



1992

PARLIAMENT OF TASMANIA

**PARLIAMENTARY STANDING COMMITTEE
OF PUBLIC ACCOUNTS**

**REPORT ON DEPARTMENT OF
RESOURCES AND ENERGY
RELOCATION OF CHEMICAL
LABORATORY
FROM LAUNCESTON TO HOBART**

Laid upon the Tables of both Houses of Parliament

By Authority:
I. C. CARTER, Acting Government Printer, Tasmania

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**PUBLIC ACCOUNTS COMMITTEE REPORT ON
DEPARTMENT OF RESOURCES AND ENERGY**

Investigations into the reasons for the transfer of the Chemical Laboratory from Launceston to Hobart and the lease of the Metallurgical Laboratory to EMF Consultants.

INTRODUCTION

During the 1990-91 Budget debate, the Legislative Council objected to the re-location of the Chemical Laboratory to Hobart on the grounds that it was not cost-effective. The Council requested that this item be deleted from the Budget.

The House of Assembly did not agree to make the amendment and the matter was included for discussion at the Managers' Conference. The Managers agreed the matter should be referred to the Public Accounts Committee for investigation.

The Government argued for the transfer as follows:—

The decision to close the Launceston Laboratories was taken after a cost-benefit analysis indicated that significant on-going savings were available if they were re-located to Hobart.

The historical reasons for the location of the service at Launceston no longer exist, according to the Agency. These were the North-East Tin Mining Companies operating at the time the facility was opened.

The Agency first proposed to close the laboratory in 1984 on economic and management grounds, and again in 1987. The decision was deferred for two years to enable the laboratory to become self-sufficient by 30 June 1989 and return a profit after this date. To assist, a \$155 000 upgrade of the Launceston facility was undertaken. The laboratory was not able to meet the conditions of profitability and, according to the Agency's figures, the facility was still operating in a loss situation in 1990-91 of \$461 980, as follows:—

	<i>Revenue</i>	<i>Expenditure*</i>	<i>Shortfall</i>
	\$	\$	\$
1982-83	14 214	390 302	376 088
1983-84	18 339	438 917	420 576
1984-85	26 114	478 038	459 570
1985-86	20 484	501 810	481 326
1986-87	79 590	444 940	365 350
1987-88	76 446	547 404	470 958
1988-89	123 265	594 279	471 014
1989-90	102 589	617 648	515 059
1990-91	54 935	516 915	461 980

* A small portion of this relates to support for the Dangerous Goods Inspectors. Figures are Recurrent Expenditure and Works and Services.

Some of this shortfall is attributed to the Metallurgical Section and it has been operating at cost to the Government.

Financial Considerations

An initial cost/benefit analysis was carried out in early June 1990, in the context of the Budget process. That analysis was carried out without the benefit of quotations for the work and with no details of the proposed redundancy programme. It showed an estimated gain of \$475 000 in 1990-91 and on-going savings of \$230 000 per annum thereafter. Initial estimates have proven to be inadequate, e.g. redundancy payments, \$140 000 (actual \$551 000) and sale of metallurgical equipment and laboratory, \$550 000 (actual \$29 400 lease payments per annum). The quote for the XRF room was provided in September 1990 but the quote for the alterations to Mornington was not available at this time.

An amount of \$60 000 was included in the Agency's analysis for the cost avoided by the Government in finding alternative accommodation for the Department of Roads and Transport. It should be noted that although not associated with the decision to transfer the laboratory, an opportunity cost is also incurred by not leasing the building to a non-government third party. Also a \$220 000 upgrade of the Launceston premises was undertaken for the Department of Roads and Transport just prior to their occupation.

A briefing note (presumably to the Minister) was prepared which details the cost and benefits associated with two options for the Launceston facilities. The information favours option 1 which is the transfer to Hobart. However, the details do not include the cost of redundancies of \$551 000. Although this cost would not have been known at the time, no estimate of the cost was supplied.

The lease agreement to EMF was still not finalised in August 1991 even though the Company occupied the premises on 1 January 1991. A payment of \$1 650 had been received in July 1991 from EMF Consultants which represented a quarterly payment for the lease of the equipment.

The following cost/benefit analysis is done from a State perspective, using the Agency's latest figures. Estimates for some items are subjective and varied when prepared by different officers, and amounts changed at different times. The Agency's latest estimate for each item has been used.

(a) 1990-91 and Some Costs Incurred in 1991-92

<i>Costs</i>	<i>Estimate</i>	<i>Actual</i>
	\$	\$
Staff redundancies (refer attached) (does not include the employee's normal entitlements on termination)	140 000	550 878
Removal expenses	25 000	17 495
Insurance	5 000	2 333
Building alterations:		
Mornington (initial estimate \$20 000)—revised	100 000	52 662*
Rosny Park—staff accommodation	20 000	28 250
—XRF Room .....	....	14 000
Removal of staff to Hobart	65 000	33 169
Relocation of staff to Henty House	10 000	1 560
Recruitment costs of replacements	12 000	....
TOTAL	377 000	700 347

* Not yet complete and includes the cost of upgrading the occupational health and safety standards of the facility.

<i>Savings/Benefits</i>	\$	\$
Salaries from 1 October 1990	136 373	186 766
(less replacements—2.5 months) .....	....	(4 562)
Laboratory running costs from 1.10.90 .....	....	43 325
Sale of metallurgical equipment	50 000	....
Sale of building	500 000	....
TOTAL	686 373	225 529
NET RESULT 1990-91	309 373	(474 818)

(b) On-going

<i>Costs*</i>	\$	\$
Rental of alternative accommodation for Inspectors	4 000†	4 000
Increase in cleaning and maintenance at Hobart	4 000	4 000
TOTAL	8 000	8 000

* Estimate

† Government owned

<i>Savings/Benefits</i>	<i>Estimate</i>	<i>Actual</i>
	\$	\$
Salary saved on redundancies	181 831	298 941
(Less replacements—) .....	....	(21 899)
Laboratory running costs*—		
—telephone/fax	8 608	8 608
—electricity, fuel	20 008	20 008
—transport/travel	4 600	4 600
—office equipment	650	650
—repairs and maintenance	2 500	2 500
—less duplication	21 400	21 400
Lease costs to EMF at Valuer-General's valuation (independent valuation \$20 000-\$25 000) .....	....	22 800
Equipment leased to EMF Consultants .....	....	6 600
TOTAL	239 597	364 208
NET RESULT ON-GOING	231 597	356 208

* Estimates

The estimated level of savings are Departmental estimates and it is claimed by some former staff employed by the laboratory that these are exaggerated, e.g. Communication and laboratory running costs.

An ongoing benefit exists to the State in relation to this transfer, as part of the Launceston complex has been made available to the Department of Roads and Transport, thereby avoiding lease costs for alternative facilities. This benefit has been estimated by the Public Offices Committee to be \$60 000 per annum. It has not been included in the above analysis, as the amount is somewhat subjective and based on the assumption that the Department of Roads and Transport required new facilities which would have cost \$60 000 per annum. The \$220 000 upgrade of the building to a suitable standard for the Department of Roads and Transport should also be included.

Building alterations to Launceston in 1988 totalled \$83 194 as follows and have not been included in the above analysis:

Roof painting, etc	\$ 76 694
Car park	6 500

A further \$70 000 was spent on the Launceston upgrade on major items, but these were transferred to Hobart.

The lease of the building at Mornington and Rosny Park costs \$920 000 per annum. Strictly speaking a portion of this cost should be allocated to the chemical testing operations, which would result in a cost allocation of approximately \$50 000 per annum. This cost has not been included in the above analysis as it is a cost that the Agency would have incurred regardless of the transfer.

Construction at Mornington is still not complete and extra costs will be incurred.

Five staff are to be replaced in due course as work at Hobart builds up, therefore salaries saved in the future will be reduced and extra training and recruitment costs will be incurred.

Business Considerations

The major clients of the Launceston Metallurgical and Chemical Laboratory are as follows:—

Resources and Energy	% 37
Tasmanian Mines—Burnie	20
Other West Coast Mines	43

In a submission to the Agency, Tasmania Mines P/L expressed great disappointment at the closure of the laboratory as they will be forced to use interstate facilities. The submission was dated 13 August 1990 and at that stage the Metallurgical laboratory was intended to close.

A number of submissions from small local operators were received by the Agency in opposition to the closure of the laboratory.

The leasing of the pilot plant and machinery building and chemical store to EMF Consultants will enable the continuation of metallurgical testing at Launceston.

Fire assay, sample preparation and small equipment testing previously done by the Metallurgy laboratory was planned to be undertaken in Hobart after the transfer. In 1989-90 these tasks accounted for approximately 84 per cent of revenue generated by the Metallurgy laboratory. Although expected to be completed by mid-June, by August 1991 some of the facilities at Mornington were still under construction. The fire assay will not be installed until there is sufficient demand for its use. This will require a further \$45 000 to be spent on installation. Twelve functions have been discontinued as a result of the closure; ten of these are available through EMF Consultants and one by another firm, therefore the reduction in the level of services available in the State is minimal.

The impact on revenue is likely to be detrimental at least in the short-term until the Agency can attract new clients. At the time of this review some of the Hobart facilities were not complete, and the potential to attract additional clients has not been fully realised until all facilities are operating. Completion is expected by September 1991.

However, ten new clients have been attracted to the Chemical laboratory in Hobart, plus a number of individual jobs have been performed. The Agency states that the five employees at the Chemical laboratory are currently very busy.

Practical Considerations

Rosny Park has had vacant space since it was occupied by the Mines Division. It was considered to be under-utilised and capacity existed to absorb the Launceston facilities at minimal cost.

The Water Resources Division is also expected to transfer to Rosny Park in the near future.

The Geological Survey Branch is located in Rosny Park and generates approximately 35 per cent of the Chemical laboratory's work.

Apparently most of the remaining clients, especially the larger ones, have offices in Hobart and the Agency considers the disruption to service of these clients is minimal despite their operations being in the North-West of the State.

The most practical option is to provide the services on the North-West Coast. However, the financial cost of establishing such a facility is not justified and the Agency considers that the fact that these clients operate out of Burnie is of minimal significance.

Apparently the major clients use other facilities in Hobart, such as the Geological Branch and the Library, and it is therefore more convenient that the Chemical laboratory is also in the same area.

There is no doubt that smaller operators have been disadvantaged to some extent. However, the Agency argues that as metallurgical services are still available in Launceston and samples can be deposited at the Launceston office, the disadvantage to small operators is minimal.

Summary of Evidence

The Committee drew evidence from within the organisation and from other sources. Also interviewed Mr Ray Bailey MLC who had a great deal of information on this matter. Mr Ian Satchwell, Executive Director of the Tasmanian Chamber of Mines, was also interviewed and gave an industry point of view. The Committee had the use of two research officers seconded from within the Public Service who also worked on the assignment.

Committee Conclusions

The Government's decision to relocate the chemical and metallurgical laboratory was initially based on—

- The sale of the metallurgical laboratory and equipment at an estimated gain of \$550 000.
- A cost of redundancies of \$140 000.
- Minimal set-up costs at the new location.
- Reduced operating costs.

Subsequent to this decision—

- The sale of the metallurgical laboratory and equipment did not eventuate and was leased for \$30 000 per annum.
- Redundancies actually cost \$550 000.
- Set up costs at the new location cost approximately \$100 000.

The relocation therefore became financially unjustifiable in the short term, and the rationale for the initial decision to re-locate became redundant.

However, the relocation can be financially justified on an on-going basis due to significant savings from redundancies and reduced operating costs.

The Department estimates that on-going savings will be \$230 000 per annum.

Parliament House, Hobart
May 1992

R. C. ARCHER, Chairman

Some Regular Users of Laboratory Services

Que River Mines	Water Analysis
Mackintosh Mines	
Aberfoyle Resources	
Golconda	
Electrolytic Zinc Company of Australia	Chemical analyses (umpire)
	Hire of equipment
C.R.A. Ltd.	Metallurgy—Magnesite flotation and chemical analysis of products
	Magnetic separations and chemical analysis of products
Aberfoyle Resources	Tin—tungsten assays and metallurgical tests
	Analysis of alloys
Wheal Lutwyche	
Repcor Bearing Company	Metallurgy and gold assaying
Tita Fittings	
Opoch Minerals	
Argyle Mining	
Tas. Alluvial	
Planet Resources	
Boral	Analyses of concrete
Permacrete	
Precision Tool Annexe	Analysis of electro plating solutions
Tasmania Mines Ltd.	Metallurgy—Consultancy plant appraisal.
	Metallurgical test work. Assistance in flowsheet design.
Mineral Holdings	Gold—Platinum
Mines Department and Geological Survey	Whole rock analysis. Various other tests and determinations
Peter Stitt & Associates	
Pasminco	

Staffing Prior to Closure	Staff Movement	Position	Redundancy	
			Cost	Salary Saved
			\$	\$
Chief Chemist and Metallurgist		<i>Transferred to Hobart</i>	....	....
Senior Metallurgist	Redundancy	Redundant	23 187	45 913
Research Officer	Redundancy	Redundant	132 504	41 946
Technical Officer	Redundancy	Redundant	10 222	23 115
Laboratory Assistant	Redundancy	TFR to Hobart	37 506	19 068
Laboratory Assistant	Redundancy	TFR to Hobart	8 638	21 235
Laboratory Assistant		<i>Transferred to Hobart</i>	....	....
Laboratory Assistant		<i>Transferred to Hobart</i>	....	....
Senior Chemist	Redundancy	Redundant	123 751	45 913
Project Chemist		<i>Transferred to Hobart</i>	....	....
Chemist	Redundancy	TFR to Hobart	94 379	39 042
Chemist	Redundancy	TFR to Hobart	90 627	39 042
Laboratory Technician	Redundancy	TFR to Hobart	30 063	23 669
Clerk		<i>Transferred to Henty House</i>	....	....
Typist	TFR to Other Agency	Redundant	....	....
AGENCY TOTAL			550 877	298 943