



1958.

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA.

JOINT COMMITTEE OF PUBLIC ACCOUNTS.

THIRTY-NINTH REPORT.

PROJECT 590—ST. MARYS.

By Authority:

A. J. ARTHUR, Commonwealth Government Printer, Canberra.
(Printed in Australia.)

1958

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA.

JOINT COMMITTEE OF PUBLIC ACCOUNTS.

THIRTY-NINTH REPORT

PROJECT 590

ST MARYS.

JOINT COMMITTEE OF PUBLIC ACCOUNTS

THIRD COMMITTEE

F. A. Bland, Esquire, C.M.G., M.P. (Chairman)

A. V. Thompson, Esquire, M.P. (Vice-Chairman).

Senator A. M. Benn	L. H. Barnard, Esquire, M.P.
Senator the Hon. H. S. Seward	J. F. Cope, Esquire, M.P.
Senator I. E. Wedgwood	F. J. Davis, Esquire, M.P.
	A. S. Hulme, Esquire, M.P.
	H. A. Leslie, Esquire, M.P.

The Senate appointed its Members of the Committee on 16th February, 1956, and the House of Representatives its Members on 22nd February, 1956.

DUTIES OF THE COMMITTEE

Section 8 of the Public Accounts Committee Act 1951 reads as follows:-

8. The duties of the Committee are --
 - (a) to examine the accounts of the receipts and expenditure of the Commonwealth and each statement and report transmitted to the Houses of the Parliament by the Auditor-General in pursuance of sub-section (1.) of section fifty-three of the Audit Act 1901-1957;
 - (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
 - (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
 - (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

and include such other duties as are assigned to the Committee by Joint Standing Orders approved by both Houses of the Parliament.

JOINT COMMITTEE OF PUBLIC ACCOUNTS

THIRTY-NINTH REPORT

PROJECT 590 - ST. MARYS

During 1957 the cost, and matters relating to the cost, of constructing a Munitions Filling factory at St. Marys, about 25 miles from Sydney, aroused considerable controversy. The subject of critical references in the Reports of the Auditor-General for the years ended 30th June, 1956, and 30th June, 1957, the project has been debated in the Houses of the Parliament and for some time was a topic of major public interest.

2. The completed factory comprises 508 buildings with a total floor area of 1,300,000 square feet. The buildings vary in area from 100 square feet to one of 148,000 square feet and two others of 125,000 square feet each. 333 of the buildings are new and 175 are recon-ditioned buildings which formed part of the old St. Marys' wartime factory.

Official opening brochure "St. Marys Munition Factory".

3. The factory area is 6½ square miles and about 27 miles of security fence encircle it. Construction work included 20 miles of roadway, 4 to 5 miles of cleanways, 11 miles of railway, some 90 miles of piping, 4 bridges, and two reservoirs storing 1,150,000 gallons of water; 1,500,000 cubic yards of earth were excavated and 115,000 cubic yards of concrete poured.

4. Disregarding preliminary investigations, the starting point of Project 590 was a letter dated 10th January, 1955, in which the Department of Defence Production requested the architectural firm of Messrs. Stephenson and Turner to consider a proposal to submit a report on the practicability of building a munitions filling and assembly factory at St. Marys. The proposal envisaged the preparation of plans and an estimate of cost for consideration by the Commonwealth Government early in May, 1955. The letter also pointed out that, in the event of the Government approving the proposal, it was intended that the factory should be completed and ready for operation by 31st December, 1957.

Special Report on Project 590 by W.D. Scott & Co. Pty. Ltd. Section B page 1.

5. Messrs. Stephenson and Turner submitted a comprehensive report to the Department of Defence Production on 20th April, 1955. Amongst other things they said that it would be possible to complete the proposed project by the end of 1957 provided a full release was received by 1st June, 1955. They estimated the cost at £23,200,000, which included £1,000,000 to cover anticipated increases in costs over then current rates, £950,000 for contingencies and £2,250,000 for the fees of the architects, the control agency and the contractor. Stephenson and Turner pointed out that the estimates of time and cost were based on the assumption that adequate funds for the project would be available and said that it would not be feasible to complete the job on time unless:-

Ibid, Section B pages 2 & 3.

- (a) a complete process engineering study was initiated immediately;
- (b) a central-control and expediting control authority was appointed;
- (c) a single prime contractor was appointed; and
- (d) the supply and installation of process plant was included in the prime contract.

6. In their report, the architects traversed the advantages and disadvantages of three kinds of contracts - lump-sum contracts, negotiated contracts and modified-lump-sum contracts. Because of the time factor it was considered that a lump-sum contract was unsuitable and, on the recommendation of the architects the Government agreed to a negotiated contract in the full appreciation of its inherent disabilities. Ibid, Section B. page 4, and Appendix B, page 4.

7. In June, 1955, public tenders were called for the management and organisation of construction, and equipping the St. Marys factory. The tender of the joint venture of Utah (Australia) Ltd. and Concrete Constructions Pty. Ltd., on the basis of a fee of £615,000, was successful and work was commenced on the project late in July. The contractor's fee was £385,000 less than the original estimate by the architect. Ibid, Section B. page 10

8. Previously, in May, 1955, the Government had established an interdepartmental committee, the main functions of which were to advise the Minister for Defence Production and to safeguard the interest of the Commonwealth on all matters associated with the project. The Departments of Defence Production, Treasury, Works, Prime Minister's and Attorney-General's were permanently represented on the Committee and a representative of the Auditor-General attended most meetings. Ibid, Section B, page 7.

9. In the terms of their earlier recommendation for a central control agency the architects appointed the firm of Messrs. A. G. Hvistendahl and Associates to fill this role. This firm was succeeded by Messrs. Cameron and Middleton at the end of May, 1956. Ibid, Section B page 11.

10. The process engineering study, which was one of the essential requirements stipulated by the architects was undertaken by the Braun Transworld Corporation, who submitted their final report during September, 1955. The report brought about radical changes from the original design concept and of itself was sufficient to delay substantially the completion of design plans by the architects. However, significant economies in the operation of the factory are expected from the alterations resulting from the study. Ibid, Section B page 14.

11. Unprecedented heavy rains between November 1955 and April 1956, severely retarded operations; but, notwithstanding, the project was substantially completed by the due date, 31st December, 1957. However, the cost is expected to be some £3,000,000 in excess of the original estimate of £23,200,000. Ibid, Section C, page 4.

12. The Auditor-General first made reference to the St. Marys project in his report for the year ended 30th June, 1956. He again made reference to the project in his report for the year ended 30th June, 1957, and his comments on that occasion are recorded in full in Appendix E of the Report by W. D. Scott and Co. Pty. Ltd.. Your Committee considered the Auditor-General's report following its submission to the Parliament but deferred an investigation because of our pre-occupation with two other important inquiries at that time into the Trust Fund and the Northern Territory Administration.

13. In a letter dated 5th December, 1957, the Chairman of Your Committee was informed by the then Minister for Supply and Minister for Defence Production, the Honorable Howard Beale, Q.C., M.P., that he had asked W. D. Scott and Co. Pty. Ltd., Industrial Management Consultants, to investigate the comments of the Auditor-General and allegations made in the Parliament about the St. Marys Filling Factory, and in particular, the allegations of lack of supervision, waste and mismanagement. The Minister also conveyed to the Chairman the terms of reference for the investigation.

14. In the light of the advice of the Minister, Your Committee, at a meeting held in Canberra on 28th January, 1958, deferred further consideration of the matter pending receipt of the consultants' report.

15. In February, the Minister forwarded copies of the report of W. D. Scott and Co. Pty. Ltd., to Your Committee under cover of the following letter, dated 4th February, 1958.-

" Enclosed please find three copies of a Special Report upon Project 590 which the Government has obtained from Messrs. W. D. Scott and Co. Pty. Ltd., Management and Industrial Engineering Consultants.

The Government considered that this Report should be obtained from an outside and independent organisation of specialists in view of various criticisms which had been made by the Auditor-General and other persons concerning certain aspects of the Project and its administration.

I am sending the Report to you in case it may be of some assistance to you and the members of your Committee in connection with the enquiries into the accounts of Project 590 which you will be undertaking in due course.

I have instructed my Secretary to furnish you with further copies, should you require them."

The full report appears in the Appendix to this Report. #

16. Having considered the special Report, Your Committee took evidence from the Auditor-General of the Commonwealth, Mr. H.C. Newman, O.B.E., in private session,

The report of W. D. Scott and Co. Pty. Ltd., will appear in the printed copies of this Report.

on 13th March, 1958, in Canberra.* On Monday, 21st April, we inspected the St. Marys Munitions Filling Factory, accompanied by Mr. R. W. Thomas, Construction Manager, Utah (Australia) Ltd., Mr. W. J. Potts, representing Messrs. Stephenson and Turner, and Mr. R. W. Davies, Manager of the Factory and members of his staff. Prior to the inspection we viewed slides and photographs of various stages of the construction of the project. Your Committee saw the Factory as a going concern in limited production less than three years after initial construction had commenced. We were impressed with the magnitude of the achievement.

z x x x x

17. When the Auditor-General appeared before us he expressed the view that everything he had said in relation to the project in the way of criticism had been borne out by the report of the consultants. Following up the discussion one of the questions we put to him was whether the Government had received value for the money spent on the St. Marys project -

Q.1

"COMMITTEE MEMBER.- Having regard to the inspection that you made, the audit that has been conducted by you and your department, and your previous experience as a Treasury Officer in relation to contracts of magnitude --! --- (MR. NEWMAN) And, unfortunately, 20 years with the Department of Works, too.

Qs.45
and 46.

COMMITTEE MEMBER.- Having regard to all those factors, are you prepared to say whether you think the Government, in relation to the projected total cost now, has received value for the money spent?--- (MR. NEWMAN) That is a leading question. I think any answer to it must be related to the time factor. I shall put it this way. I would not be prepared to say that, in the light of all the circumstances, it has not received value. I could answer the question only to that extent."

Mr. Newman also said that he thought the Committee could achieve little by undertaking a detailed inquiry into the project:-

"COMMITTEE MEMBER.- This question too, perhaps asks for an opinion: Do you feel that any separate investigation by this Committee would be likely to reveal any other matters of substance or consequence?--- (MR. NEWMAN) To answer the question briefly, I cannot see that it could go any further or cover more than has been covered by this report of Scott and Company Proprietary Limited., who are completely independent. As I mentioned earlier, they had no axe to grind. My own personal view is that I do not see what further evidence could be adduced or what other conclusions this Committee could come to even if it spent a lot of time on the job. I do not see how it could go beyond what has been stated in Scott's report, especially when

Q.47

* The Auditor-General has approved that evidence taken at this meeting may be disclosed.

we examine the conclusions that have been reached, particularly in relation to specific matters that were put to that firm by the Minister."

18. Your Committee note that the comments of the Auditor-General in his annual reports refer to the progress of the project up to 30th June, 1957, only. He has inspected the completed project and he has informed us that he will, when examining the accounts for 1957-58, deal with matters that have arisen since 1st July, 1957, in relation to the St. Marys project.

Q.43

19. Your Committee consider it important that neither the Auditor-General nor W. D. Scott and Co. Pty. Ltd., made any suggestion that any malpractice, manipulation or defalcations occurred. Indeed, the Auditor-General emphasised this to Your Committee, particularly in regard to wages, while the consultants have said, in relation to materials, "... the small discrepancies in stocktaking were a tribute to the control over materials."

Q.28

Op.cit. Section C page 12.

20. The criticisms of the Auditor-General and allegations made in the Parliament are dealt with at length in the report by the consultants and we do not consider it necessary to traverse this ground again. We note in this connection that the Auditor-General, the Interdepartmental Committee, and W. D. Scott and Co. Pty. Ltd., after examining all the circumstances, regard the completion of the project within the specified time as "a magnificent achievement" (Auditor-General); "a noteworthy performance" (Interdepartmental Committee); "a splendid performance" (W. D. Scott and Co. Pty. Ltd.). We note the criticism of the architects by both the Auditor-General and the consultants but we point out, as the consultants have so clearly done, that it related to a comparatively small part of the overall functions of the architects. In the words of W. D. Scott and Co. Pty. Ltd., "... much of what they did was unquestionably acceptable and we have no doubt that their wide experience and unexcelled technical knowledge must in many ways have been a most material factor in the provision of a noteworthy achievement."

Ibid, Section F, page 4.

21. From the start, the whole tempo of this project was determined by the predominating requirement of the Government that the work should be completed by 31st December, 1957. It is not for Your Committee to query this decision nor to seek the reasons for it; our interest has been in criticisms made by the Auditor-General and subsequently by the investigating consultants.

22. Your Committee have examined the conclusions reached by the Auditor-General and W. D. Scott and Co. Pty. Ltd., we note the many problems which confronted all concerned with the project because of the time factor associated with it and comment that, when speed of operation is the predominant factor, something less than the ultimate in efficiency is, perhaps, to be expected.

23. Having regard to the advice of the Auditor-General and the report of the consultants, and to our own observations, Your Committee have concluded that no

useful purpose would now be achieved by our undertaking a full and detailed investigation into Project 590. However, in view of the important role the report of W. D. Scott and Co. Pty. Ltd. has played in our reaching this conclusion we publish it in its entirety as an Appendix to this Report.*

For and on behalf of the Committee.

F. A. Bland

~~F. A. BLAND
Chairman~~

R. G. Davey

R. G. Davey,
Secretary,
Joint Committee of Public Accounts,
Parliament House,
CANBERRA. A.C.T.

13th May, 1958.

* The report of W. D. Scott and Co. Pty. Ltd., will appear in the printed copies of this Report.