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COMMITTEE

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SENATE FINANCE AND PUBLIC ADMINISTRATION

LEGISLATION COMMITTEE

Wednesday, 27 May 2009

Members: Senator Polley (*Chair*), Senator Bernardi (*Deputy Chair*), Senators Cameron, Jacinta Collins, Ryan and Siewert

Participating members: Senators Abetz, Adams, Barnett, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Bushby, Cash, Colbeck, Coonan, Cormann, Crossin, Eggleston, Farrell, Feeney, Ferguson, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Furner, Hanson-Young, Heffernan, Humphries, Hurley, Hutchins, Johnston, Joyce, Kroger, Ludlam, Lundy, Ian Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Nash, O'Brien, Payne, Pratt, Ronaldson, Scullion, Sterle, Troeth, Trood, Williams, Wortley and Xenophon

Senators in attendance: Senators Bernardi, Bilyk, Cameron, Jacinta Collins, Coonan, Cormann, Forshaw, Moore, Lundy, Parry, Polley, Ronaldson, Ryan and Xenophon

Committee met at 9.04 am

FINANCE AND DEREGULATION PORTFOLIO

In Attendance

Senator Sherry, Minister for Superannuation and Corporate Law

Department of Finance and Deregulation

Executive

Dr Ian Watt, Secretary

General

Ms Jan Mason, General Manager, Corporate and Parliamentary Services

Mr Colin Plowman, Division Manager, Corporate Services

Mr Michael Burton, General Manager, Financial and e-Solutions Group

Mr Andrew Harvey, Branch Manager, CFO Unit

Mr Brett Quester, Branch Manager, IT Services Branch

Mr David de Carvalho, Branch Manager, Health and Ageing, Social Welfare Division

Outcome 1

Dr Paul Grimes, General Manager Budget Group

Mr Lembit Suur, Head of Taskforce, Expenditure Review Taskforce

Mr David Weiss, Division Manager, Industry, Education and Infrastructure Division

Mr John Ignatius, Division Manager, Social Welfare Division

Mr Brendan Sargeant, Division Manager, Government and Defence Division

Mr Peter Saunders, Division Manager, Budget Review Division

Mr David Nicol, Division Manager, Budget Policy and Coordination Division

Ms Kathryn Campbell, General Manager, Financial Management Group

Mr Lembit Suur, Division Manager, Financial Framework Division

Dr Tom Ioannou, Branch Manager, Financial Framework Policy Branch
Mr Matthew King, Branch Manager, Financial Reporting Branch
Dr Andrew Pope, Director of the Office of Evaluation and Audit
Mr Alan Greenslade, Division Manager, Funds and Superannuation Division
Dr Greg Feeney, Branch Manager, Funds Branch, Financial Management Group
Mr Tim Youngberry, Division Manager, Financial Reporting and Cash Management Division
Ms Hawari Badri, Branch Manager, Budget Framework Branch
Ms Susan Page, General Manager, Deregulation Policy Division
Mr Peter McCray, Division Manager, Deregulation Policy Division
Mr Darryl Porter, Deputy Executive Director, Office of Best Practice Regulation

Outcome 2

Mr Simon Lewis, General Manager, Asset Management Group
Mr John Edge, Division Manager, Government Business, Special Claims and Land Policy
Mr Rick Scott-Murphy, Division Manager, Property and Construction Division
Mr John Grant, Division Manager, Procurement Division
Dr Guy Verney, Branch Manager, Special Claims and Land Policy
Mr Philip Smith, Branch Manager, Insurance and Risk Management
Ms Laurie Van Veen, Branch Manager, Communications Advice
Ms Stacie Hall, Branch Manager, Government Business Advice
Ms Ann Steward, General Manager, AGIMO
Mr John Sheridan, Division Manager, Business Improvement Division
Mr Graham Fry, Division Manager, Policy and Planning Division
Mr Trevor Smallwood, Acting Division Manager, Agency Services Branch
Mr David Yarra, Chief Audit Executive

Outcome 3

Ms Jan Mason, General Manager, Corporate and Parliamentary Services
Ms Kim Clarke, Division Manager, Ministerial and Parliamentary Services
Ms Suzanne Pitson, Branch Manager, Entitlements Policy
Mr Greg Miles, Branch Manager, Entitlements Management
Ms Carolyn Hughes, Branch Manager, Client Services
Mr Ken Sweeney, National Manager, COMCAR
Mr Stephen Taylor, Branch Manager, Legal Services
Mr Brett Quester, Branch Manager, IT Services Branch

Australian Electoral Commission

Mr Ed Killesteyn, Electoral Commissioner
Mr Paul Dacey, Deputy Electoral Commissioner
Ms Barbara Davis, First Assistant Commissioner
Mr Paul Pirani, Chief Legal Officer

ComSuper

Mr Leo Bator, Chief Executive Officer
Mr Marcus Markovic, Deputy Chief Executive Officer/Chief Financial Officer

Australian Reward Investment Alliance (ARIA)

Mr Lochiel Crafter, Chief Executive Officer
Mr Peter Carrigy-Ryan, Chief Operating Officer

Mr Kevin Thompson, Head of Finance

ASC Pty Ltd

Mr Graeme Bulmer, Acting Managing Director and Chief Executive Officer

Mr Ben Osborne, Communications Manager

Future Fund Management Agency

Mr Paul Costello, General Manager, Future Fund Management Agency

MediBank Private Ltd

Mr George Savvides, Managing Director, Medibank Private

Mr Davis Lemke, Manager Policy and Industry Affairs Manager

CHAIR (Senator Polley)—Good morning. I declare open this public hearing of the Finance and Public Administration Legislation Committee. The Senate has referred to the committee the particulars of proposed expenditure for 2009-10 and related documents for the parliamentary departments and for the Prime Minister and Cabinet, Finance and Deregulation, and Human Services portfolios. The committee must report to the Senate on 23 June 2009 and it has set Friday, 10 July as the date for which answers to questions on notice are to be returned.

Under standing order 26 the committee must take all evidence in public session. This includes answers to questions on notice. Officers and senators are familiar with the rules of the Senate governing estimates hearings. If you need assistance, the secretariat has copies of the rules. I particularly draw the attention of witnesses to an order of the Senate of 13 May 2009 specifying the process by which a claim of public interest immunity should be raised.

[9.05 am]

Department of Finance and Deregulation

CHAIR—The committee will begin today's proceedings with the Department of Finance and Deregulation and will then follow the order as set out in the circulated program. I welcome the Minister for Superannuation and Corporate Law, Senator the Hon. Nick Sherry, the secretary of the department, Dr Ian Watt and other officers of the Department of Finance and Deregulation. Senator Sherry, would you or Dr Watt like to make an opening statement?

Senator Sherry—No, Chair.

Dr Watt—No, thank you, Madam Chair.

CHAIR—Then we will now go to questions.

Senator COONAN—Good morning, Minister and Dr Watt. I want to address some questions to Finance's role in forming a view as to the sustainability of the budget, and I think it is fair to say that there has been some confusion—on the public record, anyway—on the part of the Prime Minister and the Treasurer relating to the magnitude of the deficit and debt that is revealed in the budget and the percentage of GDP represented by the figures. I am just wondering if we can state this for the records so that it is clear. Firstly, and correct me if I am wrong on any of the propositions I am putting to you, Australia's peak debt as a gross figure will be \$300.8 billion in 2012 to 2013 and, of course, that is mostly represented by government bonds. Is that right?

Dr Watt—Without wishing to sound like I am obfuscating, the issue of debt is a matter for the Treasury rather than for us.

Senator COONAN—Yes, except—

Dr Watt—If we can find it in the budget papers, we are happy to confirm it—Dr Grimes?

Senator COONAN—I would just like to confirm it, because we seem to have some figures that are in the budget and some figures that are out of the budget. I appreciate Finance's role in this, but the budget papers go out under the names of both the Treasurer and the minister for finance. I am well aware of the role of Finance. Whilst you might not have prime carriage of the formulation of some of these views, you obviously have to form a view as to the overall sustainability of the budget.

Dr Watt—No, Senator, we do not.

Senator COONAN—You do not do that?

Dr Watt—No, we do not. The budget papers do go out under the names of both ministers. However, each department has a separate role in putting the papers together. Finance has long had responsibility for the expenditure side of the budget, the non-tax side.

Senator COONAN—Which we will come to, of course.

Dr Watt—We also do the accounts. We are the ones who put together the tables and the numbers which are the backbone of the budget. But on issues of appropriateness of the budget balance, or for any point of view on appropriateness of debt levels, you would have to talk to Treasury.

Senator COONAN—You can be certain we will. But this should not be controversial: in terms of Finance's role, to be able to confirm what at least—

Dr Watt—Dr Grimes is looking for the numbers. If we can find the numbers in the budget paper, we are happy to point them out.

Dr Grimes—On the specific number on gross debt, if you can let us, we will come back to you shortly. We will have someone check those numbers now and just confirm the number that you cited.

Senator COONAN—If it would be helpful, I will tell you what else I would like you to confirm. The second part of my first question—whether peak debt as a gross figure will be \$300.8 billion in 2012-2013—is that that, of course, is mostly represented by government bonds; I do not think that is controversial but you could confirm it. That represents about 22 per cent of GDP. And net debt, the budget papers at least show, is \$188.2 billion, which is 13.6 per cent of GDP, which would be arrived at by subtracting assets and some borrowings.

Dr Grimes—That is correct. The net debt figure I can confirm to you right now.

Senator COONAN—Thank you.

Dr Watt—The net debt figure is on page 10-8 of Budget Paper No. 1, in with the historical comparisons which go back over 30-odd years.

Senator COONAN—Why I am asking you about this is that we now seem to have strayed into previously unreported figures, at least on the public record. The Treasurer revealed a

figure for peak debt in 2013-14 and a net debt figure for peak debt of \$203 billion and a growth debt of \$315 billion. As I understand it, that had been previously unreported in the budget.

Dr Watt—I am not able to confirm that one way or the other.

Senator COONAN—You do not know that?

Dr Watt—I do not pretend to know.

Dr Grimes—If you would like, we can confirm that number on gross debt in 2012-13 for you. Would it be appropriate for me to do that now?

Senator COONAN—Yes. If you can do that now, good.

Dr Grimes—The reference for gross debt is on page 9-4 of Budget Paper No. 1. For 2012-13, under the line ‘Government securities’, the figure is \$300,814,000,000.

Senator COONAN—Dr Grimes, you are not able to help me with the figure for 2013-14?

Dr Grimes—I do not have that figure with me here at the moment.

Dr Watt—Dr Grimes is drawing on the budget papers, which have projections out to 2012-13.

Senator COONAN—Yes, that is right.

Dr Watt—Unless there is something additional in the papers, we are not able to help you one way or the other at the moment. We will see what we can do.

Senator COONAN—The point being that both the Treasurer and the Prime Minister now seem to be flinging figures around that certainly do not appear to be in the budget, but that is a comment. Sticking with the budget figures for debt by June 2013, what will the government be spending on gross interest payments? The figure I have, if it helps you, is about \$12.5 billion, which of course would be offset by some interest earnings.

Dr Grimes—I have the net figures here in front of me but we will need to confirm the gross net figures. It may take a moment for us to do that; we can come back to that.

Senator COONAN—I am interested in a figure for both gross and net spending on interest payments.

Dr Grimes—On the gross interest payment on government securities, I can confirm that the figure published in the budget papers—this is at page 9-22 of Budget Paper No. 1—in 2012-13 is \$12,493,000,000.

Senator COONAN—That is a gross figure?

Dr Grimes—That is a gross figure.

Senator COONAN—What would the net figure be?

Dr Grimes—The figure for net interest payments for net debt in 2012-13 is \$7,634,000,000.

Senator COONAN—I wanted to ask some questions about what role Finance plays in the formation of growth forecasts. Do you have any discussion at all with your Treasury cousins, counterparts, colleagues?

Dr Watt—Finance is a member of the joint economic forecasting group, which consists of Treasury, the Reserve Bank, the Department of Finance and the Department of Prime Minister and Cabinet, which ultimately helps to put together the government's forecasts. Our primary expertise in that area is the public sector and public sector trends, what is happening in the budget sector. We would see the matter of growth estimates as something with which we would have no comparative advantage and we leave that to Treasury and others.

Senator COONAN—As part of this group of forecasting was there any discussions about the former Treasury approach of forecasting a year ahead and assuming a return to trend growth?

Dr Watt—I am unable to comment on that. I simply do not know whether that group discussed that or not. Again, Treasury would be better placed to help you there.

Senator COONAN—Who is the member of Finance who is on that group?

Dr Grimes—Dr Arthur Camilleri is our representative on that group.

Senator COONAN—Is he available?

Dr Grimes—I think he is on leave at the moment.

Senator COONAN—The budget papers state, I think at about 4-3, that the challenge for fiscal sustainability in the medium term is to return the budget to surplus. The government has nominated as its strategy the natural recovery of the level of tax receipts and, once economic growth is above trend, to hold real growth in spending to two per cent per annum. Is that right?

Dr Watt—That is correct.

Senator COONAN—Is that a matter of simply observing fiscal discipline, or is there some arrangements or frameworks in place, from Finance's perspective, to ensure that that is observed? It is obviously a spending issue.

Dr Watt—Ultimately, it is a matter of government deciding to keep new spending tight, limited, and to bear down on existing spending wherever possible. When you look at the periods where the government had had low rates of growth of real spending—these have occurred in the case of all three former governments, going back to the late seventies—they have usually come in periods of tight budgets and been sustained as long as budgets stayed tight. I think the answer is that the government has made a commitment and that commitment is certainly able to be realised, but it will be a matter of all agencies, all departments and all members of the government being signed on for that commitment and working towards meeting it.

Senator COONAN—On tax receipts, could you remind me: tax revenue, what is it? About 66 per cent?

Dr Watt—If you go back to those wonderful tables at the end of the budget papers that Dr Grimes was drawing on.

Senator COONAN—I am sick of looking at them, to be perfectly honest, but I will go back to them again.

Dr Watt—They are great; these are a marvellous source of information. Tax receipts in the budget for 2009-10 are estimated at 22 per cent of GDP—that is tax receipts, not nontax. They are estimated to grow over the forward estimates period to 23.2 per cent of GDP. In other words: still well below 2007-08 levels and well below the levels of—basically, for the first half of the 2000s we were 24½ up to about 24.9.

Senator COONAN—Given that last answer, do you know why there was no mention in the budget address of \$18 billion worth of tax cuts?

Dr Watt—I do not think we can answer that question. You will have to direct that to Treasury.

Senator COONAN—Minister, do you know why? For the first time in living memory huge tax cuts were not even mentioned in the budget speech.

Senator Sherry—I am happy to take it on notice. The Treasurer writes the speech. I certainly have no input into it.

Senator COONAN—It is interesting. I wonder if he does. Anyway, I am pleased that you will take that on notice for me. Along with omitting to mention the \$58 billion deficit, there was also no mention of \$18 billion tax cuts given the pressure on the tax revenues.

Senator Sherry—It is a more appropriate question for Treasury and the Treasurer estimates. I suspect my colleague Senator Conroy will have to take it on notice as well.

Senator COONAN—We will ask Treasury some of these questions. Would you agree with this proposition: a credible path back to sustainability depends partly on the quality of spending; and the budget papers claim that stimulus measures taken prior to the budget will raise GDP by 2.75 per cent?

Dr Watt—I can check the arithmetic and see if that is in the budget documents. I am sure Dr Grimes can do that while I answer the question as best I can. Regarding the latter part of that question, again, you should direct that to Treasury. Those estimates, I presume, have been prepared by the Department of the Treasury and are certainly based on Treasury modelling. I think it would be better placed to ask them. On quality of spending, there is no doubt that tight budgets put a high premium on quality of spending and, when budget spend is a little easier, perhaps the quality of spending might drop a bit. In the end it is the quantum of spending as well as the quality that matters in achieving that target. Dr Grimes is looking to see if he can find the number.

Dr Grimes—That number, as I think Dr Watt has indicated, would be a Treasury number. If we can find that number we will come back to you.

Senator COONAN—Do you want to pass on that one?

Dr Grimes—It may be more appropriate for those sorts of questions to be directed to Treasury.

Senator COONAN—You would not really want to engage with me at all, then, on what is happening to our bond issuance and some other propositions relating to raising money to pay the debt?

Dr Watt—We would be delighted to engage, Senator; we would just be unable to.

Senator COONAN—Is Finance concerned that the massive need for government borrowings will significantly increase Australia's exposure to offshore debt markets?

Dr Watt—Again, Senator, that is not an issue on which we would have any comparative advantage in discussing. That is a matter for Treasury.

Senator COONAN—Do you have a view at all in terms of how you cost and how you look at cost benefit analysis—for example, of the \$43 billion broadband plan—and how sustainable it will be for the government to raise money under these Aussie infrastructure bonds? Does Finance look at just how likely or unlikely this will be?

Dr Watt—We have not looked at that issue. Again, that is a matter for Treasury and the AOFM who are responsible for the government's debt issue program. Aussie bonds, in some size, shape or form, have been around before and no doubt that past experience will be taken into account. I think we had them in the nineties.

Senator COONAN—I am sorry—was that yes or no? I am just not sure.

Dr Watt—I think it was a long-winded no.

Senator COONAN—All right; it is still a no. I would like to talk about contingent liabilities in the budget. What role do you have in relation to those?

Dr Grimes—We have a role to play in collecting information on contingent liabilities and reporting those in the statement of risks. That is our primary role.

Senator COONAN—So you collect information so that you can form an assessment about risk?

Dr Grimes—To ensure that risks have been appropriately recognised and presented in the budget papers.

Senator COONAN—In fact, in another context, Finance has signed up to this proposition: Agencies need to carefully monitor the terms and conditions, including pricing, on which risk allocations are determined, to ensure that they reflect value for money.

That is in the Commonwealth Procurement Guidelines, which I will come to later.

Dr Watt—That seems to be a very reasonable proposition, Senator.

Senator COONAN—And also that:

The Commonwealth's policy on contingent liabilities is to only accept risk where the expected benefits outweigh the costs.

Dr Grimes—I believe so.

Senator COONAN—Is that the way in which you would approach your statement of risks for contingent liabilities?

Dr Grimes—The statement of risks is not making those sorts of judgments; it is essentially just pointing out where the risks are and where the contingent liabilities are in the budget. It is not making a judgment on each of those liabilities.

Senator COONAN—But how can you evaluate risks without making a judgment? I will take you to some specific examples.

Dr Grimes—They are separate questions. The statement of risk is a disclosure of the significant material risks that have been identified in the budget.

Senator COONAN—In Budget Paper No. 1, statement 8, for example—let us see if we can't come to grips with this—at about point five on the page when you are looking at contingent liabilities it says:

Contingent liabilities and assets are a specific category of fiscal risks. Broadly, they represent possible costs or gains to the Australian Government arising from past events or decisions which will be confirmed or otherwise by the outcome of future events that are not within the Government's ability to control.

Contingent liabilities include loan guarantees, non-loan guarantees, warranties, indemnities ...

Et cetera. The next paragraph says:

Contingent liabilities, contingent assets and other fiscal risks with a possible impact on the forward estimates greater than \$20 million in any one year, or \$40 million over the forward estimates period are listed in this statement.

I want to go to them and get some information from you. Can I just first of all start with what methodology Finance adopts when advising the government on potential exposure to contingent liabilities for policy decisions?

Dr Grimes—In advising the government in collecting this information we work very closely with relevant agencies, and in particular the chief financial officers of those agencies. Those officers would be producing information having regard to Australian accounting standards or similar standards in providing information on contingent liabilities or contingent assets.

Senator COONAN—What material or documents would you have in front of you or is it just discussions?

Dr Grimes—We conduct surveys of agencies each year. So in the lead-up to preparing the budget documents we will be in contact with all agencies to collect this information. If you want a greater level of detail on the process, there may be an officer here who can step you through it in further detail than I can.

Senator COONAN—Okay. For instance, do you have access to a cost-benefit analysis?

Dr Grimes—Once again, the risks here are reporting both positive and negative risk to the budget; they are not conducting an analysis of weighing up the benefits and costs of specific risks. Obviously those are things that are considered through the budget process proper and through the policy development process. If the government takes on a contingent liability, in taking on that liability, that would have been a policy decision that the government had made, and in making that decision the government would weigh up benefits and costs. That is not outlined in this statement. The statement is a disclosure of the actual liabilities and risks that have been recognised.

Senator COONAN—Do you have some sort of scale? How do you actually rate risk?

Dr Grimes—There is not a single scale that you can use. In the document in the budget papers, we break down the contingent liabilities and assets into two categories: those that are quantifiable and those that are not quantifiable. The ones that are quantifiable we report the

amounts that might be at risk—either positive risks or negative risks. Unquantifiable, as the name suggests, are risks by themselves that are very difficult and not possible to reliably quantify. The degree of risk can also vary from risks which are higher to risks that are very, very remote. In all cases a contingent liability is one where a sufficient event has not occurred to fully realise that liability.

Dr Watt—Without wishing to confuse you any further, many of these contingent liabilities would not necessarily have been identified at the time of the decision. Some of them may have materialised over time after the decision was taken, and sometimes long after. For example, to take the issue of remediation, the Commonwealth, when it sells land usually gives in this day and age a broad commitment to remediate in advance and, if there are any subsequent remediation problems, it is committed to dealing with those as well. There may well be, for example, remediation problems that have arisen since the sale of a piece of land, because we have got better at testing or better at understanding or 20 or 30 years ago we just did not do any of that very well. So many of these contingent liabilities can appear long after the event that triggers the policy decision.

Senator COONAN—Yes, I can appreciate that some would arise during the implementation; for example, the broadband network is announced both as a policy and the project.

Dr Watt—Implementation is a way of both identifying risk and reducing risk.

Senator COONAN—It is a sort of suck it and see, is it?

Dr Watt—No, you mitigate risks as they arise—as they go along.

Senator COONAN—Sounds awfully like it to me.

Dr Watt—No.

Senator COONAN—First of all I will do the Australian Business Investment Partnership. What kind of risk does the Australian Business Investment Partnership pose to the budget?

Senator CAMERON—Chair, I am not sure that we are moving away from the general budget parameters and going to these specific issues. I have got some questions on the general budget issue a rising from issues Senator Coonan has raised. I am not sure whether you want me to raise them now or later?

CHAIR—We are still in general questions so, as soon as Senator Coonan has finished, we will come to you, Senator Cameron.

Senator COONAN—I will be quite a while on this particular aspect. If you want to ask some more general questions, I am happy to let you have the call.

Senator CAMERON—Thank you, Senator Coonan. It is just on these issues of the general budget overview that Senator Coonan has been raising. Dr Watt, you have been around for a fair while. The budget overview indicates that this is the deepest global recession since the Great Depression. Have you ever experienced in your career a situation like we are in at the moment?

Dr Watt—Thank you for your comment that I have been around for a while. I always worry when people say that: it sounds like they are trying to get rid of you.

Senator Sherry—But not since the Great Depression!

Dr Watt—Not even I have lasted that long. I have been involved in the budgetary side of matters in the Commonwealth since 1985 and as an economist and interested spectator in economic history for a period a great deal longer than that. My view is that there is no doubt that what confronts the world, Australia, the Australian government in relation to the global financial crisis and the recession it triggered is the most difficult piece of economic policy advising and implementing since the Great Depression—or the end of the Great Depression, if you want a more specific time—and I suspect it is the most significant piece of general policy advising since World War II. It is hard to think of anything since World War II in a general policy sense that has had the scale, complexity and need for substantial change—and speedy substantial change—off that any government has faced in Australia.

Senator CAMERON—And because of that global economic recession, we have got a \$210 billion reduction in taxation receipts?

Dr Watt—I believe that is the figure. Again, it is a bit outside my bailiwick but I seem to think that is the figure that is being quoted.

Senator CAMERON—I am just trying to get in context what Senator Coonan has been raising here. Senator Coonan indicated that the deficit would be \$58 billion. It is \$57.6 billion and 4.9 per cent of GDP. That deficit is helping to sustain jobs in the economy and I have seen a figure of 210,000 jobs. Is that your understanding?

Dr Watt—Again, I cannot quote the exact figures. But there is no doubt that I do subscribe to the general principle that, in a period of an economic downturn, economic management practices, and I am a Keynesian at heart, suggest you should not merely let the budget unwind, which is what economists have always called letting the automatic stabilisers work, but you should actually also consider direct stimulus measures.

Senator CAMERON—And those stimulus measures—such as regenerating the education infrastructure, doing work on roads and rail—are all important in terms of the long-term productivity of the nation. Is that correct?

Dr Watt—All those measures have the potential to impact on long-term productivity, some more than directly and others. Take at one end the nation-building plan in December which announced significant additional funding for the Australian Rail Track Corporation to upgrade rail and so forth. You would expect that there would be a fairly immediate payoff in productivity from that by way of reduced freight costs. So that is one where it is more direct. Issues to do with education are always longer term. You are trying to improve the education of today's kids in order that they will be better informed, higher skilled and better workers in 10 or 20 years time, depending on when you are starting and when you think the biggest impact will be on the workforce. So that it is a less direct impact. But there is no doubt that, in the competitive world which we face, education is the key to high-productivity activities and high-productivity outcomes and is also the key to us being internationally competitive. So, broadly speaking, funding for education has the potential to also raise productivity over the longer term.

Senator CAMERON—Senator Coonan raised the issue of contingent liabilities. There is another side to that coin, and that is if you actually take the steps to build the national infrastructure this is an asset that can offset contingent liabilities. Isn't that the case?

Dr Watt—The answer is yes. But it is really important to distinguish here between the government's balance sheet and Australia's balance sheet. The government's balance sheet is what we show in these budget documents, so money paid to a state to fund, let us say, a road would be an expense on our budget and of course would lead to a decline in our net asset position if we borrowed to fund it or ran down our cash reserves to fund it. On the other hand, there would be a matching benefit on the state's balance sheet and there should be a matching benefit on Australia's overall balance sheet if anyone ever calculates it—and of course it is not very often done.

Senator CAMERON—Dr Watt, I assume that Finance monitors international developments and understands what is happening in other areas of the world. Are other finance departments facing the same problem in OECD countries?

Dr Watt—We are not as active in this as the Treasury is, but we do take an interest in it. Indeed I, for my sins, am chair of the OECD's working group of senior budget officials, which takes a very big interest in this. Yes, other finance departments in all developed economies are facing a similar set of problems and are looking at doing similar things. It will vary depending on impact of the global financial crisis, ability to act, government proclivities et cetera. But they are all facing similar things. In fact the OECD is having a conference in Seoul in late June on just this subject: what is being done around the developed world.

Senator CAMERON—Senator Coonan has painted this picture of all these big issues that we are facing—which is entirely correct. We are facing the greatest recession since the global depression. But there is this other side that we are actually in better shape than most other OECD countries.

Senator CORMANN—I wonder why that is!

Senator COONAN—Chair, I raise a point of order. I do not want to interrupt my colleague's stream of consciousness here but Dr Watt very clearly said in his statements to me that he had a very limited role in relation to the budget's forecasting and the overall sustainability of it. I do not really think we can have it both ways here otherwise I will seek to get the call back because I think trying to sweep up a whole lot of general propositions with this witness, who has very carefully delineated what his area of expertise and input into the budget process is, is simply not a fair way to treat the witness.

CHAIR—Senator Coonan, thank you for that point of order. Certainly you will have the call after Senator Cameron at which time you can clarify any of the responses.

Senator CAMERON—Dr Watt did indicate that he chaired an OECD committee dealing with these issues. I think it is fair and reasonable for me to seek his views based on his expertise on what is happening worldwide on that, so I would persist with my question.

CHAIR—You may continue, Senator Cameron.

Dr Watt—Perhaps I can avoid trespassing on Treasury's preserves—and I should—by saying I will avoid the term 'better shape'. But there is no doubt that when the global financial

crisis hit Australia it had two budget advantages which many other countries did not have. One was no net debt and the other was it actually started from a position of budget surplus, not budget deficit. I will leave the broader issues aside.

Senator COONAN—A pretty good card of hands, Dr Watt. Would you agree?

Dr Watt—Sorry?

Senator COONAN—A very good hand of economic cards that the government was handed.

Dr Watt—I said I would avoid talking about shape.

CHAIR—Senator Cameron, have you finished?.

Senator CAMERON—Yes, Chair.

CHAIR—We will go to Senator Coonan.

Senator COONAN—Thank you, Chair. I want to get back to contingent liabilities. One of the contingent liabilities set out in the budget papers and referred to continually is the \$43 billion broadband plan. That was announced on 7 April in a joint press release and conference by the Prime Minister, the Treasurer, the minister for finance and the minister for broadband, so there were four amigos, as opposed to three, who announced the birth of the \$43 billion National Broadband Plan. When was Finance asked to provide formal costings input and advice on the proposal that was announced by the government on 7 April?

Dr Grimes—Finance was involved in preparing costings and other advice, as Dr Watt has just reminded me, over a period of time extending from late January through to early April.

Senator COONAN—So when was the department first asked to provide formal costings input and advice on that proposal that was announced on 7 April?

Dr Grimes—I do not have a specific date and I would have to take the date on notice. But, as I indicated before, we had been working on the costings with the broadband department over a period of several weeks.

Senator COONAN—Were the costings for a formal cabinet submission?

Dr Grimes—The costings that we prepared were input into cabinet processes.

Senator COONAN—So that is a yes?

Dr Grimes—I am not at liberty, as you would appreciate, to go into the details of cabinet processes and talk about those matters.

Senator COONAN—I am not asking you what it was. I am just asking if it was for a cabinet submission.

Dr Grimes—We provided advice for cabinet processes.

Senator COONAN—I will take that as a yes. When and how did you cost the ‘up to \$43 billion’ proposal?

Dr Grimes—As I indicated we worked with the broadband department over a number of weeks in preparing costings. We looked at the key parameters that would go into a costing, and as a result finalised estimates that were provided to the government.

Senator COONAN—Were you able to verify the monetary value of the project?

Dr Grimes—The work that we did was on costing the project. That is the \$43 billion figure that you have referred to. We did quite considerable work with the broadband department in that area.

Senator COONAN—On 19 May Jennifer Hewett wrote in the *Australian*:

The Government played around with figures in the range of \$38 billion to \$43 billion, although the Department of Finance initially wanted to put the cost higher still at closer to \$50 billion to account for potential blowouts ...

Is that right?

Dr Grimes—I am not going to be able to speculate on matters—

Senator COONAN—I am not asking you to speculate. Did that happen?

Dr Grimes—This is relating directly to cabinet consideration of the broadband proposal. We worked very closely with the broadband department over several weeks and the estimate of \$43 billion is an estimate that we participated in producing.

Senator COONAN—It was never the case then that the department of finance thought that \$50 billion was a more appropriate figure because of potential blowouts?

Dr Grimes—Once again I do not think that is an area that I can provide comment on, Senator.

Senator COONAN—I am sorry?

Dr Grimes—That is not a matter that I can provide comment on.

Senator COONAN—Why not?

Dr Grimes—It goes directly to cabinet processes. What I can confirm is that the estimate that has been produced, the \$43 billion estimate, is an estimate that we—

Senator COONAN—Okay. Can you run us through the breakdown of the \$43 billion?

Dr Grimes—I cannot run you through the breakdown of the \$43 billion. The reason for that is many elements of that \$43 billion were based on material that would be commercial-in-confidence. The reason I say that is we relied partly on information that had been provided through the fibre-to-the-node tender process. In addition some elements of the costings would go to matters that are currently under consideration—for example, negotiations around Tasmania. Over and above that the broadband company itself is obviously going to be in the market eventually to procure services—satellites, for example, wireless—so there are some difficulties in providing a full breakdown in costs because some of those costs will go into matters that are properly commercial-in-confidence. We would be able to take that on notice and see what information we could provide you with.

Senator COONAN—Can you tell me what particular fibre technology is involved in the project?

Dr Grimes—I personally cannot answer that at the moment but I could—

Senator COONAN—Wouldn't you need that to cost it though? Seriously! Is it GPON or what is it?

Dr Grimes—The work was done with specialist consultants to the broadband department who provided—

Senator COONAN—Who were they?

Dr Grimes—This was GQAAS. Gibson Quai—and I have forgotten what the AAS stands for. Anyhow, GQAAS were specialist advisers that had been engaged by the broadband department. Mr Saunders may be able to provide more information on specific technologies for you, Senator.

Mr Saunders—The costings involved a range of assumptions about technologies and take-up rates and other things.

Senator COONAN—What were they? What were the assumptions about the take-up rates?

Mr Saunders—I do not believe we can disclose that for the reasons Dr Grimes just described.

Senator COONAN—How can that possibly be commercially-in-confidence—the projected take-up rate for a project to build a network at taxpayers' expense?

Dr Grimes—We can certainly take that question on notice and see what we can provide you with.

Senator COONAN—Okay. Just run me through the assumptions. There were assumptions about take-up rates and assumptions about technology—what were they?

Mr Saunders—There was an assumption about the proportions which would be provided in access via fibre to the premises. The proportions, I think you know, were 90 per cent.

Senator COONAN—Well, it says 'up to 90 per cent' in the summary. Is that right?

Mr Saunders—There were assumptions about wireless and satellite.

Senator COONAN—What were they?

Mr Saunders—That they would be the remainder of the take-up—the remainder of the service would be provided to outer areas by wireless or satellite, with the proportions to be determined as a result of the implementation study.

Senator COONAN—Mr Saunders, you are divisional manager, are you?

Mr Saunders—Yes, that is right.

Senator COONAN—Did you do the broadband costings or was it Dr Grimes?

Mr Saunders—I report to Dr Grimes. I worked with the department of broadband to verify a preliminary costing that they had prepared.

Senator COONAN—So we have got assumptions about rates and assumptions about some technology in coverage—what else? There is 90 per cent and then the balance with wireless and satellite—any particular technology factored in there?

Mr Saunders—We were provided with unit costs and the number of kilometres that had to be covered, with unit rates per kilometre. We sought to find benchmarks for those, had an

iterative dialogue with the department of broadband about that and eventually narrowed down the range to the one that has been mentioned—\$38 billion to \$43 billion.

Senator COONAN—Does the \$43 billion also include connection costs?

Mr Saunders—Yes. As Senator Conroy mentioned yesterday, it includes an assumption that connections would be provided to all fibre to premises.

Senator COONAN—And what sort of connection are we talking about—the actual handset or other device or what?

Mr Saunders—No. The connection is to the external perimeter.

Senator COONAN—So you would still have to have some connection into your premises?

Mr Saunders—Just as you do with a telephone service.

Senator COONAN—I am just trying to clarify here. Was there any kind of analysis done as to the costs and benefits—a cost-benefit analysis, a business case, anything like that?

Dr Grimes—I think Senator Conroy has made a number of statements on this matter and indicated that, in the government's consideration of the NBN, it had regard to a broad range of benefits of high-speed broadband.

Senator COONAN—There are lots of figures thrown around about productivity. Is there any particular report? What was relied on in terms of statements about productivity?

Dr Grimes—This is going into areas that we would not consider to be our direct area of expertise.

Senator COONAN—You are risk, aren't you?

Dr Grimes—We are much more on the budget side of things.

Senator COONAN—Were you then concerned about the risk to the Commonwealth of the potential size of this project?

Dr Grimes—I do not think it is for us to indicate concern or lack of concern. We provide advice to the government on the broadband network project.

Senator COONAN—Well, it is a massive amount of money, without—it would seem—any publicly justifiable parameters.

Dr Grimes—The government considers the amount that is being invested and is also considering the benefits. That is a natural process for the government to go through.

Senator COONAN—At whose request was Finance's input initially sought?

Mr Saunders—It was the normal process where, with a proposal coming before ministers, Finance's assistance is requested so that ministers can be better informed.

Senator COONAN—At whose request was Finance's input initially sought? Was it PM&C or DBCDE?

Dr Watt—I do not know if there was ever a request for Finance to be involved. In many things we become involved just as part of the furniture. We were the furniture. I do not think anyone said, 'Go out and get Finance involved.' I think we were just there.

Senator COONAN—They are your words, Dr Watts, not mine, that Finance is part of the furniture. I think that will go down as a quotable quote.

Dr Watt—It is a good quote, Senator.

Senator Sherry—It is very accurate too, from what I have seen.

Senator COONAN—When did Finance first provide input on this new proposal and was it in writing or was it verbal?

Dr Watt—As Dr Grimes said, we provided input from the second half of January on. Some of it was in the form of written material that went before ministers. A lot of it was in the form of discussion and interchange between our colleagues, particularly to BCDE, and to a lesser extent to Treasury and PM and C. So we provided input in all those forms, as you would expect.

Senator COONAN—Under the original tendering process for the aborted broadband plan—the fibre-to-the-node proposal which hit the wall due to lack of commercial interest, or lack of value for money for the proposition, it was said—was Finance asked to verify the consumer end price costings of this new proposal?

Dr Watt—We were not involved in the tender process in any substantive fashion. We were asked for advice on a couple of potential budgetary issues, if I remember correctly, but we were not involved in any substantive way in the tender process.

Senator COONAN—Did you see or obtain any independent advice to assist in the verification of the cost of the proposal?

Mr Saunders—If you are talking about—

Senator COONAN—The \$43 billion.

Mr Saunders—the \$43 billion proposal, no. We had access to some of the independent advice that the broadband department had obtained, and in the iterative dialogue that we had with them we talked to them about that and, indirectly, in one case, with the consultants.

Dr Watt—And we tested that and benchmarked, where we could, against publicly available information.

Senator COONAN—Apart from the consultant group that you mentioned, were there any other external consultants or advisers?

Dr Watt—I do not think we could comment on that. We would not—

Mr Saunders—I believe there were some but we did not have contact with them—only the one that was mentioned before.

Senator COONAN—Certainly Finance did not have any, apart from yourself?

Dr Watt—No, we did not.

Senator COONAN—Did you form a view, as part of Finance's involvement in this costing process, that the project would at least be able to break even through the sale of wholesale services?

Mr Saunders—Our focus was on the cost of the proposal. The revenue and business analysis is being worked over thoroughly as part of the implementation study.

Senator COONAN—So you certainly do not know whether or not—

Dr Grimes—Through the process, the Department of Broadband, Communications and the Digital Economy had revenue estimates that they had prepared. Our primary involvement was on the costings side.

Senator COONAN—Thank you. Just in terms of timing—because you would obviously have to factor some time line into your work—when does Finance anticipate the wholesale services being available?

Dr Grimes—I might hand over to Mr Lewis, who may be better placed to answer those sorts of questions.

Mr Lewis—Finance will be a joint shareholder in the new broadband company that has been created. The most rapid services will become available in Tasmania, of course, because—

Senator COONAN—That is the old Aurora proposal, is it?

Mr Lewis—It is not the old Aurora proposal. It draws on the Aurora/Tasmanian government proposal and has been adapted in the current negotiations being held with the Tasmanian government and in particular with Aurora. The details of that are for the communications department. In any case, they would be highly commercially sensitive at the present time, given that negotiations are presently underway. Our expectation is that therefore services will be most rapidly available in Tasmania. I could not give you a precise date as to when those services will be available, but we can certainly take that on notice and consult our colleagues in communications, who are the other half of the joint shareholder of responsibility.

Senator COONAN—In terms of the time line that you must have had regard to, when will services be available, say, in New South Wales?

Mr Lewis—The details of the rollout strategy are elements that have to be studied properly and in a great amount of detail, along with the design of the network, through the course of the implementation study through the rest of 2009.

Senator COONAN—So the answer is that you do not know when—

Mr Lewis—No. I cannot give you a date on when they will become available.

Senator COONAN—Is there any other state that you know—

Dr Watt—The point to make is that when we looked at the costing we did not so much look at it on a geographic basis as on what proportion of potential customers would have access to the service by what year. We did not focus on whether they were in New South Wales, Victoria or anywhere else, or whether they were rural or regional. It was proportions that mattered.

Senator COONAN—All right. Can you tell me, then, what proportion are likely to have access to the new service by, say, 2011?

Mr Lewis—For the same reason, that needs to be properly analysed through the course of the implementation study. It will therefore depend on what strategies are implemented in terms of the rollout plans. As you are aware, the network will take up to eight years to build. We will not have details about what will happen in year 1, 2, 3, 4, 5, 6, 7 and 8. What we are going to have is an implementation study that will properly look at all those issues and put recommendations back to the government.

Senator COONAN—So it is fair to say that there is no rollout plan at all and that at the moment we do not know when any of these services are likely to be available on the mainland.

Mr Lewis—To learn as to what extent there has been work done on that—initial work on the rollout strategy—that has been fed into the front end of the implementation study, you would need to talk to the communications department. Obviously, at the back end of the implementation study, all of those issues would have been properly examined.

Senator COONAN—Did Finance provide advice on the value of the NBN company, the new network company, as a government asset when the company is eventually privatised?

Mr Lewis—That would be a courageous valuation.

Senator COONAN—There are some very courageous statements being made about this.

Dr Watt—No, we did not. You would appreciate that that is an impossibility. Given that it has been made clear that we are talking about a privatisation five years after the network is completed, we are talking about a very long time in the future.

Senator COONAN—Absolutely.

Dr Watt—There are far too many uncertainties.

Senator COONAN—I agree with you. That is why there are some statements that have been made by the minister, the Prime Minister and others that quite frankly do not have any credibility. In other words, you do not really know what the taxpayer will ultimately be up for with this particular proposal, because you cannot know. You do not know whether there will be any commercial viability in this project or otherwise.

Dr Watt—The government has made clear that what we have at the moment are preliminary cost estimates and that through the implementation study they will be worked over further. It is a long time out in the future to then talk about privatisation. But the government is committed to privatisation. The Finance department strongly supports that.

Senator COONAN—What assumptions can you base the future value of this project on? You have to factor in some assumptions.

Dr Watt—I think it is more sensible for us to talk about cost rather than valuation at this stage. We focused in the budget on costs, and Dr Grimes, Mr Lewis and Mr Saunders have taken you through some of the assumptions that went into a preliminary assessment of costs. We did not focus on any assessment of the value down the track once the network is completed.

Senator COONAN—How would you describe your role with the new NBN company? Are you taking the lead role or would you not say that?

Mr Lewis—I would describe our role as a usual joint shareholder responsibility of finance on a paired basis with the portfolio minister, who is the joint shareholder. To extend there is a lead—and you would be very familiar with this—the portfolio minister with the responsibility who has taken the lead is the communications minister, and the finance minister, although joint shareholder minister, is not taking the lead in that sense. So the lead for the implementation study is being handled in the communications department. No doubt consolidation of this new company will be in the communications portfolio. Board appointments, of course, should be dealt between the two ministers, but, again, you are very familiar with that joint role.

Dr Watt—And consistent with our shareholder responsibilities, but we will no doubt take a particular interest in the financial side. DBCDE will take more of an interest in the operational side.

Senator COONAN—I have a number of further questions about this. Does any other senator want to have a go for a short time?

Senator CORMANN—I have a series of general questions to the department in relation to the conversion of Medibank Private to a for-profit business enterprise. Firstly, who initiated the conversion of Medibank Private to a for-profit business enterprise?

Mr Lewis—I do not recall that there was any particular initiation. If your question is, ‘Did we receive correspondence from Medibank Private in relation to the issue?’ the answer is yes. We did receive several letters from the chairman of Medibank Private in favour of the conversion of Medibank Private to a for-profit business.

Senator CORMANN—Was it a matter of the government approaching Medibank Private or was an approach made by Medibank management or the board—the chairman, as you say—and the government responded to the request? How did it start?

Mr Lewis—I am not sure that I could actually give you a clear answer to that, but, if your query is whether the issue of possible conversion had come up prior to the recent budget round, the answer is that Medibank had raised the issue sometime previously.

Senator CORMANN—I totally understand that. The issue has been around for a very long time—believe me, I really understand that. But, in the context of this budget, was it a matter of the government approaching Medibank and saying, ‘Why don’t we convert Medibank to a for-profit business enterprise?’ Or did the government, in the context of this budget, respond to a specific and recent request by the Medibank chairman to reconsider whether this might be an appropriate time to convert Medibank into a for-profit business? Perhaps you should take it on notice.

Mr Lewis—I genuinely cannot recall it that clearly, but I doubt that it would have been as clear as the way you describe it.

Senator CORMANN—Well, it would be one or the other.

Mr Lewis—My sense for it is that it had been raised previously by Medibank Private. The chair had mentioned it—

Senator CORMANN—And the government thought it was a good idea.

Mr Lewis—and, at some point in this budget round, my sense for it is that the issue came up for consideration and there was a conversation held with Medibank Private in relation to it.

Dr Watt—For about five years the issue has never really been off the table. As you would know, part of the privatisation process the previous government had set underway for Medibank Private was to convert to a for-profit organisation, and the enabling legislation put in place a mechanism for that, if memory serves me correctly. It is an issue that has been around for a long while. I said five years—I am guessing—but since 2004 anyway. In a sense it has always been there. If you are asking us who moved the issue from somewhere on the backburner to the front burner, I think Mr Lewis is right: I do not think we have an answer for you. We could undertake to see if we can get that.

Senator CORMANN—Can you please take that on notice. I understand it has been on the table for a long time, but somebody would have made a decision, as you put it, to take it from the backburner back onto the front burner. Either it was Medibank Private making a fresh approach to the government or it was the government saying: ‘Look, we understand that you have been interested in this for some time. Why don’t we consider it at this point in time?’ I am quite keen to find out the answer to that. You mentioned the plans of the previous government. Is this government setting Medibank Private up for sale?

Dr Watt—Not that I am aware, no.

Mr Lewis—The government has in fact stated—I think it is part of the press release on the conversion announcement—that it has no plans to sell. I am not sure I have that with me.

Senator CORMANN—I just thought I would check because you said that things have been on the table for a long time and the issue has never gone away.

Dr Watt—On the backburner.

Senator CORMANN—On the backburner, sorry. Okay.

Senator Sherry—But I think that was in the context of conversion to a company. To fully respond to your question: the government has made it clear that it is committed to retaining Medibank Private in public hands.

Senator CORMANN—The government in opposition made a series of other things clear as well, and I am going to go through them, but I am going to go through them quickly because I have a lot of questions and I do not want to take too much time. When did you first provide advice to the government in relation to the conversion of Medibank to a for-profit health fund?

Mr Lewis—I am not sure. I would have provided advice to the government in relation to a raft of issues with Medibank including the potential for conversion to for-profit, probably going back as far as November 2007.

Senator CORMANN—Okay, thank you very much.

Mr Lewis—Again, we could take that on notice.

Senator CORMANN—As you are taking it on notice, if Medibank did indeed approach the government, did Medibank approach the government in relation to both conversion to a

for-profit business enterprise and a sale, or was it exclusively in relation to the conversion to a for-profit business?

Mr Lewis—I would need to check our records on that, but I do not have any recollection of the issue of the sale being raised.

Senator CORMANN—What is the current market value of Medibank Private?

Dr Watt—I have no idea.

Mr Lewis—I do not know that we track the current market value of Medibank Private.

Senator CORMANN—You do not track the market value?

Mr Lewis—When you say, ‘the current market value,’ do you mean in the context of a prospective privatisation?

Senator CORMANN—You are transferring it into a for-profit business enterprise status—

Mr Lewis—Which, we should say, will provide a range of freedoms which we think will be very good for the business of Medibank Private, and so does the board of Medibank Private.

Senator CORMANN—The minister announced, in the context of the budget, that Medibank was to become not only a for-profit but a government-owned business, which is inconsistent with what the minister said in opposition in relation to who owns Medibank. What changed the minister’s mind?

Mr Lewis—I could not comment on the minister’s comments.

Senator CORMANN—What changed the government’s mind? Did you provide advice? Did you provide advice to government about the ownership status of Medibank Private?

Mr Lewis—We have always been very clear that Medibank Private is not a mutual. We have been clear on our advice on that point for probably four or five years.

Senator CORMANN—I will just read you a quote by Minister Tanner from *Meet the Press* on 16 April 2006:

... the value of Medibank Private, the capital that it’s seeking to in a sense, liquidate or to realise, was actually built up by its members, including me—

so Mr Tanner is a member of Medibank Private—

... and it’s been over the years the people who have contributed the premiums who have helped to build the value in that company, not contributions from the Government. So, although legally they might be entitled to sell it—

that is, because they own it—

there’s a big question mark over their moral entitlement to sell.

Is that something that the government sought advice about from the department?

Mr Lewis—On the question of whether Medibank Private is a mutual, the answer is yes—and we were very clear that it is not a mutual—

Senator CORMANN—Sorry, it is not a mutual?

Mr Lewis—It is not a mutual, and therefore the government owns the business of Medibank Private. I cannot comment on remarks made by the minister some years ago.

Senator CORMANN—But Minister Tanner's view has actually hardened as he has gone along—and I am sure you are across the particular research paper I am talking about. He commissioned a Parliamentary Library research paper, which he released in September 2006. He made a statement that the government was not the beneficiary owner of Medicare Private fund assets and this position did not change after corporatisation in 1998. In the same media release—

Senator Sherry—You are questioning the departmental officials about the minister's stated views. I take you at your word that the quotes are accurate. I do not have them in front of me, nor do I know the source, but I will accept for the moment that they are accurate. I will have to take it on notice to the minister direct whether he has any response to the questions you are asking about the quotes you are referring to.

Senator CORMANN—I am asking the department for an explanation of policy. By putting that question on an explanation of policy into context, I am reading out what was on the minister's mind in opposition.

Senator Sherry—So far, you are asking about quotes on the rationale of the now minister—he was not minister at the time—

Senator CORMANN—At that time he was the shadow minister.

Senator Sherry—Yes, he was the shadow minister at the time.

Senator CORMANN—For this portfolio.

Senator Sherry—But there is a big difference between being a shadow minister and a minister in charge of a department.

Senator CORMANN—So you take a different position when in government?

Senator Sherry—No. There is clearly a difference in executive authority. As I have said, I will take on notice the questions you have posed so far about the minister's views—I think he started in 2006. But I do not think the department can answer questions about the minister's views before he was a minister. Even now, these matters would have to be referred to the minister direct.

Dr Watt—If you want to ask what was on the minister's mind then you probably should ask the minister.

Senator CORMANN—I am not asking what was on the minister's mind. I will read another quote—and I will leave it at that. I have a question relating to this quote. On 2 September on the *AM* program—and I am quite happy for you to check the accuracy of the quote—the minister said that the reserve funds of Medibank Private, which are being built up by the members, not by the government, cannot be sold by the government. The reason he said they cannot be sold by the government is that they are not owned by the government. Somewhere along the way the minister changed his mind—quite sensibly, I would suggest. My question is: did the department provide the minister with legal advice, or departmental

advice, about who owns Medibank Private? Is that a matter that has been considered by the government given that it is central to what is being proposed at the moment?

Mr Lewis—Yes, Senator.

Senator CORMANN—So you have provided advice?

Mr Lewis—Yes.

Senator CORMANN—Did that include legal advice, or was it merely departmental advice?

Mr Lewis—There was legal advice as well.

Senator CORMANN—Could we get a copy of the departmental advice to government about who owns Medibank Private?

Mr Lewis—I would need to consult the minister in relation to that matter. It raises a raft of issues which are potentially commercially damaging or at legal—

Dr Watt—Senator, we do not usually provide our advice to government.

Senator CORMANN—I much preferred Mr Lewis's answer because—

Dr Watt—I think my answer is the better one.

Senator Sherry—And my answer is both. There are two grounds, and we will take it on notice.

Senator CORMANN—Dr Watt, given that you take the view that your answer was the better one, I ask you: have you received correspondence from the Clerk of the Senate about the continuing order of the Senate about the continuing order of the Senate on public interest immunity claims? Are you aware of the proper process to claim a proper ground of public interest immunity?

Dr Watt—I am very well aware of it—

Senator Sherry—It is not unexpected that you would raise it, frankly.

Senator CORMANN—I was given the answer that it was advice to government so there is no answer. If you are not prepared to explain to us what advice has been provided to the government about who owns Medibank Private then I would be looking for a reference to a specific public interest ground and a statement of reasons as to why it is not in the public interest.

CHAIR—Dr Watt was attempting to answer. If you allow the witness to answer, it would help the proceedings enormously.

Dr Watt—I think that Mr Lewis has said consistently that we have provided advice on Medibank Private and that the view we have provided to governments over several years has meant that the Commonwealth is the owner.

Senator Sherry—You are asking, from where you sit, not dissimilar questions I asked, and frankly, I did not get a response beyond that which the officers have given, so it is an entirely consistent and appropriate with past responses. However, we will take it on notice and see if the minister can add to the answers given thus far.

Senator CORMANN—As a for-profit government business enterprise, would Medibank Private be obligated to pay taxes on earnings, something it does not have to do now? Is that correct?

Dr Watt—That is correct.

Senator CORMANN—Will Medibank Private also be expected to pay dividends to the government?

Dr Watt—If it makes a profit, yes.

Senator CORMANN—Which it has in recent years, I guess, except in the very recent past. Has the government budgeted for any dividend payments from Medibank?

Mr Lewis—It has and, in fact, you will find in the budget papers a reference to that and right next to the forward years you will see NFP, which of course means ‘not for publication’.

Senator CORMANN—So it has budgeted for dividends.

Mr Lewis—I will take you to—

Senator CORMANN—Page 537? Is that correct?

Mr Lewis—If you go to the budget paper 1.8, for the Finance and Deregulation portfolio, given that Medibank Private—

Senator CORMANN—Which page?

Mr Lewis—Page 17. In fact it is the first item on table 1.2 of agency measures—

Senator CORMANN—‘Not for publication’?

Mr Lewis—‘Administered revenues for Medibank Private Limited—conversion to a ‘for profit’ government business enterprise’, then you will see the program and the ‘not for publication’ reference.

Senator CORMANN—On budget paper No. 1, page 537, you will see that dividend revenue from 2008-09 to 2009-10 is expected to double—more than double in fact. It is going from \$3.194 billion to \$6.413 billion to drop off again in the out years. Is that Medibank Private?

Mr Lewis—That will be a range of contributions from different sources.

Senator CORMANN—Is Medibank Private included in that?

Mr Lewis—I would imagine that it should be. In fact, we should be able to give you a clear answer on that.

Dr Watt—There will be something in there for Medibank Private. My sentiment is that it would be a very tiny component of that increase.

Senator CORMANN—How many investors across Australia would see a doubling of the dividend payments in the next financial year?

Dr Watt—Before we get into that, we might see if we can find out the causes of that increased dividend. I do not think it is quite as straightforward as that.

Senator CORMANN—I would be very interested in the reasons as to why dividend payments to the government increased from \$3.1 billion—

Dr Watt—Remember, you are operating under the assumption that all that dividend is the dividend from GBEs. I do not think that is the case.

Senator CORMANN—If there is another explanation and if there are other major changes that only apply in 2009-10—

Dr Watt—I think you will find that there are other things. We can give you that explanation fairly quickly and I will get someone back in the department working on it. If memory serves me correct—and I may be wrong; I often am—that is far from all GBE dividends of the sort you are talking about.

Senator CORMANN—In his statement, the minister said:

Any future dividends paid to the Government will be set in consultation with the Medibank Private Board to ensure that they have no impact on the premiums that Medibank Private members pay.

How is the government planning to achieve that?

Mr Lewis—As a matter of usual course the government will have a conversation with the company in relation to the setting of a dividend payout ratio in relation to the company's profits going forward.

Senator CORMANN—There is a cost that Medibank at present is not incurring, There is the tax, there is the dividend that you have budgeted for even though it is not published. How is an increase in costs not going to have an impact on premiums? How are you going to achieve that?

Mr Lewis—Medibank Private has been quite clear on that and I am sure that this afternoon you will be back to talk to our colleagues from Medibank Private direct. One of the benefits of the for-profit conversion is that it will provide Medibank Private with significant flexibilities to operate in broader sectors that it is presently able to do so. Diversification of its business will assist considerably in that regard.

Senator CORMANN—Has the government determined a dividend policy for Medibank?

Dr Watt—No.

Mr Lewis—The government will determine a dividend policy in consultation with the board, and that will be formalised at the appropriate point once the company has been converted to a for-profit business.

Senator CORMANN—Dividends of course can come in many forms, and correct me if I am wrong, dividends can come in the form of a regular cash dividend out of current profits. I see you nod, so you agree. Business enterprises can be required to make payments from reserves established from profits of previous years. Is that right?

Mr Lewis—Yes.

Senator CORMANN—At times government business enterprises are required to make special cash contributions to government.

Mr Lewis—Yes.

Senator CORMANN—Mr Savvides, the managing director of Medibank Private, told us at the last estimates that Medibank has got quite a sizeable amount of surplus capital reserves above its statutory minimum. Are the budgeted dividends from Medibank expected to come out of Medibank's capital reserves?

Mr Lewis—There is no intention to extract a special dividend, I think was the reference you used, from—

Senator CORMANN—There are three different categories. Special dividends is one category but there is also a category which is essentially that enterprises can be required to make payments from reserves established from profits of previous years. If the objective of the minister is to draw a dividend without having an immediate impact on premiums, drawing down on existing reserves would be an obvious way of trying to do it.

Senator Sherry—But, as the witnesses have indicated, the dividend policy is set in consultation with the board. The board has not been appointed yet. I think you are jumping ahead of the process.

Senator CORMANN—I am not jumping ahead in so much as the government has made a firm statement. I quote that firm statement from the minister's press release:

Any future dividends paid to the government will be set in consultation with Medibank Private to ensure—

This is the relevant part—

to ensure they have no impact on the premiums that Medibank Private members pay.

For the minister to make that statement, he must have some indication that that is actually something that is possible, that is something that can be achieved, that talking to Medibank Private there is a method of dividend payments that can be identified that would not have an impact on premiums. I put it to you that dividends out of cash profits, if there are profits, will have an impact on premiums. Tell me how they would not.

Senator Sherry—You are speculating and asserting your particular position. The matter of dividends—

Senator CORMANN—Explain to me how it would not be the case.

Senator Sherry—The matter will be determined in consultation with the board when it is appointed. I am not going to speculate. You can speculate and that is your right, but I am not going to speculate.

Senator CORMANN—I am asking questions, I am not speculating.

Senator Sherry—Sorry, you are. You are putting questions and speculation together, and asserting. It is something I am well used to, having sat in your position for many years.

Senator CORMANN—Thank you for those patronising comments, but I have got a very specific question. Yes or no, is any of the dividend revenue budgeted for out of Medibank Private expected to come out of capital reserves of Medibank Private? Yes or no?

Senator Sherry—Again, patronising or not, you will learn when I have asserted yes or no, I have been consistently told in the past from where you sit witnesses will answer the question

in their own words. You are entitled to put a question and you are entitled to get an answer, but the witness is entitled to give it in their own words.

Senator CORMANN—I ask the question again: is any of the dividend revenue that is budgeted for from Medibank Private expected to come out of Medibank's current capital reserves?

Mr Lewis—The answer to that is no.

Senator CORMANN—Where is it coming from?

Mr Lewis—The dividend flow comes from future profits.

Senator CORMANN—So if it comes from future profits then Medibank Private would have to cater for that additional cost in future rate change applications in the costing of their future premiums.

Mr Lewis—They also have the opportunity to operate the business more effectively and be able to diversify their business. The issue you are talking about here you will be able to address to Medibank Private directly this afternoon. The board has made a very clear statement in that regard. You have made comments about the level of reserves. It is a very healthy business at the present time, that is clear.

CHAIR—Thank you, Senator. We will take a short break.

Dr Watt—Could I just answer one of the senators' questions? It might help also with the genesis of the argument. Page 5.36 of the Budget Paper says:

Dividends increased substantially 2009-10—

And that is the figure of \$6.4 billion you are talking about—

as a result of the RBA dividend, which is expected to increase primarily as a result of gains realised from its operations on the foreign exchange market.

Senator CORMANN—How much?

Dr Watt—There is not an amount given for the RBA dividend, but it does say that dividends increased substantially in 2009-10 as a result of the RBA dividend.

Proceedings suspended from 10.31 am to 10.46 am

CHAIR—Welcome back. Before we continue with the proceedings I would like to advise that the Australian Reward Investment Alliance will not be required now. We appreciate them attending this morning.

Senator CORMANN—Dr Watt, do you publish the dividends that you expect over the forward estimates from Australia Post?

Mr Lewis—I believe we publish amalgamated dividend flows, not for individual companies.

Senator CORMANN—Are the dividend payments expected to be paid by Australia Post to government made public?

Mr Lewis—No, I do not believe so. I will check.

Senator CORMANN—'You do not believe so' is not—

Mr Lewis—I said I will get that checked but my recollection is that we amalgamate.

Senator CORMANN—How long is it going to take you to check that?

Mr Lewis—Right now.

Senator CORMANN—Thank you. Do you agree with the proposition that revenue for a health fund comes, in one way or another, from its members?

Dr Watt—Senator, that is a comparative statics proposition. It says, ‘Here is where you are. Change one thing and therefore that must be the answer.’ I think the proposition Mr Lewis put to you is that moving a company, Medibank Private, to a company which meets the same criteria of paying tax and providing dividends on profits to its owner—

Senator CORMANN—Where does the Medibank Private revenue come from?

Dr Watt—Sorry, can I just finish? The argument is that that will in turn encourage greater efficiencies in the company. I am sure the company will put this to you this afternoon. That plus the greater commercial freedom, which will go with this, means that the proposition is a much more complex one than you have put.

Senator CORMANN—Where does the revenue from Medibank Private come from?

Dr Watt—Again, your proposition is a comparative statics one.

Senator CORMANN—I do not understand the term ‘comparative statics’.

Dr Watt—Let me put it this way. This is where you are now—

CHAIR—I am sorry but I am finding it very hard to follow the answers when people continue to speak over the top of one another and it is extremely difficult for Hansard. So if we can have questions put and then if we can wait for the witness to respond it is most helpful to all of us. Thank you, Dr Watt.

Dr Watt—Again, Senator, your proposition is one which says, ‘Here is where you are now. Change one thing, change a dividend and what is the answer?’ My point is that it is a much more complex world than that.

Senator CORMANN—That is not the question I asked, Dr Watt. I asked you: where does Medibank draw its revenue from.

Dr Watt—Medibank can pay a dividend by generating greater efficiencies that go with taxable and dividendable companies.

Senator CORMANN—So at present Medibank is an inefficient business?

Mr Lewis—Efficiency is a relative concept. If your point is whether this company is at the top point of the efficiency curve and cannot achieve further efficiencies, it would be a brave company that could ever say that.

Senator CORMANN—There are always further efficiencies.

Mr Lewis—Your comment about revenue clearly—

Senator CAMERON—Tell him you want Work Choices back.

Mr Lewis—A substantial proportion of Medibank's income comes from premium revenue but it has other sources too, including an investment income—just like the large majority of Qantas' revenue comes from flying passengers.

Senator CORMANN—I totally agree there is scope for greater efficiencies, and I guess that generally greater efficiencies means some staff may lose their jobs. But by whatever means those efficiencies are derived is it not true, given that Medibank will now be expected to pay a dividend—

Dr Watt—If it makes a profit.

Senator CORMANN—Yes, okay. You have budgeted to receive a dividend so presumably you have budgeted for Medibank to make a profit. I see a nod, so that is a 'yes'. If those dividends are funded through efficiencies, for argument's sake that means those efficiencies cannot be deployed to having reduced premiums for Medibank's members. Is that not right?

Dr Watt—If a pricing and incentive structure which we think is perfectly reasonable for other Australian companies about taxes and dividends leads you to realise efficiencies or to do things differently from what you would otherwise have done, you will realise efficiency gains you would not otherwise get.

Senator CORMANN—But Medibank now has to pay a tax where it did not before, and it is expected to pay dividends if it makes a profit. That was not part of its cost base before. If it was not part of its cost base moving forward, any efficiencies could be used to have lower premium increases. Is that not correct?

Mr Lewis—The mix of what will happen in the future will ultimately be a function for the board and the management of the company because they will have much greater freedoms. Their business plans in future will clearly be quite different from the business plans they had in the past. Clearly, they will have to do whatever they do in accordance with the requirement to pay tax and dividends in accordance with whatever the dividend payout ratio will be. What that means for benefits of a nonmonetary kind for members, as well as premium change, is something you will need to address with the company.

Senator CORMANN—I will move on from the dividend issue in a moment. But can you perhaps take this on notice, because I am still intrigued and I do not understand it.

Mr Lewis—I might be able to help you right now, rather than on notice.

Senator CORMANN—If you can help me right now, then give me the mathematical formula on how you will ensure that the increase in costs to Medibank Private from having to pay taxes and dividends will not have an impact on the premiums that Medibank Private members pay. How do you—

Mr Lewis—There is no mathematical formula.

Senator CORMANN—How do you aim to achieve that?

Mr Lewis—Your question goes to a proposition in relation to the effect on premiums arising from the government's decision to convert Medibank Private to for profit.

Senator CORMANN—And the minister says 'No impact.'

Mr Lewis—And so does the chairman of Medibank.

Senator CORMANN—How can an increased cost base have no impact on the premiums that Medibank Private members pay?

Mr Lewis—We have spent about half an hour talking about some of the potential for Medibank to generate new business opportunities and efficiencies through the change process. Medibank, as I say again, will be here this afternoon so you will be able to discuss that issue further with them then.

Senator CORMANN—The only way dividend payments can have no impact is if the government has a policy of zero dollar dividends. Whatever else happens, even if there are increased efficiencies, even if there is diversification into other business opportunities, the benefit from those additional opportunities or efficiencies will have to be directed into dividend payments to the government instead of reduced premiums for Medibank Private members.

Mr Lewis—Clearly there will be a portion—

Senator CORMANN—By definition, it will have an impact. So the statement ‘no impact on premiums’ is just inaccurate.

Senator Sherry—That is your argument.

Senator CORMANN—Well, tell me how I am wrong. You give me—

Senator Sherry—I suggest the officials have answered the questions to the best of their ability, but the argument via questions is one that I believe you should pose to Medibank when they are here as witnesses.

Senator CORMANN—I realise it is Medibank, but this is a government decision. The Department of Finance and Deregulation advises the minister, both as a shareholder minister and in the context of this particular budget measure. So I am quite entitled to ask for explanations of policy decisions that the government is putting forward.

Senator Sherry—I agree with you: you are quite entitled to ask questions, and you have been asking them for the last half an hour, combined with what you assert will be a commercial outcome and an impact—they are your assertions—

Senator CORMANN—Give me another assertion; give me your assertion.

CHAIR—Sorry, Senator, can I just remind everyone that, once again, it is extremely difficult for Hansard to record proceedings if we speak over the top of one another. The minister was in the process of responding to your question, Senator Cormann, so if we allow him to finish you will still have the call.

Senator CORMANN—I wish he was.

CHAIR—Could I just remind all senators that you can put your question and it is up to the witness as to how they respond. If you are not happy or satisfied, you can continue down the same vein, but the reality is I cannot direct witnesses as to how to respond.

Senator Sherry—Thank you, Chair. As I was saying, the witnesses here from finance have been responding as best they can to the questions—put aside the assertions and claims you make. The witnesses who will be best placed to respond to your questions about these commercial judgments, if in fact they have been made—and I would suspect at the moment

that they have not yet been made—the witnesses who can respond best and in the greatest detail to your questions, are the witnesses who will appear from Medibank.

Senator CORMANN—Minister, with all due respect, the minister for finance made a statement on budget night:

... future dividends paid to the Government will ... have no impact on the premiums that Medibank Private members pay.

For the government to make that assertion the government have to have in front of them advice that would substantiate how they could make that statement. I am trying to find out because I am at a loss to understand how that is possible. I have tried to assist witnesses, officials, in terms of what my perceptions are—they might well be wrong and there might well be a perfectly plausible answer, if there is one—about how the government can ensure that future dividends paid to the government will have no impact on the premiums that Medibank private members pay. If there is, then please give it to me.

Mr Lewis—Senator, should I repeat my earlier remarks? Could I just add one thing. The government has a number of business enterprises in place at the present time. The government gets advice from the boards of those businesses regularly. We will get advice about things which are affecting those businesses, usually on a quarterly basis. The government is entitled to also rely on the expertise of the board in place to manage those businesses. We have received advice from the board of Medibank Private in relation to that issue, as we have now said several times. It is certainly plausible, for the reasons we explained before, but the company has been very clear about there being no effect on premiums.

Senator CORMANN—We have not heard from the company yet, and I will ask the company. You have now told me that the company has been very clear that there will not be an effect on premiums. I am interested in hearing you say that. I will certainly test that with Mr Savvides as to what Medibank's perceptions are of that.

Mr Lewis—Senator, I think the minister made reference to that in his press release.

Senator CORMANN—No, he did not. The minister said—and I will quote exactly his press release:

Any future dividends paid to the Government will be set in consultation with the Medibank Private Board—

that is, into the future—

Mr Lewis—Are you talking about dividends?

Senator CORMANN—I am talking about dividends. What are you talking about?

Mr Lewis—I am talking about premiums.

Senator CORMANN—As I said:

Any future dividends paid to the Government—

by Medibank Private—

have no impact on the premiums that Medibank Private members pay.

I am trying to understand how the government can make that assertion. You are telling me that Mr Savvides has given advice to government that that is possible. Is that your answer?

Mr Lewis—Yes.

Senator CORMANN—I will check that with Mr Savvides. I will move on, just quickly, to the issue of the competitive neutrality of Medibank, which was also raised in the minister's press release. The minister said:

... the conversion from a not-for-profit entity would result in Medibank Private being on equal footing with major competitors in the private health insurance market.

Can you explain, by way of an explanation of policy, what the government means by that?

Mr Lewis—The concept of competitive neutrality is a concept and principle which has been agreed at COAG level—the Council of Australian Governments—and goes to the way in which government businesses should generally operate. It really just goes to equivalence of operation so that government business is not perceived to operate at an advantage to principal competitors. I could certainly provide you with a more formal answer on that, if you wish.

Senator CORMANN—Thank you very much, Mr Lewis. I would appreciate it if you could provide us with some additional information. The reason I ask the question is that, at the end of the last financial year, only seven out of 39 registered health funds were for-profit—that is, 18 per cent—and 82 per cent were not-for-profit. The for-profit registered health funds had a combined market share of 15.7 per cent. Of course, Medibank, given its sizeable market share, would boost that proportion quite significantly. Isn't it a matter of the government shifting the structure of the market quite significantly, from a market that is predominantly not-for-profit into a market that is now going to be predominantly for-profit?

Mr Lewis—Senator, that 15 per cent number you just quoted then does not sound right to me.

Senator CORMANN—I am quoting PHIAC at the end of June 2008.

Mr Lewis—We probably have a more recent number on that, which is certainly higher than that. I will give you the number.

Senator CORMANN—I would be interested in one. Is your understanding that the majority of the private health insurance market at present is for-profit? Is that what you are—

Mr Lewis—My understanding is that the market share of the for-profit insurers was about 38 per cent as at 30 June 2008 and when Medibank Private is converted then of course a very substantial majority of the businesses—I accept that there are any number of very small health insurance funds which, in a numerical sense, account for the rest.

Senator CORMANN—I take your word for it. My information was based on information from the—

Mr Lewis—I think there is a process of consolidation happening, and you would be very well aware of this. Our expectation is that that consolidation process will continue so that we will actually end up with a significantly fewer number of funds operating on, I would argue, a considerably more efficient basis than presently applies and that will only have the result of

increasing further that for-profit percentage. This is precisely what happened of course in the general insurance sector some years prior. I think our view is that the trend line is pretty clear.

Senator CORMANN—I take your word for the figures. I asked for advice and somebody might have made a mistake.

Mr Lewis—If I am wrong on the 38 per cent I will correct it later.

Senator CORMANN—Let's work on the basis of the 38 per cent figure. What is your most current figure in terms of Medibank Private's market share?

Mr Lewis—I do not have that.

Senator CORMANN—Around about 30 per cent?

Mr Lewis—George Savvides, who will be here this afternoon, will better know that.

Dr Watt—That is close enough.

Senator CORMANN—We are going from a health insurance market that is presently, according to your figures, 38 per cent for-profit and 62 per cent not-for-profit to a market that is going to end up 68 per cent for-profit. So it is a significant shift in the market. Presumably the government would have assessed the implications of that and made a judgment that that is their preference, to have a for-profit—

Mr Lewis—Plus the trend line, so if you went back five years, it was not 38—there was nothing. If you just follow the trend line over time, it becomes very clear where the trend for this sector is.

Senator CORMANN—But the government has given it a significant boost. If there was a trend line, the government has just added 30-odd per cent to that trend, which obviously is going to have an impact on the market.

Dr Watt—I think Mr Lewis's point is that, even without any change in Medibank, there are now seven for-profits in Australian health—seven out of 37—including three quite large ones, and they include MBF-BUPA and Australian Unity. Given what happened in the general insurance market a couple of decades or a decade ago and given what was already happening in the private health market, in five years there will probably be very few private not-for-profits left. I think that is just a fact of life. It is happening. Your point is that the government may have given a boost to that with Medibank Private. That is possible. I do not think I can answer that definitively.

Senator CORMANN—It is not possible; it is a mathematical fact.

Dr Watt—It has increased the proportion.

Senator Sherry—Accentuated the trend.

Senator CORMANN—It has doubled. If you have got a 38 per cent proportion and you add 30 per cent to it, it is nearly double.

Dr Watt—There are two issues. Has the move to Medibank for-profit changed the balance of for-profits? Yes, we agree. You have gone up from 38 per cent on our figures to about 70 per cent. That is fine. I think Mr Lewis's point was that even if Medibank had remained

unchanged most of the rest of the not-for-profits would have become for-profits over the next few years.

Senator CORMANN—I think that is a heroic assertion, I have to say, as somebody who has been involved in this industry.

Dr Watt—It was well underway already.

Senator CORMANN—There are some health funds that guard their mutuality and not-for-profit status—and some of the big health funds too.

Mr Lewis—We would not say 100 per cent, just that I think the general trend line is clear and the amalgamation process has been continuing. I do not see any reason to expect that that trend line will not continue.

Dr Watt—With or without Medibank.

Mr Lewis—With or without Medibank.

Senator CORMANN—But the government would have considered as part of this decision to convert Medibank into a for-profit government owned business the implications for the broader health insurance market that might come from that. I see you nodding, so yes, they did.

Senator Sherry—And I would add that this trend is evident in almost every other area, with one exception, which I will come to. If you look at financial entities, for example, which are regulated by APRA, the Australian Prudential Regulation Authority. The trend in respect of building societies and credit unions has been clear for a very long period of time. The only exception is in respect of superannuation funds. That is the only exception that I can think of.

Senator CORMANN—Funny you should mention that.

Senator Sherry—Just listen for a moment to the answer. I am just about to conclude. Superannuation funds are the only area regarding for-profits and not-for-profits—‘profit for members’ is a term I prefer—I can think of, though there may be some others, where the trend has been the other way.

Senator CORMANN—I have a concluding question on competitive neutrality. The government has made a judgment that it supports the trend towards the for-profit part of the private health insurance sector and essentially prefers the for-profit model to the not-for-profit mutual model as far as private health insurance is concerned. That is a judgment the government has obviously made. Is that right?

Mr Lewis—I do not know that that was a conscious judgment—

Senator CORMANN—You said that it made a conscious decision.

Mr Lewis—that the government made. The government has considered the issue of Medibank Private, which is a government business enterprise it owns, in relation to a sector which is progressively and fairly rapidly turning for-profit. It has had regard to the competitive neutrality principles to which it has signed up as a government and made the decision concerning for-profit.

Dr Watt—I think it would be a jump to therefore suggest that the government is saying that its model should necessarily be followed by other mutuals.

Senator CORMANN—No, I did not even suggest that. But when I asked you whether the government considered the implications of this decision for the structure of the private health insurance market you said yes, and clearly moving the private health insurance market from 38 per cent for-profit to 62 per cent plus for-profit is accelerating the trend away from the not-for-profit mutual model to the for-profit model. So presumably the government has made a decision that that is something that it wants to see happen.

Senator Sherry—These issues, I am sure, would have been considered and canvassed by cabinet and the minister. The department of finance has been providing appropriate advice and input, but at the end of the day the decision has been made by cabinet and the minister. I am happy to take on notice the general questions that you have been posing about implications and whether they were considered. I will take that on notice. Whether the minister is able to respond I do not know, but I am happy to take it on notice.

Senator CORMANN—Thanks. Given the government's commitments that it talked about at COAG level to the principle of competitive neutrality et cetera, is that something that you would be pursuing in the superannuation sector as well?

Senator CAMERON—If we are moving to super, can I come back? We are moving off—

Senator CORMANN—This is my last question on this anyway.

Senator Sherry—I am more than happy to make some significant observations about the superannuation sector, but this is not the time or the place, Senator Cormann.

Senator CORMANN—So that is a non-answer, essentially.

Senator Sherry—No. I am happy to answer it—at the appropriate estimates, as I pointed out.

Senator CORMANN—You are only the appropriate minister.

Senator Sherry—Interestingly, a number of your colleagues raised the issue of superannuation at the primary industry estimates yesterday, and again I pointed out to them I am more than happy to respond to questions and even arguments in respect of superannuation, and it is an interesting issue you raise. I am more than happy to respond but at the appropriate estimates.

Senator CORMANN—Chair, I have two questions on the private health insurance rebate but, if Senator Cameron wants to ask about the competitive neutrality issue, I am happy for him to do so.

Senator CAMERON—No; it is health funds generally.

Senator CORMANN—Can I just quickly get those two questions in then?

CHAIR—Yes. I just draw the committee's attention to the time lines that we have agreed to thus far. I know Senator Coonan has a fair bit of work. Senator Cormann, you have the call.

Senator CORMANN—What involvement did the department have in the development of the proposed budget measure to means-test the private health insurance rebate?

Dr Grimes—We were involved in providing advice through the cabinet process in the normal way that we do for budget measures.

Senator CORMANN—What was your involvement in the process? What specific aspects of the policy proposal did you provide assistance with?

Dr Grimes—Our role in the process goes all the way from coordination with the departments and agencies on their input into the budget process through to costings and providing advice.

Senator CORMANN—Did you provide any specific expertise in the context of the costings and, if so, what was that?

Dr Grimes—We participated in the costings for the private health insurance savings. We worked very closely with the Department of the Treasury in preparation of those costings because, as you would appreciate, they have implications on both the expenses side of the budget, which is Finance's responsibility, and on the revenue side of the budget, which is Treasury's responsibility. So we worked very closely with the Department of the Treasury in producing estimates.

Senator CORMANN—When did you first provide advice on this measure? If you can give me the exact date, that would be great.

Dr Grimes—I think we will have to take that on notice.

Senator CORMANN—Prime Minister and Cabinet were able to answer that just like that—just by way of competitive pressure between departments.

Dr Watt—I could give you all sorts of answers for why that might occur, Senator, but I would not.

Senator CORMANN—I suspect it might be because you would rather provide the answer on notice.

Dr Grimes—I think it is appropriate for us to consider that on notice. First of all, the operation of the cabinet process is something that we do not have direct responsibility for, as you would appreciate.

Senator CORMANN—Sure. I will conclude on this. The Department of the Prime Minister and Cabinet first provided advice on this particular measure on 23 February. Would Finance have provided advice earlier or later?

Dr Grimes—We would have to take that on notice to give you a more specific date.

Senator CORMANN—In the budget process, is Finance's involvement prior to or after the involvement of the Department of the Prime Minister and Cabinet? Surely you would be able to answer that.

Dr Watt—I do not think there is a general rule that you could say one way or the other. We will take that on notice. The budget process is not a process which moves on all occasions from A through to Z. Different things are handled differently. I would suspect, without having the benefit of consulting time lines, that we probably provided advice around the same time, but I do not know, and I am happy to try and get that answer for you.

Senator CORMANN—But Dr Grimes just told us the involvement that Finance has had in the process, working with Treasury to work out the costings. Until that work is done, what can the Department of the Prime Minister and Cabinet possibly comment on? Surely, wouldn't it be logical that your work and the Treasury work would be earlier in the process, before other departments?

Dr Watt—Sometimes yes, sometimes no. For example, let us move away from PHI and take something that is a little more neutral for us. An agency comes up with a new policy proposal to spend money, as agencies do from time to time. The first work on that would be done by the agency. We would not necessarily be privy to that work. We would not expect to be privy to that work. We would expect to become privy to that work as the new policy proposal took shape and form and got nearer consideration by ministers. But whether the agency discussed that proposal first with PM&C or with us would be a matter for the agency's judgment. Sometimes the agencies may well go to PM&C before they come to us.

Senator CORMANN—How long is it going to take you to get an answer to my question?

Dr Watt—I will get you an answer fairly quickly.

Senator CORMANN—Today?

Dr Watt—I think we can get an answer today.

Senator CAMERON—Dr Grimes, what is the role of the department of finance in relation to Medibank Private?

Dr Watt—We are the shareholder department in Medibank Private. That is our broad role. And in this case we are sole shareholder, not joint.

Senator CAMERON—Do you add to the role of Treasury and Medibank Private?

Mr Lewis—In the context of a government business, that is our role. We perform the shareholder oversight role in relation to a number of government business enterprises. In that context, Medibank Private is one on that list.

Senator CAMERON—With your knowledge of the operation of Medibank Private, would it be fair to say that Medibank Private could not operate without government funding support in various ways?

Mr Lewis—Government funding support—which ways are you thinking of?

Senator CAMERON—Well, government provides subsidies to the whole industry, in terms of 30 per cent subsidy for—

Mr Lewis—Its business model will obviously be built around its revenue source, including arrangements with government. If you are interested in the details of that, it would be better directed to Mr Savvides.

Senator CAMERON—I am not going to the details; I am interested in your role as a shareholder. Would you be a major shareholder?

Mr Lewis—The government is the only shareholder in Medibank Private. We are the sole shareholder.

Senator CAMERON—You are the sole shareholder?

Mr Lewis—Yes.

Senator CAMERON—If we demutualise Medibank Private—

Mr Lewis—It is not a mutual; therefore it cannot be demutualised.

Senator CAMERON—So if it was privatised?

Mr Lewis—If it was privatised—

Senator CAMERON—Would you expect significant bonuses to be paid to the chief executive and other executives as a result of that privatisation?

Mr Lewis—That is a hypothetical question. The government has been clear that its intent is—this conversion will mean that Medibank Private, so therefore there is nothing to be added in relation to Medibank. On the issue of bonuses, it would be unusual for large bonuses to be paid on the sale of a government business enterprise. I speak from past history where we have sold a number of businesses in the past—

Senator CAMERON—I accept that it is unusual for a government business to be sold and for large bonuses to be paid out, but in the industry it is not unusual—

Mr Lewis—I understand.

Senator CAMERON—in terms of demutualisation. I have raised this matter before at estimates, but not with you. I note the former Leader of the Liberal Party in New South Wales, John Brogden, who only spent two years with Manchester Unity, ended up with a package, after the demutualisation, of \$1.008 million. And NIB's chief executive, Mark Fitzgibbon, told a Senate estimates hearing last time that, as part of the demutualisation, he received a bonus of \$1.2 million. I look at this very simply: we are funding this by 30 per cent.

Senator CORMANN—No, these are not government's funds—

Senator CAMERON—I understand it is not government's. But the NIB receives government support to operate. We now see this grab for cash, by chief executives, in the public purse. I am just asking are we going to ensure that this grab for cash by executives, who are demutualising or privatising health funds, is not at government expense and not at public expense. I think it is an outrageous proposition. Mark Fitzgibbon himself, who had an \$870,000 increase in his salary last year, to \$2.3 million, considered that he was not the best paid executive in the industry. I wonder what checks and balances we have to ensure this does not happen if we privatise Medibank Private.

Mr Lewis—The hypothetical question I cannot answer and will not answer. On the issue of the setting of the salary of the chief executive, that is covered by Remuneration Tribunal, which observes all proposals in relation to changes to the remuneration package for chief executives.

Senator CAMERON—So you are confident that the same largess to chief executives and other executives, which seems to be around in the industry, will not apply if we privatise Medibank Private

Dr Watt—It is a hypothetical—

Senator CAMERON—You are a shareholder.

Dr Watt—We are not going to privatise Medibank Private. There is no intention to quit the 100 per cent shareholding. What I can say is if there ever were to be, under a future government, a move to privatisation, as long as Medibank Private was 100 per cent government owned then the remuneration for the board and the chief executive would be handled by the Remuneration Tribunal.

Senator COONAN—I just want to go back to my earlier line of questioning about Finance's role in evaluating the proposal for the \$43 billion broadband plan. Did Finance devote any resources to determining whether the government's NBN proposal represented value for money?

Dr Grimes—That is obviously an essential question that the government itself considers through the cabinet process.

Senator COONAN—Did Finance have any role in forming the view about whether the proposal represented value for money in your costings?

Dr Grimes—As usual, through a cabinet process, our involvement was in providing advice, including providing advice around costings. Government obviously received advice from a number of areas and took all of that into account in reaching its decision.

Senator COONAN—So I gather the answer to that is yes?

Dr Grimes—We had appropriate input into that consideration.

Dr Watt—But I think Dr Grimes has also said that the value for money decision is ultimately a matter for the government of the day.

Senator COONAN—The government's view is that this represents value for money. Is that right?

Senator Sherry—Yes, I stand by the comments and support the comments that Senator Conroy—and others, for that matter—have made about this.

Senator COONAN—So you would not subscribe to the view that this is a reckless approach to the expense of public moneys?

Senator Sherry—Certainly not.

Senator COONAN—What has been the extent of the involvement by the department of finance in the national broadband in establishing any mechanisms to ensure that the NBN company will operate at arm's length from the government?

Mr Lewis—The new company will be established as a GBE, as per the normal processes for government business enterprises. It will operate in accordance with the usual governance arrangements for government business enterprises. An appropriate board will be appointed to oversee the management of the company. Legislation will be introduced to give effect to a range of policy announcements that the government has already made. I can give you a couple of examples of that. There will be the regulatory arrangements in relation to how the wholesale company should operate and there will also need to be arrangements put in legislation in relation to future privatisation of the company.

Senator COONAN—What will be the ratio of debt to equity in the company?

Mr Lewis—That will need to be properly studied through the course of the implementation study. There will be advice to the government in the light of the study.

Dr Watt—I am sure the future board will have a view on that also.

Senator COONAN—So no-one yet knows in this so-called ‘value for money’ proposal how much private investment relevant to government investment there will be? Is that right?

Mr Lewis—The level of private investment will again need to be looked at very carefully through the course of the implementation study. If you look at the intermix of factors here you will see there will be the detailed design of the network, the detailed shape of the regulatory framework and a raft of assumptions that were covered earlier on market assumptions in relation to new business. All of that will need to be analysed in considerable detail, together with an assessment of what assets might be held by existing market participants which may be of value, and what value, to the new business. If you think that through for a moment, you will realise it will take some time to get a true sense of what the ultimate private sector equity proportion will be.

Senator COONAN—What I think your answer very clearly establishes is that this is all just some wish list. It is not a proposal that has been seriously looked at in terms of the detail. It has all been pushed off into the never, never and announced as a broadband plan that is about as close as here to Darwin.

Mr Lewis—No, Senator, that is not what I said. I said that there needs to be detailed work—

Senator COONAN—Of course there must. It just does not exist.

Mr Lewis—in relation to each of those areas I mentioned. A lot of that work can only be done in consultation with industry.

Senator COONAN—I just want to come back to some of the risks. The minister, Mr Tanner, had a public interview, on 8 April 2009, which, curiously, does not appear on his website, with Neil Mitchell. He said, as part of an answer:

These huge projects always carry these risks. You’ve just got to balance that against the alternative of doing nothing—

which seems an extraordinary leap, but that is what he said. Mr Mitchell said:

What’s the risk? What’s the worst case scenario?

Mr Tanner said:

Oh look, I can’t identify those kinds of things but ...

Mr Mitchell further said:

Well I hope somebody had though. I mean if you go into this you’ve got to say this is the worst case scenario, we can live with that.

Mr Tanner then said:

Oh look clearly there has been some consideration of all the magnitude of the risks like the financial risks, the technology risks, patronage risk. All of those things have been considered in detail by the government.

That is a full sentence; it is part of a longer quote. I am very interested in how Finance has dealt with some of the risks, because they all come into cost, as you would appreciate. First of all, what consideration was given to technology risk?

Dr Grimes—I think the questions you are asking really go to the heart of the matters that were considered through a cabinet process. So I do not think it is really our position to be speculating or talking about what might or might not have been considered through a cabinet process. As the minister indicated in the extract that you have just reported, the government obviously did take into consideration a range of risks in its consideration of the matter.

Senator COONAN—We are entitled to ask what Finance did in relation to making assessments of the risk, because that is a key role. You told us that at the beginning of this line of questioning. I just wonder how do you, in your role, make some assessment of the technology risk? I will come to other risks.

Dr Grimes—As I said, I have no problems with indicating that we provided advice, but I do not think it is appropriate for me to go into the specific content of that advice.

Dr Watt—I think the issue of technology risk is not one we would expect to have a great involvement in assessing. I also think that was covered in yesterday's Senate hearings.

Senator COONAN—What about financial risk, then, or market risk? You certainly would have some view about that.

Dr Grimes—As I said before, we provided advice through the process, but I do not think that going into the specifics of that is appropriate.

Senator COONAN—What about market structure risk, then, with the NBN company? That is really the bread and butter of your operative day-to-day function.

Dr Grimes—The bread and butter of our function is looking at the financial costings, and we spoke about that earlier today. Clearly, when the government made its decision it took into account a wide range of considerations.

Senator COONAN—I am asking you what Finance's view is of the market structure risk. I am not asking what you advised the government; I am asking you what your view is.

Dr Grimes—I am not quite sure what you mean by 'market structure risk'.

Senator COONAN—Risk that the NBN company will have weak incentives to assist in delivering complex end-to-end services, for example.

Dr Grimes—Those sorts of questions probably go much more to questions about telecommunications policy or economic policy. These are things that would be handled by other departments rather than primarily by Finance.

Senator COONAN—One of the things that has been exercising your minister, which he has talked about at great length publicly—or thought aloud about at great length publicly—is the risk of lack of private sector participation in constrained capital markets. That was very much one of the reasons that the other tender was chucked out. Finance presumably has a view about that.

Dr Grimes—The minister for communications has spoken on this matter as well and he has indicated the range of investments that the government may have to make under different scenarios. That is something that he has put on the public record.

Senator Sherry—And when it comes to an issue like capital availability in the context of the current financial and economic climate—

Senator COONAN—Yes, big risk.

Senator Sherry—When it comes to that issue, I think that is more appropriately a matter for Treasury and the markets group and Treasury macro.

Senator COONAN—This is my first Finance estimates where I have been sitting here wanting some detailed account of why we pay Finance to do the things they do and of their claim as a key, which they are—a central agency advising the government. I sat on the other side of the table for many years and had a lot to do with Finance. Whilst of course officers are always polite and genuine—I am not arguing with the officers, Minister Sherry—with some of the answers that Finance have given today it seems as if they have not really looked at the budget as a whole-of-government document and they are trying very hard to delineate their role in a way that is just not real. I know the way in which the departments interact and I think it is fair that I put on record the fact that I am surprised that Finance would seek not to be forthcoming on some of these matters. You and I have sat on opposite sides for many years, and there has got to be a bit of latitude and leeway. We understand all of that. It just seems to me to be a fairly defensive bat which is being played today by Finance.

Senator Sherry—Dr Watt can add to my comments if he wishes to. I acknowledge that we have both sat at these estimates, and I can recall my colleague Senator Conroy and me, for example, asking questions over many, many years—more than I care to think of, frankly.

Senator COONAN—Well at least I can say that you have had more years on this side than I have.

Senator Sherry—Yes, I am well aware of that—eighteen years. You put forward an argument and a view which I do not agree with. On reflecting over those years of asking questions of Dr Watt, Dr Grimes and other officials, I certainly do not believe that the approach and response to comparable issues have been any different today than over the 18 years I have been attending Finance estimates.

Senator COONAN—You would say, that wouldn't you? I appreciate your view. Let us strip this down to its essence in terms of the public's right to know about this project. We have no plan at all, apart from something in the future. The bottom line of all of this is this: if it all goes pear shaped, can you tell this committee that the bottom line here is a \$43 billion potential hit to the taxpayer and no more? Is that is what has been factored into the contingent liability?

Dr Watt—The government has said that it is willing to invest up to \$43 billion in the NBN company to build the National Broadband Network. I have not seen any change in that position.

Senator COONAN—So it is \$43 billion?

Dr Watt—Up to \$43 billion. But the final amount will depend on, among other things, the extent of private sector equity that might be sought.

Senator COONAN—I understand all of that; I understand all the unknowables.

Dr Watt—One point to make about private sector equity is this: it is extremely difficult to assess private sector interest in the NBN company until the implementation study has been done. The private sector naturally wants to know what it is investing in and what its prospects are. The government has made it clear that it will do the implementation study and then the scope for private sector involvement will be canvassed with private sector people.

Senator COONAN—We might get to the end of that and find that there is really no appetite at all.

Dr Watt—That is theoretically possible, but highly unlikely.

Senator COONAN—Why do you say that?

Senator Sherry—That is true in the float of any private sector entity.

Senator COONAN—We are talking about hypotheticals.

Dr Watt—Another point to make is that we are talking about investment over several years. The private sector is more likely to be interested in investing a couple of years down the track than it is now, simply because what it is investing in will take more shape. So you would not expect to have private sector equity lining up on the front doorstep today, but you will probably find that as the network is rolled out there will be much more interest, because the network will have taken on greater concreteness.

Senator COONAN—And you would be clear about the fact that that is highly speculative.

Senator Sherry—Adding to that answer, if you look back at the events in the financial markets and the issues around capital raising compared to, say, six months ago, today's world has improved. In financial markets, there is a cautious optimism of a recovery. Today's market is fundamentally different from that which existed six months ago.

Senator COONAN—Thank you for that.

Dr Watt—I am sorry, Senator Coonan, but I missed your last question.

Senator COONAN—It sounds like whistling in the dark to me, but anyway. Could you tell me what resources Finance devoted to assessing the National Broadband Network financial and costing risks?

Dr Grimes—I can answer the question in broad terms. We had—

Senator COONAN—How many officers? What amount of time?

Dr Grimes—In broad terms, Mr Saunders was involved in the costing process. He worked closely with Mr Lewis and some other senior officers in Mr Lewis's group. We had an officer assisting Mr Saunders. They were not working on these matters exclusively full time, but worked on it over a number of weeks.

Senator COONAN—So three people over a number of weeks.

Mr Lewis—Three to four people with that as their principal role over that period of time. There was partial involvement from me and Dr Grimes.

Dr Watt—Plus they drew on information from DBCDE and worked with a DBCDE team on this. DBCDE had more information, both through the tender process and through work that had been done by consultants, than we had initially. We drew on that.

Senator COONAN—Did Finance estimate a costing of ongoing operating costs of the NBN?

Dr Grimes—I would have to take that on notice because I do not have those details.

Senator COONAN—In case I missed something in dispatches, are we clear that the extent of this liability if it all goes pear-shaped is \$43 billion—and that is a guarantee? No more?

Dr Watt—I think you have to qualify that in two ways. Firstly, the government said it will be guided by the implementation study—

Senator COONAN—So it could be more.

Dr Watt—It could be more or it could be less. The second thing, of course, is that, should the government choose for whatever reason at any point in time not to pursue this—and that is not the government's policy now; should a future government choose not to pursue this—then the extent of the costs would be whatever was sunk and could not be recouped in other ways. I would be enormously surprised if the whole \$43 billion was ever—

Senator COONAN—Was a sunk cost.

Dr Watt—I would be enormously surprised. Basically, the purpose is to acquire assets which will be of use.

Senator COONAN—I am trying to get some handle here, ultimately, on what kind of exposure there is on contingent liabilities given that, by their nature, it is difficult to be precise—but I think we have pinned this down to \$43 billion, more or less.

Dr Watt—Up to \$43 billion.

Senator COONAN—How about the Australian Business Investment Partnership? What was the approach to that on costing?

Dr Grimes—I may be able to answer in the meantime. Obviously, primarily that measure is in the Treasury portfolio. Of course, it is not a direct outlays measure, as you are aware; it is a guarantee that has been provided for debt that would be issued by the Business Investment Partnership. The information that we have on that has been provided to us by the Department of the Treasury. It is not a complex costing in the sense that—

Senator COONAN—I understand the difference: it is not a broadband proposal.

Dr Grimes—It is a contingent liability and, of course, the size of that contingent liability is determined by the amount of debt that would ultimately be guaranteed by the government. The budget papers do have the figures on—

Senator COONAN—So that is an upper limit of the \$26 billion, is it?

Dr Grimes—Correct.

Senator COONAN—So we have \$43 billion and \$26 billion. Tell me about some of the other contingent liabilities like, for example, the bank guarantees, both the retail and the wholesale.

Dr Grimes—Once again, those are disclosed in the budget papers. I would have to look them up for further information for you.

Senator COONAN—Did Finance undertake some costing in relation to potential exposure that is noted in the budget papers?

Dr Grimes—Once again, as I explained earlier, the contingent liabilities are advised to us by the relevant departments, so Treasury would have provided us with those estimates of contingent liabilities in relation to banks. Dr Ioannou may have some further information to provide on that.

Dr Ioannou—The budget papers for 2009-10 do provide estimates for various contingent liabilities. You mentioned the Financial Claims Scheme. This has been valued at approximately \$650 million. The guarantee of wholesale funding of authorised deposit-taking institutions is valued at \$104.1 billion.

Senator COONAN—As at 1 May? The wholesale funding covered was—

Dr Ioannou—Sorry, \$650 billion—I may not have said billion. These are estimates contained in the budget papers.

Senator COONAN—What about the car dealer financing?

Dr Ioannou—The wholesale floor plan financing guarantee for eligible car dealers is valued by the Department of the Treasury at \$550 million.

Senator COONAN—Do you just accept these estimates from Treasury or do you make some independent assessment, or checks and balances, of Treasury's costing and estimates? Or are you just given a figure for the purposes of the budget papers?

Dr Ioannou—The responsible agency or department is required to provide the figures and do the assessment.

Senator COONAN—Right. So Finance has no independent role in relation to making assessments of cost and risk for the budget papers?

Dr Grimes—We would take that advice that had been provided to us from the agency. In these cases we have no reason to believe that we need to second-guess the work that had been done by Treasury. If we are satisfied with that work, we would be quite happy with the estimates. It is important to note—and I am sure you appreciate this point—that the amount that is nominated as a contingent liability is an upper amount.

Senator COONAN—Of course.

Dr Grimes—Of course, none of this may be realised at all.

Dr Watt—And usually, at these in these cases, the liability is fairly easy to ascertain. For example, you mentioned the financial claims scheme. The figure of \$650 billion is for the deposits eligible for coverage under the scheme. That is fairly easy to work out. It is not rocket science.

Senator COONAN—I think it is a valid question that I ask you to treat seriously. Understanding the nature of contingency, as we do, and the fact that things may never be called upon, there must be some idea in Finance, one would think, about what the total of the government's contingent liabilities might be, if things went pear-shaped.

Dr Grimes—Of course, that is the purposes of statement 8 in the budget papers—to do precisely that.

Senator COONAN—So what is the total figure of potential contingent liabilities?

Dr Grimes—We do not add it up in the sense of mechanically adding each number to come up with an overall number. The reason for it is—

Senator COONAN—It is about \$1 trillion, isn't it, if you averaged it out or added it up?

Dr Grimes—I have not added those numbers up myself. But there is a reason why we do not do that and it goes to the point that we were making before. It was almost the point that you made earlier about trying to assess the risk in each case—there will obviously be a spectrum of risks. So, where there are different levels of risk, how do you add individual contingent liabilities together? It is obviously a very difficult thing to do.

Senator CAMERON—None of this risk has affected Australia's AAA rating, has it?

Senator COONAN—Well, that is a debt issue and I am afraid that the witnesses have said they cannot help us. If they are going to tell me about the AAA credit rating—yippee! I would like to ask a lot of questions.

Senator Sherry—Senator Coonan, Senator Cameron has asked a question. Whether the department knows and is able to respond is up to them. You have intervened before the department could respond.

Senator COONAN—Yes, it was very improper of me, Senator Sherry.

Senator Sherry—I was just going to add that I think Senator Cameron intervened on you, so can we just know where the questions are coming from and have an opportunity to answer them?

Senator COONAN—Absolutely. We try to be courteous.

CHAIR—Senator Coonan has the call.

Senator COONAN—Dr Grimes, I think you were in the middle of saying something to me?

Dr Grimes—I think I had finished it. If the senator wants us to respond to the AAA question—it is a matter of public record that Australia's credit rating has not changed. But the question—

Senator COONAN—What would affect that? What would affect the credit rating? What would affect Australia's credit rating?

Dr Grimes—I am trying to finish my answer, because questions about the credit rating and the influences on it—

CHAIR—Sorry, Dr Grimes, we had two questions being fired. Dr Grimes was attempting to respond to Senator Cameron. Allow him to do that, and then Senator Coonan has the call.

Dr Watt—I do not think it is a question for which we claim to have primary responsibility or any responsibility. We will leave that to the Treasury estimates. You are getting a long list for them.

Senator COONAN—Yes, indeed. Just as a matter of interest, has any thought been given—this is something for you, Senator Sherry—to the utility of having some sort of joint Senate estimates with both Treasury and Finance? I make the suggestion in all seriousness. To get a composite picture, in fairness—in terms of public accountability and general transparency of the estimates process—it seems to me that, rather than putting witnesses in positions where they have to assume responsibility over and over again, there could be some utility in having a joint sitting.

Senator Sherry—I have not thought about it. I think it is an issue for the Senate itself to determine.

Senator COONAN—Yes, I appreciate that. I just thought it was worth raising it with you.

Senator Sherry—I must say I have not thought about the approach you suggest. Given that I have sat in your position, I have occasionally had a touch of frustration. As the officials know, when you are asking Finance about a particular expenditure costing and—

Senator COONAN—You are always very restrained, Senator Sherry.

Senator Sherry—there can be a reference to the appropriate department. Whether, in that context, you could have some sort of joint sitting would be a matter for the Senate. I have not given it any consideration. I would want to consult with the appropriate ministers and so I would take that on notice. We will deal with this suggestion if it emerges in the Senate.

Senator COONAN—I want to go on to some issues to do with nation building. In deference to the committee, is there anything before I leave, on contingent liabilities?

CHAIR—Is there anything further in this area? No, Senator Coonan.

Senator COONAN—Could somebody at the table tell me, if that is possible: what is the current balance of each of the nation building funds—the Building Australia Fund, the Education Investment Fund, the Health and Hospitals Fund? The second part of the question is: what is the total of unallocated funds in each of these funds, please?

Dr Watt—I think Ms Campbell can help you.

Ms Campbell—Clearly there are daily changes to the balances of the funds but if we can give approximate ones as at earlier in May that may be of use. They will change slightly with interest payments on a daily basis. I will start with the current moneys that have been allocated to those funds, the moneys that have been paid into the funds or are expected to be paid into the funds by the end of June, and then the amount of money that has been allocated from those funds. Would that be useful?

Senator COONAN—Yes, or the amount that is unallocated. Anyway, let's start and we will see.

Ms Campbell—The amount of money that has been allocated to the Building Australia Fund is \$11.185 billion. Of that, \$10.707 billion has been allocated, with a balance of \$0.478 billion. For the Education Investment Fund, \$6.484 billion has been allocated to that fund,

with spending of \$4.066 billion and a balance of \$2.418 billion. For the Health and Hospitals Fund there will be an allocation of \$5 billion, with total spending of \$3.172 billion and a balance of \$1.828 billion.

Senator COONAN—Thank you. What ingoings and outgoings have occurred into and out of these funds over the past 12 months, and what is expected to occur due to the 2009-10 budget decisions?

Ms Campbell—My colleague Mr Greenslade has just pointed out that this excludes investment earnings, so the interest was not included in those. If we start with the Building Australia Fund, there was \$2.468 billion allocated from the Communications Fund into the Building Australia Fund. And \$7.5 billion from 2007-08 realised surplus will be transferred into that fund, and \$1.216 billion from the Telstra sale special account will be transferred into the Building Australia Fund. For the Education Investment Fund \$6.484 billion was transferred from the Higher Education Endowment Fund into the Education Investment Fund. For the Health and Hospitals Fund \$5 billion from the 2007-08 realised surplus will be transferred into that fund before 30 June.

Senator COONAN—What advice was sought from the department before the government decided to transfer \$2.5 billion that had been earmarked for the Education Investment Fund to the government's new Clean Energy Initiative.

Ms Campbell—The government sought advice on the legal requirements to transfer money in under the nation-building fund and that advice was provided by the Department of Finance and Deregulation in the lead-up to the budget decision.

Senator COONAN—When was that?

Ms Campbell—I cannot say the exact date. I think it was in late April or early May.

Senator COONAN—And the legislation or the mandates allow for funds to be transferred between these three infrastructure funds?

Ms Campbell—The legislation identified how much money was to be transferred into each fund. The government has introduced a bill to change the nation-building funds act to enable the \$2.5 billion that had been earmarked for the EIF not to be transferred in.

Senator COONAN—It was passed last week. Was any advice sought about transferring the \$2.5 billion from the Education Investment Fund to the Building Australia Fund as it has specific reference to funding energy projects?

Ms Campbell—We provided advice on a range of issues on funds. The Building Australia Fund is able to fund energy initiatives as well as a broad range of infrastructure requirements so advice was provided on what was able to be funded out of each of the funds.

Dr Watt—Its statement of purpose, I think that is the right term, includes energy initiatives.

Ms Campbell—Yes, it includes energy.

Senator COONAN—Are you able to outline the process for selection of projects announced in the budget in terms of Finance's role and costing them? I just want to go

through the projects that have infrastructure approval to start with. My question is: what did Finance do in terms of providing costing advice for these projects?

Dr Grimes—As you know, those nation-building projects are subject to approval by the relevant nation-building fund board. So the process that is gone through is that the proponents that are submitting projects for consideration obviously submit worked up proposals that go to the nation-building funds boards. They consider them and then sign off on them as being approved or not approved. Then they are submitted to the government for consideration. On the basis that those projects had been through a costings exercise with the proponent through the advisory boards—and in most cases fixed amounts of funding are being provided by the Commonwealth; the Commonwealth is not funding the full project but rather part of the project—we did not undertake any further costings above that because they had already been through a board consideration process.

Senator COONAN—So, if I understand you correctly, Finance did not run the ruler over any of these costing proposals?

Dr Grimes—We obviously had examined each of the proposals as it had been provided to us. In the government's consideration of the proposals we would have looked at each of them. But we did not have a need to re-cost them, if you like, because they were being provided by the proponent and had been considered through a board process.

Senator COONAN—That is very interesting. What do you normally do? I am really interested, for the sake of understanding just what Finance does. Just in terms of methodology, what does Finance do normally in preparing a costing? What form does it take? For example, do you do a spreadsheet, or how do you get into costing a proposal?

Dr Grimes—It really does depend on the proposal that is under consideration. As you would appreciate, there is an enormous array of things that we would cost, and the method—

Senator COONAN—Just take broadband for example, since we have been up and down on that a bit. What did you do on that?

Dr Grimes—We have already talked about broadband—

Senator COONAN—Did you have a spreadsheet for broadband, because you said it varies?

Dr Grimes—and obviously—

Senator COONAN—I imagine you would have. How many variables and components would you have?

Dr Grimes—Obviously it would depend on the costing that we are being asked to do. For the major nation-building projects that are being funded, virtually all of those projects are being funded as a fixed contribution from the Commonwealth, so, in a sense, you are being asked to cost a fixed amount of money. The amount of money itself is the costing, so you would not expect that to be a complex costing.

Senator COONAN—Could you take me through a complex costing?

Dr Grimes—But if you were doing a complex costing—it could be a social welfare costing; it could be a whole range of things—the costing could be quite involved, involving interactions over a considerable period of time.

Senator COONAN—What are ‘interactions’? Just go back to broadband for a moment.

Dr Watt—Senator, why don’t we pick something a little more neutral? We might find it easier to discuss it.

Senator CAMERON—What about the Murray-Darling proposal from the previous government? Was a costing done there?

Dr Watt—I think that fails the neutrality test.

Senator COONAN—It is a serious question.

Dr Watt—I understand it is a serious question.

Senator COONAN—I want to get some idea. I picked broadband because it seems to be something where Finance was involved over a considerable number of weeks with a number of people. I do not mean to politicise it; I am talking about the mechanics of it. What is involved?

Dr Grimes—I think we have been well and truly over the broadband territory—

Senator COONAN—Well, just tell me what—

Dr Grimes—but in a generic case of a generic costing, as I indicated, it really just depends on the nature of the proposal that you are being asked to cost.

Senator COONAN—Could you take me through broadband, please, and just tell me about the mechanics of what you did.

Dr Grimes—As I indicated earlier with broadband, we considered a range of variables, working closely with the Department of Broadband—

Senator COONAN—How many variables?

Dr Grimes—I cannot give you a specific number here. That work—

Senator COONAN—What components would you plug into the spreadsheet analysis?

Dr Grimes—As I said before, it depends on the costing under consideration. You would obviously want to make sure that you had captured—

Senator COONAN—What did you do, for example, with broadband?

Dr Grimes—the major variables. We have actually discussed those earlier this morning. In each case, appropriate assumptions were made and costing estimates were produced around those.

Senator COONAN—Can you take this on notice, please, and give me a detailed answer in relation to broadband—

Senator CAMERON—It is in the *Hansard* transcript.

Senator COONAN—about the mechanics of how you went about the costing process.

Dr Grimes—Yes, we can do that.

Senator COONAN—I am interested in the components—what you did.

Senator Sherry—Yes, we are happy to. There may have been something that the officers did not go into this morning that can be added—although I would be surprised—so we will certainly add to it on notice if there is further information.

Senator CAMERON—Chair, I raise a point of order. I am new to this, so I just need to get some clarification. If we have questions from senators, senators do not attend part of the hearing, a comprehensive answer is given by the department and then a senator arrives later and asks the same question, do I have to sit through that painfully again?

CHAIR—There is no point of order. Senator Coonan.

Senator Sherry—You should have been in Primary Industries for the last two years. It was not government senators complaining about the pain of repetitious questions!

Senator RONALDSON—You do not have to be here, Senator Cameron.

Senator CORMANN—Feel free to go and have a cup of coffee, Senator Cameron!

CHAIR—Senator Coonan has the call, thank you.

Senator Sherry—I just think that is a practical issue we all face from time to time.

Senator COONAN—Going back to the infrastructure spend: were all of the projects that were announced as part of the infrastructure package recommendations from the boards of the funds?

Dr Grimes—As indicated in the budget papers, there are one or two projects to be funded out of the nation-building funds that are still subject to further consideration by the relevant board, and that it is actually indicated in the budget papers where that is the case.

Senator COONAN—Yes.

Dr Grimes—Some infrastructure related proposals in the budget were obviously directly funded from the budget, so they are not through the nation-building funds process.

Senator COONAN—Of the ones that were not actually funded by recommendations from the boards and arrived as fully funded, what was Finance's role in relation to those?

Dr Grimes—Once again, with those proposals we would provide advice to the government through the budget process.

Senator COONAN—And what would that involve?

Dr Grimes—As I have indicated before, it would primarily involve advice on financial implications and, where it is involving the nation-building funds, ensuring that the processes are consistent with those processes of the nation-building funds.

Senator COONAN—Did Finance provide any advice to the government in relation to the funding for six projects which, while on Infrastructure Australia's list, have nonetheless not been fully assessed?

Dr Grimes—Which projects are you referring to?

Senator COONAN—West Metro pre-construction work—\$91 million. Infrastructure Australia says: further project element and analysis required.

Dr Grimes—Yes, on those other projects that are in the budget we were involved in providing advice.

Senator COONAN—So you provided some costing in relation to West Metro?

Dr Grimes—I would have to take on notice the question on the specifics that we provided there. From memory, it was a fixed amount of money for a feasibility study. We will confirm that if that detail is not—

Senator COONAN—Is that the \$91 million?

Dr Grimes—That is right.

Senator COONAN—And Oakajee port in Western Australia—\$339 million?

Dr Grimes—Once again, that is a contribution that is being made by the Commonwealth to that project.

Senator COONAN—Is that for feasibility, or is it for some other—

Dr Grimes—No, that is to be an equity contribution to the project.

Senator COONAN—Darwin port expansion, \$50 million, where Infrastructure Australia said further analysis is needed?

Dr Grimes—It is the same issue.

Dr Watt—An equity contribution—and it is a contribution, no more.

Senator COONAN—I am sorry—‘it is a contribution’?

Dr Watt—It is an equity contribution. It is just a contribution to the overall cost.

Senator COONAN—Northbridge rail link—\$236 million?

Dr Grimes—Once again, that is a contribution from the Commonwealth to that project which is being managed by the Western Australian government, from memory.

Senator COONAN—How did you arrive at \$236 million for the Northbridge rail link?

Dr Grimes—These are amounts that the Commonwealth is going to contribute to those projects.

Senator COONAN—Yes, I understand that.

Dr Grimes—So it is a matter for the government to determine how much it wants to contribute to the project; it is not a matter of a technical costing.

Senator COONAN—So \$236 million was a figure that the government arrived at, not something that Finance costed?

Dr Grimes—It is an amount that the government determined that it would provide to the project; that is correct.

Senator COONAN—I will just go on a bit further with this. Brisbane inner-city rail—\$20 million?

Dr Grimes—Once again, a contribution to a feasibility study for that project.

Senator COONAN—And Bruce Highway—\$488 million?

Dr Grimes—A contribution to the Queensland government.

Senator COONAN—Was Finance concerned that all of these proposals were incomplete and required further analysis?

Dr Grimes—That is not a question for me to go into.

Senator COONAN—Well, you must have been—I mean, Finance must have been worried about the fact that the government set up a process to look at infrastructure, certain projects were approved, and suddenly—bingo!—six that were not approved on the list got funded.

Dr Grimes—It is quite appropriate for the government to consider other projects that it might want to fund.

Dr Watt—I think the issue, Senator, is that these are contributions to projects and because they are intended to be specific Commonwealth contributions for an intended purpose the role of finance is much diminished—you are not building the thing, you are making a contribution towards it.

Senator COONAN—I thought we had a process. Mr Eddington from Infrastructure Australia said that we should not be putting forward projects that did not meet the rigour test.

Dr Watt—I really cannot comment—

Senator COONAN—How did the Oban project in Adelaide meet finance's well-known reputation for rigour?

Dr Watt—I cannot comment on what Mr Eddington said or not. I am sorry, Senator.

Senator COONAN—It is a bit unfair of me to put you in that position. Were any last minute changes made to the list of projects funded in the budget?

Dr Watt—I think it is fair to say that the projects to be funded were adjusted over time as the various boards reported and so forth. The answer is that there were changes whether they were last minute or not. They changed over time as the boards looked at some things and found them feasible and as they found other things needed further work.

Senator COONAN—The health and hospital infrastructure component of 3.13 contains \$430 million over six years for translation research and workforce training. Can you explain to me how that is infrastructure spending?

Dr Grimes—We might ask another officer to come to the table to talk about maybe some more specifics there of what is involved in those projects. But in all cases these are projects that have been assessed by the Health and Hospitals Fund board and they would have had regard to the specific requirements on infrastructure.

Mr de Carvalho—Senator, your question was in relation to translation research and workforce?

Senator COONAN—The precursor to the question was that we were talking about infrastructure and I am interested how translation research and workforce training is thought to be—I withdraw the question. What is infrastructure? What is the definition of infrastructure?

Senator Cameron interjecting—

Dr Grimes—Senator, when you go into the specifics of infrastructure in the nation-building funds it is another officer and Mr Greenslade may be better placed to answer that question for you.

Senator Cameron interjecting—

Senator COONAN—Quite apart from Senator Cameron's flippant interjections I think it is a very serious question. I am interested to know what is regarded as infrastructure.

Mr Greenslade—The legislation refers to spending on the creation and development of infrastructure. There is not a precise definition of infrastructure in the legislation. That term broadly covers and has been intended to cover spending of a capital type nature.

Senator COONAN—On what?

Mr Greenslade—On infrastructure such as buildings, roads and so on, but not—

Dr Watt—I think the important distinction, Senator—

Senator COONAN—I am sorry, could he just finish his answer, Dr Watt.

Mr Greenslade—The distinction is that it is that sort of spending rather than recurrent type of spending.

Dr Watt—Mr Greenslade got the answer perfectly: it is spending that is not recurrent expenditure; it is spending of a capital nature.

Senator COONAN—Explain to me then how we have capital expenditure on research and workforce training of \$430 million. It seems to be a very unusual way in which one would normally regard infrastructure spending.

Mr de Carvalho—These projects are infrastructure under the definition that Mr Greenslade has provided. They are all for facilities, they are all for bricks and mortar of some kind; they are not actually funding recurrent expenditure. I can give you a few examples if you like.

Senator COONAN—All right.

Mr de Carvalho—The Ingham Health Research Institute facilities, which will expand a research facility—

Senator COONAN—What are the facilities?

Mr de Carvalho—They are buildings; they are additional bricks and mortar, additional space for things to happen within.

Senator COONAN—Where is this happening?

Mr de Carvalho—That one is in Liverpool Hospital.

Senator COONAN—And what is proposed under this particular measure?

Mr de Carvalho—The details I have in front of me say that this Ingham Health Research Institute facility will create an expanded research facility at the redeveloped Liverpool Hospital with a Commonwealth contribution of \$46.9 million over three years. These projects are of that nature.

Senator COONAN—What about the workforce training?

Mr de Carvalho—The workforce training is in the same—

Senator COONAN—Are they buildings?

Mr de Carvalho—Yes, they are also buildings.

Senator COONAN—Where?

Mr de Carvalho—For example, I could say facilities for clinical medical education and research at Werribee and Auburn campuses of the University of Notre Dame, with a Commonwealth contribution of \$22.8 million over two years in Victoria-New South Wales. So there are additional facilities for workforce training and development to take place.

Senator COONAN—Why wasn't it described as facilities when the press release and most of the discussion around it talked about this being an item for workforce training. Now you are telling me that none of this will be spent on actual workforce training, it is all on buildings. Is that right? You can guarantee that?

Mr de Carvalho—The money is for facilities.

Dr Watt—Buildings and some of the things that might go into them, like fit-out and equipment, would be part of that capital too. But if you are saying that it is not spent on lecturers who get up there and teach, yes.

Senator COONAN—I am just trying to clarify that because that is the way it has been described.

Dr Watt—I do not think we are familiar with the press release.

Senator COONAN—So it does not encompass services?

Mr de Carvalho—No.

Senator COONAN—But it does encompass installations needed for the provision of these health services?

Mr de Carvalho—That is right, for workforce and research.

Senator COONAN—From answers I was given earlier, is it correct that the Education Investment Fund never had \$11 billion deposited to it? It has \$2.4 billion in it now. Is that true?

Ms Campbell—The Higher Education Endowment Fund was transferred to the Education Investment Fund and no further money has been transferred into that fund.

Senator COONAN—All right, so it only has \$2.4 billion left in it?

Ms Campbell—After the commitments that have been announced in the budget, yes.

Senator COONAN—With the roads, rails, ports of \$8.4 billion, KPMG has estimated that the total cost of the announced projects is possibly close to \$80 billion. I think I have these figures right, but with the Building Australia Fund depleted by \$7.6 billion and funding of the National Broadband Network deposit of \$4.7 billion, and with the government having pledged to return the budget to surplus by about 2015 or 2016, where is the rest of the money coming from for infrastructure?

Dr Watt—I do not think that is a question that you would expect us to answer, Senator. That is a matter for the government. I think you can say that this is matter for state and federal governments, incidentally, not just federal governments.

Senator COONAN—And this private sector.

Dr Watt—It may be private sector as well, as we move beyond—

Senator COONAN—We are going to be calling on them for a lot of contributions, Dr Watt.

Dr Watt—As we move beyond the global financial crisis, Senator.

Senator COONAN—Anyway, it seems that there is a big shortfall, whatever way you look at it. There is \$3.6 billion for the clean energy infrastructure fund. Could the committee be told where the government intends to use the \$2.5 billion it is seeking to transfer for the Clean Energy Initiative? It was announced to encourage further innovation of clean energy generation and to support full solar energy generation projects. Are there any sites for the projects?

Ms Campbell—I think that might best be a question for the Department of Resources, Energy and Tourism to provide more details on that.

Senator COONAN—The budget papers identify expenditure totalling a maximum of \$400 million over four years and state that the funds will only be used subject to endorsement by the Education Investment Fund advisory board once suitable projects are identified. What expertise does the EIF advisory board have in regard to carbon capture and storage and solar energy?

Ms Campbell—I think the \$400 million you are referring to relates to research projects and the Education Investment Fund advisory board does have expertise, I understand, regarding research projects.

Senator COONAN—For solar energy generation?

Ms Campbell—I cannot answer that; that is probably best directed to the portfolio.

Senator COONAN—It is what you understand.

Dr Watt—They have provided advice on other research projects, Senator.

Senator COONAN—If anyone else want to ask questions, I will come back later.

CHAIR—We will continue and will adjourn at 12.30 pm.

Dr Watt—I have some comments for you on dividends. The agencies from the public financial corporation sector are listed on page 9.39 of the budget papers and the PNFC corporations—the public non-financial corporations sector—are listed on page 9.40. They are the ones that potentially pay dividends. We do not usually disclose dividends on individual entities. Dividends are disclosed—if they are disclosed at all—by portfolio and, in the case of the large increase in dividends in 2009-10, that really is the impact of the Reserve Bank, as I said earlier.

Senator CORMANN—Did you get some information about when you first provided advice on the changes to private health insurance?

Dr Watt—I do not have that yet; we are still chasing it up.

Senator CORMANN—Thank you. I might ask some questions about the impact of the 12.5 per cent increase in the excise on tobacco proposed by the coalition as an alternative savings measure to the proposed changes to the private health insurance rebate. Treasury released some analysis which has not been publicly released other than to a selected number of journalists. Was Finance involved in the Treasury analysis of the—

Dr Grimes—Not that I am aware of.

Dr Watt—And we would not expect to be. It is a tax matter, an excise matter.

Senator CORMANN—You are involved in all of the other costings. So if Treasury does a costing on something like that—

Dr Watt—It is an issue about taxation revenue, taxation receipts. Treasury is responsible for the taxation side of the budget and they do the costings on tax measures.

Senator COONAN—Just to finish off before the break, is it your understanding that the government will commit to funding the full cost of the projects that have not been approved by Infrastructure Australia?

Dr Watt—I do not have an understanding one way or the other, Senator. I presume the government will consider those projects if and when they are recommended and will make funding decisions including in relation to where its budget is at.

Senator COONAN—Perhaps if this more for the minister. There is certainly no assurance that these projects will ever be built?

Senator Sherry—At this stage of the process it is far too early. There is an assessment to be carried out.

Dr Watt—It was always clear that assessment was one thing and funding was the next step—not that assessment automatically gave you funding.

Senator COONAN—I have finished that line of question now and will come back on a slightly different topic.

Proceedings suspended from 12.26 pm to 1.32 pm

Senator RONALDSON—Dr Watt, on 18 February I put on notice some questions in relation to the number of vehicles that the Commonwealth runs and what they run on—liquefied petroleum gas, petrol-electric hybrid or petrol—and the nature and the number and the extent of that Commonwealth fleet. I did receive a lengthy response from Senator Sherry to that question. I have some questions in relation to that. It was question on notice No. 1302, standing in my name, to the Minister for Finance and Deregulation, in relation to Commonwealth vehicles, the nature and extent of their leasing, what they run on et cetera.

Mr Grant—I have a copy of that here.

Senator RONALDSON—Mr Grant, in 2007 the government promised that all Commonwealth cars in its fleet would be environmentally friendly by 2020. That was a Rudd-Albanese-Garrett press release of 29 April 2007. But the answer to my question on notice says that, of the 7,900 vehicles in the Commonwealth fleet, 214 run on LPG, none on LNG, 172 are

petrol-electric hybrid vehicles and 2,509 are four-cylinder vehicles. Additionally there are 160 V8s, 74 petrol powered turbocharged vehicles and an undisclosed number of turbodiesels. Minister, before the last election you promised to have 50 per cent of the government fleet made up of environmentally friendly vehicles. How is that target looking in light of the answer to the question on notice?

Senator Sherry—I think you referred to a date of 2020 in your earlier remarks?

Senator RONALDSON—Yes.

Senator Sherry—I am happy to take on notice the question and provide an answer. However, I would note that we are still a long, long way from 2020.

Senator RONALDSON—That was the full fleet in relation to 2020. When was the 50 per cent target due to kick him?

Senator Sherry—The simple answer is I am not aware of the date. I would have to take that on notice for the minister—unless one of the officers has got some further information. I am not aware of the date.

Mr Grant—I can answer that. The government issued a green car challenge, where by 2020 50 per cent of government fleet passenger vehicles will be Australian made.

Senator RONALDSON—Environmentally friendly, I think, wasn't it?

Mr Grant—Yes, that is right—and environmentally friendly.

Senator RONALDSON—I am looking at federal Labor's Solar Green Energy and Water Renovations Plan for Households. Minister, at the moment we have about 4.8 per cent of these vehicles that are green vehicles. What is the program from now to meet that target? What plans do you have in place to increase the figure from the four per cent?

Senator Sherry—I would have to take that on notice, unless there is some further information here.

Mr Grant—Perhaps I can give you some progress. In 2005, 28 per cent of government vehicles would achieve a score of 10 out of 20. As 30 June 2008, 45 per cent had achieved that target.

Dr Watt—Ten out of 20?

Mr Grant—Ten out of 20 is the score on the Green Vehicle Guide. If you achieve 10, it is viewed as being a green vehicle.

Senator RONALDSON—So the interpretation now is that if you get 10 out of 20 on these guidelines it is viewed as being environment friendly—is that right?

Mr Grant—That has been the rule since 2003.

Senator RONALDSON—How many vehicles have reached that?

Mr Grant—Forty-five per cent of the fleet has achieved that target at 30 June 2008.

Senator RONALDSON—What program is in place to increase that number?

Mr Grant—There is no specific program in place. What is in place is a recognition of the government's policy. As departments and agencies acquire vehicles by lease or purchase they

take that into account. There is also the issue of the green car challenge, which is the purchase of environmentally friendly, cost-efficient Australian vehicles. In that context the government undertook that by 2020 50 per cent of the government's fleet of passenger vehicles would be Australian made, value-for-money and environmentally friendly vehicles.

Senator RONALDSON—Of that 7,900 vehicles, can you take on notice which of those vehicle types are meeting the 10 out of 20 score? I presume the V8s, the petrol turbocharged vehicles and the undisclosed number of turbo diesels certainly would not be meeting that?

Mr Grant—I think you will find that the four-cylinder cars, the hybrid cars, the LPG cars and the diesel cars contribute to that total.

Senator RONALDSON—So the four-cylinder vehicles meet these guidelines, do they—the 10 out of 20 score?

Mr Grant—Yes.

Senator RONALDSON—How many of those vehicles are actually Australian made?

Mr Grant—I will see if I have that information. I do not have information of the four-cylinder vehicles which are Australian made.

Senator RONALDSON—I put it to you that the bulk of those vehicles are imported. Could you take that question on notice for me, please? Can you also advise me whether the environmental costs of shipping those vehicles from overseas into Australia are factored into the guideline score of 10 out of 20?

Mr Grant—We do not have that information. That information really has to do with the car manufacturers. We procure the cars.

Senator RONALDSON—Would you acknowledge that the transportation by ship, predominantly from North Asia, would have, for want of a better word, an attached carbon footprint? Why would that not be factored in to the scores?

Mr Grant—I do not have an answer to that.

Senator RONALDSON—Minister, it is a bit cute, isn't it, to be saying cars have met guidelines, but they are all imported vehicles and you have actually made no allowance at all for the environmental costs of shipping those vehicles?

Senator Sherry—The officer has indicated that he will provide on notice a response to the proportion of cars that are imported.

Senator RONALDSON—But I am asking you a question: do you believe it is appropriate to not factor in the environmental costs of shipping all those vehicles in? Indeed, it is a bit cute saying that you are meeting the target when there is a significant carbon footprint attached to the shipping of those vehicles.

Senator Sherry—I cannot add to the response of the officers or to the earlier response that I have given.

Senator RONALDSON—Dr Watt, does the government have a preferential arrangement in relation to the purchase of Australian made vehicles or vehicles which are made by companies which have operations in Australia?

Dr Watt—I will get Mr Grant to answer that.

Mr Grant—The government operates under the Automotive Competitiveness and Investment Scheme, whereby in terms of the vehicles that we buy we buy Australian manufactured or, for below two litres, vehicles that are manufactured by an Australian manufacturer. I should add that one of those eligible manufacturers is Nissan. Nissan manufacture engines in Australia. They are incorporated under that scheme.

Senator RONALDSON—Is there dispensation given if there is an operational need? Is that also one of the dispensation rules?

Mr Grant—There is a dispensation where there is operational need demonstrated, yes.

Senator RONALDSON—Can you advise me—and these figures were released as a result of the question on notice by a Senator Abetz on 16 December; I think it was question 1179, 1180.

Mr Grant—Yes, I have that.

Senator RONALDSON—Can you tell me what the operational need would be for an Audi A4, for example?

Mr Grant—Some of the cars are used by agencies which undertake investigations and activities of that nature. Sometimes they do use cars that may not be Australian made.

Senator RONALDSON—What do you think would be operational need of nine Chrysler Voyagers—

Mr Grant—I do not have an answer for that.

Senator RONALDSON—or seven Mazda CX7s or two Subaru Impreza or eight Volkswagen Golfs or a Peugeot 407?

Senator Sherry—Have you finished the question?

Senator RONALDSON—I have now, thank you.

Senator Sherry—As the officer has indicated, there may be specific operational requirements and, given the officer has raised the issue, I could understand, for example, why the police might need a particular requirement.

Senator RONALDSON—I am sure they would be zooming round in a Volkswagen Golf! Which cars are the police using, Minister?

Senator Sherry—I had not finished my answer, Senator Ronaldson. Therefore, I would suggest we may be able to find out which departments have which particular vehicles. I do not know. Perhaps the officer could indicate that. I suggest to you that asking the particular departments or agencies as to why they have those vehicles is the appropriate approach. As the officer has indicated, there are operational issues and, to go to those users or selectors about the operational issues, I think, is the correct approach.

Senator RONALDSON—I do not imagine that an Audi A4 or a Peugeot 407 with a blue light on the top is going to cause a great deal of concern to many people.

Senator Sherry—I can only offer this conjecture: if you are working undercover, there may be a requirement. I do not know but I would offer that as a thought. Rather than me

offering a thought, I think would be best to go to the particular department and ask them to explain the particular operational reasons.

Senator RONALDSON—So you will take that on notice, Mr Grant?

Mr Lewis—The answer is yes, but I think it would be useful if you could precisely frame the question so we put the question in the way you wish to the agencies concerned. It is possible that some agencies may regard some of the matters you ask as being matters of security concern to their agency—I do not know. I will leave that for them to respond to. If you could put the question in the way that you wish us to put it to agencies, we will then be clear as to what you want.

Senator RONALDSON—Regarding the vehicles that were identified in that answer that I was talking about—on the government vehicle fleet—where there was an Audi A4, nine Chrysler Voyagers, seven Mazda CX7s, two Subaru Imprezas, eight Volkswagen Golfs and a Peugeot 407, would you provide me with details about the operational need for those fully imported motor vehicles?

Mr Lewis—Yes.

Senator RONALDSON—Minister, what do you think motor vehicle workers in Geelong in Victoria or Elizabeth in South Australia are going to say about the government's apparent indifference in having a preference for imported vehicles over Australian-made vehicles, upon which their livelihoods are determined?

Senator Sherry—As the officer has indicated, there are operational reasons. Beyond that, the industry view and employee views on the use of motor vehicles, I believe, is an issue for Senator Carr as the industry minister, who handles these matters. I do not handle those matters, so I do not have anything further to add.

Senator RONALDSON—He will not spring to the defence of Australian car manufacturing workers. The member for Corangamite, who is constantly sitting on his hands in relation to Ford vehicles coming out of Geelong, is sitting on his hands. I would hope that one person in the government, namely you, might actually have an interest in this and would not display the appalling indifference that we are seeing from everyone else in the government in relation to the protection of Australian jobs.

Senator Sherry—Just removing the extensive rhetoric on that question, I think it is—

Senator RONALDSON—What is rhetorical about jobs?

CHAIR—Senator Ronaldson, as you are well aware, the process in estimates is that you put questions to witnesses and then you allow them to answer. It will assist Hansard and me if we allow the witnesses to answer. The minister was in the process of answering your first question.

Senator Sherry—Thank you, Chair. As I said, if you remove all the rhetoric around that question it is the same question that you asked earlier, and I have made my considered comments in response.

Dr Watt—It might be useful to give a bit of context here. Of passenger vehicles in the Commonwealth government fleet, 77 per cent are Australian made, a further 17 per cent are

imported by an Australian manufacturer—one of those who qualify—and only six per cent are imported.

Senator RONALDSON—Have you now taken the position of defending the importation of these cars before—

Senator Sherry—Contracts—

Senator RONALDSON—Dr Watt has come in, Minister, and is offering what I would view as an opinion that is probably outside the bounds of my question. Dr Watt, are you justifying the importation of these vehicles before we have even got the answer to the question?

Dr Watt—No, I am not.

Senator RONALDSON—Well why would you be proffering that opinion?

Dr Watt—Because you might appreciate a bit of context and background, Senator.

Senator RONALDSON—I know the context and I know the background, Dr Watt, so thank you very much for your contribution.

Senator Sherry—As we know, you were giving some context. I am going to answer the—

Senator RONALDSON—Is Dr Watt going to discuss the nonactivities of the member for Corangamite?

Dr Watt—I do not think so, Senator.

Senator RONALDSON—He showed a complete indifference to the workers in his electorate in all industries.

Senator Sherry—May I proceed, Chair?

CHAIR—The minister has the call. Senator, could we please continue to pay the courtesy of allowing the witnesses to respond to your assertions and your questions.

Senator Sherry—Thank you. Senator Ronaldson, you are making a political assertion and claim, and it is rhetoric wrapped around a question. I will just point out that it is a bit difficult at times for Hansard to handle the constant overlapping questioning and answering. But in this context—

Senator RONALDSON—Yes, and it would be nice to let me finish my questions before someone interrupts me. I agree with you, Minister.

Senator Sherry—It would be nice to finish an answer before having an interruption, too.

CHAIR—Thank you both for your commentary, but could we allow the minister to respond, please.

Senator Sherry—Thank you, Chair. I make the observation that 94 per cent of vehicles are Australian made or imported by an Australian manufacturer.

Senator RONALDSON—Can I now move to Department of Finance and Deregulation agency contracts CN61464 through to CN61474. There were a number of contracts; in fact there were 11. They were in the category of management and business professionals and administrative services with Kelly Services Australia. CN61464 had a published date of 15

February, as did CN61465, CN61466, CN61467, CN61468, CN61469, CN61470, CN61471 and CN61472.

Very quickly, Mr Burton, these are contracts between the department and Kelly Services. There are 11 contracts, all for the identical amount of \$30,000. Nine of the contracts have identical start and end dates: 18 December 2007 to 17 June 2008. Two of them have different dates: 19 December 2007 to 18 June 2008 and then 20 December 2007. There may be a perfectly logical explanation for the fact that you have 11 identical contracts with the same group. There may be a quite reasonable explanation as to why these contracts, for example, were not rolled together. I would be interested to get some feedback.

Mr Burton—I will need to take the question on notice. I am not familiar with the contracts themselves, but from the summary I have I think they relate to the hire of COMCAR drivers—we have a number of casual drivers from the agency on identical terms and conditions—to cover a period when we needed those drivers.

Dr Watt—We will confirm that shortly, Senator. I do not think we need to take that on notice; we will get you the information up here shortly. As you know, COMCAR falls under MAPS, and because we have always done MAPS when Senator Faulkner has been here, we are not necessarily prepared for those questions. But we will get you an answer.

Senator RONALDSON—How was I to know it was MAPS?

Dr Watt—I do not know, Senator.

Senator RONALDSON—You don't either!

Dr Watt—You are quite right: you weren't to know, any more than we were to know you would ask these questions about MAPS.

Senator Sherry—Now you have asked them, we will get you an answer.

Senator RONALDSON—But we still do not know whether it was MAPS.

Senator Sherry—We will get you an answer.

Senator RONALDSON—Dr Watt, if I had known it was MAPS, if indeed it is, yes, you are absolutely right: I would have asked that question in MAPS.

Dr Watt—We will get the right people up here to answer the questions.

Senator RONALDSON—Kelly Services describes itself on its website as:

... a Fortune 500 company delivering staffing solutions across more than 37 countries and territories that include temporary, full time placement, outsourcing and consulting.

I would be interested to know which of the service categories were encompassed by these 11 contracts with Kelly Services. And I am interested that these services were provided by a Fortune 500 company. There may well be a good reason why they were not available in Australia from an Australian based country, but I will wait for the answer.

Dr Watt—I think we might have someone to give you the answer.

Senator RONALDSON—Excellent.

Ms Mason—I hope I can give you the answer, Senator, but I am not quite sure what the question is. I believe there have been some questions about Kelly Services.

Senator RONALDSON—It would not be the first time an answer has been given to a question that someone did not hear, Ms Mason, I can assure you of that!

Dr Watt—Ms Mason has been rushing up from the department.

Senator RONALDSON—I know; I am a great admirer of Ms Mason's professionalism, Dr Watt, I can assure you of that.

Senator Sherry—I just think there is a practical issue here. Because she was coming up from the department she is not, I suspect, fully apprised of the detailed questions—

Senator RONALDSON—I was actually happy for it to be taken on notice. Well, it was taken on notice. If Ms Mason can answer it, that is terrific; if not—

Dr Watt—I think she can.

Ms Mason—If the question is: does the contract for Kelly Services relate to the engagement of COMCAR drivers—

Senator RONALDSON—No, that was not my question. That was an opinion proffered by Dr Watt, that it may be—

Dr Watt—No, it actually was not an opinion proffered by me.

Senator RONALDSON—Oh, who proffered it then?

Dr Watt—Mr Burton.

Senator RONALDSON—Mr Burton proffered the suggestion, Ms Mason, that it might have been for COMCAR, but he was not too sure.

Ms Mason—I think Mr Burton was correct.

Senator RONALDSON—If that is correct we will get—you do not have any more information, do you?

Ms Mason—I do not have detailed information for you today, but we are appearing tomorrow morning.

Dr Watt—We can provide that information then, Senator.

Senator RONALDSON—Yes. It was a question out of interest to see why there were so many contracts for the same amount for the same period. If you can get that information by tomorrow, that would be good; if not, I will wait for it to be provided on notice.

Senator Sherry—You made the point, Senator, about them being a Fortune 500 company. Do you want further information on their background et cetera?

Senator RONALDSON—It was an open procurement, so that is fine, Minister. Thank you. Contract CN61490 and contracts CN6149 through to 61498 are nine contracts for precisely the same amount: \$25,000. They are with precisely the same contractor: Kelly Services. They extend over precisely the same period: 23 January 2008 to 22 June 2008. Again, if you can provide me with the details, I would be interested to know why they are not just one contract. Presumably, there is a large amount of work involved in having nine open-tender procurement method costs. I presume that you do not have details on that.

Dr Watt—No. We will provide them by morning.

Senator RONALDSON—Have you got any details in relation to the contracts numbered CN61500 and CN61501 for \$25,000, each with Manpower Services, from 23 January 2008 until 22 June 2008?

Dr Watt—We will provide them tomorrow.

Senator RONALDSON—Just off the top of your head, Mr Burton, do you know what Manpower Services have done? Are they regular contractors with the department? If you do not know, that is fine.

Mr Burton—I do not know, but I have a list of our high-value contractors here. I will just check to see if they are part of that.

Senator RONALDSON—Sure.

Mr Burton—No, they are not.

Senator RONALDSON—They are not regular contractors?

Mr Burton—Not high-value, anyway.

Senator RONALDSON—Okay. I would now like to ask you about contract number CN61486 between the Department of Finance and Deregulation and Dr Neil Johnston, care of Budget Group, Parkes, 2600. I assume Budget Group is a branch of the Department of Finance and Deregulation, is it?

Mr Burton—It is a group of the department. Yes, it is part of it.

Senator RONALDSON—Thank you. I am just interested in why there would be a direct single source contract between Budget Group and the department. I am sure there is a logical explanation for this but it just seemed a bit strange.

Mr Burton— I think the answer is that Dr Johnston was an outside contractor hired by Budget Group to do a job for us. I do not quite know why you have got that address tagged onto him. He was hired to do a particular review of an agency finance funding check.

Senator RONALDSON—Has Dr Johnston got some relationship with Budget Group?

Mr Burton—No. I think the wrong address tag has been put on the contract. I think, rather than—

Senator RONALDSON—Supplied details: Neil Johnston, care of Budget Group, Parkes, 2600, ACT. Procurement method: direct. So what would be the explanation?

Dr Watt—The explanation is that Dr Johnston is a retired Secretary of the Department of Veterans Affairs. He was hired to do a particular job for us. For whatever reason, the address to which we were to send information and material for him was care of the people he was working with in Budget Group. I suspect that address should not have been the one used in the posting on the website.

Senator RONALDSON—So Budget Group itself had directly contracted Dr Johnston?

Dr Watt—As an outsider, yes. He was contracted for a specific job, he did the job and he is no longer with us.

Senator RONALDSON—What was the job?

Dr Watt—The job was to head an agency finance and frameworks review to look at the financial health of a particular agency and to prepare a report for the Department of Finance and Deregulation with a view to considering that financial health.

Senator RONALDSON—Which agency was it?

Dr Watt—It was the Department of Immigration and Citizenship.

Senator RONALDSON—Had Dr Johnston had any previous involvement with the immigration department?

Dr Watt—Not that I am aware. He was hired not because of his knowledge of the immigration department. He was hired because he is a senior and well-respected public servant with a great deal of knowledge of financial matters.

Senator RONALDSON—\$140,000 for three months work?

Dr Watt—Very valuable work.

Senator RONALDSON—That is pretty good money if you can get it, Dr Watt, isn't it?

Dr Watt—Very valuable work. We think the labour was worthy of the hire.

Senator RONALDSON—He surely would not be the only person in Canberra who has got those sorts of skills?

Dr Watt—We have used a number of different people on these jobs over the years. We used him on this one. We have used different people on different ones. We try to get an outsider in to lead the review, for obvious reasons. That takes some of the angst out of it. It brings a new set of expertise to it. Dr Johnston did this one. Other people have done other ones.

Senator RONALDSON—I am not for one minute suggesting that Dr Johnston might not have the skills for the job—

Dr Watt—He does.

Senator RONALDSON—in fact, from what you have told me, I am almost sure he does. But what I am asking about is a very substantial contract of \$140,000 for—I am terribly sorry; I have made a mistake. I have made a dreadful mistake. It is not three months; it is just a bit over two months. My apologies. It was \$140,000 for a bit over two months work. I am sorry that I misled you that it was for three months. It was not at all. It was just over two months for \$140,000. With a contract of that size and in a city like Canberra, why would you go to a direct procurement method and not go into the wider marketplace?

Dr Watt—We wanted someone who we knew had the skills and who could do the job. Dr Johnston had those skills. We wanted someone who had been a senior and well-respected member of the Australian Public Service. That was Dr Johnston. We wanted someone who knew something about financial frameworks. That was Dr Johnston. In short, when you boil those things down, there actually are not that many people around.

Senator RONALDSON—But you said you have used other people for these types of roles?

Dr Watt—We have.

Senator RONALDSON—If you have used other people for these types of roles, why would you not have gone for an open tender to see—of the ones that you have used before for these previous types of roles—how they stacked up against Dr Johnston?

Dr Watt—We did not go to open tender to them either.

Senator RONALDSON—I know you did not. That is my very question. You have just told me that you use other people for these roles, so you acknowledge that there are people out there with the skills to do the work that Mr Johnson was doing. Given that you have a group of people with the appropriate skills who could have done the job for \$140,000 for two and a bit months work, why would you not go out for an open tender process?

Dr Grimes—There is a matter that I probably should clarify. I have just been advised that the period for which Dr Johnston was engaged was considerably longer than that two and a bit month period. We have would have to check to see why there is a discrepancy in the material that has been posted on the website.

Senator RONALDSON—What is going on with this contract? We have someone who is put down as ‘care of the Budget Group’ and now you are telling me that the contract period was not from 22 January 2008 through to 31 March 2008, as it says on the website. What was going on with this contract? Something does not seem right, Dr Watt.

Dr Watt—That is incorrect. It may have been that the wrong dates and the wrong address were posted. I will certainly look into that and they will be corrected. But I do not think there is anything more than that. On the question you were asking previously: we have done about half-a-dozen of these reviews over a period of about five or six years. Yes, there are other people who have the same skills. I suspect we contacted a number of people who we thought had the right mix of skills to see if they could do it, but there are not a lot of those people around. That is why we did not go open source.

Senator RONALDSON—Dr Watt, with the greatest respect—Minister, you might want to answer this, because I cannot get a response from Dr Watt—you have acknowledged to the committee that there are a group of people with the appropriate skills because you have used them before to do the very job that Dr Johnston was contracted to do.

Dr Watt—We have used over a very long period of time—

Senator RONALDSON—Yes, exactly.

Dr Watt—a small group of people—

Senator RONALDSON—Who you trust.

Dr Watt—who we believe can do a job. Incidentally, Senator, the selection is made in consultation with the agency affected, not just by Finance.

Senator RONALDSON—So you are now throwing this back to the budget group are you?

Dr Watt—No, I am not throwing it back at all. It is made in consultation with the agency selected, not just Finance. The agency transfers the funding to Finance to pay for the contractor. So they have to be satisfied too.

Senator RONALDSON—So when you got this recommendation from the budget group, why would you not—knowing that you have other people who are skilled in this area that you

have used before to do this type of work—go back to the budget group and say: ‘No, this is a very large contract. We’ve got a group of people who’ve got the skills to do this. We believe that this should be an open tender procurement method as opposed to being direct’?

Dr Grimes—Mr Saunders may be able to provide you with some more information on this, including the process—

Senator RONALDSON—Mr—

Dr Grimes—Mr Saunders.

Senator RONALDSON—Sorry, Mr Saunders.

CHAIR—Could I just ask people to put their nameplates in front of the glasses so that they can be seen. Thank you.

Dr Grimes—Mr Saunders was the relevant division manager at the time these arrangements were entered into. He may be able to tell you a little bit more about the process that was conducted.

Mr Saunders—I was division manager of the Government and Defence Division in 2007, when the need for an agency health review of the department of immigration arose under the previous government, because of the state of the agency’s finances and demands on it at the time. We considered a number of people to head the review, which was to be a cooperative venture with the department of immigration and decided to approach Dr Johnston because of his particular expertise and his standing as chief executive of a government department, his former role in the Department of Finance, many years ago, and his skills as a statistician, given the particular nature of some of the issues in the review.

Senator RONALDSON—There is no dispute about whether Dr Johnston had the requisite skill set for this job. We are not debating that. Dr Watt has acknowledged that there are other people that the department has used, with these skill sets, whom I am saying could have been called upon by way of an open contract arrangement. They were there. They have been used. They have the skills. Why was there not an open contract arrangement?

Mr Saunders—We considered a number of possible people. Dr Johnston was available—

Senator RONALDSON—Did you approach them?

Mr Saunders—In some cases we had informal discussions with people, as we did with Dr Johnston, and we decided that he was the most appropriate person for the nature of this particular task. All of these tasks have different characteristics. In this case there was a large numerical and statistical element to do with the staffing formula of the department of immigration. He had particular skills in that area that other people who we have used before did not have. Taking that with his role as a former head of a government department, we thought he was ideal for the job.

Senator RONALDSON—So people who you have used in the past have not got those skills, or the group of people that Dr Watt’s has used have not got those skills? Are they two different groups of people?

Mr Saunders—No, they are the same group of people.

Senator RONALDSON—They are. Mr Saunders, with the greatest respect, Dr Watt has already told us that these other people who have been used have the same skill sets as Dr Johnston—

Dr Watt—No, I do not—

Senator RONALDSON—so who is right and who is wrong?

Dr Watt—As Mr Saunders has pointed out, there were some particular skills that applied in relation to this financial health review because of the particular nature of the DIAC staffing formula, which meant that Dr Johnston has skills that were relevant and others did not.

Senator RONALDSON—But, Dr Watt, you said before that there are other people you have used, those who have got the skillsets, that could have done this job.

Dr Watt—They are other people that have done similar jobs.

Senator RONALDSON—All right, thank you. That is all that I have in relation to that. Madam Chair, I have got one more and then I am done.

CHAIR—We are still dealing with general questions under outcome 1 and then we go to superannuation.

Senator RONALDSON—I do have a very quick one in relation to 2.2 on property management. Is it appropriate to go to that?

CHAIR—No, it is not appropriate. We are trying to have some order in the proceedings, so if we can stick to general questions out of outcome 1 and I just remind whoever wants the call next that at 2.30 we are going to ComSuper.

Senator CORMANN—I have a few quick questions in relation to the Life Saving Drugs Program.

Dr Grimes—Sorry, what was that again?

Senator CORMANN—The Life Saving Drugs Program. Does that mean something to you?

Dr Watt—Yes, it does.

Senator CORMANN—As I understand it, the minister for finance is involved as the program is administered under section 34 of the Audit Act 1901. Is that right?

Dr Grimes—It is administered by our department?

Senator CORMANN—Are you involved in any way?

Dr Grimes—To the best of my knowledge not beyond our role as the central agency that looks at expenditures. We do not administer the program.

Senator CORMANN—You do not administer the program, but have you got a role in the management of the Life Saving Drugs Program at all?

Dr Grimes—Not as to the management, no.

Senator CORMANN—Have you got any other role in the Life Saving Drugs Program?

Dr Watt—As Dr Grimes said, it is an expenditure program, a spending program, so we have our general role of responsibility on providing advice on expenditure programs, just as we do with all expenditure programs, but that is the only role that we have in relation to this program.

Senator CORMANN—You do not have any specific role in relation to the Life Saving Drugs Program?

Dr Watt—Not that I am aware of. I can confirm that.

Senator CORMANN—Yes, because if you do I would like to ask some questions. My understanding is that you do.

Dr Grimes—No, we have no role. I have just conferred with the relevant officer.

Senator CORMANN—So has the department of finance had any input into the budget saving measure? I will describe the measure. It is that the government ‘will introduce more consistent and rigorous procedures to improve the efficiency and sustainability’ of the Life Saving Drugs Program.

Dr Grimes—We do have a role in advising on all budget measures that deal with expenses or outlays.

Senator CORMANN—Will you have any role in or will you have any input in the way in which the program will be changed to achieve this particular budget saving?

Dr Grimes—We provide advice when it is being considered by the government. I will ask David de Carvalho to join us. He may be able to provide you with more information.

Mr de Carvalho—Senator, would you repeat the question, please.

Senator CORMANN—Will the Department of Finance and Deregulation have any input into the way in which the program will be changed moving forward? I will read out to you the budget measure. It is that the government ‘will introduce more consistent and rigorous procedures to improve the efficiency and sustainability’ of the Life Saving Drugs Program. It is obviously a budget measure on which you have provided advice along the way as part of the budget process. Will you have any input into the way in which the program will be changed moving forward?

Mr de Carvalho—That budget measure is a result of a review of the program that the Department of Health and Ageing undertook. They have made a number of recommendations for changes to the program. The budget measure provides funding for the implementation of those changes. Beyond that, unless the Department of Health and Ageing was specifically to invite us to participate in some steering group or other kind of thing, we would have no specific role. As Dr Grimes has said, our role to date has been limited to providing advice on the proposal, much the same as we would provide advice on any other proposal coming forward from the minister.

Senator CORMANN—I will ask the Department of Health and Ageing about the purpose and what is proposed in terms of policy change. But if there will be efficiency gains—and I guess that this is within the purview of the Department of Finance and Deregulation to ensure

because that is what the budget is seeking to achieve—why are there no changes to the forward estimates?

Mr de Carvalho—I will have to take that on notice, Senator, but the intention is to ensure that the operation itself becomes more efficient. On the question of forward estimates I will have to take that on notice.

Senator CORMANN—One possibility would be that more money would be going to the drugs. That is not something that you have any knowledge about?

Mr de Carvalho—I will have to take that on notice, Senator.

Senator CORMANN—I might put a whole series of other questions about this on notice. Obviously you have not got much awareness of what is involved.

Mr de Carvalho—Not at this stage; not that particular program.

Senator Sherry—The department itself would have at least some of the answers to the questions you are asking.

Senator CORMANN—The department?

Mr de Carvalho—The Department of Health and Ageing.

Senator CORMANN—The advice I have was that the minister for finance is involved in this particular program because the programs are not administered under section 34A of the Audit Act 1901. If you tell me that is not the case then—

Dr Grimes—We are certainly not aware of any role that we play in the management of that program.

Senator CORMANN—You do know the program I am talking about and what is involved with it and all of that.

Dr Grimes—The Life Savings Drug Program, yes.

Mr de Carvalho—If you would like to put those questions on notice, Senator—

Dr Grimes—We will see if we can answer them but it sounds on the face of it as if they are questions best directed to that department but we are happy to look at them.

Senator CORMANN—I will pursue it with the Department of Health and Ageing for sure.

CHAIR—I am trying to clarify things so that we can have some resemblance of order in proceedings for the rest of the evening. We will continue with general questions in outcome 1 for a little while longer and then we will go through program 1.1. At 2.30 pm we are going across to Comsuper and what we would like to suggest that those officers who are responsible for outcome 2 come back after dinner—that way officers need not be in the waiting area for a long time.

Senator Sherry—So the officers here for 1 and 1.1 should remain until dinner.

CHAIR—They should remain until dinner time.

Senator Sherry—I am assuming Comsuper will not go from 2.30 pm until dinner. I would be shocked if it did. I just wanted to clarify.

CHAIR—Quite clearly officers under outcome 2 will not be required until after the dinner break.

Dr Watt—Madam Chair, do you plan to take outcome 2 before you take the Future Fund or after?

CHAIR—Before the Future Fund.

Senator COONAN—I wanted to ask some question that may be directed to the minister. You are in the happy position of doing grace-and-favour payments aren't you?

Senator Sherry—Yes, by delegation from the minister.

Senator COONAN—Yes, I understood that. It may be that you would prefer to ask the officers, but it is probably proper that I direct this through you, Minister. I am interested in any waiver of debts, either made or in contemplation, relating to the SAS pay issue.

Dr Watt—We will get the right person for you, Senator. They will be in the room next door.

Senator COONAN—Thank you. I was interested to know in relation to waiver or potential waiver of debts in consideration of claims in relation to debts from the SAS pay issue. That is your area. How many debts are there?

Dr Verney—We were approached by Defence at the beginning of the matter, but we have not considered any claims for waiver of debts from the SAS because they were discontinued by Defence.

Senator COONAN—Sorry, what was discontinued?

Dr Verney—We were asked to consider the waivers, but Defence then withdrew the claims because it had used its Defence Act and regulations to solve the issues of SAS overpayment.

Senator COONAN—So, if I understand you correctly, there are currently not before you or Finance any—

Dr Verney—We have no claim—

Senator COONAN—issues relating to these debts—

Dr Verney—No.

Senator COONAN—that were said to have arisen with the SAS pay dispute.

Dr Verney—None whatsoever.

Senator COONAN—So, just to be clear about this, no amounts have been waived?

Dr Verney—None.

Senator COONAN—And no debts have been suspended?

Dr Verney—Not suspended. That is a matter for Defence on how they—

Senator COONAN—So you do not really know what the fate of them is?

Dr Verney—I can only suggest that you ask Defence that question. It is their responsibility in resolving those issues, and they were seeking to resolve them through their own legislation and regulations.

Senator COONAN—All right then. That is all I have on that topic. Shall I go onto a bigger topic, or how would you like to handle it?

CHAIR—We have four minutes, so perhaps it would be a good time to call in the ComSuper people.

Senator COONAN—All right.

[2.27 pm]

ComSuper

CHAIR—Good afternoon. I would like to welcome the Chief Executive Officer of ComSuper, Mr Bator. Would you like to make an opening statement?

Mr Bator—No, thank you.

Senator RONALDSON—Minister, can I just ask you a question in relation to superannuation administrative services and other matters. On 4 March, the *Australian* featured a story about your views, effectively, on the intellectual limitations of the average Australian wage earner where you were quoted as saying:

I'm not optimistic we will be able to successfully turn individuals, in the terms of superannuation holders. into informed decision makers ... We should aim for a better-educated market, but we need to take a reality check on how that can happen.

Were you effectively indicating in those comments that the average Australian is incapable of managing their own financial affairs?

Senator Sherry—The quote is accurate, but your statement is not. I have made the observation on many occasions in a number of contexts that it is very difficult when you are dealing with financially complex products to educate people in the complexity of the decision making of those financial products.

Senator RONALDSON—Minister, do you accept that your comments were at risk of being misinterpreted—that you were indeed reflecting on the ability of the average Australian to understand their own financial affairs?

Senator Sherry—I have made those comments and similar type comments on many, many occasions.

Senator RONALDSON—But 'we need to take a reality check on how that can happen'. What did you mean by that?

Senator Sherry—What is meant by that is that there is an argument in the superannuation sector that you can solve problems by educating the Australian community in the complexities of a range of financial products, including superannuation. On many occasions I have pointed out that, in terms of a reality check, it is very, very difficult to educate, in the case of superannuation, about 10 million Australians—because it is compulsory, so it is unlike any other financial instrument or product. It is very, very difficult to successfully educate 10 million—or, I would say, even the majority—in the complexities of superannuation. I have said that on many, many occasions in a number of different forms. I have usually acknowledged that there is a growing knowledge, but the practical reality is that it is very

difficult, and that leads to a range of issues. I can give you some practical examples, if you like, Senator Ronaldson.

Senator RONALDSON—So you are saying that 10 million Australians are difficult to educate?

Senator Sherry—I am saying: a large part of that, but there is a growing interest. Let me give you an example, Senator Ronaldson—and, again, I give this example on many occasions. Most individuals are able to carry out investment selection within a fund—most, not all, in the sense that it is not available for everyone. But, in the last figures I saw, 90 per cent plus default on investment. I think that is good evidence that that 90 per cent plus who do not make an active investment selection find the investment option selection difficult and therefore do not participate. Interestingly, that figure has barely changed in 20 years, as I understand it.

Senator RONALDSON—Do you acknowledge that these comments of yours could be viewed as being grossly arrogant?

Senator Sherry—No, I think they are a correct observation as a minister. As I have said, I have made similar or the same comments on many occasions, and there are a range of consequences that flow.

Senator RONALDSON—So you have regularly reflected on the ability of the Australian community to understand their own financial matters, have you?

Senator Sherry—I have regularly made the observation that there are significant limitations on a significant group of people in the Australian community in making decisions, without assistance, with respect to complex financial matters, and one of them is the example I have just given you. I think if you ask anyone in the superannuation sector to whom I have spoken or given speeches, and there would be many of them over many years, you will find that that is a view that I have outlined on many, many occasions, Senator Ronaldson.

Senator RONALDSON—And you do not think it was extraordinarily patronising to make the comments that you did?

Senator Sherry—No, I do not; in fact, I think it is important. It is particularly important in the current circumstances when we look, in the non-financial sector, at a range of people who were purportedly protected from a consumer point of view and allegedly assisted by the issuing of very lengthy, complex, Latin-like—as I have called them—consumer disclosure documents as a result of the financial services reform act. If anything, that has done more harm than good. They are meant to aid them in making an informed decision. As I say, it has done more harm than good. Again, I have made that comment on many, many occasions.

We are seeing numerous examples. Let us just take margin lending for example. It is one example where, based on the complaints that I receive in the community about some of the practices in that area—and that is being handled by ASIC and the current joint parliamentary committee, in terms of investigations—it is very clear to me that there are significant groups of people, depending on the product and the context, who do find it difficult to make decisions, given the complexity of the products and the complexity of the information provided for them to make a decision on.

As I say, I do not back away from those comments. I have made them. In terms of investigations, it is very clear to me that there are significant groups of people, depending on the product and the context, who find it difficult to make decisions given the complexity of the products and the complexity of the information provided. I do not back away from those comments. Frankly, there would not have been a week that has gone by in the last 10 to 12 years in which I have not made that observation in some shape or form, and it is particularly so in superannuation because it is compulsory. What is important to understand is that when you have a compulsory retirement income system—in this case, we call it superannuation—you should not expect a significant number, or indeed the majority, to want to make decisions. They can have the option to make the decisions.

Senator BERNARDI—To throw in the white towel over educating Australians about superannuation is not in the interests of Australians. What concerns me is that you are approaching this from the aspect of educating them about the investment within their superannuation funds. That is what your comments have been directed to, correct?

Senator Sherry—No. Your expression is ‘throw in the towel’. I have never used that expression. You will never find me on the public record saying that. What I have done—

Senator BERNARDI—I am not saying that. But you are not optimistic.

Senator Sherry—I am not optimistic that we will be able to educate a majority of Australians, even, on superannuation. I will use a practical example. If you sit down and present them with a menu of 10 to 300 investment options, I am not optimistic that the majority of them will actively select without advice.

Senator BERNARDI—But this is where I think that you are approaching it incorrectly.

Senator Sherry—I do not agree.

Senator BERNARDI—You do not know what I am saying.

Senator Sherry—I do not decry attempts to improve education levels around financial literacy; indeed, I support them.

Senator BERNARDI—But superannuation is simply an investment environment in which people can invest their money.

Senator Sherry—It is a lot more than that.

Senator BERNARDI—Not really. It is a tax effective investment environment. You do not see it like that?

Senator Sherry—I am surprised that you say that, given your background as a financial planner—I am really surprised that you say that.

Senator BERNARDI—Explain it to me, then.

Senator Sherry—I am more than happy to here and now go through the complexities in decision making in superannuation.

Senator BERNARDI—Hang on a second. Superannuation is not an investment in itself. There are investment options within a superannuation environment. Is that correct or not?

Senator Sherry—Correct.

Senator BERNARDI—Therefore, educating people about superannuation is—

Senator Sherry—Can I answer your question?

Senator BERNARDI—Just a moment. You said that what I said was incorrect.

Senator Sherry—You interrupted—

Senator BERNARDI—I am showing that it was not. Educating people about superannuation is about educating them of the tax advantages and the beneficial investment that it provides, not specifically about the investment.

Senator Sherry—Is there a question here?

Senator BERNARDI—Is that correct? If you were not interrupting, you would have heard it at the end.

Senator Sherry—That is one aspect of superannuation. Let me give you a range of other considerations that individuals may be required to make a decision about that at the moment to varying degrees they do not make decisions about as individuals. Therefore, in some cases at least, they will either take advice on the decision or alternatively make the decision without advice. Let me list the range of issues that an individual could make a decision about. Firstly, there is the level of contributions, commonly known as salary sacrifice. You would need to have some understanding of your marginal tax rate and whether or not that is relevant to your circumstances in respect to salary sacrifice. As a subset of salary sacrifice, you would need to know whether your employer is willing to offer it or not and on what terms and conditions. That is salary sacrifice. Then we have the co-contribution. Before you make a co-contribution, you would need to have some knowledge of the income parameters and therefore the benefit that would be a consequence of the co-contribution. There is also the low-income earners spouse contribution. You would need to have some—

Senator BERNARDI—I am not sure we need a continuing 15 minutes worth of this.

Senator Sherry—I am answering the question.

CHAIR—Senator Bernardi, you have put a question to the witness. The minister is trying to respond.

Senator BERNARDI—I want to stay awake.

Senator Sherry—Then there are children's accounts, and Senator Coonan well remembers our numerous questions and exchanges on that.

Senator Coonan interjecting—

Senator Sherry—Yes, well, we can find three of them, but there might be a few more now—I do not know; I have not seen the latest data. So there is the option of children's accounts. I am not going to go on, Senator Bernardi, because if I went through the full list of optional decisions that an individual may or may not make on superannuation I reckon I could get to at least 20. And I think that highlights the difficulties of being able to successfully educate 10 million Australians or even the majority of 10 million Australians on that full range of options that are available to them. Therefore, many seek professional advice through a financial planner—and good on them; that is their right and that is an appropriate service if they want to use it. Some do it themselves. Unfortunately, some are not aware of the

consequences of those decisions, and we have seen examples of that. The majority default and make no decision. I would hope we could improve on that through education. ASIC have got an education campaign. We have got a variety of programs under the former financial literacy advisory council; the council still exists, but the programs have been merged with ASIC. I have launched a couple of them myself. I acknowledge the work that the former government has done in that regard, and that is useful, but it is not going to solve the basic difficulties many face in terms of informed decision-making and financial knowledge.

Senator BERNARDI—So it comes back to my point that it is not the investments that people are choosing within superannuation that is the most important bit of educating the Australian public; it is about the benefits of superannuation, including the environment that it provides for people to grow their money in the long term. That is the point that I was making, and I am concerned that you seem to not think it is a feasible initiative to educate people.

Senator Sherry—Well, certainly from what I have seen, I do not believe it is possible to educate the majority of Australians—not in a compulsory system. There is a significant issue at the moment, Senator Bernardi—and I am sure you will be speaking to your former planning colleagues from time to time—with negative rates of return, with members being sent yearly statements showing a negative rate of return, and it has been overwhelmingly negative in the last financial year. There is a very significant issue around trying to inform them about the notion of a long-term rate of return diversified. That is currently a very significant issue.

Senator BERNARDI—But, Minister, you keep coming back to the investment. If, instead of focusing on the investment, on which returns will fluctuate over time—we all know that and we accept that, and there have been significant negative rates of return—you explain to people the benefits of superannuation as a tax effective savings vehicle, even if they choose the default option, then it is a much simpler message to get across.

Senator Sherry—Yes, but the problem is that it is not an accurate message because, for a significant group in the community, it is not a tax advantaged form of saving.

Senator BERNARDI—It is, actually.

Senator Sherry—Not for low income earners it is not. If your marginal tax rate is zero, then salary sacrifice and compulsory superannuation are not tax advantaged compared to your marginal tax rate, if it is zero, and your contributions tax, which is 15 per cent. The Henry tax review highlighted this particular issue. That is a matter of fact. So for a couple of million Australians at that income level, it is not a tax deal that is advantageous for them.

Senator BERNARDI—You are making two presumptions there. One is that you are encouraging people to salary sacrifice and you are assuming that people do not accumulate significant amounts of money in superannuation, because, if they do accumulate significant amounts of money in superannuation, the earnings on that are taxed at a concessional rate, versus earnings being invested in the individual's name and generating over the tax-free threshold or putting them out of the zero tax bracket.

Senator Sherry—We will just have to agree to disagree in terms of low-income earners, particularly those who pay no income tax.

Senator BERNARDI—Until they get significant—

Senator Sherry—For middle and higher income earners, it is significantly tax advantaged, depending on the level of their income tax versus contributions tax versus the tax treatment on the investment earnings, which is concessional. I just think that we will agree to disagree. As I have indicated, there is a group of people—there are some millions—for whom superannuation, whether it is salary sacrificed or compulsory contributions, is not tax preferred.

Senator BERNARDI—Minister, given that—and I will use your figures, and please confirm that they are right—80 per cent of people choose the default option in their super—

Senator Sherry—No—I think it is closer to 90 per cent, across 10 million people. That is the last figure I have seen. It may have varied because of negative rates of return. I suspect it has. Certainly, I have had funds report to me increasing levels of active conversion from the default option to another option, usually cash or bonds, in the current climate, but I have not seen an aggregated statistical basis in the last six months or year about what the impact of that has been.

Senator BERNARDI—Does it strike you as strange that people are not educated enough to do anything else except choose the default option but they are educated enough to transition to another option at some stage during the cycle?

Senator Sherry—No, it does not strike me as strange.

Senator BERNARDI—It strikes me as most unusual that they are not educated enough at one level but they are educated enough on another level to change.

Senator Sherry—Again, if you look at behavioural economics, particularly as it applies to compulsory retirement income systems, people make decisions for a range of reasons. The point I would make is that the majority of people in our system at the moment do not make an active decision of anything—that is a fact. What I am saying is that there have been particular circumstances in the last year—it has varied from fund to fund; I have not seen aggregated figures across the entire super sector—where, because of the negative rates of return—and I think this has been well reported—depending on the fund, depending on the nature of the workforce and a whole range of variabilities, there has been an increasing number of people who have shifted from the default, in other words, from not making a decision to making an active selection about investment, usually cash or bonds in the current climate. Whether that is in their best interests, it is their right. Whether that is in their best interests is an interesting debate in itself, but they have been doing it in increasing numbers. My understanding is that it has varied from fund to fund, but it is certainly nowhere near a majority of the 10 million people in superannuation.

Senator BERNARDI—Given that 90 per cent of people choose the default option, do you think the default option is not a good investment option for people, for investors, in this superannuation environment, given the negative rate of return?

Senator Sherry—That is an interesting question. I am actually not sure it is an issue for these estimates. In fact, some of the issues we have been discussing, given Comsuper are here—

Senator BERNARDI—You are probably right there, Minister.

Senator Sherry—I think it is more an issue for Treasury, regarding retirement incomes. In terms of the previous discussion we were having—I take it that it was a discussion rather than a question and/or answer—ARIA could probably give you—I do not know about ComSuper—for example, information on increasing levels of investment selection options occurring. I understand that in the public sector there has been a significant shift in people from the default to a more active selection. I do not know what the figures are precisely, but Mr Bator may be able to help you. As I indicated to Senator Heffernan when he raised superannuation issues in the primary industry estimates yesterday on a couple of occasions, I am more than happy to answer questions and discuss and debate these issues, but I think—

Senator CORMANN—We all recognise your expertise.

Senator Sherry—If I am asked a question in this area I will answer it. It is not a matter of recognising my expertise; I think it is probably a matter of raising it at the right estimates so we can move on to issues that are actually before this estimates committee.

CHAIR—Can I remind committee members that we have 10 minutes remaining in this area. Are any other general questions? Otherwise, I will go on to 1.1.

Senator BERNARDI—I have no particular questions, but Senator Coonan and Senator Ryan do.

Senator COONAN—I am very interested in the measurement of public sector superannuation liability. Can we discuss that for a moment? I have read very carefully the budget papers at 9.14. Perhaps Mr Bator or Dr Watt, or even the minister, can address some of the issues about the sensitivity of the discount rate—

Senator Sherry—I think Ms Campbell is the ideal person.

Senator COONAN—and fluctuations in contingent liability. I know we talked about contingent liability a little earlier but I particularly want to bring this up in this sector.

Ms Campbell—When we are doing the final budget outcome and the consolidated financial statements, the Australian accounting standard requires the long-term bond rate, the spot rate, on 30 June to be used to estimate the unfunded liability.

Senator COONAN—The nominal value?

Ms Campbell—Yes. Because it is difficult for us to project what that might be at that given time, 30 June, and because for many years we have used the Long Term Cost Report's six per cent, the government has again used in the budget papers the six per cent discount rate to articulate the estimate of the unfunded liability. The box that was included in statement 9 was to outline that there will be some sensitivity, particularly given the decrease in the bond rate which is currently in place and to alert readers to the fact that there was likely to be a change from that rate for the final budget outcome. But, because the six per cent has been used for a number of years, it is considered that that is a longer term, more consistent view on the unfunded liability.

Senator COONAN—This has come about because of the global economic issues and the impact on current yields. Is that right?

Ms Campbell—That is correct.

Senator COONAN—Is that the only reason?

Ms Campbell—It is always an issue because we can never predict what that bond rate is going to be—well, we can predict, but there is always likely to be a variation. They are larger variations at the moment because the bond rate is less.

Senator COONAN—So the anticipated growth in liability is from \$118 billion in 2008-09 to \$162 billion in 2020, and that could be augmented by approximately \$23 billion in 2008-09 if the rate applies. Is that right?

Ms Campbell—That is correct. The difference between what we are estimating in the budget, \$118 billion, could vary by \$23 billion if the 4.82 per cent bond rate is used to discount it as at 30 June.

Senator COONAN—Thank you. I understand that. I just wanted to clarify it.

[2.54 pm]

Australian Submarine Corporation

CHAIR—Are there any further questions? We now move on to the Australian Submarine Corporation. I would like to welcome the Chief Executive Officer of the Australian Submarine Corporation, Mr Graeme Bulmer. This is your first time appearing before this committee, so we extend a particularly warm welcome to you.

Mr Bulmer—I am the Acting Managing Director and Chief Executive Officer of ASC Pty Ltd, previously called the Australian Submarine Corporation.

CHAIR—Do you have an opening statement?

Mr Bulmer—I do not have a statement.

Senator RYAN—Mr Bulmer, the *Australian Financial Review* reported earlier this year that the Rudd government had aborted its plan, began under the coalition, to sell ASC.

Mr Lewis—Just by way of explanation, the ASC does more than just build submarines—for example, we have the air warfare destroyers.

Senator RYAN—Sure, and I will get to that in a minute. I have a couple of questions. The media at the time referred to consultancy fees for the sale totalling just over \$6 million, including \$2.75 million to Lazard Carnegie Wylie and \$3 million-plus to Freehills. The government assured the media at the time that those figures only applied if the sale went ahead. What I am interested in is: was any amount paid out in consultancy fees?

Dr Watt—That would be best answered by Mr Lewis. They were consultants to the Department of Finance and Deregulation not to the ASC.

Mr Lewis—We have those details. I am not sure I have them with me right now but we could certainly give you details in relation to expenditure in relation to each of the consultancies. There were payments made to each of our advisers for a fair amount of work that has been done over a number of years. Those contract payment amounts which were due and payable in the event of a sale, the completion payments, were not made; and the payments

to the consultants were way lower than that. As I say, we can give you the precise numbers on that.

Dr Watt—We will get those for you.

Senator RYAN—You say they were way lower than \$6 million. Is that \$6 million basically a success fee or a sale fee?

Mr Lewis—I can give you the rough numbers now.

Senator RYAN—I was interested when you said they were way lower.

Mr Lewis—As at 30 April 2009 the total costs of external sale advisory services was \$3.5 million. Of course those payments would have been paid to advisers over quite a few years, because the sale of ASC was on the books for quite some time.

Senator RYAN—Please excuse me because I am newish to this place, but how long has that sale been on the books?

Mr Lewis—Just to very briefly paint the history, ASC was actually acquired 100 per cent by the Australian government in the year 2000 with the intention of re-privatisation within several years. But there were complicating factors arising from issues which needed to be sorted out in relation to the performance of the Collins class submarine and intellectual property issues which needed to be sorted out with Kockums. Those issues took some time. The government's intention was consistently to move to a sale in a relatively short period of time in the future—the then government—but no sale was actually initiated. So the potential for sale was still on the books upon the change of government and this government has explored the potential for sale—but in the intervening period of course we have had the circumstances of the global financial crisis and related factors. In light of those matters, the government has decided to defer the sale of ASC so we have terminated all arrangements for advisers. The advisers that I mentioned before, and which I think you are referring to in that press article, would have been appointed in the order of about three to four years ago—it may be longer. If you want a precise date, I could certainly give you that.

Senator RYAN—So those fees could be broadly described as fees if the sale had successfully progressed?

Mr Lewis—No, these were preparations for sale. Just to give you an idea, we paid sums to our legal adviser, who basically did a large amount of the work necessary to issue sale documentation, information memoranda to purchasers and a raft of detail in relation to the sector as well as a lot of the work that needed to be done on due diligence in relation to ASC itself.

Dr Watt—Also some of the payments to Lazard Carnegie Wylie were for work done in relation to the overall naval shipbuilding arrangements and how a privatised ASC would fit into that.

Senator RYAN—The numbers mentioned in that press article come to just over \$6.1 million. Is that a ballpark figure for the total fees that would have been paid upon a successful sale?

Mr Lewis—I am not sure what the source of that material is. Your colleague Senator Ronaldson has done a trawl through the AusTender database, which tracks contracts and contract value. It is quite a useful data store. That is a brief plug—because we are responsible for AusTender. If you go to AusTender you can see the advisory contracts in relation to the ASC sale. I would not be surprised if the total value of the contracts you have mentioned adds up to that sum. I would need to confirm that, but that is my guess.

Senator RYAN—Thank you. I was just trying to get on top of that. At the time, the Minister for Finance and Deregulation said that the current economic climate presented a significant risk to the sale of the ASC. Could you go into more detail as to why this sale, which had been progressing over a number of years and which had incurred quite reasonable costs, was pulled at the last minute?

Senator Sherry—Other than to reinforce the comment and observation of the Minister for Finance, I would have thought that in the current climate the sale of almost any asset has been particularly difficult to realise what would be regarded as a reasonable value. This issue has come up in a range of contexts. It is because of the global financial crisis both here and internationally. Beyond that, the government made a decision. The minister has referred to the global financial crisis. I cannot add anything new. I am happy to take it on notice and look beyond that which has been publicly referred to. There are other reasons, and that is perfectly understandable in the current climate.

Mr Lewis—There is one point that might be worth adding. Having regard to the nature of ASC's business, the field of prospective purchasers for a trade sale was always going to be very restricted. That is for two reasons: firstly, there is a limited pool of parties who are interested in acquiring such a business; and, secondly, there is a very limited pool of parties that the government will actually accept as the ultimate owner of ASC.

Senator RYAN—I am familiar with that.

Mr Lewis—So I suppose the point is that, given the fairly limited size of the pool we had to start with, and given the events of the last 12 months and what that has meant for equity risk premiums on the one side and also the requirements of lenders in relation to preparing themselves for a trade sale, both of those things got a lot more difficult through the back end of—

Senator RYAN—I appreciate that, Mr Lewis. Senator Sherry, you mentioned that there are other reasons—I think those were your words.

Senator Sherry—I said, 'If there are other reasons.'

Senator RYAN—Sorry, I did not hear the 'if'. That is why asked. One of the reasons I asked the question was because of another article in the *Financial Review* just over a month ago which outlined some quite extraordinary allegations with respect to the relationship between ASC and the DMO, which has been described as being at rock bottom. Does the cancellation of the sale have anything to do with a decline in the relationship between those two bodies?

Mr Bulmer—No, I do not believe it has. Indeed, I would describe the current relationship between DMO and ASC as constructive and cooperative.

Senator RYAN—So there is absolutely no substance whatsoever to the *Financial Review* piece on 24 April that described the relationship between you and the DMO as ‘at rock bottom’?

Mr Bulmer—No, I do not believe it could be characterised in that way.

Dr Watt—I think it is very hard to comment on a largely unsourced newspaper article, Senator.

Senator RYAN—You have got to expect me to ask, Dr Watt. The previous managing director, I understand, was Mr Greg Tunny.

Mr Bulmer—That is right.

Senator RYAN—And he recently resigned.

Mr Bulmer—Yes.

Senator RYAN—What were the reasons for his resignation?

Mr Bulmer—Our chairman, in the press release that he put out when he resigned, stated that the sale was a contributing factor. Greg felt that he had done all he could for the company, and he wished to pursue other interests.

Senator RYAN—Is there any truth to the rumour that was reported in the *Financial Review* that the 12 new submarines provided for in the recent Defence white paper will be built overseas—that they will only be assembled by ASC, rather than built by ASC as I understand the Collins class submarines were?

Mr Bulmer—I think that is a question that would need to be directed to the DMO.

Senator CAMERON—How many employees do you have at ASC?

Mr Bulmer—We currently have about 1,470, of which a little over 300 have been newly assembled to build the AWD and meet the contract requirements.

Senator CAMERON—You are one of the biggest employers in the Adelaide area.

Mr Bulmer—Yes, that is right.

Senator CAMERON—Is there any estimate of how much you contribute to the South Australian economy?

Mr Bulmer—I can find out. I can take that on notice and give you information on that. There have been studies done on that.

Senator CAMERON—How many apprentices do you employ?

Mr Bulmer—We currently have in the order of 40, and we have an active apprentice intake program.

Senator CAMERON—What is the potential for growth at ASC?

Mr Bulmer—We currently have to meet the AWD requirements. In terms of employment, our numbers will increase to a little over 2,000. There will be over 800 people on the AWD project by about 2012.

Senator CAMERON—Is that direct employees?

Mr Bulmer—That is direct employees, and of course there is a significant multiplier effect.

Senator CAMERON—I was just going to ask you about the multiplier effect.

Mr Bulmer—Again, I can give you specific figures from a study that has been done. I can provide that information.

Senator CAMERON—What range of skills do you have at the plant?

Mr Bulmer—We have all the shipbuilding skills that are needed, ranging from metal workers to electricians, boiler makers and specialists welders.

Senator CAMERON—We have had a very big skills shortage for a long time. Will this intake of 40 apprentices provide you with some self-sufficiency in terms of skills going into the future, or do you need to lift that number?

Mr Bulmer—It certainly does. We will need to lift that number as the shipbuilding project takes off. The last ship will be delivered in about 2018, so it is a long period of construction and delivery. As I said earlier, our numbers will increase to over 800 working specifically on the AWD project in a few years.

Senator CAMERON—Is the multiplier effect all in South Australia or is it nationally?

Mr Bulmer—No, it will be spread nationally because we have contractors from all over Australia participating.

Senator CAMERON—Which areas will benefit from this project in the future?

Mr Bulmer—The AWD Alliance has announced the two preferred tenderers for the blocks. These are a Queensland company called AIMTEK and a New South Wales company called Forgacs.

Senator CAMERON—Forgacs in Newcastle?

Mr Bulmer—Yes.

Senator CAMERON—Whereabouts in Queensland are AIMTEK?

Mr Bulmer—They are in Cairns.

Senator CAMERON—So this will be a significant boost for Cairns as well.

Mr Bulmer—Yes, it will be.

Senator CAMERON—Are the skills available in these areas? Queensland has been a problem in terms of skilled tradesmen for some time.

Mr Bulmer—As I understand it, that was part of the alliance's due diligence work they carried out on AIMTEK.

Senator CAMERON—I notice that you have had long experience in industry and in general.

Mr Bulmer—Yes.

Senator CAMERON—So ASC would be quite an exciting proposition for the future.

Mr Bulmer—Yes, it certainly is. It is profitable, it is well managed and it has a great future.

[3.10 pm]

Medibank Private

CHAIR—I welcome the managing director of Medibank Private, Mr Savvides. Would you like to make an opening statement?

Mr Savvides—No.

Senator CORMANN—Good afternoon, Mr Savvides. How are things going?

Mr Savvides—Very well thanks, Senator.

Senator CORMANN—Do you wish to elaborate on that a bit?

Mr Savvides—In terms of the marketplace, I can say a few things.

Senator CAMERON—That is a new technique for Senator Cormann, I'll tell you!

Senator CORMANN—Senator Cameron always says I should keep my questions short, so I thought I would.

Senator CAMERON—Absolutely. I like it. We love it. Keep going.

Mr Savvides—In the last couple of quarters the overall growth in health claims has continued to rise at a slightly higher rate than in previous years. As anticipated, we are seeing a significant consumption of health services by our membership. The integration of the businesses we have acquired is running smoothly, and we are very pleased with that. The cultures of the two organisations on the private health side are blending well, and also our health services integration is moving very well. The business continues to grow in membership. Our lapse rates remain low and, given the economic circumstances, we are pleased about that. Our marketing and promotional activities are bearing fruit. Given that the context is adverse, in terms of the difficult economy and the fact that the sector overall is showing membership growth slowdown, we are enjoying growth in a slowing market.

Senator CORMANN—Thank you for that. Obviously we are in tough economic conditions, and investment returns would be under pressure. There would be the impact of the Medicare levy surcharge changes last year and there will be private health insurance rebate changes this year. You are now expected to pay taxes and dividends. The government may well have its eyes on your surplus reserves. Market conditions would certainly be tougher now than what they have been in recent years.

Mr Savvides—Yes. The boom years, including 2007, are certainly well past us now. Overall we are seeing contraction from about five per cent membership growth in the total sector as an industry. I think in the last figures we saw it was down to two per cent growth. Does it have more downside? I suspect it does. But in a cooling market we are enjoying market share growth.

Senator CORMANN—Do you run an inefficient business?

Mr Savvides—I hope not.

Senator CORMANN—You have been the managing director of Medibank Private for some time now. Can you talk us through the sorts of improved efficiencies and cost-cutting that you have been able to achieve over that time?

Mr Savvides—The major part of our investment has been in new systems. When I joined Medibank in 2002, we were operating 25- to 30-year-old COBOL based ‘legacy systems’. These were very complicated applications. There were 66 applications on a mainframe. Obviously these systems had to permeate out to about 130 retail centres, as well as our core claims environment. We have progressively invested in replacing them. Late last year we turned on our new automated hospital claims engine, which is one of the most modern claims engines in the world. When claims go through the Medibank environment around 85 per cent of them are not touched by human beings at all now. The decision-making adjudication system within the claims engine determines the suitability of the claim, its entitlement and the payment to the provider and then determines the mix of reimbursements that occur through the MBS et cetera. So we are enjoying some productivity improvements out of that environment.

We also introduced the CRM system a few years ago, which improved our front-line servicing. In more recent times, in the last four or five months, we have changed the workflow in call centres. Our call centres are today operating at 99 per cent achievement of our targeted service level response times. They used to operate at around 45 to 50 per cent in peak times and at around 55 to 60 per cent on an average load. So we are obviously very pleased that we have been able to unclog the servicing channels and improve the services to customers.

Senator CAMERON—The question has been put to you as to whether cost-cutting means efficiency. The management books I have read and the experience I have had over the years actually show the opposite in a lot of cases—that cost-cutting does not mean improved efficiency or productivity or better management systems. Would you like to comment on that?

Senator CORMANN—I have a line of questioning here. I have only just started.

Senator CAMERON—I made a point.

Senator CORMANN—I am still pursuing that point myself. I have not concluded my point.

CHAIR—I remind senators that it has been the practice over the course of these hearings that, if a committee member has a question on the same point, the nature of this committee is to allow those questions to be asked to allow the flow of questioning.

Senator CORMANN—I have not concluded my point. My flow has just been interrupted, Madam Chair.

Senator CAMERON—You stopped.

Senator CORMANN—No, I didn’t. I was waiting politely for Mr Savvides to finish his answer.

CHAIR—Senator Cormann, you have asked your question. Senator Cameron, I have made my ruling. Senator Cormann, you have the call now. If you want to use your valuable time to argue with me, you are quite welcome to do that, but I do remind you of the standing orders.

Senator CORMANN—Thank you, Madam Chair. Mr Savvides, would it be fair to say that, under your leadership, improving efficiency across Medibank Private has been one of your major focuses?

Mr Savvides—No. The major focus would be the claims side of the business. I do not think I would categorise efficiency in that area. When I referred to some of the improvements a few minutes ago, I was talking about the management overhead costs of the business, which on average for the sector is around 10 per cent of revenue. Eighty-five per cent of revenue is claims—the consumption of health services that the membership enjoy. We buy those services on behalf of the members of the fund. That is a negotiating and contracting role. The absolute No. 1 priority for any health fund, not just Medibank Private, is to procure the services on behalf of your customer base at the most affordable and efficient rate without compromising quality. Those services are purchased in such a way that we are able to be competitive and cover our risk for the revenue that we receive. That is the No. 1 priority.

Senator CORMANN—Okay. Let me rephrase that question. Would your No. 1 priority be to keep your costs across your whole operation, including administration costs and the costs of claims, as low as possible?

Mr Savvides—Absolutely. To be competitive is to have better procurement of benefits as well as an efficient organisation.

Senator CORMANN—And the reason you would do that is that you are very keen, as an organisation that serves its members, to keep the cost of premiums as low as possible?

Mr Savvides—Our objective is to keep our premiums competitive and to meet the return on the capital requirements that we have as a government enterprise. We also have to make sure that we achieve our commercial objectives. Investing in computer systems costs money, so we need to be able to accumulate the capital that those kinds of investments require so that we have sustainable performance over a long period of time.

Senator CORMANN—Yes, but keeping your administration efficient and keeping the cost of claims down help you to keep premiums affordable, does it not?

Mr Savvides—Yes, that is right—‘affordable’ means ‘competitive’.

Senator CORMANN—How much further scope is there for additional efficiencies, given the work that you have done across the cost of claims and the running of your administration?

Mr Savvides—There is considerable scope and it comes from two areas. Around 10 per cent of procedures are affected by misadventure or infection, and health insurers pay twice when that happens. So, obviously any work that we can do to contract in a way where quality is linked to performance and payment is a growing agenda. It is not there yet in our industry in Australia, but it is a growing agenda. That is a very important area—making sure that for what we spend we get what we intended for our customer base and do not have waste. That kind of infection impact and misadventure in our health system—which is not abnormal for other insurers around the world—is waste and is harm. That is a fairly important piece of value.

The other side of it is that around two per cent of the 3½ million lives that we cover consume about half of our hospital claims. A small amount of our customer base who suffer

from chronic disease, whether they know it now or will know it in time, will consume about 50 per cent of our hospital claims. Health insurers that are enlightened are working hard at being more proactive in understanding who these customers are and understanding their health requirements and then providing—in a way that is very different to our historical role—opportunities for those customers to enter our health management programs, whether on diabetes, hypertension, smoking cessation or mental health. The more of those members that we can bring into those proactive and preventative programs, the more impact that will have on the overall cost of claims, and that flows on to premiums.

Senator CORMANN—Thank you. So, to sum up in a simple sentence, what I hear you say is that you have already done a lot but there is always more to be done, and you have given us a number of areas where there is some scope to further reduce cost. That is something that in the normal course of your business you would be doing no matter what, isn't it? Whether you are a for-profit or a not-for-profit fund does not have a particular impact on whether you try to keep the cost of claims or administration as low as possible, does it?

Mr Savvides—No, but there are some things that are emerging that do make for-profit conversion a little more sensible. The two businesses we acquired were for-profits. It is very unusual for a not-for-profit health fund to be the parent of two for-profit subsidiaries. That is just by the way, but it is an unusual paradigm, and from an accounting point of view it has its own challenges. The other thing is that from December to January Medibank went from having 30 health professionals in its staffing to having over 1,000, through those two transactions. We did that deliberately because we wanted to the ability within our own workforce to impact the health of our customers, especially in the categories that I just mentioned. We need to do a lot more of that. I think today we are probably still only a 10th of the way there in terms of the number of members we have in the kinds of programs that I outlined. If we achieve our goal of cost affordability for people with chronic disease, that will flow on to premiums to create a sustainable and affordable offering over time. We are going to have to grow that capability even more, and we will be entering the commercial marketplace to procure those capabilities over the next few years—subject to, obviously, the approval of our shareholder. So the future is more entanglement, if you like, or engagement of the commercial sector. That does challenge the question of whether we should change our status—and that is probably part of the reason why the recommendation is where it is.

Senator CORMANN—I asked you a question as to essentially how much additional efficiency there is and you gave me an answer as to why you think it is a sensible thing to shift Medibank Private into a for-profit arrangement. I understand the reasons that you have given us. Clearly from your members' point of view you would always be aiming at keeping the costs of claims and administration down, and there are a range of strategies that you have used in the past and there will be different strategies that you will use in the future, including the sorts of mergers that you have talked about with organisations that will help you achieve that. But how much additional efficiency do you expect out of the for-profit status?

Mr Savvides—It is not even on our radar as a driver of efficiency.

Senator CORMANN—Thank you; that is what I thought. Who initiated the conversion of Medibank Private to a for-profit business enterprise in the context of this budget?

Mr Savvides—That is probably a question for the shareholder, but I can say one thing—

Senator CORMANN—Well, the shareholder sent me to you.

Mr Savvides—What I can say is it is not a new idea; it was a conversation that occurred in the time of the previous government as well.

Senator CORMANN—I totally agree, and that was a discussion that we were having earlier today—

CHAIR—Senator Cormann, Mr Lewis has indicated he wants to make a contribution.

Mr Lewis—I just want to clarify one point. My recollection of this morning's conversation is that we did not push the issue to the company. We said that we would look at our records and we would give you a proper answer in relation to the chronology of this. I think I mentioned also—

Senator CORMANN—You asked me to ask Medibank Private.

CHAIR—Senator, can I just remind people that if there is a question put to the witness, the witness should be given the opportunity and the courtesy to be able to respond and to be heard.

Senator CORMANN—And I am assisting the witness who had been asked the question.

Mr Lewis—Certainly there were some questions you asked this morning that I thought appropriately should be put to the company. On that one, I think I said we would check our records because my recollection was that this was a subject that Medibank had written to the government about a number of times. I am thinking in the order of four or five.

Senator CORMANN—If I can just clarify the question again but ask it specifically of Mr Savvides—and I am looking forward to the answers to the questions on notice from government down the track. I know that this issue has been around for a long time. I know it was considered by the previous government. I know that there have been discussions between the chairman or the board of Medibank, and perhaps Medibank management, and the government at various times. I understand that. But it has never been acted upon up until now. This budget is the first time it has been acted upon. Who initiated this fresh and recent proposition, this budget measure, to convert Medibank Private into a for-profit business? Was it the government or was it Medibank Private?

Mr Lewis—Senator, I—

Senator CORMANN—I am not asking you; I am asking Mr Savvides.

Mr Lewis—I understand you are asking the question of Mr Savvides. The problem I am having with the construction of your question is, if the chair of Medibank wrote again to the minister in, say, January recommending the government consider the conversion of Medibank Private to for-profit, is that initiation? In light of that—

Senator CORMANN—Why would we not let Medibank Private answer the question and take it from there?

Mr Lewis—It is more the construction of the question, because I am not sure how Mr Savvides will be able to answer it.

Senator CORMANN—Mr Savvides might be able to clarify. He might say: ‘Yes. We wrote to the government and we thought it was a good idea and we thought in this budget they should be able to consider it.’ Why don’t we let Mr Savvides answer for himself? Thank you.

CHAIR—I think also that we should bear in mind that the department are here for us as witnesses. If they can add something, it is normal practice that the committee would appreciate that input from the department.

Senator CORMANN—We had this discussion this morning. I have asked a very specific question of Mr Savvides. Mr Savvides, I am sure, is very capable, as the Managing Director and the accountable officer for the government business enterprise which is Medibank Private, to answer. If he has to take it on notice, I am very happy for Mr Savvides to take it on notice. But I have not asked Mr Lewis; I have not asked anybody else; I have asked Mr Savvides, the Managing Director of Medibank Private and I would like to get an answer. Thank you.

Senator Cameron interjecting—

Senator Bernardi interjecting—

CHAIR—Sorry. There is a process and there are standing orders. If people want to take a point of order, I would appreciate it if they say that they are taking a point of order.

Senator BERNARDI—I might take a point of order.

CHAIR—Senator Bernardi, your point of order is?

Senator BERNARDI—It is just about precedence. You interrupted Senator Cormann to say that Mr Lewis wanted to answer a question that Mr Savvides had already answered. That is an interaction, an intervention, which you deemed appropriate and we let through, and Senator Cormann was very reasonable in that. But now he is addressing questions to Mr Savvides, and Mr Savvides should be expected to answer them. If other people think they can add some things to that answer, particularly the minister, it is—

Senator CAMERON—What is the point of order?

CHAIR—What is the point of order?

Senator CORMANN—On the same point of order—

CHAIR—I remind committee members that, a little earlier, Senator Cormann was making assertions about evidence that was given earlier in the day. Mr Lewis was trying to clarify for the record to ensure accuracy of the recordings of these proceedings. You have got your question, and now I ask the witness if he wants to respond. Mr Savvides?

Senator CORMANN—Thank you, Madam Chair. I will just clarify the question again. There is a reason why I asked questions of the shareholder this morning: so I could ask questions separately of the government business enterprise this afternoon. Unless I have a specific question to the shareholder, I would appreciate it if I could direct my questions to the government business enterprise. I do not know why the government is being so touchy about this.

Senator Sherry—I haven’t said a word!

Senator CORMANN—They keep jumping all over me. Mr Savvides, perhaps you can enlighten us. Was it initiated by Medibank—

Senator Sherry—I do not mind copping a bit of flak when I have intervened, but I have just been sitting here, frankly with bemusement, listening to all of this and I have not intervened at all.

Senator CORMANN—Was it initiated by Medibank Private on this occasion or was it initiated by the government?

Mr Savvides—As I said earlier, it is not a new idea. All I am really dealing with here is the word ‘initiating’. From the time of the previous government, when Medibank was being reviewed for sale and there was a process in play for preparation of that event if it did take place, Medibank back at that time, with the help of their external auditors, started to put in place the process of accounting as a for-profit, in the event that that might happen. If you were to walk inside of our organisation, especially in the finance department, and see what our people do, you would have seen the capability starting to be reflected. So it is quite an old idea. It goes back several years.

In our conversations with our shareholder and finance department, which are regular conversations, it is not something that we do not talk about. We are in parallel mode and we are ready to move if we need to move. So ‘initiation’ is the wrong word. When the correspondence occurs between the chair and the shareholder, that correspondence is about making sure that both sides understand. Certainly, the board is expressing its view about what it thinks is important and, if there is a decision by the owner to make a change, then the organisation is obviously ready because it has been in parallel mode for some time.

Senator CORMANN—Can you describe for us, specifically, what Medibank’s involvement has been, in the context of the budget process and in the lead up to the budget, around the conversion of Medibank Private into a for-profit fund? Were you involved in a process with the government before this measure was announced in the budget? You are shaking your head.

Mr Savvides—No, because, until the budget was announced, we were not in the position to know whether we were to be converted or not. The only thing we knew about was that it continued to be an active conversation, as it has been for several years. The status changed on budget night.

Senator CORMANN—Have you been consulted by the minister about the question of who owns Medibank?

Mr Savvides—Have I been consulted?

Senator CORMANN—As the managing director, have you or the board been consulted by the shareholder minister about the question of who owns Medibank? You might recall that the minister in opposition had some doubts that the government in fact did own Medibank and promoted the view that the funds accumulated with member contributions were owned by members. Is that something that has been part of the discussion between Medibank and the shareholder minister?

Mr Savvides—We have our own advice, as a board, about the ownership of Medibank. We understand, because it has been shared with us, that the government has its own advice. We understand that that advice is consistent.

Senator CORMANN—So you have not provided Medibank's advice to the government? You have got your own advice and the government has got its own advice, and there has not been a—

Mr Savvides—I will have to take that one on notice. We might have done that. It might have been some time ago.

Senator CORMANN—And just to confirm, the advice you have got is that, although at present you are a not-for-profit fund—you are not a mutual—owned by the government, you are going to turn into a for-profit fund owned by the government. That is a proper summary of—

Mr Savvides—It is stronger than that. We are a government business enterprise. We operate in compliance to the CAC Act. We have the Auditor-General oversight our governance and auditing. We present an annual report to the parliament of Australia every year. It is a much more formal relationship than the one that you just described.

Senator CORMANN—In talking about the formal relationship, have you submitted a corporate plan for this year?

Mr Savvides—We are in the process of doing that. It has not been locked down yet. It is still a little early.

Senator CORMANN—When is the deadline for locking down your corporate plan?

Mr Savvides—Locking down is when we receive from the minister confirmation that it has been approved.

Senator CORMANN—So when do you expect to submit your corporate plan to the minister?

Mr Savvides—It is in the process of being submitted now.

Senator CORMANN—As part of your corporate plan, presumably, you will have the divided policy of Medibank Private?

Mr Savvides—I will have to take that on notice. We will have some understanding or assumptions about tax and dividend. I am not sure whether that is locked into a specific policy.

Senator CORMANN—Under the governance arrangements for Commonwealth government business enterprises, like in your corporate plan, one of the things that you must incorporate is the dividend policy of that particular government business enterprise. You say that you are making some assumptions. What are your assumptions around tax and dividend payments?

Mr Savvides—If I shared those assumptions with you I would be sharing some competitive material about how we expect to be performing as an organisation, which I would seek to not want to share with my competitors at this point.

Senator CORMANN—Okay, I take that on board.

Mr Savvides—I can make it maybe a little more helpful. There are guidelines about GBEs, in terms of dividend policy, and obviously tax is tax, so we would probably have taken a general assumption set that is consistent with those guidelines.

Senator CORMANN—But you will be expected now to pay taxes on earnings and dividends to the shareholders, subject to there being profits. You are nodding your head.

Mr Savvides—Yes.

Senator CORMANN—And the department earlier today confirmed that the government expects to draw a dividend from Medibank. In fact, even though they have kept the numbers secret—it is not for publication, and you have confirmed that just now—because of commercial sensitivities, they have budgeted for revenue from dividends from Medibank Private. I have a number of questions because I am a little confused about some statements made—

Senator CAMERON—Before you do, I want to ask questions on this point.

Senator CORMANN—Which point is that?

Senator CAMERON—The line of questioning that you have been undertaking.

Senator CORMANN—I am talking about dividends. I have only just started—

Senator CAMERON—I am not here to answer your questions. It is enough of a pain that these poor witnesses have to.

CHAIR—Senator Cameron wants to clarify some issues relating to the previous questions.

Senator CORMANN—I am following a logical order here.

Senator CAMERON—Mr Lewis, you tried to provide some information to the committee in relation to the line of questioning that has just been undertaken. Do you have anything you want to add?

Mr Lewis—No, not that I can recall. I think we made the point earlier about the issue of the role of the shareholder versus the company, and I would prefer to allow the questioning to continue in relation to the dividend issue. I think I gave answers on that this morning, but I have nothing to add at this stage.

Senator CORMANN—On budget night, Minister Tanner released a statement of which I am sure you are aware that deals with Medibank Private becoming a for-profit government owned business. He said:

Any future dividends paid to the Government will be set in consultation with the Medibank Private Board—

that is obviously appropriate; next is the relevant part—

to ensure that they have no impact on the premiums that Medibank Private members pay.

How is that possible? How can that be achieved?

Mr Savvides—I do not understand why you think it would be impacted.

Senator CORMANN—Maybe I can run you through the costs of a not-for-profit health fund that is not a government business enterprise. We have mentioned before that there is the cost of claims, the cost of administration and the necessary build-up of capital reserves, and that a not-for-profit health fund not owned by the government will not pay taxes and will not pay dividends to the government. So your members have to fund a cost that is not carried by other not-for-profit funds not owned by the government. Earlier today Mr Lewis—and I am sure he will jump in if I quote him incorrectly—suggested that there is scope for efficiencies; hence my earlier interest in future efficiencies that you would achieve and whether those efficiencies will essentially fund the dividends. I am trying to get your view on that.

Mr Savvides—When we plan our premium rate change a year in advance as we go through the process and then submit it to the health minister, who makes the final adjudication, we target a competitive rate change. That is part of our corporate planning process. We also target to cover all of the commitments that we expect our members to place on the fund in terms of claims from a risk management point of view.

Senator CORMANN—If I may respectfully interject there, the reason I have a difficulty with that statement is that Minister Roxon—and we have had this discussion, so I am sure you are across the argument—has repeatedly said that the premium increases she will approve have to be the minimum necessary to ensure capital adequacy and solvency requirements, and they have added a few more words in this year's budget papers to specify the cost of future claims. But you will have to add something else to that. When you say 'rates that are competitive' aren't you really saying that you are pricing your premiums at the level that the market will bear rather than as affordably as possible given your cost structure? That is very different from what the minister for health is suggesting. Would you explain that to me.

Mr Savvides—There has been no change from the past to the future in terms of outlook. We target a margin to be able to achieve a return on capital as expected in GBE guidelines. So we are not targeting zero, I can tell you that, because that would not be a very good return on capital.

Senator CORMANN—I understand you target a margin, and at present that margin goes into your reserves, does it not?

Mr Savvides—Yes, it does.

Senator CORMANN—And those reserves are there to cover the cost of future claims and to ensure you are capital adequate.

Mr Savvides—Those reserves are excessive of that. Those reserves do not have to do all of the things that you have described because there is more than that.

Senator CORMANN—You could deploy them for—

CHAIR—Senator, there has been agreement that we would break at this point. It is nothing more than the agreement that was reached.

Senator CORMANN—But we have not finished with Medibank yet.

CHAIR—We are coming back to Medibank, but we have agreed to break at this time due to other commitments. I would appreciate the courtesy to allow the committee to do that.

Proceedings suspended from 3.40 pm to 4.00 pm

CHAIR—We will continue with Medibank and Senator Cormann has the call.

Senator CORMANN—We were talking about where the revenue is coming from. Where does the revenue to fund the dividend payments to government come from?

Mr Savvides—The payment of tax and dividends only occurs if there is surplus or a profit for a converted company. That is an after-the-event distribution. As I said earlier the fund has a strong balance sheet with reserves beyond the capital adequacy requirement. If in fact the fund has covered its risk, paid its claims, paid its overheads, met its margin requirement for its corporate plan to achieve a certain profitability and delivered a surplus then it is distributing after having achieved all of its required obligations.

Senator CORMANN—Mr Savvides, what you call ‘after the event’ is the event of payment of premiums by your members, is it not?

Mr Savvides—How do you see that, Senator?

Senator CORMANN—I do not think that Australia Post, or Telstra for that matter when it was a government-owned business enterprise, would ever argue anything else other than the dividends they pay ultimately come from revenue they have generated from the products they sell. In the same way as Medibank private. What you call ‘after the event’ is essentially a business process which starts with your members paying for a premium and then out of that it covers the cost of administration, the cost of claims, the payment of taxes and the payment of dividends if there is a profit. Isn’t it true to say that your members ultimately would have to fund the revenue if you are to pay a dividend to the government?

Mr Savvides—No, that is not the case, Senator.

Senator CORMANN—So where does the money come from?

Mr Savvides—The way you described it you make it sound like a savings account where members put money in and then we have to account to balance the savings—

Senator CORMANN—You sell a product.

Senator Sherry—Hang on, Senator, please let the witness finish the answer. He is part way through.

Mr Savvides—What we do is we actually sell an insurance policy. As soon as the transaction occurs those moneys are invested by an organisation called Medibank Private, a government business enterprise, who goes forward into the marketplace and through an underwriting strategy puts in place the risk coverage for that investment. The individual has an insurance policy in their hand and what happens for them is that they have all of their risk covered through that policy as defined by the policy. What happens to the cashflow is beyond that point of transaction and is a commercial activity of the fund. It goes out and buys contracted services from providers and if it does a very good job in that exercise, and we are using our large scale to procure well, we are not surprised that we create a surplus out of that process. We absolutely intend to do that.

Senator CORMANN—Sure, everything you are saying is correct. But we are going through a very convoluted way of saying that your members pay premiums to pay for a product, which you say is a valuable product and it gives them great value and because you have large scale you can keep your costs lower than others. Therefore you might be able to make a surplus out of which you can pay a dividend. I understand all of that. The reality is by paying the dividend you are not able to use that efficiency out of keeping costs low from larger scale, to keep your premiums lower than what they are. Essentially rather than to direct that efficiency, rather than to direct that saving into lower premiums you will be directing them into a financial return to the shareholder. Isn't that correct?

Mr Savvides—The requirement to protect the fund's risk through capital adequacy is different for a for-profit than for a not-for-profit. The converted for-profit health funds in Australia require less capital adequacy dollars to meet their capital adequacy ratios. Maybe that might help you understand some of the reasons why you do not get that kind of flow-on effect.

Senator CORMANN—I now have to go through a series of questions very quickly, because I promised Senator Xenophon that at 4.20 pm I would cede the call to him, and I keep my promises. Obviously, dividends can come in different forms. The most common one is where a regular cash dividend is paid out of current profits, and that is probably where most of our discussion is centred around at present. However, if current profits are inadequate, enterprises can be required to make payments from reserves established from profits of previous years.

At our last estimates, Mr Savvides, you told this committee that Medibank had, at that time, \$800 million in surplus capital. What is your current surplus capital? Do you expect that the government will make a claim on some of that surplus capital by way of dividend payments?

Dr Watt—I do not think that Mr Savvides can answer the second question. He is—

Senator CORMANN—He can say that he cannot answer it. I am happy for him to say that he cannot answer it.

Mr Savvides—The \$800 million I referred to is the excess above the 1.0 cap add. There is obviously a prudential buffer beyond that. Because the market is changing at the moment, the actual amount above the prudential buffer that the board sets for itself gives consideration to the volatility of the market in terms of claims growth et cetera and to the growth rate in contribution income. Once that is all done and the buffer is established, there will be an excess beyond that. It could be \$400 million or \$500 million; it moves around. There has been no change since the last time we met—no contraction to that reserve. That reserve plays a role. It is a very substantial cushion against rate claim growth and against shock in the claims growth area. That is why we have been able to provide, for quite a few years, a very stable rate change. We do not see the kinds of spikes in our rate change pathway that we might have seen prior to four or five years ago.

Senator CORMANN—So your buffer in capital reserves enables you to minimise the fluctuations in rate change? If the government were to draw on Medibank Private's capital

reserves by asking it to pay dividends to the government out of its capital reserves, it could well impact on its future premium increases because its buffer is smaller?

Mr Savvides—You are asking a hypothetical question; is that right?

Senator CORMANN—Yes, I am, because we are in a new circumstance and you are going to be in discussions with the shareholders about how to structure dividend policy. I want to understand what the ramifications of Medibank changing to a for-profit fund are—how will it work in practice? The minister has given an assurance that it will have no impact on premiums. I want to understand whether that assurance is accurate. If the government were to draw on your capital reserves, would that have any impact on rate change?

Mr Savvides—If any health fund had its reserves substantially changed, it would have a flow-on effect in terms of volatility of rate.

Senator CORMANN—I will very quickly go through some other issues. Last time we met, rate changes for this year had not yet been approved. In fact, they were approved the Friday after we met. Were you successful in getting the rate change that you asked for?

Mr Savvides—Yes, the submitted rate change was approved.

Senator CORMANN—When you qualified that by saying ‘submitted’ rate change, was there—

Mr Savvides—That is exactly what I mean. We made a formal submission to the Minister for Health and Ageing, and she wrote to us around a month later confirming that the rate change that we had submitted had been approved.

Senator CORMANN—So you are not one of the funds that received a letter asking you to reconsider the level of rate change?

Mr Savvides—I think there was a general letter that went to all funds, signalling the minister’s policy position, which is the one that you recited a few minutes ago.

Senator CORMANN—So there was a general letter to all funds, but Medibank did not get one of the specific letters. After we discussed this last time, I went to the health department and their suggestion was that perhaps Medibank had received such a letter. Can you confirm again that you did not receive a specific letter asking Medibank to reconsider its specific rate change application?

Mr Savvides—That is correct.

Senator CORMANN—Thank you. Just on the impact of the Medicare levy surcharge changes, you mentioned how you are continuing to grow. Has that growth slowed compared to what your expectations would have been in the absence of the Medicare levy surcharge change and, related to that question, do you expect that at tax return time and every year at rate change time there could well be some further impacts working their way through the system?

Mr Savvides—The growth rate in the sector has slowed dramatically, from around five per cent to two per cent. Do I think that there is more slowdown to come? Yes, I do. I do not think we have seen the full manifestation of the MLS changes of a year ago. That said, they are not as materially negative as we had expected. The good news for Medibank, I guess, as part of

our competitive spirit—and we are not the only fund with that—is that, whilst the sector has slowed, we have slowed a little less and hence we find ourselves growing in share in a slowing sector.

Senator CORMANN—Well done. What is your view of the changes proposed in the budget to the private health insurance rebates?

Mr Savvides—I think what all funds have to manage well is to sell the value of the product, to make sure that that is well understood in the marketplace—you may have seen some of our marketing and promotional communication out there on television at the moment; we are out there working hard to sell the value of our product—but also to encourage members, customers, not to think that the only option that they have is to leave if they are stressed in any way in the future if that were to take place. The Medicare levy surcharge changes create a hook to retain that will be very effective, so we are not anticipating any material change to membership as a result of the means-tested rebate. The challenge for the funds is that it does not create a down-selling scenario, where people go into cheaper products for those that are exposed to the means test and we end up having too many people in our marketplace on insufficient product coverage, just to get a lower price. We will have to work hard to make sure that the value of what we sell is appreciated and covered.

Senator CORMANN—The government essentially told us that they expected 25,000 people to drop cover, which is a small number, relatively speaking, although of course we would not want anybody to leave; we would want the market to continue to grow. You are in a difficult position as a government owned fund. Do you support the industry view in relation to the private health insurance rebate, which has been rather critical of the government's decision to break its pre-election promise not to water down or in any way make any changes to the private health insurance rebate as it exists at present?

Senator CAMERON—People that can afford it should pay for it. It should not be ordinary workers that are paying the premium. You guys just want to look after the big end of town.

Senator CORMANN—I have asked a question.

CHAIR—Senator Cameron, a question has been put to the witness. Please pay him the courtesy of allowing him to answer.

Senator CAMERON—I apologise.

Mr Savvides—I think the issue around the rebate is that the rebate exists but it has now been overlaid by a means test. I am just not sure how that is going to play out. It is just too hard. I think the biggest factor for us at the moment, as a sector, the biggest thing to be concerned about, is the impact of a cooling economy on the growth rate of the entire sector. That is the big impact that we have to manage well, because what happens with health funds is that, when you have come off a period of high growth on the revenue line, and high membership growth, when that cools quickly, slows quickly, the revenue line will slow very quickly in terms of growth rate but the claiming that comes behind it does not slow. The fact that fewer people join in a cooling economy does not change the fact that more people will continue to claim in an ageing population, with new medical services available and the consumption of health being what it is. So then you end up with claiming growing at eight or nine per cent a year and a revenue line that might be growing at four or five and you get

margin squeeze. So funds have to be very vigilant and working hard, very focused on costs, to make sure that they manage that diminishing margin, like every other industry in Australia is managing it. We have to be careful to manage it well so we avoid premium spikes in the future.

Senator CORMANN—Sure. A cooling economy would have a very significant impact, but you have already commented that the Medicare levy surcharge changes have not worked themselves entirely through the system yet, so that is going to put additional pressure on. The changes to the private health insurance rebate, the means-testing, mean that they are being scrapped for people above a certain income level. That puts additional pressure on. Is that right?

Mr Savvides—Yes.

Senator CORMANN—Rather than preserve the policy framework that has been in place for some time, in the context of a cooling economy everything that is being done by the government right now adds additional pressure to your business environment, does it not?

Mr Savvides—Yes, but, specifically for Medibank, one thing that the government has done, as a shareholder—so the whole industry has not benefited from this—is to support Medibank's desire to invest in health management capability in the business, to intervene at the chronic disease level of our population base and really start to impact that very significant part of our cost base: the generation of high-frequency claims from those who have chronic disease.

So in our own world, if you are just talking about Medibank Private, we find ourselves with an external economic environment that is quite adverse and challenging, yet we have a growing share in that. Internally, we are transforming our health fund to be much more proactive in intervening in the health costs of those who have chronic disease. So it is an interesting time for us and the government, a time of transition and change and an important and positive challenge for us.

Senator CORMANN—So the government-owned health fund is doing well in the context of the government making the general environment for health insurance more difficult?

Mr Savvides—We have noticed that a couple of other very large funds have also found their own source of health management capability. The Global Fund Bupa has acquired a capability in North America which can assist in the Australian setting, and HCF has just joined in a very significant alliance with another provider of these services. So we see the market starting to focus on managing some of its core cost, which is the cost of an ageing population with chronic disease.

Senator CORMANN—You mentioned before that the risk to manage was the sliding down in products by some of the members who were going from more expensive products—

Mr Savvides—Downselling—

Senator CORMANN—Have you done any modelling or any assessments to scope that risk within the Medibank membership?

Mr Savvides—Yes. It is modelling not around just a defeatist approach, when you say that it is just going to happen and do nothing about it.

Senator CORMANN—You manage your risk?

Mr Savvides—We are trying not to be too transparent here because we have competitors probably watching in—but we are looking at product innovation and new price points, and different contracting arrangements with providers that will hopefully give us more flexible opportunities to engage the needs of our customer base and avoid downsell, meaning margin slide.

Senator CORMANN—Do you recall the research commissioned for Medibank Private in 2004 to highlight the value the private health insurance rebate and other policy supports for private health insurance?

Mr Savvides—The Harper paper?

Senator CORMANN—Yes.

Mr Savvides—Yes, I recall that.

Senator CORMANN—Can you just talk us through the headline conclusion of that research?

Mr Savvides—What year was that, Senator?

Senator CORMANN—2004. We touched on it last time and you could not quite remember, and I hoped that maybe your supporters at Medibank Private would have briefed you on it this time.

Mr Savvides—I think that the argument on the Harper paper was that a mixed healthcare system with the rebate provided enough participation in the Australian population—which is nearly 50 per cent of the population—resulting in a situation where those who bought private health insurance cost the Australian government a little less than those who were just on public health reliance, because for the bed that every Australian pays for in their Medicare levy those on PHI are likely to leave that vacant—and I think that was the sort of terminology in the paper that Harper produced.

Senator CORMANN—Was there a conclusion which said that we saved \$2 for every dollar invested in the rebate across the state and federal health systems?

Mr Savvides—I do not think that it said ‘saved’, but it made the point that those in PHI had a dollar spent on them, whereas those in public alone had \$2 spent on them. I think the point that the paper made though was that the rebate was an effective mechanism of drawing in a significant part of the population to spread the overall cost of health delivery to the total population. I think that was the theme of the paper.

Senator CORMANN—You hosted a National Press Club launch in 2004 where Professor Harper spoke, did you not?

Mr Savvides—That is correct, I did.

Senator CORMANN—For the benefit of the committee could you perhaps table the report and press release that Medibank issued at the time?

Mr Savvides—I can do that. It is probably on our website—it is a public document. I am happy to follow that up.

Senator CORMANN—Did you have discussions at the time with the then shadow minister for health, Julia Gillard, to talk through the findings of the Harper report?

Mr Savvides—I do recall meeting with the opposition spokesperson on health, Julia Gillard, at the time. Whether it was specifically about the research that Ian Harper had done, I am not sure, but I think we had regular contact with the opposition spokesperson at the time, as we did with other representatives of the opposition in health as they changed through that period of time.

Senator CORMANN—In the lead-up to the last election, the 2007 election, did you have any discussions with the then opposition where they put to you that they might, on coming into government, means test the rebate?

Mr Savvides—We had conversations with the opposition representatives across portfolios, especially health and finance, when those opportunities arose at various events we could attend. It was really about people getting to know each other and what our business was about and what were our key drivers.

Senator CORMANN—Did the then opposition ever give you an indication that they would means test the private health insurance rebate?

Mr Savvides—No, not at all.

Senator CORMANN—Quickly, before I pass on to Senator Xenophon, have you made any assessment of how the changes to the private health insurance rebate might impact on your membership risk profile?

Mr Savvides—No, not at this stage. Because we are being very discreet and it is a new change, and we seek to be small in materiality in terms of the impact, the detailed assessment we do, which is an actuarially driven assessment, is in the entire context of cooling economy, investment income in a very difficult situation and margin moving down rather than up in this cycle. We then extrapolate claims, our ability to win share in this market, the pricing assumptions and then we determine where we are from a—

Senator CORMANN—Finally, obviously the private health insurance rebate applies across hospital and ancillary services?

Mr Savvides—Correct.

Senator CORMANN—You mentioned before that the proposed changes in this budget to the Medicare levy surcharge will help cushion some of the enthusiasm that people might feel about leaving private health insurance. That does not apply to the ancillary side of the equation, does it, because the Medicare levy surcharge is only imposed on people who do not have hospital insurance? Do you expect any material effect on the level of members with ancillary products within Medibank?

Mr Savvides—Yes, it is a generic risk. The whole sector will have this risk and that is that the growth rate in the ancillary market will cool accordingly.

Senator CORMANN—By how much?

Mr Savvides—I do not have those numbers and I do not think I would want to flag it to my competitors. The other thing, which is more a prudential risk, is that if you had ancillary

cover today and you were thinking of dropping out for some reason, you would probably go and get another set of spectacles or make another dental visit before you leave, so you will get a claims spike before departure. So health funds have to work hard to ensure that they do not expose themselves to those kinds of spikes. They have to work hard to retain their members or they will end up with a very difficult claims ratio.

Senator CORMANN—Can you take on notice whatever information you can provide us to quantify that risk. Last time you told us that your expectation with respect to the Medicare levy surcharge was a certain percentage. I would appreciate it if, on notice, you could provide us with that information.

Senator Sherry—Just on that, Senator Cormann, in response to that last question and others, your general approach on previous occasions when we discussed the surcharge threshold was that the sky was going to fall in.

Senator CORMANN—No, that was Treasury modelling. You keep going with this absolute false allegation. Treasury modelling expected half a million people to leave, so you could make—

CHAIR—Senator Cormann, the minister has the call. If you want to continue to argue across the table then you are using up valuable time. The minister had the call and was responding.

Senator Sherry—Senator Cormann, in terms of continuing to make political points, I think you just need to compare my commentary to yours.

Senator CORMANN—We asked questions about Treasury modelling.

Senator Sherry—I did not interrupt you once, Senator Cormann. Please have the courtesy when I respond.

Senator CORMANN—You are taking advantage of me passing the call to Senator Xenophon.

CHAIR—I am sorry, Senator Cormann. There are a number of people who still have questions on Medibank. I would think that, in the fullness of time and because of the time restraints we have, the less dialogue we have across the table would be more than helpful for the committee and, I am sure, witnesses. The minister had the call.

Senator Sherry—I make two points. The general tenor on this occasion, as on previous occasions, from Senator Cormann is the sky was going to fall in because of a change—

Senator CORMANN—That is just inaccurate.

Senator Sherry—and it has not happened. The second point I would make is that this debate, this discussion about rate changes and the introduction of a form of means testing of private health insurance is somewhat similar, not identical, to the proposed changes we intend to make to superannuation that have been announced in the budget.

Senator CORMANN—I raise a point of order, Madam Chair. The point of order is that the minister is misleading this committee and he is misleading the public. The questions we asked at the last estimates in relation to the Medicare levy surcharge were focused on Treasury

modelling and we have only ever pointed to Treasury modelling. Treasury were expected to save \$960 million—

CHAIR—There is no point of order. We are not here to debate the issue. The minister has the call.

Senator Sherry—The discussion, debate and questions are somewhat similar, although not identical, to the issues around the superannuation changes and the reduction in incentives that have been announced in the budget. Specifically, the predominant measure is to lower the caps on superannuation contributions. That is a form of means testing. So it is a similar debate, but not the same. That is going to save, over the forward estimates, \$2.8 billion. But conceptually, it is very similar to the issue we have been discussing here. I just want to make those two points.

Senator XENOPHON—Further to Senator Cormann's line of questioning, Treasury has forecast that there will be a 99.7 per cent retention rate, following the proposed changes to the rebate. Has Medibank undertaken its own analysis, or in consultation with other fellow private health providers, in relation to that? And do you have a view as to whether that 99.7 per cent figure is a courageous assumption?

Mr Savvides—We had a quick look at it and my team did give me some summarised numbers the other day. But it is not a thorough analysis. Materially, these are much smaller than the assumptions or the impacts that we have seen in a cooling economy, and the Medicare levy surcharge was of a year ago. So from a quantum point of view it is so much smaller. We just push it to the side because we have got bigger fish to fry, in terms of what is slowing the sector down—that is, the broader economy and the concerns about unemployment. So it just did not get on the radar. The 0.3 per cent is indicative of the fact that it is quite small. If the numbers are out by 100 per cent, it is still going to be quite small.

Senator XENOPHON—I just go to the issue of informed financial consent. Consumer groups or consumers are generally concerned that if someone goes in for a procedure they will get slugged with a much higher cost. What do you say about that in terms of reform? If we were to have stronger financial consent laws would that assist the bottom line of Medibank and other private health funds,?

Mr Savvides—This has been an issue that has been around for some years. I need to be fair in this. The medical profession has worked hard in terms of their obligations in this area and we have seen a significant reduction in complaints associated with informed financial consent. But the residual is still there. It still forms the major part of the complaint source. We hear customers complain about their experience—they incur costs after the event that they never hear anything about and they feel that they were not properly informed. It creates a huge amount of irritation and also, in their eyes, it dilutes the value of the product that they have purchased. But to be fair, I need to say that, in terms of quantum, it has come down. There is more work to be done and we need to encourage all that can be done to make this an obligation, rather than a soft compliance.

Senator XENOPHON—So there is still significant scope for reform?

Mr Savvides—I believe that there is.

Senator XENOPHON—Finally, you mentioned earlier that about 10 per cent of procedures are due to infection or misadventure. And one of the complaints that I have had relates to prosthetic devices, where some prosthetic devices have a much higher failure rate than others, but for some reason some medical practitioners tend to use those devices.

Mr Savvides—Yes.

Senator XENOPHON—Do privacy laws prevent consumers knowing, firstly, the prosthetic devices that have a much higher failure rate and, secondly, do privacy laws stop the naming of providers who are using these prosthetic devices with a much higher failure rate? And just as we have had significant cost savings for consumers with generic pharmaceuticals, is there scope for significant savings for consumers and, by extension, health funds in relation to generic prosthetic devices?

Mr Savvides—We paid out \$300 million last year subsidising prostheses for knee, hip and shoulder implants for our member base. That cost curve is growing in double digits, so it is expensive. The major joint registry, which is based in Adelaide but is a national registry, was set up by the College of Orthopaedic Surgeons. They involuntarily register all the work they do onto that registry.

Senator XENOPHON—That is only a voluntary register, though?

Mr Savvides—Yes, that is correct, but it is high compliance. That has a huge database of performance. What you find in that registry is that the old designs—the tried and true hip and knee designs—that are no longer on patent are the best performers. A very large percentage of the poor performing designs—hip and knee, which create pain from the patients, that do not perform well and have high revision rates—at the moment the registry is indicating that those newer and more costly designs, patented, are actually performing at a lower level of performance than the tried and true.

Senator XENOPHON—Can you explain to me why, if it is known around the traps that the older designs seem to have a much better success rate than the newer designs, orthopaedic surgeons use them? What are the imperatives that drive the less satisfactory designs being used?

Mr Savvides—Nobody does this with knowledge in advance. We do not know that a new design is going to perform poorly. They present themselves for registration and adoption in Australia through the medical devices process, and they have all the associated evidence and all of the compliance requirements to meet registry approval. But we do find that not all but a material amount of a new product portfolio underperforms the old and at a higher price than the old. So we as insurers who pay for these costs certainly are asking the question: can we improve the registration process of our medical devices so that we minimise this outcome and hence minimise the cost to the insurers, but more importantly the pain and the great challenge that occurs for the patients themselves? You are right: we do not see generic medical devices in Australia in any form in terms of volume. We do see them in the PBS in pharmaceuticals. It may be a good thing for Australia to consider what incentives we need to put in place in our procurement processes to incentivate suppliers to bring in generic copies of designs that have already proven themselves on our major joint registry. I am not talking about inferior quality; I am talking about equivalent quality, common designs.

Senator XENOPHON—And that could save many millions of dollars for health funds?

Mr Savvides—Yes, it would be reflected in the premiums pay for their health funds.

Senator XENOPHON—Finally, there is some speculation that amongst some of these new devices there are huge commercial advantages for some of the suppliers. Are you concerned as a health provider about the sorts of commercial inducements that some surgeons are offered, whether it is the overseas conferences—I am saying some; I am not generalising? Do you have concerns about those sorts of practices as to the level of market penetration some of these less satisfactory devices have?

Mr Savvides—I am not close enough to that sector anymore. I used to operate there maybe 10 or 12 years ago, when I was CEO of one of those organisations. From what I have seen, the reporting process is now much more robust in this area of health supplies and much more transparent. Accountability seems to have gone up significantly. But I am not close enough to be able to accurately answer your question.

Senator XENOPHON—Thank you.

Senator CAMERON—You were actively involved in the debate over the reduction in the Medicare levy surcharge bill. You gave evidence to the Senate on that. Why did the industry get it so wrong in terms of their projections for what would happen in increasing the Medicare surcharge levy?

Mr Savvides—I think it is too early for the jury to make that determination, if I can put it that way. In the months of June, July, August and September, we are going into the tax cycle where people will sit down with their advisers—those who use advisers; we are talking about just tax agents—and some of them will discover in the conversation with their tax agent that, because of the changes to MLS, they are no longer obliged to keep private health insurance if the only reason they had it was to avoid having to pay a levy surcharge, given that the threshold changed a year ago.

Senator CAMERON—But that is not the only so-called incentive to keep you in private health.

Mr Savvides—No, it is not the only one. I am just saying that the full cycle of maturity about to play itself out is still in front of us, we believe, for another three or four months and it might be more appropriate to make that assessment then.

Senator CAMERON—It seems to me that, during that debate, there were two groups lining up. There were the independent academics saying that the analysis of the industry is wrong. You had people like Professor Deeble, who has years of experience in this, saying that the industry got it wrong. You have the figures so far that say the industry has got it wrong. And you had Senator Cormann, when the initial bill was defeated, saying the following:

Increasing the Medicare Levy Surcharge thresholds would have seen hundreds of thousands of people drop private health cover, it would have pushed up the price of premiums—

Senator Cormann interjecting—

Senator CAMERON—This is you saying this.

Senator CORMANN—According to Treasury evidence.

Senator CAMERON—But you did not say ‘according to Treasury’. You did not say that.

Senator CORMANN—You are selectively quoting.

Senator CAMERON—This is the Liberal Party website. This is you saying no to government initiatives and this is you and you fear campaigns again. It is all about fear campaigns. If you just be quiet for a minute, I will get this pain over for you. You did not say anything about the Treasury.

Senator Cormann interjecting—

CHAIR—I remind committee members, yet again, that Hansard has difficulty recording the procedures when people continue to interject and speak over the top of one another. Senator Cameron has the call.

Senator CAMERON—I will quote what Senator Cormann said in a press release of 24 September:

Increasing the Medicare Levy Surcharge thresholds would have seen hundreds of thousands of people drop private health cover, it would have pushed up the price of premiums, hurting older Australians in particular and put huge additional pressure on public hospitals that are already overburdened.

None of that happened, you did it?

Mr Savvides—All I can say is that the growth rate we had a year ago of five per cent in the sector has cooled to two per cent, but that is probably not the measure because that represents people coming into the sector. You are probably saying it should be about the lapse rate—who is leaving the sector. Our lapse rates at Medibank have been relatively stable. They have come up a little, but not in any significant amount. But we are concerned about the tax cycle period of the next three or four months because that is where people will become more fully informed—when they have that conversation. That is when the test will come. Do you really value your health insurance because you want health insurance or did you buy it because you were trying to—

Senator CAMERON—So you are trying to maintain this argument that any change to this one aspect causes people to move out of private health funds. Professor Deeble has a completely different view, and at this stage Professor Deeble seems to have it right and you have it wrong. You are saying, ‘Let’s just wait and see what tax agents say.’ Is that really what you are telling us—that the tax agents will cause a crash in the health industry; that the tax agents are going to put pressure on the public hospitals and destroy the public hospitals? Are you seriously putting that proposition here?

Mr Savvides—I am not saying the tax agents will do that; I am talking about when consumers of private of health insurance become fully aware—and, if consumers are already aware, then I am wrong. If they become fully aware through their conversations with tax agents that they did not require private health insurance to avoid tax and they no longer have that exposure to tax—they can keep it if they value it or leave it if they do not want it; they were substituting for a tax charge—that will be the test. I would be absolutely delighted if they choose to keep their private health insurance.

Senator CAMERON—Sitting here having to deal with these issues on an ongoing basis, I would probably be better off taking the advice of Professor Deeble than that of the industry or the Liberal Party on those issues, wouldn't I, on the basis of the facts so far?

Senator CORMANN—Ask Treasury about the hole in the budget if people do not leave.

Senator CAMERON—I am not asking you. On the basis of the facts at the moment, Professor Deeble analysed it better than anyone else. Is that correct?

Mr Savvides—I am not familiar with Professor Deeble's numbers. But, on the basis of what we see today, we are not seeing the size of the negative impact that was promoted at the time of the changes. We are not seeing it yet.

Senator CAMERON—I wish to move on to the other issue that Senator Cormann opened up with earlier in the piece about this Liberal Party analysis that you get efficiency by cost cutting and introducing Work Choices and hurting workers. Take Medibank Private. What do you see as the most important aspect? Is it cost cutting? Is it about management systems, quality, innovation, continuous improvement, training and skills? What would be the most important thing for you in those areas?

Mr Savvides—The way we view it is that our No. 1 priority is to make sure that we adequately provide for the \$3 billion in claims that are taken out of our fund every year by our members and that we contract the purchasing that delivers services to our customers in the most effective and efficient way. It is not so much about getting the lowest cost because we do not want the lowest quality for our customers in health treatment, so it is about getting the right quality of service for the best possible price, leveraging our scale to get the best outcome. Within our mix of customers there are those who do not interact with the health system efficiently at all. They are the ones with chronic disease. We are developing more specific programs for them that will give them a better outcome and also give the health fund itself a lower cost exposure as a result of intervening in a more constructive way. They are very important priorities. As to the area of efficiency, we are deeply committed to lowering our cost base in terms of overheads but we always have a criterion within our management team that it is cost down but service up. So we have to get rid of the blockages and inefficiencies within our processes, in reducing costs, so that the consequence of changing our process is that the service improves, so the customers are not shortchanged by our process change and they end up with enhanced processes and services as a result of these changes. The double dividend is important for us.

Senator CAMERON—Senator Cormann asked you if you ran an inefficient company.

Senator Cormann interjecting—

Senator CAMERON—Mr Savvides, you said, 'I hope not.' Surely it is about more than hope.

Mr Savvides—It is a perception that I was responding to. I hope he does not see us as an inefficient company. Our management-expense ratio is lower than the industry average and it is trending to become lower over time. As for our core systems change, when it is completed—and we have a very large part of it completed in our hospital claims engine—and

when we do our medical claims engine and our ancillaries, we will have the most efficient back office in the sector and probably one of the most efficient in the world.

Senator CORMANN—Senator Cameron, he just destroyed your government's argument. I do not think you understand what you have just done.

Senator CAMERON—Senator Cormann also put forward a proposition. He asked you the question about how much more efficiency you can achieve. Isn't efficiency more to do with technology and continuous improvement so no company can really say, 'We can get X amount of efficiency at any one time,' as it is about continuous improvement, continually analysing your problems, working with your staff and increasing their skills? So it is pretty naive to ask any chief executive how much efficiency they can pick up from now, isn't it?

Senator CORMANN—You are digging a deeper hole for yourself.

Mr Savvides—I understand the point of your question, Senator Cameron.

CHAIR—We will go to Senator Bernardi.

Senator BERNARDI—Mr Savvides, as I was listening to the questioning and your responses today, I was reminded of a line of questioning that I raised once before which I would like to pursue here. It is about the incidence of fraud in the private health insurance industry. What is Medibank's experience with fraud?

Mr Savvides—We have a large team of investigators that work for the organisation. They are part of our contracting team so we not only buy services from providers and have contractual arrangements but we audit and monitor those who claim reimbursement from the fund to service our customers. From time to time, unfortunately, in that process of investigation and surveillance we find inappropriate claiming, either overservicing or fraudulent misrepresentation. Obviously, we take action and engage the appropriate authorities once we have the evidence.

Senator BERNARDI—Is the fraud predisposed towards service providers or private health insurance patients?

Mr Savvides—Is it mainly providers? Yes. It is in the materiality sense mainly providers. As to frequency, no; I think the frequency might be consumers because there are smaller amounts but there are many amounts: there are 3½ million of them. We would have a very small percentage of our members who would attempt to misrepresent their status and claim more than they are entitled to. We have methods of detecting that through our own forensic approach. Is it getting bigger? I do not think so. But is it big enough to continue to monitor? Absolutely, so we have to spend money to monitor because if we did not there would be a very negative impact on the cost of running the health fund.

Senator BERNARDI—You said you spend money to monitor it. Obviously, there has got to be a measurable return on that as to what you identify.

Mr Savvides—Yes, there is a return. We have a team of over 20 investigators and the cost of those investigators is covered many times over by what they find.

Senator BERNARDI—How many times over?

Mr Savvides—Senator, if you do not mind I would rather not go into these sorts of issues of detail.

Senator BERNARDI—I understand that. I do accept that.

Mr Savvides—It is probably not the area that I want to expose publicly.

Senator BERNARDI—I accept that. Would you be prepared to provide me with an idea of how prevalent you think fraud is across the private health insurance industry?

Mr Savvides—I can take it on notice and provide you with a report that gives you greater insight into what components, whether they be dental or physio, are the source of the frequency and a bit of an understanding of the kinds of scale that we are talking about. I can provide that on notice.

Senator BERNARDI—Thank you, and I would appreciate that. I am actually interested in any information that you have about the size of it, not only through frequency but also the quantum and the material sense of how it is having an impact on health insurance premiums.

Mr Savvides—Certainly our system's enhancements give us a greater ability to detect it and also mitigate.

Senator BERNARDI—You would know that as you improve your detection facilities people always come up with new ways of taking money from institutions.

Mr Savvides—Yes, we have found the odd dentist that has this amazing ability to put through volumes that are unheard of just through their one or two dental chairs.

Senator BERNARDI—Too much efficiency perhaps, Mr Savvides. Thank you for that. I would appreciate it if you could provide us with that information.

Mr Savvides—We will do that.

Senator MOORE—I have a question on notice because I do not want to hold this up. I am interested in the issues around privacy and the training methodology that you have for your staff members and also in whether there have been any instances—and whether there are records—of any privacy breaches or issues of that nature in your organisation for the last two years.

Mr Savvides—I can call that up.

Senator MOORE—Thank you, that would be lovely.

CHAIR—As there are no further questions, we thank you very much for appearing before us today.

[4.48 pm]

CHAIR—We are going to return to output 1. To be able to get through the rest of the program before dinner, we need to allocate a short amount of time for general questions so we can go through the outputs. We will go to Senator Coonan.

Senator COONAN—Thank you, Chair, and I am mindful of the time pressures. On 14 May the *Australian Financial Review* reported that a key budget document was pulped before

Tuesday's budget announcements due to errors stemming from late spending decisions by the government and disagreement over figures. Is that right?

Dr Watt—I think Dr Grimes might be best placed to answer the question, Senator.

Dr Grimes—Management of the budget documents and the production of them is managed by Treasury but I can confirm that there was one budget document that was—

Senator COONAN—I am sorry, but I cannot hear you, Dr Grimes.

Dr Grimes—I can confirm that there was a budget document that was reprinted.

Senator COONAN—Which one was it?

Dr Grimes—Budget Paper No. 1.

Senator COONAN—What was the cost of getting that reprinted?

Dr Grimes—I would not have the answer to such questions. The reason for it is that the budget paper preparation occurs through Treasury, so questions of that sort would probably be better directed to Treasury.

Senator COONAN—Is it fair to assume that finalisation of the portfolio budget statements was late? Printed copies were not provided—certainly to me—in the budget lock-up. Did any other budget lock-up groups not receive printed copies of the PBSs? Are you able to comment on that?

Dr Grimes—I cannot comment on that really in any meaningful way. The reason why I say that is we do not manage the distribution of those documents and so I would not be able to tell you what might have been the factors behind documents being delivered to different stakeholders at different times.

Senator COONAN—Do you know if it was in fact the case that they were delivered to different people—

Dr Grimes—No, I do not because we do not manage the distribution of the documents.

Senator COONAN—Can you confirm that Budget Paper No. 1 was pulped at some stage?

Dr Grimes—I can confirm that it was reprinted, yes.

Senator COONAN—When was that?

Dr Grimes—It was reprinted on the Monday evening.

Senator COONAN—The day before the budget.

Dr Grimes—The evening before the budget.

Senator COONAN—So the evening before the budget. I want to deal with Mr Tanner's budget efficiencies. He nominated \$1 billion of efficiencies achieved in the 2009-10 budget, because \$4 billion was obviously from last year's budget even though he ran it together. Can Finance provide a breakdown of the \$1 billion of efficiencies from government operations?

Dr Grimes—I do not have the list with me, but we could take that on notice.

Dr Watt—We could get that for you, Senator.

Senator COONAN—Does this include savings from the Gershon review?

Dr Watt—Yes, it does.

Dr Grimes—From memory, yes.

Dr Watt—At least from memory it does. Dr Grimes is right.

Dr Grimes—I do not have the list here in front of me.

Senator COONAN—I will go to the Gershon review in a bit more detail in a moment. Does the billion dollars in savings from the budget include cuts to programs?

Dr Grimes—I do not have those details with me at the moment, so I would not be able to give you a reconciliation with that billion dollars. As I said, we would not have any problems in getting that material for you.

Senator COONAN—Does it include reforms to benefits?

Dr Watt—No. Sorry, I should say from memory, no. It is almost certainly no.

Senator COONAN—Was the so-called ‘razor gang’ involved in finding the savings for the budget? Or is this just a colloquial expression?

Dr Watt—The razor gang—the expenditure review task force—as it was quite properly dubbed was in the department of finance. It worked on some efficiency measures. It also worked on some of the broader savings measures that the government considered and introduced in the budget.

Senator COONAN—If you do not mind me just colloquially referring it to as the razor gang, now that you have said what it is—

Dr Watt—I say ‘expenditure review task force’ because there are two terms as to the razor gang. One is the ERC itself, which is the first ‘razor gang’ as it is sometimes called. The second is the expenditure review task force in the department of finance. I use the expenditure review task force to distinguish between the two.

Senator COONAN—All right. Then the ‘expenditure review task force’ seems to be what Mr Tanner refers to when he talks publicly about the razor gang, is it?

Dr Watt—I must admit I am not clear sometimes whether he is talking about one or the other. He has been using both.

Senator COONAN—Well, that makes two of us. If you and I are both confused—

Dr Watt—I am sure he is clear, it is just that I am not.

Senator COONAN—I would not be so certain. What are the total savings that are delivered by the expenditure review task force?

Dr Watt—It is difficult to put a figure on it, partly because some things the task force worked on were subsequently taken over by others, some things the task force worked on were also worked on by departments, some things the task force worked on did not come to fruition initially but may have come to fruition later, but the savings were substantial.

Senator COONAN—Will you take that on notice and give a considered answer to that.

Dr Watt—It is a figure that will have quite a few assumptions in it. The ownership of the savings, as you would remember—

Senator COONAN—This seems to welcome to Finance; it is based on a lot of assumptions.

Dr Watt—There are a lot of assumptions around.

Senator COONAN—A lot of assumptions.

Dr Watt—As you would remember, some savings everyone wants to own—for good reasons—and some savings no one wants to own.

Senator COONAN—They have many fathers and—

Dr Watt—We will see if we can disentangle them for you.

Senator COONAN—So that will be on notice. What are the total savings in the budget, if you can remind me?

Dr Watt—I think we had best go to the reconciliation table.

Senator COONAN—Yes.

Dr Watt—In statement 3, if you look at—

Dr Grimes—I think that maybe the most useful table for trying to find savings and spends in the budget papers is a table at page 37 of Budget Paper Number 1. This is expressed in cash terms, but it does provide a breakdown into spends and saves. With our other reconciliation tables we combine both the spends and the saves, and we only provide the net number. There is not any particular reason for this other than that has been the approach undertaken for many years. However, this table here, which is a cash table, does break policy into spends and saves.

Senator COONAN—So what is the total?

Dr Grimes—I would have to add them up—the figures are there per annum.

Senator COONAN—I can add them up too, but I just thought you might be able to do it more quickly.

Dr Grimes—No, I do not know off the top of my head.

Senator Sherry—That is the cumulative table over the four years.

Senator COONAN—I understand.

Dr Watt—That is up to \$220-odd billion.

Senator COONAN—Up to 2012 or 2013?

Dr Watt—Yes.

Senator COONAN—It should be 2013.

Dr Grimes—2012-13 is the final year of the forward estimates period.

Senator COONAN—Yes.

Dr Watt—It is \$22½ billion.

Senator COONAN—Yes, that is right. What percentage is it of the budget, as a percentage figure?

Dr Grimes—You could present it as a percentage of total receipts. It might be one way of presenting it.

Dr Watt—Or total expenses.

Dr Grimes—These are cash numbers so you would probably report it against total cash receipts, which are provided at the back of the budget papers. So for 2012-13, total receipts are \$340 billion.

Senator COONAN—Okay.

Dr Grimes—Of course these amounts include things like the receipts of GST, which the Commonwealth receives and then pays on to the states and territories.

Senator COONAN—Do you have at your disposal the total savings from reforms to benefits? Do you have that to hand, or is that something that would take—

Dr Grimes—I would not have it to hand. Again, we can take that on notice to prepare that for you.

Dr Watt—We can get that.

Senator COONAN—Last budget a one-off two per cent efficiency dividend was applied across most government departments. Can you tell the committee how this was implemented across the government?

Dr Watt—Yes. We actually applied it in the February, didn't we?

Dr Grimes—Yes.

Dr Watt—It was just simply that the efficiency dividend that we already apply was increased by two per cent for that year.

Senator COONAN—Okay.

Dr Watt—There was also some impact. Roughly a quarter of that was in 2007-08.

Dr Grimes—In the previous year.

Dr Watt—Yes.

Dr Grimes—From memory, there were some exemptions that were provided and carded out.

Senator COONAN—Yes, I was just going to say that. Perhaps you could take on notice and give me an answer as to where the exemptions were and how it was applied over the year.

Dr Watt—There were many.

Dr Grimes—Defence was one, wasn't it?

Dr Watt—Most of defence expenditure has always been exempt from the efficiency dividend. We used the existing efficiency dividend base and applied it to that. There were one or two exemptions to that base, where agencies had significant specific savings options against them in the opposition's various savings measures. I think DFAT was one that might have had some benefit of that.

Dr Grimes—Yes.

Dr Watt—And I think one of the Treasury agencies might have too.

Dr Grimes—ASIC.

Dr Watt—ASIC, perhaps. We can give you the list of those.

Senator Sherry—As it was given an additional allocation, I think they were exempt.

Senator COONAN—Yes, because they were not and then they were. From memory, they received an augmentation, didn't they?

Dr Watt—It is a pretty short list. It was basically the existing efficiency dividend base.

Senator COONAN—Does Finance consider that this was a successful way to achieve efficiencies?

Dr Watt—I think the best way I can answer that is this. It was the view of the then opposition that there should be greater efficiencies in government administration and that there had been a lot of new policy provided to agencies in recent times, before the 2007 election and, I think, going back over the previous few years—that was their view. They took the view that there should be some cuts in agency running cost expenditure—which is what the efficiency dividend mainly covers—because of those past things, and that agencies should be able to operate more efficiently. I think the best way I can answer that question is: if you are going to seek administrative efficiencies from agencies, then the efficiency dividend is, while a blunt instrument, a relatively sensible approach to life, because you do allow the agency head to manage the implementation of that dividend and therefore to apply it to areas where there are greater inefficiencies or areas that are of a lower priority to government.

Senator COONAN—I am just thinking of a couple of reported examples. Agencies like the ABS and CSIRO apparently compromised their outcomes and shed staff to meet the target, and I am just really wondering if, on mature reflection, it is still thought that efficiency is achieved when an agency simply cuts staff.

Dr Watt—I do not think we equate efficiency with staff reductions, but in some cases staff reductions may have been a way of achieving greater efficiencies, yes.

Senator COONAN—On 4 February this year Mr Tanner said in a radio interview that all new policy proposals would need to be offset or matched by savings, with the exception of the stimulus package. So far as I can tell, this appears not to have happened, but I would be interested in an authoritative response.

Dr Grimes—I think the most complete description of how the government has delivered its fiscal strategy is provided in statement 3 of the budget papers, and that statement does set out the spends and the saves and offsets that have been achieved, plus takes into account amounts that had previously been set aside in the contingency reserve.

Senator COONAN—Well, obviously the exception is the stimulus package. But why has it not been the case that all new policy proposals will be offset or matched by savings?

Dr Grimes—As I said, Senator—

Senator COONAN—I know what is there, but I am just saying: Mr Tanner did not make any exceptions, apart from the stimulus package—which is very clearly not an offset. But he did not make any exceptions; he just said that all new policy proposals would need to be

offset or matched by savings, with the exception of the stimulus package, and I am just wondering why not.

Dr Grimes—And I suppose the point that I make here is that in the budget papers the government has pointed out that by 2012-13 it has managed all of its new spending within amounts that have either been previously set aside or offset by savings.

Senator COONAN—Say you say that they are all offset over the forward estimates?

Dr Grimes—As the statement says, that is the case in 2012-13, after taking into account amounts previously set aside in the contingency reserve.

Senator COONAN—So you are saying that in fact all new policy proposals will be offset or matched by savings by 2012-13?

Dr Grimes—That is what the budget papers say—after, as I say, taking into account amounts in the contingency reserve.

Senator COONAN—It is not quite true, then, is it, that they will all be offset or matched by savings?

Senator Sherry—I think that the quote you read out was Minister Tanner—I think very succinctly, in order to provide greater clarity to the public through his expressed comments in the media—summarised very well by what Dr Grimes has just said.

Senator COONAN—Whatever you think, Minister, it does not actually accord with what Mr Tanner said, but anyway. Can Finance provide a list of what each agency is currently spending in real terms?

Dr Grimes—That would just be the current dollars of today, unless we were to rebase it and express it in dollars of a different period. Essentially, the amounts that are set out in the budget for each agency would be real dollars for this year.

Senator COONAN—Are there any agencies spending more than two per cent, apart from defence?

Dr Grimes—I think what you are trying to ask us is the rate of growth in expenditure for agencies in real terms. It would be a rather large exercise for us to undertake to provide a full breakdown. PBSs obviously give you all of the relevant information to be able to calculate that.

Dr Watt—The answer to your question, Senator, is, yes, there are. It is better to think about programs rather than agencies, although defence is really one program—or one outcome, anyway.

Senator COONAN—I am trying to ask it in an understandable fashion, accepting defence is always—

Dr Watt—Certainly there are programs that grow faster than two per cent in real terms. There are a number of them. There are also some who grow more slowly.

Senator COONAN—Can I have a list of the ones that are exceeding two per cent?

Dr Watt—We can provide that to you, but we might stick to the major ones rather than trying to chase—there are a large number of individual programs. We will find you the major ones.

Senator Sherry—And ASIC would almost be one of those. We can go through the reasons for that when Treasury is with us.

Dr Grimes—Typically the faster growing programs are in areas like health, as you would be aware, Senator.

Senator COONAN—Thank you for that exercise. The deregulation program is obviously something that is of considerable interest. How do you go about costing savings from reducing a regulatory burden? I mean business deregulation.

Ms Page—Your question was about costing of savings?

Senator COONAN—I was just wondering how you go about costing savings.

Ms Page—There is a variety of methods really, depending on the measure. Major economic measures, particularly the cross-jurisdictional things, the things we are progressing through COAG, invariably they have been costed by the PC at various times. The deregulatory savings are not always easy to cost, and by and large you find that what the PC has done is generally costed a suite of measures or a broad series of reforms. It is often very difficult to put a precise costing on an individual measure, but generally they will say, 'If you do a suite of reforms along these lines, you could expect savings of the order of X'. Some of the other savings that relate to things done within government, they generally form part of the business of government and they would be costed in the normal way through a budget or similar process.

Senator COONAN—When you approach it, do you factor in savings to departments?

Ms Page—Not on the whole.

Senator COONAN—Why not?

Ms Page—We are looking at savings to business and business processes.

Senator COONAN—If business has to deal with government departments, and you have a program of deregulation, I am just interested to know why it only goes one way and why you would not deal with—

Ms Page—Sometimes it does go both ways, but invariably there is an investment upfront in order to achieve the savings for business. IT systems are a good example of this. For example, some of the work that is being done through the financial services working group, which Senator Sherry is overseeing, that requires an investment initially in departmental and other time in order to develop the simplified product disclosure statements that will hopefully provide savings for both consumers and business over time. But some savings over time, such as removal of particular types of regulation processes, things like that, they do provide savings for government.

Senator Sherry—One particular example that comes to mind in my area is the transfer of the regulatory supervisory responsibilities of trustee companies from the states to the Commonwealth. I think it was ANZ Trustees that identified a saving to their business—I do

not know if it was to their business or to the whole trustee sector—of about \$300,000 because of the single regulation. On the face of it, that is an increase in federal regulation, but it is a very significant removal of quite complex state regulations. So you do get cases where businesses are able to quantify the direct impact—in this case the saving to their particular sector or business.

Dr Watt—If you are looking for the savings to Commonwealth departments from reduced regulation, there are some when you are talking about economy wide regulation. The most obvious ones, however, are when the Commonwealth changes regulations it imposes upon its own departments. We did an exercise several years ago to try to reduce what we called internal red tape—the red tape inside the bureaucracy that departments like finance or the Department of the Prime Minister and Cabinet or the Attorney-General's and one or two others who tend to be internal regulators—imposed on departments and agencies. We introduced a number of changes as a result of that, but I do not think we costed it then. We could have, but we probably felt it was more important to make the changes than worry about how big the savings were. The results of that were published in about 2004.

Senator COONAN—I appreciate the point about if it is business and there is some investment to be able to deliver the deregulated outcome, but wouldn't you, in other circumstances, be also looking at what ultimately will save government, or else you are just going to have government continually growing instead of making efficiencies and savings from sensible processes. I am not taking issue with the process, but I am wondering why it does not seem to be resulting in some efficiencies for government departments.

Ms Page—It depends on the type of reform. Certainly, as we have indicated, there are some reforms where what provides a saving to business and a saving to consumers is a national approach, and as a result the Commonwealth's role may grow in particular instances. But as a result, the state's role will diminish; the number of people delivering the service over time may diminish, depending on the particular model. Certainly the cost to business of having multiple points, multiple licenses, multiple requirements may diminish, but it could represent an increase in cost for one level of government. I cannot think of any reform though that represents an increase in cost to all levels of government. A lot of this is about rationalising processes.

Senator Sherry—Again, the area that I am most familiar with is the transfer of the state financial regulation supervision to the Commonwealth. There is no doubt there will be a substantial increase in the number of people employed by ASIC because they will be responsible for regulation and supervision and there is no doubt—as yet not quantified, but we will be obtaining the figures—that the various staff for these state consumer affairs ministers will contract as a consequence.

Senator COONAN—This is things like credit reform and things of that nature?

Senator Sherry—Yes, trustee companies, those sorts of things.

Senator COONAN—Mr Tanner, in a speech, talked about 'razor gang stage 2'. I do not know which one that is—

Dr Watt—I think stage 1 was in the lead up to the last budget, the 2008-09 budget. Keeping the expense review taskforce alive and working, which it was, after the 2008-09 budget and ultimately in the run-up to 2009-10 budget might be considered stage 2.

Senator COONAN—Thank you. He said, ‘We’re pursuing a wide range of efficiencies’—and I will take you to some of them; some of them very substantial, some of them relatively small—‘that will come to fruition in this year’s budget’. I wonder if you could give me some progress reports on where we might find this.

Dr Watt—I think some of them are in the minister’s list of government efficiencies and some of them will be in the broader program savings that the government has made. We will have them in the material we have already promised you.

Senator COONAN—All right. I will just go through them so you know what ones he identified as important. We can only go on what is in his mind as expressed in this speech. He said:

And these savings have hit politicians as well as public servants. We’ve cut ministerial staff.

Is that right? The Prime Minister’s office managed to get 65 more, I think.

Senator Sherry—I can certainly say to you from my ministerial perspective that my staff are two or three below the equivalent from the former government.

Dr Watt—I think the then opposition made a statement about a 30 per cent reduction in ministerial staff, which was immediately implemented.

Senator COONAN—That is my recollection.

Dr Watt—In this budget there were some additional ministerial staff positions announced. There was a measure in Budget Paper No. 2, which Dr Grimes will turn to—

Senator COONAN—\$13 million.

Dr Watt—which did retrace for all of the reasons specified in the measure some of that past reduction, but it retraced only about a third of it.

Senator Sherry—That was not just for government of course; it was for opposition, Independents and the cross-party in the Senate.

Dr Watt—That is true.

Senator COONAN—In this process the Prime Minister gained an additional 65 staff and—

Dr Watt—I think that might be that the Department of the Prime Minister and Cabinet rather than the Prime Minister’s office.

Senator COONAN—The Prime Minister and Cabinet, yes.

Dr Watt—I did see that number bandied about, but I would be almost certain that a number of anything like that magnitude would be PM&C. The total number of additional ministerial staff for ministerial, opposition, Greens and Independents is 44 positions.

Senator COONAN—I am looking for some concrete outcomes here. I know that a lot of things have been announced. I am just wanting to know how well they are going and what is happening with them. How about the Australian government’s telepresence investment?

Dr Watt—I can tell you where that is at. We have acquired the equipment. We have started to install telepresence in a number of government sites. We now have it, for example, in the Melbourne Commonwealth Parliamentary Offices. We have a telepresence facility in one or two other sites. We expect to roll out most of the rest of it in the second half of the year. But I will get the CFO, Michael Burton, who is actually doing the installing, to let you know.

Mr Burton—I am just trying to pick up on the question.

Dr Watt—Where is the telepresence?

Mr Burton—The secretary has covered most of it. We have purchased the equipment and have started rolling out sites. We have some sites installed and we have been testing those. I think we will add one or two more sites and then we will start to have a functional system that can actually be used. We are aiming to complete the critical sites by July this year and have all 20 sites that were specified in the original policy proposal rolled out by the end of the year.

Dr Watt—Some of these are in Commonwealth offices and buildings and some are in state premiers' offices, from memory.

Mr Burton—That is right.

Dr Watt—The Commonwealth ones are going a bit quicker but the state ones are coming along pretty well.

Mr Burton—Yes, that is right. We have been working with the premiers' departments where that state side of telepresence will be installed. We have had discussions but we have not done any installations. We have been focusing on installing it at the CPO sites in Melbourne, Brisbane, Perth and Adelaide first because they are the ones who are going to produce the finished returns in terms of reducing travel load for participants and for senators and members.

Senator COONAN—Yes. Will these be available for everyone to use?

Mr Burton—They will be. There are going to be two sites in Parliament House—one for ministers and the Prime Minister to use and one for senators and members to use.

Senator COONAN—What is the breakdown in costing between the state contribution and the Commonwealth?

Mr Burton—The total bill is a bit over \$13 million and the state contribution to that will be \$4.6 million.

Senator COONAN—The minister has been very exercised about travel procurement generally, because the government spends in the order of \$500 million a year on travel services. Has Finance implemented a coordinated strategy on the procurement of travel services yet?

Dr Watt—There is a changing of the guard. Unfortunately, this is a question for the people in outcome 2, and they have gone until dinnertime, I think.

CHAIR—We are dealing with outcome 1.

Dr Watt—I can give you a general answer. The general answer is that we have conducted a scoping study, and that is largely—we have Mr Lewis.

CHAIR—Can I suggest for efficiency, and for the sake of other senators who are not here, that we deal with outcome 1, as under the agreement, and then we deal with outcome 2 after the dinner break.

Dr Watt—I am happy to do that.

Senator COONAN—I am just going to proceed with the questions I have, and if they are not appropriate for anyone at the table to answer I appreciate that. The question before the committee is about putting in place a coordinated travel strategy, so I appreciate that there are some people who will deal with that later. Is government property in outcome 2?

Dr Watt—Yes, it is.

Senator COONAN—The minister referred to a further round of microeconomic reform as one of the key elements of the government's Nation Building and Jobs Plan. Could you run me through that?

Dr Watt—This was announced—

Senator COONAN—In the package?

Dr Watt—in the UEFO.

Senator COONAN—In the UEFO in February?

Dr Watt—Yes. Attachment A, on page 25, mentioned a series of further reforms that would be undertaken—this is on page 25-26 of the UEFO. This includes major city planning arrangements, infrastructure planning reforms, export related infrastructure, a review of Commonwealth regulation and legislation and reform of legal profession regulation. I think Ms Page will be able to talk about Finance's particular role in those. We are responsible in part for item 4, the review of the pre-2008 regulation and legislation. We have a role in 5 and a bit of a role in 3.

Ms Page—We have a role in relation to the reform of the legal profession through the Business Regulation and Competition Working Group of COAG. That has been worked through COAG processes. The other, earlier ones are being progressed initially by the Department of Infrastructure, Transport, Regional Development and Local Government and the Department of the Prime Minister and Cabinet.

The other one that we have a direct interest in is the review of pre-2008 subordinate legislation. We have started that work. That involves scrutinising the Commonwealth database, the FRLI database, which has about 30,000 items. We are in the middle of filtering that so that we can go to agencies and say, 'Of all of these instruments, these are the ones that appear to us to impose costs on business'—in other words, those that are in fact economic regulations. There are a lot of things in the database that are gazette notices, notification, court notices and things like that.

So what we are doing at the moment is working with agencies, and we have a first tranche of agencies that we are working with at the moment, showing them what we think the major pieces of economic regulation are. Then we are working with them essentially to refine further the nature of the regulation—what the purpose of it was, at the age of it, whether or not it has been recently reviewed—and on the basis of that we will prepare a report for our

minister to say, 'There is a scope here,' perhaps for further review, perhaps not, depending on what we find. As a secondary effect of that process, we may even be able to identify further redundant regulation for clean-up or removal.

Senator COONAN—As part of the deregulation agenda, the government said it would adopt a 'one in, one out' principle for new Commonwealth regulations: when new regulations are proposed, they must be accompanied by proposals to remove. Has that happened? Has there, in fact, been an alignment of 'one in, one out' as promised?

Ms Page—The government has instituted the 'one in, one out' policy. The way in which it works is that ministers are asked to identify scope for an offsetting regulation. It is not mandatory that they have to provide one. Part of the reason for that is that the deregulatory agenda has expanded since that initial commitment by the government.

There are a range of other things that ministers have done. They have provided various offsets in the form of redundant regulation as part of various clean-ups. Some of them are involved in various reviews at the moment. But we do have some examples of offsets that are provided from time to time by ministers. It is proving to be quite an important discipline—when people are proposing regulation, they are starting to think about how it will affect the stock of regulation that they have and whether or not there is scope for any further rationalisation.

Senator Sherry—I will give another specific example from my own area—the transfer of regulation and supervision of current state regulation from the states to the Commonwealth. There will be 2,400 pages, approximately, of state regulation and supervision removed from state statute books—quite complex regulation and often quite different from state to state—which will be replaced by approximately 300 pages of Commonwealth law and regulation which is single, standard and consistent across the country. Effectively 2,400 pages of law and regulation are being replaced by 300. That is a very, very substantial reduction in the overall level of regulation.

Senator COONAN—I am not being critical of this proposal at all. I am trying to get some evaluation of whether it is literally just 'churn' or whether it is actually working—what the achievable outcomes are for what is obviously a considerable effort. I am trying to ask for something that is doable and not onerous. I am wondering if somebody has a list or a record of where the 'one in, one out' has worked, either as a principle or an alignment. Is there some way you can check for this?

Ms Page—I have some examples.

Senator Sherry—The example I have just given—

Senator COONAN—I know there are examples.

Senator Sherry—I understand that, and I am sure the officer can give further examples, but the example I have just given is eight out to one in, which is an extraordinary proportion of reduction in overall level of regulation. We will probably have to take it on notice if you want a full list of what has happened.

Senator COONAN—I am interested in outcomes here and I am not being critical of the effort or the intent or the value that might be achieved from this, but I would just like to try

and get, for the purposes of estimates—because that is my job—some idea of how well it is working.

Dr Watt—We can give you a list of what has been done. What I suspect we will not find as easy to do is—as the minister was able to do in his example—list pages of regulation removed on everything, partly because we are part-way through it. But we can certainly give you a list of what has been done and what will be done in the coming months. That will give you some idea of what is happening.

Senator COONAN—The government also said that, where possible, it would implement a common commencement date for new regulation. How is that going?

Ms Page—Consultations with business have suggested that we probably should take a different approach. Business by and large was concerned about the notion of a common commencement date because of the administrative load that that could create for particular businesses. They have indicated that they would favour better clearer notification of start dates of regulation, such as through web notifications, emails and that sort of thing. That is being taken into account in the upgrade of the ComLaw system by the Attorney-General's Department.

Senator COONAN—What sorts of businesses are we talking about here?

Ms Page—There was a variety of formal and informal mechanisms used in relation to some consultation that ministers have done on this issue, so it would probably be a range of businesses, both small and large.

Senator COONAN—It is just that you said 'business' in a way that suggested that you are able to say that there are certain sectors that would not take kindly to a start date of 1 July or something of that nature.

Ms Page—I do not think that it is that clear cut. Individual businesses have made particular representations or views known to the Minister for Finance and Deregulation and their preference was for clearer notification.

Senator COONAN—But you are not able to say what businesses.

Ms Page—I do not have the names of particular businesses.

Senator COONAN—I am interested in sectors, not particular businesses.

Ms Page—I suspect that it is not a sectoral issue. It is individual businesses expressing preferences.

Senator COONAN—Has the Office of Best Practice Regulation been assisting departments and agencies in terms of meeting the Australian government's regulatory impact analysis requirements and monitoring and reporting on each of the various departments and agencies?

Ms Page—OBPR reports annually, in about December each year, on the compliance of all agencies over the previous calendar year. They are unable to provide information before that date, because they need a cut off date, if you like, for when the regulation is made and delivered. At that point, they make a judgment about whether or not regulation impact assessment had taken place prior to the making of the regulation.

Senator COONAN—Is there an interdepartmental or interagency charge for the assistance provided by OBPR to departments and agencies that it helps?

Ms Page—No.

Senator COONAN—Is there any reason why not?

Dr Watt—Do you ask whether we are considering one?

Senator COONAN—No. I just asked whether there is any reason why not.

Senator Sherry—I am concerned that you might have given the secretary an idea!

Dr Watt—No. It would be a bit like PM&C charging for cabinet documents.

Senator COONAN—I am full of ideas, Senator Sherry.

Ms Page—There are several levels of tasks that OBPR provide in terms of support. There is the straightforward role of assessing the regulation impact statement provided by an agency, but there is a lot of discussion with and education of agencies that goes on at an informal level, particularly when agencies are preparing a more complex RIS. Then there is also a formal training role, where OBPR does regular training sessions with agencies on the requirements.

Senator COONAN—I want to ask a few questions about Gershon. Could Finance provide an update on what is happening with the implementations and where the government is up to?

Dr Watt—Yes, we will get the right person for you.

Ms Steward—In terms of our work on Gershon, we have concluded phase 1 of our business as usual review and through that realised \$110 million per annum in savings to the government. Phase 2, which has also commenced and will continue through to the end of this calendar year, will explore additional areas for savings.

We have also progressed all other areas of the review recommendations, and that includes work around an ICT skills program and development of a workforce plan and career pathways. We have also undertaken work on industry engagement around creating better interactions between government and industry. We have initiated work on the development of the data centre strategy, as outlined in the report. We have also revised the governance arrangements in accordance with the report. Our colleagues in the department of environment have initiated work on the sustainability plan and we have developed the first phase of the Green Quick Wins program.

CHAIR—My understanding is that we have now just strayed into outcome 2. There are other senators that want to ask questions in outcome 1. Everyone is prepared to come back after dinner to deal with outcome 2. Let us just deal with outcome 1, otherwise we will be getting confused signals here.

Senator COONAN—All right. I want to talk a bit about consultancy. Is that outcome 1 or 2?

Dr Watt—They could be in either. Let us try.

Senator COONAN—What about procurement?

Dr Watt—Procurement is definitely outcome 2.

Senator COONAN—I have a few other things I am not going to mention, but I will come to them. So you want to do Gershon after dinner?

CHAIR—That is in outcome 2.

Senator COONAN—Before I go back to my outcome 1 questions, what about government grants? Where does that come?

Dr Watt—Which government grants?

Senator COONAN—I want to talk about the Commonwealth grants framework.

Dr Watt—That is outcome 1.

Senator COONAN—Replacing the current discretionary grants. All right. I am clear as to where I am going. Senator Cameron?

Senator CAMERON—Dr Watt, Operation Sunlight was an overhaul of budget transparency. Could you advise me as to how that has operated in the current budget and any issues that have arisen.

Dr Watt—Even better, I can get someone who knows a great deal about it to do it.

Ms Campbell—Operation Sunlight was in play for the last budget as well as this one. In this budget we introduced a significant improvement in the publication of program information in the portfolio budget statements.

Senator Sherry—It certainly is.

Ms Campbell—That was done working closely with all agencies. All agencies have included details of their programs, including financial details and performance information about their programs, in those documents. That has been the most significant change in this budget. I will just go to find a number of the elements that have already been introduced. That one was the most significant in recent times.

Senator CAMERON—Are these the implementation of former Senator Murray's recommendations as well?

Ms Campbell—Yes. Minister Tanner, when he was in opposition, published a document called Operation Sunlight and then refined it. Once the government was elected, he implemented that operation. He also asked the then Senator Murray to review Operation Sunlight and to make recommendations to further improve the program or to make changes that may have become necessary since Minister Tanner first put the document out. The then Senator Murray's report was released with the government response in December of last year, and we have been continuing to implement Operation Sunlight, including some additional measures that were introduced following the then Senator Murray's review.

One of the other significant changes in this budget was the introduction of new outcome statements for a number of agencies. Minister Tanner, in Operation Sunlight, had referred to the fact that some outcome statements were vague and not descriptive and did not really capture, in a definitive manner, what agencies were expected to deliver. There has been a review of a great deal—in fact the majority—of the outcome statements over the last 12 months, and these have been published in the portfolio budget statements this year. Those that have not been reviewed are generally for organisations undergoing major changes. There are

only a handful of those and they will be reviewed over the next few months in time for the next budget.

Senator CAMERON—Is this an ongoing process or is—

Ms Campbell—It is an ongoing process but the outcome statements and the program information were both very significant parts of Operation Sunlight. There are a few outstanding items that we will still be working on over the next six to 12 months but the next phase, which will be very important, will be agencies reporting against how their programs have performed. This will occur in next year's annual report cycle.

Senator CAMERON—One of the changes, as I understand it, is outcome level trend reporting. Have we moved to that yet?

Ms Campbell—No, we have not moved to that yet. We are settling the outcome statements in and asking agencies to look at how they might be able to capture information on the performance of the outcome level. We are very much focusing at the moment on the program level information so that agencies can capture that program information and look at the trends in program information.

Senator CAMERON—When we move to trend reporting, because it is always good to get things in context, how far back would you go?

Ms Campbell—We have not envisaged going backwards at this stage, because it is very difficult to capture information backwards, but we are focusing on moving forward. We are focusing on that at the program level. Next year, in the annual report cycle, those agencies who have detailed the program information in this portfolio budget statement will report against it. Then as time goes by we will be able to capture that information and that trend information.

Senator CAMERON—Are some of these documents here the outcome of Operation Sunlight?

Ms Campbell—Last year we—

Senator CAMERON—These separate ministerial statements?

Ms Campbell—No, I think they were independent initiatives, but in last year's budget we did introduce just the one set of financial statements in budget paper No. 1, where previously there had been three sets of financial statements. That was introduced last year and streamlined the document somewhat. The bulk of it has been in the yellow documents for each of the portfolios, where they have been able to articulate each of their programs and the expectations of those programs.

Senator CAMERON—Has this focused the minds of the department and the minister to deal with this in a very concise way to get the information out?

Ms Campbell—Operation Sunlight has focused not only the Department of Finance but every department, because it has allowed them to think about what they are delivering and to articulate clearly, and to also capture the program information and to display that for senators and the audience of these documents.

Senator COONAN—The COAG Business Regulation and Competition Working Group is, as we know, co-chaired by Minister Tanner and Minister Emerson. Could you please tell the committee what this COAG process has achieved with the implementation programs for the 27 areas of regulatory reform? Just take me through them, please.

Ms Page—An agreement has been reached with the states and territories on 27 reform priorities, as you have indicated. There is an implementation plan with milestones for each of those 27 priorities, which was published as part of the agreement. And there is a payment schedule which matches that. There is total funding available for states and territories of \$550 million over five years. There is an initial payment, which is about to be made to states and territories of \$100 million as a facilitation payment. That is in recognition of some of the costs and investments involved for states and territories in initiating some of the reforms.

There are then two years of no payment and then a payment of \$200 million and a payment of \$250 million split across the states. That will be based on performance against those reforms. We are currently working as a group with the COAG reform council on the form of that reporting and the nature of the reporting. We are in the process of updating the implementation plan for the first time since the COAG agreement, which we would propose to do probably once annually prior to the CRC review each year. By and large that shows that the majority of reforms remain on target. There is some slippage but generally the slippage is internal—there is very little at this stage that affects the final dates of the reforms. So at this early stage we are reasonably confident I think about the level of progress across those reforms.

Senator COONAN—Okay, but that does not tell me what is actually happening. For example, could you take me through each of the areas—and there are 27 of them. This has been going since March, since there was this endorsement of the implementation plan, so we over a year into it. What is happening, for example, with getting nationally consistent OH&S laws?

Ms Page—The implementation plan only dates from November last year. The current implementation plan should be on the COAG website with the agreement. The two documents are there together. The revised one will be put on the website when there is agreement from everybody on what changes need to be made. In relation to the OH&S reforms, at this stage there is no change to any of the milestones from the initial ones that were agreed in November last year. They are still current.

Senator COONAN—So where is it actually up to? Do you know?

Ms Page—I would prefer to take that on notice because it is quite a complex set of reforms and I would like to refer to the detail of that.

Senator COONAN—All right, yes.

Ms Page—Those reforms are being delivered by the DEWHA portfolio and the Deputy Prime Minister, but we could report on the status of implementation against the implementation plan.

Senator COONAN—Yes, I am interested just in whether this is actually happening. We all know, for example, that standardising admission for the legal profession has been going on for

about 16 years. So I think it is appropriate that I just ask about some of this. What about things like trade measurement?

Ms Page—The trade measurement reforms at this stage are generally on target.

Senator COONAN—What does that mean?

Ms Page—The major milestones have not shifted—the milestones that were established in the implementation plan of November last year. That reform requires the states to transfer both staff and assets to a national body. There are some minor delays in relation to a couple of jurisdictions with that process but the other processes are on track in terms of the relevant legislation and the institutional changes that need to be made.

Senator COONAN—What about rail safety regulation, for example?

Ms Page—The model rail safety legislation requires all states to adopt a piece of model legislation.

Senator COONAN—Has that been drafted?

Ms Page—Yes, that is now I think two or three years old. All states are required, from memory, I think to have enacted that model legislation by the end of this calendar year; and at this stage states have advised us that they are on track to do that.

Senator COONAN—What about the issue of product safety?

Ms Page—The product safety one I think I would like to take on notice. Again it is a fairly complex reform linked with one of the other reforms being progressed by the Treasury portfolio. I cannot recall any slippage there. My memory is that it is on time, but I would like take that on notice.

Senator COONAN—Is the objective of that to standardise product safety requirements across the country?

Ms Page—Yes.

Senator COONAN—Trade licensing?

Ms Page—Trade licensing is on target. The most recent requirement of that reform was that an IGA was signed by all jurisdictions and agreed at COAG. It was agreed on 30 April this year. I think the next step in relation to that one is the drafting of legislation. There is also some parallel work being undertaken in relation to the structure of the various trades and charging arrangements.

Senator COONAN—Can you explain what is proposed with payroll tax harmonisation? Is that in terms of the amount?

Ms Page—It is in terms of the administration of payroll tax, rather than the amounts.

Senator COONAN—But not the amount?

Ms Page—No, not at this stage.

Senator COONAN—So how will it work?

Ms Page—Again, Senator, I would prefer to take that one on notice, to provide more detailed advice on that one.

Senator COONAN—What is the advantage in harmonising payroll tax administration, if there are going to be different rates for different states?

Ms Page—If there are common practices and common terminology, that certainly is an efficiency for businesses operating across more than one jurisdiction.

Senator COONAN—Mine safety?

Ms Page—Mine safety is a relatively new reform. There was a report on that which went to COAG relatively recently and an implementation plan has been agreed to by the states, which is progressing.

Senator COONAN—Which is progressing, you said?

Ms Page—Yes.

Senator COONAN—Financial service delivery I think we know about.

Senator Sherry—Just very briefly, that has proceeded very well—non-deposit-taking institutions, consumer credit, trustee companies, margin lending. Draft legislation is out and proposed to be through the parliament by September at the latest, depending on the Senate. State laws are to be changed. And then there is registration and licensing—registration by 1 November and licensing from 1 January next year. It is all on track.

Senator COONAN—Okay. I just wanted to ask a few questions before I go back to some of my earlier issues that I had not finished. Can someone at the table please give me an overview of the new Commonwealth grants framework that will replace the current discretionary grants framework?

Ms Campbell—The Department of Finance and Deregulation is working with a number of agencies across the Commonwealth to finalise and implement a comprehensive policy framework for grants from 1 July 2009. The framework will require that ministers and officials record the basis on which they are satisfied that approving particular grants is an efficient and effective use of public money. From 1 January 2009, agencies have been required to publish on their website, within seven working days after a funding agreement has been signed by both parties, the details of the grant. Also, ministers that are members of the House of Representatives are to advise the minister for finance when they have approved individual grants to organisations within their own electorate. The new guidelines are going to be underpinned by changes to the Financial Management and Accountability Regulations. They will be amended by 1 July 2009 to ensure, particularly, that the basis of grant approval needs to be recorded.

Senator COONAN—Sorry if I just missed the beginning of your answer to that, but the guidelines have not yet been made?

Ms Campbell—The guidelines are being finalised at the moment and they will come into effect on 1 July 2009.

Senator COONAN—Who has been consulted in relation to the guidelines? Has a draft been released?

Ms Campbell—I think that my colleagues who know the details of this are back in the department, so we could get that information for you. But there have been a number of

working groups with agencies, particularly those agencies who have large grant programs and are accustomed to doing this work on a regular basis. They have sent exposure drafts of the guidance. I just going to see if we can determine whether or not the draft guidance has gone out. There have been a number of elements to the guidance, and this process of consultation has been going for some months.

Mr Suur—There has been a working group that involves various departments and agencies working on the draft guidelines now for some months. A second iteration of the guidelines went out this week for agency comment, and we hope to have that comment by the end of this week.

Senator COONAN—As I understand it from the answers that have been given, ministers will still be able to approve individual grants to organisations in their own electorates. Is that right?

Ms Campbell—That is correct. Those ministers will be required to notify the minister for finance.

Mr Suur—In fact, that arrangement has been in place since December 2007. It was an early decision of this government.

Senator COONAN—But the material difference is that the minister for finance is notified but a grant can be made in any event by a minister in their own electorate.

Ms Campbell—It can be made, and it has the additional transparency of being on the website as well as providing that advice to the minister of finance at the time of making the decision.

Senator COONAN—I just wanted to be clear that that is the only difference.

Mr Suur—The other difference is that it gets published.

Ms Campbell—It gets published on the website.

Senator COONAN—But the core ability of a minister to make a discretionary grant still exists in their own electorate?

Ms Campbell—It does, but the changes will also include recording the basis for making that grant. So there is a level of transparency and accountability for that decision making.

Senator COONAN—So this is really a retrospective way of doing what is already happening; is that the case?

Ms Campbell—As Mr Suur said, some of these measures have been in place since 2007.

Senator COONAN—Which ones?

Ms Campbell—The minister of finance being notified of ministers approving grants. Initially there were requirements for seeking agreement, I think.

Mr Suur—Yes.

Ms Campbell—That has probably been overtaken by this additional transparency, where it is on the website as well as the minister being notified.

Senator COONAN—So there was initially a requirement that there would need to be agreement before the grant was made; is that right? Is that what you just said?

Ms Campbell—At first when the government was looking at the changes that it wanted to make to the grants framework to ensure a level of transparency and accountability I think there was a requirement that a committee consider such a grant. Since that time, there has been a review of the grants framework. There was a strategic review conducted about the best way to ensure the efficient effects were given ethical use of Commonwealth resources in a way that instilled the transparency and accountability that was required.

Senator COONAN—Who undertook the strategic review?

Ms Campbell—The review was undertaken by Mr Peter Grant. Mr Grant was previously a senior public servant and he undertook a review. He was assisted by an academic to have a look at the grants programs that have been put in place.

Senator COONAN—Has Mr Grant prepared a report?

Ms Campbell—Yes, he did.

Senator COONAN—Can we have a look at the report?

Ms Campbell—The report was generally advice to government, but—

Dr Watt—We will see what we can do. It is not a public report; we will see what we can do. We can perhaps give you some of it, which might help.

Senator COONAN—This is very interesting. Who was on the committee?

Ms Campbell—I am not aware of that. We will have to take that on notice and get back to you. The preliminary committee when the government was first established?

Dr Watt—We will take that on notice.

Senator COONAN—Was the committee made up of finance or other people? Who?

Dr Watt—It was a ministerial committee. There are a few things we need to clarify and we will before we go down that road.

Senator COONAN—You could appreciate that it sounds very like there was initially a requirement that grants were made in consultation with the minister for finance or that there had to be approval as opposed to simply notifying the minister of grants. That is what I want to know: was there ever an initial arrangement that was resiled from as a result of this review?

Ms Campbell—We will take that on notice, Senator.

Senator COONAN—You do not actually know that, is that right?

Ms Campbell—I think the initial arrangements that were put in place were pending the outcomes of the review. Once the review was finalised we had to look at the workability of this, at the actual administration of how government would continue to operate in a functional manner when there were a number of grants programs. We did not want to delay getting this funding to the people who would be given the grants.

Senator COONAN—It would be too difficult to. It would have to get a tick-off from the minister.

Dr Watt—It does complicate decision making.

Ms Campbell—The review found that this enhanced level of transparency, where it goes on the website within seven days and the minister was notified, would provide that level of accountability.

CHAIR—Can I just follow up if you have finished on the framework?

Senator COONAN—Yes, go ahead.

CHAIR—Thank you. My understanding is that there was additional funding allocated for the development of the grants framework. Is that correct?

Ms Campbell—That is correct.

CHAIR—Can you outline to us the benefits that are going to come from this redevelopment?

Ms Campbell—Once the framework is promulgated on 1 July 2009 we believe there is going to be a need to inform agencies and to work with agencies to ensure that they implement these guidelines, and to provide advice on the framework. You will see that the funding trails off. So in the first two years where it will be ensuring that the agencies are aware of the guidelines and the need to have their systems in place and their documentation in place, we will have some staff working throughout the Commonwealth on that.

CHAIR—This is all to add to transparency and accountability?

Ms Campbell—It is, Senator.

Dr Watt—And consistency in this case.

CHAIR—Yes, very important.

Dr Watt—And rare.

Senator COONAN—Will I stray into outcome 2 if I start on consultancies?

Dr Watt—Start, Senator, and we will see where it takes us. You might be wise to start because we will not have outcome 1 after dinner.

Senator COONAN—We might actually. The program has been interrupted, with my agreement of course, to try and not inconvenience people. My outstanding is that outcome 2 will come back after dinner but they may not be called on immediately, although I will try and truncate what I am doing.

CHAIR—We will try and establish how much of output 1 we have finished prior to dinner so that any officers that can be released will be.

Senator COONAN—I might go back to a couple of other issues that I wanted to ask a few questions about that relate to financial management. What modelling or analysis did finance undertake regarding the \$900 cash handout component in the second stimulus package this year?

Dr Grimes—Our role in that would have been working with the Department of the Treasury on costings. I cannot give you the exact details but we did work through costings with Treasury at the time of the development of that policy.

Senator COONAN—Is it correct to say that finance actually did not undertake any modelling or analysis themselves?

Dr Grimes—It might be better if I were to see whether the relevant officers are here to answer that question or to take it on notice.

Dr Watt—Also, you said ‘modelling and analysis’—what do you have in mind? If, for example, you are asking a question about the macroeconomic impact of the cash stimulus measures, the cash transfers, we would not expect to do that. That would have been done by Treasury. If you are asking something different then we may have done it.

Senator COONAN—I am interested, ultimately, from a spending point of view, how effective and effectual the \$900 cash handouts were. Did Finance address the question, in consultation with Treasury, or otherwise, whether the \$900 cash handouts would be saved or spent?

Dr Grimes—That is a matter that goes to the economic impact of the proposals. We do not do independent work on that at all. That is done by Treasury. Our role is in fact a role that is focused on the costing of the proposal. That was the nature of the work that we undertook.

Senator COONAN—Could you outline the work you did, particularly in relation to the cash component of the second stimulus package?

Dr Grimes—Our role was primarily around doing costings.

Senator COONAN—So you added up how many people would be likely to take it up? Could you give us an outline—what were you shooting for here?

Dr Grimes—I am a couple of steps removed from the process. I hope you do not mind that I am going to answer in general terms. Mr Ignatius can fill in with more specifics and, if we need to get further information, we can take it on notice. The sort of work that we do through the costing process is, as you described, identifying the number of people who would be eligible for the payment. If it is relevant, we try to identify the take-up rate. Obviously when you are distributing money to people, I would imagine the take-up rate is very high.

Senator COONAN—I would be very surprised if you were interested in the take-up rate, which is the basis for my question, if I had not made it clear.

Dr Grimes—Indeed. We would do that sort of work. In the case of the tax payments we did that work very closely with Treasury.

Senator COONAN—What assumptions were made then in relation to the take-up for the purposes of your costings?

Dr Grimes—I do not have that information. I would assume a 100 per cent take-up rate, but I do not know whether there were any—

Senator COONAN—Would you normally assume 100 per cent take-up rate?

Dr Watt—You had an existing population of recipients who were going to get a cash transfer, cash payment, just as they got regular weekly cash payments. There would be a 100 per cent take-up. If you are asking did we have any information on precisely when it would be spent or how it would be spent, no, we did not. That is a different question. The take-up would

be 100 per cent. Put it this way, for it not to be 100 per cent someone would have had to have done something to not take the payment.

Senator COONAN—They could be dead, for example. We know that some people would have had trouble taking it up if they were actually six feet under or in ashes.

Dr Watt—That is a problem with any regular welfare payment. You always get some person who becomes ineligible.

Senator COONAN—You are absolutely right, which was the basis for my question. As I said, I would be surprised if you were to assume a 100 per cent take-up.

Dr Watt—It is probably too small to be significant at any point in time

Senator COONAN—What input did you have regarding the building of libraries and halls in the schools stimulus policy?

Dr Grimes—Once again, we were involved in the costing of that.

Senator COONAN—What were the assumptions?

Dr Grimes—I do not have all the relevant assumptions here with me at the moment, but we made general assumptions about the level of take-up of that program. We assumed in general terms a 90 per cent take-up. It was not a 90 per cent take-up of schools but just that, in general, schools might not use the full amount of the grants that were available, depending on the facilities they were able to build. That was an assumption that was used in the costing.

Dr Watt—We also provided advice on time lines.

Senator COONAN—I was going to say the time lines would obviously be critical.

Dr Watt—Spending periods and the potential milestones et cetera.

Dr Grimes—That is right.

Senator COONAN—How did you actually approach that? Was this the so-called shovel-ready projects? How was that factored into your costing in terms of take-up and when it would be spent?

Dr Grimes—Effectively, the 90 per cent assumption was not a 90 per cent take-up, as I explained before. You expect virtually all schools to take it up—do they spend the full amount that is allocated? As an assumption, we use 90 per cent, which seemed like a reasonable assumption to use for a program of this magnitude. In looking at time frames for construction and so forth, we obviously consulted with people who had expertise in construction to work out what might be a reasonable time frame for delivering the projects, including, in some cases, advice from the states.

Dr Watt—States were consulted on their ability to deliver projects within certain periods of time—the length of time required, whether they had projects on their books ready to go or whether they needed to work them up. As you might be aware, Senator, I think there were three tranches of these projects. That was based on the fact that all states would have some that were pretty ready to go, some that could be worked up in a short period of time and some that would take a bit longer.

Senator COONAN—Do you have any reports yet as to the spend in relation to that part of the stimulus package?

Dr Grimes—I think this was something that the coordinator-general, Mike Mrdak, reported on in some detail in PM&C estimates earlier this week. He is the principal point of contact in the Commonwealth for monitoring the rollout of the stimulus package. Reporting is primarily through the coordinator-general.

Dr Watt—The reporting we would get we would expect to get through him, not independently.

Senator COONAN—It is a devolved process of reporting, then?

Dr Watt—The idea of the coordinator-general was for there to be one of central reporting point in the Commonwealth that would track several of the stimulus measures and would have the ability to intervene, including at a higher level, if things were going off track. Reporting, for example, on just an agency on a particular part of the stimulus package was thought to be insufficient given that timelines were tight and the government was determined that this would be implemented on time. It is, in some ways, more centralised than devolved this time around.

Senator COONAN—I suppose it depends on which way you are going.

Dr Watt—True.

Senator COONAN—I just want to ask some questions—I think they are Treasury questions—on the coordination role of the states and the effect of the loss of GST revenue et cetera. They would be for Treasury?

Dr Watt—Yes, those are Treasury questions.

Senator COONAN—I could see the look of alarm on your face, Dr Watt.

Dr Watt—I am not alarmed at all, Senator, by someone else's questions.

Senator COONAN—I omitted to ask one thing in relation to Finance's costings, particularly in relation to the NBN project. The minister has stated that the project will be funded by \$2.3 billion from the Building Australia Fund and the rest of the government's equity contribution will come from borrowing, using the Aussie infrastructure bonds. Part of the cost of funding, of course, a project of this kind is the return to investors or the cost of raising capital. What did Finance assume about this rate of return?

Dr Grimes—We have not made a specific rate of return assumption. As I indicated before, our role was in providing estimates of the costs of the project rather than making estimates of rates of return. Of course, we would take the cost of capital as being the bond rate. When you look at the cost of the equity injections that the Commonwealth would be making, the cost of that capital would be the Commonwealth bond rate.

Senator COONAN—Would it or would it be slightly above the bond rate because of the risk?

Dr Grimes—You are going into a different question. If you wanted to adjust for risk you could take into account a return for risk as well.

Senator COONAN—But you did not do that?

Dr Grimes—No, to the best of my knowledge, we do not have a rate of return assumption.

Senator COONAN—Just to clarify, because I do not think you did answer this earlier on, you did answer some questions in relation to the split between debt and equity. The minister has said it will be fifty-fifty. Did Finance make this assumption in its costings and how sensitive is the final costing result to this assumption?

Dr Grimes—Certainly in the work that we had done we have looked at the fifty-fifty debt-equity split.

Senator COONAN—And what did you get?

Dr Grimes—It simply makes up the capital structure of the company. How its capital will be raised—will it be in equity or would it would be in the form of debt? It is a working assumption of the capital structure of the company. This is something that the minister has spoken about, as you are pointing out.

Dr Watt—It is also an issue that will be very much part of the implementation study.

Senator COONAN—I understand that there is this implementation study. I am just trying to be very clear and to give Finance an opportunity to be clear about Finance's role and what you did in relation to advice provided on this project. The minister has also said that the cost could be less if private companies contributed their assets. Has Finance made any assumptions about this and how sensitive is this final costing to this assumption?

Dr Grimes—As I said earlier today, it is probably better that we take the details of the costings on notice, because they do traverse into areas that are potentially commercial-in-confidence, as we discussed earlier on. Clearly the costing that was prepared was a costing of up to \$43 billion. If you were to change assumptions you can get differences in the ultimate costing.

Senator COONAN—Could the private sector's equity injection take the form of gifting existing broadband assets to the Commonwealth? Was that factored in at all?

Mr Lewis—The concept of private telecommunications companies vesting assets into the new broadband company is certainly contemplated as a possible solution. I am not sure that 'gifting' is the verb I would use. It would either be in return for equity or in return for cash.

Senator COONAN—And that could be up to 50 per cent?

Mr Lewis—That could be up to 49 per cent while the government is developing and building the network. Of course, as has already been announced, once built, within five years the government's intention is to sell the rest of its shareholding, whatever that is.

Dr Watt—The preliminary cost estimate of up to \$43 billion does not assume any private equity.

Senator COONAN—Okay. Did Finance costing include the costs of rewiring of any individual homes that may be necessary?

Dr Grimes—Not that I am aware of but, once again, it may be best for us to take that on notice.

Dr Watt—Remember it is fibre to the premises—not inside the premises.

Senator COONAN—Yes, I understand. It depends on a lot of things, of course. What kind of technology did Finance assume about the NBN? For example, did you assume a passive optical network or a point-to-point network or what?

Dr Grimes—Once again, I think that would be appropriate for us to provide in material that we are taking on notice.

Senator COONAN—How sensitive is the costing to, for example, that assumption as to what kind of technology is assumed?

Dr Grimes—As you would appreciate, I think it is probably best for us to take that on notice.

Senator COONAN—I am expecting a very comprehensive response on notice to these questions that will tell me all the assumptions you have made and exactly what you have plugged into this model.

Dr Grimes—We will see what we can do, working within the constraints of commercial-in-confidence.

Senator COONAN—I appreciate that, but there is probably not much, quite frankly, that is going to be all that critical, because it is an entirely new network and, apart from the existing architecture of the existing network—which is really not much to do with it, at least the way it is described—you are not going to find too much commercial-in-confidence. So, if you do wish to claim that any information is commercial-in-confidence, would you be kind enough to indicate the basis for the claim?

Dr Watt—We will do that.

Senator COONAN—Thank you very much for that. I will start on another topic—consultants. We talked a little bit about that when I made a very brief appearance at last estimates. I was particularly interested in Mr Tanner's claim that he would make \$3 billion savings that would include a \$395 million cut in consultants in the Commonwealth Public Service. That is what I want to explore here. Can the department please confirm the total number of consultants and costs that have been incurred by all government agencies and departments from 1 July 2008 to 27 May 2009?

Dr Grimes—We would not have that information. I doubt that we would be able to get that in a short period of time. It would be quite a large exercise, because of the sort of time frame you are talking of. We can take it on notice. I do not know whether you would be happy with a more natural reporting date where agencies may have the information or whether you want to specifically look at those dates?

Senator COONAN—I do not want to be obtuse about it. I am interested to know whether or not there has been a \$395 million cut in the use of consultants in the Commonwealth Public Service, because, as you will recall, it seemed that in fact there had been quite a blow-out in consultancy costs. That may not be correct, but I want to tease that out with you, because it seems that, looking on the AusTender website today, it was possible to extract the total amount of consultancy contracts tendered out by the government from 1 July to 27 May.

Dr Watt—The difference is that that is contracts tendered; not ‘use of’. Contracts tendered, for example, can extend over several years and may never actually be taken up. ‘Use of’ is actually money spent in the year.

Senator COONAN—That is why, as you will appreciate, I couched my question fairly carefully. It may mean that I need the more extensive exercise, because I do not want to make an allegation about it unless I am sure, and you are the ones with the information. Are you able to tell me how many consultancies there have been for that period?

Dr Grimes—To get that information we would have to survey agencies. It may be that agencies do not have their systems set up in a way that they can precisely identify spending to 27 May. As you would appreciate, they probably work on a financial year basis.

Senator COONAN—Yes, all right.

Dr Watt—For example, if you were to ask it for the financial year up to 30 June this year you might get a better quality answer.

Senator COONAN—Right. We want the very best quality answer and the most accurate one, so—

Dr Watt—They will have to do that anyway for their annual reports.

Senator COONAN—Yes. As a general proposition, are you able to tell me whether or not consultancy costs have exceeded \$484 million?

Dr Grimes—I could not answer that.

Senator COONAN—Are you able to tell me how much has been spent? You cannot tell me for the financial year to date?

Dr Grimes—No, not for the financial year to date.

Senator COONAN—Is there any figure in the budget, or can you take me to it, that the government has estimated it will spend on consultants? Or is that not a figure that is amortised in such a way that you can dig it out?

Dr Grimes—To the best of my knowledge, it is not a figure that we have in the budget papers. Someone will check and we will confirm that.

Senator COONAN—When undertaking costings of new policy proposals, are consultancy costs considered?

Dr Grimes—Yes.

Dr Watt—I think we had a long discussion about this last time.

Senator COONAN—We did.

Dr Grimes—If it is relevant to the costing.

Senator COONAN—And are these consultancy costs actually identified in the cabinet submissions?

Dr Watt—The answer is in the costing, as Dr Grimes says, (a) if it is relevant to the costing and (b) if it is significant. You would have a residual in all costings that you would not completely split out. So, if it was a tiny component it probably would not be; if it was a

significant component it would be. And of course there is a further issue. If the new policy proposal was agreed, in delivering it the agency may choose to change the mix of resources that it uses—that is, staff first as consultants—for good reason.

CHAIR—Just before we finish, can we go through outcome 1 to see what officers, if any, will be needed after the dinner adjournment. We have dealt with general questions, budget advice, financial framework, financial reporting, office evaluation and audit, deregulation and regulatory reform.

Senator JACINTA COLLINS—Can we have some more on that?

Dr Watt—Sorry, Senator, which one was that?

CHAIR—Deregulation. We need those people. And then, on program 1.2, public sector superannuation. Then we go to program 1.3, nation-building funds.

Senator COONAN—I have the Future Fund.

Senator Sherry—On public sector superannuation, is that ARIA or ComSuper?

Senator RYAN—Policy.

CHAIR—Is it a long question?

Senator RYAN—No, it is short.

CHAIR—Do you want to do it now and then we can let that go.

Senator RYAN—My question is with respect to the change in the pension age that was announced in the budget. Was the department of finance consulted about the potential impact that might have on Commonwealth superannuation liabilities? I presume that—and please correct me if I am wrong—if you delay the pension by two years, presuming life expectancy does not change, there will be an impact on unfunded superannuation liabilities.

Ms Campbell—The change is in relation to the age pension; it is not in relation to superannuation.

Senator RYAN—Yes. All those ages become eligible prior to the pension age currently, do they?

Ms Campbell—Each superannuation scheme has a specific age at which it is available, and of course people have individual taxation treatments. But it is independent.

Senator RYAN—That is why I thought it would be a quick question.

Dr Watt—Those are not changed in any respect, so liability is unaffected.

Senator RYAN—No worries. Thank you.

CHAIR—Superannuation is dealt with. We still have further questions on consulting. What about nation-building funds? Do we want those people back after dinner?

Senator COONAN—Yes, please. Also, we have not done the Future Fund yet.

CHAIR—No, we have not done that at all.

Dr Watt—We will have them right at the end.

CHAIR—We will now adjourn for dinner and come back. Those officers who are not required from output 1 are free to go. We will come back and finish output 1 and then we will go on to output 2.

Dr Grimes—Chair, there was an item that we undertook to come back on, and I was wondering whether the committee would be happy for me to report very quickly on that now.

CHAIR—If you could.

Dr Grimes—And, in fact, there is one matter of clarification. The item was about when we provided advice on the private health insurance rebate or matters relating to that through the budget process. We provided advice, according to our records, in late February. We undertook that we would be providing a response to that.

The second thing that I wanted to do was just clarify a response that I made to Senator Coonan on the costing assumptions for the schools. The 90 per cent assumption was in relation to the larger spend, the larger grants that are being provided to schools for the school libraries and so forth. I think I was answering the question in that context, and it may well have been understood in that context, but, just in case there is any uncertainty, there were also smaller grants for maintenance for schools. We assumed 100 per cent take-up on those payments. I thought it was appropriate to clarify that.

CHAIR—I appreciate that. Thank you very much.

Proceedings suspended from 6.30 pm to 7.48 pm

CHAIR—Welcome back. Senator Coonan has more questions in relation to consultants.

Senator COONAN—There is nothing like a break to do a bit of consolidation. My questions prior to the break related to the cost of consultancies and the fact that AusTender is not a reliable guide precisely to costs because, obviously, some tenders go out beyond the financial year. What steps has Finance in place to track how consultancies are going and what it is actually costing the government?

Dr Grimes—Essentially, reporting on consultants is something that agencies do, primarily through their annual reports. We do not produce a central consolidated report over and above what is in annual reports.

Senator COONAN—I think we had this conversation at an earlier estimates hearing, but the concern about this is that at no time would Finance really know what is being spent on consultancies or whether there has been some sort of blow-out or how costs track, would it, under this particular system.

Dr Grimes—Under our system of departmental expenses, we do not actually seek to track individual lines of agency budgets. We do not seek to control them at that level. That is simply the way the system we have has been set up.

Senator COONAN—So would it be fair to say that Finance would not know how consultancy costs are tracking—whether they have blown out or are within departmental limits? How would you know until after the damage was done, so to speak?

Dr Watt—I think the answer is: why would you need to know?

Senator COONAN—Because if they blow out, that is significant. The second reason is that the minister made a very bold claim that consultancy costs would be cut by \$350 million. I think I am quite entitled to ask how that is being done and whether in fact it happened.

Dr Watt—Let me take that in another order. What we are interested in tracking is overall departmental costs. If agencies switch between using public servants and using consultants to do their tasks—and that is a decision made by the agency's CEO or senior executive—that seems perfectly reasonable.

Senator COONAN—Absolutely, so how could the minister say—

Dr Watt—Let me come to that. That is why we do not track individual line items in departmental expenses.

Senator COONAN—Okay; I have that.

Dr Watt—Secondly, if I remember correctly—and I am happy to take some of this on notice—that comment was made when the minister was in opposition and before the government announced its two per cent additional efficiency dividend. I believe the minister—I think he said this last time I had a discussion with him on this; and I will confirm that—believes that the implementation of the efficiency dividend has acquitted that particular commitment.

Senator COONAN—I see. He did not make that distinction in what he actually said.

Dr Watt—No, he did not. Remember this was made when he was in opposition and before, I think, the then opposition decided to announce that, should they be elected, they would impose an additional two per cent efficiency dividend. That rolled up a lot of their individual commitments about particular items of expenditure.

Senator COONAN—That is very interesting because he attached to this press release a summary of Labor's savings and in fact this was listed and highlighted as an item, and there was no reference to it being rolled up in any way as efficiency savings—

Dr Watt—You have an advantage on me; I do not think I have seen the press release.

Senator Sherry—What is the date of the press release, Senator? I do not have it.

Senator COONAN—The date of the press release was 2 March 2007 and the summary of Labor's savings totals, at least across the forward estimates, something in the order of \$300 million.

Dr Watt—I think the answer is—and, again, I am happy to come back on notice with an answer from the minister, subject to the minister being agreeable—that there were a number of iterations of Labor's savings list, including the final one, which was put out on election eve, and by that stage there had been, instead of a series of individual savings—

Senator COONAN—He had gone back on this and added in something else.

Dr Watt—I think, rather, it had all become subsumed by the two per cent efficiency dividend.

Senator Sherry—Senator, you use the term 'gone back on'; the term 'consolidation' is I think a more appropriate term.

Senator COONAN—He says the then opposition ‘will use its \$3 billion savings plan’ to do various things, and he accuses the former government of ‘lack of discipline’ in allowing ‘unnecessary spending to flourish’ in relation to consultancies. Is he suggesting that somehow or other there is a better way of tracking consultancies than is currently the case?

Dr Watt—Perhaps I can help a bit further. Someone has just handed me a press release dated 22 November 2007, where the then opposition spokesman indicated that the:

... one off increase in the efficiency dividend ... incorporates Labor’s previously identified and announced efficiencies worth \$860 million ...

And he points out that expenditure on consultancies is considered to be part of that.

Senator COONAN—All right. Can you take on notice and point out to me where there have been savings of \$350 million in consultancies in the efficiencies, as he claimed?

Dr Watt—Again, I think he would say that they are incorporated, but I am happy to take that on notice.

Senator Sherry—For that reference of \$350 million, what date was the press release?

Senator COONAN—The list and the press release were for March 2007. I will get you the exact date if you just bear with me.

Senator Sherry—That does not matter so much. March 2007. The consolidation and the press release prior to the election commitment is dated 22 November 2007.

Senator COONAN—I understand that.

Senator Sherry—It is very clearly stated that it is incorporated within the efficiency dividend—a one-off increase. It is very clear.

Senator COONAN—All right, you point that out, but it still has to be real. So what I am asking the officers to do—I think they have offered to do it, anyway—is to take on notice the question of where the efficiency dividend either subsumes or incorporates a saving of \$350 million that the minister was criticising the former government for as wasteful expenditure on consultancies.

Dr Watt—We will see what we can do.

Senator COONAN—I shall await that with interest.

Dr Watt—Can I send home the officers for outcome 1?

CHAIR—I would now, if I was you, before they change their minds.

Dr Watt—I will, thank you very much. I think that is very good advice.

Senator Sherry—I think I heard cheers from next door!

CHAIR—We now move on to outcome 2. Do we need to wait for anyone to come in, Dr Watt?

Senator COONAN—I want to ask some questions about procurement.

Dr Watt—The people will be on their way in instantly.

Senator COONAN—Can you identify any instances where the government or the department have provided exemption for a government agency or a department so that they do

not have to use the established coordinated procurement contracting for particular properties or services?

Mr Lewis—That is a very broad question. In relation to announced scoping studies for coordinated procurement, agencies from that point are required to advise their minister if they wish to seek an exemption from being caught by the consequences of possible coordinated procurement activity. Let us say, for example, that they wish to enter into a three- or a five-year contract in relation to a particular good or service which was subject to a coordinated procurement activity. Once a scoping study is announced they need to consult their own minister and their own minister needs to consult the Minister for Finance to seek an exemption if they wish to conduct a procurement in relation to that particular good or service pending the completion of a scoping study. We have a number of those which we have dealt with. There would be quite a significant number because we are trying to conduct the scoping study in a way which aggregates, to the extent possible, the purchasing power of the Commonwealth, but we also do not want to interfere unnecessarily with the ongoing business activities of agencies. So where we can we facilitate the request for exemption and we support that in advice to the minister. Concurrence is provided in relation to those exemptions where we think it will not cut badly across the purpose of the coordinated procurement but still allow the normal operations of the business. We may say, ‘Look, can you just buy one year’s worth rather than five years’ worth.’

Dr Watt—It is important that the exceptions are for a minimal time period, so, as Mr Lewis says, we try and get the minimum time period necessary to not be part of a coordinated procurement exercise. And the exemptions are all temporary. We have given no permanent exemptions.

Senator COONAN—Is temporary, like the budget deficit, until—

Dr Watt—I could not possibly comment on that.

Senator COONAN—What is ‘temporary’? How temporary is it?

Senator CAMERON—In 11½ years you did nothing.

Senator COONAN—Don’t worry, Senator Cameron.

Senator CAMERON—You left this country with no skills, no infrastructure—

Senator COONAN—We always know when we have hit a nerve.

Senator CAMERON—We set about—

Senator COONAN—My goodness, me. We have set him off.

CHAIR—I remind everyone that Dr Watt was attempting—

Dr Watt—I will chance my arm, Minister. One year would probably be the most common. There would be some twos. I do not know that there are many threes—John?

Mr Grant—There would be very few threes.

Dr Watt—I do not think there are any longer than that.

Senator COONAN—I realise it was a broad question, and it was intentionally so. I invite you to give me a list of exemptions and perhaps the reason.

Dr Watt—We will see what we can do.

Senator COONAN—Is that: yes, you will take it on notice?

Dr Watt—Yes, we will take it on notice. That one is easier than some of the others we have taken on notice.

Senator COONAN—As I have said, this is my first run at Finance estimates. We have to understand what is reasonable. I do not want to ask departments to do unreasonable things. I have been on the receiving end of that.

Dr Watt—This one is not too bad.

Senator COONAN—Also if you could indicate how temporary ‘temporary’ is—

Dr Watt—The length of time the exemption is for.

Senator COONAN—and ignore my flippant comment.

Dr Watt—That is fine.

Senator COONAN—What is the total amount of government savings that have resulted from the new government procurement guidelines to date?

Mr Lewis—The government has issued revised procurement guidelines. They were issued by the minister earlier this year. They were not specifically targeting savings.

Senator COONAN—They were an efficiency as such, weren’t they?

Mr Lewis—Are you thinking of the coordinated procurement initiative?

Dr Watt—There are two different things. One is the fact that the government from time to time refreshes its broad guidelines about how agencies should go about procurement, and that applies to all products and services. This is about how to do procurement, what are the requirements and focuses on value for money. That is not a savings exercise.

Senator COONAN—But it could be.

Dr Watt—No, it is not.

Senator COONAN—Do you mean it could be more expensive?

Mr Lewis—Its focus is on value for money. There were clarifications provided in the most recent round of the *Commonwealth Procurement Guidelines* to focus on the issue of risk weighting and contingent liabilities in contracts. That is intended to provide better guidance to agencies. It may end up with better contracting and that would be a value for money improvement, but there is no savings target attached to that.

Dr Watt—And we do not seek to measure that.

Senator COONAN—Don’t you? Why?

Dr Watt—Partly because it is not easy to measure and partly because if the agencies can do this better that means they have more resources to do their existing job, and that is fine.

Senator COONAN—So it is possible that it could be more expensive to implement a procurement guideline process, for instance, that would look at how you could better allow small business to access Commonwealth tenders?

Dr Watt—That is possible.

Senator COONAN—I would think it is logical.

Dr Watt—If, for example, you were to build in certain tolerances for small business, that could become more expensive. On the other hand, if you were to simplify the procurement process, reduce the length of time required to do procurements, then that may save agencies resourcing.

Senator COONAN—I recall when IT came under my bailiwick that there was always vociferous complaints from small business that it was very difficult to be able to use the procurement guidelines. They were very difficult, time consuming and expensive. There are all sorts of barriers, including unlimited liability, for example, and other significant problems. What are the measures that have been undertaken to assist Australian small business to gain access to the Australian government procurement market, if I could put it more broadly?

Mr Lewis—I will ask Mr Grant to expand, but the one you just mentioned before, which is actually quite an important one, was one of the ones we were seeking to clarify in the last release of the *Commonwealth Procurement Guidelines*. We hear the same issue from small and medium sized businesses about unlimited liability. Even when it is not expressed as unlimited liability, there is a concern about the behaviour of agencies where in fact they are trying to have total risk transfer to the counterparty, and in some cases it is in relation to quite small contracts.

We were quite sensitive to that—the minister was as well—and part of the clarification in the most recent release has been to make quite clear that if the intent is to have an unlimited liability borne by the counterpart then there has to be an appropriate assessment of the value-for-money consequences for that in the pricing of the contracts. The counterparty will usually have to put in a loading attached to the fact that they are wearing of all the risk in relation to a contract even though it is a relatively minor one. Whereas if there is some reasonable cap associated with that contract, that would allow them to price the contract much more appropriately to the scope of the goods and services being required.

Senator COONAN—So these arrangements in the guidelines—and forgive me that I cannot refer you to any particular part of them, but obviously you are very familiar with them—that enables capping of liability in relation to certain contracts?

Mr Lewis—Again, Mr Grant can expand more on this. The *Commonwealth Procurement Guidelines* do not say that you have to have capped or you have to have uncapped. They make clear to agencies the things they have to have regard to in deciding whether to have a cap and how they set the cap. That is the purpose of the guidelines: to make sure that they have properly assessed that, on the one hand, if they are going to assume risk that they have done a risk analysis and, on the other, if they are going to transfer risk, that they have looked at the value-for-money consequences of transferring that risk.

Mr Grant—Perhaps I can just add to that. There are a few things that are quite clear in the guidelines and things we have done to facilitate SMEs. Firstly, in the guidelines it is very clear that an open tender process for goods and services above \$80,000 is in fact a way to ensure nondiscrimination for small business, and we promote nondiscrimination against SMEs, small and medium enterprises.

Secondly, we also have put out and recently updated the guide for business to do business with government. That is a guide that is quite well received by business and it is widely spread. It is also on our internet site. We have been working with the innovation department who have a small-business branch in relation to other matters such as the clauses that you talk about. We are working with other parts of Finance on that as well.

Overall, in 2007-2008 in terms of the value of all contracts let, SMEs had 37 per cent of the total value. That is about \$9.7 billion of the total of \$26.4 billion. In terms of volume against a number of contracts, they had 54.5 per cent of the contracts. That is 37,900 against 69,500, and they are direct contracts with SMEs.

Senator COONAN—What does that compare to—what earlier period and smaller number, if you like?

Mr Grant—They are broadly similar.

Senator COONAN—Has there been an improvement, or no material change?

Mr Grant—In 2006-2007 by value it was 41.6 per cent. About three or four years before that, from my recollection, it was below 30 per cent. Whether that is measurement, because we did not have the AusTender quality of data at that stage, or whether it is a change in purchasing, I cannot say.

Senator COONAN—Anyway things might be looking up for small-business. These are just guidelines, but what kind of quality control is there over the way in which agencies interpret the guidelines in terms of nondiscrimination when looking at the small-business contracts or small-business tenders or access to business?

Mr Grant—I cannot comment on each individual agency. The guidelines are created under financial regulations, which obviously come under the Financial Management and Accountability Act. In each department or agency there are chief executive instructions and those instructions in relation to procurement must be consistent with the guidelines. They set out how each agency goes about its purchases.

I think that it is quite clear that we publish every year the business that goes to SMEs in value and percentage terms, in terms of contracts awarded. In addition to that, the innovation department has been collecting data in relation to the time frame for payment—so the 30-day payment rule. So departments are very aware of the need to not discriminate against SMEs.

Senator COONAN—With the new guidelines, I want to take you to sections 6.14 and 6.15, which deal with liabilities across government. There were some responses to questions on notice from Senator Fifield about the new guidelines. I was particularly interested in the answer which said that, relating to contractual conditions of a procurement—that is, in respect of liability—that is a matter for contract and not a matter for procurement policy. Have I got that right?

Mr Grant—Liability is in fact a contractual matter. What the guidelines provide is a framework for the procurement process. The guidelines do touch on liability insofar as it is something that needs to be considered as you go through the process in terms of the risks and where the risks should be allocated. So the guidelines correctly give an indication to

procurement officers about some of the matters they should take into account, but in the end it is a contractual matter.

Senator COONAN—Has there been any analysis of the contractual obligations entered into by the various departments as to how this has been interpreted?

Mr Grant—Not that I am aware of.

Senator COONAN—Do you propose to have some sort of review about how the guidelines are working?

Mr Grant—We have a wide range of activities that attempt to ensure the guidelines provide a framework that both delivers the government's policy outcomes and is implementable. We have procurement discussion forums, we have CFO meetings, we have a range of different processes. The last review of the guidelines was actually only undertaken in the last 12 to 18 months, so we are not proposing another formal review for some time.

Senator COONAN—That is okay. What is the problem with having template clauses and perhaps limitation of liability clauses for departments?

Mr Lewis—I do not think there is a problem with it. In fact, one of the things we are looking at now and we are talking to agencies about is the extent to which we can introduce more of that across the Commonwealth.

Senator COONAN—More of what, sorry?

Mr Lewis—Templated clauses, standardised documentation. We hear regularly—and I suspect you, from your various sources, hear the same—that the complexity of dealing with the Commonwealth is that you can deal with different agencies with different legal firms, therefore crafting clauses to do with liability in slightly different ways—

Senator COONAN—Everyone will have a different view of risk.

Mr Lewis—Yes. We understand that point. One of the things we are looking at through our coordinated procurement forums is the potential to introduce a more standardised documentation which we might promulgate for use by agencies. We still have work to do on that—we still need to do a reasonable amount of consultation with agencies on it—but, from the perspective of the private sector contracting with the Commonwealth, it has the potential for significant advantage if we can reduce a large part of the relatively common contracts to a standardised template or largely to a standardised template. Maybe you would need to tailor that to some extent to big, medium and small, but I think there is significant potential for that, and we are looking at it.

Senator COONAN—I am very encouraged by that because I must say I thought that was the way it should be going. So you have had some discussion and interaction with private contractors about sections 6.14 and 6.15?

Mr Grant—We have had a number of meetings with representatives of the suppliers across a range of professions, in particular, about that.

Senator COONAN—Has the external audit of Commonwealth procurement policies been conducted?

Mr Grant—No, that has not been conducted because of the range of new activities that have been introduced, particularly coordinated procurement and, also, the review of the guidelines. It has been deferred until we bed down some of these newer activities.

Senator COONAN—But do you still propose to have an external audit of Commonwealth procurement policies?

Mr Grant—We will continue to talk to our minister's office about that.

Senator COONAN—Is that a 'yes'?

Mr Grant—I would have to ask the minister's office about that.

Mr Lewis—The reality is that we have embarked upon a number of quite substantial coordinated procurements right now. So I think the view is that we will bed those down and we will decide what we need to do once we bed those down.

Senator COONAN—When do we think there will be a decision about that?

Mr Lewis—It will take a while. If you want me to run through our coordinated procurement activities I am happy to do so. One has already been fully completed and contracted and is in place and that is the Microsoft volume sourcing agreement. We are about to initiate tenders in the next few months in relation to a range of travel services.

Senator COONAN—Yes, I asked about that earlier and got sent packing to talk to you in this section as opposed to an earlier section. Tell me about that.

Mr Lewis—It is in three components. We have not finally concluded how we are going to approach the market.

Senator COONAN—This is following the Deloitte study?

Mr Lewis—Yes, but we are talking about domestic air travel, international air travel and travel management services. We are looking at three tendering processes, which we will be running. We are in the process of finalising our strategy for tenders we will be running through the second half of 2009.

Senator COONAN—What are those tenders for? Bulk purchasing from airlines?

Mr Lewis—In relation to travel management companies, purchase of domestic air travel services and likewise for international air travel.

Senator COONAN—It particularly interests me because I was coming down by Virgin from Sydney the other night and the only other person on the flight was Senator Faulkner and I felt terribly chuffed that he would notice that I was taking an alternative airline.

Mr Lewis—We applaud that, Senator.

Senator COONAN—You were talking about the volume sourcing agreement—the travel tender.

Mr Lewis—With travel services we have a telecommunications scoping study that is being concluded at the present time.

Senator COONAN—That does what?

Mr Lewis—It looks at the potential for coordinated procurement in relation to a range of telecommunications services.

Senator COONAN—Who is doing that?

Mr Lewis—It is being done by AGIMO in very close coordination with us. We have our colleagues from AGIMO next door so we can get them in.

Dr Watt—Keep going.

Senator COONAN—We many not need them. I am looking at a fairly surface-level description here.

Mr Lewis—And we have scoping studies underway in relation to major office machines and, as a linked exercise, desktops. They are being done as separate scoping studies, but given the close potential linkages between the two, we have arranged for the same advisers to work on the two studies.

Senator COONAN—And who are they?

Mr Lewis—Capgemini.

Senator COONAN—Once again cutting people a bit of slack for being in opposition as you do, at the July 2007 COSBOA conference Mr Rudd said that he would order an immediate external audit of Commonwealth procurement policies. It does not sound too close, does it, seeing that it has been postponed while all these matters progress. I am interest to know if the audit will happen and when it will happen.

Dr Watt—I think that is something we would have to discuss with the finance minister.

Senator COONAN—So at the moment we have no commitment as promised to a Commonwealth internal audit and an immediate external audit of Commonwealth procurement policies?

Senator Sherry—We will take that on notice.

Senator COONAN—If you cannot tell me if there is any commitment to do it. Surely you must know whether or not that is the case.

Senator Sherry—I am certainly not aware and I do not think the departmental officials are. I will certainly ask the finance minister.

Senator COONAN—Now, Gershon. You were telling me about phase 1 and phase 2 before, once again, we went into the right section. Presumably you can give me the same information again and we can take it as provided.

Ms Steward—Senator, I think I covered all the areas of work that is being undertaken.

Senator COONAN—Your UEFO showed savings from Gershon and they are set out as you would be very well aware for 2009-10, 2010-11 and 2011-12, totalling out in 2011-12 at \$391.4 million. What is the breakdown of these savings by agency?

Ms Steward—I will invite my colleague, John Sheridan, to address that.

Mr Sheridan—In the first year 2009-10, \$109.42 million was reduced in budgets, spread across some 51 agencies. We have the figures here broken down by agency.

Senator COONAN—Perhaps you could provide them as a list so that I can see the agencies. Could you also indicate just in the interests of time so that I do not keep you here all night what is referable to what agency? In other words for a particular contract or saving, how it that attributed to each particular agency?

Mr Sheridan—We have a list by agency of how much money. The initiatives taken by agencies to reduce those things are quite detailed. It is quite a detailed list.

Senator COONAN—All right, if that could please be provided. How do we get to the 2010-11 figure?

Mr Sheridan—The figures from UEFO have been adjusted as a consequence of our work in phase 1 of the reductions. The target for 2010-11 is now \$298.2 million.

Senator COONAN—Why is it different?

Mr Sheridan—As we did the work in phase 1 we discovered that there were data quality issues with the data that Sir Peter's review had collected. We refined that data—

Senator COONAN—Sorry, just slow down a bit. There were data?

Mr Sheridan—Data provided by agencies to Sir Peter in the short period available for his review was then refined as a consequence of the ICT business as usual reductions program. Data quality issues were addressed. The split between business as usual expenditure and non-business as usual expenditure was further explored and that resulted in a reduced figure for expenditure, the reference figure, the baseline, for 2007-08.

Senator COONAN—What were the problems with the data and can you explain to the committee the difference between business as usual and non-business as usual, please?

Mr Sheridan—Business as usual funding is for running the normal operations of an agency. Non-business as usual funding would normally be seen as projects to change the capability of the agency's ICT provided.

Senator COONAN—That would be clear from the list you give me, the breakdown in 2009-10?

Dr Watt—The list is about business as usual. The data issue was that agencies had not been used to providing data on that split and tended to think of IT as a whole rather than two different components. Some of the data given to us included project expenditure in business as usual data. When the data was further developed with agencies, some of the business as usual activity came down. That is the main reason the savings came down.

Senator COONAN—On the projects?

Dr Watt—Yes.

Senator COONAN—So we are not getting as much in the way of savings as we thought we would from Gershon. What about for the out years—2011 and 2012? Is there a fourth year?

Mr Sheridan—Yes, there is. The new figure in 2011-12 is \$303.1 million and in 2012-13 it is \$306.1 million, for a total over the forward estimates of \$1.016 billion.

Senator COONAN—And that is a reduction of how much?

Mr Sheridan—Over the forward estimates, just under \$300 million.

Senator COONAN—So the Gershon review's projections were \$300 million over the savings that are now projected?

Mr Sheridan—In the UEFO, there was \$1.303 billion over the forward estimates, and the new figure is \$1.016 billion over the forward estimates.

Senator COONAN—At the February estimates I think Dr Watt said—no doubt he will correct me if I have got this incorrect—that departments would be subjected to reduced appropriations as a result of the projected savings. Is that still the case, and how is that working? Will the savings be returned to the budget?

Mr Sheridan—The agencies went through their targets. They reached their targets, either five per cent or 2½ per cent depending on the size of their ICT spend in 2007-08, and their appropriations were reduced by that target amount.

Senator COONAN—Is it the case that the savings will be returned to the budget, or what happens?

Dr Watt—That is correct—the appropriation has been reduced.

Senator COONAN—I understood from the budget—and once again you can correct me if I have got this incorrect—that agencies retained 50 per cent.

Dr Watt—No. There has been a reinvestment pool established and agencies can bid for funding to do projects which will reduce their business as usual expenditure. That pool has been set up. It starts in 2009-10.

Senator COONAN—How much is in that fund?

Dr Watt—We will be seeking agency bids for that resourcing towards the end of this calendar year.

Senator COONAN—How much is available in that resourcing?

Dr Watt—It is 50 per cent of the estimated savings—\$54.6 million in 2009-10, and that grows over time.

Senator COONAN—I think I am answering my own question here, but I will ask it anyway. Will the savings be used to cover the cost of the across-the-government volume sourcing agreement with Microsoft?

Ms Steward—No.

Senator COONAN—What is the cost of the Microsoft volume sourcing agreement?

Mr Sheridan—Over the four years it is some \$220 million calculated at the moment—

Senator COONAN—You are talking in billions now?

Dr Watt—No, millions.

Mr Sheridan—It is some \$220 million over four years. The actual final figure depends on how many numbers the agencies take up. We will not know that until just before the end of this financial year.

Senator COONAN—It is certainly a work in progress.

Senator RYAN—I have some questions on AGIMO. I understand that AGIMO runs the website domainname.gov.au.

Ms Steward—That is correct.

Senator RYAN—And this acts as the main administration system for all .gov.au websites?

Ms Steward—As the primary entry point into the Australian government, that is correct.

Senator RYAN—Do you administer the eligibility and allocation policy for websites there?

Ms Steward—We administer the domain-naming process for Australian government websites.

Senator RYAN—What I am referring to is the eligibility allocation policy of names of that website.

Ms Steward—Domain names?

Senator RYAN—Domain names, yes—the actual domain name of the website. I would like to turn specifically to clause 17 which reads:

17 Notwithstanding the preceding paragraph, the domain name must not:

v. express a political statement or bear any semantic connection to a registered Australian political party;

What I am interested in is the naming of various websites. I would assume that Labor.gov.au or Liberal.gov.au would breach that requirement?

Ms Steward—If that was as part of a government—

Senator RYAN—If it was .gov.au.

Ms Steward—That is correct.

Senator RYAN—I presume then that it would also cover campaign slogans such as easethesqueeze.gov.au or newleadership.gov.au.

Ms Steward—Domain names, as you would see through the rest of the guidance material there at clause 16, require that they bear a direct semantic connection to the stated purpose. They must be fairly readily recognised and be able to be reasonably connected to whatever is being promoted through that.

Senator RYAN—But clause 17 reads:

Notwithstanding the preceding paragraph ...

So clause 17 is to be read absent of the restriction applied by clause 16, is it not?

Ms Steward—With regard to the overall guidance, it is really trying to make it as clear as can be that they are not to be of a political statement but they do need to be clear enough to define what the domain name for the website would be about.

Senator RYAN—I just wanted to clarify that point that obviously, if there were a conflict between clause 17 and clause 16, you would read clause 17 as being the overriding objective?

Ms Steward—I think, really, it would be appropriate to read both clause 16 and clause 17.

Senator RYAN—I appreciate that, but you would read them jointly. It strikes me—and I am not formally trained in law but I am familiar with some of the terms they like, such as ‘notwithstanding’—that in clause 17 ‘notwithstanding the preceding paragraph’ is fairly clear. So, if there were a conflict between a direct semantic connection and something that did express a political statement, you would actually read that as requiring you to find another direct semantic connection.

Ms Steward—In considering and applying the guidance, it is to ensure that the domain name really has meaning and meaning to whatever the content would be of the website that it refers to.

Senator RYAN—It seems to me then you are defeating the purpose of clause 17. It has gone to a lot of trouble to say ‘notwithstanding the preceding paragraph’. It is not a clause on the previous page; it is immediately before it. That, agreed, is an objective about the domain name having a purpose. But that clause 17 specifically states that, despite anything in clause 16—to use common language—it must not express a political statement or bear any semantic connection to a registered Australian political party. Are you saying that you have not applied it in that fashion?

Ms Steward—We have applied any of our domain names registrations taking full account of all of the guidance that we have published here.

Senator RYAN—With respect, Ms Steward, I am going to ask a few specific questions now and I would like you to consider them in the context of those first four words of clause 17, specifically given that you seem to be reading them in combination rather than with the ‘notwithstanding’ word having much weight. I am interested in when was the application for the website ‘buildingtheeducationrevolution.gov.au’ submitted and processed?

Ms Steward—Senator, I would have to get the exact date for you. I do not have that here but I could get that for you.

Senator RYAN—At any point, was a concern raised by anyone in your office that this may violate clause 17v of the policy that we have just been discussing?

Ms Steward—No, Senator, not to my knowledge.

Senator RYAN—Was this website checked against all requirements of this policy?

Ms Steward—The domain name registration—

Senator RYAN—Sorry, the domain name, I meant to say.

Ms Steward—was checked against all elements of the policy.

Senator RYAN—So you do not in any way see—obviously, I suppose, but I would like it confirmed—using a term like ‘education revolution’, which formed not only a government announcement but a Labor Party policy before the election, and that phrase was heard more than once prior to the current government taking office, as expressing a political statement?

Ms Steward—No.

Senator RYAN—I find that quite a surprising answer. Have you rejected any domain names?

Ms Steward—I would have to take that on notice.

Senator RYAN—I would like to know if your office had any discussions with ministerial officers with respect to the naming of domains either before or after applications were submitted.

Ms Steward—Again, I would have to take that on notice.

Senator RYAN—I would like you, if possible—I am trying to find a way to phrase this because I find the answers quite surprising—to come up with an answer as to whether or not you would read clauses 16 and 17 jointly or whether your office is of the view that the first four words of clause 17 about policy actually override the aspiration outlined in clause 16, if there were a clash. I could have easethesqueeze.gov.au, not that that happened, or kevin07.gov.au. They may be something that conveys a particular government program, but they would surely breach clause 17, which says the name must not express a political statement. I would like to know how your office would read such things. It surprises me that you do not read a Labor Party policy that talks about building an education revolution as expressing a political statement. That is not a government announcement; it was a Labor Party policy before they took office dated January 2007. That does not concern you at all?

Ms Steward—Again, I think specifically in terms of the domain name it referred directly to the education program that was being undertaken and I think it would be quite reasonable to expect it did relate to that.

Senator RYAN—Anything can be the domain name if it is a government announcement and meets the requirements of clause 16 and does not use the word ‘Labor’?

Ms Steward—A domain name can be registered if it meets the conditions and the clauses set out in the guidance.

Dr Watt—Why don’t we see if we can get you an answer on notice to that question.

Senator RYAN—Yes, I would appreciate answers to all those questions because they strike me as very surprising answers. One does not need to be a lawyer to understand what ‘not withstanding’ in the preceding paragraph means.

Senator BERNARDI—I have a few brief questions on program 2.2, property and construction.

Dr Watt—Are we finished with AGIMO?

Senator BERNARDI—Yes.

CHAIR—We will move to program 2.2, property and construction.

[8.38 pm]

Senator BERNARDI—Dr Watt, just briefly, one of the department’s key performance indicators relates to the completion of projects such as the ASIO central office project, the Royal Australian Mint and so on. The Royal Australian Mint is scheduled to achieve practical completion in December this year. Is that correct?

Dr Watt—I will defer to Mr Scott-Murphy.

Mr Scott-Murphy—That is correct. The Royal Australian Mint is due for completion of the final stage, which is the admin building, in December this year.

Senator BERNARDI—And did you say it is on track?

Mr Scott-Murphy—Yes, I believe so.

Senator BERNARDI—Have there been any significant cost blow-outs or budgetary changes with regard to the completion of those works?

Mr Scott-Murphy—There are always cost pressures, but we are still tracking on budget.

Senator BERNARDI—Very diplomatic—‘cost pressures’. And so it is anticipated that it will come in within the budgeted guidelines?

Mr Scott-Murphy—That is our current estimate, yes.

Senator BERNARDI—What about the other projects that you are dealing with such as the ASIO central office project? What can you tell me about that?

Mr Scott-Murphy—The ASIO central office project is also tracking on budget and on time.

Senator BERNARDI—So we should not expect any delays in that?

Dr Watt—We hope not.

Mr Scott-Murphy—It is early days. It is a large and complex project, but we are certainly on track at the moment.

Senator BERNARDI—And that is scheduled for commencement in June next year. Is that correct?

Mr Scott-Murphy—No, not quite. We expect to commence the early works package in June this year.

Senator BERNARDI—June this year?

Mr Scott-Murphy—That is correct.

Mr Lewis—If you drive along ParkesWay you will see barriers and trees coming down.

Senator BERNARDI—I regret to say I do not get to spend a lot of time in Canberra outside this building.

Dr Watt—Nor do we—certainly not this week.

Senator BERNARDI—Email me some photos. There is no expectation that there will be delays in the projects you are handling?

Mr Scott-Murphy—No, that is correct.

Senator BERNARDI—That is a comfort stop. That is all I was asking. Thank you for that.

CHAIR—Does that conclude outcome 2?

Senator BERNARDI—Senator Ryan asked whether I was going to be five minutes or so, so I am expecting him to come back. He may have something else.

CHAIR—He said he was coming back for the Future Fund.

Senator BERNARDI—Yes. I am not sure if he has anything more with Finance, but I am confident that 2.2 is finished. I am sure there will be something else from outcome 2, but we may be a couple of minutes. Perhaps we could go to the Australian government online service point. Is that in this outcome?

Mr Lewis—No. That is AGIMO.

Senator BERNARDI—Okay, I will put that on notice. And the communications multiuse list as well?

Mr Lewis—I think that is one we can help you with. I will ask Mr Grant to join me. He might be able to help you with that.

Senator BERNARDI—I am sure it will be painless.

Mr Lewis—Ask away. If I need to call on Mr Grant I will.

Senator BERNARDI—It is just some technical information. How many communications experts are currently on the list?

Mr Lewis—We will need Mr Grant for that. We ran the process and we have, I think, about half a dozen different panels currently in place. Because it is not exclusive, that number can increase once parties have got through the appropriate processes. I will hand over to Mr Grant to let you know how many parties we have on each. We can provide the list because that is public information on our website.

Senator BERNARDI—Mr Grant, how many communications experts are currently on the list?

Mr Grant—Well over 200 now.

Senator BERNARDI—Sorry? I was just told half a dozen.

Mr Grant—On panels.

Mr Lewis—There are actually different categories of communications specialists. There are market research specialists, advertising and public relations specialists, non-English-speaking background specialists.

Senator BERNARDI—I have got you, yes. Thank you.

Mr Grant—As of 21 May, there were 180 different companies on the list. It is available publicly on AusTender.

Senator BERNARDI—Is it austender.gov.au?

Mr Grant—It is tenders.gov.au.

Senator BERNARDI—I have not been to that website. How does one go about getting on the list?

Mr Grant—It is a self-assessment process in the main. Obviously, you have to provide some information about the company, its officers and its directors. You also have to explain your skills and which part of the multiuse list you wish to register for. The part that is not self-assessing is that we do a check against their claims with referees. As long as they come up

fine, as long as they have appropriate insurance and have financial viability and so on, they become a member of the list.

Senator BERNARDI—Is the objective of this to have a ready shortlist, if you like of appropriate communications agencies?

Mr Grant—Yes.

Mr Lewis—It will certainly ease the burden on industry. Rather than having to tender multiple times for possibly even the same agency let alone all the other agencies of the Commonwealth, agencies are required to source from our multiuse list.

Mr Grant—It reduces the cost by not having to have open tenders all the time. Usually a department wishing to undertake a campaign would go to perhaps three or up to five members of the multiuse list to get their capabilities. It certainly reduces both the process time and process costs.

Senator BERNARDI—So the department gets to effectively shortlist their tenderers themselves?

Mr Grant—They essentially identify a series of potential suppliers, yes.

Senator BERNARDI—So it is not necessarily an open, fair and transparent process then, is it?

Mr Grant—It is open in so far as any business that meets the criteria can be on the multiuse list. Those businesses, like any other businesses, are quite welcome to go and talk to departments and agencies about their skills and abilities. They provide those, so the agencies actually have a look at their skills and abilities in selecting the three, four or five that they might go to to see who might provide the best outcome. It is a very open process.

Senator BERNARDI—I probably did not choose my words correctly. It is open because it is publicly available but transparency is an issue in that the department could continue to go back to the same providers to request costings or for particular services because of personal bias or agendas. I am not suggesting that that is the case, but they could.

Mr Grant—I think one of the limits on departments in just going back to the same supplier all the time is that any contract above \$10,000 has to be notified on AusTender. This is a very competitive market and I know from talking to a few of these companies—not the whole 180—that they are very aware of what business the Commonwealth is entering into and they keep a very close eye on what tenders or contracts are reported.

Senator BERNARDI—When you say that it has to go on AusTender, do you say, ‘The department has chosen XYZ communications,’ and that is then published?

Mr Grant—That is right.

Senator BERNARDI—Have you had any complaints? Has the department had any complaints about the process?

Mr Grant—No, not to date.

Dr Watt—There is another issue, Senator. There is another point that makes it more difficult to go back to the same people each time.

Mr Grant—The expectation is that we will go to a number of people. I think the nature of the industry is such that if you just kept going to the same people there would be complaints and they would very much come back to one of my branches. They would understand that businesses think they are being ignored or neglected. Again, I come back to the fact that often it is about the nature of the proposed campaign, the activity or even the target audiences. So it does foster, I think, quite good competition.

Senator BERNARDI—Out of the 180 businesses that have registered, how many campaigns have been chosen through this process?

Mr Lewis—We are talking about a list that has been in place for only a couple of months. The multiuser list is a very recent creation. The point you raise about the use of the list is something that we in Finance will be tracking, because we are actually quite keen to see ourselves the way in which the multilists are used and the way in which selections are made from those lists—the purpose of running tenders in relation to particular communications advisory roles across different agencies.

Senator BERNARDI—When I asked how many campaigns had been chosen, you said it has been running for only a couple of months. Do I take it that none have been chosen so far?

Mr Lewis—No, I imagine there would be a relatively small number.

Senator BERNARDI—I am happy for the explanation, but I would like to know how many.

Mr Grant—A number have been chosen. I am sure we could find out how many have been used from the list. I might add that there will be a full-year report which will also indicate who has been chosen from that list. That is an annual report.

Senator BERNARDI—And that will be in the department's annual report?

Mr Grant—It will be provided by Ministers Faulkner and Tanner around the end of the first quarter of the next financial year.

Dr Watt—So the end of September.

Senator BERNARDI—Okay—around when you publish the department's stats.

Dr Watt—In about March or early April they table a six-monthly report, which is the first on advertising. There will be a more comprehensive report in September.

Senator BERNARDI—I will be interested in tracking this and following it to see, of the 180, or possibly 280 or more going forward, how many firms actually win business and attract the repeat business wins. Notwithstanding it may be a fantastic idea, there is this belief in some business circles that in the end the mates get looked after.

Mr Lewis—And they will be able to track it because they will be able to track what is happening with the multiuser lists that we maintain, and they will be able to track the actual appointments of parties from the multiuser lists via the AusTender site that we separately maintain. They are completely unrelated.

Senator BERNARDI—So post choice—

Mr Lewis—Post choice, yes.

Senator BERNARDI—that can be followed up, and I think that is a good thing. But, having worked in small business, I also accept that those trying to win government business tend not to whinge when they do not win business because they are scared that, if they complain too much, they will never get another contract. So there are some issues, and I do not know how they can be avoided, but I am interested in following this while we are in opposition—for the next year or so!

Mr Grant—I might add one minor element, which is that what you see on AusTender and what is reported is the successful company. You will not see who else was considered. As you know, sometimes successful companies do get a bit of a run; sometimes they lose their success. So there is that factor to consider.

Senator BERNARDI—Okay. Just explain this to me, then: will the department choose a minimum of five or a maximum of five or however many they like?

Mr Grant—There is no minimum or maximum, but it is usually about three to five. It depends a bit on the size or the nature of the campaign and how suppliers have explained where their particular expertise lies. Agencies go to the list and look at the expertise of, and what is offered by, the different suppliers and then they usually pick three or five.

Senator BERNARDI—But only the winner, the successful tenderer, will be published.

Mr Grant—That is right.

Dr Watt—Publishing the losers might discourage people from participating, Senator.

Senator BERNARDI—I know; I understand that, but I am also considering it from the perspective that, if you choose five or three potential candidates, unless they are relatively similar in ability, skill and size, you can immediately, right off the bat, weight it towards a preferred candidate.

Mr Grant—That is unlikely, because people from one of my branches help agencies through this, so there is not really the ability to have any unethical imbalance—that should not occur. I might add too that I think AusTender is good for suppliers because they can see who won and have a look at why that company won and they did not, so it gives them information for the next time.

Senator BERNARDI—Yes, I can see some benefits to it.

Dr Watt—Just another point to make: it is the agency CEO that signs off on these procurements, and as part of that the requirement is that you sign off that there has been an ethical, efficient and effective use of government money. You might say, ‘That’s very broad criteria,’ but it does focus CEO’s minds, believe me.

Senator BERNARDI—I am sure; particularly those who are interested in a long-standing career in the public service.

Dr Watt—I think it focuses in quite a different way.

Senator BERNARDI—Thank you very much for that information.

CHAIR—That is it for outcome 2. Thank you, officers, very much. We will now call forward the Future Fund Management Agency.

[8.55 pm]

Future Fund Management Agency

CHAIR—Good evening. I would like to welcome Mr Paul Costello, General Manager of the Future Fund Management Agency. Would you like to make an opening statement?

Mr Costello—No, Chair.

Senator RYAN—I just wanted to chase up a couple of issues we discussed last time. You have not received any cash transfers from the government this financial year?

Mr Costello—No, not into the Future Fund.

Senator RYAN—And the last one was on 25 June last year, at \$3.9 billion?

Mr Costello—That is correct. There was a transfer of Telstra shares in November.

Senator RYAN—Yes.

Mr Costello—There was no cash transfer. The last cash transfer was on 25 June 2008.

Senator RYAN—I think when you appeared here last just over 17 per cent or \$8.9 billion of your ex-Telstra fund was invested in what was described as debt securities. In the most recent update of 31 March, that had grown to \$11.2 billion representing just under 22 per cent.

Mr Costello—That is correct.

Senator RYAN—What sort of debt securities are they?

Mr Costello—It is a range. From our perspective it ranges from relatively short-term, low-risk securities—some of those are capital to banking institutions—through to securities which are to corporate exposures both in Australia and in the US. So the risk spectrum is quite broad. And we are also, particularly now, thinking about the liquidity profile of those. In other words, a lot of those early investments will start to roll off in a year or so and that will assist us to fund other parts of the program which we expect to replace debt. So the most concise answer to that is that it is a range of securities, from very straight-forward and short-term, through to longer-term and higher-return-seeking securities in corporate markets both in this country and off shore.

Senator RYAN—So the growth of roughly \$2.5 billion in your debt security holdings has not gone to new markets—there is nothing in your holding of debt securities in terms of the class or risk of an investment that is different from how it was at 31 December?

Mr Costello—No, I do not think that would be a correct statement. I think it is fair to say that the profile of those securities has changed. We have certainly sought out more higher return opportunities with a longer term time frame. It is perhaps fair to say that all of the securities were there in December, but the proportions were different.

Senator RYAN—At the last estimates you said you were not a holder of Commonwealth government debt securities. Is that still the case?

Mr Costello—That is still the case.

Senator RYAN—Are you the holder of any securities or other debt instruments issued by any state governments?

Mr Costello—No.

Senator RYAN—You mentioned the banks, as you did last time. Has that impacted on the market—in which you are a player anyway—in terms of the government’s guarantee for people providing debt to banks? I am not sure of the exact structure of the markets you are playing in. Have you been impacted on by that?

Mr Costello—We have only been impacted on in the sense that we participate in a market where the price of debt, credit spreads, blew out very significantly and has now come back in. So there are a range of factors that have affected that market broadly. I think any observer of the Australian debt market would say that, in a broad sense—and this was clearly part of policy—that government activity changed the nature of the debt markets. But for us specifically it has had no direct impact on the Future Fund apart from the fact that we are observing the changed characteristics of the market due to a whole range of conditions.

Senator RYAN—The aim of the government’s policy, as I understand it, was to narrow that spread. Has that had a direct impact on narrowing the spread of the securities you are purchasing in the market? Are they lower than they would be in the absence of the bank guarantee?

Mr Costello—That is not an easy question to answer. It is certainly true to say that those spreads have narrowed primarily due to a growing confidence amongst lenders and borrowers as to the likelihood of repayment around the world. It is difficult to identify the particular impact of that in relation to the relaxation of the fears that almost froze capital markets towards the end of last year.

Senator RYAN—So the impact of policy narrowing that credit spread has obviously reduced the spread for the market in which you participate.

Mr Costello—It is certainly true to say that the return that lenders are able to receive in the market today is less than the return that they were able to receive late last year. I think there are many people who are very pleased about that, as credit markets have started to function again and the price of risk has come in.

Senator RYAN—But not always the fund managers, who have money to invest.

Mr Costello—That is true.

Senator RYAN—You mentioned that the profile over the last three months had focused on slightly increasing the return—in the debt market at least. Is that the same with the rest of the portfolio—that you are looking for a higher rate of return?

Mr Costello—That is a correct statement. The best way to observe that is in the lowering of the proportion of cash held in the portfolio as the proportion of other higher return seeking assets grows. That has always been the expectation—and it has been commented on continuously since we began—of the rate at which the Future Fund program would become invested. By definition, that is reducing the cash holding to a more normal size for a long-term program like ours and replacing that with a range of other exposures in equity markets, debt markets, property markets and a range of other areas.

Senator RYAN—Are you looking to continue that particular strategy over the next 12 months?

Mr Costello—Yes.

Senator RYAN—Where are you looking over the next 12 months to continue that?

Mr Costello—We are particularly focused in the relatively near term on the opportunities that we think areas like the property market may throw up to us. We have not been an investor in property markets very much to date. We have been waiting for pricing to clarify and settle. That is now looking more attractive to us. Our infrastructure program is similar. We have been waiting for pricing to settle and we are starting to see more interesting opportunities at better prices than we were seeing some time ago. The main change will be a growth in what we call, in our language, our tangible assets program—the purchase of real things producing real income—and that is primarily represented in the property and infrastructure sectors.

Senator RYAN—If you were to venture into the property market—I think you said the commercial property market—

Mr Costello—I did not say that, but it is fair to say that commercial property, as a general statement, would be the area that we are looking at.

Senator RYAN—That would be in the sense of tangible assets—actual buildings and things rather than property trusts?

Mr Costello—Not always. The view we have taken is that the way that you buy access to those assets does not matter as much as what you buy underneath. We do not place a great deal of distinction on whether we buy through a listed vehicle—and that has slightly different characteristics—ultimately a listed trust-owning property and an unlisted trust-owning property, setting aside different levels of debt that there might be and market movements. It is fundamentally the same assets. We are always interested in the quality of the asset that sits within those pools.

Senator RYAN—You also mentioned infrastructure. Have there been any discussions—I know you cannot be directed—consultations or requests by the Commonwealth government or a state government, but in the first instance the Commonwealth government, to invest in government infrastructure plans?

Mr Costello—No, Senator.

Senator RYAN—No state governments either?

Mr Costello—No.

Senator RYAN—There is obviously an increase in competition in the market for debt, with the amount of government borrowing occurring, both in Australia and around the globe. Do you see any impact of that on the market for debt which you are a player in?

Mr Costello—I think that as a general statement it is well observed that it will change the longer term characteristic—the price at which borrowers will be able to borrow in the future, as all around the world governments are increasing their borrowing. That must inevitably increase the price of borrowing over the long term. That is a fairly well observed condition of markets in relation to supply and demand.

Senator RYAN—We had a discussion last time about your investment mandate. Unless I have missed some news, I do not think anything has been tabled in parliament indicating a change to that.

Mr Costello—That is correct.

Senator RYAN—Have there been any discussions or consultations between the Future Fund, your office, you and any representative of the Commonwealth with respect to potential changes to that mandate at any point in the future?

Mr Costello—No, Senator, there have not.

Senator RYAN—I noticed that you had an advertisement on your website for a research manager for debt and hedge funds.

Mr Costello—Yes.

Senator RYAN—Your ad said that the successful candidate will have three to five years of manager and research experience, with an emphasis on debt and/or hedge fund managers. That was updated, I think, last week. I am happy to live within a \$50,000 band, but what sort of salary does a person like that command in the private sector marketplace? It might be a bit lower now than two years ago.

Mr Costello—It is definitely lower now than it was one or two years ago. It clearly depends upon—

Senator Cameron interjecting—

Mr Costello—No, it's nothing like that, Senator. We have been searching for some time to find the right person with the right mix of skills for this role. It is not that we have not been able to find people at a suitably senior level; for this particular role we wanted to pitch a little bit lower than that. It is likely to be somewhere in the \$150,000 range perhaps.

Senator RYAN—That is about 2½ times average weekly earnings. Given the Prime Minister's various statements about hedge funds in a prominent article published earlier this year where he talked about neoliberal orthodoxy and unrestrained hedge funds assault—

Senator Cameron interjecting—

Senator RYAN—does this have any impact on your decisions to employ various people?

Mr Costello—Not directly, no. 'Hedge funds' is a term which is much maligned and even in our own organisation we think that the term has been used too generously to describe a range of strategies which many investors are regretting having supported. To be honest, we wonder if it is the most useful term to describe what we are trying to do. But it is a term that is well understood and there are many strategies within the hedge fund universe that we have always found appealing and we will continue to understand and support.

It is fair to say that there are a great many more that we were never sure about and that now we are particularly uninterested in supporting. It is a term that covers a wide range of strategies and I think that many of the comments made about hedge funds generally are made in that general sense rather than in the specific context that we think about for some of these vehicles and strategies.

Senator RYAN—I do not think that you would be alone, Mr Costello, in thinking that some of the things that were said were not entirely accurate. You rely on credit ratings agencies in determining the risk of debt securities that are issued by banks, I am assuming, as well as your own internal assessments?

Mr Costello—As a general statement, yes, certainly in terms of the guidelines that we construct. Our model is that we contract out—if that is not too clumsy a term—the selection of securities. The role of our organisation is to think about the structure of the portfolio, to design the types of exposures we want, and to shape the guidelines that we give to external investment managers, and those investment managers themselves do the actual selection of the security. They of course have reference to those ratings agencies' guidelines. I think that many of them would say that securities deserve much deeper analysis at fund manager level rather than relying on those guidelines. We do tend to use them a little in terms of setting general guidelines for our managers, but I think that it is now well acknowledged that relying just on ratings agencies' guidelines without doing further work has left many investors in a situation that they did not expect to be in. So we still find them useful but we think diligent work alongside that is the best model.

Senator RYAN—So essentially they are of value in coming up with a whole risk profile of your investment—

Mr Costello—Yes.

Senator RYAN—and you find them a valuable contributor to that.

Senator Sherry—Ratings agencies, I just point out, have been subject to both national examination by ASIC in Australia, and international examination—the oversight, robustness, and conflicts of interest, through IOSCO. In Australia ASIC has decided—and the government supports it—that rating agencies will be licensed. They have not been licensed in Australia and this will subject them to a greater level of scrutiny on the issues I have touched on.

That work is also being carried out internationally. The international work, depending on the country, has not been concluded yet, but there will be a greater level of scrutiny in a variety of ways in almost every country now as a consequence of identified failure during the US subprime crisis particularly.

Senator RYAN—I appreciate that, Senator Sherry. I was just trying to ascertain whether or not they were still of some value in the process. Mr Costello—or, Senator Sherry, this may be more appropriate for you—I was interested in the recent process undertaken when the government changed the definition of infrastructure for the various funds overseen by the Future Fund that it can invest in.

Senator Sherry—In terms of the Future Fund?

Senator RYAN—The Future Fund, BAF and EIF

Senator Sherry—I understand that. But is this in terms of the Future Fund and the specific legislation?

Senator RYAN—The Future Fund administers other pots of investments.

Senator Sherry—Yes.

Senator RYAN—I understand there has been a change in the definition of infrastructure to include a wider definition than was originally envisaged.

Ms Campbell—There has not been any change to the legislation or the definitions for the purposes of those funds. That has remained the same. The government did decide as part of the budget to change some of the allocations to the fund in order to fund the clean energy initiatives. Maybe that is what you are thinking of.

Senator RYAN—That could be it.

Senator Sherry—We had a conversation earlier this afternoon about those issues.

Senator RYAN—I will check the transcript. I am sorry; I could not be here all day. Finally, apart from increasing competition between governments across the globe for funds—which will potentially, as you mentioned earlier, push up the price for those funds—do you see that as impacting on the price for corporate funds and other things which would probably always have a slightly higher margin than government securities?

Mr Costello—That is generally true but of course corporates are finding that, relative to the price of trying to attract funding only a short time period ago, it is cheaper to attract that funding now. So I think there are these long-term factors but corporates right now are able to access funding where half a year ago, as I mentioned before, credit markets had essentially frozen and the price was very high if they were able to access it. So I think there is a range of factors and we are in the middle of a process that is developing and unfolding. We are an avid student of that and we are trying to really work out the direction of those pricing pressures. But I think as a general statement you would have to say that governments are always able to borrow cheaper than any other entity so it would be logical to state that corporates would by definition need to pay more than government to attract funds from a lender.

Senator RYAN—So is it then fair to follow on from that and come to the conclusion that substantial government borrowings have an impact on interest rates—on the price of money—for all others?

Mr Costello—I think that statement is correct generally speaking.

Senator RYAN—I am sure every homeowner in Australia will be interested in that.

Senator Sherry—But interest and interest rates have declined significantly in the last year to 18 months.

Senator RYAN—But \$3 billion a week is going to have an impact.

Senator Sherry—I am trying to think back when I can last remember interest rates being as low as they are now.

Senator BERNARDI—Fixed interest rates have gone up one per cent in the last couple of weeks.

Senator Sherry—Housing interest rates are determined by a range of factors.

Senator RYAN—I appreciate that, Senator Sherry. As there is this potentially impact on the price of money more broadly, both in Australia and around the globe, do you think that

increases the risk of investments? If corporates and a lot of other people in the debt market are effectively then paying higher prices for money does that increase the riskiness of investments that you would undertake because paying 10 per cent is going to make a big difference compared to if a business had to pay six per cent for a property investment? Does that concern you in terms of increasing the risk of investment?

Mr Costello—To my mind that does not naturally follow. The riskiness is about repayment and the same testing of the ability of an organisation to repay its debt applies. So because money is priced higher I think perhaps your point is that that puts more strain on the operating pressures of an organisation and potentially that increases risk. I think that is a logical sequence of events but per se I would not concur with that.

Senator BERNARDI—Would Senator Cameron like to go next for his questioning.

Senator CAMERON—No, I am happy to hear what you have got to say. Maybe I will get some idea of where you can stand on hedge funds and stuff.

Senator BERNARDI—As long as you do not interrupt me, Senator Cameron, we should get through this quite well.

Senator CAMERON—I cannot guarantee that. It depends how sensibly you behave.

Senator BERNARDI—Well, courtesy is contagious—just remember that. Mr Costello, the Future Fund identifies target returns over the long term. What is the current target return?

Mr Costello—The target return is set by the government in the mandate. As we discussed before, that has never changed. The government's objective—what that is described as is the benchmark return for the board—is over the long term. That is not defined in the mandate, but it has been generally accepted that is over rolling 10-year periods over the long term to produce a rate of return of at least CPI plus 4½ per cent. The benchmark is expressed as a rate of and is return of CPI plus 4½ to 5½ per cent. So, by extension, the minimum return is CPI plus 4½ per cent. Our own program is targeting a return higher than that, so we are working towards a portfolio that will produce a return higher than that. But I think the best answer to your question is that it is the benchmark return that the government sets for the board.

Senator BERNARDI—I did not phrase my question correctly and I apologise for that, because we have asked questions about the benchmark return previously. My question was about your internal goals, I guess. You said that you have set it higher than what the government requirements are. Are you willing to share with me what your aim is?

Mr Costello—We are trying to build a program that will deliver a return of at least the benchmark return. Much of our modelling suggests that we should be able to build a portfolio of around inflation plus six per cent. We would note, however, that the benchmark return is an ambitious target in itself. Many institutions around the world have been struggling over the long term to achieve a real return of 4½ to 5½ per cent. We do not for a moment diminish the challenge in the benchmark, but we do believe—given the nature of our mandate, the length of time in which we are able to deliver it and the flexibility that the government has given us to be able to structure a program—that our present modelling would suggest a portfolio providing a real return of around six per cent or perhaps 6½ per cent.

Senator BERNARDI—Which would be an ambitious return for a cautious investor.

Mr Costello—In terms of risk, the government guidelines require us to take acceptable but not excessive risks, so I think that that is an absolutely correct statement. The assistance that we have in trying to achieve a higher return without taking excessive risk is the clarity around the time frame and the fact that under the Future Fund guidelines there are no expected withdrawals until 2020, which are limited thereafter. The fact that we have got clarity around time frames is a great contributor to our ability to achieve a higher return without taking excessive risks.

Senator BERNARDI—Is there any allowance in the Future Fund for investment in private equity or similar vehicles?

Mr Costello—Private equity is part of our program. There are very few guidelines given to the board about what is allowed and what is not. There is certainly no express statement about private equity in the guidelines at all, just as there are no guidelines about other sectors. Our own program already includes a private equity component and we expect that to grow modestly during the life of this program. As you would perhaps be aware, it is a field where commitments are made early. It is many years before those are drawn down and many more years before the return comes in. So we are working now to put in place a program that will start to really show up in the portfolio over the next five years.

Senator BERNARDI—Can we just go back for a moment to the returns—CPI plus 4½ or six per cent. The key determinants of CPI are, of course, increases in prices, which are affected by increases in money injected into the economy. Is that a fair statement?

Mr Costello—That is a correct statement.

Senator BERNARDI—Have you done any internal modelling or made any assumptions because of the stimulus packages that have been applied to the economy and the expected injection of funds from the government over the next three or four years? Have you done any modelling on how that is going to impact on the CPI?

Mr Costello—No. We have done a lot of thinking about what might happen with inflation around the world and in Australia because we have to think about how we price assets, particularly when we are trying to buy assets that have an inflation protection component. A great deal is written and said about the deflationary pressures at play in the world at the moment and the potential for inflationary pressures in the future. It is certainly true that we think a great deal about that, and we talk about that a lot. In terms of the specific impact of the effect of the stimulus package in the Australian context, I would not be able to give you a precise view about our expectations on that.

Senator BERNARDI—You said that you make forecasts on where you expect inflation to go, and if you are going to buy a 10-year bond, for example, or any other asset over that time, it goes to the pricing of the asset. What does the Future Fund expect inflation to do over the next five or 10 years? You probably have an expectation for every year.

Mr Costello—We are materially guided by the Reserve Bank's guidelines in terms of where it wants to see inflation in this market. So our very long-term assumption about inflation is completely in line with the guidelines of the Reserve Bank—that is, between two and three per cent. Our internal modelling does not suggest inflation emerging in the near future. There is a range of views on whether we will start to see inflation coming through

much stronger globally beyond the next few years. From our perspective, the views for and against that are equally strong.

Senator BERNARDI—A two-headed economist! I understand your position exactly: you can make a strong argument either way.

Mr Costello—We are presently using a long-term assumption as we continue to debate and review the Reserve Bank guidelines about where inflation should be sitting in the Australian context—and we are using 2½ per cent for our modelling.

Senator BERNARDI—Outside of the CPI, what are the key inputs for achieving a 4.5 per cent or six per cent return?

Mr Costello—One thing we spend a lot of time thinking about is how consumers both in this country and around the world are likely to be affected by the next few years. There are supports that consumers are being given in a range of ways against the longer term pressure on households. A lot of our work is trying to consider how consumers around the world, and particularly in the United States, will respond to events. We see that as a major driver to growth in a lot of areas. That feeds all the way through to equity markets in other countries and the transportation of goods and services around the world. We are looking at the impact of recent events on consumers and how quickly they will emerge from that and we will start to see household consumption rising again.

Senator BERNARDI—So the return is going to depend on economic growth.

Mr Costello—Yes. That is largely in the corporates, and then there is the flow-through. For us it is a case of estimating what will happen to global economic growth, when we will start to see it pick up again and at what rate—will it come back at the kind of growth we have seen in recent times, or will it settle at a different level?

Senator BERNARDI—At the risk of suggesting that the Future Fund is using funds for not doing much, with the Treasury's forecast of 4.5 per cent growth in Australia for, I think eight or more successive years, it should not be too hard to achieve your mandate.

Mr Costello—Certainly if we see growth at those levels that will be of great assistance in achieving those guidelines.

Senator BERNARDI—It would be a no-brainer.

Mr Costello—Remember, this is a real return target so—

Senator BERNARDI—Yes, and as an investor one would presume that inflation would normally take care of the growth in your asset price and there would be growth in the asset as well economic growth.

Mr Costello—Certainly, if we are seeing growth at 4½ per cent and we can fully access that and we can do that in a way which does not expose the Future Fund to excessive risk then that will enable us to achieve the guidelines that the government has set for us, which will help it, in turn, meet its targets for the Future Fund—which is about funding pensions.

Senator BERNARDI—You say that, but as an investment professional, and someone who is in charge of the largest fund in the country, I think, have you done any modelling on whether such rates of growth for such a sustained period of time are realistic?

Mr Costello—No.

Senator BERNARDI—So are you just relying on Treasury?

Mr Costello—No, we are relying on our assumptions about where we think, globally, growth will be and how we might access that in a diversified way to manage the risk around it.

Senator BERNARDI—Where do you think growth will be?

Senator Sherry—I think this is starting to drift, very definitely, into issues for Treasury.

Senator BERNARDI—No, this is about the Future Fund's assessment of their investments going forward.

Senator Sherry—Well, they can comment about the assessment of their investments but you are getting into broader economic issues which are for Treasury.

Senator BERNARDI—No, Mr Costello said that this is what they are concerned with. There is nothing to be scared of here. This is just about the Future Fund and their plans and how we are going to accommodate it.

Senator Sherry—I know what it is about.

Senator BERNARDI—Are you afraid of this, Senator Sherry?

Senator Sherry—No. Despite your bland little questioning—

Senator BERNARDI—It is not bland. I find it quite interesting. Mr Costello finds it interesting, I am sure.

Senator Sherry—Well, they come through me. This is a question, drifting into issues for Treasury, about the economic forecasts contained in the budget.

Senator BERNARDI—Are you instructing Mr Costello not to—

Senator Sherry—No, I am just indicating to you—I am not instructing him—that responses come through me. And I am just indicating that the questioning is drifting into issues for Treasury.

Senator BERNARDI—So you are not allowing me to ask Mr Costello about—

Senator Sherry—You continue but I am just indicating where I think this is drifting to, and I think it is inappropriate.

Senator JACINTA COLLINS—There is a standing order about tedious repetition.

CHAIR—Senator Bernardi, you have the call. Do you have a question?

Senator BERNARDI—Mr Costello, you have made some assumptions in your planning process about where global economic growth is expected to go over the next decade or so. Is that correct?

Mr Costello—A decade is a long time. We have certainly tried to form a view about where economic growth might go over the medium term, and then where it might settle in the longer term. They are assumptions that we put into our model.

Senator BERNARDI—Could you please tell me the assumptions, over the longer term, that you put into your model about global economic growth?

Mr Costello—Because of the sensitivity of the answer to that I would like to take that on notice. I appreciate—

Senator BERNARDI—Do not be intimidated by Senator Sherry, please.

Senator CAMERON—Neither are they intimidated by you.

Senator BERNARDI—The Scottish voice!

Mr Costello—I cannot give you the answer to that question now. I need to—

Senator BERNARDI—You are unwilling to or you cannot?

Mr Costello—I cannot.

Senator Sherry—Take it on notice. We are happy to take it on notice.

Senator BERNARDI—You would surely be familiar with the short-term economic growth forecasts.

Mr Costello—What I can say, certainly, is that we see challenges to growth in the near term.

Senator BERNARDI—How do you define ‘the near term’?

Mr Costello—Particularly over the next three years in a global context, which is the context in which we think about our portfolio.

Senator BERNARDI—Mr Costello, you have taken a question on notice. I ask you to provide me with as much information as you can in your economic analysis of global growth as it relates to your investment expectations and returns.

Mr Costello—Certainly.

Senator BERNARDI—And do not be intimidated by Senator Sherry.

Senator CAMERON—Mr Costello, I want to try and clarify some issues for anyone who may be listening in and may be concerned about the competence of the management of the Future Fund, given the tenor of the questions from Senator Ryan. You have had long both domestic and international experience in managing superannuation funds, haven’t you?

Mr Costello—Yes.

Senator CAMERON—The board of guardians—it sounds like something out of *Star Wars*—is a very experienced group of people?

Mr Costello—Yes.

Senator CAMERON—Chaired by David Murray, the former CEO of the Commonwealth Bank?

Mr Costello—Correct.

Senator CAMERON—The *Future Fund: statement of investment policies* is on your website, and that guides your investment. You have investment mandate directions as part of your statement of investment policies, which was broadly laid out in May 2006?

Mr Costello—That is correct.

Senator CAMERON—That is about benchmarking the return, the limit and the holdings on listed companies, the impact for investment strategy on the local market and international best practice and corporate governance. Do you still follow all of those guidelines in terms of your investment?

Mr Costello—We do.

Senator CAMERON—And you have a mission statement with defined strategic management policies and proper governance policies for this fund?

Mr Costello—Yes.

Senator CAMERON—No-one would need to have any worries about the competence and effectiveness of both the management and the board of guardians, would they?

Mr Costello—That is for others to judge, but I would hope that they would not.

Senator CAMERON—Thanks very much.

CHAIR—Thank you very much, Mr Costello, and the other officers at the table. Thank you, Minister.

Committee adjourned at 9.37 pm