



1968

 PARLIAMENT OF TASMANIA

REPORT OF

STANDING COMMITTEE OF PUBLIC ACCOUNTS

ON

NORTH WESTERN GENERAL HOSPITAL:

CONTRACTUAL ARRANGEMENTS

AND OTHER MATTERS

Brought up by Mr Fraser on Thursday, 26 September 1968, and ordered by the House of Assembly to be printed

MEMBERS OF THE COMMITTEE

Mr Fraser (Chairman)
 Mr Austin
 Mr Chisholm
 Mr Costello

Mr Mather
 Mr Steer
 Mr Strutt

REPORT

The Standing Committee of Public Accounts has the honour to report to your Honourable House as follows:—

1. Consequent upon the Debate on Notice of Motion No. 4 of the House of Assembly, Thursday, 4 July 1968:—

Mr Lyons to move that a Select Committee be appointed with power to send for persons and papers, and with leave to sit during any adjournment exceeding fourteen days, and with leave to adjourn from place to place, to inquire into and report upon—

- (1) The reasons for the discrepancy between the estimated and actual costs of construction of the new hospital at Burnie.

- (2) The reasons for the slowness in completion of the contract.
- (3) The reasons for the non-inclusion in the original contract of all the additional and changed specifications, plans and works.
- (4) All the circumstances surrounding the letting of a contract to Lloyd Jones Constructions without tenders having been called and the terms of the actual contract.
- (5) The reasons for the increase in the costs of operating the North Western Hospital group for the year ended 30 June 1967 as compared with the cost of operating both the Burnie and Spencer Hospitals in the year ended 30 June 1965.
- (6) The reasons for the apparent decrease in the average number of daily occupied beds for the periods referred to in (5).
- (7) The cost per occupied bed over the periods referred to in (5).
- (8) The reason for the discrepancies in the report of the Burnie Division of the North Western General Hospital submitted by the Secretary of the Burnie Division and the report accepted by the Board for the financial year 1965-66.
- (9) The nature of the 'many inaccuracies' in the report referred to by the Hospital Board and in the answer to Question No. 28 on Tuesday, 14 May and the reasons for the 'many inaccuracies'.
- (10) Any other matters incidental thereto and that—

Mr *Breheny*,
Mr *Bessell*,
Mr *McDonald*,
Mr *Martin*, and
the Mover,

be members of the Committee, to report on Tuesday, 1 October 1968,

your Committee has enquired into contractual arrangements, day bed costs and other matters concerning the operation of the North Western General Hospital.

At the commencement of this enquiry, your Committee decided to follow as far as possible the items contained in the Notice of Motion reproduced above and to take evidence from various witnesses as follows:—Hon. D. A. Cashion, M.H.A., Minister for Lands and Works; Hon. M. G. Everett, Q.C., M.H.A., Minister for Health; Mr N. E. Casey, Auditor-General; Mr B. J. Donnelly, Deputy Director of Public Works; Mr S. T. Tomlinson, Chief Architect, and Mr T. H. Sommerville, Division Architect (Hospitals) Public Works Department; Mr L. J. Bailey, Acting Chief Administrative Officer, and Mr R. H. Middleton, Acting Administrative Officer, Department of Health Services; Mr I. E. Joyce, Chairman of the Board of Management, Dr M. Jooste, Superintendent, Mr F. B. Matthews, Secretary of the Board of Management, and Mr S. M. Walsh, Services Engineer, North Western General Hospital.

The North Western General Hospital as at present constituted is the result of an amalgamation of what was previously the Burnie General Hospital and the Spencer Hospital at Wynyard and is at present administered by one Hospital Board and one Superintendent for the amalgamated group.

2. Your Committee's attention was directed to the reasons for the discrepancy between the estimated and actual costs of construction of the new hospital at Burnie. The Committee heard evidence in this matter from the Auditor-General who, in a written submission to the Committee, stated that the estimated cost of construction of the new Burnie hospital, as submitted to the Public Works Committee in 1961, was \$1,324,200, whereas the actual cost to 30 June 1968 was \$2,722,208.

In 1963, the Public Works Committee reported on a further proposal for the construction of a new nurses' home estimated to cost \$523,880. The building was to be of five floors. The actual expenditure on the home is \$676,188 for six floors.

A nurses' training school has also been constructed at a cost of \$95,603. As the estimate for this work was less than the statutory figure, it was not necessary to refer it to the Public Works Committee.

The first phase, the construction of the operating theatres, was carried out under contract by North West Constructions Pty Ltd, for which the pre-tender estimate was \$218,000, the accepted tender \$225,406 and the final contract cost \$234,514.

The second phase, the construction of the main block, was undertaken by Messrs E. A. Watts Pty Ltd. In this case, the pre-tender estimate in 1963 was \$1,812,000, whilst the accepted tender price was \$1,963,648. Payments on this contract to 30 June 1968, totalled \$2,222,356, whilst an amount of \$23,400 is being held by way of retention. It is understood final payment under the contract has not yet been effected.

Construction of the nurses' home and the nurses' training school has been carried out by Messrs Lloyd Jones Constructions Pty Ltd. Following virtual completion of the E. A. Watts contract, a further contract was entered into with Lloyd Jones Constructions Pty Ltd, not only to complete some work on the new extension, but to carry out all renovations and alterations to the existing building. This work is estimated to cost \$306,365 and includes the construction of a new pharmacy at an estimated cost of \$56,000.

In the time that elapsed between the recommendation of the Public Works Committee in 1961 and the actual commencement of construction on the operating theatre and the new main block, there were not only changes in money values, but also considerable changes in the plans proposed by the Department of Health Services. Adjustments on account of Rise and Fall totalled \$155,368 and additional charges for authorised variations \$226,896. Some of these additional costs were absorbed in the contingency provision covered in the original contract with E. A. Watts.

Your Committee's main area of concern was with the current contract with Messrs Lloyd Jones Constructions Pty Ltd in relation to the renovations and alterations to the existing building. The original estimate placed before the Public Works Committee in 1961 for all the demolition and construction work at the hospital was shown as follows:—

	\$
Demolition and temporary buildings	30,800
New block and alterations and extensions to existing building	1,286,400
Site works, retaining walls and paved area	7,000
	<hr/>
	\$1,324,200

An examination of the departmental files showed a further breakdown of these estimates in the following manner:—

	\$
New main block	1,174,000
Alteration to existing building	16,400
Demolition and temporary buildings	30,800
New operating suite	96,000
Site works, retaining walls and paved area	7,000
	<hr/>
	\$1,324,200

A further breakdown of the estimate of \$16,400 for alterations to the existing building was shown as:—

	\$
Conversion of theatres to dispensary	6,400
Conversion of X-ray to medical records	2,000
Conversion of delivery suite to dining rooms, children's wards and stores	8,000
	<hr/>
	\$16,400

As previously stated, the present estimate for this work is \$306,465 (including fixed fee \$39,960). However, it must be pointed out that the Department of Public Works has contended that the breakdown of figures as shown above was not necessarily submitted to the Public Works Committee and that the only estimates considered and approved by the Committee were the aggregate estimates shown in their report of 1961.

It is quite apparent that from the time the original estimates were submitted to the Public Works Committee until the time that actual construction was commenced there were considerable changes in planning and intentions by the Department of Health Services. For example, the old theatre was in fact converted to a medical records, admissions and appointment centre. The X-ray section was converted to an eye clinic for visiting specialists and the previous delivery suite is being converted to a workroom and pantry area to service medical wards in this section.

Your Committee is of the opinion that these changes were largely brought about by the decision of the Department to improve the standard of the existing building to one comparable with the recently constructed new block and nurses' home which surround it. Further, it is reasonable to assume that as alteration work proceeded on the existing building, various factors arose which tended to escalate the anticipated cost structure. Your Committee was told in evidence that it was found necessary to renew in copper the existing galvanised water piping throughout the building with a view to obviating the need for later renovations, and a similar situation existed in relation to electrical wiring. The Committee recognises that in the matter of hospital construction, cost structures are considerably altered by the effluxion of time and the many advances

in medical and hospital practice which appear to evolve very quickly, and also the changed thinking of successive superintendents of hospitals. It is of interest to note that, during the period of time this contract was in hand, three successive superintendents were in charge of this particular hospital. This Committee feels that something of this nature was anticipated when the original proposal was placed before the Public Works Committee in 1961 and cognisance is taken of the statement by the then Chief Architect of the Public Works Department, Mr Rose, reproduced on page 4 of the Report of the Public Works Committee on Proposed Extensions to the Burnie Hospital (Paper No. 11 of 1961), which reads—

It is desired to point out that in a project of this nature and size, there may be minor alterations to the detailed planning of the various units consequent on changes in medical procedures and personnel, before final completion of the works.

3. In the matter of the contract with Lloyd Jones Constructions Pty Ltd for the extensions and alterations to the existing building referred to above, the Auditor-General expressed concern in seven main areas.

(i) *In the opinion of the Auditor-General the project should have been referred back to the Public Works Committee.*

In this regard, he gave the following evidence to the Committee:—

Standing Committee on Public Works

It appeared to me that the alterations and additions proposed to the old Burnie Hospital in submissions to the Public Works Committee in 1961 were not substantial by comparison with the balance of the works proposed at that time. I pointed out that in the original report reference had been made to the fact that some renovations would be effected to the existing hospital building and although the works were not detailed, departmental files showed the proposed alterations as estimated to cost \$16,400.

It appeared that since 1961 and actually in 1966 the Department of Health Services had completely revised its plans and in my opinion there were good grounds to suggest that the work which was now the subject of a contract by Lloyd Jones Constructions could not really be said to have been the work proposed in 1961.

Bearing in mind an opinion given by the then Solicitor-General in 1953, I expressed the view that the work which was now the subject of the current contract should go back for approval to the Standing Committee on Public Works in view of the fact that it exceeded the limit of \$140,000 laid down by legislation and was substantially different from that submitted in 1961.

In reply the Minister informed me that after receipt of my memorandum, the advice of the Crown Solicitor had been sought. The Crown Solicitor, in an opinion supplied on 1 May 1968, confirmed that it was not necessary for the work to go back to the Standing Committee on Public Works.

The Minister went on to point out that his investigations had established as factual that the work envisaged in 1961 involved the erection of two new buildings together with alteration and additions to the existing hospital block including some pharmacy facilities. He pointed out further that at that point of time the then Chief Architect had not given any real consideration as to what had to be done in detail, but he did envisage certain action which in his judgment might be necessary. He did not at that time have any firm instructions from the Department of Health Services. The Minister also pointed out that in the evidence given to the Committee, the Department had reserved the right to make any amendments to the estimates when working drawings were finalised.

The Public Works Department was thus of the opinion that there had been no substantial alterations between the proposals originally submitted in 1961 and those now firmed in Plan B.S.K. 1271 which was the subject of the current contract. The Minister further noted that the tender price by E. A. Watts Pty Ltd in 1963 provided for ground floor alterations in the existing building to cost slightly under \$40,000. This had been omitted purposely from the Watts' contract and was now incorporated in the new contract. He considered that the corresponding figure to the \$16,400 referred to in my memorandum was more of the order of \$60,000 on today's costs. Furthermore, the works now let included other works of repair, replacement of services, fittings, etc., which had not been envisaged seven years ago.

In acknowledging the Minister's letter, I pointed out that the Crown Solicitor had based his opinion on statements by departmental officers that my references to the facts that the current work was substantially different to that envisaged in 1961 were not correct. They had informed the Crown Solicitor that, in their opinion, there are not substantial alterations to the work which the Committee sanctioned in 1961 and in their opinion the present work could fairly be said to be that sanctioned by the Committee at that time. In the light of these assurances, the Crown Solicitor had stated that it was not necessary for the work on the existing building to go back to the Standing Committee.

I expressed the opinion to the Minister that these statements made to the Crown Solicitor by departmental officers were completely at variance with statements by the same officers on departmental files, and in fact I am of the opinion that they were also at variance with statements made in the Minister's own letter to me under date 13 May 1968. I stated that I was still of the opinion that the work should have been referred back to the Standing Committee on Public Works and that I would inform the Parliament to this effect.

Further evidence on this point was given to the Committee by the Minister for Health (Hon. M. G. Everett, Q.C., M.H.A.), in the following terms:—

Asked whether he would take the view that the work of alterations and renovations to the old building should have been referred to the Public Works Committee on the basis of being different work to that originally submitted to the Committee, Mr Everett said he found this question extremely difficult to answer for the following reasons:—The Public Works Department and the Department of Health Services were aware of an opinion given, he believed, in 1953 by the then Solicitor-General, Mr Burbury, which set out the criteria for interpreting the relevant section the Public Works Committee Act. The difficulty was in all these matters to make the facts fit a particular general expression of opinion. He did not think there was any doubt as to the law, or to the interpretation of the law, but different persons might hold different views as to whether the facts justified referring it to the Committee or not.

The Department of Health Services had always held the view that the North Western General Hospital project, both the new wing and the alterations and renovations to the old wing, were covered by the original authority. There was no doubt that that view was held, and was also held by the Public Works Department, and, he believed, quite honestly held. It was quite right to say that it was in the latter half of 1967 that attention was really focussed on the nature of the alterations and renovations that ought to be done. There was a note on his file as to his approval of the negotiations with Lloyd Jones 'Subject to compliance with the Public Works Committee Act if necessary', or words to that effect, because he realised that it was a matter of judgment as to whether the nature of the work proposed did or did not require reference back to the Committee. When he put the qualification to his general approval, the view was again expressed (he thought this was verbally) that both departments adhered to the view that the original authority covered it and subsequently an opinion was obtained from the Solicitor-General that reference back to the Public Works Committee was not necessary. He was aware that the Auditor-General doubted the correctness of the Solicitor-General's view but he would say that this was a matter of judgment and if it was submitted to a dozen lawyers, six would say it ought to be referred back and six would say not. His opinion, he would have said if he were Solicitor-General, he did not think it had to go back, but it was their decision, where they wanted to resolve the doubt completely, as to whether they referred it back or not.

It was usual for the Public Works Department to accept responsibility for this decision, but he did not mean to suggest by this that the Health Department ought to ignore the matter. He could only say from experience that letters from the Public Works Department said it would be necessary to refer projects to the Public Works Committee. If one looked at the Act, it contained a provision against the execution of certain works without authority. The executor of the works was the Public Works Department.

Evidence was also given by the Minister for Lands and Works (Hon. D. A. Cashion, M.H.A.), as follows:—

Mr Cashion said he would not think that the responsibility for the decision as to whether a particular project ought to be referred to the Parliamentary Standing Committee on Public Works lay with his department. He thought this question would probably lie with the client department, although it was his department's responsibility to refer the matter to the Public Works Committee, but only on the advice of the client department. In this case he had had a look at the Public Works Committee's Report when he was asked to agree to Lloyd Jones Constructions carrying out the renovations for the North Western General Hospital and he was convinced by reading the Report that this was not necessary. The report made very little reference to the renovations, no details were given as to estimates and the final Report of the Public Works Committee recommended that the renovations be carried out irrespective of their cost.

On this basis he was convinced that it was not necessary to refer back to the Committee. The Auditor-General had raised this matter with him and he had then sought the advice of the Solicitor-General who confirmed his view. They were not altering the concept of the work. He knew that the Auditor-General was not happy about the opinion of the Crown Law Department. He felt that in his position he ought to be guided by the decisions of the Crown's advisers.

Mr Cashion said he thought that estimates were not always reliable. It was very seldom that they found that the total cost worked out to the estimate. He could quote dozens of instances where the estimate given to the Public Works Committee and the contract price were two different things. He did not think it was necessary to refer back to the Public Works Committee concerning the cost of any work. But if the concept of the work was altered to any extent that was another matter.

The Chief Architect of the Public Works Department (Mr S. T. Tomlinson) gave evidence on this question:—

When the request for upgrading came with a detailed list of what was to be included, they got some preliminary estimates and Mr Tomlinson said at that time he talked to the Director-General about it because he was concerned about the high cost. The estimates then were around the \$200,000 mark. It was at this time he (Mr Tomlinson) had suggested that the proposal be resubmitted to the Public Works Committee.

It will be seen from the above evidence that some area of confusion and difference of opinion exists on the question of whether or not the subject matter of a project of this nature should have been referred back to the Public Works Committee and, if so, by whom. It would seem to your Committee that there is considerable difficulty in ascertaining when the nature of a construction job changes so substantially as to warrant resubmitting it to the Public Works Committee and in this regard it is felt that clarification on this point in its relation to the Public Works Committee Act would be of assistance to the departments and officers concerned and would obviate the possibility of similar confusion arising in relation to a future project.

(ii) *The Auditor-General further expressed the view that this particular offer should have been the subject of a report and advice to the Minister for Lands and Works by the Board of Tenders on Public Works—*

Board of Tenders for Public Works

It was clear from the files that the contract with Lloyd Jones Constructions had never been referred formally to the Board of Tenders for Public Works for its examination and advice to the Minister. The provisions of the Order of Council of 1953 referred to earlier in this statement had therefore been evaded. In reply I was informed that it was not considered necessary for this work to be referred to the Board of Tenders as all five members of the Board would have been involved departmentally in the discussions and formulations leading up to the proposal finally submitted to the Minister by the Director. It was pointed out also that other types of contract entered into by the department for special services by agreement such as with consultants or for urgently required works such as repairing fire damage had never been referred to the Board.

This reply, in my view, was not satisfactory in that, one or possibly two members of the Board only were aware of the true position as to cost escalation on the project between June 1967 and 15 January 1968, the Minister having agreed to the contract being let to Lloyd Jones Constructions in October 1967.

Evidence was given to the Committee on this subject by the Deputy Director of the Department of Public Works (Mr B. J. Donnelly) who said:—

He did not think a conscious decision was made on whether to refer the matter to the Board of Tenders for Public Works. His understanding was that the recommendation had come down and that it had been forwarded to the Minister almost as a matter of routine without any thought being given to whether it should go to the Board of Tenders. All the members of the Board of Tenders were aware of the recommendation, though not as a Board. The members of the Board were the Director, the Chief Architect, the Deputy Chief Architect, the Secretary of the Public Works Department and himself. There was also a secretary to the Board, but he did not have a vote. He said that between the period of June to December 1967, only one member of the Board of Tenders, he would think, had been aware of the cost escalation. There may have been two, but he thought it was only one. They were not all aware of the cost escalation until December. He thought they would have become aware of it if the matter had been referred to them as a Board.

Mr Donnelly further said in evidence that he 'agreed that in July 1967, the Director had submitted recommendations to the Minister that the work on this building ought to be the subject of a local offer to be obtained from Lloyd Jones Constructions and as Director he estimated the value of the work involved would be \$60,000.

Your Committee has examined a copy of the Order-in-Council 'Board of Tenders for Public Works' published in the *Tasmanian Government Gazette* on 7 October 1953, but finds itself unable to wholly support the Auditor-General's contention that the contract should have been examined by the Tender Board.

It is quite clear that, because of the method used in arranging this contract, no tenders in fact were called for. Your Committee reports that the 'contract' was variously referred to in evidence as: (1) 'a cost plus fixed fee'; (2) 'a local offer'; (3) 'a direct negotiation with a single firm'; and (4) 'a tender'.

However, it is noted that in the evidence quoted above, Mr Donnelly refers to this work as being the subject of a local offer and it could therefore be argued that the contract should have been subject to examination by the Board of Tenders.

The Honourable the Minister for Lands and Works advised the Committee that, as the cost plus fixed fee contract was considered to be a new form of contractual arrangement, it was not necessary to adopt this course of action, the main reason put forward for this view being that the members of the Board of Tenders would be aware of the circumstances surrounding this contract in the course of their ordinary duties. However, it is further noted that Mr Donnelly stated that he felt only one member of the Board would have been aware of the cost escalation and further that he also held the opinion that they would have become aware of the matter had the contract been referred to them as a Board.

Your Committee is of the opinion that, as this contract virtually constituted a new departure in the field of construction of public works and has been held in evidence to fall within the functions of the Tender Board as set out in the Order-in-Council, this question could be the subject of further examination, as in the previous case of the Public Works Committee, with a view to clearer determination of when a contractual arrangement ought properly to be referred to this Board.

(iii) *In the third instance, the Auditor-General said that he felt the project should have been the subject of public tendering or at least subject to selective tendering.*

Your Committee has examined this question with a great deal of care and after lengthy consideration expresses the opinion that the question of the method used in entering into any contractual arrangement by the Government clearly falls within the province of Government policy and is therefore a subject upon which a Standing Committee of Public Accounts should not express a categorical view other than to say that wherever certain guide lines and safeguards are laid down by the Audit Act and other Acts of a similar nature, these provisions ought to be complied with fully.

The following facts emerged from evidence given to the Committee on this subject:—

- (a) The idea of letting the contract on a fixed fee basis originated with the Chief Architect (Mr Tomlinson) who, however, stated that he had no idea that his recommendation to call tenders on such a fixed fee basis was not being pursued within the department. He went on to say that he did not know until three months later that they had taken it up with the Minister on the basis of a contract with Lloyd Jones Constructions Pty Ltd.
- (b) The Honourable the Minister for Health advised the Committee that he strongly favoured the contract being let in this manner because, as the client Department, they were deeply concerned with providing the best possible facilities for the patients and the general public in this area in the shortest possible time.
- (c) The Honourable the Minister for Lands and Works stated that, while it was always desirable to call tenders for work, he had always claimed that they were not bound to do this and that it was the responsibility of the Public Works Department to get the best value they could for the client's money. He further stated that he had been convinced this was the best way to approach the problem and he finally agreed to letting the contract to Lloyd Jones Constructions Pty Ltd on a cost plus fixed fee basis to expedite the work.
- (d) The decision to use this form of contractual arrangement was initially made because Lloyd Jones Constructions Pty Ltd was at that stage already on the job constructing the nurses' home and was carrying out this task in a most satisfactory manner, this performance prompting the decision that the company be retained and as quickly as possible permitted to commence the renovations.

The Honourable the Minister for Health referred to a report by a Committee in Britain in 1964 entitled 'Placing and Management of Contracts for Building and Civil Engineering Work' and read an extract from page 7 of the report in a chapter headed 'Appointing the Contractor'. Mr Everett then said he believed that:—

This was one of those admittedly rare occasions on which direct negotiation with a single firm was the appropriate course to take. He took that view then and he took it now. He could appreciate the attitude of the Auditor-General in this matter because he looked at it from the point of view of statutory functions in his position as Auditor-General. This did not necessarily mean that everyone must look at the problem through the same eyes. Mr Everett said he had been aware of the Auditor-General's concern when he had conferred with the Minister for Lands and Works and officers of both departments last January. Despite that he had taken the view that the narrow approach, or the orthodox approach, to this matter was against the public interest. He still held that view.

- (e) In regard to the escalation in costs, it must be stated that the Honourable the Minister for Lands and Works advised the Committee as follows:—

Mr Cashion said he was not at all happy when he learnt in January that the cost had risen to \$306,000 and he immediately proceeded to have the matter investigated.

He wanted to assure himself that they were getting value for money. It was his concern and his duty to do this and only after having the matter thoroughly investigated had he allowed the contract to go on. It would have been foolish to have done anything else at that stage, but he was satisfied that Lloyd Jones were performing the work in a satisfactory manner. He was not aware, nor was the Director of Public Works, that the price had increased from \$66,000 to \$306,000. This had happened without their knowledge.

- (f) Further, from the evidence given, it is clear that a serious breakdown occurred in communications within the Department of Public Works. The Chief Architect (Mr Tomlinson) told the Committee:—

When he first got estimates in the vicinity of \$200,000 he had been concerned and had discussed it with the Director-General of Health Services who said he had no objection to the hospital's request for the upgrading. Mr Tomlinson said he had not drawn it to the attention of his Director, or of anyone in his Department at this stage because there was no reason why he should. What the client asked for was a matter for the client. He told the client what it was going to cost and gave any advice he thought he should. Basically it was a matter between himself and the client at that stage.

- (g) The Honourable the Minister for Lands and Works stated that:—

He was aware towards the end of September 1967, that the estimate was \$66,000, quoting from memory, but he was not aware until about 15 January 1968, of the further increase and he then became very concerned as to why this had happened without his knowledge. He would have thought the proper course to have been followed would have been for the Chief Architect to have informed the Director of Public Works and the Director to inform him. The Chief Architect evidently did not inform the Director of Public Works that the estimate had increased and Mr Cashion said he himself had become very concerned when he realised what was happening because he expected to be kept informed. If there was an increase above the \$66,000 he had to know something about it and he was sorry to say he had not known. This would not happen again.

Your Committee is of the opinion that some of the unsatisfactory features in relation to the operation of this particular contract, entered into on a comparatively new basis, arose primarily because of the lack of communication previously referred to.

- (iv) *Further concern was expressed by the Auditor-General at the fact that certain works in relation to this contract and estimated to cost \$20,000 were carried out without receiving the approval of the Minister, and he commented as follows:—*

Unauthorised Works

It had been noted that a large number of variations in respect of the new additions at Burnie had been approved for inclusion in the E. A. Watts' contract. Some of these variations had not actually been handed over to E. A. Watts for performance. On 29 November works including variations already approved estimated to cost \$20,000 were authorised to be carried out by Lloyd Jones Constructions Co. on the grounds that 'this company will be carrying out reconstruction work on the existing hospital at a later date'. This \$20,000 contract did not receive approval by the Minister and in fact was authorised to be carried out by the company prior to the company receiving the final contract for the construction of the old building. This work has now been subject to post-approval by the Minister and included formally in the Lloyd Jones contract.

In evidence to the Committee, the Chief Architect (Mr Tomlinson) stated that:—

He was solely responsible for the \$20,000 worth of work that was authorised to be carried out without the Minister's prior approval. Because of the pressures and everything else from all levels, both outside the department and in it, to get the contractor out and the building into operation, he had overlooked the fact that he had not asked the formal consent of the Minister for Lands and Works to include that \$20,000 work in the Lloyd Jones contract. He had the approval of the Health Department.

The Minister for Lands and Works (Hon. D. A. Cashion, M.H.A.) told the Committee that:—

There had been nothing wrong with the \$20,000 worth of work from the Watts contract being passed over to Lloyd Jones—the only thing that was wrong was that it did not get his approval.

He further stated that:—

In January it came to his notice that the cost had risen to \$306,000 including the fixed fee and another item of work that had been transferred from the Watts contract to the Lloyd Jones contract. His authority had not been sought for this latter item. The Chief Architect appreciated that he had overlooked this point and he had informed Mr Cashion of it when it came to his notice.

Your Committee is of the opinion that this matter arose as a result of an unintentional oversight by the Chief Architect and appreciated Mr Tomlinson's frankness with the Committee on this point.

(v) *The Auditor-General commented that variations to the contract work had already been approved between the time the contract was signed and before work commenced on the old building.*

Your Committee was told in evidence by the Chief Architect (Mr Tomlinson), that in relation to hospital construction:—

It must be appreciated that there was no set standard. Every superintendent had his own standard and every time the superintendent changed the standard changed and there were different requirements. This was one of the difficulties. It had been said that a hospital was out of date before construction was finished, due to the changes in medical techniques. Mr Tomlinson said they could make recommendations on generally-accepted standards as far as they knew them throughout the world, but the final decision must always come from the Director-General of Health Services.

Your Committee feels confident that, in the case of the contract under discussion, most of the variations occurred because of this very tendency for successive superintendents and other persons connected with the operation of the hospital to request frequent changes in the construction programme to comply with their changing views in relation to medical techniques and treatment of patients. However, this Committee is firmly of the opinion that a serious attempt ought to be made to standardise construction planning and equipping of hospitals as far as reasonably practicable to avoid future difficulties of this nature. The Committee feels that a greater degree of liaison could exist between hospital staffs, boards of hospitals, the Department of Health Services and the constructing authority than appears to have occurred in the case in question and notes with interest and approval the statement by the Honourable the Minister for Health that it is the intention of the Department of Health Services to set up just such a committee in relation to the proposed future extensions and alterations to the Launceston General Hospital.

In evidence to the Committee the Chief Architect (Mr Tomlinson) said that:—

There used to be a standards committee years ago in the Health Department of which he was a member. He had tried to get them to standardise on the type and make of equipment for hospitals, but they did not get anywhere because of the differing opinions of different doctors. The meetings of the committee were called at the instigation of the Director-General of Health Services. About three or four years ago, he had suggested another meeting to the Accountant at the Health Department, Mr Green, who had said he would mention it to the Director-General, but Mr Tomlinson said he had heard nothing further about it. He thought such a committee would still be a good thing. If they knew in advance the make, type and model of sterilisers, theatre lamps and other equipment, they would know exactly the space they had to provide, water supply, waste fitting, steam supply and electricity supply. He thought this would help keep costs down.

The Honourable the Minister for Lands and Works also informed the Committee that:—

He was aware of the existence of a standards committee within the Health Department and the Architectural Branch of his Department. He was not aware that it did not meet. He felt that it must meet. After all, it was the Public Works Department's job to give the client what he wanted. If the Health Department asked them to design a hospital and equip it, they did so on the advice of the Health Department as to what they wanted. He realised that they must be informed by the Health Department as to their needs before they could proceed. If the standards committee was not meeting it was a distinct disadvantage to the Architectural Branch.

Your Committee holds the view that a reconstitution of the standards committee would be advisable and may well serve a useful purpose in overcoming some of the difficulties in relation to equipment and fittings which were drawn to the attention of this Committee during the taking of evidence at the North Western General Hospital.

(vi) *The Auditor-General's final area of complaint was that work on the existing building estimated in 1961 at \$16,400 and stated by the Minister to be of the order of \$60,000 on present standards, escalated to \$306,365 between the period June and December 1967, and that furthermore this escalation was not brought to the attention of the Minister until January 1968, three months after he had authorised the letting of the contract without the calling of tenders.*

In the view of your Committee, the first escalation of costs from the estimated figure of \$16,400 to a possible \$60,000 resulted directly from the generally rising costs associated with the effluxion of time between the first drawing of the estimates in 1960 and the commencement of work on the project, and the Committee is further of the opinion that the further escalation to \$306,365 was brought about primarily because the Department of Health Services changed their entire concept of the work to be done on this building immediately prior to the letting of the contract and during the course of construction. It would also appear that the many variations requested and previously referred to in this report play no small part in this rising cost structure. To some degree at least, a breakdown in liaison between the Department of Health Services and the appropriate officers of the constructing authority must have been responsible for the fact that this rapid increase did not become as apparent as it might have done until the period between

June and December 1967. Furthermore, owing to the breakdown in communications within the Department of Public Works previously referred to in this report, the Minister's attention was not drawn to this situation until early in 1968, he being still of the opinion until this point in time that the cost of the contract was in the region of \$66,000. In the opinion of your Committee, this failure within the department to keep the Minister informed of the prevailing situation ought not to have occurred and the Committee is pleased to learn from the Honourable the Minister for Lands and Works and from comments by the Auditor-General that steps have been taken to ensure that situation will not recur.

4. Your Committee enquired into the reasons for the increase in the costs of operating the North Western General Hospital group for the year ended 30 June 1967 on a comparative basis with the same costs for the year ended 30 June 1965 and is of the opinion that the greatest portion of the increase is attributable to an increase in the cost of salaries to the order of 45% brought about largely by the fact that prior to the year in question the Burnie General Hospital had been operating at very inadequate staff levels. In addition to a necessary increase in various medical staff, it would appear that, prior to the 1966-67 year, the administration of the hospital was also being carried on under extreme difficulties necessitating the employment of additional staff. The inadequacy of the previous staff level was also, perhaps, further aggravated by the growth of the Burnie and Spencer Hospitals into the present North Western General Hospital and the following table of cost increases and list of additional staff employed given in evidence by the Superintendent and the Secretary would show the areas in which this necessary expenditure took place.

A comparison has been made of the trend of costs incurred by the four general hospitals for the years 1964-65 and 1966-67 as reported in the Director-General's Annual Reports for those years.

The costs are not completely accurate as no allowance has been made for or offsetting receipts.

However, they are sufficient to indicate the general increases which have been experienced at all major hospitals over the period, quite apart from the fact that the North Western General has been setting up for amalgamation and the opening of new modern facilities at both divisions. The percentage increases under the various expenditure accounts are—

	<i>Hobart</i>		<i>Launceston</i>		<i>Mersey</i>		<i>North Western</i>	
	Increase \$'000	%	Increase \$'000	%	Increase \$'000	%	Increase \$'000	%
Salaries	372	23	245	24	99	16	203	45
Provisions	22	12	20	20	11	16	8	18
Domestic	23	10	38	58	5	8	4	5
Dispensary and surgical	112	35	70	40	13	20	24	39
Administration ..	15	15	36	45	15	36	20	71
Repairs	34		17		10		11	
Total	578		426		153		270	

NOTE.—During this period the respective variations in annual bed days was 5% increase at Launceston, 3% increase at Hobart, 1% decrease at Mersey and 2% decrease at North Western General.

Salaries.—The increase of 45% in cost of salaries reflects the inadequate staff levels on which the former Burnie General Hospital had been operating in the past, together with the considerable expansion which had been experienced at the Spencer Division and was being planned for the Burnie Division. It was found necessary during this period to increase our senior medical, administration and nursing staff, in preparation for the opening of the new Burnie Division and the psychiatric wing at Spencer. This staff increase was necessary even though the daily average of occupied beds had at this stage NOT increased.

The following staff had been engaged for 1966-67 over the 1964-65 level—

	\$
Medical—	
1 Deputy Superintendent	6,000
1 Casualty Supervisor	7,000
1 Surgeon	18,000
2 Resident Medical Officers	8,000
Male Labour—	
1 Services Engineer	4,000
4 Boiler Attendants (half year)	5,000
1 Electrician	2,400
Administrative—	
1 Accountant	4,000
1 Senior Clerk	3,300

Domestic—	\$
6 Maids	15,000
5 Maids	12,500
Nursing—	
8 Auxiliaries and Aids	12,000
5 Sisters	10,000
Total	\$107,200

If this necessary expansion in staff had not been effected the increase in salaries would have been approximately 20% which is comparable with the other three general hospitals.

All other expenditure accounts are comparable with the other hospitals with the exception of Administration. In this case the larger increase reflects additional costs following amalgamation (e.g., printing and stationery, \$5,000; transfer of patients, \$4,000) and other increases following expansion of services (e.g., freight, \$3,000; telephones, \$4,000; travelling, \$5,000).

COMPARISON OF COSTS (\$'000)

	HOBART			LAUNCESTON			MERSEY			NORTH WESTERN		
	1965	1967	Increase	1965	1967	Increase	1965	1967	Increase	1965	1967	Increase
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Salaries	1,607	1,979	372	1,016	1,261	245	614	713	99	450	653	203
Provisions	179	201	22	100	120	20	71	82	11	44	52	8
Domestic	235	258	23	66	104	38	62	67	5	73	77	4
Dispensary and												
Surgery	323	435	112	175	245	70	66	79	13	61	85	24
Administration	104	119	15	80	116	36	42	57	15	28	48	20
Repairs	43	77	34	24	41	17	15	25	10	11	22	11
Total	\$2,491	\$3,069	\$578	\$1,461	\$1,887	\$426	\$870	\$1,023	\$153	\$667	\$937	\$270

5. Your Committee also examined the question of whether there was a decrease in the average number of daily occupied beds during the year ended 30 June 1967 as compared with the year ended 30 June 1965, and it will be seen from the following table that the only decrease in the average number of daily occupied beds occurred at the Spencer Division, Wynyard, where one 30-bed ward was closed for a period while renovations and additions were being carried out.

Your Committee is satisfied that, other than for this variation, the daily average number of occupied beds at the North Western General Hospital has remained reasonably constant over the period in question.

The following submission was presented by the Superintendent and the Secretary:—

Following are the average daily number of occupied beds for the financial years ending June 1965, 1966 and 1967:—

Year	Burnie Division	Spencer Division	Home for Aged	Total
1965	51.67	54.61	33.54	139.82
1966	53.01	42.52	33.00	128.53
1967	53.34	50.57	33.42	137.33
1968	57.87	63.03	27.00	147.90

As can be seen by the above table, the only decrease in the average number of daily occupied beds has been at the Spencer division, where one only 30-bed ward was closed during the year 1966 and 1967 whilst renovations and additions were carried out to provide for an Acute General Wing and for a Psychiatric Wing.

The average daily number of patients at the Spencer Division has now risen to seventy-four with the reopening of the above wings.

The daily average number of occupied beds at the Burnie Division has remained very constant over the three-year period, and has even shown a slight increase each year. The present daily average at the Burnie Division is approximately seventy patients.

6. Your Committee examined the question of the cost per occupied bed in this hospital during the periods previously referred to and the following table submitted by the same witnesses sets out these costs for the years ended June 1965, 1966 and 1967. Your Committee is of the opinion that the indicated increase in cost per occupied bed is not an unreasonable one in view of the generally rising costs of medical services throughout the State and is further conscious of the fact that this type of cost structure must be to some degree affected by the initial costs involved in the amalgamation and by the staff increase previously referred to.

The following table shows the cost per occupied bed for the financial years ended June 1965, 1966 and 1967:—

<i>Year</i>	<i>Spencer Division</i>	<i>Burnie Division</i>	<i>Total Average</i>
	\$	\$	\$
1965	13.64	16.89	15.27
1966	17.84	21.67	19.75
1967	—	—	22.89

The accounts for the two divisions of the hospital were completely amalgamated during 1966-67 and therefore comparison costs for each division cannot be shown separately.

7. Your Committee considered the request for information in relation to the document submitted by the previous Secretary of the Burnie Division of the North Western General Hospital and the report submitted by the Board for the financial year 1965-66. This Committee is firmly of the opinion that the document submitted by the then Secretary was not, in fact, a report in the proper and legal sense of the word. No authority existed for this officer to make a report of any nature other than to the Board by whom he was employed. It is clear to your Committee that the proper duty of a Secretary is to furnish information to the Board of the Hospital and that the clear obligation rests upon the Board of the Hospital to furnish its Annual Report, and thus the previous Secretary of this Hospital had no authoritative right, statutory or otherwise, to submit such a document without the prior approval of the Hospital Board.

8. In Notice of Motion No. 4 moved in the House of Assembly by the Honourable Member for Braddon (Mr K. O. Lyons, M.H.A.), on Thursday, 4 July 1968, information was sought in relation to the answer given to Question No. 28 on Tuesday, 14 May 1968. It must be pointed out that by its very nature and by the limitations imposed by the Standing Order under which it operates, the Standing Committee on Public Accounts is not clothed with the authority to enquire into a matter of this kind.

W. H. FRASER, Chairman

Ministerial Party Room,
House of Assembly, Hobart,
25 September 1968