

THE PARLIAMENT OF THE
COMMONWEALTH OF AUSTRALIA

REVIEW OF THE
AUDITOR-GENERAL'S
EFFICIENCY AUDIT REPORT;
Department of Administrative Services—
Australian Property Function

REPORT FROM THE HOUSE OF
REPRESENTATIVES
STANDING COMMITTEE ON EXPENDITURE

June 1981

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<i>Chairman:</i>	Dr H. R. Edwards, M.P.
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1. Chairman of the Joint Committee of Public Accounts, who, in accordance with Clause (2) of the Resolution of Appointment is a member of the Expenditure Committee.

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CONCLUSIONS AND RECOMMENDATIONS

The conclusions and recommendations of this Report fall into two interrelated categories, namely matters which are:

- general to the efficiency audit process, and
- specific to the Efficiency Audit (EA) Report.

The general matters contain recommendations on the review of the efficiency audit function and the important question of follow-up of findings in efficiency audit reports.

The Committee recommends that:

1. The Government defer the commencement of the review of the efficiency audit function until mid 1982. (Paragraph 44 (a))

2. The review report be referred to a parliamentary committee for inquiry and report prior to decisions being taken on the future of the efficiency audit function. (Paragraph 44 (b))

Also falling within the general category but related to specific matters in the EA Report are two recommendations on follow-up. The Committee recommends that:

3. The Department of Administrative Services keep the Parliament informed, by appropriate comments in annual reports, of the progress the department has made in implementing the following Audit findings—

- reconciliation of DAS accommodation guidelines with the provisional Code of Practice guidelines;
- zoning and town planning;
- standards for cleaning, security and maintenance of properties;
- workload indicators; and
- preparation of the Australian Property Manual. (Paragraph 38)

4. The Government inform the Parliament of decisions made on compulsory acquisition of property and on the need for specific budgetary provisions for historic properties. (Paragraph 39) The third and perhaps most important aspect of follow-up is the need for a procedure to inform the Parliament that major problems identified by Audit and accepted and acted upon by the audited organisation have been overcome. The Committee is examining this issue. (Paragraph 40)

In respect of matters specific to the EA Report the Committee suggests that:

5. The Auditor-General keep cost recovery under continuing review in the course of all his audit work. (Paragraph 30)

Finally, as an initial step the Committee recommends that:

6. As a means of increasing efficiency in the use of office space, the Government examine the feasibility of removing the rent votes from the Department of Administrative Services and including payment of rent as a separate item in each department's vote. (Paragraph 33)

1. Introduction

The purpose of this study is to investigate the effects of various factors on the performance of a system. The study is organized as follows: Section 2 describes the methodology used in the study. Section 3 presents the results of the study. Section 4 discusses the implications of the findings. Section 5 concludes the study.

2. Methodology

The study was conducted using a series of experiments. The first experiment was designed to measure the effect of factor A on the system's performance. The second experiment was designed to measure the effect of factor B on the system's performance. The third experiment was designed to measure the effect of factor C on the system's performance. The results of these experiments are presented in Section 3.

3. Results

The results of the study show that factor A has a significant positive effect on the system's performance. Factor B has a significant negative effect on the system's performance. Factor C has a significant positive effect on the system's performance.

4. Discussion

The findings of this study have important implications for the design and operation of the system. The results suggest that factor A should be optimized to improve performance, while factor B should be minimized. Factor C should be optimized to improve performance.

5. Conclusion

The study has shown that the performance of the system is significantly affected by factors A, B, and C. The results suggest that factor A should be optimized to improve performance, while factor B should be minimized. Factor C should be optimized to improve performance.

Review

1. The inquiry objectives of the Committee were to:
 - assess the substantive content of the audit exercise and the quality of the EA Report, and
 - examine the Department's response.
2. It has proved very difficult for the Committee to come to grips with the first Efficiency Audit (EA) Report of the Auditor-General—on the Australian Property Function (AP) of the Department of Administrative Services (DAS). The difficulty the Committee has experienced has arisen partly from the atypical circumstances under which the efficiency audit was undertaken and, not entirely unrelated, the diffuse nature of the Report and the correspondingly diffuse response of the Department to the Report. Further, there was some initial lack of communication between the Audit Office and the Committee.

Substance and Quality of the Report

3. The EA Report attempts to bring together its main findings, conclusions and suggestions in Chapter 10, but this is not as helpful as it could have been in providing an integrated framework within which the Committee could have pursued its inquiries.
4. In the Abstract to the Report (at page ix), it is stated that 'the main thrust of the audit was directed at the management and organisation of the property function'. It became evident that the principal theme of the audit is that the Department had not developed a systematic approach to domestic property administration.
5. This theme is developed by means of building a qualitative 'model' of the DAS property function. The systematic approach to examining the efficiency of the property function is a major strength of the EA Report. The Committee commends the broad audit methodology.
6. The audit model identifies five primary functions necessary for the discharge of the property role and within each identified function Audit develops certain information needs, processes and activities. There is in addition the need for management and administration of the 'total property function' to encompass such aspects as policy review and development, provision of advice to user departments, co-ordination of the Regional Offices and other matters.
7. Audit then compares the Department's performance against this model framework, and thus identifies deficiencies in property administration.
8. Major findings of Audit are:—that responsibilities between and within Central and Regional Offices were inadequately defined or perceived; structures in some Regional Offices could be made more compatible with functions; procedural manuals should be expanded and updated (the Department's 'Real Property Manual' has not been updated for nearly 10 years); and workload, efficiency and effectiveness indicators should be collected and evaluated to provide improved allocation of manpower resources—there are about 600 staff employed in the AP Division.²
9. The study culminates in new suggested administrative structures for the Central Administration and Regional Offices—as set out in paragraph 10.6 of the Report (at p. 65) and indicates in schematic form in Figures 10.1 and 10.2 (at pp. 69-70) and with more detail as to the responsibility for functions contained in Appendix 4 (at pp. 79-80). A feature of the proposed central structure was the recommendation for the

creation of a new position of Chief of Regional Operations 'for better oversight and co-ordination of Regional activities'.

10. These structures reflect the need to formalise the five functions making up domestic property administration, and the need to resolve management and communication difficulties between Central and Regional Offices, which Audit perceived as basic.

11. The staffing implications of the suggested structures are discussed in paragraph 10.6.1 (at p. 66). Audit states there: 'It was judged that these new functions and reallocations could be absorbed by current staff levels, although lack of productivity data must make this judgement approximate and subject to refinement either way as the new approaches are implemented and performance data is collected'.

12. Had the principal theme of the audit (paragraph 4 above)—and important specific issues such as the need to update the Real Property Manual, and to develop work performance indicators to provide a quantitative basis for the allocation of the 600 staff assigned to the function—been clearly highlighted in the EA Report, the Committee would have faced much less difficulty in pursuing its task, including the evaluation of the Department's response.

13. In evidence, Audit conceded this shortcoming in the EA Report, and has advised the Committee that the format of future reports is being improved.³

14. In the course of its examination of the EA Report, the Committee has identified over 40 specific findings by Audit. The findings, together with the Committee's comments by way of assessment, are set out in Appendix 1 to this Report. The Committee makes two observations.

15. First, the Committee is disappointed at the level at which, generally speaking, Audit findings are pitched. There is a dearth of suggestions for specific courses of action. Some of the findings stop at the early stage of problem identification. The findings on rationalisation and disposal are two examples that fall into the above category. There are, of course, further stages of analysis which, based on precise identification of the problem, examine alternative ways of solving the problem and choose from such alternatives. This tendency to expose the problem and go no further then leaves additional work for others. Considering the time taken on each efficiency audit and the primary focus of such audits, that is, making the public sector more accountable to the Parliament for efficient administration, the Committee finds that the tendency within the broad theme to identify problems and do only that, is a disappointing feature of the first efficiency audit report.

16. This observation has to be related to the content of efficiency audit reports as specified in the legislation. Section 48f (2)(b) of the Audit Act says that the Auditor-General shall set out his reasons for opinions expressed in reports and (2)(c) says he may include any recommendations he thinks fit. The Committee is of the opinion that the latter sub-section is unclear and that there has been some ambivalence within Audit on the approach to making recommendations. It was said in evidence that the Audit role is to examine and uncover defects, draw these to the attention of management which then takes the action it deems appropriate—the traditional view. This view holds that the making of specific recommendations is normally not considered to be part of an auditor's role. It was also said, however, that the EA Report did have specific recommendations, that Audit needs to suggest, if not recommend, ways and means for administrative improvements but that it may not be appropriate for recommendations to be too specific because among other reasons the auditor may then have to audit his own

suggestions. One may think in terms of a 'hierarchy of recommendations'; the Auditor-General may make clear recommendations at a certain level but not in respect of detailed aspects of administration.

17. In evidence the present Auditor-General adopted a stance more in tune with the latter rather than the traditional view. He told the Committee that the decision not to make specific suggestions for change was the result of a top management decision taken in the atypical circumstances of this first EA Report, and he agreed that this had made it harder to get to the essence of the report. Those atypical circumstances were that the Audit Office had been invited by the Department to examine the AP function and assist the Department to rectify deficiencies of which it was already aware; that the amendment to the Audit Act to confer the necessary authority to conduct such an audit had not yet been enacted; and that Audit undertook the exercise by way of a 'dry run', so to speak, prior to carrying out its first audit under the 1979 legislation. For the future it is the Auditor-General's view that once Audit formed the opinion that certain recommendations are appropriate, the word 'may' in Section 48f (2) (c) of the Act should mean 'shall'.⁴ In other words the provision to make specific recommendations was mandatory. Because so much work goes into efficiency audits, auditors have to take a chance. 'It does not matter if you are wrong occasionally. It is better to be wrong occasionally and right most frequently than not to take a chance'.⁵ The Committee welcomes the Auditor-General's positive approach to the role of efficiency audits.

18. The second observation is that the Committee questions the validity and relevance of a number of the case studies cited in the EA Report in support of particular findings. These instances, which subtract from the quality of analysis in the EA Report, are indicated in our discussion of the findings in Appendix 1.

19. Another matter is the problem of quantifying the benefits arising from efficiency audits. We acknowledge that benefits from every finding may not be quantifiable and that in some types of efficiency audits it may not be possible to indicate tangible benefits. Nevertheless, the experiences of the Committee, the Public Service Board and the United States General Accounting Office⁶ support the argument for quantification. The Committee is of the opinion that Audit either overstates its case or is unnecessarily defensive when referring to the difficulties of quantifying benefits. We note other Audit comments, that in some cases it 'could come up with some solid estimates of savings' and that additional work could have shown considerable revenue gains to the Commonwealth from better follow-up on revenue leases.⁷ Our overall impression is that as long as audit analysis does not proceed beyond the problem identification stage it would be difficult for benefits to be quantified.

20. In summary, then, the Committee:

- *commends the broad methodology of the EA Report;*
- *agrees that the main thrust of the Report—that the Department had not developed a systematic approach to domestic property administration and that alternative Central Administration and Regional Office structures as proposed, and other changes, would improve property administration—is sustainable, albeit evidence as to non-effective administration must of necessity be largely indirect or circumstantial;*
- *finds that the dearth of specific recommendations for action, deficiencies in respect of a number of the case studies cited in support of findings, the lack of quantification of the benefits of findings, and inadequacies as to presentation subtract from the quality of the Report.*

Broader Administrative Issues

21. In this section the Committee discusses two of the broader administrative issues raised by Audit, namely, the creation of a statutory authority for the property function (10.7.1) and cost recovery (10.7.2).

Statutory Authority

22. The EA Report states that it can be argued that the creation of a statutory authority with responsibility for the property function could enhance the quality of service 'because of more flexible funding and staffing arrangements than is possible with a department'. The authority, which would have 'a commercial entrepreneurial role', would retain revenue from revenue leases and the disposal of current holdings to be used to meet future needs, 'thus providing some independence from conventional budgetary processes'.

23. The disadvantages that Audit sees are that the property function would have a degree of independence not consonant with the fiscal and policy objectives of the Government and would 'distance the function from the several departments involved'. In addition, staffing flexibilities may be limited and 'could be more than offset by staff increases to cover administrative functions'.

24. The Committee asked Dr R. Wettenhall, Head of the School of Administrative Studies, Canberra College of Advanced Education, to examine a number of comments on the use of the statutory authority concept for property administration. His paper is at Attachment 2. Dr Wettenhall's conclusion is as follows:

'Conclusion

My conclusion is a pessimistic one. As I have indicated, it would be perfectly sensible and feasible for government and parliament to create a statutory corporation to manage the property function, if it were decided as a matter of public policy that this corporation ought to behave in a commercial fashion However, because I do not believe that the willingness to do these things is present, I conclude that it will be better to leave the function in its present location as a part of a central department closely linked with the policy concerns of government and not requiring the comprehensive attribution of client costs or the close identification of costs incurred through imposition of political as against commercial requirements.'

Cost Recovery

25. The EA Report says cost recovery has two primary benefits. The first 'emphasises to both the user and supplier where the responsibility lies'. It 'places the responsibility for property usage on the user department, making it virtually mandatory for AP to supply the accommodation requested by user departments or authorities'. However, this would be contrary to the role given to DAS by the Government.

26. The second primary benefit is that cost recovery 'is designed to encourage cost-consciousness by the user, thus inhibiting unnecessary use of the service'. However, for this benefit to be achieved an external review would be necessary to determine whether usage is cost effective. There is more likelihood of such reviews if DAS has full responsibility for allocating the resources it provides.

27. The discussion of the subject concludes with the statement that 'Audit is of the view that there are no significant benefits from instituting cost recovery from departmental users of property and services provided by DAS.'

28. It would appear that the Audit has here used the term cost recovery in a narrow sense which does not give due weight to the resource allocation implications of the

term. It was agreed in evidence that cost recovery is conceivably one way of rationalising property holdings. Further, the exposure of costs could result in the questioning of whether others can provide the DAS service for less.

29. In evidence Audit explained that it was a management decision not to pursue the matters of the statutory corporation and cost recovery to finality. The Committee believes there are dangers in that procedure. Audit has expressed firm views, albeit the treatment of the subjects is cursory and not definitive. We consider it desirable to place on record, as it became clear in evidence, that Audit does not consider the findings on the statutory corporation concept for the property function, and on cost recovery, to be the definitive views of Audit. However, the weight of the authority of the Audit Office is in effect put against the options of a statutory authority and cost recovery but on the basis of an inadequate and incomplete study of what are major issues.

30. The Committee strongly suggests that the Audit Office keep cost recovery under continuing review in the course of all of its audit work.

31. The Committee was impressed with the analysis of cost recovery by the Canadian Standing Senate Committee on National Finance. One authority quoted in that report put the case for cost recovery succinctly as follows: that there is 'a fundamental need to raise the level of awareness amongst public service managers and politicians regarding the importance of their real property assets, and at the same time to increase the visibility of real property costs in government programs', and cost recovery was one mechanism to attain this.⁸

32. The Canadian Committee quoted evidence which said that after being charged rent for nearly 5 years, United States of America agencies are now exhibiting an increased sensitivity towards the cost of space.⁹ Recovery of costs from departments in Australia, particularly in periods of expenditure restraint, would place pressures on departments to economise in the use of space. The EA Report referred to unused storage space held by the Department of Transport some 4 months after that department had a lease renewed for 3 years.¹⁰ Cost recovery, even in the limited sense of requiring departments to pay rent from their own votes, could reduce significantly the incidence of such wastage. Over and above this, cost recovery could very well be a viable alternative to the resource-consuming property management inspection program which it is implied in the EA Report that DAS should have.

33. As an initial step, the Committee recommends that:

As a means of increasing efficiency in the use of office space, the Government examine the feasibility of removing the rent votes in Appropriation Bill No. 1 from the Department of Administrative Services and including payment of rent as a separate item in each department's vote.

Departmental Response

34. It would appear that in the large the Department has agreed with the Audit view. The administrative structures suggested by Audit are reflected in an upper level reorganisation recently implemented in the Department. This includes the assignment of responsibility for the functions of Audit's proposed Chief of Regional Operations to the First Assistant Secretary, Property Operations Division.

35. There would however appear to be one disagreement of significance with the Audit view namely, over the ambit of the Department's management responsibilities. This disagreement revolves around the interpretation of the Administrative Arrangements Order (AAO). Audit said DAS has responsibility for the management of all

Commonwealth property except that specifically excluded by legislation or Government directive, whereas DAS exercised its property management function only in relation to property occupied by more than one department and property declared surplus to requirements. Because the Department's scope of responsibility would seem to be fundamental to any administrative improvement it would aim to implement, the Committee would have expected more progress to have been made in determining the policy advisory role than seems to have been achieved. However, the matter has been settled by Government decision in the Ministerial statement on the Review of Commonwealth Functions which said that DAS is to assume policy control for all aspects of domestic property.

36. In respect of other aspects of the audit, the Department did in fact claim that many of the administrative difficulties exposed by the audit were already known to the Department, and, in some cases, were in process of being rectified. Be that as it may, the substantive question is the vigour with which the Department has, and is, pursuing measures to rectify these deficiencies. The Department's submissions and replies to the Committee tended to be couched in general terms and conveyed that, by and large, deficiencies were being rectified—albeit there was not a great deal of documented evidence supporting tangible achievement. Whether or not such administrative improvement as has eventuated can be attributed to the audit, has been questioned, but is not the point at issue. Cause and effect in this context is not readily derived. It would appear, however, that the audit played a significant role in resolving disagreement between the Department and the Public Service Board over a reorganisation at senior levels.

37. Given that the Department was, as it has claimed, aware of many of the deficiencies exposed by the audit and its broad acceptance of Audit's approach, the Committee is disappointed at the lack of tangible evidence of vigorous action directed towards administrative improvement. In particular, the Committee would have expected the Department to have accorded a higher priority than it has to rewriting its 'Real Property Manual' and to developing work measurement and other procedures to provide a more effective basis for the allocation of staff.

Follow-Up

38. The implementation of findings in efficiency audit reports is one of the most important parts of the audit process. We discuss three types of follow-up on audit findings. The first is when the audited agency says it has started to implement the finding. The Parliament should be kept informed of progress on such matters. For example, in its responses to the EA Report, DAS states it is taking action on workload indicators. The Parliament should be told of progress in the development of workload indicators. The Committee recommends that:

The Department of Administrative Services (DAS) keep the Parliament informed, by appropriate comments in annual reports, of the progress the Department has made in implementing the following Audit findings—

- *reconciliation of DAS accommodation guidelines with the provisional Code of Practice guidelines*
- *zoning and town planning*
- *standards for cleaning, security and maintenance of properties*
- *workload indicators; and*
- *preparation of the Australian Property Manual.*

39. The second type of follow-up is related to instances where findings are still under consideration at the conclusion of the Committee inquiry and these findings require decisions by Ministers. When such matters are finalised a Ministerial statement should be made as is the general practice with reports from parliamentary committees. The Committee recommends that:

The Government inform the Parliament of decisions made on the compulsory acquisition of property and the need for specific budgetary provisions for historic properties.

40. The third type of follow-up is perhaps the most important. Here we see the need for a procedure which informs the Parliament whether the major problems identified by Audit and accepted and acted upon by the audited agency have been overcome. For example, DAS has agreed with Audit that intra-departmental communications was a major weakness. The Parliament should be advised as to the extent to which the action taken by DAS has helped to resolve this problem.

Review of the Efficiency Audit Function

41. When tabling the Report of Working Party of Officials on Efficiency Audits in the House on 7 November 1977 the then Minister Assisting the Prime Minister in Public Service Matters said, inter alia, that the Government proposed to review the efficiency audit function two years after the passage of the necessary amendments to the Audit Act. The *Audit Amendment Act 1979* was assented to on 7 March 1979.

42. The Committee strongly suggests that this review be deferred until mid 1982. As the then Minister said there is a learning process and tangible benefits should not be expected too quickly.

43. The Ministerial statement also referred to efficiency audits improving the accountability of governments to the Parliament and the people. The process does this. It has the potential of becoming the most comprehensive administrative review mechanism available to Parliament, the prime client of efficiency audits. Given this and acknowledging the traditional links between the Auditor-General and the Parliament, the Committee is of the firm view that the Government review should be referred to a parliamentary committee for inquiry and report before decisions are made on the function.

44. The Committee recommends that:

(a) *The Government defer commencement of the review of the efficiency audit function until mid 1982.*

(b) *The report of the proposed review be referred to a parliamentary committee for inquiry and report prior to decisions being taken on the future of the efficiency audit function.*

Relationship with the Auditor-General

45. Reference was made above to the difficulty experienced by the Committee arising out of its undeveloped relationship with the Auditor-General's Office. In the early stages of the Committee's enquiries there was some hesitancy on the part of the then Auditor-General in becoming publicly involved in disputation with departments and statutory authorities over audit reports. Traditionally, the Audit Office has tended to expose administrative (largely financial) deficiencies and has left it to the Joint Parliamentary Committee on Public Accounts to pursue corrective measures with departments. Efficiency audit reports present the background to the audit, the evaluative framework, the findings and supporting evidence, and suggested improvements. The Auditor-General at the earlier time saw such a report as a complete statement of his position on the audit. However, as the deliberations of this Committee illustrate, including its hearings with the present Auditor-General and his officers, the Audit Office

can be of considerable assistance to parliamentary committees considering efficiency audit reports. As mentioned earlier, the efficiency audit report procedure should develop as the most comprehensive administrative review mechanism available to Parliament.

4 June 1981

STEPHEN LUSHER
Chairman

Endnotes

1. As evidenced in the penultimate paragraph of the Abstract (Report, page x) which the paragraph in the text substantially reproduces.
2. Subsequent to, and as a result of, the audit, staff of the Efficiency Audit Division completed a state of the art survey of work measurement (WM) which was presented to the 1979 Annual Conference of RIPA of 21-22 November 1979. The Department agreed to a pilot test of WM techniques in the property administration area. The project was co-ordinated by a joint Department/PSB/CAGEO/Audit Office steering group.
3. Efficiency Audit Report No. 2, on 'Commonwealth Administration of Nursing Home Programs', has been referred to this Committee but no comment is offered at this stage.
4. Evidence, p. 491
5. Evidence, p. 495
6. Australia, Parliament, *A Year's Experience: Report from the House of Representatives Standing Committee on Expenditure*, Parl. Paper No. 244/1977, p. 3.
7. Evidence pp. 301-303
8. Canada, Parliament, *The Accommodation Program of the Department of Public Works: Report of the Standing Senate Committee on National Finance*, September 1978, p. 20. The Expenditure Committee has substituted the term cost recovery for 'a charge for services basis' used in the actual source.
9. Canadian Senate Committee Report, p. 23.
10. EA Report, p. 49, footnote (1).

APPENDIX 1

Committee Comment on Audit Findings

1. This appendix contains Committee comments on the 40 Audit findings identified by the Committee in the EA report.
2. Analysis of the findings has been made difficult by apparent inadequacies in communication between Audit and other organisations. The National Capital Development Commission (NCDC) said Audit did not set a deadline for the receipt of NCDC comment on paragraph 5.1.5 of the EA report. Audit disputes this statement. The DAS version of a case study relating to inspections prior to leasing is different to that of Audit which is supported by the Department of Housing and Construction (DHC). And finally, there are many differences of opinion between DAS and Audit on particular case studies with DAS maintaining that its views were communicated to Audit at the draft report stage. The Committee assumes these are teething problems which will disappear in future efficiency audit reports.
3. Committee comments on individual findings follow.

LITTLE MEDIUM TO LONG TERM PLANNING

Committee Comment

4. Audit says that DAS' 'capability for long-term planning is dependent on user department's and authorities' perception and expression of needs and on endorsement of the relative priorities of these needs by co-ordinating authorities.' The Committee notes that such planning would require endorsement by Cabinet.
5. While the Committee endorses moves to long-term property planning it recognizes that this cannot result from efforts by DAS alone but would require changes of attitude and policy in respect of forward estimates.

Sources:

1. EA Report, paragraphs 5.1.3 and 10.1.
2. Evidence, pp. 19, 20, 40-47, 424.
3. Expenditure Committee Report, Parliament and Public Expenditure, Parl. Paper No. 66/1969, pp. 13, 14.
4. House of Representatives Hansard, 4 March 1980, p. 583

REGIONAL OFFICE PLANNING EXERCISES PROJECTED SIGNIFICANT SAVINGS BUT NOT FOLLOWED THROUGH BY CENTRAL OFFICE

Committee Comment

6. The report says that 'Some planning exercises conducted by Regional Offices have projected significant savings but had not been followed through by Central Office.'

Audit says the NSW Regional Office planning report was given to Central Office in August 1978 yet it was not until August 1979 that an accommodation strategy was submitted to the Minister. Paragraph 5.1.3 also highlights the results of the Sydney planning study—e.g. annual savings of \$4 million, termination of 18 leases, \$50 million to develop site.

7. We find it difficult to reconcile the implicit criticism of slow follow-up of the New South Wales study with what Audit acknowledges as one of the major aims of such planning exercises; namely to assist in the setting of priorities for new office accommodation throughout Australia in a tight budgetary situation.

8. Had Audit used discounted cash flow analysis to work out whether it would have been more economical to continue leasing rather than build on the Commonwealth owned site it may have questioned the projected savings and this, in turn, may have led Audit to question the need for follow-up on this aspect of the planning study.

Sources:

1. EA Report, paragraphs 5.1.3 and 10.1.
2. Evidence, pp. 10, 47-52, 125, 127, 128, 425-429.

USER NEEDS AND BUILDING USAGE

Committee Comment

9. Audit says there is a need for DAS to comprehend more fully user needs and to incorporate them into property specifications in order to achieve the most economic trade-off between operating and procurement costs. It appears that the basis for the finding is developed in paragraph 5.1.4 of the report where Audit argues the need for DAS to have, in its Central Office, technical expertise seconded from the Department of Housing and Construction. Audit uses four case studies to support the finding. In the opinion of the Committee these case studies do not support the argument for DAS to have technical expertise in its Central Office.

10. The Audit report also says that DAS does not monitor building usage against specifications. Audit compares the costs of the Cameron Office complex with the Edmund Barton building and there is the implied suggestion that there has been a \$20 million waste in the construction of the former building.

11. The Committee is of the opinion that the audit criticism in this instance is misplaced because of an inapposite use of accommodation guidelines which results in like not being compared with like.

12. Audit has said that case studies are used to illustrate a point and not as a basis for that point. We accept this. However, when the case studies do not support the point the Committee must question the validity of the finding. The reorganisation proposals that have been accepted by the Public Service Board provide for a technical unit in DAS.

Sources:

1. EA Report, paragraphs 5.1.4, 5.1.5 and 10.1.
2. Evidence, pp. 21, 84, 85, 94-102, 105-109, 129, 130-136, 275-277, 321, 322, 429-439.

DAS OFFICE ACCOMMODATION GUIDELINES IN CONFLICT WITH PROVISIONAL CODE OF PRACTICE

Committee Comment

13. The conflict was caused by modifications to the guidelines and the absence of consequential amendments to the code. The Department of Science and Technology is to amend the code as a matter of priority. DAS says this will produce a complete reconciliation between the guidelines and the code.

14. Progress on this matter should be reported in the DAS annual report.

Sources:

1. EA Report, paragraphs 5.1.6 and 10.1.
2. Evidence, pp. 62, 63, 136-138, 440.

DAS EXPERIENCES DIFFICULTY IN APPLYING GUIDELINES MAINLY BECAUSE OF INFLEXIBILITY WITH REGARD TO BOTH BUILDING AND NATURE OF OCCUPATION

Committee Comment

15. The actionable part of this finding is contained in paragraph 5.1.7. Audit goes on to suggest that for efficient use of office space there should be specific guidelines for common use areas (e.g. offices, registries) and flexible guidelines for other areas such as public access.

16. DAS has taken action along the lines suggested by Audit.

Sources:

1. EA Report, paragraphs 10.1 and 5.1.7.
2. Evidence, pp. 21, 137-149, 440.

RATIONALIZATION

Committee Comment

17. Much of the thrust of the four Audit findings and the Committee's preliminary views on alternatives to incentives for users to rationalize property holdings has been adopted in the Government's Review of Commonwealth Functions.

18. The Government has decided that there is to be a rigorous review of all land and property holdings held by Federal Government departments and authorities.

Sources:

1. EA Report, paragraphs 5.2, 5.2.1 and 10.1.
2. Evidence, pp. 22-24, 66-71, 149-154, 441-443.
3. House of Representatives Hansard, 30 April 1981, p. 1841.
4. Minister for Administrative Services, press release, 1 May 1981

REVENUE LEASING IS LARGELY UNPLANNED AND POORLY ADMINISTERED, RESULTING IN REVENUE FOREGONE

Committee Comment

19. Audit says that in the majority of cases revenue leasing is not planned and can result from an approach from the public or users to DAS. The departmental response is that it is dependent on these sources and its review processes to identify properties that are available for revenue leasing.

20. Audit also says that revenue leasing is poorly administered and this includes the criticism that compliance inspections are infrequent and that the lack of inspections can result in revenue foregone or increased expenditure to the Commonwealth. The conclusion of revenue foregone is supported by three case studies. The Committee is of the opinion that the case studies support the need for more effective inspections.

21. DAS had approached the Board to get more resources for checking revenue leases—to see whether the revenue being obtained was appropriate. The Committee must question the appropriateness of increasing the staff of DAS to check revenue leases. An alternative to staff increases is to hire persons with sufficient knowledge of the market on a consultancy basis if the objective is to maximise revenue from leases.

Sources:

1. EA Report, paragraphs 5.3, 5.3.1, 5.3.2, 5.3.3 and 10.1.
2. Evidence, pp. 24, 25, 71-74, 155-160, 443.

PROJECT APPROACH FOR EXPENDITURE ON PROPERTY

Committee Comment

22. By contrast with some of our earlier comments this finding formulates the problem and offers a solution. The Committee agrees with the finding and believes that DAS has satisfied us that it proposes to adopt the project approach suggested by Audit.

Sources:

1. EA Report, paragraphs 6.1 and 10.2.
2. Evidence, pp. 25, 161-171, 443

ROLLING FUND ARRANGEMENT FOR PROPERTY ACQUISITION

Committee Comment

23. Audit says there are delays and cost increases in the acquisition of domestic property which arise out of the current budgetary process. As a means of overcoming these problems Audit has suggested the adoption of a 3-5 year rolling fund arrangement. Such a proposal was recommended for overseas property by the Joint Committee of Public Accounts (PAC).

24. In responding to this PAC recommendation the Government said it was considering the development of a long term program of overseas property acquisition. Although long term property acquisition programs will lead to more economical use of resources in the long term, in the shorter term additional outlays would be required. These outlays would compete at the margin with alternative uses for such funds. Priority setting, like the rest of the budgetary process, is essentially a political activity.

Sources:

1. EA Report, paragraphs 6.2.1 and 10.2.
2. Evidence, pp. 25, 26, 171 and 424.
3. Report from the Joint Committee of Public Accounts, 'Overseas Property Services' Parliamentary Paper No. 339/1978, pp. 4, 5.
4. Government response to the above report, presented to the House of Representatives on 18 September 1980.

EVALUATION OF SINGLE LINE APPROPRIATION FOR CIVIL ACQUISITIONS

Committee Comment

25. In making its decision on this matter the Government should give consideration to the requirements for normal parliamentary scrutiny.

Sources:

1. EA Report, paragraph 6.2.1.
2. Evidence, pp. 26, 171, 444.

TOTAL RESPONSIBILITY FOR CIVIL RENT APPROPRIATION SHOULD REST WITH THE PROPERTY DIVISION OF DAS

Committee Comment

26. This internal matter between the Management Services Division and the Property Division of DAS has been finalised. The Property Division expects to take over the function from 1 July 1981.

Sources:

1. EA Report, paragraph 6.2.2.
2. Evidence, pp. 26, 172, 444.

DISPOSAL IS ACCORDED A LOWER PRIORITY THAN PROCUREMENT

Committee Comment

27. The finding appears to rest heavily on Table 6.3 at page 35 of the EA Report. The table shows wide differences between the budgeted and achieved figures for revenue from disposal. The table does not conclusively support the finding because there are

many possible reasons for differences between budgeted and achieved figures—e.g. inaccurate estimating, changes in requirements and delays in negotiations.

28. In evidence Audit indicated that the table represented a prima facie case of deficiencies in administration. The Committee is of the opinion that the finding should have been supported by additional analysis.

29. The Committee was informed that there was insufficient incentives for the disposal of property. We note the directive given by the Government in the Ministerial statement on the Review of Commonwealth Functions. Directives of this kind could resolve the problem.

Sources:

1. EA Report, paragraphs 6.3.1 and 10.3.
2. Evidence, pp. 26, 172, 322-325, 444-447.
3. House of Representatives Hansard, 30 April 1981, p. 1841.

VALUATIONS

Committee Comment

30. The Committee would like to see DAS and the Taxation Office discuss how, in respect of valuations, greater flexibility and timely resolution of negotiations can be achieved.

Sources:

1. EA Report, paragraphs 7.1, 7.1.1, 7.1.2, 7.1.3 and 10.3.1.
2. Evidence, pp. 27, 79-83, 448.

PROCUREMENT INSPECTIONS

Committee Comment

31. The first finding on procurement states that DAS does not always request the Department of Housing and Construction (DHC) to inspect properties being acquired. The Committee accepts the DAS explanation that it is sometimes not practical or necessary for DHC to carry out inspections.

32. The evidence given by DAS on the example cited to support the second finding, that sometimes requests for inspections are made too late to be effective in the negotiation process, is challenged by Audit and DHC. The Committee sees the question at issue as being whether DAS should examine its procedures to ensure that, where appropriate, inspections form part of the decision making process.

Sources:

1. EA Report, paragraphs 7.2 and 10.3.2
2. Evidence, pp. 28, 173-182, 448.

SUBMISSIONS FOR APPROVAL

Committee Comment

33. The first Audit finding is that inadequate evaluation and late submissions may inhibit sound decisions by the Minister and delegates under the *Lands Acquisition Act* 1955. DAS has agreed that submissions to Ministers should be soundly based and made in time.

34. The second finding is that DAS does not effectively monitor compliance with undertakings in submissions. The example cited to support the finding is of Telecom in Sydney. When questioned by the Committee DAS said it was forced to accept underutilization by Telecom because this was caused in major part by industrial difficulties between Telecom and the unions. Audit says it was not informed of the industrial difficulties.

35. When questioned on the generality of the finding the DAS response was that DAS was not aware of shortcomings, that its authority is limited in respect of statutory authorities and that the case study does not necessarily support the finding. We suggest that if Audit had been told of the industrial difficulties Audit may well have given other examples. The Committee proposes that Audit give DAS these examples and report the action DAS proposes to take in an annual report of the Auditor-General.

Sources:

1. EA Report, paragraphs 7.3.3 and 10.3
2. Evidence, pp. 28, 29, 183-189, 403-409, 448, 449.

RELATIONSHIP WITH USERS

Committee Comment

37. The first Audit finding in this group is that lease conditions disadvantageous to the Commonwealth have been negotiated because of inadequate information on user requirements and planning. The first sentence of paragraph 7.4.1 says that lease conditions should be consistent with user needs; and that inadequate consultations with the user prior to the negotiating stage can lead to forced renegotiation under less favourable conditions for the Commonwealth. Two examples are cited to support the sentence. The Committee is of the opinion that neither example is entirely apposite to the finding.

38. The second finding in this group is that users are not made aware of lease conditions and can unknowingly breach the lease. DAS says it is attempting to make users aware of lease conditions by giving users a general summary of the conditions of the lease. The Committee infers from this that DAS is correcting the deficiency Audit has noted.

39. The third finding in this group is that actions by users in property dealings compromise DAS' ability to perform its function. Since there are mechanisms to deal with this problem, e.g. interdepartmental contact at senior levels, the Audit analysis could have been carried a stage further—to assess how well these mechanisms are working and how they could be improved.

Sources:

1. EA Report, paragraphs 7.4, 7.4.1, 7.4.2 and 10.3.4
2. Evidence, pp. 29, 30, 194-200, 449-451

COMPULSORY ACQUISITION OF PROPERTY

Committee Comment

40. DAS says the finding is a matter for consideration by the Government which is waiting for a report from the Law Reform Commission on Land Acquisition and Compensation. The Committee asks the Government to inform the Parliament of the final outcome.

Sources:

1. EA Report, paragraphs 7.5, 10.3.5
2. Evidence, p. 30.

DISPOSAL, RELATED TO (A) REVENUE LEASING; AND (B) PROPERTIES WITH HERITAGE SIGNIFICANCE

Committee Comment

41. Audit states that prior arrangements of long-term revenue leases can affect property values and the opportunity for disposal. As a result, revenue on disposal may be reduced. Two case studies are used to support the finding.

42. DAS says the granting of the leases referred to in the case studies reflected policy decisions of the government of the day. This type of response does present the Committee with a difficulty because of problems of verification and assessment of the quality of advice given to governments.

43. The report also says there is evidence that stringent conditions attaching to properties with heritage significance considerably hamper their disposal. In evidence Audit said it did not criticise the heritage commission arrangements and that its comments were in the nature of observations. Given this statement, the Committee is of the opinion that the preservation of properties with heritage significance is a public sector obligation (a PSO) which various organisations are required to fulfill. This comment raises the more general question of whether commercial statutory authorities should be compensated for being required to undertake such non-commercial activities.

Sources:

1. EA Report, paragraphs 7.7.2, 7.7.3 and 10.3.6.
2. Evidence, pp. 30, 31, 203-205, 454, 455.

EXTENT OF DAS' RESPONSIBILITY AND AUTHORITY ON THE PROPERTY FUNCTION

Committee Comment

44. The EA report referred to differences of opinion between DAS and Audit on the extent of DAS' responsibilities and suggested that the 'Department seek legal advice and if necessary put a comprehensive submission to the Government to clarify and quantify the responsibility for the full property function'.

45. This is a major Audit finding. The advice DAS received from the Department of Prime Minister and Cabinet incorporated the views of that department, the Public Service Board, the Parliamentary Draftsman and the Attorney-General's Department. Briefly, the advice said that the Administrative Arrangements Order (AAO) should not be used as a standard against which departmental efficiency can be assessed (the Board), that the AAO is primarily a constitutional and legal document and is not intended to fix the precise limits *inter se* of the functions of departments for administrative purposes (parliamentary draftsman 1965 advice) and that disputes over delineation of functions should be settled by governments (Board, P.M. & C.).

46. The Ministerial statement on the Review of Commonwealth Functions said that DAS is to assume policy control for all aspects of domestic property.

Sources:

1. EA Report, paragraphs 2.3, 8.1.
2. Evidence, pp. 17, 18, 189-193, 456.
3. House of Representatives Hansard, 30 April 1981, p. 1841.

INADEQUATE PROGRAM OF PROPERTY INSPECTIONS

Committee Comment

47. DAS says it agrees with the Audit finding on the need for systematic inspections of property and that it is developing a co-ordinated program of inspections for property acquisition, management and so forth.

Sources:

1. EA Report, paragraphs 8.3.1 and 10.4.1.
2. Evidence, pp. 31, 205-214, 456.

ZONING AND TOWN PLANNING

Committee Comment

48. The first Audit finding is that DAS 'does not meet its responsibility in zoning and town planning matters in that it is not in a position to identify all situations in which Commonwealth property is affected by such matters'. In evidence Audit pointed to the large costs of relocating Commonwealth installations if zoning and town planning changes were not monitored adequately.

49. DAS has agreed with the thrust of the finding and is in the process of developing a system which would require local councils to inform DAS of zoning and town planning

changes that affect nominated Commonwealth properties. The Committee is of the opinion that the Department should keep the Parliament informed of developments in this policy and similar matters in the Department's annual report.

50. The second Audit finding is that there are instances where changes are being made in zoning conditions with little or no reaction from DAS, leading to the possibility of material cost penalties to the Commonwealth. The case study does not support the finding and the other examples at page 51 of the EA report show general effects or possible effects of changes in land use and the circumstances relating to Commonwealth use of a facility.

Sources:

1. EA Report, paragraphs 8.4 and 10.4.2.
2. Evidence, pp. 32, 33, 214-218, 456-460.

NO SPECIFIC PROVISION IN APPROPRIATION BILLS FOR WORKS ON PROPERTIES ON THE REGISTER OF THE NATIONAL ESTATE

Committee Comment

51. Specific budgetary provision for historic properties was recommended by the House of Representatives Standing Committee on Environment and Conservation in its report, *Environmental Protection, Adequacy of Legislative and Administrative Arrangements, First Report*. The Government has yet to respond to the recommendation in this report.

Sources:

1. EA Report, paragraphs 8.5 and 10.4.3.
2. Evidence, pp. 33, 34

ORGANISATIONS SHOULD LIAISE TO ACHIEVE GREATEST POSSIBLE CONSISTENCY ON STANDARDS FOR CLEANING, SECURITY AND MAINTENANCE

Committee Comment

52. DAS says that cleaning practices used in Canberra are being implemented progressively in the Regional Offices, that DAS is liaising with the Australian Security and Intelligence Organisation (ASIO) to ensure that security standards developed by ASIO are applied to new buildings and that instructions for the application of standards of fire protection and safety are being prepared for inclusion in the Finance Directions. These are matters on which the Parliament should be kept informed by comments in DAS' annual report.

Sources:

1. EA Report, paragraphs 8.7.1, 8.7.2, 8.7.3 and 10.4.4.
2. Evidence, pp. 34, 218, 219.

LACK OF ADEQUATE COMMUNICATIONS A MAJOR WEAKNESS

Committee Comment

53. The EA Report stated the departmental viewpoint, that until reorganisation and establishment proposals had been finalised with the Public Service Board, there was little point in DAS working on distribution of functions.

54. DAS has agreed with the finding and told the Committee of the actions taken to improve communications between the Central Office and the Regional Offices — meetings, staff rotation schemes and quicker responses to correspondence from the Regional Offices. The Committee is of the opinion that this major finding should be followed up to ascertain whether the problems associated with it have been removed.

Sources:

1. EA Report, paragraphs 9.1 and 10.5.
2. Evidence, pp. 34, 35, 227, 228, 461.

EFFECT OF THE ABSENCE OF MEANINGFUL WORKLOAD INDICATORS

Committee Comment

55. After the conclusion of the Committee's hearings DAS said it was aware of the shortcomings of workload statistics provided to Audit. The Department added that the task of developing work measurement techniques was listed for later this year but that full application has to be preceded by the development and implementation of uniform procedures. This is another matter on which the Parliament should be kept informed by comments in DAS' annual report.

Sources:

1. EA Report, paragraphs 9.3 and 10.5.
2. Evidence, pp. 35, 219-223, 463-465.

THE ABSENCE OF AN ADEQUATE MANAGEMENT INFORMATION SYSTEM HINDERS FULL AND EFFECTIVE DISCHARGE OF THE PLANNING AND RATIONALISATION FUNCTIONS

Committee Comment

56. DAS says that its property information system is virtually computerised and that it is developing ADP-based and other systems to assist operations and management.

Sources:

1. EA Report, paragraphs 9.4, 9.4.2 and 10.5.
2. Evidence, pp. 35, 36, 223, 224.

LACK OF UP-TO-DATE PROCEDURES AND MANUALS AFFECTS EFFICIENCY

Committee Comment

57. DAS say that early compilation of the Australian Property Manual has a high priority. This is yet another matter on which the Parliament should be kept informed by comments in DAS' annual report.

Sources:

1. EA Report, paragraphs 9.4.1 and 10.5
2. Evidence, pp. 35, 223

SUGGESTED ADMINISTRATIVE STRUCTURES

Committee Comment

58. The Committee was supplied with information on the new organisational structures approved by the Board after the conclusion of our hearings with DAS and Audit. The Board has approved the establishment of a Property Directorate to administer the property function. The new structure for the Central Office is quite different to the structure that existed at the time of the audit. While the new structure is somewhat different to what Audit proposed, it appears that Audit comments have been taken into consideration and that the new organisation represents an attempt to meet the underlying Audit criticisms.

59. At the time of the audit the Regional Offices did not have a uniform structure. Since the audit, DAS has acted to obtain a new structure described at paragraph 9.2 of the EA Report, and it is this structure that has been approved. It appears to the Committee that the audit triggered this work.

60. One of the major weaknesses the audit identified was inadequate communications between central administration and the regions. The First Assistant Secretary, Property Operations, is in effect responsible for the functions of the Chief of Regional Operations as suggested by Audit, and other steps have been taken to give effect to Audit's conclusions in this respect.

Sources:

1. EA Report, paragraphs 9.2, 10.6, figures 10.1, 10.2 and Appendix 4
2. Evidence, pp. 36, 226-228.

STAFFING

Committee Comment

61. Discussed in Chapter 1.

Sources:

1. EA Report, paragraph 10.6.1.
2. Evidence, pp. 36, 233, 234.

NEED FOR A STATUTORY AUTHORITY

Committee Comment

62. Discussed in Chapter 1.

Sources:

1. EA Report, Paragraph 10.7.1.
2. Evidence, pp. 37, 228-230, 326-331, 466, 467

COST RECOVERY

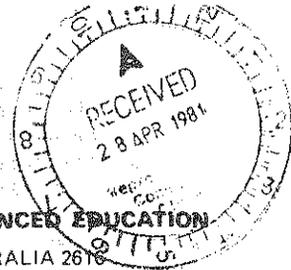
Committee Comment

63. Discussed in Chapter 1.

Sources:

1. EA Report, paragraph 10.7.2.
2. Evidence, pp. 37, 230-232, 331-342, 466-470

APPENDIX 2



SCHOOL OF ADMINISTRATIVE STUDIES **CANBERRA COLLEGE OF ADVANCED EDUCATION**

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27 April 1981

Mr M E Aldons
Clerk to the Committee
Standing Committee on Expenditure
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Mr Aldons

A STATUTORY AUTHORITY FOR THE COMMONWEALTH GOVERNMENT'S PROPERTY FUNCTION?

I refer to your letter dated 13 March and to our subsequent telephone discussion. I understand that it will be sufficient for your purposes for me to offer some brief comments on the suggestion that a statutory authority might be created to administer the lands and properties of the Commonwealth Government.

I found it necessary to summarise the exchanges that had already taken place on this matter so that I could understand the immediate background and avoid engaging in mere repetition in my own comments to the Committee. This summary is attached as an Appendix in the hope that the recapitulation may be of some value to members of the Committee, although I am well aware that it will be familiar ground for those who have been most concerned.

At the outset, I want to endorse what Mr J C M Jones told the Committee on 6 March. I have been a student of the statutory corporation/statutory authority for over twenty years, and I have found that this exchange of views has followed entirely familiar and predictable lines - which suggests to me that it reflects pretty universal "truths" of the sort on which Mr Jones was basing his evidence. Indeed, without intending any disrespect whatever to the participants, it is not too much to say that the exchange reflects a classic role-play which has taken place countless times before in public administration and will be repeated countless times in the future. It is virtually inevitable that those who have been used to the freer, more entrepreneurial conditions of private enterprise and/or the largely self-employed professions will chafe at the standardising controls imposed by the central ministerial-public service system within public administration and often see the grass as greener on the statutory authority side; and that those who have worked within that central system will see the benefits it conveys and resist proposals for deviant treatment of particular functions.

I make one other introductory point. The arguments about use of the statutory authority form for the property function are, in my view, closely related to those about cost recovery. I assume therefore, that it is not insignificant that the section in the report dealing with the statutory authority question is followed immediately by one dealing with cost recovery - even though the connections are not explicitly stated in the report. This is taken up below.

My further comments are arranged under three headings, viz:

General feasibility
 Conditions for a successful property management corporation
 Conclusion.

General feasibility

It is entirely feasible and sensible to consider the proposition that management of the property function should be vested in a statutory corporation.¹ In my consultant's report to the Royal Commission on Australian Government Administration, I attempted to group the arguments used to justify statutory authorities generally,² and it is immediately apparent that several of those arguments are (or could be) relevant:

1. Departmental (ie ministerial/public service) administration is, because of its insistence on standardising controls and its discouragement of commercial flexibility, inadequate for the operation of public business undertakings. (Query: do we want property management to be regarded as a business undertaking?)
2. Long German-Swedish theory and/or practice teaches that all the executive functions of government should be "hived off" from the central departments, leaving them free to concentrate on the broad issues of policy development.
3. There is related Anglo-Saxon argument that the statutory corporation has value as a device for freeing ministers and departments from involvement in purely operational matters, and is useful where it is possible to identify "single, coherent and normally relatively separable functions".³

¹ Wherever possible I use the term statutory corporation. In the first place, it is clear that any such authority would need to be legally incorporated, thus coming within the statutory corporation group. In the second place, modern Australian governments and parliaments have in practice so blurred the broad statutory authority concept that it is difficult to base any firm argument on that concept. As I shall indicate, this is one of my reasons for fearing that the proposed corporation could never work properly in the Australian context.

² "Report on Statutory Authorities", in RCAGA, Appendix - Volume One, Canberra, AGPS, 1976, pp. 319-321.

³ I am indebted to Mr P H Bailey, then a Commissioner of RCAGA, for this formulation.

4. There is a need to ensure (in property dealings as well as in tax collections or electoral administration?) that decisions affecting particular clients and claimants (and sellers and purchasers?) are made entirely independently of partisan-political considerations.
5. The "putting the activity where the talent is" argument suggests strongly that the statutory corporation allows the devising of more appropriate methods of recruiting specialist staff for particular activities than the traditional system will allow.

Creation of a statutory corporation carries with it the requirement that the organisation will be allowed to behave differently from the traditional ministerial/public service department. Unless this requirement is respected, few of the intended benefits are likely to be realised; and unfortunately the history of Australian public administration is littered with cases where authorities are created but then treated by governments and parliaments as if they are departments or parts of departments. The main beneficiary then is the cause of confusion, which does not promote efficiency in the administrative system as a whole. The States are particularly prone to do this, but the Commonwealth is by no means immune from such criticism. Numerous analysts of administrative organisation and procedure have concluded that such confusions have led us to achieve only the worst of both possible worlds of the statutory corporation and the department. And so it is preferable, in the view of many people, to retain clear departmental organisation, with its continuing "sensitivity" to the policy requirements of government and supervision by central regulating mechanisms, such as (for staffing) Public Service Board and (for budgetary matters) Department of Finance.

Of course, some functions are so clearly candidates for non-departmental organisation that their special character is, by and large, respected, and the benefits of the statutory corporation form then flow as expected. But where there is argument and uncertainty, this is unlikely to be the case: I agree generally with those who think it is better in such circumstances to stay with the ministerial/departmental public service.

Having said that, I want now to state that I believe it would be perfectly feasible, in respect of the property function, for a policy decision to be made that it is to be handled as a public business undertaking, and for a form of organisation to be devised which would maximise benefits from that mode of operation. Speed and flexibility in property dealings should follow: by responding quickly to market forces, indeed by anticipating market shifts, there could be significant financial savings, and a specialist staff group could be developed to focus attention on this important area of public administration in a way that is not possible when the function is handled as just one of a number of functions of a central department. In the next section I try to spell out what I regard as the necessary conditions for such a mode of operation.

Conditions for a successful property management corporation

A government taking such a policy decision should legislate for the creation of a body corporate to comprise a fixed number of members to be appointed as specified in the Act. There has over the years been considerable debate about desirable numbers, terms and methods of appointment of such members, about whether they are "policy" or "executive" members, about their relationship with the management of the corporation and so on - but I do

not think it is necessary for me to enter this debate here, for there are a number of appropriate models in Commonwealth administration.

What will be more difficult will be to gain agreement on prescriptions about the relationship of the corporation to government, the supervising minister and the central controlling authorities of the administrative system at large. Since the case for moving in this direction rests on the argument that such a corporation should operate commercially and entrepreneurially, the relationship with government will need to resemble that formally operating for other commercial corporations. Indeed, as there will inevitably be occasions when policy priorities of the government will conflict with the corporation's own legitimate property management interests, the relevant matters will need to be made especially clear in this case. Thus the statute creating the corporation will need to:

- (i) direct the corporation to pursue its own objectives - defined in commercially acceptable terms - as it thinks best in the public interest; and in particular to follow a full cost-recovery program, by charging all its "client" departments and authorities fees for its services which are sufficient to cover its costs;
- (ii) provide that the corporation is subject to ministerial directives in writing (but not otherwise) where its own legitimate interests are shown to be inconsistent with particular government policies;
- (iii) offer the corporation the protection of a "recoup" or "revenue foregone" provision whereby the government is required as a matter of law to compensate it financially for losses incurred in its operations by virtue of such political directives;
- (iv) direct that all ministerial directives be tabled in parliament within say fourteen sitting days, and also that the corporation record and comment on such directives in its annual reports to parliament;
- (v) direct that the corporation will maintain its own commercial accounts separate from the Consolidated Revenue Fund, and subject to appropriate commercial auditing procedures;
- (vi) direct that the staff of the corporation be constituted as a separate "service" (ie parallel to but in no sense part of the public service), allowing the fixing of staff recruitment, promotion, etc policies specially designed to meet the needs of the corporation;
- (vii) require the corporation to present to parliament (not to the minister: sometimes one encounters confusion even on this point) a full account of its operations each financial year, and not later than a stipulated time after the close of the year.

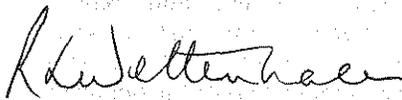
I would want to add another condition, but it is, unfortunately, not one that can be built into legislation. This is that members of parliament, having passed such legislation to create the corporation, should be prepared when necessary to defend it against the predatory activities of executive government. Since we are a democratic society, it is essential that our elected governments should have ultimate power to determine courses of action taken by all public authorities (hence item (ii) above). But, for

so long as we go on creating statutory corporations, it is also vital that they be safeguarded against political actions which are damaging to their legitimate interests. Recoup provisions of the kind envisaged in item (iii) above have been known in Australian public administration at least since 1896;⁴ but what mainly stands out in the history of these provisions is the frequent failure of governments to observe them and the equally frequent failure of MPs to bring those governments to account for such breaches of the law. Of course it is always easy to say that the problems of measurement are too great: how can we know what is the precisely economical charge for a corporation to set? or how can we isolate losses of revenue attributable to a particular government directive from other cost movements? If the will is not there to make the provisions work, such caveats carry the day and the legitimate interests of the corporation suffer. I am not convinced that it is impossible to allocate costs, etc with sufficient precision to make such schemes work: my point is rather the very simple one that, unless the positive will is there, it is better not to establish a corporation at all.

Conclusion

My conclusion is a pessimistic one. As I have indicated, it would be perfectly sensible and feasible for government and parliament to create a statutory corporation to manage the property function, if it were decided as a matter of public policy that this corporation ought to behave in a commercial fashion. This would require a package of legislative provisions clearly establishing the separate identity of the corporation with its own legitimate interests, and the willingness of all concerned thereafter to respect those interests subject to the usual reporting and audit checks. The ministerial directive power together with the recoup provision would provide the essential basis of the relationship with government. However, because I do not believe that the willingness to do these things is present, I conclude that it will be better to leave the function in its present location as a part of a central department closely linked with the policy concerns of government and not requiring the comprehensive attribution of client costs or the close identification of costs incurred through imposition of political as against commercial requirements.

Yours sincerely



DR R L WETTENHALL
HEAD OF SCHOOL

⁴ See my article "The Recoup Concept in Public Enterprise", Public Administration (London), 44(4), Winter 1966, pp. 391-413.

APPENDIX: HISTORY OF THE PROPOSAL

It seems that the idea that the Commonwealth Government's property function might be vested in a statutory authority was first formalised by Mr John Wollaston, Director of Commonwealth Property in the Department of Administrative Services. In evidence given before the Committee on 18 February 1981,¹ Mr Wollaston showed how:

as a result of frustration in trying to staff the [properties] organisation and also trying to fund projects in the organisation

within the Department of Administrative Services within the Commonwealth Public Service, he had come to give personal consideration to the possibility of moving to the statutory authority form of organisation. Such an authority would, he suggested:

as an independent body, ... have the flexibility to handle its own staffing within the organisation and to re-allocate the resources as we needed them. We wanted, or I wanted, to have the flexibility in funding to come to a point where we could take opportunities which would not otherwise be available to us. In other words, if we had funds from the disposal of a property and if our priorities indicated that we should acquire another property elsewhere, we would have the flexibility as a normal authority to handle those funds and to do the best thing possible within the total structure.

Mr Wollaston indicated further that the idea was "discussed in broad principle" with the audit officers undertaking the efficiency audit of Australian Government Property Functions, "but not brought forward as a proposal".² In other words, it was raised for discussion as one possible option in a consideration of ways to improve the management of the property function, but there was no definite commitment to it. Clearly the audit officers believed the idea was worth considering, although in the end they did not give it much support. As the author of the particular section of the final report confirmed in response to a question by a Committee member, it was thought worthwhile "to float the idea".³

This report briefly canvasses the pros and cons. Argument for the proposal is summarised in these words:

... the creation of a statutory authority charged with the responsibility for the property function could materially enhance the quality of service provided, because of more

¹ House of Representatives, Standing Committee on Expenditure, Sub-Committee on Efficiency Audit, Official Hansard Report (uncorrected): 18 February 1981, p. 228.

² Ibid., p. 229.

³ As in note 1: 6 March 1981, p. 331.

flexible funding and staffing arrangements than is possible with a department. In its ultimate form the suggestion indicates a property development authority with a commercial entrepreneurial role developing, managing and trading in government property. An integral part of the suggestion depends on the retention of revenue from revenue leases and the disposal of current holdings. The revenue would be used to meet future needs, thus providing some independence from conventional budgetary procedures.⁴

The contrary argument is summarised thus:

Such a proposal ... could accord the property function a degree of independence not consonant with the fiscal and policy objectives of the Government ... the Commonwealth property function is not a commercial operation in the sense that other trading authorities are. It is responsible for providing a service to government departments and authorities. Such service demands, in a number of cases, policy consideration and involvement with several levels of government. A change to a statutory authority would distance the function from the several departments involved.

A final argument is that the:

flexibility gained in the staffing of a statutory authority may be limited and could be more than offset by staff increases to cover administrative functions.

The arguments against creation of a statutory authority received further support in the Committee hearings. Mr H B MacDonald, Deputy Secretary of the Department of Administrative Services, told the Committee that he "generally favour[ed] the departmental framework for the performance of government functions unless a good reason can be shown why separate existence is really necessary", that he was "yet to be convinced that there are reasons in this field which would require a statutory authority", and that there are "all sorts of good reasons such as the containment of costs, relationships within the Department, the use of other resources within the Department and so on which often tend to argue against a statutory authority". Further:

in our situation it is best to tie it in with a general departmental structure where it is amenable to government direction and where its costs can be contained within a

⁴ Report of the Auditor-General on an Efficiency Audit: Department of Administrative Services Australian Property Functions, Canberra, AGPS, 1980, p. 66.

⁵ Ibid., pp. 66-67.

normal departmental framework. The provision of general services and so on often becomes quite difficult for independent bodies. They all want to set up their own thing.⁶

To complete this history: Mr J C M Jones, First Assistant Auditor-General, told the Committee that the matter was raised in the report to alert the Committee to what was seen as a relevant "policy question which the Government may wish to address". However, it was not pushed harder in the report because it was believed that the case was not very strong - "because the allocation of resources in the property area must be very closely linked to government policy objectives and priorities". Here the case of the "recent high priority placed by the Department of Administrative Services in the acquisition of sites for Commonwealth Employment Service offices" was given: the department had "a sensitivity to those policy priorities" which might well be lacking if the function were vested in a very cost-conscious statutory authority. Asked whether he had "done much research into the pros and cons of the statutory authority concept", Mr Jones replied that he thought the ideas he was putting up:

are generally known to people involved in questions of this type. I do not think I am exposing anything that is new or not known. It is general background knowledge relating to the pros and cons of a statutory authority and a department.⁷

⁶ As in note 1: 18 February 1981, pp. 229-230.

⁷ As in note 1: 6 March 1981, pp. 327-334.

APPENDIX 3

Conduct of the Inquiry, Witnesses and Evidence

Background

When tabling the Report of the Working Party of Officials on Efficiency Audits in the House on 7 November 1977 the then Minister Assisting the Prime Minister in Public Service Matters said that the chairmen of both the House of Representatives Expenditure Committee and the Joint Committee of Public Accounts had indicated that these committees would wish to examine the efficiency audit reports of the Auditor-General. The chairmen would maintain the closest liaison to avoid duplication. The Minister added that the Government would give this procedure a trial.

The procedures adopted by the two committee chairmen are as follows. Before an efficiency audit report is presented in the Parliament the Auditor-General gives the Presiding Officers a confidential abstract of that report. That abstract is sent to the two committee chairmen who jointly advise the Leader of the House as to which committee is to examine that report. Such advice allows the preparation of a motion referring the audit report to the committee nominated by the chairmen soon after the report is presented in the Parliament.

Conduct of the Inquiry

On 17 April 1980 the House referred the EA Report to the Committee for inquiry and report. A sub-committee consisting of Mr J.J. Brown (Chairman), the Hon K.M. Cairns, Dr H.R. Edwards, Mr S.A. Lusher and Mr L.B. McLeay was appointed to examine the EA Report. The sub-committee took evidence from DAS on 26 August 1980 but was unable to complete its inquiries before the House was dissolved on 19 September 1980.

After the election, on 4 December 1980 the House referred the DAS report to the Committee for inquiry and report. A sub-committee consisting of Dr H.R. Edwards (Chairman), Mr J.J. Brown, Mr R.J. Brown, Mr S.A. Lusher and Mr J.R. Porter was appointed to examine the DAS report.

The sub-committee took evidence from DAS on 18 February 1981. Because of the diffuse nature of the original submission from DAS, the sub-committee had to set a pattern of questioning which sought to elicit, in respect of each finding, whether the department agreed or disagreed; if it agreed what action was DAS taking; and if it disagreed whether Audit had been informed at the draft report stage.

On 26 August 1981 the sub-committee took evidence from the Public Service Board and the National Capital Development Commission (NCDC). The Board was questioned on its role in relation to efficiency audit reports, on procedures relating to follow-up on such reports and some general matters. The NCDC gave evidence on paragraphs 5.1.4 and 5.1.5 of the EA Report which were of direct relevance to that organisation.

The Auditor-General and his officers appeared before the sub-committee on 6 March 1981. At that hearing the sub-committee indicated its inquiry objectives, sought elaboration of the efficiency audit process, obtained information on the procedures of efficiency audit and discussed particular aspects of the EA Report with Audit.

After examining the transcripts and additional submissions the sub-committee formed certain preliminary conclusions on the EA Report. These were sent to Audit and discussed with the Auditor-General and his officers at an *in camera* hearing on 10 April 1981. This evidence will be published when the Committee report is tabled in the House.

Witnesses

DEPARTMENT OF ADMINISTRATIVE SERVICES

McDonald, Mr H.B. Deputy Secretary
Wollaston, Mr J.G. Director of Commonwealth Property
Ahrens, Mr F.L. First Assistant Secretary, Property and Survey Division
Nielsen, Mr L. Assistant Secretary, Property Branch Property and Survey Division
Dal Bon, Mrs K. Acting Assistant Secretary Planning and Review Branch Property and Survey Division

OFFICE OF THE AUDITOR-GENERAL

Brigden, Mr K.F. Auditor-General
Hill, Mr D.J. Deputy Auditor-General
Jones, Mr J.C.M. First Assistant Auditor-General, Efficiency Audit Division Cosgrove,
Mr J.G. Assistant Auditor-General Division 'B'

PUBLIC SERVICE BOARD

Kenway, Mr N.T. Acting First Assistant Commissioner, Departmental Structures Division
Tanser, Mr N.J. Senior Assistant Commissioner Management Systems and Efficiency Division
MacGregor, Mr E.D.J. Acting Assistant Commissioner Management Systems and Efficiency Division

NATIONAL CAPITAL DEVELOPMENT COMMISSION

Shannon, Mr G.C. Associate Commissioner
Curtis, Mr K.J. Secretary and General Manager

Evidence

Evidence was taken from the following organisations:

Department of Administrative Services 26 August 1980 and 18 February 1981
Public Service Board, National Capital Development Commission 28 February 1981
Office of the Auditor-General 6 March and 10 April 1981

The following submissions were incorporated in the transcripts of evidence:

26 AUGUST 1980 TRANSCRIPT

18 June 1980 submission, Department of Administrative Services

18 FEBRUARY 1981 TRANSCRIPT

3 September 1980 submission, Commissioner of Taxation
5 February 1981 submission, Department of Housing and Construction
6 February 1981 submission, National Capital Development Commission

Public Service Board Memorandum: Guidelines for Liaison for Co-ordination of Efficiency Auditing

10 APRIL 1981 TRANSCRIPT

11 March 1981 submission, Office of the Auditor-General
19 March 1981 submission, Office of the Auditor-General
20 March 1981 submission, Office of the Auditor-General
23 March 1981 submission, Department of Housing and Construction
4 March 1981 submission, Department of Administrative Services
2 April 1981 submission, Department of Administrative Services

The sub-committee has also authorised publication of the following documents:

Department of Administrative Services Internal Minutes of 2 April 1981 on—
Notifications to Departments and Authorities of Lease Conditions.

Sub-committee's document on Preliminary Conclusions sent to the Auditor-General on
3 April 1981.

Submission from the Department of Administrative Services, dated 9 April 1981.

Statement (10 April 1981) from the Office of the Auditor General on the sub-
committee's Preliminary Conclusions.

Submission from the Office of the Auditor-General, dated 24 April 1981.

Submission from the Office of the Auditor-General, dated 27 April 1981.

Submissions (two) from the Department of Administrative Services dated 28 April
1981.

Department of Administrative Services Internal Minutes of 28 April 1981 on—
Property Office—Reorganisation.

Department of Administrative Services Internal Minute of 29 April 1981 on—New
Roles for First Assistant Secretary, Property Operations Division.

Submission from Dr R.L. Wettenhall, Head of the School of Administrative Studies,
dated 27 April 1981, on A Statutory Authority for the Commonwealth Government's
Property Function?

Submission from Telecom Australia dated 1 June 1981.

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