



1976

 PARLIAMENT OF TASMANIA

 PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS

MATTERS ARISING FROM AUDITOR-GENERAL'S REPORT 1975

Laid upon the Tables of both Houses of Parliament and ordered to be printed

MEMBERS OF THE COMMITTEE

LEGISLATIVE COUNCIL

 Mr Bisdee
 Mr Gregory

HOUSE OF ASSEMBLY

 Mr Mather (Chairman)
 Mr Batt (Wilmot)
 Mr Green

REPORT

The Standing Committee of Public Accounts having discussed with the Auditor-General certain matters raised in his 1975 Report (Parliamentary Paper No. 8 of 1975), and having received evidence and written explanation, have the honour to report as follows:—

Housing Department Negotiated Contracts System

The Auditor-General at page 145 commented as follows:—

The Director of Housing was asked why public tendering had been replaced by negotiated tenders for the construction of homes and his reply was as under:—

'I am of the view that the system of negotiated tenders with contractors expert in our forms of construction, is competitive and economical. I base this on the following:—

- (1) I am of the opinion that on a rising market the client, provided he is backed by expert advice and form of accurate comparison, is in a better position to control his costs than on an open and frightened market.

- (2) Negotiated prices, at least of repetitive type housing, gives us better value.
- (3) Contractors are aware of long-term engagement. They are better able to hold efficient labour; they can more efficiently organise materials, both from cost and discounts, and more importantly site deliveries, to conform with the different trades involved.
- (4) The work available can be reasonably distributed among contractors and we are able to efficiently program and locate contractors in areas required.
- (5) No one contractor is over-loaded to the extent that leads to further delays in completion involving extensions of time, loss of revenue and heavily increased Rise and Fall costs.
- (6) In regard to the actual negotiated figures, we inform ourselves in great detail before negotiations commence, and the onus during negotiations is for the contractors to submit conclusive evidence that our figures are incorrect.

We do have pressure from time to time from contractors for reviews because of specific happenings during the negotiated period, and with one exception in 1973-74, we have been in a position to resist. I would reiterate that I am firmly of the opinion that the Housing Department has contained construction costs by using this method and will continue to do so in the present area of uncertainty and rising costs.'

The Director of Housing gave evidence in which he explained this matter further.

He said that the question of negotiated contracts arose early in the 1973-74 financial year when the house construction program was framed on a greatly increased scale, and this was coupled with a significant shift of housing demand in some of the major areas of activity.

The buoyant state of the building industry made it necessary to examine the potential of contractors engaged, or likely to become engaged, to meet the program on a greatly increased scale to previous years.

He said that with the significant shift of housing demand it became obvious that the reduced demand in the North-West Coast areas had brought about a situation where builders could not expect to be fully employed; while in the north and south areas, the increased program could further severely strain the current resources.

Two approaches were decided:—

- (a) The Department would invite registration from contractors prepared to undertake construction works for the Department throughout Tasmania. They were requested at that time to nominate their potential capacity in home units over 12 months.
- (b) The North-West Coast and northern contractors who carried out Housing Department works were individually interviewed to assess their capacity, attitudes to accepting contract works outside their usual areas of activity, including the Hobart area, and the possibility of negotiated contracts.

The result of public invitation for builders to register was disappointing. There were few other than those already carrying out Department works.

Conclusions from interviews with North and North-West Coast contractors were:—

- (a) There were sufficient capacity within the contractors operating in the North and North-West to cope with the proposed construction program.
- (b) The then method of public tender would not permit a satisfactory dispersion of contractors.

All contractors agreed that tenders could be negotiated to the best advantage of both parties and all stressed the need of ensuring continuity of work, preferably over 12 months, to permit better/cheaper arrangements in supply and continuity of materials and labour. From these approaches the Department concluded that the best action was to negotiate for all construction work in the North and North-West Coast, and some contracts in the South, to support the Day Labour Organisation, and to prepare a schedule indicating the proposed allocation of contractors; their capacity; and the progressive issues in point of number of house units.

Negotiations then proceeded involving North-West Coast contractors who were assisted through the offices of the North-West division of the Master Builders' Association, and after a total of three meetings, agreement was reached on a base rate for a house, together with stated Prime Cost Items and Schedule Rate Items covering variables (i.e. foundation heights, drains, paving, fencing, etc.). The negotiated prices were subject to a Rise and Fall Agreement and the initial Contracts covered the period extending from 7 September 1973 to 30 June 1974. The approaches, negotiations and acceptance of negotiated contracts was undertaken with the knowledge of the then Minister for Housing.

The Director said that at the end of the financial year 1973-74 it was apparent that the negotiated contracts system had worked most successfully. Any shortfall in the programming was not occasioned by the system but by the conditions of labour and material supply which first motivated this form of contract. The system did ensure that contractors each maintained their full production rate, and just as important, the Department was able to quickly arrange contracts outside of the usual areas of activity to meet urgent demand.

It was considered to be in the best interests of the Department and the contractors to maintain the negotiated system, but because of rapidly escalating costs the Rise and Fall Agreement then applying did not cope with the actual increases involved. In consequence a further invitation to contractors to register issued in July 1974, and new base rates were negotiated and a revised Rise and Fall Agreement introduced. The second Negotiated Contract Agreement commenced as from 2 July 1974 and has continued to this date.

The Director said that in his opinion negotiated contracts have contained building costs at a figure lower than would have been experienced had the Department continued the system of public tendering, and that the present climate justifies the further retention of this method.

The Director said that although the system was open to all contractors, he had found that more or less the same contractors were building Departmental homes as had done so under public tendering. These contractors had become rather expert in this type of work. By specialising in this manner they found they had advantages, particularly in such directions as planning and organisation. Nevertheless, it was proposed to advertise for contractors annually, so that the opportunity would be afforded other contractors to negotiate.

The Master Builders' Association of Tasmania supported the views expressed by the Director of Housing. They agreed with the Director's comment that the Department had been successful in containing construction costs in a period of uncertainty and rapidly spiralling inflation: 'The negotiated contracts scheme has not only contributed to this success but has been instrumental in ensuring the timely execution of the Department's planned programs'. The Association referred to conditions existing prior to the introduction of the negotiated contracts scheme.

Open tendering was the method used and, as records can prove, this system attracted many tenderers who were ill-equipped to satisfactorily perform the type of contracts required by the Department. This was subsequently proved by the sorry trail of bankrupt contractors, dissolved businesses and, for the more fortunate, a shift away from Housing Department work. This is not to say that the principle of open tendering was the cause of this chaos but rather that the vision of repetitive and uncomplicated House Building Contracts lured the inept or incompetent operators. It is well recognised that to successfully perform large Housing Contracts specialist knowledge and organisation are basic requirements. The introduction of the negotiated contracts system successfully halted the downward trend and introduced a degree of stability in this area of the Building Industry. Rational planning of resources became possible and more importantly the Department could confidently program its building activities. It may be argued that in the negotiated scheme insufficient numbers of Tenderers are responding but it is our view that this is not due to the principle of negotiation but rather to the terms being negotiated and we would see this as an area which, by closer co-operation between the Housing Department and this Association, could be vastly improved. It is our view also that proper negotiations will enable the Housing Department to enjoy the benefits of keener prices and punctual completions. This Association is also concerned that the benefits to the future of the industry are not to be disregarded. Stabilisation of the current work volume enables Contractors to employ more apprentices thus assuring the continuity of experienced personnel without whom the future of the Housing Department and indeed that of the entire industry must be in jeopardy. In conclusion, this Association reaffirms its support for the comments made by the Director of Housing and recommends that the system of negotiated contracts be maintained. We would also support any honest endeavour to effectively improve such a system.

The Northern Tasmanian Master Builders' Association wrote to the Committee in response to an invitation to express their views:—

In general terms, the Association favours public tendering as being the most equitable, efficient, and competitive system available. Negotiated contract systems have certain advantages and some of these were well illustrated in the Statement from the Director of Housing. However, on balance we consider there are unfavourable aspects negotiated in the contract which render it less desirable than public tendering. Firstly, we do not necessarily accept the Director's contention that negotiated prices give the client better value. We would be interested to know if there is any evidence which supports the Director's contention. We are also at a loss to understand what is meant by the Director's reference to 'an open and frightened market'. These are emotive words and in our view lack substantiation. Probably the greatest short-coming of negotiated prices is that it provides a system capable of

involving corruption, fraud or unfair persuasion which obviously is not in the best interests of either party. We have no evidence to suggest that this in fact occurs, and we certainly make no allegations to this effect. We merely point out that such a system leaves itself open for such practices. The Association considers it quite reasonable that contracts are negotiated if either of the following circumstances arise:—

- (i) There are no tenders submitted in response to a public advertisement.
- (ii) The tenders that are submitted are obviously unrealistic and completely unacceptable to the client.

The Committee concluded that the negotiated contracts system appears to be working well at the moment, but it is essential that the Department keep it under constant critical review. The Master Builders' Association's wish for improved negotiating conditions is important to them and should be considered by the Department.

Ambulance Commission and Boards

On page 133 of his Report, the Auditor-General commented that:—

Neither the Ambulance Commission nor any of the Boards submitted a signed formal Statement for the year ended 30 June 1975 in time for inclusion in this Report. This matter was taken up with the Commission on 3 September 1975, but a conclusive reply had not been received at the time of drafting this Report. One of the aspects mentioned in my letter to the Commission was that the arrangement by which the Boards' Accounts were first submitted to it should not prejudice their receipt in this Office in sufficient time for publication.

The Accounts of the Southern, Devonport and Burnie Boards have been certified for the year ended 30 June 1974, whilst those of the Commission were qualified as the Balance Sheet did not clearly set forth a proper disclosure of the source of funds but were combined under the composite heading 'Accumulation Account'.

The Northern Districts Ambulance Board was unable to submit Statements for the years ended 30 June 1973 and 1974 and at the request of the Commission, I recently made an officer of my Department available to extend the normal audit function to include the reconciliation of debtors records and the preparation of both final accounting entries and annual statements. The Statements have now been finalised, and have been formally accepted by the Board and the Commission, but not in time for inclusion in this Report. My report arising from the audit was forwarded to the Board on 31 July 1975, but a detailed reply has not yet been received.

The Chairman and the Secretary of the Ambulance Commission of Tasmania gave evidence in two sections.

Concerning the Accounts of the Commission itself, the explanation was that although the draft accounts were forwarded to the Auditor-General in time, the Commission had been unable to adopt them formally for inclusion in the Auditor-General's Report.

Usually, the Commission has a meeting fairly early in the financial year, at which the annual accounts are adopted. However, because of various factors the first Commission meeting this financial year was not until 13 November 1975. As it costs about \$600 in travelling costs and allowances etc. to hold a Commission meeting, the Commission would be reluctant to hold a special meeting just to adopt the annual accounts.

In this respect, it is to be hoped that the Commission will be able to organise its business in order to allow a meeting to be held at an appropriate time in future. The Committee note that the Commission in evidence did not seek to justify its persistence in refusing to provide what the Auditor-General refers to as 'a proper disclosure of the source of funds'. The Committee noted in an earlier report (Paper No. 42 of 1975) that this practice had resulted in the 1972-73 accounts having received only a qualified certificate from the Auditor-General.

The Commission's explanation of that part of the Auditor-General's comments which concerns the Board was as follows:—

In March 1971, the Commission by arrangement with the Auditor-General, advised Ambulance Boards that Commission approval was required prior to final accounts being accepted by the Auditor-General. This procedure in the main has operated satisfactorily. In respect to the 1974-75 accounts the following steps were taken by the Commission:—

On 10 June 1975, letters were forwarded to the four Board Chairmen including the following paragraph:—

In accordance with standing instructions, preliminary accounts for 1974-75 should be forwarded as soon as possible after 30 June 1975 for acceptance by the Commission before they are formally adopted by the Board. Commission approval should be sought to any proposed adjustments or provisions not specifically authorised in the 1974-75 Budget, before such adjustments or provisions are incorporated in the Board's final accounts for 1974-75.

Further letters were forwarded to Boards on 18 August 1975 including the following paragraph:—

As requested in the Budget letter 10 June 1975, it would be appreciated if you could forward as promptly as possible, a copy of your Annual Report for 1974-75. As you are aware, it is necessary for the Commission to approve of the Annual Accounts prior to forwarding same to the Auditor-General.

Annual statements of the Ambulance Commission of Tasmania and the Devonport and District Ambulance Board were hand delivered to the Audit Department by the Secretary on 11 September 1975. The statements for the Burnie and District Ambulance Board were posted by the Board direct to the Audit Department on 19 September 1975, after preliminary approval by the Commission. The Commission again wrote to the four Ambulance Boards on 8 October 1975 reminding them of their responsibilities under the Ambulance Act in regard to annual accounts. A copy of the letter was forwarded to the Auditor-General. The accounts of the Ambulance Board of Southern Tasmania and the Northern Districts Ambulance Board have since been received. The Commission at its meeting on 13 November 1975, ratified the Annual Accounts of the Commission and the four Boards for 1974-75 and the 1972-73 and 1973-74 accounts of the Northern Districts Ambulance Board. A firm direction was issued to the four Ambulance Boards on 19 November 1975 regarding prompt submission of future Annual Accounts. The Auditor-General was informed accordingly. At a meeting of the Ambulance Executive held in Launceston on 2 December 1975, assurances were given on behalf of all Boards that the direction will be complied with.

In view of these assurances, the Committee is satisfied that the necessary steps have been taken to ensure that in future approved accounts will be forwarded to the Auditor-General at the proper time.

Parliamentary Catering

The Auditor-General mentioned at page 23 that the original appropriation of \$14 000 was supplemented by a further \$10 000 authorised under the provisions of section 5B of the Public Account Act 1957. Wage rises and the number of State functions which necessitated increased staff were mentioned as the principal factors causing the application for the additional grant. After crediting the grant of \$24 000, the accounts of the Catering Service showed a net profit of \$197 for 1974-75 as compared with a loss of \$135 for 1973-74 (Grant \$12 000).

The Secretary of the Joint House Committee was asked about the necessity to seek a further grant of \$10 000. He said that in essence the grant was used to meet wages of casual staff, and that these had risen by about 50 per cent in 1974-75. He said that the Joint House Committee had given consideration in the light of rising costs to the price structure. However, it had been found that the prices charged were already among the highest in Parliamentary catering services in any State. The service provides facilities for entertaining by the Government at far lower costs than any alternative means. On the other hand, the Secretary said that his Committee had been reassured to find the average grant for Parliamentary catering in the other States in 1974-75 had been about \$80 000 compared with \$24 000 in Tasmania.

Launceston Police Headquarters: Aluminium Windows

The Committee noted the following comments by the Auditor-General on pages 37 and 38:—

Further to the comments in my previous Report, the original contract (\$2 520 000) which commenced in November 1972 was cancelled in October 1974, at which date progress payments had amounted to \$1 235 253. Selected project management firms were then invited to submit percentage fees for management of the completion of the building by a series of sub-contracts. The accepted tender provides for payment to the contractor of the actual cost of the works together with a fee of 7.5 per cent of the 'revised estimated cost' of the works as adjusted by rise and fall and approved variations. The 'revised estimated cost' was required to be agreed within three months of the contractor's appointment but as at 14 August 1975, the amount had not been determined nor had the formal contract agreement been signed. The contract commenced in November 1974 and is expected to be completed in October 1976. The estimate of final cost including payments under both contracts and rise and fall and allowance for possible extras is \$5 599 430. Total expenditure to 30 June 1975, \$1 927 321, comprised—

	\$
Building costs	1 742 369
Consultants fees	164 981
Clerk of Works	19 881
Miscellaneous	90
	<hr/>
	\$1 927 321

Additional costs were incurred for the supply of aluminium windows by a nominated sub-contractor. Payments totalling \$51 088 had been made by the Department of Public Works via the main contract on account of the sub-contract for \$58 568 before all the windows had been delivered to the site. Following cancellation of the

main contract, ownership of the windows became the subject of a dispute between the supplier, the liquidator for the main contractor and the Department of Public Works. Legal advice was taken on the matter and agreement reached for the provision of the balance of the windows for the sum of \$39 818 which was \$32 338 more than the balance of the sub-contract.

The Director of Public Works explained that the original contract was one between South Eastern Builders Pty Ltd and M.T.M. Industries for the supply of aluminium and steel windows, as required by the Window Schedule, for the sum of \$58 568. In addition, M.T.M. Industries maintained that Rise and Fall of \$12 500 was also payable. The Head Contract for the building was taken over first by the Liquidator for South Eastern Builders and subsequently the Minister appointed Paynter & Dixon Pty Ltd to act as Managers for the completion of the project. The Manager for M.T.M. Industries refused to deliver further windows to the site, despite the fact that most of the original contract price had been paid, through South Eastern Builders Pty Ltd, to M.T.M. Industries. Paynter & Dixon sought prices from all sub-contractors for completion of the work. Amongst these was the price from M.T.M. Industries for the window frames. On 12 December 1974, the Manager of M.T.M. Industries submitted a figure of \$67 735 as his price to complete the work. You will appreciate that at that time the majority of the windows had been constructed, some had been delivered to the job and the balance were held in store by M.T.M. Industries as is normal practice.

The Department also sought and received a price from Dowell Industries Pty Ltd to supply the balance of the windows for \$63 019, but this firm would have had to manufacture the windows and would have had difficulty in meeting the delivery schedule.

On 20 December 1974, the Director said, advice was sought from the Crown Law Department on the Department's rights in this matter and the advice was received from Crown Counsel and subsequently confirmed by the Solicitor-General himself. This advice covered the vital question of ownership of the windows. The Solicitor-General's opinion was that the stored windows were the property of the Liquidator for South Eastern Builders. However, M.T.M. Industries was exercising a lien over the goods and a protracted argument appeared imminent. The Solicitor-General advised that 'It would appear prudent to negotiate with M.T.M. Industries to discover the least sum for which they will release from lien and allow the windows to be taken to the building site'. The Department accepted this advice and proceeded to enter into direct negotiation with M.T.M. Industries and a final price of \$39 818 was agreed upon in accordance with the agreement attached. You will appreciate that this price represented a reduction of some \$27 000 from that sought by the firm although it was a considerable increase over and above the original contract figure for the windows. The Department was also in the position where delays caused by a protracted legal argument over ownership of the windows and thus non-delivery until such arrangement had been settled, would have been far more expensive than the actual agreement with M.T.M. Industries to obtain delivery of the windows for the sum of \$39 818.

The windows will finally cost the Department—

(a) Amounts paid through South Eastern Builders	\$
under the original contract	51 088
(b) New contract with M.T.M. Industries	39 818
	<hr/>
Total cost	\$90 906

Payments have subsequently been made to the firm only on delivery of the windows.

The Departmental witnesses pointed out that suppliers had outlaid a considerable sum on the windows and had been forced to carry them over the period. This was the first case of this kind within the Department's experience and as a result staff had been issued with instructions regarding payments in advance to sub-contractors for materials to be used in a contract and meanwhile stored off-site:—

As a result of the advice received from the Crown Solicitor, no further payment will be made in advance for materials or goods not incorporated in the works unless the following documents are obtained from the Builder, Sub-Contractor, or Supplier who requests payment:—

- (a) An insurance cover note issued in the name of the Principal to cover all risks.
 (b)—

(i) *Main Contractor*—

- A Bank Guarantee as detailed on the attached sample; or
 A Bill of Sale (Registered) over the materials.

(ii) *Sub-Contractor of Supplier—*

A Bank Guarantee, as detailed on the attached sample from the Main Contractor; or
 A Bank Guarantee *under seal* from the Sub-contractor or Supplier.

With respect to existing approvals for payment in advance the following action is to be taken:—

- (1) Seek to enforce the above requirements in relation to goods already paid for.
- (2) All further payments are to cease until the above requirements are met.

The Committee believe that this procedure will enable the Department to avoid disputes of this kind in future.

Overseas Travel

On page 23 of his Report, the Auditor-General mentioned the work of the Overseas Travel Committee which was established in July 1974. The Committee comprised a representative from the Treasury (Convenor), the Public Service Board and the applicant Department, except where the person intending to travel is the Head of the Department, in which case the additional member was the Public Service Arbitrator. To 30 June 1975 the Committee had considered and recommended applications in respect of some 42 officers proceeding overseas during 1974-75 and 1975-76.

The Committee were interested to learn about the work of the travel committee and hear evidence from its Convenor, the Chief Finance Officer of the Treasury. It was explained that Cabinet decided to set up the Overseas Travel Committee in July 1974 because of the increase in the number of overseas visits which were being made. In 1972-73, 25 officers went overseas and this increased to 38 officers in 1973-74.

The functions of the Committee were:—

- (a) to examine applications for overseas travel and to make recommendations thereon to Cabinet; and
- (b) to set limits on expenditure to be incurred on overseas visits.

In the 17 months from July 1974 to November 1975 the Committee considered applications for 59 officers to travel overseas, of which 55 applications were recommended. Two applications subsequently were withdrawn and the travel actually undertaken comprised visits to the following areas:—

New Zealand	22
Near East	10
United Kingdom, Europe and/or North America	21
	—
	53
	—

The cost of ten of the visits was fully financed by the Australian Government with 43 trips being fully or partly financed by the State. The estimated cost of a number of the trips financed by the State was reduced by various economies which the Committee recommended. The cost ranges for these trips were:—

\$	No. of trips
0- 750	20
750-1 000	1
1 000-1 500	7
1 500-2 000	3
2 000-3 000	5
3 000-4 000	4
4 000-5 000	2
5 000-6 000	1
	—
	43
	—

Cabinet recently decided that the Overseas Travel Committee would cease to function and the Public Service Board would be responsible in future for making recommendations on proposals for overseas travel by Public Service officers. The witness said that his Committee was set up at the suggestion of the Treasury

only because there was at the time no standard policy in relation to overseas travel: 'The Treasury in fact welcomes the interest which is now being taken in relation to this matter, by the Public Service Board'. He said that Treasury considered organisation of overseas travel was properly the function of the Public Service Board. The Board has now formulated guidelines for deciding whether or not to recommend to the Premier in favour of a proposed visit overseas.

Property Acquisitions

The following footnote to page 63 of the Auditor-General's Report draws attention to an acquisition of land for the Eastern By-Pass: Launceston:—

The acquisition of 2.6486 hectares on the outskirts of Norwood for \$38 000 plus costs of \$1 479 and interest \$2 650. Negotiations commenced in 1971 when the Government valuation was \$11 660 and the asking price \$22 000. In May 1972 the owner increased his price to \$44 000. When negotiations failed, compulsory acquisition proceedings were commenced in June 1973. The matter was further delayed until February 1975 when the Valuer-General advised that settlement could be arranged at \$38 000 plus costs and statutory interest and recommended accordingly. Compulsory proceedings were halted and the property was eventually purchased in April 1975 on the recommended terms and conditions.

The Valuer-General gave evidence to the Committee as follows:—

In accordance with the direction of your Committee, I hereby tender the following information relative to the acquisition of 2.6486 hectares from Mr V. L. Cordell, taken for the Eastern By-Pass Road, Launceston, and to which reference was made by the Auditor-General on page 63 of his 1975 report under the heading 'Property Acquisitions'. Main reasons contributing to increase in compensation paid were:—

- (1) Initial negotiations for the purchase of this land were entered into in mid-1971 but it was not until 9 August 1973 that the 'Notice to Treat' was served over the land.
- (2) During the intervening period of over two years, there was a very sharp increase in land values the area. The value of vacant allotments in this locality practically doubled during this period increasing \$1 700-\$2 000 to \$3 250-\$3 750 per allotment.
- (3) This trend in land values continued and was still rising when settlement was finally reached in February 1975. Reported sales of building allotments in the area late in 1974 reached \$6 000.
- (4) The rules of compensation established by case law in Tasmania define the date of the issue of the Notice to Treat as the relevant date on which to determine the compensation due to the dispossessed owner.
- (5) The Courts, however, have been lenient in their attitude as to admissibility of sales evidence which has occurred after the issue of Notice to Treat.
- (6) It is also appreciated evidence of real estate transactions does not generally emerge immediately sales take place. Official sale notifications following final settlements as a rule take a matter of weeks or even months to issue. (These are in the form of notices of transfer lodged in accordance with the Land Valuation Act 1971.)
- (7) Negotiations with this owner were also complicated by an acquisition by the Hydro-Electric Commission for a sub-station site out of the same property. This land was subject to a Notice to Treat issued on 3 September 1974 with the land vesting in the Commission in December of that year. The compensation is still in dispute.
- (8) The effect of the road acquisition was as follows:—
 - (a) Reduced the number of allotments in the subdivision by 36.
 - (b) Required a major redesign of the subdivision layout to make provision for the By-Pass.
 - (c) Cut the proposed subdivision into two parcels rendering it less attractive as an integrated development project.
 - (d) Introduced the future detriment of a busy highway into the midst of a residential area, with the attendant noise and exhaust pollution stemming from the anticipated heavy traffic flow along this highway. In this regard, allotments abutting the expressway will be most affected.
 - (e) Substantially added to the costs of development of the subdivision by increased outlay on provision of services.

CONCLUSION:

In summary the main contributing factors to the increase in compensation paid were as follows:—

- (i) Emergence of sales evidence not available when original valuation was made.
- (ii) The dramatic increase in land values over the period from 1971 to end of 1974.
- (iii) The delay in issuing a Notice to Treat over the land necessitating revised estimates of value to follow market trends.

- (iv) Initial estimates of compensation did not make allowances for additional costs of development due to redesign of the subdivision. These costs did not become apparent until much later, when evidence from the St Leonards Council Engineer and other sources, became available.
- (v) The prospect of a Supreme Court action involving the Crown in substantial costs justified in my opinion the reaching of a settlement within the range of the Crown's last offer of \$35 000 and the owners reduced final claim of \$42 000.

FINAL COMMENT:

Due to the proposed change in route of the by-pass road through this property, it is now apparent the subject land will not be required for this purpose. It should therefore be offered back to the dispossessed owner in accordance with section 67 of the Lands Resumption Act 1957. It is further noted, however, that the varied route will require another land purchase from this owner. It is therefore logical to assume that provided the former owner is agreeable to take this land back and integrate it into the subdivision of his remaining land, its value will be offset against the compensation due for the new land requirements.

In his evidence, the Valuer-General explained that delays that occur in serving a Notice to Treat are inevitable in the circumstances that it is policy first to negotiate with owners. In this case, he said, the position was aggravated by lack of finality in planning for the road, which he attributed to a chronic lack of staff in the Public Works Department, and by the effects of severe inflation in land prices. He was asked whether a more realistic original offer would not produce better results, and responded that very few cases are settled in court:—

My policy is that we are duty bound to offer what we think the owner is entitled to. If it is worth \$10 000 in our opinion, we don't offer \$7 500 in the hope they will want \$15 000 and settle for \$10 000. I am duty bound to offer what the owner is entitled to as we see it in the first instance. I think taking somebody's property, whether part or total, is an important thing, and it is not just another exercise as far as I am concerned. Government policy is that the property owners are to be treated with the greatest consideration, and if there are any doubts they should surely favour the owner who is affected by the proposition.

Subsidy on the Carriage of Agricultural Lime on the Tasmanian Government Railways

On page 52 of his Report, the Auditor-General commented on overspending in this item in 1974-75 of \$5 128 on the appropriation of \$40 000:—

The excess expenditure was authorised under the provisions of section 5B of the Public Account Act 1957. The purpose of this subsidy is to encourage primary producers to continue to apply lime on soils which in Tasmania have a high acidity. The Transport Commission rail-freights at reduced rates and then based on a certificate that a reduced rate has been paid by the consignees in connection with the transport of agricultural lime, claims the balance of the freight chargeable from the Department of Agriculture. Enquiries initiated by the Department during 1974-75 disclosed that the major portion of lime freighted for one consignee company was not intended for usage in accordance with the purpose of the subsidy with the result that the Department recovered an amount of \$9 598 overpaid to the Transport Commission. The company's account with the Commission was adjusted accordingly. Further enquiries are proceeding in consultation with my Department.

The former Director of Agriculture explained that the subsidy was introduced because of the need at the time to encourage the use of lime and because only one lime grinding plant was available in Tasmania. This was located at Melrose. The basic function of agricultural lime is to correct soil acidity and not to supply plant nutrients. It is, therefore, used as an essential aid to establish pasture and other crops on acid soils and to correct soil acidity where acidifying fertilisers have been used in amounts sufficient to be detrimental. The free carriage of agricultural lime was introduced as from 1 April 1955, prior to which it was carried at concession rates fixed for specified zones within Tasmania. In September 1961 (following a Treasury and Department of Agriculture review of the subsidy paid on the rail-freight of lime used for agricultural purposes) Cabinet decided to reduce the subsidy by \$1.00 per ton. The recommendation had been put to it that the subsidy should be progressively removed by this amount annually until users met all rail freight costs. The primary producers contribution was increased progressively as follows:—September 1964 increased to \$2.00 per ton; September 1965 increased to \$2.15 per ton; October 1967 increased to \$3.00 per ton; and May 1968 increased to \$3.25 per tonne. The subsidy has remained at this level (i.e. the Department of Agriculture reimburses all freight costs in excess of \$3.25 per tonne) since 1968. The system for subsidy payments has been designed to avoid high administrative costs. The Transport Commission rail freights agricultural lime at a reduced rate to consignees and then claims for reimbursement of the subsidy from the Department of Agriculture. The subsidy was limited to agricultural lime carried on the Tasmanian Government Railways as this was considered the only way there could be any certainty that the subsidy would be of direct benefit to the farmer. The subsidy was restricted to full truck loads of agricultural lime of 7 tonnes or more, i.e. 7 ton, 15 ton or 30 ton trucks.

In paying the subsidy to the Transport Commission, the Department of Agriculture relies on monthly debit notes provided by the Commission which are used specifically for listing consignments of agricultural lime. It is understood that these debit notes are prepared by the Station Masters from consignment notes received from the consignor prior to consigning the agricultural lime. These debits are certified as correct by the respective Station Masters and before the monthly claim voucher is forwarded to the Department of Agriculture (supported by the debit notes from each station) an additional certificate as follows is attached:—

‘ This to certify that a rail freight charge of \$3.25 per tonne has been paid by the consignees in connection with the transport of Agricultural Lime for the month of.....

Certified correct.

.....
Comptroller of Accounts’.

Under this method of reimbursing the freight subsidy, the Department of Agriculture is not connected in any way with the shipment of agricultural lime. All arrangements are made between the consignor, consignee and Transport Commission. Consequently, the Department of Agriculture is unaware of any subsidies allowed until receipt of a claim voucher from the Transport Commission some four to eight weeks after the consignment may have been freighted. At this stage it is impossible for the Department to exercise any controls at all over consignments which have been freighted at reduced rates. The Department of Agriculture must rely completely on documentation and certification received from the Transport Commission that the consignment was agricultural lime and that it qualifies for a subsidy. However, the extent of the increase in subsidies claimed by the Transport Commission prompted an enquiry by officers of the Department of Agriculture who attempted to ascertain the reason for the increased usage of agricultural lime by primary producers in Southern Tasmania. It was then revealed that the agricultural lime was for industrial use and not primary production. The arithmetical accuracy of claims from the Transport Commission is checked by Department of Agriculture staff and also the rates of subsidy allowed but reliance is necessarily placed on the Transport Commission certifications.

The situation mentioned on page 52 of the Auditor-General’s Report arose when a company, Benders Spreading Services (1964) Pty Ltd, transported lime for use at the Electrolytic Zinc Co. of Aust. Ltd. In 1962 a Cabinet decision was given that the rail freight subsidy would not apply to limestone being delivered to the Electrolytic Zinc Co. of Aust Ltd or any other operator for mixture with superphosphate. The Transport Commission was advised of this decision and requested to charge any such consignments direct to the party concerned rather than the Department of Agriculture. During 1974 the subsidy payments to the Transport Commission exceeded estimates and an investigation of claims by the Department of Agriculture revealed that agricultural lime was being supplied to the Electrolytic Zinc Co., where some lime is apparently also used in the residue treatment plant. The Transport Commission was advised and it was arranged that after the quantity of agricultural lime had been ascertained from the consignee, the amount of the subsidy would be refunded by the consignee. As the consignee had an account with the Transport Commission, this was considered the most efficient and expedient means of dealing with the situation.

The Director emphasised that in effect the Department of Agriculture only reimburses the Transport Commission for freight subsidies which the Commission has allowed on consignments of agricultural lime. The Transport Commission initially makes the decision of whether to charge a consignor or consignee the full freight rates on consignments of agricultural lime or to allow a subsidy. In regard to the consignments in question, the Commission may have been unaware that the lime was eventually for use at the Electrolytic Zinc Co.

In explanation of the increased rail freight on agricultural lime, the consignee advised that the Southern Tasmanian market had been supplied from limestone produced at Hobart quarries until the latter part of 1974 and that the only limestone that was obtained by rail was dolomite lime from Circular Head by special request from customers. The Company advised that because of restrictions imposed by the Department of the Environment on the crushing of limestone at Hobart quarries, it had become necessary to supply some of their requirements by rail, thus resulting in lime destined for eventual use at the Electrolytic Zinc Co. being charged at reduced rates by the Transport Commission.

The subsidy paid to the Transport Commission for the period August 1974 to October 1974 in respect of the consignee in question was \$12 920·55 but in fact the amount of subsidy applicable should have only been \$3 322·07. The above amounts were included in payments made as follows to the Transport Commission.

August subsidy—\$7 038·63 paid 10 October 1974

September subsidy—\$8 051·95 paid 31 October 1974

October subsidy—\$8 062·91 paid 10 December 1974.

The refund of \$9 598·48 was made by the Transport Commission on 20 June 1975. The Comptroller of Accounts, Transport Commission, told the Committee that in September 1975 on the initiative of the Department of Agriculture, a new system was adopted:—

With the exception of some consignees, as advised by the Department, the Transport Commission will continue to apply the system which presently exists, that is:—

- Freight will be charged at reduced rates and the balance will be recouped from the Department.
- Department will investigate claims submitted by the Transport Commission and where it is established that a consignee is utilising the lime for purposes which are additional to or other than the conditions upon which a subsidy is payable, the Commission will be advised to charge all future consignments on behalf of that consignee at full rates.
- When a consignee is to be charged at full rates, he will be advised of this fact by the Department and he will be required to make claims to the Department for those consignments which qualify for a subsidy. In support of his claim, the consignee will need to produce the consignee copy of the Goods Weighbill and provide a certificate to the effect that the lime is for application on Tasmanian farming properties in accordance with accepted practice.

The subsidy will then be paid direct to the claimant by my Department. The Agricultural Department has subsequently advised that the practice of allowing a freight subsidy on consignments of agricultural lime on the Tasmanian Railways for four firms be discontinued.

The Committee accept that in the circumstances expenditure from this item has been difficult to control. The steps that have been taken to tighten control should prove successful.

Other Matters

In addition to the above inquiries on which formal evidence was taken the Committee noted a number of matters raised in the Auditor-General's Report and sought written advice from the departments or authorities concerned.

Rivers and Water Supply Commission Accounts

At page 187 the Auditor-General stated that the accounts for the Cressy-Longford Irrigation Scheme for the years ended 30 June 1974 and 1975 had not been received. The Chairman of the Commission explained that the preparation of the final accounts for the scheme for the year 1973-74 was delayed as the scheme was only partly completed by mid-1974 and no meaningful statement of annual revenue and expenditure could be presented at that time. Statements of accounts 1973-74 and 1974-75 would have been submitted to the Auditor-General in August 1975; however, the Commission's Accountant was promoted to a position in another Department early in August 1975 and his successor not appointed until the following December. As a result, completion of the statements was delayed until November 1975.

Public Works Department—Office Machines

At page 55 the Auditor-General stated that two visible record accounting machines purchased prior to 30 June 1975 at a cost of \$44 891 had not been, at the time of the Report, installed. He said that pending the preparation of programs, the machines were being stored by the suppliers. The Department advised the Committee that the machines had been ordered early in 1974 but that long delays had been experienced, not only in the actual delivery to Tasmania but also in having the suppliers write the necessary programs.

This programming did not commence until mid-1975 and the Committee were told that the machines could not therefore be in operation before the end of March 1976. The Director of Public Works in his letter concluded:—

It is appreciated that a very considerable delay occurred from the date of purchase of these machines until their eventual coming into service and much of this has been caused by factors beyond the control of the Department. It is anticipated that considerable savings will result from the full utilisation of these machines and every effort is being made to bring this about as soon as possible.

Egg Marketing Board

On page 137 of the Report the Auditor-General showed that the total loss of the Board increased in 1974-75 to \$131 177 compared to a loss for the preceding year of \$26 535. The Secretary of the Board provided the following explanation:—

- (a) Until 1 October 1975 (when the Egg Industry Stabilization Act was proclaimed) the Board had no control over the numbers of hens kept in the State, and
- (b) was obliged to accept all eggs produced from all hens in the State at the Board's fixed prices.
- (c) For eggs in excess of the Board's requirements (for sale of eggs in shell) there are two outlets only—
 - (1) Manufacture for local requirements of egg pulp (approximately 110 tonnes annually), and
 - (2) Manufacture of all excess into egg pulp for export through the Australian Egg Board.
- (d) During the 1974-75 year there was a great upsurge in egg production (immediately prior to the introduction of the Stabilization Act) and the surplus was manufactured for export where returns are low. The losses on pulp exported during that year (123 295) are equalised over all producers by means of a levy on their hens. The collection of this levy and its use is shown in the attached Accounts.

National Trust of Australia (Tasmania): Audit of Accounts

On page 169 the Auditor-General mentioned that following the enactment of the National Trust of Australia (Tasmania) Act 1975, the provisions of the Audit Act 1918 were to be applied to the accounts of the Trust, which will necessitate discussions with the Company's existing auditors to reach a suitable arrangement. The Committee's enquiry as to whether this arrangement had been settled was answered by the Administrator of the Trust who replied that in March 1976 arrangements had been made with the Auditor-General for the accounts to be audited by his Department commencing in the financial year 1975-76.

Drysdale House, Hobart

In a footnote on page 47, the Auditor-General mentioned that this property was purchased for the sum of \$575 000. The School of Hospitality Industry Services previously situated in the Hobart Technical College building is now located in these premises. The Committee asked the Education Department for advice on the valuation of the property and were told that the Department had received advice from the Valuer-General in April 1975 as follows:—

Having regard to the likely demand for this specialised class of property which was recently offered for auction without any bids being received, coupled with the high running costs of such a venture, it is considered that the market value of this property is within the range of \$550 000 to \$575 000. In arriving at this figure, the value of the chattels and furnishings has been accepted as being not less than \$175 000.

Tasmanian Government Insurance Office Accounts

The Auditor-General reported that on page 199 that the accounts for 1973-74 and 1974-75 had not been received for audit in time for inclusion in the Report:—

FINANCIAL STATEMENTS 1974-75

I am concerned that for the second year in succession the Financial Statements of the Tasmanian Government Insurance Board have not been prepared in time for inclusion in my Report. I am given to understand that involvement of office staff in extra work associated with the introduction of Medibank, the Motor Accident Insurance Board, incorporation of the accounts of Burnie branch with those of Hobart office and problems encountered with introduction of new accounting machines have been factors contributing to the delay in submitting the accounts.

FINANCIAL STATEMENTS 1973-74

On 21 March 1975, I informed the Chairman of the Tasmanian Government Insurance Board that I had found it necessary to withdraw my officers from examination of the accounts of the General Fund for the year ended 30 June 1974. My decision was based on information received from a senior executive of the Board's staff that the documentation necessary to enable my officers to proceed with verification of the Statement of Accounts had been mislaid. The Chairman was informed that I considered it necessary for his office to prepare a schedule of the relative accounts included in the Statement together with working papers detailing adjustments to ledger balances. I understand that these schedules had not been completed at the time of preparation of this Report.

In reply to the Committee's request for information the General Manager of the Office provided the following explanation:—

(a) The 1973-74 Draft Accounts were submitted to the monthly Board meeting held on 21 August 1974. The accounts for the year included a new method of calculating the Provision for Unearned Premiums. After discussion the Board directed Management to confirm that the change in method adopted for the calculation of the Provision for Unearned Premiums for the year ended 30 June 1974 was in fact an accepted method and did provide an adequate sum for this type of provision. Adoption of the Accounts was therefore deferred until the meeting held on 18 September 1974. Unfortunately the Secretary/Financial Controller was absent on sick leave from 2 to 13 September 1974 and this prevented completion of the report in time for it to be considered at the September meeting. Consequently, the Annual Accounts were not adopted by the Board until the meeting held on 17 October 1974. This of course was too late for their inclusion in the Auditor-General's Report to Parliament.

(b) 1974-75 Annual Accounts.—Early in 1974 a report was requested from Sperry Remington in respect to the condition of their accounting machines then being used by the Tasmanian Government Insurance Office in both the Hobart and Launceston Offices. The report stated that the mechanical condition of the equipment was such that their continued performance could not be guaranteed. Reconditioning was also not recommended as an alternative as the particular type of machine was then being phased out by the manufacturer. Consequently as a matter of urgency, new equipment was sought. Equipment from various suppliers was examined and on my recommendation the Tasmanian Government Insurance Board approved on 27 March 1974 the purchase of 2 Olivetti P603 Accounting Machines, for use in the Hobart and Launceston Offices. A purchase order was placed and assurance obtained from the suppliers that basic equipment would be available for trial in June 1974 and would be programmed for operation from 1 July 1974. At that time there was considerable industrial unrest and whilst one basic unit was obtained for use in the Hobart office by late June 1974, the delivery of the Launceston office machine was delayed because of an industrial dispute and did not arrive in Tasmania until late September 1974. In addition the Launceston office's Remington machine irreparably broke down early in July 1974 and all accounting work had to be completed by other means. The usual installation problems were experienced, with the result that the Hobart machine became operational in late July 1974, whilst the Launceston machine could not be used until November 1974. The result was that the accounting work situation as at 31 December 1974 in both offices was considerably in arrears. Despite continuous overtime the arrears of work was not sufficiently overcome to allow completion of the 1974-75 Accounts in sufficient time to allow them to be presented at the Board meeting held in August 1975, but were presented for consideration at the Board meeting held on 15 September 1975. The accounts were not adopted at that meeting as it was considered that because of the granting of equal pay to females under the Tasmanian Government Insurance Office Award, together with the effect of inflation on existing pension rights the provision for superannuation allowed in the 1974-75 accounts was inadequate. The Board further required assurance that the provision for outstanding claims particularly in respect to workers' compensation insurance which in 1974-75 comprised 54 per cent of Tasmanian Government Insurance Office premium income was adequate. After adjustment to the Provision for Superannuation, the Accounts for the year ended 30 June 1975 were adopted at the Board meeting held on 12 October 1975.

(c) As a major C.T.P. insurer, Tasmanian Government Insurance Office has always delayed the closing of its Annual Accounts until the accounts of the Nominal Defendant have been received. This normally occurs in August in each year. The Nominal Defendant assumes liability for those injured by unidentified vehicles. The amount of the claim is apportioned between registered third party insurance offices in proportion to the C.T.P. business written by each company.

(d) The Audit of the 1973-74 Accounts commenced early in November 1974 and from that date the files of working papers were either available to the audit officers or in their possession. The Audit of the various funds was carried out and I believe completed in respect to Hospital Fund, Medical Fund, Apple and Pear Crop Fund. I believe that the detailed checking of the General Fund was completed also; however, when the verification of the fund statements was undertaken the detailed working papers necessary for the completion of the task could not be found. To the best of my knowledge the working papers referred to had been included in the file of papers supporting the Accounts which had been handed to the Audit Inspector at the time he commenced his audit. It would appear that the working papers were mislaid by the Auditor. As soon as the loss became known, the Auditor was informed that because of a Board meeting and the necessity to prepare and submit a case to the Health Insurance Commission in Canberra relating to a proposed Medibank Agency for the Tasmanian Government Insurance Office the Secretary/Financial Controller would be precluded from personally assisting the Auditor in the preparation of duplicate working papers for several weeks.

When being advised of this, the Auditor informed the Secretary/Financial Controller that he would commence another audit and return to the Tasmanian Government Insurance Office after a period of approximately three weeks to complete the Audit. The officer never returned. The lost working papers have been recreated by the Secretary/Financial Controller, and, as the Audit of the 1974-75 Accounts is now in progress, I would expect that the 1973-74 Accounts will be concluded at the same time.

Motor Accidents Insurance Board

The Auditor-General on page 165 set out the accounts for the Board for the nine months ended 30 June 1975 and the Committee noted in the Balance Sheet under Current Liabilities 'Provision for Outstanding and Unreported Claims \$3 827 337'. The Secretary and General Manager of the Board advised that this figure is the total of all amounts set aside by the Board against claims which at 30 June 1975 had not been paid. The provision falls into two parts:—

- (i) Provision to meet claims for personal injuries in circumstances where details of the personal injuries are known to the Board as a result of claims received, and of medical reports received.
- (ii) Provision to meet claims for personal injuries in circumstances where the Board has information of the fact of accidents involving personal injury.

He explained that the Board carries the liability for *all* claims for personal injury arising out of accidents irrespective of whether or not the accident was occasioned by negligence. Consequently the Board immediately records such details as it is able to obtain, of every accident irrespective of whether, at the time the record is made, a claim has been lodged. In due course, thereafter, when claims come to hand, the recorded information is a useful check against the information already recorded.

Furthermore, in every instance in which the Board has reasonably reliable information of the fact of an accident resulting in personal injury, the Board sets aside a reserve, the amount of which depends upon the nature of the injuries. The reserve is, in each instance, based upon the best estimate which can be made of the likely amount which the Board would need to pay by way of 'Schedule Benefits', together with (where applicable) the Board's best estimate of the amount which the Courts are judged likely to award by way of damages. All reserves so established are under constant review and are constantly being revised. As a regular procedure, even in cases in which claims are deliberately not actively prosecuted on behalf of the Claimant (e.g. in circumstances in which only time will disclose the degree of permanent injury and incapacity) the Board secures up-to-date medical reports, and such reports are the important consideration in the review of reserves. The before-mentioned figure of \$3 827 337 is the total of reserves established with respect to 1 535 cases which, at 30 June last, were outstanding claims against the Board; and the figure is comprised wholly of such reserves.

Don College, Devonport

In a footnote to page 46, the Auditor-General gave the following information concerning the employment of consultants for this project:—

Costs to 30 June 1975, amounted to \$3 003 741 comprising site works \$63 478, construction \$2 637 952 (including special payment for additional costs \$193 574), consultants' fees \$253 575 (including \$71 678 for abandoned works), Clerk of Works salary and miscellaneous \$48 736. The latest estimate of total cost is \$3 700 000, the substantial increase mainly being due to lack of documentation which necessitated complete redesign of the structural element and extension of the contract period which resulted in additional rise and fall and other associated costs. Approximately one-half of the total complex comprising the Resource Materials Centre and Link Blocks was handed over on 3 September 1975 whilst the total project is expected to be completed by January 1976 (originally June 1974). As mentioned in my previous Report the project is subject to litigation.

In seeking more information from the Public Works Department on this matter, the Committee asked for their views as to the need for consultants to be required to carry professional indemnity insurance. The Department in January and February 1976 made a survey of architectural and engineering consultants in Tasmania normally employed by the Public Works Department and the finding was that the majority do hold themselves covered to a greater or lesser degree in this regard.

The second step taken was to seek advice from Authorities in all other States, through the National Public Works Conference, on policies of each Authority in regard to indemnity insurance. It is clear that the majority of Departments do not specifically insist on consultants carrying insurance. Various reasons were put forward by the Heads of these Departments for their current policy and basically these relate to the difficulty of recovering under the types of insurance policies held by their consultants.

The Director of Public Works remarked that:—

Proof of loss and allocation of responsibility provides insurance companies and lawyers with significant and fertile areas of conflict. However, it is the Department's view that while there might be some difficulty in recovering damage under certain circumstances, this is not a sufficient reason for omitting to provide the Government with a proper cover in this matter. It is therefore intended to ask the Minister for Lands and Works to approve a policy which necessitates all consultants employed by the Department carrying an appropriate amount of Professional Indemnity Insurance. In view of the results of the survey recently undertaken, this policy will not significantly increase the burden on the industry. There may arise a few cases where the size of the commission results in further cover being required of the consultant. However, the Department considers that this small additional cost is adequately covered in the full fee structure for such a commission.

The Committee commend the Director for the action he has taken to prevent a recurrence of this instance of unsatisfactory performance by two mainland consulting firms.

R. MATHER, Chairman

Ministerial Party Room,
6 August 1976.