

# Chapter 2

## Review of selected reports

2.1 The committee has selected the annual reports of the following bodies for closer examination:

- Department of Industry, Innovation and Science, including the reports of Geoscience Australia and IP Australia;
- Northern Australia Infrastructure Facility;
- Department of the Treasury;
- Australian Bureau of Statistics; and
- Australian Competition and Consumer Commission.

### **Department of Industry, Innovation and Science**

#### *Secretary's review*

2.2 The 2016–17 annual report of the Department of Industry, Innovation and Science (the department) was prepared under the leadership of the Secretary, Ms Glenys Beauchamp PSM. As in previous years, this document includes the annual reports of Geoscience Australia and IP Australia, non-corporate Commonwealth entities within the Industry portfolio.

2.3 In her review, the Secretary highlighted a number of the department's achievements in 2016–17, including significant progress in implementing the National Innovation and Science Agenda (NISA). This was a key initiative of the Australian Government to help 'deliver new sources of growth, create high-wage jobs and improve Australia's competitiveness'. In particular, the NISA developed:

- The \$500 million Biomedical Translation Fund and \$200 million CSIRO Innovation Fund which are now up and running, supporting the commercialisation of innovative ideas.
- The new Australian Cyber Security Growth Centre which is helping the nation to capitalise on the growing global cyber security market and complementing the work of the existing Industry Growth Centres.
- The Business Research and Innovation Initiative which is linking entrepreneurs to government procurement processes and giving them funding to create new products.<sup>1</sup>

2.4 Then Minister the Hon. Arthur Sinodinos AO delivered a National Science Statement which provided a long-term vision for the future of science in Australia. Other significant projects highlighted included the Advanced Manufacturing Fund, and finalisation of the design of the Australian Domestic Gas Security Mechanism.

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1 Department of Industry, Innovation and Science, *Annual Report 2016–17*, p. 3.

2.5 The Secretary also noted the establishment of the Northern Australia Infrastructure Facility, whose report will be examined later in this chapter.

### ***Annual performance statements***

2.6 The department had two significant changes to its program structure in 2016–17. Firstly, as a result of amendments to the Administrative Arrangements Orders on 19 July 2016 and 1 September 2016, the department's responsibility for program 2.5 Energy was transferred to the Department of the Environment and Energy. The second change was the addition of the Northern Australia Infrastructure Facility (NAIF) to program 2.6 *Northern Australia Infrastructure Facility*.<sup>2</sup>

2.7 The committee notes that the department has now delivered seven out of the 24 measures set out in the NISA. The initiatives implemented included support for: commercialisation and entrepreneurship; international science and innovation engagement; Science, Technology, Engineering and Mathematics (STEM) capability and access; critical research infrastructure; and the establishment of Innovation and Science Australia to guide long-term strategy and investment.<sup>3</sup>

2.8 Program 2 is the department's most extensive program covering performance across 5 sub-programs. The analysis provided in the annual report is comprehensive without being excessive. The department summarised its performance with the following statement:

Measured by the performance criteria set out against the intended results, steady progress has been recorded in recent years towards the achievement of Purpose 2, particularly with regard to growing foreign direct investment and increasing early-stage entrepreneurship activity. However, annual business investment has been falling since 2013–14, driven by the winding back of mining investment.<sup>4</sup>

2.9 The delivery of *Program 3: Simplifying doing business* involves facilitating competition and innovation by making it easier for businesses to interact with government as well as reducing the cost of doing business.<sup>5</sup> Since the introduction of the government's Regulatory Reform Agenda in October 2013, the department has contributed an estimated \$496.74 million in net regulatory savings.<sup>6</sup>

### ***Financial performance***

2.10 The annual report clearly sets out the department's expenditure and revenue. The department recorded a loss of \$4.8 million for the 2016–17 reporting period. Including depreciation and amortisation, the department recorded a total loss of \$45.1 million. The committee notes that this is a less significant loss than in the

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2 Department of Industry, Innovation and Science, *Annual Report 2016–17*, p. 9.

3 Department of Industry, Innovation and Science, *Annual Report 2016–17*, p. 16.

4 Department of Industry, Innovation and Science, *Annual Report 2016–17*, p. 34.

5 Department of Industry, Innovation and Science, *Annual Report 2016–17*, p. 35.

6 Department of Industry, Innovation and Science, *Annual Report 2016–17*, p. 38.

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previous financial year, and that despite this loss, the department is still able to meet its financial obligations as and when they fall due.<sup>7</sup> The department did not offer any explanation or discussion of the \$4.8 million loss.

2.11 The department's revenue is largely generated through three sources: royalty revenue (\$950.1 million); levy receipts generated by NOPSEMA (\$34.6 million); and registration fees generated by NOPTA (\$15.2 million)—totalling nearly \$1 billion in revenue for the reporting period 2016–17.<sup>8</sup>

### ***Conclusions***

2.12 This will be Ms Beauchamp's final report for the Department of Industry, Innovation and Science, as she became the Secretary of the Department of Health on 18 September 2017. The new Secretary of the department is Dr Heather Smith PSM. Dr Smith was previously Secretary of the Department of Communications and the Arts.

2.13 The committee considers that the department's annual report for the 2016–17 reporting period is apparently satisfactory.

## **Northern Australia Infrastructure Facility**

### ***Establishment of the NAIF***

2.14 The NAIF was established under the *Northern Australia Infrastructure Facility Act 2016* (NAIF Act) in July 2016. The NAIF is a corporate Commonwealth entity under the PGPA Act and is an agency within the Industry, Innovation and Science portfolio.

2.15 The responsible minister for the NAIF is the Minister for Resources and Northern Australia. The NAIF legislative framework and governance model aims to balance the need to operate within commercial financial markets with public interest and accountability.

2.16 The objective of the NAIF is to provide grants of financial assistance to the states and territories for the construction of Northern Australia economic infrastructure. The NAIF will act in partnership with relevant state and territory governments, as well as private financiers who will provide the majority of financial support, to increase investment in infrastructure in Northern Australia.<sup>9</sup>

### ***Annual report 2016–17***

2.17 This is the first annual report from the NAIF. Annual reports must provide certain details, in accordance with the PGPA Act, about the operations and governance of a body for scrutiny by the Parliament.

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7 Department of Industry, Innovation and Science, *Annual Report 2016–17*, p. 41.

8 Department of Industry, Innovation and Science, *Annual Report 2016–17*, p. 41.

9 Explanatory Memorandum, p. 4.

2.18 In their review of the NAIF's first 12 months in operation, the Chair, Ms Sharon Warburton, and CEO, Ms Laurie Walker, provided a generalised account of the NAIF's activities for 2016–17:

As at 30 June 2017, NAIF had received 124 enquiries (50 of which were active) relating to its potential participation in infrastructure projects. At the time of writing, nine project (15 per cent of active enquiries) are in due diligence. The active projects span across port, airport, road, rail, energy, pipeline, telecommunication and water related infrastructure. They also include infrastructure components of broader projects. Projects are diversified across all northern Australia jurisdictions of the Northern Territory, Queensland and Western Australia. NAIF has worked constructively with those key stakeholders in pursuit of shared objectives.<sup>10</sup>

2.19 The NAIF's Investment Mandate stipulates at subsection 17(1) that the NAIF must have regard to 'Australian best practice corporate governance for Commercial Financiers, when performing its functions'.<sup>11</sup> This requirement has led the NAIF to develop a confidentiality policy which states that NAIF's activities are subject to commercial-in confidence, and therefore, cannot be fully disclosed to the public. This has caused some misconceptions about the NAIF and its decision making processes.

2.20 In particular, the NAIF came under a significant amount of public scrutiny during the 2016–17 period over whether or not it intended to approve a loan for the Adani Group to finance the construction of a railway line from the Carmichael mine to the Abbot Point port in Queensland.

2.21 The governance and operation of the NAIF is currently the subject of an inquiry by the Economics References Committee.

### ***Annual performance statement***

2.22 The NAIF's Annual Performance Statement includes two criteria: establishment of sound governance framework; and development of potential investment proposal pipeline having regard to a preference for diversification including by industry and geographic spread.<sup>12</sup>

2.23 In meeting the first performance criterion, NAIF has worked with the Export Finance Insurance Corporation (Efic) to establish an appropriate governance framework and has published a suite of corporate governance policies on its website.

2.24 The second performance criterion is less tangible and relies on the stability of the governance framework established to ensure that the NAIF and its Board are meeting this performance criterion.

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10 Northern Australia Infrastructure Facility, *Annual Report 2016/2017*, p. 2.

11 Subsection 17(1), Northern Australia Infrastructure Facility Investment Mandate Direction 2016.

12 Northern Australia Infrastructure Facility, *Annual Report 2016–17*, pp. 14–15.

2.25 The nature of the NAIF's work and its requirement for commercial confidentiality to be maintained at all stages of a project make it difficult to determine precisely how the NAIF is meeting its performance targets.

### ***Conclusions***

2.26 The NAIF 2016–17 annual report fulfils its requirements under the PGPA Act. However, the report also appears to adhere to the NAIF's commercial-in-confidence policy and therefore does not disclose any detail beyond what is currently available on the NAIF's website.

2.27 The committee looks forward to the release of the NAIF's 2017–18 annual report after September 2018, which may provide more detail given the establishment of a comprehensive 2017–18 corporate plan and the financial close of its first project, the Onslow Marine Support Base, in September 2017. The finalisation of this first project should begin to enable the Parliament to better examine how the NAIF is undertaking its role and whether its governance structures are adequate.

## **Department of the Treasury**

### ***Secretary's review***

2.28 The Department of the Treasury's (Treasury) annual report for 2016–17 begins with a review of the reporting period by the Treasury Secretary, Mr John Fraser. Mr Fraser commented that Treasury is moving towards becoming a more 'outward-looking organisation', and that the way Treasury operates is evolving. An embodiment of this evolution is the creation of a new Group within Treasury: the Structural Reform Group.<sup>13</sup>

2.29 The Structural Reform Group was created in March 2017 and is designed to 'undertake deeper analysis on the challenges and opportunities facing our industries, cities and regions.'<sup>14</sup> The Group is led by Ms Meghan Quinn, previously the head of the Financial System Division in Treasury's Markets Group.

2.30 The Structural Reform Group is responsible for policy relating to competition, industry, infrastructure, regional development, energy, environment, communications, transport, workplace relations and regulatory reform.<sup>15</sup>

2.31 Mr Fraser also noted Treasury's work in implementing recommendations from the 2014 Financial System Inquiry (FSI). The committee notes that it has conducted a number of bill inquiries into the legislation developed in response to these recommendations during the 2016–17 financial year.

2.32 Mr Fraser also highlighted a new Treasury branch in Perth. Noting the significance of this step:

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13 The Treasury, *Annual Report 2016–17*, p. 3.

14 The Treasury, *Annual Report 2016–17*, p. 3.

15 The Treasury website, <https://treasury.gov.au/the-department/about-treasury/our-executive/> (accessed 14 March 2018).

Having a presence in Western Australia means we can foster closer ties with local stakeholders and attract talent from the private sector. This is part of our focus on broadening our horizons. We need to engage widely with different industries and regions to gauge better how the economy is running.<sup>16</sup>

2.33 Finally, Mr Fraser noted another development: the establishment of a Critical Infrastructure Centre within the Attorney-General's Department. This new body would complement the work of the Foreign Investment Review Board which sits within Treasury. Its purpose is:

...to advise on the national security risks to Australia's critical infrastructure with an initial focus on water, ports, electricity and telecommunications sectors. The Centre's advice will complement existing FIRB processes in scrutinising foreign involvement in these important assets.<sup>17</sup>

### ***Annual performance statements***

2.34 With the creation of the Structural Reform Group, Treasury now has six Groups which contribute to the delivery of its main outcome:

Informed decisions on the development and implementation of policies to improve the wellbeing of the Australian people, including by achieving strong, sustainable economic growth, through the provision of advice to government and the efficient administration of federal financial relations.<sup>18</sup>

2.35 The Treasury continues to assess its performance through three 'purposes' as set out in its Corporate Plan for 2016–17: promoting fiscal sustainability; increasing productivity and workforce participation; and securing the benefits of global economic integration.<sup>19</sup>

### ***Financial performance***

2.36 Treasury's annual report provided the following summary of its financial performance for 2016–17:

The Treasury has a sound financial position, with sufficient cash reserves to fund its debts as and when they fall due. After adjusting for depreciation and amortisation and changes in asset revaluation reserves, the Treasury reported an operating surplus of \$3.3 million in 2016–17, which was driven by underspends by boards/panels and one-off activities. This compares with an operating deficit of \$2.9 million in 2015–16 after adjusting for depreciation and amortisation and changes in asset revaluation reserves. The Treasury's administered expenses in 2016–17 were \$94.5 billion, compared with \$88.0 billion in 2015–16.<sup>20</sup>

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16 The Treasury, *Annual Report 2016–17*, p. 4.

17 The Treasury, *Annual Report 2016–17*, p. 4.

18 The Treasury, *Annual Report 2016–17*, p. 5.

19 The Treasury, *Annual Report 2016–17*, p. 14.

20 The Treasury, *Annual Report 2016–17*, p. 8.

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## **Conclusions**

2.37 The committee considers that Treasury's annual report for the 2016–17 reporting period is apparently satisfactory.

### **Australian Bureau of Statistics**

2.38 The Australian Bureau of Statistics (ABS) is led by Mr David Kalisch, the Australian Statistician. In his review of 2016–17, Mr Kalisch provided a comprehensive summary of the agency's activities during the reporting period.

#### **2016 Census**

2.39 In particular, Mr Kalisch commented on the 2016 Census, which took place on 19 August 2016. He acknowledged the Census outage and the difficulties that it presented to the ABS. However, Mr Kalisch also noted that, despite the technical issues, the 2016 Census was successful in collecting all of the data required.

2.40 Mr Kalisch highlighted the following participation rates:

The headline indicators for the success of the 2016 Census were an overall response rate of 95.1%; an online response rate of 63.3% (up from 37.9% in 2011) and a net undercount of 1.0% (down from 1.7% in the 2011 Census).<sup>21</sup>

2.41 The 2016 Census was the subject of three separate reviews:

- *Review of the Events Surrounding the 2016 eCensus*, by Alastair MacGibbon, Special Adviser to the Prime Minister on Cyber Security, 13 October 2016;
- Senate Economics References Committee inquiry into the 2016 Census, report—*2016 Census: issues of trust*, tabled 24 November 2016; and
- *Report on the Quality of 2016 Census Data*, by an Independent Assurance Panel, released in June 2017.

2.42 Mr Kalisch noted that in assessing the quality of 2016 Census data, the Independent Assurance Panel said that:

While challenges were experienced and should be addressed for the 2021 Census, the changed approach led to a more efficient, effective and modern Census operation. The Panel strongly supports the changed approach to the Census and its further refinement in order to secure a high quality and financially sustainable Census into the future.<sup>22</sup>

2.43 He also commented that the ABS has almost completed implementing the recommendations of Alastair MacGibbon's review, noting that the review helped to provide 'impetus to accelerate reform and help us address key issues of importance to both the Government and the broader community'.<sup>23</sup>

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21 Australian Bureau of Statistics, *Annual Report 2016–17*, p. 3.

22 Australian Bureau of Statistics, *Annual Report 2016–17*, p. 3.

23 Australian Bureau of Statistics, *Annual Report 2016–17*, p. 3.

2.44 The Government Response to the Senate inquiry was received in February 2017. Of the 16 recommendations made by the committee, the government indicated that it agreed or noted all except three recommendations.<sup>24</sup>

2.45 Mr Kalisch concluded his comments on the 2016 Census, stating that:

Many of the things we have learned from the 2016 Census, alongside international developments, are contributing to reformed governance arrangements, strategy and practices as we start to prepare for the 2021 Census. We have also used the opportunity to take stock and embed new dimensions into our communication, cultural change program, training, policies and procedures.<sup>25</sup>

### ***ABS transformation agenda***

2.46 Mr Kalisch's review also detailed the progress the ABS has made as part of its transformation agenda. The transformation, which began in 2014–15, is modernising the infrastructure through its Statistical Business Transformation Program (SBTP) with a \$257 million investment. In the past 12 months, the ABS reported it has:

- developed a new stakeholder and relationship management plan to enable better and more consistent collaboration and support to our key stakeholders and government;
- delivered key foundational infrastructure that will underpin improvements to our statistical systems as part of SBTP; and
- developed and begun to implement a cultural enhancement strategy that will lead to better engagement with our staff and improve our ability to harness their abilities, capacity and diversity.<sup>26</sup>

### ***Financial performance***

2.47 The ABS' annual report indicates that a 'discussion and analysis of the entity's financial performance' as required by PGPA rule 17AF(1)(a) is located in three different sections of the report: pp. 2–11; pp. 84–85 and pp. 86–113.

2.48 The committee notes that the information on pages 84–85 and 86–113 fulfils PGPA rules 17AF(1)(b)—a table summarising the total resources and total payments of the entity, and 17AD(e)—the entity's financial statements.

2.49 The information on pages 2–11 is the Australian Statistician's review, and contains very little information on the ABS' financial performance in 2016–17. The review indicates that the ABS has been operating with 'declining operating resources, fragile operating systems [and] expanding information demands'. It does not give any

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24 *Australian Government response to the Senate Economics References Committee report: 2016 Census: issues of trust*, February 2017, [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Economics/2016Census/Government\\_Response](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/2016Census/Government_Response) (accessed 15 March 2018).

25 Australian Bureau of Statistics, *Annual Report 2016–17*, p. 3.

26 Australian Bureau of Statistics, *Annual Report 2016–17*, p. 6.



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analysis relating to the ABS' revenue or expenditure or how this compares with the previous financial year.

2.50 The committee encourages the ABS to provide a more detailed discussion of the its financial performance in future annual reports to fulfil its obligations under PGPA rule 17AF(1)(a).

### ***Conclusions***

2.51 The committee considers that the ABS' annual report for the 2016–17 reporting period is apparently satisfactory.

### **Australian Competition and Consumer Commission**

2.52 The annual report of the Australian Competition and Consumer Commission (ACCC) also includes the annual report of the Australian Energy Regulator (AER). However, this section of the report will focus only on the 2016–17 activities of the ACCC.

2.53 In his review, the ACCC Chair, Mr Rod Sims, stated that 'this has been an amazing year'.<sup>27</sup> He pointed to a number of examples; including, the ACCC's first criminal cartel prosecution, winning two cases in the High Court, and several cases against large companies for misleading consumers. Mr Sims also noted the high-profile product safety matters they have dealt with including the mandatory recall of Infinity cables and the voluntary Thermomix recall.

2.54 Mr Sims commented that the ACCC has received more work from the Australian Government:

The Government has directed us to conduct inquiries into the competitiveness, trading practices, and transparency of the Australian dairy industry; residential mortgage products; Northern Australia insurance; the supply of retail electricity and the competitiveness of retail electricity prices; and the supply of and demand for wholesale gas in Australia, as well as to publish regular information on the supply and pricing of gas for three years.<sup>28</sup>

2.55 Mr Sims indicated that while these inquiries are a great compliment to the ACCC, 'they will both stretch and test us'.<sup>29</sup>

### ***Annual performance statements***

2.56 The ACCC's purpose is 'to make markets work for consumers now and in the future':

The ACCC works to enhance the welfare of the Australian community by fostering competitive, efficient, fair and informed Australian markets. Its aim is to bring greater competitiveness and fair trading to the Australian

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27 Australian Competition and Consumer Commission, *Annual Report 2016–17*, p. 2.

28 Australian Competition and Consumer Commission, *Annual Report 2016–17*, p. 2.

29 Australian Competition and Consumer Commission, *Annual Report 2016–17*, p. 2.

economy, working on the fundamental principle that this benefits consumers, business and the wider community.<sup>30</sup>

2.57 It achieves this purpose guided by its outcome—'Lawful competition, consumer protection, and regulated infrastructure markets and services through regulation, including enforcement, education, price monitoring and determining the terms of access to infrastructure services'.<sup>31</sup>

2.58 In assessing its performance, the ACCC measures its achievements against four strategies:

- Strategy 1: Maintaining and promoting competition;
- Strategy 2: Protecting the interests and safety of consumers and supporting fair trading in markets affecting consumers and small business;
- Strategy 3: Promoting the economically efficient operation of, use of, and investment in infrastructure; and identifying market failure; and
- Strategy 4: Promote efficient investment in, and efficient operation and use of, energy services for the long-term interests of consumers with respect to price, quality, safety, reliability and security.<sup>32</sup>

2.59 A significant level of detail is provided in the ACCC's performance statements, including a section on 'factors affecting performance' and examples of how performance criteria have been met. The committee notes that this level of detail can be difficult for readers to work through. The ACCC could consider providing a high level summary of the agency's performance and then provide the more detailed information separately.

### ***Conclusions***

2.60 The committee considers that the ACCC's annual report for the 2016–17 reporting period is apparently satisfactory.

### **General comments**

#### ***Compliance index***

2.61 The committee notes the comments made on compliance indexes in its Report on Annual Reports No.1 of 2017, and notes that those agencies that had errors in their compliance indexes have rectified these issues.

2.62 The committee also notes, however, that in some reports, the compliance indexes continued to indicate large page ranges and, in some cases, whole chapters in which to locate specific information. The committee suggests that providing a more precise page range for each requirement will improve the overall accessibility of annual reports.

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30 Australian Competition and Consumer Commission, *Annual Report 2016–17*, p. 18.

31 Australian Competition and Consumer Commission, *Annual Report 2016–17*, p. 19.

32 Australian Competition and Consumer Commission, *Annual Report 2016–17*, pp. 25–26.

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2.63 The committee suggests that all agencies of the Industry, Innovation and Science and Treasury portfolios ensure that their compliance indexes are in line with PGPA Act and Rule requirements.

***Pro forma phrases***

2.64 The committee also notes that where the PGPA requirements prescribe a pro forma phrase to respond to certain compliance requirements, a number of annual reports failed to use the exact wording provided.

***Agencies without reports***

2.65 The committee notes the establishment of the Financial Adviser Standards and Ethics Authority on 11 April 2017. As the body was not established until near the end of the financial year, its first reporting period will be 2017–18.

2.66 The committee notes that the Corporations and Markets Advisory Committee (CAMAC) was abolished on 21 February 2018, when the *Statute Update (Smaller Government) Act 2018* received royal assent. The abolishment of CAMAC was originally announced in the 2014 Budget. CAMAC's final annual report was tabled in 2013–14.

***Presentation of consolidated reports***

2.67 The committee notes that in 2016–17, the Australian Accounting Standards Board and the Auditing and Assurance Standards Board have consolidated their annual reports into one publication.

***Apparently satisfactory***

2.68 As noted in Chapter 1, the committee finds that all reports of the Industry, Innovation and Science and Treasury portfolios for 2016–17 are apparently satisfactory.

**Senator Jane Hume**

**Chair**

