



2005

PARLIAMENT OF TASMANIA

**PARLIAMENTARY STANDING COMMITTEE OF PUBLIC
ACCOUNTS**

**SAFETY IN SCHOOLS
HOUSING TASMANIA
TT-LINE**

Laid upon the Tables of both Houses of Parliament

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

MEMBERS OF THE COMMITTEE

LEGISLATIVE COUNCIL

Hon A.W. Fletcher (Chair) (to 7 May 2005)
Hon J.S. Wilkinson (Acting Chair from 18 May 2005)
Hon I.N. Dean
Hon S L Smith (from 14 June 2005)

HOUSE OF ASSEMBLY

Mr G. L. Sturges
Mr D. J. Bartlett
Mr W. E. Hodgman

Chairman's Foreword

The role of the Public Accounts Committee (PAC) is to examine accounts of public expenditure and report to Parliament "with such comment as it thinks fit, on any matter arising in connection with those accounts..."¹

Within this role the PAC has a cooperative liaison with the Auditor-General (AG) and will frequently identify matters contained in AG reports which warrant further examination.

The functions of the Committee are as follows:-

- (1) The Committee must inquire into, consider and report to the Parliament on any matter referred to the Committee by either House relating to -
 - (a) the management, administration or use of public sector finances; or
 - (b) the accounts of any public authority or organisation controlled by the State or in which the State has an interest.
- (2) The Committee may inquire into, consider and report to the Parliament on -
 - (a) any matter arising in connection with public sector finances that the committee considers appropriate; and
 - (b) any matter referred to the Committee by the Auditor-General.

Irrespective of whether a matter is the subject of a preliminary investigation or results in a full inquiry and report to Parliament, the exercise is always beneficial in at least two respects:-

- (1) Committee Members become more aware and accurately informed; and importantly,
- (2) Agencies of Government are reminded that the PAC is an active Parliamentary Standing Committee and as such, a most important mechanism in the accountability process.

Significant changes in the public sector structure and financial management standards and procedures, and the trend towards corporatisation, privatisation and outsourcing means that it is increasingly important that the Public Accounts Committee continually monitor and investigate the expenditure of public funds.

¹ Public Accounts Committee Act 1970

The Auditor-General and the Committee meet on a regular basis and review the reports of the Auditor-General and discuss any matters which may need further inquiry or follow-up. Two of the following preliminary investigations were undertaken as a result of consultation with the Auditor-General. The matter of inquiry into the TT-Line arose from the expressed concerns of a member of Parliament arising from certain allegations during a Government Businesses Scrutiny Committee hearing.

1. SAFETY IN SCHOOLS

Background

In September 2002 the Auditor-General reported to Parliament about aspects of safety in schools². The safety aspects were focused on abuse, harassment and drug/substance related issues. The audit examined the conformity by schools to the relevant departmental policy requirements. Six schools in two school districts were the subject of the audit.

The objectives of the audit were to:-

- (a) identify conformity to key criteria of Department of Education policies designed to address incidents of abuse and harassment in schools and outline future action to improve current practice;
- (b) identify conformity to key criteria of Department of Education policies designed to address substance/drug related issues in schools and outline future action to improve current practice; and
- (c) identify conformity to school immunization record keeping requirements outlined in the Public Health Act 1997.

The Report identified a number of shortcomings and systemic deficiencies and made some 40 recommendations.

The Public Accounts Committee subsequently examined the Auditor-General's Report and in the first instance requested the Parliamentary Research Service (PRS) to précis the recommendations and write an issues paper with an analysis of the shortcomings as identified in the Report.

After discussing and deliberating on the matters identified by the Parliamentary Research Service in their Issues Paper, the Committee, in July 2004, some two years after the Auditor-General's Report was tabled in Parliament, wrote to the Minister for Education requesting a response which:-

² Auditor-General, Special Report No. 41 – Keeping Schools Safe, September 2002.

- (a) identified what action had been taken;
- (b) what progress had been made to changes to procedures and guidelines;
and
- (c) what instructions to schools were made to rectify the shortcomings identified in the Auditor-General's report?

The Minister responded with a very detailed summary with the forty recommendations in the Auditor-General's Report listed along with information about what the Department of Education had done or was doing to address each recommendation.

Summary

The Committee examined and considered the Department of Education's responses and concluded that the Department was taking or had taken positive steps to address the recommendations. The Committee resolved to take no further action and advised the Auditor-General and provided his office with a copy of the Department of Education's responses to the recommendations in the Report.

2. HOUSING TASMANIA

On 12 March 2003 the Public Accounts Committee received correspondence from the Hon M T (Rene) Hidding MHA requesting that the Committee inquire into the operations of Housing Tasmania. A week earlier the Auditor-General during one of the regular meetings with the Public Accounts Committee noted that the valuation of Housing Tasmania's stock was of on-going interest.

In particular, the Auditor-General noted the shortfalls between the values provided by the Valuer-General and the proceeds of recent sales of surplus stock. This concern along with the request from Hon M T (Rene) Hidding, resulted in the Public Accounts Committee deciding to conduct a preliminary inquiry into the following aspects of Housing Tasmania :-

- (a) the capacity of Housing Tasmania to meet the current demand for housing;
- (b) the methods used to value Housing Tasmania's properties;
- (c) the marketing and selling arrangements for Housing Tasmania's properties;
- (d) the success of the Home Ownership Assistance Program and the Streets Ahead Program; and
- (e) the methodology for obtaining and accounting for Commonwealth money for housing purposes.

The Committee wrote to the Minister for Health and Human Services requesting a briefing on the five matters detailed in the correspondence. The Committee heard evidence from the Acting Director of Housing Tasmania and received a number of documents relating to the issues.

Any further inquiry was postponed due to two references which the Committee received from the Legislative Council. The Committee has a statutory requirement to consider such references as a priority. There were also changes to the membership of the Committee which delayed some matters.

In June 2004 the Public Accounts Committee reported to Parliament on the preliminary inquiry it had undertaken into aspects of the operations of Housing Tasmania. At that time the Committee noted the following:-

The Committee is of the view that Housing Tasmania understands the changing nature and the challenges facing the agency in the provision of appropriate housing for low-income individuals and families, particularly those with special needs.

The Acting Director indicated that Housing Tasmania are looking at a number of alternative ways to use its funding more effectively and instanced supporting people in private rental market, community housing models, working with community organisations, partnerships with local councils and partnerships with private sector investors.

It is clear that Housing Tasmania is faced with a challenging situation with limited funding flexibility and a high degree of accountability. The development of the Affordable Housing Strategy is part of the Government's election commitment and is Housing Tasmania's major strategic response to addressing the public housing situation.

The Public Accounts Committee is mindful of the release on 15 December 2003 of the Government's Affordable Housing Strategy³ and has not attempted to measure the success or otherwise of the Home Ownership Assistance Program and the Streets Ahead Incentive Program. Both programs have, however, been instrumental in assisting people in need into otherwise unobtainable housing solutions. It is the intention of the Committee to maintain oversight of the public housing situation and the impact of the 'Affordable Housing Strategy' under which a total of \$45m has been allocated for public housing.'

³ Jim Bacon, Premier, Press Release 15 December 2003.

Over 12 months later in September 2004 the Committee, in recognition of its earlier intention to maintain oversight of the public housing situation, wrote to the Minister with a number of questions which had been noted again by the Auditor-General. The matters the Committee were interested in were:-

- How long purchasers hold properties prior to resale;
- Proceeds that were generated on resale;
- Whether purchasers were again seeking access to subsidised housing;
- The effectiveness of incentives offered to encourage purchase of rental dwellings;
- The conditions under which private valuers are appointed by the Valuer-General.

In November 2004 the Committee met with the Minister for Health and Human Services and the Director of Housing Tasmania. The Minister tabled a response to the questions put to him by the Committee and the Minister and Director answered questions put to them by members of the Committee. An excerpt of the Ministers response detailing the answers given to the Committee's questions follows:-

Thank you for your letter dated 14 September 2004 relating to the Housing Tasmania portfolio and specifically, the valuation of properties sold. The following information is provided to you in response to your questions.

Housing Tasmania has co-ordinated this response using information obtained from the Housing Tasmania sales data base, the Auditor-General, Government Valuation Services and the Information and Land Services data base (LIST). A total of 2,131 properties sales were reviewed by Housing Tasmania. The information relates to properties sold by Housing Tasmania between July 1997 and 1 October 2004.

1. How long do purchasers hold properties prior to resale?

- *1,771 purchasers still retain the home they purchased from Housing Tasmania. Only 17% of the purchasers were found to have resold their property. 136 of the purchasers who received Streets Ahead Deposit Assistance (SAIP) resold within three years and repaid \$266,919 to Housing Tasmania, or an average of \$1,963 per purchaser.*
- *On average, the resold properties were retained by purchasers for 2.5 years prior to resale.*
- *The provision of deposit assistance through SAIP is conditional upon the property being retained by the purchaser for a three year period, then the purchaser must repay Housing Tasmania a portion of deposit assistance.*

- *Housing Tasmania lodges a caveat with the Recorder of Titles to record that the Director of Housing retains an interest in the property during the first three years.*

2. What are the proceeds generated on resale?

- *Based on the median purchase cost of \$42,000 and the median resale cost of \$76,000, properties resold achieved an 80% increase price.*
- *Housing Tasmania does not have information as to the extent of purchaser initiated modifications that may have impacted on the resale price of the properties. For example, whether new kitchens, bathrooms or extensions were undertaken and the value reflected in resale prices.*
- *Approximately 64% of the Housing Tasmania sales occurred in broad acre housing estate areas such as Bridgewater, Gagebrook, Rokeby, Ravenswood and Rocherlea. The Real Estate Institute of Tasmania (REIT) research demonstrates that private sales in those suburbs for the period 1 July 2002 until 30 June 2004 had a percentage change in the median value of sales ranging between 113% at Gagebrook and 257% at Rocherlea.*
- *Such price increases have been common throughout the State and are a direct result of the real estate boom that reflects increased confidence in Tasmania.*

3. Are purchasers again seeking access to subsidised housing?

- *The housing Tasmania tenant and applicant data base as at 1 October 2004 showed that only 15 or 0.7% of the 2,131 purchasers were again accessing public housing assistance either as public housing tenants or applicants for public housing. This result demonstrates that the incentives have been highly effective in removing the dependence of many low-income earners on the heavily subsidized public housing system.*

4. How effective are the incentives offered to encourage purchase of rental dwellings?

- *SAIP is highly effective in encouraging the purchase of surplus public housing dwellings by low income earners. For example, in 2003-04, 93% of sales were to low-income earners who received assistance through SAIP.*

- *SAIP, combines with the Commonwealth Governments First Home Owners' Grant of \$7,000 has assisted many low income earners achieve their goal of home ownership.*
- *In addition, 521 of the purchasers were assisted with loan finance through the Home Ownership Assistance Program (HOAP), funded by the State Government.*
- *SAIP incentives are essential to assist low-income earners purchase surplus public housing properties. However, since the general increase in real estate values in Tasmania and the resulting higher prices for sale properties, the affordability gap has widened and fewer low-income earners can obtain finance to purchase a home.*

5. Under what conditions are private valuers appointed by the Valuer-General?

- *The minimum sale price for a Housing Tasmania property is based on a current market valuation as provided by a qualified Valuer and approved by the Valuer General.*
- *In general, Government Valuation Services (GVS) provide valuations for the disposal of Housing Tasmania properties under the approval of the Valuer General. This is in accordance with the Treasurer's Instructions. Occasionally, GVS engages private valuers to value Housing Tasmania properties. These valuations are reviewed by GVS staff prior to being provided to Housing Tasmania.*

I trust that the above responses meet with your satisfaction.

Summary

After some deliberation the Committee was of the view that any further investigation at this time was unwarranted.

3. TT-LINE

Preliminary Inquiry into the purchase of Spirit of Tasmania I and II.

During 2004 and early 2005 the Public Accounts Committee undertook a preliminary investigation to ascertain if there was sufficient evidence to warrant an inquiry into allegations regarding irregularities surrounding the purchase of Spirit of Tasmania I and II. The allegations were first raised during the Legislative Council Government Business Enterprises Committee hearings in 2004 by the Hon K Finch MLC.

The Committee heard evidence from Mr Finch and sought information from the TT-Line through the responsible Minister. The Committee concluded that there was not sufficient supporting evidence available to it to warrant a public inquiry. The Committee therefore passed the following resolution at its meeting on Tuesday 5 April 2005:

That after full consideration the Committee has no further role in the matter of the purchase of Spirit I and Spirit II as raised by Mr Finch.

Background and Chronology

The following is a brief chronology of the events and action of the Public Accounts Committee that led to this conclusion.

On 4 March 2004, during the Legislative Council hearings into the TT-Line Company Pty Ltd by the Government Business Enterprises and Government Corporations Scrutiny Committee A, (GBE) the Hon Kerry Finch MLC stated that the amount paid for Spirit of Tasmania I and II through the International company Mason Shipbrokers Ltd of London was highly inflated and that taxpayers may have been duped.

The Legislative Council Government Business Enterprises Scrutiny Committee made the following comment in their report -

“The question of whether any further investigation of the issues surrounding the purchase of Spirit of Tasmania I and II is necessary, be a matter for consideration by the Parliamentary Standing Committee on Public Accounts.”

However, no formal reference was made to the Parliamentary Standing Committee of Public Accounts.

Later, on 18 June 2004 Hon Sue Smith MLC, the then chair of the GBE Committee wrote to the Public Accounts Committee noting the conclusion of the GBE Committee and requesting the Public Accounts Committee hear evidence from Hon K Finch.

The Public Accounts Committee deliberated on the correspondence from the Hon Sue Smith and passed the following resolution:-

'That the Committee write to the Member noting her comments and informing her that the Committee does not accept that there is sufficient evidence to support a decision to undertake an investigation by the Public Accounts Committee.'

At a subsequent meeting Hon Ivan Dean MLC moved to allow the subject of the correspondence from the Member for Montgomery, Hon Sue Smith MLC to be re-considered and the Committee resolved:-

'That the Member for Rosevears, Mr K Finch, MLC be invited to appear before the Committee to show cause as to the need for an Inquiry into the purchase of Spirit I and Spirit II.'

On 12 August the Hon K Finch MLC appeared before the Committee to give evidence and be examined. Mr Finch requested that his evidence should be treated as confidential. The Committee considered the request and agreed to hear his evidence 'in camera'.

The Committee deliberated on the evidence given by Mr Finch and requested that a number of documents quoted by Mr Finch be provided to the Committee. Following receipt of the information the Committee then, in October 2004, requested the Parliamentary Research Service to prepare an issues paper analyzing and verifying the evidence where possible and identifying matters of concern.

The Committee deliberated further and a list of questions relating to the purchase of Spirit I and II were forwarded to the Minister responsible for the TT-Line on 17 November 2004 to which the Minister responded at the end of January 2005.

The Committee examined the responses and after some deliberation passed the following resolution:-

'That after full consideration the Committee has no further role in the matter of the purchase of Spirit I and Spirit II as raised by Mr Finch.'

The list of questions put to the Minister by the Public Accounts Committee and the responses from the TT-Line were as follows:-

1. In Relation to the Decision to Purchase Two Ships, Spirits I and II:-

(a) Was a business plan developed for a service using two ships:

Yes a business plan was developed.

(b) If so, when and how were the estimated costs determined:

The plan was based on detailed research and costings were based on technical information relating to the proposed vessels as well as TT-Line's internal knowledge of the cost of carrying out operations.

The business plan for the first three years of operation, excluding the loss on sale of the original Spirit of Tasmania called for the following revenues and net margins.

(The revenue and net loss for the Spirit of Tasmania III operation in 03/04 as well as the operations of the Edgewater Hotel/Motel have been removed from the published 03/04 results).

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	<u>REVENUE</u>		<u>NET MARGIN</u>		<u>PAX NO's</u>	
	<u>PLAN</u>	<u>ACTUAL</u>	<u>PLAN</u>	<u>ACTUAL</u>	<u>PLAN</u>	<u>ACTUAL</u>
02/03	\$108,434	\$134,269	(\$1,885)	\$4,095	435	504
03/04	\$113,480	\$133,777	(\$535)	\$7,081	441	472
04/05	\$118,762	N/A	\$2,542	N/A	448	

Over the ten years of the business plan the service was to return a total profit margin of \$47.4m.

The Board requested our internal auditors, KPMG to report on the proposed business case based on their knowledge of TT-Line operations. Their review supported the viability of the business plan. Treasury also carried out a review on behalf of the State Government.

(c) Were any other alternatives, such as using one fast ship making two crossings daily investigated:

Several different scenarios were considered. These included:-

- Operation of the then existing Spirit of Tasmania and Devil Cat vessel;

- Operation of then existing Spirit of Tasmania along with the purchase of single fast monohull vessel;
- Operation of two newly developed passenger and freight all weather fast monohull vessels to operate with passengers during daylight hours and carry freight at night;
- Operation of two vessels with the characteristics of the current Spirit of Tasmania I and II.

External research was carried out by both Quantum Research and BDA Marketing to ascertain the most suitable and preferred vessels for the service from both a passenger and freight customer perspective.

The research in both cases also reported on the expected demand for the various options. Of these options the overwhelming preference was for the type of service now provided by Spirit of Tasmania I and II.

The option of one fast ship making a return voyage each day was not considered as it would be totally impractical from a freight customers perspective.

2. In Relation To The Process Followed After The Decision To Purchase Was Taken:-

- (a/b) Were there any external legislative/financial conditions which had to be met when undertaking such a purchase and if so, what were they:**

TT-Line Company Pty Ltd is a company subject to the provisions of Corporations Law as well as being responsible to the State Government of the day through appointed Shareholder Ministers, one of whom is always the Treasurer.

- (c) Were there established internal procedures/guidelines which were mandatory or recommended for such purchases:**

The established internal procedures are for management to undertake the necessary research and to provide a recommendation for the Board to consider. Provided the Board is satisfied with the submission or after further work if not, the proposal is presented to the Shareholders for consideration. In this case, the final decision on a purchase was decided by Cabinet.

(d) If so, what were they, when and by whom were they formulated:

These procedures have been formulated over time by the Board and Shareholders.

(e) Is there an established mechanism to review and if necessary amend such internal procedures/guidelines:

Company policies on expenditures including acquisitions can only be modified by the Board or by the Shareholders if they so wished to direct.

(f) If not why not:

N/A

(g) Was a post purchase review/assessment of all procedures/guidelines undertaken after the purchase of Spirit I and II:

The Board reviews the performance of the Company in regard to its performance against a proposed business plan on a monthly basis. Copies of all board papers and minutes are provided to the Shareholders for a review.

3. In Relation to the Search for Suitable Ships:-

(a) Was a shipbroker used:

Three Shipbrokers were involved in the acquisition of Superfast III & IV.

(b/c) If so what steps were taken to select the broker and how many brokers were considered or short listed:

The Brokers used were:-

- Superfast representative, Mr Rimbart Harpain of Harpain Shipping, Hamburg, who was selected by the vendor;
- Mr Claes Ancher of Simsonship, Sweden, who was the Shipbroker who first arranged for TT-Line personnel to visit these ships amongst others;
- Mr James Mason of Mason Shipbrokers, London, who represented TT-Line in negotiations and provided technical knowledge and assistance. Mr Mason has been associated with TT-Line for many years and provided valuation advice for the original Spirit of Tasmania and assisted in the sale of the Abel Tasman.

(d) What criteria was used to make the final selection of broker and who made that selection:

- Reputation;
- Time in business;
- Specialisation in ro-ro vessels.

- Messrs Ancher and Harpain were selected by Superfast;
- Mr Mason was selected by the Board.

(e) Has the same broker been contracted by TT-Line for previous ship purchases or for any other business transactions:

Yes as previously mentioned.

(f) On what basis was the broker remunerated:

The broker receives a share of commission on the sale of the vessels from the vendor.

(g) Were any alternatives to using a shipbroker considered:

No.

(h) If so, what alternatives were considered and why were such alternatives rejected:

The services and advice of a broker specializing in the type of vessel required are essential. There is no other viable alternative.

4. In Relation to the Valuation and Final Purchase Price of Spirit I & II:-

(a) How many ships were short listed for possible purchase by the broker:

TT-Line looked at various types of vessels to ascertain what was the most suitable for the service proposed. At the time the number of ro-ro vessels with the desired characteristics including speed, reliability and seaworthiness was extremely limited and still remains so today.

There were no suitable viable alternatives to Superfast III or IV other than to order new purpose built vessels.

(b) Were price estimates or professional valuations supplied for all short listed ships:

Prices were based on the purchase price of a new vessel of the same characteristics and build quality, less an allowance for depreciation.

(c) Were all valuations conducted by professional entities independently and at arms length from parties with a pecuniary interest:

Prices were based on the value of such similar vessels as existed and were estimated by TT-Line management with the assistance of our appointed shipbroker.

(d) Who provided valuations used as the basis for the final purchase price for Spirit I and II:

The vendor asked a particular price and TT-Line management, together with our broker were involved in negotiations to reduce the price to our valuation.

The vessels when purchased were four years old and were purchased for US\$76m each.

Kaeverner Masa Shipyards, the builders of Superfast II & IV quoted TT-Line US\$120m per ship to build a vessel with the same characteristics.

(e) Was a maximum price limit established by TT-Line and if so to what extent was the broker aware of the upper limit:

TT-Line had a maximum price it could pay to meet the objectives of the business case.

Our broker, Mr Mason was never aware of this figure.

- The business plan contains both internal and external sourced information which TT-Line regards as highly confidential, the public release of which would adversely effect the operations of the Company by assisting its competitors.

While TT-Line is not subject to the requirements of the Freedom of Information Act it has recently been shown that information released to other bodies ceases to enjoy that protection. Therefore TT-Line respectfully declines the request to release its business plan.

- The Company's purchasing policy requires any expenditure with a capital value in excess of AUD\$50,000.00 must be approved by the Board.

In the case of the purchase of these vessels the Board ensured that management seek the advice of a qualified, recognized and reputable shipbroker to assist in the purchase process; ensured that the Company was represented by legal advisors with recognized expertise in the Maritime area during all formal meetings and in the preparation of all legal documentation. (Middletons Partner Mr David Roylance).

- Ensured that the financial projections were reviewed by an external financial advisor (KPMG Partner Mr Paul Green and others).

That the Government appointed Shareholder Ministers were kept fully informed of progress at all stages of the purchase process.

- In the view of the TT-Line Board, the Company has fulfilled all of its legal obligations in regard to the purchase of these two vessels and that all persons involved in the purchase process have acted ethically and with complete propriety.

Hon J S (Jim) Wilkinson MLC
Chairman

Parliament House Hobart
19 October 2005