

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

A NAIL IN TIME SAVES NINE

REVIEW OF THE AUDITOR-GENERAL'S EFFICIENCY AUDIT REPORT:

DEPARTMENT OF HOUSING AND CONSTRUCTION
Repairs and maintenance of Commonwealth assets

REPORT OF THE THE HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON
FINANCE AND PUBLIC ADMINISTRATION

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FOREWORD

This report reviews the seventh efficiency audit report to be referred to the Committee. The Committee is currently reviewing two other efficiency audits.

In previous Parliaments, the responsibility for reviewing the Auditor-General's efficiency audits was shared between the Public Accounts Committee and the House of Representatives Standing Committee on Expenditure.

The appointment of a system of standing committees has provided the opportunity for other committees and Members of the House to review efficiency audits. Such an arrangement is most appropriate as efficiency audits will now be reviewed by Members who share a continuing interest in the broad subject matter.

Not all efficiency audits are referred to the appropriate committee, however, the Parliament must give the work of the Auditor-General due consideration and these efficiency audits must be reviewed by delegates of the Parliament.

Both the Public Accounts Committee and the Finance and Public Administration Committee will continue to share the responsibility for the review of efficiency audits not taken up by the other committees.

This particular report, falls into the category of one that might have been reviewed by another committee. However, it has now been reviewed and a number of recommendations have been made. I look forward to the Government's response to this report.

I pay tribute to my fellow subcommittee Member, Harry Jenkins, MP, for his interest and the financial expertise he brought to the inquiry. My thanks go to the staff of the secretariat, Dorothy Miles and Kaye Buckley, for their commitment to the completion of this report and to the work that went into meeting that commitment.



STEPHEN MARTIN, MP
Chairman

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35TH PARLIAMENT

MEMBERSHIP OF THE COMMITTEE

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Mr J. Saunderson, MP
Mr R.F. Shipton, MP (from 20.10.88)
Mr D.W. Simmons, MP

Secretary: Mr P.F. Bergin

MEMBERSHIP OF THE SUBCOMMITTEE

The following Members served on the subcommittee during the course of the inquiry:

Chairman: Mr S.P. Martin, MP

Members: Dr J.R. Hewson, MP
Mr G. Gear, MP
Mr H.A. Jenkins, MP
Mr J. Saunderson, MP

Secretary: Mr P.F. Bergin

Inquiry Staff: Ms D.M. Miles
Mrs K.E. Buckley
Ms S.L. Fisher

Terms of Reference of the Committee

The Standing Committee on Finance and Public Administration is empowered to inquire into and report on any matters referred to it by either the House or a Minister including any pre-legislation proposal, Bill, motion, petition, vote or expenditure, other financial matter, report or paper.

Terms of Reference of the Subcommittee

On 16 December 1987, the Minister for Administrative Services referred to the Committee the Efficiency Audit Report by the Auditor-General, Department of Housing and Construction: repairs and maintenance of Commonwealth assets. A subcommittee was appointed on 18 February 1987, to review the Efficiency Audit Report.

LIST OF ABBREVIATIONS AND TERMS USED IN THIS REPORT

AAO	Australian Audit Office
ACS	Australian Construction Services (Department of Administrative Services) (post 1987 reorganisation)
ACS	Asset Control System now known by the Acronym 'Renew'
APG	Australian Property Group (Department of Administrative Services) (post 1987 reorganisation)
ATO	Australian Taxation Office
DAS	Department of Administrative Services
DAS(ACS)	Department of Administrative Services (Australian Construction Services) (post 1987 reorganisation)
DHC	Department of Housing and Construction (pre 1987 reorganisation)
DOD	Department of Defence
DOF	Department of Finance
DOLGAS	Department of Local Government and Administrative Services (pre 1987 reorganisation)
DSS	Department of Social Security
EA	Efficiency Audit
F&PA	House of Representatives Standing Committee on Finance and Public Administration
GWD	General Works Division
GWF	General Works Functions
IDC	Inter-Departmental Committee
JCPA	Joint Committee of Public Accounts
JMR	Joint Management Review
MIR's	Maintenance Inspection Recommendations
MSC's	Maintenance Standard Classifications
PSB	Public Service Board
Renew	Acronym for the Asset Control System
R&M	Repairs and Maintenance

Terms

Detailed Estimate	A firm and more accurate estimate based on a detailed design, completed contract documents or a firm schedule of work which is used for authorising items of specific work, as a check on quotations or tender prices, or for committing work by wages employees.
Maintenance Backlog	The shortfall between the recommended and approved program level for a given financial year.
Maintenance Standard	Describes the condition in which an asset should be maintained or the degree to which it should be allowed to deteriorate before corrective action is taken.
Program Estimate	The first cost estimate (priced at a stated date) based on a preliminary assessment of the work required, to be used for recommending inclusion in a draft program and the issue of requisitions.
Revote Work(s)	Work(s) in progress which consist of projects commenced in previous financial years for which a liability exists at the beginning of a new financial year.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Chapter 4 - General Implications of Programming and Funding Arrangements

The Committee concludes that:

- . the eighteen month delay from the identification of maintenance needs to program execution 'mitigates against the timely and effective upkeep of Commonwealth assets' (EA Report, p.8);
- . new procedures are required to reduce the time involved in program formulation and execution, and
- . the high levels of revote work (often exceeding 50% of the proportion of a new years program) inhibits ACS's ability to undertake new Section 2 programs.

Although new procedures to reduce and manage the time between the planning and execution of Section 2 works have been developed (to be progressively introduced from 1989/90 onwards) it is too early for the Committee to draw any conclusions about its effectiveness.

The Committee recommends that the new procedures being introduced (from 1989/90 onwards) to reduce and manage the time between program formulation and execution be monitored by DAS(ACS) and the findings reported in its Annual Reports (Recommendation 1).

The Committee concludes that:

- . there has been substantial progress in developing new and refined procedures covering the program formulation process;
- . the condition appraisal approach to setting program levels is less labour intensive and represents a move away from the preparation of maintenance recommendations on an asset by asset basis, and
- . funding constraints restrict the execution of work.

The Committee concludes that:

- . in many cases there were valid reasons for the shortfall between the amount appropriated and the amount spent. However, recent changes to funding arrangements, culminating in the reduction of appropriation lines, will provide DAS(ACS) with more

flexibility in managing the aggregate cash allocation for R&M;

- . DAS(ACS) should have the ability to be able to transfer funds on behalf of clients as priorities change throughout the year, however, safeguards must be introduced to protect individual client departments R&M programs, and

- . substantial progress has been made under Program Budgeting to separate those resources used to meet asset management services and those used in developing maintenance programs.

The Committee recommends that DAS(ACS) and the Department of Finance examine ways to protect individual client departments R&M programs (Recommendation 2).

The Committee concludes that in regard to maintenance:

- . the existing level of backlog is undesirable;
- . both DAS(ACS) and DOD(Army) have taken steps to address the backlog problem;
- . DAS(ACS) has introduced new procedures to identify more realistic levels of maintenance priority, and
- . substantial progress has been made on redeveloping and enhancing the information systems to collect and manage the data necessary to substantiate assessed maintenance needs (see chapter 5).

The Committee recommends that priority continue to be given to reducing the maintenance backlog (Recommendation 3).

Chapter 5 - Asset Information Systems

The Committee concludes that:

- . substantial progress has been made since the EA in the redevelopment and enhancement of the Asset Control System;
- . the development and enhancement of DAS(ACS) information systems is receiving high priority and features prominently in the department's future activities;
- . a comprehensive data collection of asset information is critical to the DAS(ACS) role as asset manager;

- . the recent reforms to ACS resulting in the further devolution of responsibilities to the APG and client departments requires that ACS endeavour to meet its target date for data collection;
- . DAS(ACS), as yet, does not have a complete and accurate record of all Commonwealth assets;
- . DAS(APG), as yet, does not have a total valuation of all the Commonwealth assets it maintains, and
- . an accurate up-to-date valuation of the total holdings would be extremely useful in property and asset management when taking decisions regarding the future of Commonwealth assets.

The Committee recommends that DAS(ACS) continue to give high priority to the continuing development and enhancement of its information systems (Recommendation 4).

The Committee also recommends that:

- . central office monitors the collection of data by its regional offices to ensure consistency of data input (Recommendation 5), and
- . high priority be given to establishing links between the 'Renew' system and other Departmental systems (Recommendation 6).

Chapter 6 - Program Formulation

The Committee concludes that DAS(ACS) has implemented all aspects of Recommendation 7 of the EA Report.

The Committee concludes that:

- . DAS(ACS) has addressed the EA findings in regard to the promulgation of specific guidelines and checklists for the conduct of asset inspections, and
- . progress is being made in redefining asset classifications in order to render them more realistic and simple.

The Committee recommends that DAS(ACS) give priority to finalising the redefinition of asset classifications (Recommendation 7).

The Committee concludes that the subject of inspection cycles has largely been overtaken by; recent government decisions affecting

the operation of DAS(ACS), the introduction of the condition appraisal approach and the redevelopment and enhancement of the Asset Control System - Mark 2.

The Committee concludes that:

- . DAS(ACS) is addressing the requirements of Recommendation 11 by the employment of a consultant to expand the Asset Control System data base to record the bases on which maintenance priorities are assigned, and
- . Recommendations 12 and 13 have been implemented.

The Committee is unable to conclude at this early stage whether recent Government reforms and new program formulation procedures introduced by DAS(ACS) will rectify the shortcomings identified in the EA.

The Committee recommends that the formulation of recommended maintenance programs be monitored by DAS(ACS) and the findings reported in its Annual Reports (Recommendation 8).

The Committee finds that Recommendations 15 and 16 of the EA Report have been implemented.

Chapter 7 - Program Execution

The Committee concludes that:

- . DAS(ACS) is moving away from the preparation of maintenance programs on an asset by asset basis thus reducing the time between program formulation and execution, and
- . as a result of the restructuring of the department and the need to operate as a quasi - commercial business unit, DAS(ACS) will no doubt institute further improvements to promote efficiency and effectiveness in achieving its objectives in regard to program execution.

The Committee concludes that DAS(ACS) has initiated procedures to monitor and compare the cost effectiveness of the wages employee workforce to contract labour. With the introduction of recent reforms DAS(ACS) could make the comparisons available to its tied clients.

The Committee recommends that the cost comparison between the wages employee workforce and contract labour be continuously monitored by DAS(ACS) program managers and the comparative figures be included in its Annual Reports (Recommendation 9).

Chapter 8 - Program Review

The Committee concludes that:

- . the adverse findings of the EA, in relation to performance indicators, have been largely addressed by DAS(ACS);
- . Apart from the financial indicator which measures, amongst other things, the achievement of expenditure as a proportion of the related budget appropriation, DAS(ACS) has instituted indicators to address the timeliness and cost of delivery of specific maintenance projects against agreed targets and quality of service. Greater emphasis is being placed on program outputs and outcomes rather than detailed input controls;
- . DAS(ACS) is making progress in capturing the data requirements necessary for the measurement of performance in the Asset Control System;
- . in the current financial era, performance indicators are critical to the success or otherwise of the DAS(ACS) Program Budgeting Strategy and FMIP;
- . DAS(ACS) should continue to pursue a management philosophy which has amongst its elements the regular review, in terms of performance, of all its departmental activities, and
- . although project review mechanisms and practices have been improved, there is still room for improvement in their effectiveness (refer DHC Annual Report 1986-87, p.12).

The Committee is unable to conclude whether the 'Operational Procedure on Asset Reviews (OP 506)' meets the DAS(ACS) stated purpose in helping it to adequately fulfil its asset management function.

The Committee recommends that the aspects of program review addressed by the EA be monitored by DAS(ACS) and the findings reported in its Annual Reports (Recommendation 10).

CHRONOLOGY OF EVENTS 1981 TO THE PRESENT

- 14 September 1981 Commencement of Joint Management Review (JMR) of Department of Housing and Construction (DHC), General Works Division (GWD).
- 29 January 1982 Report of the Joint Management Review of the General Works Functions - Department of Housing and Construction, Canberra, 1982, published.
- January to June 1984 Bulk of the fieldwork conducted by the AAO on three project audits:
 1. DHC: GWD - Australian Capital Territory
 2. DHC: Management Services
 3. DAS: Property Directorate - Property Management Information Systems.
- 4 September 1984 Report of the Auditor-General upon audits, examinations and inspections under the Audit and other Acts - September 1984, Department of Housing and Construction: General Works Division - Australian Capital Territory and Management Services: Department of Administrative Services: Property Directorate - Property Management Information Systems, Parli. Paper 170, AGPS, Canberra, 1984, tabled in Parliament, 4 September 1984.
- July to December 1984 Bulk of the fieldwork conducted by the AAO on a project audit of DHC: GWD - South Australia and Western Australia.
- Months preceding November 1984 PA Consulting Services conducted a post-implementation review of the JMR.
- November 1984 Report of the PA Consulting Services on the Department of Housing and Construction - Report on Review of Implementation of the JMR into General Works, Canberra, 1984, published.

- April 1985. Report of the Auditor-General upon audits, examinations and inspections under the Audit and other Acts - April 1985, Department of Housing and Construction: General Works Division - South Australia and Western Australia, Parli. Paper 64, AGPS, Canberra, 1985, tabled in Parliament, 16 April 1985.
- July to December 1985. Bulk of the fieldwork conducted by the AAO on a project audit of DHC: GWD Townsville Area Office.
- late October to 14 November 1985. Diagnostic study conducted by the Australian Audit Office (AAO).
- 15 November 1985. AAO diagnostic study on DHC formally designated an efficiency audit (EA).
- December 1985 to February 1986. Fieldwork conducted in the DHC Western Australian regional office.
- February 1986 to April 1986. Fieldwork conducted in the DHC Victorian office.
- Fieldwork conducted in the DHC central office.
- March 1986. Report of the Auditor-General upon audits, examinations and inspections under the Audit and other Acts - March 1986, Department of Housing and Construction: General Works Division - Townsville Area Office, Parli. Paper 30, AGPS, Canberra, 1986, tabled in Parliament, 19 March 1986.
- About May to July 1986. Papers setting out tentative audit findings were provided to DHC.
- June 1986. The Joint Committee of Public Accounts (JCPA) commenced an inquiry into the administration of the Commonwealth's property functions (Report 272).
- 17 July 1986. By Decision No. 7950(ER), the Government established an Inter-Departmental Committee (IDC) chaired by the Public Service Board, to examine the most desirable administrative arrangements for

the delivery of Commonwealth property services both in Australia and overseas. The IDC comprised membership from central co-ordinating, provisioning and major property-using agencies.

- October 1986 AAO conclusions and findings were set out in the form of a preliminary draft report. Conveyed to DHC in a management letter which took into account DHC's comments on the tentative audit findings. Extracts of the preliminary draft were also provided to Department of Defence (DOD) and Department of Local Government and Administrative Services (DOLGAS).
- February 1987 Proposed EA Report taking into account all departmental responses was provided to DHC.
- 4 May 1987 Report of the JCPA on the Administration of the Commonwealth's Property Functions, Report 272, Parli. Paper 110, AGPS, Canberra, 1987, tabled in Parliament, 4 May 1987.
- 7 May 1987 Report of the Auditor-General on an Efficiency Audit, Department of Housing and Construction: repairs and maintenance of Commonwealth assets, Parli. Paper 115, AGPS, Canberra, 1987, tabled in Parliament, 7 May 1987.
- May 1987 Report of the IDC - A Review Team Report on Government Real Property Administration, Canberra, 1987, published and circulated.
- 27 May 1987 House of Representatives Standing Committee on Expenditure resolved to review the Auditor-General's Efficiency Audit Report on the Department of Housing and Construction: repairs and maintenance of Commonwealth assets.
- 4 June 1987 House of Representatives Standing Committee on Expenditure dissolved.

- Mid 1987 DHC absorbed into the new 'super ministry' of Department of Administrative Services as the Construction Group {DAS(CG)}.
- 24 September 1987 House of Representatives Standing Committee on Finance and Public Administration (F&PA Committee) established.
- 16 December 1987 EA Report on DHC: repairs and maintenance of Commonwealth assets, referred to the F&PA Committee by the Minister for Administrative Services.
- 18 February 1988 F&PA Committee adopted the inquiry and resolved that a subcommittee be appointed to review the EA Report.
- 11 April 1988 Subcommittee conducted first public hearings. Witnesses were from DAS(CG).
- 6 April 1988 Minister for Administrative Services announced the Government had approved guidelines under which the provision of various government services to departments and public authorities would be reviewed over the coming months.
- May 1988 Construction Group changed its name to the Australian Construction Services {DAS(ACS)}.
- 26 May 1988 Subcommittee conducted second public hearings. Witnesses were from the AAO.
- 22 June 1988 Subcommittee conducted Townsville inspections.
- 23 June 1988 Subcommittee conducted Brisbane inspections.
- 20 July 1988 Subcommittee conducted Darwin inspections.
- 21 July 1988 Subcommittee conducted Perth inspections.
- 28 July 1988 Government announced reforms of the operations of three groups within the Department of Administrative Services: ACS, the Australian Property Group (AGP) and the Australian Protective Services. (see note for 6 April 88)

September 1988

Report of the Auditor-General on audits to 30 June 1988: Department of Administrative Services - Australian Construction Services - repairs and maintenance - Works Information and Management System, AGPS, Canberra, 1988, tabled in Parliament, 1 September 1988.

29 September 1988

Subcommittee conducted third and final public hearings. Witnesses were from the Department of Social Security (DSS) and DAS.

CHAPTER 1
INTRODUCTION

1.1 **Administrative arrangements**

- 1.1.1 On 24 July 1987, the Governor-General approved certain Commonwealth Government administrative re-arrangements, giving effect to changes announced by the Prime Minister on 14 July 1987. The former Department of Local Government and Administrative Services (DOLGAS) was renamed the Department of Administrative Services (DAS).
- 1.1.2 A number of departments were abolished including the Department of Housing and Construction (DHC). Its responsibilities for Commonwealth Government works and design and maintenance of furniture, furnishings and fittings were transferred to the Minister for Administrative Services, to be carried out by the Australian Construction Services {DAS(ACS)} {DHC Annual Report 1986-87, Parli. Paper 412, AGPS, Canberra, 1987, p.vi}.
- 1.1.3 Although the efficiency audit under review was carried out on the former Department of Housing and Construction, DHC will only be cited in the past tense. The organisation's current name: Department of Administrative Services - Australian Construction Services {DAS(ACS)} will be used in the present tense for the remainder of this report.

1.2 DAS(ACS) corporate objectives

- 1.2.1 One of the principal responsibilities of DAS(ACS) is the planning, execution and maintenance of Commonwealth Government works. DAS(ACS) corporate objectives are aimed at complementing its responsibilities under the Administrative Arrangements and providing a framework for the effective planning and management of its activities. One of the objectives is to pay particular regard to the quality, time and cost in the design, execution, maintenance and operation of Commonwealth Government works.
- 1.2.2 Within DAS, ACS carries out its activities under three separate subprograms; Project Advisory Services, Asset Services and Management and Support Services.
- 1.2.3 The Asset Services Branch of central office and the GWD in each region are responsible for the planning, co-ordination and execution of R&M for some 60,000 Commonwealth Government buildings and assets (excluding civil airports) throughout the country. They are also responsible for minor new works (up to a value of \$250,000) for all departments and some statutory authorities. The work is undertaken by the Department's wages employee workforce which operates from a network of 108 depots and subdepots around Australia, and by private contractors {DHC Annual Report 1986-87, p.70}.
- 1.2.4 The Asset Services subprogram is subdivided into the following components; program formulation, routine and minor maintenance (Section 1 works), specific maintenance (Section 2 and 4 works) and minor new works.
- 1.2.5 Program formulation covers inspections of assets with clients and the preparation of maintenance inspection

reports (MIR's), discussions with clients on proposals and levels of serviceability required for individual assets {DHC Annual Report 1986-87, p.70}.

- 1.2.6 Routine and minor maintenance (Section 1 works) includes the execution of all minor maintenance works not exceeding \$6,000; urgent R&M works undertaken as the need arises; programmed recurring maintenance required at least once a year to ensure plant and equipment is functioning correctly; and the operational day-to-day activities carried out directly to keep works and facilities functioning {DHC Annual Report 1986-87, p.70}. Expenditure in 1987-88 was \$118.5 million {Appendix VI}.
- 1.2.7 Specific maintenance (Section 2 and 4 works) the subject of the EA Report, covers the execution of planned maintenance estimated to cost in excess of \$6,000 based mainly on the result of cyclical inspections of assets {DHC Annual Report 1986-87, p.70}. Expenditure in 1987-88 was \$100 million (including revote work) {Appendix VI}.
- 1.2.8 Minor new works covers projects for additions and alterations to existing facilities, or new facilities when the work is estimated to cost less than \$250,000 {DHC Annual Report 1986-87, p.70}. Expenditure in 1987-88 was \$57 million {Appendix VI}.
- 1.2.9 Each department's total allocation is identified in the Appropriation Act, and subdivision between Sections 1 to 4 is a matter for agreement between the client, DAS(ACS) and the Department of Finance. The subdivisions are currently being re-defined to simplify the terms used

and promote better communication with clients. This aspect will be addressed later in the report {Evidence, pp.6-7}.

1.3 **Authority**

1.3.1 Whilst there is no enactment covering the public works activities of DAS(ACS), these are guided by various Government directives and policies {DHC Annual Report 1986-87, p.vi}.

1.4 **Previous reviews**

1.4.1 A number of previous reviews over the last eight years have been critical of aspects of the administration of planned specific maintenance, (Chronology of Events refers). Areas of concern which have been highlighted are:

- . the Asset Control System;
- . program formulation;
- . program management;
- . maintenance inspection reports (MIR's);
- . the significant shortfalls between recommended and actual maintenance programs;
- . the level of the maintenance backlog, and
- . non-compliance with central office instructions and guidelines.

1.4.2 In June 1986, the Joint Committee of Public Accounts (JCPA) commenced an inquiry into the administration of the Commonwealth's property functions, the results of which were to later impact on the traditional procedures relating to the administration of planned specific maintenance programs (chapter 2 refers). The report was tabled in Parliament on 4 May 1987 {JCPA Report}.

1.4.3 On 17 July 1986, by Decision No. 7950(ER), the Government established an Inter-Departmental Committee (IDC) chaired by the Public Service Board (PSB) to examine the most desirable administrative arrangements for the delivery of Commonwealth property services both in Australia and overseas. The report was published in May 1987 {IDC Report}. Once again the results of this review were to later impact on the traditional procedures relating to the administration of planned specific maintenance programs (chapter 2 refers).

1.5 Recent Government decisions

1.5.1 Since the commencement of this review, the Government has made reforms to at least two groups within DAS, namely, ACS and the APG. The reforms are detailed in chapter 2.

1.6 Aim of the review

1.6.1 The House of Representatives Standing Committee on Finance and Public Administration (F&PA Committee) resolved to review the Auditor-General's Efficiency Audit Report on the Department of Housing and Construction: repairs and maintenance of Commonwealth assets (henceforth cited as the EA Report) with the following aims:

- . to assess the EA Report;
- . to examine responses to the EA recommendations flowing from the EA Report; and
- . to examine the relevance of the EA recommendations in the light of recent Government decisions.

1.7 **Conduct of the review**

1.7.1 On 27 May 1987, the then House of Representatives Standing Committee on Expenditure resolved to review the EA Report. The review had just commenced when the 34th Parliament was dissolved in June 1987. With the aim of recommencing the review, following the appointment of the F&PA Committee, the EA Report was referred to the Committee by the Minister for Administrative Services on 16 December 1987. A subcommittee was appointed on 18 February 1988 to conduct the review.

1.7.2 Submissions were invited from DAS and the 13 portfolio Ministers identified as having a possible interest in the inquiry. Six submissions were received: five from Commonwealth Government departments and a joint one from the Federated Clerks Union (Taxation Officers' Branch) {FCU (TOB)} and the Administrative and Clerical Officers' Association (Queensland Branch) {ACOA}. A list of submissions is contained in Appendix I.

1.7.3 Between April and September 1988, the subcommittee conducted inspections and took evidence at hearings. Six exhibits were incorporated in the Committee's records. A list of exhibits is contained in Appendix II.

1.7.4 The subcommittee sat on 7 occasions and took evidence from 15 witnesses at public hearings. The transcript of evidence totalled 121 pages. Hearings were held in Canberra on the 11 April 1988, 26 May 1988 and 29 September 1988. A list of the witnesses who gave evidence at the hearings is contained in Appendix III.

1.7.5 In order to familiarise itself with the practical aspects of planned specific maintenance, the subcommittee carried out inspections in:

- . Townsville - 22 June 1988
- . Brisbane - 23 June 1988
- . Darwin - 20 July 1988
- . Perth - 21 July 1988

The transcripts of the public hearings and other evidence authorised for publication have been incorporated in separate volumes and copies are available for inspection in the Committee Secretariat and the Parliamentary Library. References to evidence in the text of this report relate to page numbers in those volumes.

1.8 Timeframe and cost of the EA

1.8.1 The EA formally commenced on 15 November 1985, following completion of the diagnostic study on 14 November 1985. Two AAO officers were engaged on the diagnostic study from 21 October 1985 to 14 November 1985, at a total cost to the AAO of \$10,850 (AAO Annual Report 1985-86, p.12 and letter from AAO dated 3 June 1988).

1.8.2 The EA which culminated in the tabling of the EA Report on 7 May 1987, cost \$120,070 {Evidence, p.60}.

1.8.3 The Committee is of the opinion that many of the issues addressed in the EA Report are now less relevant because of the:

- . passage of time since the EA was conducted;
- . recommendations of the JCPA and IDC reviews;
- . recent Government initiatives, and
- . recent DAS(ACS) management initiatives.

The relevance or otherwise of issues raised in the EA Report will be discussed in the following chapters.

1.9 Framework of report

1.9.1 Chapter 2 outlines the recent changes to the operations of DAS(ACS) and DAS(APG) resulting from the recent Government reforms to DAS. It provides the link between the organisation (DHC) that was audited by the AAO, the current organisation DAS(ACS) and ACS's relationship with DAS(APG). Chapter 3 examines aspects of the EA Report, responses to the EA Report and details the Committee's assessment of the EA and EA Report.

1.9.2 Chapters 4 to 8 deal specifically with different aspects of the administration of planned specific maintenance.

1.9.3 The contents of Appendixes I, II and III have been detailed in paragraphs 1.7.2, 1.7.3 and 1.7.4 respectively. Appendix IV comprises a copy of the 'Principles issued for the future operations of the DAS - April 1988'. Appendix V contains a summary of the EA Report recommendations, departmental responses and subsequent action. Appendix VI and VII are detailed in paragraphs 4.2.1 and 4.10.2 respectively.

CHAPTER 2

RECENT CHANGES TO THE OPERATIONS OF
DAS(ACS) AND DAS(APG)

2.1 Introduction

2.1.1 On 28 July 1988, the Minister for Administrative Services announced that the Commonwealth Government had decided to reform the operations of DAS(ACS) and DAS(APG). The decision, incorporating the detailed application of the 'common service principles' (refer Appendix IV) was preceded by a long process of review. There were: the JCPA inquiry (JCPA Report); the IDC inquiry (IDC Report), and internal discussions and consultations with unions and clients. The JCPA and IDC inquiries both concluded that 'overall strategic control by a central co-ordinating body is necessary' (Exhibit No.6).

2.1.2 In announcing the reforms, the Minister for Administrative Services said, inter alia, that:

The wide ranging reforms are designed to place greater responsibility on departments and authorities for managing government programs. This will be achieved through the introduction of full charging for construction and property for Commonwealth clients including other federal departments and statutory authorities. The Government has endorsed proposals to streamline and make more efficient the services provided by the agencies. The staged introduction of freedoms to government departments and authorities to choose private sector services where this is beneficial to the Federal Government is a central plank of the reforms. These freedoms will be matched by more commercial operating arrangements for the Government's service agencies to ensure their ability to compete with the private sector. The decisions are in keeping with the thrust

of Government initiatives to reform the public service and to adopt a more business-like approach to the provision of services in the public service (Minister for Administrative Services, Press Release 43/88, 28 July 1988, Exhibit No.6, pp.1-2).

2.2 Changes relating to the operations of DAS(ACS)

2.2.1 The July 1988 decision affirmed the role of DAS(ACS) as the Commonwealth's central works authority. DAS(ACS) is continuing as the principal provider of project and asset management services to Commonwealth clients. Notable amongst the changes are; fee charging arrangements, the delegation to clients of some further categories of maintenance work and the move towards full cost recovery over the next three years.

2.2.2 Changes specific to the operations of asset services include:

- . DAS(ACS) is to retain responsibility for the delivery of asset services (planning and delivery of maintenance) to departments;
- . responsibility for the maintenance of civil staff housing is to rest with departments and agencies from 1 July 1988, and
- . DAS(ACS) will charge departments commercially competitive fees for its asset services from 1 July 1989 (other clients are already charged such fees) (Exhibit No.6, p.5).

2.2.3 General changes to DAS(ACS) include:

- . DAS(ACS) is to operate under trust account arrangements for the financial management of its activities from 1 July 1989, and
- . DAS(ACS) is required to achieve full cost recovery for its services by 1991 with a Budget subsidy provided in the interim to meet any shortfall between revenue and costs (Exhibit No.6, p.5).

2.3 Changes relating to the operations of DAS(APG)

2.3.1 The July 1988 decision affirmed the role of DAS(APG) as the Commonwealth's central property agency. Changes specific to the operations of DAS(APG) property services include:

- . DAS(APG) will provide property services, including acquisition, leasing, development and disposal of properties to departments and authorities;
- . GBE's and the ABC will have freedom to choose the DAS(APG) or another agency;
- . responsibility for civil staff housing will rest with departments and agencies;
- . departments will become responsible for lease of their networked offices outside the CBD of capital cities where there is no owned or leased Commonwealth Centre;

- . responsibility for simple property services (e.g. R&M not involving building services, contract cleaning outside the ACT and office services) other than in Commonwealth Centres will rest with departments and agencies;
- . DAS(APG) will offer its services on a fee paying basis for property services;
- . DAS(APG) property services will be funded through trust account arrangements with the cost of services to be recovered through client fees;
- . clients will be charged rent for the use of leased or owned property except in certain cases, and
- . clients will bid for, receive and control the funds for rent and fees for property services {Exhibit No.6, pp.6-7}.

2.4 Overview

- 2.4.1 The Government's recent decisions to combine most Commonwealth common services in one department (the 'common service principles') with a clear mandate to implement devolution of services, economic charging practices and a more business like approach, is consistent with the outcome of both the JCPA and IDC reviews {Source: ACS background papers}.

Both DAS(ACS) and DAS(APG) are required to examine closely, traditional operating procedures and make the changes necessary to reflect the Government's stated aims in this regard. Accordingly, in its review of the EA Report, the Committee has taken into account the current operational and procedural environment resulting from the recent Government reforms.

CHAPTER 3
THE EFFICIENCY AUDIT

3.1 Introduction

3.1.1 Between October and November 1985, in response to,

- . shortcomings identified during previous audits and reviews,
- . evidence of a significant maintenance backlog,
- . the AAO's perception that DHC's implementation of the JMR recommendations was slow and required further attention,

the AAO conducted a diagnostic study into DHC's GWD.

3.1.2 The AAO determined from the diagnostic study that there was sufficient scope to conduct an EA into the administration of planned specific maintenance programs (Section 2 works) concentrating on the:

- . asset information system;
- . maintenance standards and priorities;
- . scheduling and control of asset inspections;
- . preparation of maintenance recommendations, and
- . program review.

3.1.3 During the period November 1985 to May 1986, the AAO carried out the fieldwork for the EA. The fieldwork was conducted in DHC's central office in Canberra and in its regional offices located in Melbourne and Perth. DOD (Army Office) and DOLGAS were audited as client departments of DHC.

3.1.4 From May 1986 to February 1987, the AAO drafted the EA Report and sought comments from DHC, DOD and DOLGAS. By February 1987, the proposed final report, taking into account all departmental responses was provided to DHC. The EA Report was tabled in Parliament on 7 May 1987.

3.2 EA findings

3.2.1 In the overview to the EA Report, the following was stated:

The audit found that, each year, DHC undertook a significant resource intensive asset inspection program. Although the inspection program identified the condition of assets and proposed maintenance needs, in recent years a significant proportion of the resulting maintenance recommendations were not reflected directly in future maintenance programs because of funding constraints. It was also evident that current procedures covering planned specific maintenance do not result, under normal circumstances, in the timely maintenance of assets; because the time between asset inspections (when maintenance needs are identified) and the actual repair work is generally over 18 months.

The JMR had identified these matters as significant shortcomings in the program formulation phase of asset maintenance; and recommended that the program formulation process be completely revised. Audit found, however, that this process was substantially unchanged.

The audit also disclosed inadequacies in asset information systems, asset inspections, estimating procedures, maintenance standards, client liaison and performance measurement. The deficiencies noted by Audit have implications for the effective performance of DHC's role as asset manager. One of the more significant implications was the fact that existing systems and procedures did not provide the information necessary to enable DHC or client departments to evaluate the effect of the maintenance backlog on the technical and operational capabilities of Commonwealth assets.

- 3.2.2 There was evidence that because decision makers did not have detailed information on the effect of the backlog on the functioning of assets, they were not persuaded by the case advanced for additional funds for repairs and maintenance {EA Report, pp.1-2}.

3.3 EA recommendations

- 3.3.1 The EA Report contained 19 recommendations, of which:

- . two were directed towards improvements to information systems, specifically the Asset Control System;
- . two were concerned with the provision of more detailed assessments of the implications of the maintenance backlog;
- . twelve were directed towards improvements in program formulation and funding procedures, and
- . three were directed towards improvements to aspects of program delivery.

3.3.2 The AAO gave priority to 'those recommendations which would result in an early improvement in the ability of DHC to plan and co-ordinate its repairs and maintenance function' (EA Report, p.2). Appendix V contains a summary of the AAO recommendations.

3.4 DHC's/DAS(ACS) response

3.4.1 In responding to the draft EA Report, between October 1986 and February 1987, DHC stated, inter alia, that:

The Department accepts, with the qualifications noted in its comments on individual recommendations, a number of these findings and is in broad agreement with Audit's identification of the matters of highest priority remaining to be addressed as resources permit (EA Report, p.38).

3.4.2 In addition, in its first submission to the inquiry, DAS(ACS) stated, inter alia, that:

The Report of Efficiency Audit's findings and recommendations provide check points for evaluating the progress being made in improving the delivery of specific maintenance services. However, the environment in which the Construction Group operates has changed since the JMR (1982) and even since the Efficiency Audit (1986). The introduction of Program Budgeting concepts, moves towards the 'user-pays' principle and the possibility of a degree of devolution of responsibilities from central service agencies may change the role of the Construction Group and reduce the relevance of some recommendations (Evidence, p.S4); and DAS(CG) agrees with the recommendations in all major respects, with its most substantial reservation being on the timing required for implementation (Evidence, p.S11).

- 3.4.3 More recently, in its second submission to the inquiry, DAS(ACS) stated, inter alia, that:

In July 1988 the Government introduced wide ranging reforms designed to place greater responsibility on departments and authorities. Under these reforms ACS and APG will charge for construction and property services provided to departments. Also under these revised arrangements, decisions on maintenance expenditures will be made by departments against advice and recommendations provided by ACS. As a result the procedures for the planning and delivery of maintenance will change. These changes will impact on the issues raised by the AAO and the recommendations made in their Report (Evidence, p.S82).

- 3.4.4 Of the 19 recommendations made by the AAO, 16 have been implemented. DAS(ACS) proposes to replace the remaining three recommendations; 1, 7 and 10, with new initiatives resulting from the recent Government reforms.
- 3.4.5 DAS(ACS) responses to the EA Report will be addressed in the following chapters. Appendix V contains a summary of departmental responses to the AAO recommendations and subsequent action.
- 3.5 Other responses to the EA Report
- 3.5.1 DOD's initial response to the draft EA Report comprised comments relating to paragraphs 2.5.5 and 2.5.7 of the report concerning the maintenance backlog. In respect of paragraph 2.5.5, DOD advised that corrective action had been initiated (EA Report, p.16).
- 3.5.2 In its submission to the inquiry, DOD indicated general agreement with the comments and recommendations in the

report, and detailed what progress had been made in implementing corrective action {Evidence, pp.S28-33}.

- 3.5.3 DOLGAS advised the AAO that 'they had no comments on the proposed report' {EA Report, p.38}.
- 3.5.4 DSS was not invited by the AAO to respond to the draft EA Report. However, in a submission to the inquiry, DSS agreed with the thrust of the EA Report, but suggested some alternative approaches to remedy the identified shortcomings of the present system. The DSS submission focused on improvements seen as desirable from a client's perspective {Evidence, p.S55}. DSS also gave evidence to the Committee at a public hearing in Canberra {Evidence, pp.86-106}.
- 3.5.5 ATO's submission to the inquiry focused on the 'apparent inadequacy of cyclical maintenance programs in respect of the Brisbane Office in particular, and to a lesser extent, the Adelaide and Hobart Offices' {Evidence, p.S39}.
- 3.5.6 The joint submission from the Federated Clerks Union (Taxation Officers' Branch) {FCU(TOB)} and the Administrative and Clerical Officers' Association (Queensland Branch) {ACOA} commented on the lack of cyclical maintenance in the ATO's Brisbane Office and current refurbishment of the same {Evidence, p.S47}.

3.6. Assessment of the EA Report

- 3.6.1 In assessing the EA Report; which includes an assessment of the usefulness, value, quality and substance of the report, the Committee was cognisant of the AAO's objective when it embarked on this EA, which was to; evaluate the administration of planned specific maintenance programs, focusing on the following aspects:

- . asset information system;
- . maintenance standards and priorities;

- . scheduling and control of asset inspections;
- . preparation of maintenance recommendations, and
- . program review.

The procedures for the execution of maintenance work by DHC's wages employee workforce and by private contractors were not examined in detail nor was the management of staff resources (EA Report, p.3).

3.6.2 The value of the EA Report, to some extent, lies in the Committee's assessment of whether or not the AAO met its objective.

3.6.3 In addition to the EA objective, the Committee identified the following factors which it considered had to be taken into account when determining the overall value of the EA Report. They were:

- . the slow progress made by DHC in implementing recommendations flowing from the JMR;
- . the length of time since the EA was conducted;
- . the weight that should be allotted to the number of shortcomings and inadequacies noted in the EA Report;

- . the extent to which the shortcomings, identified by the AAO, were known by DHC and were, or would have been, addressed if the EA had not been conducted;
- . the response of DHC/DAS(ACS) to the EA Report's recommendations;
- . the number of recommendations implemented and still outstanding, and
- . recent government reforms to DAS(ACS) and DAS(APG).

3.6.4 Nineteen recommendations resulted from the AAO's EA. All but three were agreed to or accepted by DHC and subsequently implemented. Of the three recommendations not wholly accepted (Recommendations 1, 7 and 10), DAS(ACS) adopted alternative methods or corrective measures to those recommended (refer Appendix V).

3.6.5 It is clear from the analysis in the EA Report, written submissions and oral evidence presented to the Committee, that there were and still are weaknesses in particular aspects of ACS's administration. It is also clear, however, that substantial progress has been made in implementing the JMR and EA Report recommendations.

3.6.6 Although the Committee is critical, as was the AAO, of the time taken by DHC to effect improvements to its systems, it accepts what the AAO recognised during the conduct of the EA and in making recommendations; and that is that any changes made by DHC to existing arrangements is by necessity, a gradual process. The AAO believed that certain improvements to the Department's procedures as well as those of client departments were necessary and achievable (Evidence, p.57).

3.6.7 In evidence to the Committee, DAS(ACS) claimed credit for responding to its own evaluation of the changing environment resulting in a push for new procedures internally. This was articulated by a DAS witness during a public hearing:

I believe that they (the new procedures) have been helped by the Audit report and I certainly think they have been helped by this inquiry, but they have also been a response to an emerging environment that we have seen coming {Evidence, p.120}.

3.6.8 The Committee accepts this to some extent, but is of the view that the EA was responsible for many of the changes that have taken place in asset services {Evidence, p.7}. However, the Committee is aware that the relevance of some AAO recommendations is questionable in the new environment in which DAS(ACS) operates.

3.6.9 The real value of the EA was that it served as a catalyst for the implementation of corrective action to shortcomings and inadequacies highlighted by at least 4 previous reviews and project audits. The EA Report also provided a useful impetus for the continuation of initiatives by DAS(ACS) and highlighted the need for asset management strategies to be developed to address the longer term problems.

3.6.10 The Committee notes, with some concern, that the EA took considerably longer than the normal period of 12 months to complete. However, after some consideration, the Committee has decided to accept the explanations for the delay, offered by the AAO {Evidence, pp.60-64}. The

Committee believes there were extenuating circumstances and trusts that steps have been taken to monitor more closely the timeliness of future EA's.

- 3.6.11 The Committee commends DAS(ACS) for its progress to date and suggests that further improvements to the program formulation and execution of planned specific maintenance are important if the momentum already achieved is to be maintained.
- 3.6.12 Finally, the AAO is to be commended for a comprehensive and useful EA Report. The Committee's overall assessment is that the EA and the subsequent EA Report has been of benefit in providing directional guidance to DAS(ACS) in a time of organisational and operational change.
- 3.6.13 The Committee examines the specific aspects of planned specific maintenance that were addressed by the AAO and makes certain recommendations in the following chapters.

CHAPTER 4

GENERAL IMPLICATIONS OF PROGRAMMING AND
FUNDING ARRANGEMENTS

4.1 Introduction

4.1.1 The EA Report provides a precis of the steps involved in the programming and funding arrangements that existed when the EA was conducted (EA Report, pp.4-5).

4.1.2 This chapter examines the main aspects of the programming and funding arrangements as they were addressed in the EA Report: the timeliness of maintenance work, resource implications, cash management considerations and the maintenance backlog.

4.2 Timeliness of maintenance work - EA findings

4.2.1 During the EA the AAO found, inter alia, that:

- . under normal circumstances the minimum period between the date assets were first inspected and maintenance needs identified, and the date maintenance work was commenced, was in the order of 18 months;
- . 'revote' items often exceeded 50% of the proportion of a new years program. Appendix VI (Exhibit No.4) details expenditure on R&M and shows the amount represented by 'revote' items, and
- . in addition to the effect which 'revote' items has on DHC's capacity to undertake new works in a

timely manner, slippage was also caused by the availability of the asset concerned {EA Report, p.7}.

- 4.2.2 The AAO concluded, inter alia, that 'while planned specific maintenance is undertaken in accordance with a predetermined plan or program, the time lag between the identification of maintenance requirements and the execution of work mitigates against the timely and effective upkeep of Commonwealth assets' {EA Report, p.8}. As a result, the AAO recommended that DHC review the existing arrangements with the aim of reducing the timeframe involved in the planning and execution of planned specific maintenance (Recommendation 1) {EA Report, p.14}.
- 4.3 DHC comments
- 4.3.1 DHC provided comments which were incorporated in the EA Report (refer Appendix V). In summary, however, DHC agreed with the overall thrust of the recommendation but added that 'the extent to which "slippage" could be reduced in practice would depend importantly upon the future availability of funding' {EA Report, p.15}
- 4.4 Factors considered by the Committee
- 4.4.1 From 1989/90 onward, DAS(ACS) will progressively introduce new procedures embodying the concept of maintenance programs being based on rolling strategy plans which are reviewed annually and updated at three to five year intervals. Use of this procedure will reduce and manage the time taken for the planning and execution of specific maintenance {Evidence, pp.S89 and 115}.

4.4.2 Unlike the AAO and DSS who believe that the program formulation and execution phases should be shortened {Evidence, pp.87 and 97}, DAS(ACS) stated that:

Provided you have decided to do the task, it is not as time sensitive as all that. Deterioration is a gradual process. We are very conscious of the fact that people's expectations get raised if someone races in and carries out an inspection and says that the place does need to be repainted and the windows do need to be rehung....We have a set of classifications that do pick up those things that affect health and safety, and they are done as a matter of very first priority. I do not believe that there are delays in that area. What we are talking about is what we call priority work, which has, if not carried out in a reasonable timeframe, the capacity to shorten the life or decrease the value of the asset, but not really to have a significant effect on the use that has been made of that asset {Evidence, pp.7-8}.

4.4.3 The evidence indicates that the total budgeted expenditure on revote works is increasing slightly in overall terms but that the level of overall programs has also been increasing. `In Defence it is not increasing, in civil departments it would be keeping at about the same level in real terms {Evidence, p.13}.

4.5 Committee conclusions and recommendation

4.5.1 The Committee concludes that:

- . the eighteen month delay from the identification of maintenance needs to program execution 'mitigates against the timely and effective upkeep of Commonwealth assets' {EA Report, p.8};
- . new procedures are required to reduce the time involved in program formulation and execution, and

- . the high levels of revote work (often exceeding 50% of the proportion of a new years program) inhibits ACS's ability to undertake new Section 2 programs.

4.5.2 Although new procedures to reduce and manage the time between the planning and execution of Section 2 works have been developed (to be progressively introduced from 1989/90 onwards) it is too early for the Committee to draw any conclusions about its effectiveness.

4.5.3 The Committee recommends that the new procedures being introduced (from 1989/90 onwards) to reduce and manage the time between program formulation and execution be monitored by DAS(ACS) and the findings reported in its Annual Reports (Recommendation 1).

4.6 Resource implications - EA findings

4.6.1 The AAO noted in regard to resource implications that the progress in implementing recommendations made by the JMR in 1982 had been slow. The AAO expressed concern about the likely timeframe in which any change will take place (EA Report, pp.9-10).

4.6.2 During the course of the EA, the AAO found, inter alia, that:

- . the existing procedures for the identification of maintenance needs by DHC were labour intensive;
- . a significant proportion of DHC's program recommendations were not taken up in final programs, principally because of funding constraints, and

the program formulation process for planned specific maintenance had remained substantially unchanged in spite of the JMR (EA Report, p.9).

4.6.3 The AAO concluded, inter alia, that the considerable staff resources used in the preparation of maintenance recommendations were wasted, as the recommendations did not always result directly in the execution of work due to funding constraints. In addition, the AAO considered that the cost of staff resources, which did not result in the maintenance of assets, should be separately identified. The AAO further concluded that a move to a more efficient approach to program formulation could not be accomplished without a marked improvement in the quality of DHC's asset information system (EA Report, p.10).

4.6.4 The AAO recommended, inter alia, that DHC review the existing arrangements with the aim of developing alternative approaches to the formulation of maintenance programs so as to move away from the preparation of maintenance recommendations on an asset by asset basis (Recommendation 1) (EA Report, p.14).

4.7 DHC comments

4.7.1 DHC's comments which were incorporated in the EA Report (refer Appendix V) indicated that DHC agreed with the overall thrust of the recommendation. 'As regards alternative approaches to program formulation, the Department is committed to the principles embodied in the JMR recommendations, including development of planned maintenance program levels based on a formula approach as an objective' (EA Report, p.15). DHC commented further that 'the fact that funding

constraints restricted the number of maintenance recommendations subsequently adopted does not, however, imply that resources utilised for this purpose are "wasted"...' (EA Report, p.15). DHC foreshadowed that 'under the program budgeting structure adopted by DHC for implementation in 1987-88, provision had been made for the separate identification of resources allocated to program formulation' (EA Report, p.15).

4.8 Factors considered by the Committee

4.8.1 DAS(ACS) advised the Committee of the resource requirements during the identification of maintenance needs.

In very broad terms, of the amount of work recommended for programs - which is something like \$200m - our on-costs would be 3 per cent. That is about \$6m worth of resources. Our total resource costs on a program which cover both minor new works and repairs and maintenance - and we are tending to regard that as the asset management service - last year were valued at \$300m. Our on-costs were in the range of 15 per cent. So it cost \$45m. So \$6m out of \$45m is the relative cost of the program formulations (Evidence, p.44).

4.8.2 DAS(ACS) advised the Committee that it recognises the need to establish the more cost effective method of assessing maintenance needs for a program, particularly in terms of staff and system resources and quality of information about assets (Evidence, p.S12). After assessing the formula approach and concluding it was not practical (Evidence, p.S12) DAS(ACS) abandoned it in favour of developing a condition appraisal approach to setting program levels (Evidence, p.S89) which surveys

all assets to set the level of all components of R&M programs and determines the most important specific maintenance works to be included in programs each year. Detailed examinations for these priority works can then be carried out as part of the design and documentation process (Evidence, p.S13). DAS(ACS) is currently developing this approach through pilot studies and consultation.

4.8.3 DAS(ACS) believes that the condition appraisal approach 'is both economical of resources and a much more effective way of being able to demonstrate that maintenance money is being put to the optimum use' (Evidence, p.6).

4.9 Committee conclusions

4.9.1 The Committee concludes that:

- . there has been substantial progress in developing new and refined procedures covering the program formulation process;
- . the condition appraisal approach to setting program levels is less labour intensive and represents a move away from the preparation of maintenance recommendations on an asset by asset basis, and
- . funding constraints restrict the execution of work.

4.10 Cash management considerations - EA findings

4.10.1 The AAO noted, in regard to cash management considerations, that under the arrangements that existed

when the EA was conducted, the appropriations for R&M managed by DHC, were itemised under 35 separate appropriation items.

4.10.2 During the course of the EA, the AAO's more significant findings were that:

- . historically, moneys appropriated for R&M had not been fully spent by 30 June. (Appendix VII contains a table detailing appropriations and actual expenditure which updates the table appearing on page 10 of the EA Report);
- . DHC was not achieving its objective of actual expenditure against the amount appropriated due to factors such as change to client programs and delays in the completion of work by private contractors, and
- . DHC's capacity to manage effectively the aggregate cash allocation for R&M was hindered by the large number of appropriation items (EA Report, p.10).

4.10.3 The AAO concluded, inter alia, that 'the benefits which would result from reducing the number of appropriation items, in terms of improved cash management, need to be weighed against the disadvantages and controls which would need to be put in place to ensure an equitable allocation of work across all client departments (EA Report, p.11).

4.10.4 As a result, the AAO recommended that the desirability of changing existing appropriation arrangements be assessed and that the resources used in meeting its responsibility to provide an asset management service to

client departments and those used in developing maintenance programs be identified separately (Recommendation 1) (EA Report, p.14).

4.11 DHC comments

4.11.1 DHC's comments indicated that DHC agreed with the EA findings and recommendation (EA Report, p.15 and Appendix V).

4.12 Factors considered by the Committee

4.12.1 DAS(ACS) advised the Committee that some significant changes are taking place in regard to cash management. 'Clients and owners will be appropriated the funds in the Budget for both capital works and running expenses, which will cover the maintenance either directly or indirectly through rents' (Evidence, p.108). Further, 'changes in funding arrangements now in hand will effectively reduce the number of appropriation items and provide the flexibility ACS has long sought (Evidence, p.S90). DAS(ACS) 'support very strongly the concept of being able, as a central maintenance authority, to be able to shift money on behalf of clients as the priority needs arise during the year' (Evidence, p.13). 'Certainly it suits us to have the civil departments appropriated in one group to DAS because we are able to provide a much stronger input to the maintenance needs. With the needs that are identified through our inspections we have a greater influence in seeing that the money is best directed to the areas that we are aware have the greatest maintenance needs' (Evidence, p.21).

4.12.2 In regard to the identification of resources, under the Program Budgeting structure adopted, DAS(ACS) is now operating an activity recording system based on a structure of services provided and charged for under its business plan. As far as the asset management program is concerned, these are program formulation, delivery of operational service, recurring maintenance, repairs and specific maintenance {Evidence, p.S90}.

4.12.3 The EA highlighted the fact that historically moneys appropriated have not been fully expended by 30 June of a given financial year. In 1985-86 there was a shortfall of \$7M. DAS(ACS) have explained that the reason for the shortfall between the appropriated amount and money spent is the 29 separate appropriation lines for civil departments leading to inflexibility in cases where contracts may have been delayed, industrial problems or the difficulty in obtaining suitable tenders. 'If you have got a large number of lines of appropriation there will be a greater likelihood of under expenditure.' {Evidence, pp.16-17} However, DAS(ACS) has a job tracking system in place to monitor works programs in an effort to predict underspending.

4.12.4 The Committee was advised that the level of commitment i.e. 'revote' carried forward to the next financial year is between 30 and 50% {Evidence, p.19}.

4.13 Committee conclusions and recommendation

4.13.1 The Committee concludes that:

. in many cases there were valid reasons for the shortfall between the amount appropriated and the amount spent. However, recent changes to funding

arrangements, culminating in the reduction of appropriation lines, will provide DAS(ACS) with more flexibility in managing the aggregate cash allocation for R&M;

- . DAS(ACS) should have the ability to be able to transfer funds on behalf of clients as priorities change throughout the year, however, safeguards must be introduced to protect individual client departments R&M programs, and
- . substantial progress has been made under Program Budgeting to separate those resources used to meet asset management services and those used in developing maintenance programs.

4.13.2 **The Committee recommends that DAS(ACS) and the Department of Finance examine ways to protect individual client departments R&M programs (Recommendation 2).**

4.14 Maintenance backlog - Introduction

4.14.1 The table below contains the revised figures relating to the R&M backlog {Exhibit 2}. The original table appeared on page 13 of the EA Report.

REVISED TABLE OF R&M BACKLOG

	Civil (\$M)		Defence (\$M)		Total (\$M)
	*	**		***	
1983/84	16			108	124
1984/85	15			103	118
1985/86	16	(13)		118	134
1986/87	(13)	12	(9)	114	126
1987/88	(17)	(16)	10	(96)	80

Column under * excludes ACT Territories, Municipal and Territorial R&M.

Column under ** excludes R&M for ACT Schools, TAFE and Australian Institute of Sport.

Column under *** excludes Houses as Defence Housing Authority created 1/1/88.

Note: Figures in brackets are not included in the total shortfall, but show derived figures for comparison.

4.14.2 DAS(ACS) are of the opinion that the growth in backlog has been less than inflation in recent years {Evidence, p.14}.

4.15 EA findings

4.15.1 During the course of the EA, the AAO found, inter alia, that:

- with the exception of the DOD, details of the maintenance backlog were not advised formally to client departments;

- . references to the size of the backlog were not supported by an analysis of the technical and financial implications of the backlog;
- . in regard to Army assets, there was a severe maintenance backlog, and
- . in regard to Army, specific action to address the conclusions and recommendations of a 1985 review had not been undertaken (EA Report, pp.13-14).

4.15.2 The AAO concluded, inter alia, that funds allocated for R&M in recent years did not match maintenance requirements as identified by DHC resulting in the build-up of a significant backlog. Further, the lack of adequate support data on the operational implications of the maintenance backlog had seriously weakened the credibility of the case advanced for additional funding for maintenance work. Finally, The AAO concluded that improved information systems were necessary if data substantiating assessed maintenance needs is to be available in the future (EA Report, p.14).

4.15.3 The AAO recommended that DHC assess, as a matter of priority, the implications of the backlog so as to provide more definitive support for future funding levels (Recommendation 2) and further consideration be given to the Army backlog and the full operational implications of the same (Recommendation 3) (EA Report, p.14).

4.16 DHC comments

4.16.1 Once again DHC agreed with the overall thrust of the recommendations and 'acknowledged there is a need to

develop, to the extent possible within available resources, more comprehensive and persuasive assessments of the implications of the backlog based on improved supporting data' (EA Report, p.15).

4.17 Factors considered by the Committee

- 4.17.1 DAS(ACS) advised the Committee that, 'under the new procedures now devised, the management of backlog will be an inherent component of the maintenance strategy plan for a particular facility which will be subject to a policy review by clients at a regional/national level' (Evidence, p.S91). Backlog implications will take account of both the existing and intended use of assets. In ACS's view, the assessment of backlog can be refined, so that backlog is identified at more realistic levels of priority appropriate at the time of assessment, and the consequences of deferral highlighted to a greater degree (Evidence, p.S15).
- 4.17.2 DAS(ACS) acknowledge that the existing level of backlog is not desirable and its possible that the cost of urgent maintenance and operations is too high because of a lack of timely planned maintenance (Evidence, p.S16).
- 4.17.3 DAS(ACS) has given high priority to the review of the Army backlog in order to make an assessment of the technical and financial implications of the backlog (Evidence, p.S16). Since the EA, Army has initiated action to address the backlog problem (EA Report, p.16).
- 4.17.4 DAS(ACS) believe that two things are necessary to reduce the backlog. Firstly, to adopt a closer liaison with the client on the use of the facility so that the backlog as expressed is a real one. Secondly, expenditure between

recurring maintenance and specific maintenance is judged in those terms and requires stronger arguments about strategic planning of the real maintenance needs (Evidence, p.27). However, DAS(ACS) 'do not think it is entirely desirable to have zero backlog, as long as it is a small manageable backlog...' (Evidence, p.28).

4.18 Committee conclusions and recommendation

4.18.1 The Committee concludes that in regard to maintenance:

- . the existing level of backlog is undesirable;
- . both DAS(ACS) and DOD(Army) have taken steps to address the backlog problem;
- . DAS(ACS) has introduced new procedures to identify more realistic levels of maintenance priority, and
- . substantial progress has been made on redeveloping and enhancing the information systems to collect and manage the data necessary to substantiate assessed maintenance needs (see chapter 5).

4.18.2 The Committee recommends that priority continue to be given to reducing the maintenance backlog (Recommendation 3).

CHAPTER 5
ASSET INFORMATION SYSTEMS

5.1 Introduction

- 5.1.1 The Asset Control System; now known by the acronym 'Renew' system, introduced about 10 years ago and subsequently expanded and enhanced, is used to schedule inspections of assets on a cyclical basis, collate information obtained from physical inspections, store maintenance histories of assets, and assemble recommendations to clients (Evidence, p.10). Other computerised systems e.g. QUIK-EST are used in the delivery process to organise design work, plan the execution and track progress of work.
- 5.1.2 The 1982 JMR revealed deficiencies in the existing computer system which DHC endeavoured to rectify by redevelopment and enhancement. Four years later the EA revealed that DHC had been implementing the JMR recommendations although shortage of resources and competing departmental priorities meant that progress had been slow (EA Report, p.2).
- 5.1.3 The objective of the audit exercise in relation to its examination of DHC's information systems was; to examine the procedures for maintaining the Asset Control System and review the progress made on its redevelopment.

5.2 EA findings

5.2.1 The AAO's examination of procedures for the maintenance of the Asset Control System disclosed, amongst other things, that:

- . although the Asset Control System had sufficient memory, the asset information input was limited;
- . it did not include asset details which the AAO considered necessary to enable DHC to perform its function as asset manager;
- . data which should have been collected at regional office level for input into the Asset Control System was not collected;
- . the format of existing financial and other information recording systems limited DHC's capability to access relevant asset information and input into the Asset Control System where appropriate, and
- . there were deficiencies in procedures for updating the Asset Control System with details of asset additions and disposals.

5.2.2 As a result of the above deficiencies, the AAO was unable to conclude that the Asset Control System was a complete and up-to-date listing of the assets which DHC was responsible for maintaining {EA Report, p.17-18}.

5.2.3 The AAO's review of the progress made on the redevelopment of the Asset Control System disclosed that progress on Stage 1 of the redevelopment had been

affected adversely by technical problems and competing demands for computer resources within DHC. The resulting delays forced DHC to decide on a combined implementation of Stages 1 and 2 with a target commencing date of June 1986. No timetable had been set for the development of the 'enhanced' system. The 'basic replacement' represented a move towards the concept of asset management envisaged by the JMR. However, several unsatisfactory matters were identified during the EA. They were, inter alia, that:

- . there was no evidence that the collection of data was proceeding at the regional level or that any formal assessment had been carried out of the extent of the deficiencies in existing information holdings;
- . although some consideration had been given to the development of an asset information improvement plan to collect and verify critical data, at the time of the EA, no firm strategy to do this had been developed on a national basis;
- . no capability existed for the automatic transfer to the Asset Control System of data recorded in other systems;
- . there was no evidence to indicate that DHC had identified the changes which the 'basic replacement' would have on the day-to-day operations of the regional office, and
- . there was a satisfactory level of user participation in the development of the 'basic replacement' Asset Control System (EA Report, pp.18-19).

5.2.4 Whilst the AAO saw the upgrading of the asset information system as a prerequisite to any move away from the asset by asset approach to program formulation, the AAO was satisfied that the redeveloped Asset Control System would have the potential to address adequately the deficiencies of the existing system (EA Report, pp.17 and 19).

5.2.5 The AAO made two recommendations (Recommendations 4 and 5) aimed at DHC; determining its data requirements, giving priority to the development of a data improvement plan, implementing an 'enhanced' Asset Control System and establishing links with other systems (EA Report, P.20).

5.3 DHC comments

5.3.1 DHC provided comments which were incorporated in the EA Report and are detailed in Appendix V. In summary, however, DHC agreed that:

There is considerable scope for further development and refinement of the Asset Control System. However, recommendations to that end need to be viewed in the context of the complexity of the task and the achievements of recent years in bringing the Asset Control System to its current state of development (EA Report, p.20).

5.3.2 DHC advised that 'priority was being given to the collection and analysis of the most essential data'. Further, that 'the feasibility of establishing physical links between the Asset Control System and other systems was being pursued ...' (EA Report, p.20).

5.4 Factors considered by the Committee

5.4.1 Since the EA, DAS(ACS) has made progress in implementing the AAO's recommendations. Specific action to date includes the:

- . new Asset Control System - Mark 2 brought into production in July 1986;
- . draft guidelines concerning the collection of data for the operation of the Asset Control System issued by central office to all regional offices in March 1987, and
- . setting of a target (December 1988) for completion of data acquisition to the mandatory fields in the existing Asset Control System (Evidence, p.S16).

5.4.2 DAS(ACS) considers that the collection of information is 'resource intensive and cannot be done overnight....It is being done as a phased collection process....The basic information will be available by the end of this calendar year (1988), however, there will be further information that will be collected even after that date' (Evidence, p.34).

5.4.3 In addition to the above, field data already held in the Asset Control System for review and data fields still requiring asset information was issued to regions in March to April 1988 (Evidence, pp.91-92).

5.4.4 An 'enhancement' termed 'Repair' was implemented in all regions during June to August 1988. The 'Repair' system takes account of the requirement for aggregating section maintenance costs at asset level ready for eventual transfer into the Asset Control System (Evidence, pp.91-92).

- 5.4.5 A working group has been set up to establish links between the Asset Control System and DAIS (the DAS accounting system). The link aims to feed back into the Asset Control System the completion dates and costs of jobs. The timetable for achieving the link is 1989 {Evidence, p.36}.
- 5.4.6 In regard to links with other departmental systems DAS(ACS) considers there is some scope {Evidence, p.36}.
- 5.4.7 Of concern to the Committee throughout the review was that DAS(ACS) still did not have a complete and up-to-date listing of the assets it was responsible for maintaining, although substantial progress had been made.
- 5.4.8 Of further concern to the Committee was the question of valuing the total stock of Commonwealth assets, which the AAO suggested had never been attempted. The Committee was subsequently advised by DAS(APG) that:

A detailed item by item valuation of the total stock of Commonwealth assets has not been attempted. Broad estimates have however been made.

Currently the Australian Property Group's property portfolio is estimated to be valued at about \$6,000 million. This estimate is based on a detailed knowledge of a relatively small cross section of the property assets held, extrapolated to allow for the total property holdings.

While an accurate up-to-date valuation of the total holdings would be of interest, its usefulness would be limited. Accurate valuations of individual properties are however necessary and are obtained when the utilisation or operations of these individual properties are being reviewed.

To attempt to obtain and keep up-to-date accurate valuations on the total property holdings would require major resources and considerable time. In the past resources to undertake this task have not been made available (Exhibit No.4).

5.4.9 As a focus for management improvement activities throughout DAS(ACS), a Management Improvement Plan (MIP) which identifies the key strategic issues to be addressed by managers in the coming year, is developed with progress against actions reviewed at each Quarterly Departmental Executive Meeting (QDEM). In 1986/87 financial year one of the key issues included in the MIP was the department's 'need to enhance its information systems in order to avoid duplication of effort, achieve consistency in definitions and provide a sound basis for measurement of workload and monitoring resource utilisation and productivity' (DHC Annual Report 1986-87, p.12).

5.5 Committee conclusions and recommendations

5.5.1 The Committee concludes that:

- . substantial progress has been made since the EA in the redevelopment and enhancement of the Asset Control System;
- . the development and enhancement of DAS(ACS) information systems is receiving high priority and features prominently in the department's future activities;
- . a comprehensive data collection of asset information is critical to the DAS(ACS) role as asset manager;
- . the recent reforms to ACS resulting in the further devolution of responsibilities to the APG and client departments requires that ACS endeavour to meet its target date for data collection;

- . DAS(ACS), as yet, does not have a complete and accurate record of all Commonwealth assets;
- . DAS(APG), as yet, does not have a total valuation of all the Commonwealth assets it maintains, and
- . an accurate up-to-date valuation of the total holdings would be extremely useful in property and asset management when taking decisions regarding the future of Commonwealth assets.

5.5.2 The Committee recommends that DAS(ACS) continue to give high priority to the continuing development and enhancement of its information systems (Recommendation 4).

5.5.3 The Committee also recommends that:

- . central office monitors the collection of data by its regional offices to ensure consistency of data input (Recommendation 5), and
- . high priority be given to establishing links between the 'Renew' system and other Departmental systems (Recommendation 6).

CHAPTER 6
PROGRAM FORMULATION

6.1 Introduction

- 6.1.1 Planned specific maintenance works (i.e. Section 2 works) are identified each year either by DAS(ACS), through cyclical inspections of assets and a review of previous recommendations to clients, or are nominated directly by clients. The results of the inspections are co-ordinated through a national approach at central office level (Evidence, p.S8).
- 6.1.2 Section 2 works 'account for approximately 45% of the R&M expenditure by Commonwealth budget funded organisations, or 39% of the total funds expended by DAS(ACS) on R&M when expenditures for statutory authorities are taken into account' (Evidence, p.S8). The activities carried out by DAS(ACS) in providing Section 2 works are summarised in the first submission received from DAS(ACS) (Evidence, pp.S8-10).
- 6.1.3 In an approach similar to that adopted in chapter 4 of this report, this chapter will examine the main aspects of program formulation as they were addressed in the EA Report : central office guidelines, maintenance standards, inspection cycles, priorities for maintenance recommendations, formulation of recommended maintenance programs and the preparation of final programs.

6.2 Central office guidelines - EA findings

6.2.1 The AAO's more significant findings in relation to this aspect were that:

- . the guidelines for the preparation of maintenance inspection reports (MIR's) had not been implemented uniformly in relation to setting inspection cycles and maintenance standard classifications (MSC's), and
- . no formal mechanisms were in place to assure adherence to the guidelines by respective regional offices (EA Report, p.21).

6.2.2 To improve procedures to ensure a consistent approach to the formulation of client programs, the AAO recommended that the status of the existing guidelines be changed to include them in 'Operating Procedures' (Recommendation 6). Further, the AAO recommended that reporting mechanisms between the central and regional offices be strengthened by increasing the role played by the central office in formulating policies and procedures and reviewing implementation of them in regions (Recommendation 7).

6.3 DHC comments

6.3.1 DHC provided comments which were incorporated in the EA Report and are detailed in Appendix V. In summary, DHC advised that action had been taken to address the AAO's recommendations and that development work on the Asset Control System was in progress which would allow the separate adjustment of estimates for inflation and deterioration (EA Report, pp.21-22).

6.4 Factors considered by the Committee

6.4.1 As a result of the JMR and EA Report, central office have, especially in the last eighteen months, taken a much more active role in regional management. Although DHC has traditionally operated as a decentralised organisation, the EA 'assisted in galvanising central office to redirect its policy guidance' (Evidence, p.50). Central office's greater participation in regional affairs is evidenced by:

- . the assistance given to regional offices to redirect thinking and in the training and implementation of the information systems etc.;
- . the issue of Asset Control System - Mark 2 guidelines;
- . revised Section 2 guidelines for program formulation;
- . assistance with training, and
- . the introduction of financial management improvement concepts such as Program Budgeting (Evidence, pp.50-51).

6.4.2 In addition, the final draft of 'Operating Procedures 400' has been issued to regions covering the new procedures developed for condition appraisal and the introduction of fee changing from 1 July 1989 (Evidence, p.S92).

6.5 **Committee conclusions**

6.5.1 The Committee concludes that DAS(ACS) has implemented all aspects of Recommendation 7.

6.6 **Maintenance standards - EA findings**

6.6.1 It is the AAO's view that:

For the effective use of funds available for maintenance, standards should be set which are directly related to the type and function of the assets and the strategies proposed for their eventual retirement, replacement or refurbishment. These standards should be expressed in unambiguous terms and be accompanied by adequate explanatory material to ensure that, as far as possible, they are interpreted uniformly and consistently. (EA Report, p.22).

6.6.2 However, during the EA, the AAO found, inter alia, that:

- . formal maintenance standards had not been developed by DHC's central office or the Victorian and Western Australian regional offices;
- . maintenance proposals were normally formulated on the basis of informal standards agreed at the time assets were inspected or from informal contact with client departments;
- . the current classifications of; prestige, normal and preservation had not been put to any useful effect in Victoria and Western Australia;

- . although DHC had issued revised asset classifications (April 1986) they were open to interpretation resulting in variations in the bases for assessing maintenance needs, and
- . more specific guidance to regional offices was required to ensure the uniform and consistent classification of assets {EA Report, p.22}.

6.6.3 The AAO concluded, inter alia, that; maintenance programs had not been developed on the basis of formally defined maintenance standards for each asset or class of asset and that the current bases on which recommended maintenance programs were prepared was deficient. In order to rectify the situation, the AAO recommended that existing asset classifications be defined more clearly and that uniform maintenance standards for each asset classification be developed to form the basis for assessments of future maintenance needs (Recommendation 8) {EA Report, pp.22-23}.

6.7 DHC comments

6.7.1 DHC's comments which were incorporated in the EA Report (refer Appendix V) advised of the promulgation of draft specific guidelines and associated checklists for the conduct of asset inspections. Whilst DHC accepted there was a need for continuing guidance regarding asset classifications and maintenance standards, 'such guidance cannot and should not eliminate the need for skilled professional judgement in the assessment of maintenance needs' {EA Report, p.23}.

6.8 Factors considered by the Committee

6.8.1 Draft specific guidelines and associated checklists for the conduct of asset inspections have been incorporated in the revised procedures. In addition, DAS(ACS) has advised that these procedures will continue to be reviewed and modified as necessary {Evidence, p.S93}.

6.8.2 DAS(ACS) are advocating more simpler and direct classifications of maintenance to reflect headings such as recurring maintenance, minor maintenance and repairs and operations. In its view adopting these classifications will enable clients to get a better idea of when they are spending specific maintenance money, reducing recurring costs or reducing the level of their operating costs {Evidence, p.16}.

6.9 Committee conclusions and recommendation

6.9.1 The Committee concludes that:

- . DAS(ACS) has addressed the EA findings in regard to the promulgation of specific guidelines and checklists for the conduct of asset inspections, and
- . progress is being made in redefining asset classifications in order to render them more realistic and simple.

6.9.2 The Committee recommends that DAS(ACS) give priority to finalising the redefinition of asset classifications (Recommendation 7).

6.10 Inspection cycles - EA findings

6.10.1 Assets are inspected on a cyclical basis; five years for external fabric, seven years for internal areas and between one and five years for engineering assets. However, during the EA, the AAO found, inter alia, that:

- . the basic inspection cycles specified by DHC's central office had not been subject to review since 1976;
- . different approaches had been adopted by regions in the determination of inspection cycles, and
- . the scheduling of asset inspections was based on the date the asset was last inspected rather than the date of actual maintenance which generally resulted in a reduction in the interval between inspections and an increase in the number of inspections carried out (EA Report, p.24).

6.10.2 The AAO concluded that, the basic inspection cycle which was set in 1976 should be reviewed and that central office oversight of the practices adopted in each region was inadequate. As a result, the AAO recommended that the cycle be reviewed (Recommendation 9) and that any variations to the basic cycle by regional offices be justified (Recommendation 10) (EA Report, p.24).

6.11 DHC comments

6.11.1 DHC's comments which were incorporated in the EA Report (refer Appendix V) advised that guidelines issued in April 1986 required the basic inspection cycles of five and seven years to be varied in the light of reports on individual assets, and made provision for extended cycles where that was judged cost effective. However, DHC continued, 'central office does not possess the resources to review, in any detail, the inspection programs proposed to client departments by regions..., nor would it consider allocation of resources for this

purpose to be justified' (EA Report, p.25).

6.12 **Factors considered by the Committee**

6.12.1 The question of inspection cycles has been largely overtaken by new procedures for the condition appraisal approach (Evidence, p.S93).

6.12.2 In relation to Recommendation 10, DAS(ACS) have advised the Committee that the 1987 ACS Users Workshop recommended minimum inspection cycles for ACS assets of two years. In addition, central office has developed and provided to regions a computer program which identifies all assets on one year cycles (or any other nominated cycle). DAS(ACS) expects regions to complete this task by the end of 1988 (Evidence, p.S93).

6.13 **Committee conclusions**

6.13.1 The Committee concludes that the subject of inspection cycles has largely been overtaken by; recent government decisions affecting the operation of DAS(ACS), the introduction of the condition appraisal approach and the redevelopment and enhancement of the Asset Control System - Mark 2.

6.14 Priorities for maintenance recommendations - EA findings

6.14.1 The EA disclosed that the revised (April 1986) guidelines had increased the number of priority categories to four; essential, high, medium and low, and revised the related criteria to be used in determining the appropriate priority. However, the EA also revealed some shortcomings. They were, inter alia, that:

- . DHC's procedures did not provide for recording the bases on which priorities had been assigned, therefore, it was not possible to ascertain the consequences of recommendations for maintenance not being taken up in approved programs;
- . on a national basis this lack of information severely limited DHC's ability to provide detailed support for the consequences of the maintenance backlog;
- . no guidance was provided to regions on how to assess cost penalties (the AAO in fact established that in practice, cost penalties were not quantified), and
- . cost penalty thresholds, of 15% and 30% first set in 1983, had not been received or agreed with client departments (EA Report, pp.25-26).

6.14.2 The AAO concluded, inter alia, that the assignment of priorities to maintenance recommendations is necessary to ensure that available funds are used in the most efficient manner and that DHC was unable to provide, as a matter of course, advice to client departments and to government of the possible consequences of maintenance recommendations not being taken up in approved maintenance programs. To address these shortcomings the AAO made three recommendations (Recommendations 11, 12 and 13) designed to improve the procedures relating to the assignment of priorities (EA Report, p.26).

6.15 DHC comments

6.15.1 DHC's comments incorporated in the EA Report (refer Appendix V) advised that, in regard to Recommendation 11, DHC had developed a series of tick boxes on MIR's to enable salient factors in determining priority ratings to be identified and recorded. Further, the revised guidelines require written technical explanations on all future estimates exceeding \$30,000 where the priority assigned to the work is high or medium and on all estimates regardless of value where the priority is assessed as essential (Evidence, p.S94).

6.15.2 DHC agreed with Recommendations 12 and 13, but did not offer further comment.

6.16 Factors considered by the Committee

6.16.1 The expansion of the Asset Control System database for recording special conditions has been included as part of the scope of work for a consultancy which is about to commence. In addition, action to implement Recommendation 12 has been completed. In regard to Recommendation 13, cost penalties both from a maintenance and operational view point will appear in the maintenance strategy plan as a basis for determining priority programs (Evidence, p.S94).

6.17 **Committee conclusions**

6.17.1 The Committee concludes that:

- . DAS(ACS) is addressing the requirements of Recommendation 11 by the employment of a consultant to expand the Asset Control System data base to record the bases on which maintenance priorities are assigned, and
- . Recommendations 12 and 13 have been implemented.

6.18 **Formulation of recommended maintenance programs - EA findings**

- 6.18.1 The 1983 central office guidelines required cost estimates of maintenance work to be prepared on the basis of guidelines formulated by DHC regional offices. These estimates formed the basis of DHC's recommended maintenance program. However, during the EA, the AAO found that the guidelines had not been prepared in either the Western Australia or Victoria regions. In addition, in many instances, the bases on which estimates were prepared were not documented resulting in the AAO being unable to assess the adequacy of the estimating procedures {EA Report, pp.26-27}.
- 6.18.2 In relation to lead times, the AAO found that the Victorian regional office had not developed a satisfactory policy to account separately for the effects of price movements and the physical deterioration of assets in the period between asset inspection and the execution of work. Inconsistencies were also discovered in the Western Australian region. These inconsistencies did not appear to be identified when client programs were co-ordinated by DHC's central office {Evidence Report, p.27}.

6.18.3 Once again the lack of progress in this area since the 1982 JMR concerned the AAO and it was unable to determine whether or not program estimates were prepared on a consistent and uniform basis and whether or not they were subject to adequate review. As a consequence, the AAO recommended (Recommendation 14) that further attention be given to ensuring the consistent and uniform preparation of program estimates through the development of guidelines and improvements in the level of supporting documentation and review {Evidence Report, p.28}.

6.19 DHC comments

6.19.1 In comments which were incorporated in the EA Report (refer Appendix V), DHC advised that 'the recommendation is accepted and steps have been taken to implement it'. As regards the treatment of cost escalation, DHC acknowledged 'that some differences in approach had emerged at the regional level', however, this too was being addressed {EA Report, p.28}.

6.20 Factors considered by the Committee

6.20.1 A consultant has been engaged by DAS(ACS) to modify the existing QUIK-EST system to more adequately suit; the Asset Control System Asset Inspection Program and the development of R&M programs. Progressive implementation of the product is being implemented subject to funding {Evidence, p.S94}.

6.21 Committee conclusions and recommendation

6.21.1 The Committee is unable to conclude at this early stage whether recent Government reforms and new program

formulation procedures introduced by DAS(ACS) will rectify the shortcomings identified in the EA.

6.21.2 The Committee recommends that the formulation of recommended maintenance programs be monitored by DAS(ACS) and the findings reported in its Annual Reports (Recommendation 8).

6.22 Preparation of final programs - EA findings

6.22.1 Following preparation of recommended maintenance programs, DHC's central office provides the DOD with a national assessment of maintenance needs. The EA revealed that the factors to be taken into consideration in the national assessment had not been clearly identified and there was no documentary evidence that all relevant matters had been evaluated in arriving at the program levels recommended. In addition, client departments, in some instances, were not in a position to make informed decisions about the consequences of excluding maintenance recommendations from draft programs (EA Report, p.28).

6.22.2 The AAO recommended that; procedures for the national assessment of maintenance needs should be formalised, assessments properly documented and subjected to review and national assessments extended to cover all client departments (Recommendation 15). The AAO also recommended that DHC should improve the level of advice to client departments about the consequences of not including recommended maintenance in draft maintenance programs (Recommendation 16) (EA Report, p.29).

6.23 DHC comments

6.23.1 According to DHC's comments (refer Appendix V) the necessary draft guidelines have been provided to address the problem, {EA Report, p.29}.

6.24 Committee finding

6.24.1 The Committee finds that Recommendations 15 and 16 of the EA Report have been implemented.

CHAPTER 7
PROGRAM EXECUTION

7.1 Introduction

7.1.1 The EA Report noted that work is scheduled by DHC on the basis of works requisitions submitted by client departments and that before maintenance work is undertaken, a further inspection of the asset is necessary to enable the preparation of documentation for tenders or the calculation of a detailed cost estimate. On receipt of a works requisition for an individual maintenance project, a decision is made whether to utilise DHC wages employees or to use private contractors to carry out the work (EA Report, pp.30 - 31).

7.1.2 In an approach similar to that adopted in previous chapters, this chapter examines those two aspects of program execution addressed by the AAO; the preparation of detailed estimates and the use of wages employees versus contract labour. However, the latter aspect was not examined in detail by the AAO, nor was the management of staff resources.

7.2 Preparation of detailed estimates - EA findings

7.2.1 The AAO's examination of procedures for the preparation of detailed estimates or tender documentation found, inter alia, that:

- . it was not possible to establish, except in general terms, whether the extent of work to be undertaken was the same as that covered by the original program estimate;

- . detailed estimates were, in the majority of cases, equal to the original program estimate plus 'write-ups';
- . it was more likely that the scope of work was tailored to meet the original program estimate, and
- . there were features in the existing financial arrangements which inhibited DHC's ability to manage the moneys appropriated for Section 2 works in the most effective manner (EA Report, p.30).

7.2.2 The AAO concluded that "existing procedures for the preparation of works requisitions and detailed estimates may inhibit the effective management of maintenance programs" (EA Report, p.30). As a result, the AAO recommended that procedures should be amended to provide for works requisitions for individual maintenance projects to be submitted to DHC by client departments following the preparation of a detailed estimate by DHC. Further, the revised procedures should specify that the inclusion of a project in an approved program is the authority for DHC to prepare a detailed estimate (Recommendation 17) (EA Report, pp.30-31).

7.2.3 The AAO believe that the implementation of the recommendation 'would break the existing nexus between program estimates and works requisitions thus complementing the move away from the preparation of maintenance programs on an asset by asset basis' (EA Report, p.31).

7.3 DHC comment

7.3.1 DHC supported the recommendation and restricted its comment to noting that its implementation would require amendment to Department of Finance Circular 1984/10 which outlines the budgeting administrative procedures for R&M {EA Report, p.31}.

7.4 Factors considered by the Committee

7.4.1 Since the EA, DAS(ACS) has implemented Recommendation 17. Development of the condition appraisal approach is underway. The approach involves a survey of all assets to set the level of all components of R&M programs and the determination of the most important specific maintenance works to be included in programs each year. Detailed examinations of the works are then carried out as part of the design and documentation process {Evidence, pp.S13 and S89}. The condition appraisal approach leads to the settling of an asset management strategy within which to develop detailed programs {Evidence, p.6}.

7.4.2 The EA was a catalyst for developing the condition appraisal system {Evidence, p.7}.

7.5 Committee conclusions

7.5.1 The Committee concludes that:

. DAS(ACS) is moving away from the preparation of maintenance programs on an asset by asset basis thus reducing the time between program formulation and execution, and

as a result of the restructuring of the department and the need to operate as a quasi - commercial business unit, DAS(ACS) will no doubt institute further improvements to promote efficiency and effectiveness in achieving its objectives in regard to program execution.

7.6 Wages employees versus contract labour - EA findings

7.6.1 Wages employees, previously known as the 'day labour force' are trade employees on the DAS(ACS) establishment, generally located at district offices and engaged on physical work activities e.g. plumbers, painters and carpenters.

7.6.2 Subject of Finance Directions, DAS(ACS) arranges for work to be carried out by either contract labour or wages employees or a combination of both. Work carried out by contract labour involves DAS(ACS); preparing plans and specifications for public tender invitation, preparing simpler documents for the arrangement of quotations, or setting up period contracts against which works can be scheduled. Works carried out by wages employees requires the scheduling of tasks involved and the planning of resource utilisation and procurement of the necessary materials (Evidence, p.S9).

7.6.3 The AAO's more significant findings during the EA were that:

the proformas used in Victoria and Western Australia to record the reasons for seeking approval to use wages employees did not list relative cost as a valid reasons for opting for wages employees;

- . there was no evidence that DHC had analysed, in a systematic manner, the cost patterns of projects completed by both wages employees and by contract labour;
- . there was no requirement to document the reasons in support of a decision to utilise contract labour;
- . whilst it was recognised that `DHC has a responsibility to keep its wages employees workforce fully employed, it is considered that in selecting the method of executing work, regard was not necessarily given to the relative cost of wages employees and contract, and
- . due to the absence of analysis over time, DHC, was not well placed to ensure that maintenance work was undertaken in the most cost effective manner {EA Report, p.31}.

7.6.4 The AAO therefore recommended that `action be taken to obtain details of the relative cost of wages employees and contract and that the criterion of relative cost be considered at the time decisions are made on the method of executing maintenance projects (Recommendation 18) {EA Report, p.31}.

7.7 DHC comments

7.7.1 DHC provided comments which were incorporated in the EA Report (refer Appendix V). In summary, DHC did not agree with the inference that `wages employees were utilised to keep them "fully employed".... Current procedures require planned specific and urgent maintenance to be executed by contractors unless specific approval is given for the use of wages employees; and departmental delegates consider a range of factors, all bearing upon the likely cost of performing the work by contract and by wages employees, when selecting the most timely and cost effective delivery method' {EA Report, pp.31-32}.

7.8 Factors considered by the Committee

7.8.1 DAS(ACS) advised the Committee that it has 'reviewed the criteria for use of wages employees to ensure their consistent application across regions with explicit reference to relative cost effectiveness' (Evidence, p.S95}. In support of the rejection of the AAO's inference (refer para 7.7.1), DAS(ACS) provided figures which showed that, in 1985/86, over 60% of Section 2 maintenance work was undertaken by contract labour. In addition, as a further check, approval under ministerial delegation is required to utilise wages employees (Evidence, p.S95}.

7.8.2 As a focus for management improvement activities throughout DAS(ACS), a Management Improvement Plan (MIP) which identifies the key strategic issues to be addressed by managers in the coming year, is developed with progress against actions reviewed at each Quarterly Departmental Executive Meeting (QDEM). In 1986-87 financial year one of the key issues included in the MIP was the need for continuing review and development of policies and procedures spanning all areas of DAS(ACS) with particular reference to the future operations, size, skills etc. of the wages employee workforce and contracting practices and procedures (DHC Annual Report 1986-87, p.12}. The results of this initiative are yet to be reported.

7.8.3 Although the recent reforms to DAS have given government departments and authorities the ability to choose the private sector for project management services, DAS(ACS) has retained responsibility for the delivery of asset services. It appears to the Committee that the competitiveness of the wages employee workforce will not be completely open to market competition. As a result, the onus is on DAS(ACS) program managers to ensure the cost effectiveness of using them.

7.8.4 The AAO narrowed down the EA's terms of reference to exclude a detailed examination of the wages employees versus contract labour issue and the utilisation of staff resources. Although this was of concern to the Committee, it finds the AAO's explanations to its concerns plausible (Evidence, pp.66-68).

7.9 Committee conclusions and recommendation

7.9.1 The Committee concludes that DAS(ACS) has initiated procedures to monitor and compare the cost effectiveness of the wages employee workforce to contract labour. With the introduction of recent reforms DAS(ACS) could make the comparisons available to its tied clients.

7.9.2 The Committee recommends that the cost comparison between the wages employee workforce and contract labour be continuously monitored by DAS(ACS) program managers and the comparative figures be included in its Annual Reports (Recommendation 9).

CHAPTER 8
PROGRAM REVIEW

8.1 Introduction

8.1.1 In an approach similar to that adopted in previous chapters, this chapter examines those two aspects of program review addressed by the AAO, namely, performance indicators and asset reviews.

8.1.2 The AAO's overall consideration in relation to the above aspects was that:

In addition to controlling and monitoring the preparation and execution of repairs and maintenance programs, it is desirable that management's performance is subjected to periodic review and evaluation against formally approved standards or performance indicators...Nonetheless, review processes would seem to be necessary in order to demonstrate that:

- . departmental resources engaged in repairs and maintenance are being managed effectively;
- . Commonwealth assets are being maintained adequately, and
- . organisational objectives relating to repairs and maintenance are being met
{EA Report, p.33}.

8.2 EA findings

8.2.1 The AAO's examination of performance indicators disclosed that:

- . the primary performance indicator operating in DHC's GWD was the achievement of expenditure as a proportion of the related budget appropriation, which did not necessarily address issues of accountability for cost, productivity or levels of service;
- . DHC was developing a number of performance indicators covering several areas of operation including policy activities, program formulation and the supervision of wages employees;
- . performance indicators did not address the concept of levels of service, condition of assets or the productivity and competitiveness of the wages employee workforce;
- . a decision on the method of data collection had not been made even though data requirements relating to the indicators developed had been identified and some action taken to develop procedures for the collection and assessment of the required information;
- . the variables used in a number of the indicators were unsuitable for the purposes of measuring DHC's performance, and
- . considerable delays had occurred in finalising the intended asset review procedures recommended by the 1982 JMR (EA Report, pp.33-34).

8.2.2 As a result, the AAO recommended that 'higher priority be given to finalising procedures for the conduct of asset reviews in conjunction with the development of performance indicators as part of the implementation of program budgeting' (EA Report, p.34).

8.3 **DHC comments**

8.3.1 DHC provided the following comments which were incorporated in the EA Report (refer Appendix V).

8.3.2 DHC accepted the AAO's recommendation and gave priority to finalising procedures for the conduct of asset reviews. In addition, internal reviews of services were scheduled for inclusion in the Department's Strategic Audit Plan. Further, the Department's program budgeting structure made provision for the development of efficiency indicators for the asset management subprogram. Finally, summary indicators of asset management inputs to outputs are to be provided to the Department's quarterly executive meetings with further refinement and extension envisaged (EA Report, p.34).

8.4 **Factors considered by the Committee**

8.4.1 DAS(ACS) advised the Committee that the 'Operational Procedure on Asset Reviews (OP 506)' was issued in April 1988 to regions and central office functional areas. In addition, performance indicators aligned to time taken to finalise jobs, compared to completion dates agreed with clients, were used in the 1987/88 program (Evidence, pp.S27 and S96).

- 8.4.2 The Committee ascertained that DAS(ACS) now had in place three methods to measure performance; the physical performance of an asset or of an asset group, service indicators to measure how well DAS(ACS) has done in providing the service and general financial indicators measuring estimated expenditure against actual expenditure (Evidence, p.52).
- 8.4.3 In regard to physical performance and service indicators, DAS(ACS) advised that through its involvement in the National Committee on Rationalised Buildings (NCRB), it has taken steps to set up a consistent set of descriptions of maintenance work. In addition, it has set up internal levels of service indicators, with regions reporting in terms of how much maintenance is done compared to the time taken. DAS(ACS) is currently achieving physical completion of between 75 and 85% of specific maintenance projects in the time agreed with clients. DAS(ACS) is of the opinion that its figures are competitive with the private sector (Evidence, p.52). In regard to financial performance indicators DAS(ACS) has advised that 'they are really the regular ones against which we have been reporting for some considerable time' (Evidence, p.53).
- 8.4.4 According to DHC's 1986-87 Annual Report, 'all Departmental activities are now subject to performance review'. Formal reporting mechanisms include:
- . written reports to senior executives addressing such things as; achievement against plans, costs of delivering services and quality and time performance, and

- . performance data provided by regions and central office covering such things as; performance measures against agreed targets, program and support services resource levels, identification of annual and quarterly budgets and details of year-to-date resource deployment.

These reporting formats allow for comparison of performance and costs both between offices and historically within an office. The formats aim to account for all inputs (i.e resources) against outputs (expressed as a program expenditure or other workload measure) {DHC Annual Report 1986-87, pp. 13-14}.

- 8.4.5 In addition to the above, Program Budgeting and its associated arrangements requires that performance indicators, for each element of a program, be refined to enable accurate reporting on the level of achievement of objectives, and to ensure the provision of accurate and timely advice to management {DHC Annual Report 1986-87, p.14}.

8.5 Committee conclusions and recommendation

8.5.1 The Committee concludes that:

- . the adverse findings of the EA, in relation to performance indicators, have been largely addressed by DAS(ACS);
- . Apart from the financial indicator which measures, amongst other things, the achievement of expenditure as a proportion of the related budget appropriation, DAS(ACS) has instituted indicators to address the timeliness and cost of delivery

of specific maintenance projects against agreed targets and quality of service. Greater emphasis is being placed on program outputs and outcomes rather than detailed input controls;

- . DAS(ACS) is making progress in capturing the data requirements necessary for the measurement of performance in the Asset Control System;
- . in the current financial era, performance indicators are critical to the success or otherwise of the DAS(ACS) Program Budgeting Strategy and FMIP;
- . DAS(ACS) should continue to pursue a management philosophy which has amongst its elements the regular review, in terms of performance, of all its departmental activities, and
- . although project review mechanisms and practices have been improved, there is still room for improvement in their effectiveness (refer DHC Annual Report 1986-87, p.12).

8.5.2 The Committee is unable to conclude whether the 'Operational Procedure on Asset Reviews (OP 506)' meets the DAS(ACS) stated purpose in helping it to adequately fulfil its asset management function.

8.5.3 The Committee recommends that the aspects of program review addressed by the EA be monitored by DAS(ACS) and the findings reported in its Annual Reports (Recommendation 10).



STEPHEN MARTIN, MP
CHAIRMAN

APPENDIX I

LIST OF SUBMISSIONS

SUBMISSION NO.	ORGANISATION/DATE	PAGE NO.
1.	Department of Administrative Services, Canberra, ACT, dated 7 April 1988.	S1
2.	Department of Defence, Canberra, ACT, dated 13 April 1988	S29
3.	Australian Taxation Office, Canberra, ACT, undated	S35
4.	Administrative and Clerical Officers' Association (Queensland Branch) and the Federated Clerks Union (Taxation Officers' Branch), Brisbane, QLD, dated 4 July 1988	S44
5.	Department of Social Security, Canberra, ACT, dated 16 September 1988	S53
6.	Department of Administrative Services, Canberra, ACT, dated 16 September 1988	S79

LIST OF EXHIBITS

EXHIBIT NO.	DESCRIPTION
1.	<u>The Auditor-General's - Efficiency Audit Report, Department of Housing and Construction: repairs and maintenance of Commonwealth assets, Parl. Paper 115, AGPS, Canberra, 1987.</u>
2.	Department of Administrative Services (ACS) - Revised table of R&M backlog.
3.	Department of Administrative Services (ACS) - Comments on submissions from the ATO, the FCU/ACOA and the Department of Social Security.
4.	Department of Administrative Services (ACS) - Information relating to the transcript of evidence - 11 April 1988.
5.	Department of Administrative Services (ACS) - Update of table provided on page 10 of the <u>EA Report on the repairs and maintenance of Commonwealth assets</u> , which details appropriations and actual expenditure.
6.	Department of Administrative Services (ACS) - Press releases describing changes in the operations of ACS and the APG which flowed from the recent Government decisions together with a copy of the approved principles on which these decisions were based.

**LIST OF WITNESSES WHO GAVE
EVIDENCE AT HEARINGS**

Names of Witnesses	Date(s) of Appearance Before Committee at Public Hearings
Mr Ewen Fraser, Assistant Secretary, Asset Management and Operations, Australian Construction Services	11.4.88 29.9.88
Mr Ken Gosbell, Assistant Director, General Works, Victoria and Tasmanian Regions, Australian Construction Services	11.4.88 29.9.88
Mr Keith Baker, Principal Engineer, Asset Management Services, Australian Construction Services	11.4.88 29.9.88
Mr Frank Mestrov, Director, Development & Management Section, Australian Property Group	11.4.88 29.9.88
Mr Russell Coleman, Acting Assistant Auditor-General, Australian Audit Office	26.5.88
Mr Edward Hay, Assistant Auditor-General, Australian Audit Office	26.5.88
Mr John Riding-Hill, Assistant Auditor-General Australian Audit Office	26.5.88
Mr Peter White, Director, Audit, Australian Audit Office	26.5.88
Mr George Martin, Acting General Manager, Australian Construction Services	29.9.88

PRINCIPLES ISSUED FOR THE
FUTURE OPERATIONS OF THE
DAS - APRIL 1988

Principles applicable to all DAS services

Principle 1:

Efficiency and effectiveness in the achievement of Government objectives, assessed against the full range of economic and social objectives to be achieved, is the ultimate test against which arrangements for the provision of services should be judged.

Principle 2:

Options and arrangements for the provision of services should be assessed on a case-by-case basis and be the subject of full consultation with client agencies and relevant unions from the initial planning stage through implementation. Principles for services should provide a framework for the conduct of such case-by-case assessments rather than seek to specify uniform delivery arrangements for all services.

Principle 3:

Any changes to future service arrangements should be implemented over an appropriate period in order that service providers and client departments may be afforded an adequate adjustment period, and that Government may have the opportunity for review in the light of experience.

Principle 4:

Devolution to individual departments of management responsibilities for the supply of services, whether by way of managing in-house supply or contracting supply from the private sector, should satisfy the test that service supply by individual departments is more cost effective than supply by a central service agency from the perspective of the Commonwealth at large (as distinct from the perspective of individual departments).

Principle 5:

Each service unit should be managed in accordance with a written management 'charter' endorsed by the responsible Minister and/or Cabinet as appropriate.

Principle 6:

Each unit supplying a service should provide the responsible Minister with a corporate plan covering periods of three to five years ahead for consideration and approval.

Principle 7:

If Government decides that policy objectives or functions extending beyond the supply of a basic service to clients are to be pursued, these should be identified explicitly in the management charter and corporate plans for the service in question and be taken into account in assessing the service agency's performance.

Principle 8:

All service agencies should be in a position to inform Government of the costs of the services they provide, including costs which they do not fund directly under current arrangements (e.g. superannuation, rent). Program departments managing and/or providing their own services as significant undertakings in their own right should be in a position to report their costs in similar detail.

Principles relevant to those DAS services for which Government decides it is appropriate to charge

Principle 9:

Services which do not contain any significant 'public interest' component should be charged for unless it can be demonstrated that the costs of implementing and operating charging systems exceed the potential efficiency gains.

Principle 10:

Where in accordance with Principle 9 the majority of a service agency's services are properly chargeable, its financial objective should, in general, be to at least recover its costs from revenues after allowance for the financial effects of meeting any 'public interest obligations' forming part of the management charter for the service(s) in question.

Principle 11:

The introduction of charges should normally be accompanied by devolution of responsibility to program departments for bidding for associated funding. However, there will for some services be a continuing requirement for policy advice to Ministers regarding the expenditure and other implications of the resulting bids of individual departments for such funding.

Principle 12:

Where charges are made for services, client departments should normally receive and control the appropriations available to acquire the services. However, if charges are introduced for a service subject to a tied client arrangement, case-by-case consideration should be given to the desirability of the supplying agency having control over the funds (through appropriation or sub-warrant control arrangements).

Principle 13:

Introduction of charges for a given service with devolution of associated funding to departments should be accompanied by supplementation of clients' budgets, the level to be decided on a case-by-case basis.

Principles relevant to those DAS services which Government decides should operate on a quasi-commercial basis

Principle 14:

Where the Government considers it appropriate to commercialise a service the relevant service agency should normally be structured with a distinct identity within a departmental framework.

Principle 15:

Insofar as program departments are permitted to contract services from the private sector in accordance with Principle 4, they should be required to seek price quotations for the required service from existing Commonwealth service agencies.

Principle 16:

The cost effectiveness of service management or provision by individual program agencies should be subject to external scrutiny no less rigorous than that applied to service provision by central service agencies.

Principle 17:

Subject to achievement of their overall financial targets and consistent with commercial practice, service agencies should retain full management discretion in relation to the structure and level of charges for their individual service to individual clients. Where service agencies retain a degree of 'monopoly power' in relation to a given service, disputes regarding the level or structure of charges for that service should be referred to the responsible Ministers if not resolved between the service provider and its clients.

Principle 18:

Where a service agency is expected to operate as a quasi-commercial undertaking with charges for its services predominantly set on a cost recovery or commercial basis, the agency's finances should normally be conducted through Group 2 Trust Account arrangements.

Principle 19:

The disposition of the net surplus (if any) of the service agency after payment of all costs, should be considered annually against the general principle that surpluses will often need to be retained by the agency to finance future requirements of the agency.

Principle 20:

Where service agencies are established as quasi-commercial undertakings and operate through Group 2 Trust Accounts, their annual financial reports should be prepared in general accord with the Minister for Finance's Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings'.

Principle 21:

Service agencies operating in competition with the private sector should not be subjected to audit or disclosure requirements entailing disclosure of information of potential benefit to competitors.

Principle 22:

As a first step in establishing any quasi-commercial service agencies, and subject to agreement regarding their 'bottom line' financial targets, they should be free to exercise a high degree of management discretion and flexibility by removal of controls in respect of:

- . ASL and staffing profiles;
- . the resourcing mix to be adopted in service delivery (e.g. directions regarding the mix of in-house and contract resources);
- . the use of fee receipts in meeting operating and capital expenses;
- . the structure and level of fees for services to individual clients;
- . reporting requirements other than those applicable to government business enterprises and to meet the reporting requirements of the Parliament.

Principle 23:

Service agencies operating on a full cost recovery basis in competition with the private sector for Commonwealth business should be free, subject to the agreement of the responsible Minister (if not already current practice), to compete for non-Commonwealth business.

**SUMMARY OF EFFICIENCY AUDIT RECOMMENDATIONS, DEPARTMENTAL
RESPONSES AND SUBSEQUENT ACTION**

RECOMMENDATION 1

Efficiency audit recommendation 1

DHC should in conjunction with client departments and the Department of Finance, review existing funding and programming arrangements with the aim of:

- (a) reducing the time frame involved in the planning and execution of planned specific maintenance of Commonwealth assets,
- (b) developing alternative approaches to the formulation of maintenance programs so as to move away from the preparation of maintenance programs on an asset by asset basis,
- (c) assessing the desirability of changing existing appropriation arrangements, and
- (d) separately identifying the desirable level of resources which should be employed to meet its responsibilities to provide an asset management service to client departments.(2.6.1).

Departmental response

The overall thrust is accepted but implementation is dependent on a number of factors including the future availability of funding and the development of a reliable maintenance forecasting model (2.6.3 to 2.6.7).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

General

The Department agrees with the overall thrust of this recommendation but suggests that the following considerations are relevant to the timing and/or method of their implementation in practice.

In relation to subpara (a)

The period between formulation of maintenance recommendations and their execution in any particular year's program, is determined primarily by the funding available from year

to year, a factor beyond Departmental control to a significant extent. Even when recommended work has been included in the approved program for a given year, cash limits are typically such that larger jobs will tend to be commenced relatively late in the financial year, further contributing to the degree of 'slippage' identified by Audit.

. In relation to subpara (b)

Adoption of an approach using a formula for planned maintenance levels for different classes of assets is an ideal to which the Department is committed but its introduction will depend upon the development of a maintenance forecasting model based upon asset data the reliability of which can be demonstrated to client departments and the Department of Finance, a complex task.

However, even a formula approach to the preparation of initial maintenance recommendations will not in DHC's view obviate the need for a two stage estimating process entailing the reconsideration of priorities and preparation of detailed estimates once annual funds availability is known.

. In relation to subpara (c)

Each year the Department makes a major effort to ensure the achievement of expenditures on approved maintenance programs but the large number of appropriation items hinders the achievement of full expenditure against appropriations. The Department has canvassed this issue with Finance in the context of the 1986/87 Budget round and will continue to seek agreement to greater flexibility.

. In relation to subpara (d)

Under the Program Budgeting structure adopted by DHC for implementation in 1987/88, provision has been made for the separate identification of resources allocated to program formulation.

Status of recommendation as at August 1988 - DAS(ACS)

. General

Funding and programming arrangements are in the process of change. Defence and DVA will

fund asset management services directly. Civil departments will pay rent to DAS-APG, who will be responsible for provision of non-delegated repairs and maintenance through ACS.

ACS will be operating on a fee for service basis for the provision of asset management services as from 1 July 1989.

In relation to subpara (a)

From 1989/90 onward ACS will progressively introduce new procedures embodying the concept of maintenance programs being based on rolling strategy plans which are reviewed annually and updated at 3 to 5 year intervals. Use of this procedure will compress and manage the timeframes for planning and execution of specific maintenance.

In relation to subpara (b)

As advised in the April submission the formula approach has been abandoned in favour of condition appraisal.

In relation to subpara (c)

Changes in funding arrangements now in hand will effectively reduce the number of appropriation items and provide the flexibility ACS has long sought.

In relation to subpara (d)

ACS is now operating an activity recording system based on a structure of services provided and charged for under its business plan. As far as the asset management business is concerned, these are program formulation, delivery of operational service, recurring maintenance, repairs and specific maintenance.

Defence response

Defence agrees in principle. Defence and DAS(ACS) are reviewing current inter-departmental Memoranda-of-Agreement with a view to streamlining the execution of routine minor R&M. This action is also consistent with recommendation No. 5 of the Joint Committee of Public Accounts Report 272, 'Administration of the Commonwealth's Property Functions' (29 April 1987).

RECOMMENDATION 2**Efficiency audit recommendation 2**

DHC should assess as a matter of priority the implication of the maintenance backlog, both in terms of the technical and the financial consequences for Commonwealth assets so as to provide more definitive support for future funding levels, (2.6.2).

Departmental response

Accepted, but could be achieved only if the assessment of the backlog is accorded appropriate priority by client departments as well as by DHC (2.6.8).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

Revised guidelines for the formulation of MIR's issued by the Department in April 1986 are designed to show the implications of deferring maintenance more clearly. The Department notes, however, that the operational and financial (as distinct from the technical) consequences of deferring maintenance will depend upon a wide variety of factors specific to the operational objectives and procedures of individual clients. Thus development of the assessments recommended by Audit will require that they be accorded appropriate priority by clients as well as by DHC.

Status of recommendation as at August 1988 - DAS(ACS)

Recommendation implemented.

Under the new procedures now devised the management of 'backlog' will be an inherent component of the maintenance strategy plan for particular facility which will be subject to a policy review by clients at a regional/national level.

Defence response

The maintenance backlog for Defence, and in particular Army, has reduced owing to the increased level of expenditure and greater scrutiny of the real needs for R&M.

RECOMMENDATION 3

Efficiency audit recommendation 3

Further consideration should be given to the report on the maintenance backlog in respect of Army assets referred to at section 2.5.5. of this report and that Army, in consultation with DHC, should assess as soon as practicable the full implications of the backlog, (2.6.2).

Departmental response

Army now has taken action to address the issues identified by the report (2.6.10.)

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

See comment against recommendation 2 (the Department has held discussions and reviewed the backlog at two major Army establishments - not included in comment to Audit)

Status of recommendation as at August 1988 DAS(ACS)

Recommendation implemented.

As advised in the April submission this action has been completed.

Defence response

Defence and DAS(ACS) are conducting a trial on a number of Army establishments in the Ingleburn area, NSW, and the early findings reveal ways of effecting significant reductions in the maintenance backlog of Army assets. Detailed information of this trial can be provided by DAS(ACS).

RECOMMENDATION 4**Efficiency audit recommendation 4**

DHC should take immediate action to determine its data requirements, at least for the short term, and give priority to the development of a data improvement plan aimed at achieving a significant improvement in its asset information base, (3.5.1).

Departmental response

Accepted. Priority will continue to be given to the collection and analysis of the most essential data (3.5.4.)

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

The Department agrees that there is considerable scope for further development and refinement of its Asset Control System but notes the complexity of the task and the achievements of recent years. Priority will continue to be given to the collection and analysis of the most essential data.

Status of recommendation as at August 1988 - DAS(ACS)

Recommendation implemented.

Field data take up sheets identifying asset information already held in Asset Control System (for review) and data fields still requiring asset information were issued to regions (March - April 1988).

Resource levels have restricted the regions ability to gather the required data. Much of the data is presently being gathered by the round of annual asset inspections.

Defence response

Concur.

RECOMMENDATION 5**Efficiency audit recommendation 5**

Further attention should be given to the implementation of an 'enhanced' Asset Control System to assist DHC in providing an effective asset management service to client departments. As part of this process the feasibility of establishing physical links between the Asset Control System and other systems should be pursued further, (3.5.2).

Departmental response

Accepted (3.5.3. and 3.5.4).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

DHC notes that Audit is satisfied that the redeveloped Asset Control System will have the potential to address adequately the deficiencies of the existing system and is addressing them progressively. Priority will continue to be given to the collection and analysis of the most essential data. The Department agrees that a formal link with the DOLGAS Property Information Management System (PIMS) is desirable but notes that investigations to date of the feasibility of a formal link have identified major technical problems to be overcome. The feasibility of establishing physical links between the Asset Control System and other DHC information systems is being pursued as part of the Department's overall computing work plan as resources permit.

Status of recommendation as at August 1988 - DAS(ACS)

Recommendation implemented.

The urgent and minor maintenance system (known as the 'REPAIR' system) was implemented in all regions during June to August 1988. The system takes account of the requirement for aggregating section maintenance costs at asset level ready for eventual transfer into Asset Control System (soon to be named 'RENEW')

Defence response

Defence and DAS(ACS) agree in principle to an interconnected management information system between the two departments. The system, details of which are to be jointly investigated and developed, will provide a more responsive system for programming and decision making in the allocation of resources for repairs and maintenance.

RECOMMENDATION 6**Efficiency audit recommendation 6**

The status of DHC's "Guidelines for the Preparation of Maintenance Inspection Reports" be changed to "Operating Procedures", (4.2.3).

Departmental response

Under review (4.2.4. and 4.2.5).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

The Department agrees there is further scope to achieve improvements in consistency in implementation of MIR's and will review means if implementing Audit's recommendations to that end.

Status of recommendation as at August 1988 - DAS(ACS)

Recommendation implemented.

In view of the new procedures being developed for condition appraisal and the introduction of fee charging from 1.7.89, OP 400 is being issued to regions as a final draft. New procedures will be issued for the commencement of commercial operations.

Defence response

Defence supports the promulgation of operating procedures by DAS(ACS) subject to appropriate consultation, and will review its own internal procedures to ensure consistency.

RECOMMENDATION 7

Efficiency audit recommendation 7

Reporting mechanisms between DHC's central and regional offices should be strengthened, (4.2.3).

Departmental response

Under review (4.2.5).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

The issue of revised section 2 guidelines in April 1986 and issue of a new form in March 1987 for use in asset inspection is aimed at improving consistency in estimating practice. Development work on the Asset Control System - 2 is in progress with a target for completion of a cost adjustment facility in June 1987. This will allow the separate adjustment of estimates for inflation and, selectively, for deterioration. This facility will be available for use with 1987 asset inspection reports. Notwithstanding, the Department agrees there is further scope to achieve improvements in consistency of reporting and will review Audit's findings in this area.

Status of recommendation as at August 1988 - DAS(ACS)

This recommendation is receiving further consideration as to the appropriate method and time for implementation.

Revised procedures for the conditional appraisal approach provide for formal aggregation and reporting on maintenance assessment programs.

Defence response

No comment

RECOMMENDATION 8

Efficiency audit recommendation 8

Existing asset classifications should be defined more clearly and uniform maintenance standards for each asset classification should be developed to form the basis for assessments of future maintenance needs, (4.3.8).

Departmental response

Accepted (4.3.9).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

The Department notes that specific guidelines and associated checklists for the conduct of asset inspections were circulated to regions in draft form in October 1986. Formal maintenance standards have been developed in Victoria and are being adopted for inspections conducted in that region in 1987. DHC accepts the need for continuing guidance regarding asset classifications and maintenance standards but notes that such guidance cannot and should not eliminate the need for skilled professional judgement in the assessment of maintenance needs.

Status of recommendation as at August 1988 - DAS(ACS)

Recommendation implemented.

Work carried out reported upon in the original Attachment A has been incorporated in the revised procedures and will continue to be reviewed and modified as necessary.

Defence response

Concur

RECOMMENDATION 9**Efficiency audit recommendation 9**

The basic cycles for the inspection of assets should be reviewed in the light of improvements in building technology which may have taken place over the past ten years, (4.4.8).

Departmental response

Existing guidelines already provide for basic inspection cycles to be varied in the light of reports on individual assets (4.4.10).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

The Department notes that the revised guidelines for the preparation of MIR's issued in April 1986 require that the basic inspection cycles of five/seven years be varied in the light of reports on individual assets, and make provision for extended cycles where that is judged cost effective. In respect of the practice observed by Audit in Western Australia, guidelines have since been issued introducing a general move away from annual inspection cycles.

Status of recommendation as at August 1988 - DAS(ACS)**Recommendation Implemented.**

The technical review of relevant changes in building technology has been undertaken in conjunction with Scientific Services Branch and the Vic/Tas Region. A draft technical report has been completed and circulated to regions. However the question of inspection cycles has been largely overtaken by new procedures for condition appraisal.

Defence response

Defence specifies low maintenance materials with new building projects. However, the complexity of engineering and other technology systems (such as fixed fire protection, air conditioning and security measures) installed in these buildings often lead to greater levels of routine maintenance than that which may have been required in the superseded buildings.

RECOMMENDATION 10**Efficiency audit recommendation 10**

DHC's central office should review the annual inspection programs proposed by regional offices to ensure that variations to the basic inspection cycles are justified, (4.4.9).

Departmental response

Accepted that DHC's central office has a responsibility to review and disseminate relevant information to regions; but the allocation of resources to review, in any detail, the inspection programs proposed by regions is not justified (4.4.11).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

As regards the review of inspection programs proposed by regional offices, DHC acknowledges that its central office has a continuing responsibility to review and disseminate information of relevance to the determination of inspection cycles for individual assets. However, responsibility for the determination of inspection cycles for individual assets rests with regional offices (within departmental guidelines). DHC central office does not possess the resources to review in any detail the inspection programs proposed to clients by regions spread across 39 district offices and involving inspections of in excess of 10,000 assets annually, nor would it consider allocation.

Status of recommendation as at August 1988 - DAS(ACS)

To be replaced with new initiatives.

The 1987 ACS Users Workshop recommended minimum inspection cycles for ACS assets of two years, regions are currently reviewing assets on short cycles. Central office has developed and provided to regions a computer program which identifies all assets on 1 year cycles (or any other nominated cycle). Completion by regions of this task is expected by the end of 1988.

Defence response

No comment

RECOMMENDATION 11**Efficiency audit recommendation 11**

Procedures should be introduced which provide for the bases on which priorities have been assigned to be recorded and for these to be included, possible in codified form, in DHC recommended maintenance programs, (4.5.8).

Departmental response

Tick boxes on inspection reports have been developed to enable this information to be identified and recorded (4.5.10).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

DHC advises that it has now developed a series of tick boxes on inspection reports to enable the salient factors in determining priority ratings to be identified and recorded. The revised guidelines require written technical explanations on all future estimates exceeding \$30,000 where the priority assigned to the work is high or medium and on all estimates regardless of value where the priority is assessed as essential.

Status of recommendation as at August 1988 - DAS(ACS)

Recommendation implemented.

The expansion of the Asset Control System database for recording special conditions has been included as part of the scope of work for a consultancy which is about to commence.

Defence response

Defence agrees in principle with the new Asset Condition Assessment Sheet introduced by DAS(ACS). These new procedures allow a 'hurt' statement to be recorded where repairs and maintenance are not carried out. DAS(ACS) will be able to explain the details of these new assessment procedures.

RECOMMENDATION 12

Efficiency audit recommendation 12

Guidance should be provided to regional offices in respect to the assessment of cost penalties so that in the allocation of maintenance priorities a consistent approach is adopted across all regions, (4.5.9).

Department response

Accepted (4.5.10).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

DHC agrees with recommendations 12 & 13.

Status of recommendation as at August 1988 - DAS(ACS)

Recommendation implemented.

Guidance is provided in the new form with tick boxes referred to in 11 above, which forces a more systematic approach to setting priorities. Demonstration of cost penalties is being made more explicit in the computer based estimating system described in 14 below.

The new form provides an 'on the spot' aid for use by Inspecting Officers when assessing the likely cost penalty which would be incurred in the event of deferral of the recommendation.

Defence response

Defence agrees in principle.

RECOMMENDATION 13

Efficiency audit recommendation 13

Cost penalty thresholds should be subject to periodic review in consultation with client departments, (4.5.9).

Departmental response

Accepted (4.5.10).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

DHC agrees with recommendations 12 & 13.

Status of recommendation as at August 1988 - DAS(ACS)

Recommendation implemented.

Cost penalties both from a maintenance and operational viewpoint will appear in the maintenance strategy plan as a basis for determining priority programs.

Defence response

Defence agrees with the cost penalty thresholds identified in the new Asset Condition Assessment Sheet. Clearly, if the forecast deterioration is estimated to be less than 15% pa, (approximate cost of borrowing on the short-term money market) then there exists a financial incentive to not proceed with repairs and maintenance, providing that the operational performance of functions is not seriously disrupted.

RECOMMENDATION 14**Efficiency audit recommendation 14**

Until such time as revised program formulation procedures are introduced, further attention should be given to ensuring the consistent and uniform preparation of program estimates through the development of guidelines and improvements in the level of supporting documentation and review, (4.6.7).

Department response

Accepted (4.6.8 and 4.6.9).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

The Department agrees with this recommendation and has moved to implement it. Schedules of standard times for specific maintenance tasks, developed as a guideline for the preparation of estimates, have been issued in draft form to regional offices for evaluation. Procedures now in force in Victoria include the issue of annual explanatory minutes to District Managers and client departments indicating the basis of estimates and the conduct of training courses for District Estimators. The Department is also now commencing to test a new computer-based inspection and estimating process.

Status of recommendation as at August 1988 - DAS(ACS)

Recommendation implemented.

A consultant was engaged to modify the existing QUIK-EST system to more adequately suit the Asset Control System Asset Inspection Program and development of R&M programs. Pilot testing of the modified system is now complete and progressive implementation of the product is planned during this and the next financial year, dependent on funding availability.

Defence response

Concur.

RECOMMENDATION 15

Efficiency audit recommendation 15

Procedures for the national assessment of maintenance needs should be formalised, assessments be properly documented and subjected to review and national assessments extended to cover all client departments, (4.7.4).

Departmental response

Implemented (4.7.6).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

The DOD was advised in May 1986 of the basis of the current national assessments. All regional offices were provided with draft guidelines in November 1986 to enable national assessments to be provided more consistently to all client departments.

Status recommendation as at August 1988 - DAS(ACS)

Recommendation implemented.

National assessments were provided to all civil clients in February 1987 for the first time. The previous draft guidelines have now been formalised and national assessments will be provided to all civil and defence clients for future programs.

Defence response

Defence accepts within the current role of DAS(ACS) that it should provide national assessments. DAS(ACS) has provided this service to this Department for several years.

RECOMMENDATION 16

Efficiency audit recommendation 16

DHC should improve the level of advice to client departments about the consequences of not including recommended maintenance in their draft programs, (4.7.5).

Departmental response

Implemented (4.7.6).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

See comments against recommendation 2.

Status of recommendation as at December 1987 - DAS(ACS)

Recommendation implemented.

A report showing consequences of deferral against recommendations omitted from draft program has been specified for ACS and the necessary instructions issued to regional offices.

Defence response

Concur.

RECOMMENDATION 17

Efficiency audit recommendation 17

Procedures should be amended to provide for works requisitions to be submitted to DHC by client departments following the preparation of a detailed estimate by DHC; and to specify that the inclusion of a project in an approved program is the authority for DHC to prepare a detailed estimate, (5.2.5).

Departmental response

Accepted (5.2.7).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

The Department supports this recommendation. It notes that implementation will require amendment of Finance Circular 1984/10.

Status of recommendation as at December 1987 - DAS(ACS)

See notes to recommendation 1; requisition procedures are being changed.

Defence response

This recommendation is under consideration. Defence and DAS(ACS) are jointly examining possible improvements to procedures.

RECOMMENDATION 18**Efficiency audit recommendation 18**

Action should be taken to obtain details of relative costs of performing maintenance work by wages employees and contract and that the criterion of relative cost be considered at the time decisions are made on the method of executing maintenance projects, (5.3.5).

Departmental response

Relevant procedures under review (5.3.6).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

DHC notes that over 60 per cent (in 1985-86) of Section 2 maintenance work, the principle focus of this efficiency audit, is undertaken by contractors rather than by DHC wages employees. The inference (paragraph 5.3.3) that wages employees are utilised to keep them "fully employed" is not accepted. The Department also notes that current procedures require that Sections 2 and 4 work be executed by contractors unless specific approval is given under Ministerial delegation for the use of wages employees. Departmental delegates consider a range of factors, all bearing upon the likely cost of performing the work by contractors and by wages employees, with a view to selecting the most timely and cost effective delivery method. However, to place the matter beyond any doubt the Department is currently reviewing the criteria for use of wages employees to ensure their consistent application across regions with explicit reference to relative cost effectiveness.

Status of recommendation as at August 1988 - DAS(ACS)

Recommendation implemented.

Advice given to regions to include cost effectiveness criteria in the approval form for wages employee work. Standard estimating techniques are being progressively introduced through Maintenance Unit Rates System (MURS) and pilot testing of QUIK-EST which will make comparative costing more readily available.

Defence response

Defence does not disagree with DAS(ACS) wages employees undertaking the work providing it is cost-effective to do so. Defence expects DAS(ACS) to clearly demonstrate the economy where wages employees are used.

RECOMMENDATION 19**Efficiency audit recommendation 19**

Higher priority should be given to finalising procedures for the conduct of asset reviews in conjunction with the development of performance indicators as part of the implementation of program budgeting, (6.4.1).

Department response

Accepted (6.4.2).

Specific DHC comments paraphrased within the body of the report and subsequently endorsed by DAS(ACS)

DHC accepts this recommendation. Finalisation of procedures for the conduct of asset reviews will be given a high priority. As regards other reviews of performance and performance indicators, DHC's property services are currently (March 1987) the subject of independent external review through reviews of the Commonwealth property function. Internal reviews of the services have been scheduled for inclusion in the Department's Strategic Audit Plan. The Department's Program Budgeting structure adopted for implementation in 1987-88 makes provision for the development of efficiency indicators for the asset management sub-program. Summary indicators of asset management inputs to outputs are now provided to the Department's quarterly executive meetings and these will be refined and extended progressively to include other indicators of efficiency and effectiveness.

Status of recommendation as at August 1988 - DAS(ACS)

Operational Procedure on Asset Reviews (OP506) was issued to regions and central office functional areas in April 1988.

As advised in our April submission performance indicators were used for the 1987/88 program

Defence response

Defence is aware that DAS(ACS) has recently put into place new procedures for the conduct of asset reviews, and this Department will be participating in these reviews.

EXPENDITURE ON REPAIRS AND MAINTENANCE

	1985/86		1986/87		1987/88	
	CIVIL DEPTS	DEPT OF DEFENCE	CIVIL DEPTS	DEPT OF DEFENCE	CIVIL DEPTS	DEPT OF DEFENCE
SECTION 1 OPERATIONS, RECURRING MAINTENANCE & REPAIRS	\$65,733,528	\$66,462,212	\$40,760,313	\$73,243,029	\$42,702,709	\$75,833,605
SECTION 2 & 4 SPECIFIC REPAIRS & MAINTENANCE PROJECTS	\$14,768,247	\$34,248,274	\$8,860,669	\$45,228,990	\$11,087,926	\$43,139,155
REVOTE SPECIFIC WORKS IN PROGRESS FROM PREVIOUS YEAR	\$20,698,042	\$23,128,729	\$17,769,884	\$29,965,779	\$12,948,153	\$32,830,478
TOTAL	\$101,199,817	\$123,839,215	\$67,390,866	\$148,437,798	\$66,738,788	\$151,803,238
GRAND TOTAL	\$225,039,032		\$215,828,664		\$218,542,026	

Source: Exhibit No. 4 (as amended by DAS (ACS) 8 November 1988)

APPENDIX VII

UPDATE OF TABLE PROVIDED ON PAGE 10 OF THE
 AUDITOR-GENERAL'S REPORT ON R&M OF COMMONWEALTH ASSETS
 WHICH DETAILS APPROPRIATIONS AND ACTUAL EXPENDITURE

	APPROPRIATION \$ MILLION	EXPENDITURE \$ MILLION	SHORTFALL \$ MILLION	%
1982-83	156.8	154.8	2.0	1.3
1983-84	180.2	174.8	5.4	3.0
1984-85	205.8	200.9	4.9	2.3
1985-86	233.6	226.6	7.0	3.0
1986-87	219.2	217.6	1.6	0.7
1987-88	219.0	217.2	1.8	0.8

It should be noted that under revised Administrative Arrangements from July 1987 there are now only 22 separate appropriation items, 21 civil departments and one for Department of Defence.

Source: Exhibit No. 5