 the Government announced that it would redevelop the Elizabeth Matriculation College, which included the removal of the Elizabeth Computer Centre which occupied a substantial area of that site. The Education Department was aware that 64 Brisbane Street was still on the Lands Department's books, and after a brief feasibility study it appeared suitable to accommodate the Elizabeth Computer Centre. Following these inquiries, the new State Government decided to move the Hobart Matriculation College to the Mount Nelson Campus, thus leaving Letitia Street open for the development of the services branch plus the Computer Centre on that site.

In their briefing paper the representatives of the Education Department described why further discussion on the future of 64 Brisbane Street had been delayed:—

Having decided to locate the Computer Centre at the old Matriculation site, 64 Brisbane Street was left vacant for the development of the Science Equipment Centre. The Hughes Report, which challenged the future of the Science Centre as part of the Government's operations firstly and secondly, as part of the Education Department's operation, temporarily delayed such development.

In mid-1984 it was decided by a departmental committee, Department of Industrial Development and the Minister for Education that the Science Equipment Centre should continue to operate under the administration of the Tasmanian Education Department. Until this decision had been made and a feasibility report on the use of 64 Brisbane Street was completed, no action could be taken to develop the premises as the Science Equipment Centre.

Sixty-four Brisbane Street had not been occupied prior to a decision on its future as it is in very bad condition, needing over \$200 000 worth of redevelopment before it could be inhabited. The Education Department believed that it would be wise to wait for a final decision on the building's future rather than renovate it for a non-specific purpose.

The Department of Construction's feasibility study found that:—

The existing structure is capable of taking the loads imposed by the Science Equipment Centre (S.E.C.) workshop machinery. The floor area presently available is believed to be insufficient for the requirements of the centre and approximately half of another storey is required to provide adequate space.

The total redevelopment cost, which includes the installation of a new concrete floor at the present upper storey ceiling level with the existing roof trusses being reinstated directly above and covered with new decking is estimated at \$650 000.

The Department believes that the cost of redeveloping 64 Brisbane Street as a Science Centre will be two-thirds that of a new building.

When the Committee asked the Department's representatives about future space requirements, Mr Mulcahy claimed that with the additional floor 64 Brisbane Street would be most adequate:—

'... The space required really is subject to the number of staff and the number of cadets. That has been fairly static in recent years so unless a future government increases the intake of cadets, the amount of space there should be sufficient.'

Mr Siddins stated that future technological changes are not likely to demand additional space. The Department assumed any changes in technology will be along the lines of those which are occurring with computers: greater complexity and smaller sized units.

Two alternatives have been identified by the Education Department in case of the hypothetical situation of extra space being required. Firstly, by constructing additional external framing, a fourth floor could be built. Secondly, the Education Department will still own 57 Brisbane Street which could be utilised due to its close proximity.

Mr Siddins told the Committee that the S.E.C. required a solid square construction without too many windows such as that of 64 Brisbane Street. Further, the basement of the present building lends itself to the housing of the S.E.C. metrology equipment due to its stable atmosphere. The building does not present any major problems in terms of access as there is a service lane at the rear which would enable installation of heavy machinery. A roller door could easily be installed at the front, to allow the entry of the long lengths of steel required by the S.E.C.

The Committee was told that it was important that the S.E.C. be located close to the centre of the city due to its performance of a substantial amount of work for the Media Centre and the need of its cadets to attend training sessions at the Hobart Technical College. The only other available site identified by the Education Department was on Sandy Bay Road, near the Commonwealth Acoustic Laboratories. The Department estimated \$1.5 million would be required to develop the Sandy Bay site which on completion would remain highly inaccessible.

On completion of the hearing the Committee was uncertain as to the additional floor space offered by 64 Brisbane Street and its suitability for future development. The Committee was also uncertain as to whether the completion of a third floor was included in the estimated \$650 000 redevelopment cost.

The Education Department responded on 14 May 1985 with a letter to the Committee's Secretary. The S.E.C.'s present location is at 57 Brisbane Street which has a total floor area of 560 m². The redevelopment of 64 Brisbane Street including an additional third floor would give the S.E.C. a total of 1080 m² which would totally rectify their overcrowding problems. The estimated \$650 000 includes development of the extra third level to a useable state and makes provision for the expenses incurred in relocating machinery and equipment in the new premises.

Uncertain of the legitimacy of a project where a building's original purchasing price was \$165 000 and its estimated cost of upgrading is \$588 000, the Committee decided to hear further evidence from the Department of Education and engage a private consultant. The consultant confirmed that, given the present state of 64 Brisbane Street, the estimated redevelopment cost is within reason.

Mr Siddins, Superintendent of Buildings, Education Department, submitted a briefing paper and appeared before the Committee on 24 July 1985. He told the Committee that inflation over the last eight months, since the first price estimate, had pushed the price of the proposed developments up although total cost had remained the same due to a number of building cutbacks. The estimated cost of upgrading 64 Brisbane Street is \$553 per m² while the construction of a new purpose building excluding the purchasing of a site would be \$750 per m². The Department of Construction's estimate includes \$62 000 for equipment transfer and establishment which means the total cost of \$650 000 is for all procedures necessary for 64 Brisbane Street to operate at full capacity.

Mr Siddins told the Committee that those involved in operating the S.E.C. did not view the design of 64 Brisbane Street as presenting any great problems. Those involved are in fact very keen to take up occupancy in their new centre.

Due to the inadequacy of the evidence submitted especially in relation to investigating alternative sites and buildings around Hobart by the Education Department, the Committee is unable to make recommendations concerning the future use of 64 Brisbane Street. However, having deliberated over the evidence that was received, the Committee believes it is necessary to question the worth of redeveloping the property to the cost of over four times its present market value.

Furthermore, the Committee remains dissatisfied that the length of the delay between purchasing the building and putting it to full use was justified. The Committee believes that a greater understanding of the building's potential should have been gained prior to its purchase.

KATE REED VELODROME

ESCALATION IN THE COST OF CONSTRUCTING

The Auditor-General, on pages 77 to 79 of his 1984, Report, commented as follows:—

‘This project was approved by the Parliamentary Standing Committee on Public Works in June 1983 at an estimated cost of \$4 000 000, which comprised \$3 200 000 (including \$500 000 for cost escalation) for the velodrome, and \$800 000 for Site Works and Services.

Contracts were let in October 1983 for the construction of the velodrome for \$3 399 000 (guaranteed maximum price), and in May 1984 for some Site Works for \$262 733. These contracts do not include the cost of an access road, originally estimated at \$160 000 and to be constructed by the Department of Main Roads on a ‘do and charge’ basis, car parking and other works, and certain fit-out costs.

The project is being constructed for the Lands Department by ‘design and construct contract with guaranteed maximum price’, and is managed by the Department of Construction. It is being financed predominantly from funds in the Tourism and Recreational Development Fund, and partly out of Commonwealth Funds.

Examination of the relevant records in the Departments of Construction and Lands indicated that the cost of the project, notwithstanding inclusion of a guaranteed maximum price in the contract, has risen very substantially. I requested the Director of Construction to furnish me details of, and the reasons for, the escalation in the costs. In July 1984, the Director advised me as follows:

‘The main reasons for the increase in the velodrome contract are the deletion of the original concrete track and the inclusion of an internationally acceptable wooden track together with the inclusion of the timber arena. These changes have caused some design changes. The Client Department, the Lands Department, has also asked for some changes so that better use can be made of the facility. In regard to the siteworks the major increases have been the off-site entrance road and the overflow car parking.

The design and construct nature of this contract requires the Department to make prompt decisions so that construction is not delayed and prolongation costs are not incurred.’

Examination of records in the Lands Department disclosed that the estimated annual deficit (excluding interest on capital cost) could be between \$166 000 and \$220 000, whereas originally it was thought that the Centre would be self-supporting.

In his reply dated 20 August 1984, the Director-General of Lands advised as follows:

‘You would appreciate that this project is unique, not only in a Tasmanian, but in an Australian context and therefore assessment of the likely financial performance must necessarily at this time be based on a “best guess”.

It is my view that for the velodrome to offer the range of services for which it has been constructed, and a level of management appropriate to the community’s expectations from the facility, that an annual deficit in the vicinity of \$130 000 to \$150 000 will be incurred.’

Audit examination of relevant departmental records suggests that the situation with regard to this continuing development can be summarised in the following manner:

- The Government has found it necessary to approve significant post-contractual variations to the Velodrome concept which was originally considered and approved by the Parliamentary Standing Committee on Public Works.
- These variations have proceeded without public tendering, and with relatively small Commonwealth contributions.
- In the main, the need for post-contractual changes appears to stem from a lack, indeed unavailability, of sufficient technical knowledge at the outset regarding cycling track layouts.
- When the consultants prepared a functional brief early in 1983, details were not available on the precise geometry and slopes of tracks.
- Design parameters in the design of good tracks were not identified in the tender documents, which were based upon the consultants’ functional brief.
- A cycling expert subsequently indicated, upon return from overseas, that the advice of specialist track consultants was required in order to achieve the necessary track standards.

- Expert consultants were commissioned to advise on and redesign the velodrome track, and the subsequent redesign of the track necessitated a redesign of some parts of the velodrome structure.
- Departmental advice indicated that if the track changes had not been effected, the velodrome would have proved unsuitable as a venue for international cycling events.

The Committee decided to enquire into this matter and the Department of Construction was asked to supply evidence explaining the escalation in estimated cost from \$4 million to \$6 million. In their response the Department argued that as the velodrome was to be completed within 18 months it was necessary to overlap the design and construction functions.

This method of construction is widely used with the development of private sector facilities and does not in itself lead to increases in costs. Costs increase because of decisions taken to upgrade facilities above the initial concept. The original \$4 million estimate could have been the final cost but only if the Government had decided to accept the concrete cycling track, restricted the use of the building to cycling only and been satisfied to provide a minimum of car parking and associated site works.

However, the committee of cycling clubs argued, during the tender stage, that a world class velodrome could not be guaranteed without specialised track design. Mr Schurmann and Mr Webb, a European partnership which had designed the the world's best cycling tracks, were consulted. On their recommendations the Government approved additional expenditure of \$796 000 for a world class wooden track. At the same time the Government agreed to other alterations that upgraded the quality of the project:

	\$
Better accommodation for cyclists and standard television facilities	861 679
Central timber arena for indoor sports and facilities for special purpose activities, such as trade displays and rock concerts	733 269
Improved heating installation	17 207
Provision of additional facilities for the proper management of the whole complex	397 625
Normal contingency items revealed during the course of construction
Total of Additional Costs	<u>\$2 215 890</u>

Changes to site works were also approved with cost rising from an estimated \$800 000 to \$1 381 000.

The original concept provided for car parking on grassed areas and absolute minimum of landscaping. The scheme as constructed has provided proper car parking areas (1 100 vehicles) complete with adequate lighting and road works. The change was brought about by the need to provide environmentally appropriate site facilities to the standard necessary for an international sporting facility.

The Committee decided to enquire further into this matter and representatives of the Public Works Committee were called to give evidence. Mr Hodgman, Chairman, and Mr Alcock, Secretary, appeared before the Committee on 21 March 1985.

Mr Alcock described the role of the Public Works Committee:—

‘The Committee’s powers basically are that a specific project is referred to the Committee by way of a message from the Governor. The Committee inquires into the project and takes as much evidence as it reasonably can. The Committee makes its deliberations and it reports back to Parliament. Then it stops and the Committee has no power to act after that point.’

Mr Hodgman told the Committee that historically, with projects such as high schools, there had not been any problem with the way the Public Works Committee reported. However, recently there has been an increase in the number of sizeable government projects, such as the Launceston Community College and the Tasmania Police Headquarters, which are built over a period of maybe five to eight years as staged developments. It is difficult to identify a realistic initial cost estimate for a stage development project due to the alterations in costing and design that are often implemented after commencement.

The Kate Reed Velodrome, although constructed over a relatively short period of time, can be classified as a stage project.

When the Public Works Committee received evidence on the construction of the velodrome it was believed that its sources were well qualified to advise on such a project. Later it was shown clearly when a consultant was brought in to look at the velodrome, that they had not had the expertise to advise the Government, and that, if international times were to be recorded this would need to be done on a wooden and not a concrete track.

As construction continued it became clear that other projects envisaged for the Kate Reed area would not be commenced until after the completion of the velodrome which eliminated any possibility of cost sharing. These factors came to light after the Public Works Committee brought its report into Parliament.

As the proposed alterations to a stage project, such as the Kate Reed Velodrome, do not have to go before the Public Works Committee for approval, there is a breakdown in communication between the expenditure being justified and the public being informed as to why it occurred. A mere press conference by the Premier advising changes in design or alterations to cost estimates is not satisfactory.

Mr Hodgman identified two ways of overcoming this problem. One would be to make it obligatory that, where there is a sizeable difference in the specifications or the costing, the matter be referred back to the Public Works Committee. The second option is that an explanatory letter be sent to the Committee. Ideally it would be best if the Committee looked at all stages of the development under way. However such a review procedure would throw the Department of Construction and the client department into complete chaos because, having started a project, they would have no security that they could finish it, and making it unlikely that any government would commence large construction developments.

Therefore the latter option, of an explanatory letter to the Public Works Committee to be tabled in Parliament and made a matter of public record, would be preferable.

Mr Hodgman also pointed to the need for improved initial planning. Often the advice the Department of Construction receives from a client department is not well thought out and once the actual project takes place they require changes to be made.

Having heard evidence from the Public Works Committee, the Committee called Mr Partridge, Acting Director of Construction, and Mr Annells, Director-General of Lands to appear before it on 28 March 1985. Mr Partridge informed the Committee that the final cost of the project, including road works, was in excess of \$6.9 million. When questioned as to why the velodrome had blown out from its estimated \$4 million to its present cost Mr Partridge and Mr Annells referred to the projects historical development.

Originally the State Government had anticipated roofing the original velodrome at St Leonards at an estimated \$3 million. However due to the instability of the site foundation and the high cost involved, the project was viewed as a poor venture. At the same time the State Government had some Commonwealth funds for the development of international sporting programs. It was propositioned that a velodrome could be constructed on the Kate Reed site for around \$3 million, developed.

A very short time was available to get this building off the ground and under way, given the great public expectation that had developed regarding the roofing of the St Leonards Velodrome. The fact that Commonwealth moneys were available and the need to have whatever was to be built completed by December 1984 so that the Australian Cycling Championships could be held in the following March and the building could have a shakedown.

The Department of Construction engaged consultants who wrote a brief on the basis of a design and construct proposal.

At the time when the brief was prepared the velodrome was envisaged as part of a much greater development called the Kate Reed Recreation Reserve. The Reserve was to have included a number of other facilities. It was a brief, not a concrete design, that was submitted before the Public Works Committee.

The Department of Construction made estimates at the beginning of the project based upon the best information available to them, but at the same time trying to keep the total cost at about \$4 million. The proposed building was absolutely unique for the Southern Hemisphere which meant that, not only were those involved in designing and costing under extreme pressure to get the project started, there was not one reference point that could aid them in their judgements.

It was the design changes that were implemented after consulting European experts which were responsible for a large part of the increased costs incurred.

As the project progressed it became clear that the other facilities envisaged for the area would not be developed until some time after the completion of the velodrome. This meant that the proposed cost sharing of site works could not be implemented. It also became obvious, through experience gained at Lake Barrington, that car parking on grassed areas was a non viable operation. The need to increase the area of car parking that fell under the responsibility of the Kate Reed Velodrome Trust and the required improvement to the surface aided in pushing up the cost of construction.

Mr Annells stated that as the whole project evolved everybody had a growing awareness of the tremendous opportunity created by the pure volume of the enclosed building:

'Originally they talked about the possibility of its doing all these things but as the building evolved it became clear that it could do these things. It became very much a decision whether to cut the expenditure off at, say, \$5 million and have a building that would just be a shed with a good track but not a world-class one or to go a little further and make it so that it could be used for a range of facilities given that the running costs would not vary much if it were used for 50 or 300 days of the year; there are some cost impacts on that but not a great deal. The basic infrastructure is still there.'

Although the possibility of developing the velodrome into a multi-functional sports and recreational centre had been identified in the original brief, it was nothing like the final refined project that was completed.

Mr Annells in his final remarks expressed the need to spend more money up front on initial research. Although the consultants' research extended to the mainland states, it was not sufficient as only in Europe do you find projects that closely resemble the Kate Reed Velodrome.

The Committee asked Mr Partridge to forward details of the cost incurred in consultancy fees. The Department of Construction informed the Committee that there were only two consultants involved in the preliminary investigations and preparation of the Kate Reed Velodrome brief. They were Mr McNeil, Architectural Services, who received \$49 728 and Mr England of Newton Spratt and Murphy, Civil Engineering Services, who received \$6 000.

The Committee called Mr England and Mr McNeil to appear before it on 30 April 1985. Mr McNeil told the committee that he had been appointed to conduct preliminary investigations on the suitability of upgrading St Leonards Velodrome. Having decided that the project was impractical, the Department of Construction had requested his services in preparing a brief regarding an overall concept for Kate Reed Estate. The project was then gradually reduced to a velodrome concept only. Throughout the preparation of the Kate Reed Estate brief very strict attention was given to minimising the cost of the project. At no stage had this policy been stipulated although the whole atmosphere of the project had been one of economic restraint. Every attempt was made to share costs for items such as car parking between the different projects. It was this restraint which led to cost sharing decisions such as that of 300 permanent car parks and 700 loosely surfaced overflow spaces at the proposed trotting complex being considered sufficient to service the needs of the velodrome.

Mr McNeil submitted that while cycling interests had pressed for a timber surface track it was decided that, given the sort of budget figures being discussed, a concrete track would be adequate. The policy of minimising cost had the effect of providing a facility which, although it had a considerable range of potential uses, could never be designed to the ultimate for all of them. The design produced a facility that was flexible enough to provide for continuing cycling use and major championships as well as allowing for high income generating activities, such as exhibitions and pop concerts. He stated that given the assumptions contained in the brief the estimated \$3.9 million was a realistic figure for the velodrome. The velodrome brief envisaged a multi-functional flexible continual use complex while the final project is specialised allowing only for major sporting events. The additional expenditure was used to improve facilities for a small range of activities while eliminating its possible use by other potential clientele.

In concluding Mr McNeil told the committee that he believed the project would have progressed with greater ease and less expense if a single mind in the form of a professional manager had been appointed to oversee developments throughout the project.

Mr England informed the committee that he had been nominated by Mr McNeil to assist him in reporting on the condition of the old cycle track at St Leonards and the preparation of the Kate Reed brief. On completion of the brief Mr England was commissioned to design site works specifically for the velodrome. At that stage he was directed to prepare estimates for the necessary roads, water supply, sewerage, drainage and the construction of 300 car parks. As the other projects envisaged for the area had progressed Mr England believed that 300 car parks were insufficient. He presented evidence to the Department of Construction which suggested that 1300 was a reasonable number. Representatives of the Department of Construction agreed with his proposal but informed Mr England that there were insufficient funds for such an increase in car parks. Even the standard of surfacing for the 300 car parks varied adversely with the amount of money that seemed to be left in the kitty.

Mr England submitted that throughout his substantial correspondence with the Department of Main Roads he had been informed that the road coming in from the Bass Highway and the bridge over the Prospect By-pass were to be paid for by the Commonwealth. These Commonwealth funds were not forthcoming which resulted in further increases to site costs.

In his concluding remarks Mr England stated that:

'The Department of Construction is the experienced authority controlling that type of expenditure and I do not think the Lands Department had the expertise to do the work. It was done very much on an ad hoc basis of somebody telling a bulldozer driver where to go, and I do not mean that rudely.'

CONCLUSION

While the committee is not critical of the Public Works Committee or the value of the Kate Reed Velodrome, there are a number of recommendations that will aid the progress of such large stage developments.

The Committee believes that in the case of large projects it would be potentially beneficial for the Public Works Committee to become involved at two different stages. Once when the initial brief has been prepared and then again when a definite design has been chosen and cost estimates have been submitted by the relevant contractors.

It is recommended that once a project has begun, a liaison officer, who is directly involved with on-site developments, be nominated to report to the Public Works Committee on any major changes that occur. The committee is of the opinion that the Public Works Committee would have greater effectiveness if it could act without referral by the Governor. These changes would ensure improved accountability of public expenditure.

The Committee is aware that the type of difficulties faced by the Kate Reed Velodrome project are not without precedence. The committee made reference to a report by a Select Committee into the cost of the Derwent Bridge Hotel and the College of Hospitality in 1978:

'Hasty decision-making, leading to an urge to spend allocated money in specified years, with its lack of appreciation or deliberate refusal to accept the normal lead-times of construction requirements; the impreciseness in the specification; the lack of clarity in communication between client and agent departments, leading to expensive alterations after the original plans have been agreed to'.

The Committee also recommends that with large developments such as the Kate Reed Velodrome a Project Manager be appointed to co-ordinate activities right from the beginning. It would be the Project Manager's responsibility to ensure that from the onset the aims of any given project are clearly documented and understood. It would be his role to ensure these aims are communicated to and understood by those involved in both the design and construction stages. The role of such an appointee would be to ensure sufficient research had been conducted to achieve the aims of the project and to clearly identify what works are required, who will perform them and from where the funds will be supplied.

The implementation of these recommendations would not only result in a smoother development of large projects but they would aid in eliminating many of the misapprehensions among the public that tend to emerge when high costs are incurred without a clear communication of its justification.

HYDRO-ELECTRIC COMMISSION'S CONTRACTUAL PROCEDURES

The Auditor-General, on page 124 of his 1984 Report, commented as follows:—

An Audit examination of the Commission's contract procedures continued during 1983-84 and revealed the following information: The Distribution Branch confirmed that the Commission had entered into 21 major purchase transactions over a period of approximately 18 months to February 1984 in regard to which no contract documents had been drawn up. Whilst no formal contracts were entered into, the Commission apparently relied upon an exchange of letters incorporating most contractual conditions. In this respect, it is noted from the Commission's contract register that the Commission paid significant additional amounts by way of 'contract' variations to contractors.

The Electrical Engineering Branch confirmed that three recent major transactions were concluded without formal signed contracts. One of these transactions involved payment of just over \$1m, including escalation charges of approximately \$94 000. In respect of this transaction, formal contract documents were prepared and although forwarded to the contractors, the documents were not returned.

The Hydro-Electric Commissioner, in response to a request for information passed on a report prepared for the Auditor-General in October 1984:

The Commission is empowered by section 20 of its Act to execute contracts either under seal, in writing or orally according to the requirements of the transaction. Whilst it has been the Commission's practice for many years to formalise all contracts with a deed under seal, discussions with our contractors and other organisations such as Telecom have shown that this is not a universal practice.

It should be noted that, of the particular contracts in question, all were with reputable firms who, with the exception of two, the Commission had had previous satisfactory dealings in most cases over many years and no abnormal risks were taken by virtue of the fact that formal contracts were not prepared.

Subsequent correspondence with the Auditor-General revealed that 'Section 20' allows the Commission to enter into contracts according to the transactions, '*if between private persons* would require to be in writing under seal, or in writing, or could be effected orally, respectively'.

If private persons were entering into contracts similar to those under consideration which involved substantial sums of money, they would find it prudent to, and would in fact, rely upon more than an exchange of letters which incorporated most of the contractual conditions.

The Committee was not satisfied with the response and felt it necessary to hear additional evidence from the Hydro-Electric Commission. Mr Harvey, the Secretary to the Commissioner and Mr Moore, Administrative Officer were questioned. Having reiterated the arguments presented by the Commissioner, Mr Harvey made the distinction between contracts involving performance and those concerning the supply of goods. Traditionally all contracts where there is a service component had been under seal. For a short period a number of contracts involving a performance component had been delivered but not returned due to an administrative problem of insufficient checking safeguards. The problem has since been rectified.

Mr Harvey told the Committee investigation had revealed that the sealing of contracts was not a common commercial practice. Some companies which had not returned their contracts under seal lacked the administrative procedures to deal with such a practice. He further argued that it was common commercial opinion, one that was supported by legal advice, to view the exchange of letters as a valid and legally binding contract.

The Committee is not satisfied that the exchange of letters which incorporate most of the contract conditions, constitutes a formal contract. It is not aware of any other state department or authority which does not enter into formal contracts. The term 'formal contract' is used to describe an agreement between two parties, signed by both parties, but not necessarily under seal.

The Committee is concerned that the simple exchange of letters will not be proved insufficient until a major problem emerges. The letters viewed had no reference to insurance covering, firstly, default and secondly, the possible injury or death of persons engaged in the contract. The onus of liability is usually very clearly specified in the contract and the contractor is required to take out insurance to cover those situations.

The witnesses were questioned as to whether the exchange of letters were viewed by the Commission's legal officers. In response, Mr Harvey said that the best safeguard is that all contractual letters pass across his desk and if he felt that a letter should be reviewed by the solicitor, he would do so, but in the main all letters are signed by himself as public officer.

If the security of the Commission's policy with regard to contract documents is dependent upon Mr Harvey's discretion, the question arises as to how secure Commission policy is in relation to major transactions when Mr Harvey is absent from work or an annual leave etc.

Mr Harvey told the Committee that the Commission does not call formal tenders for plant hire as they are all on the basis of a weekly termination requirement. If, at the end of a set money limit there is still work that can be done, and provided the Commission is satisfied with the performance and rates of the operator, there could be an extension of contract. In the case of other minor contracts where there is an agreed amount of work for an agreed sum of money, unless there was something wrong with the quantities or slight additions to be made, the contract will not be extended.

The Auditor-General in his report on the evidence received, expressed some concern about the extension of plant hire contracts.

An examination of Civil Engineering monthly reports to the Commissioner revealed a number of instances where there is a continuation of a minor contract by a fresh contract. In the case of one contractor, for example, a new agreement was entered into each time the payment limit was reached on the previous contract, and \$540 000 was paid under eleven successive contracts for the hire of one backhoe and \$392 000 under eight successive contracts for another backhoe—a total of \$932 000.

In light of the difficulties identified, the Hydro-Electric Commission is at present reviewing, with the aim to revising, its current contract procedures.

The Committee recommends that the Government, in conjunction with the Hydro-Electric Commission, report to Parliament within three months of the changes made in:

- (a) The standardisation of formal contracts which takes into account Section 20 reference to 'if between private persons'; and
- (b) The implementation of the necessary administrative procedures to restrict the extension of minor contracts.

The report will be reviewed by the Public Accounts Committee and the appropriateness of action taken will be discussed with the Auditor-General.

As the Auditor-General's 1984 Report has identified contractual difficulties both within the Department of Health Services and the Hydro-Electric Commission, the Committee recommends that the Crown Law Department become involved in the standardisation of all Public Bodies goods and service contracts in order to protect both the Government and private contractors.

Parliamentary Committee Room No. 2.

12 November 1985

P. C. McKAY, M.L.C., Chairman.