

## Chapter 2

### Annual reports of agencies

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

#### *Agriculture and Water Resources Portfolio*

- Department of Agriculture and Water Resources
- Australian Pesticides and Veterinary Medicines Authority

#### *Infrastructure and Regional Development portfolio*

- Department of Infrastructure and Regional Development
- Australian Transport Safety Bureau
- Airservices Australia

### **Agriculture and Water Resources Portfolio**

#### *Department of Agriculture and Water Resources—Annual Report 2015–16*

2.2 The Secretary's review outlined a broad range of the Department of Agriculture's (Agriculture) core activities. Some of these included:

- implementation of measures contained in the Agricultural Competitiveness White Paper;
- work on the country's free trade agreements in Asia;
- delivery of financial assistance through the Farm Household Allowance;
- water management improvements under the Murray–Darling Basin Plan and the Water Efficiency Labelling and Standards Scheme;<sup>1</sup> and
- the Rural Financial Counselling Service and concessional loans for those affected by drought.<sup>2</sup>

2.3 In 2015–16, Agriculture reported a \$19.6 million approved operating deficit, of which \$14.8 million related to unfunded depreciation and \$8.3 million related to movements in the government bond rate, some of which was absorbed by the department. The department's revenue increased by \$42 million from 2014–15 to \$749.3 million. This increase was largely attributed to additional revenue from government, with \$37.7 million for new measures from the Agricultural Competitiveness White Paper and the transfer of water resources functions from the Environment portfolio. Own source income also increased by \$4.3 million, mainly due

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1 Department of Agriculture and Water Resources, *Annual Report 2015–16*, pp. 2–5.

2 Department of Agriculture and Water Resources, *Annual Report 2015–16*, pp. 31–33.

to resources received free-of-charge for the Mickleham Post-Entry Quarantine Facility.<sup>3</sup>

2.4 Following the introduction of the *Biosecurity Act 2015*, the first stage of the department's new post-entry quarantine facility was opened. The purpose of the facility is to consolidate the department's post-entry quarantine operations across the country into one single site. Work on the second stage, which includes the construction of the avian and ruminant compounds, is due for completion in 2018.<sup>4</sup>

2.5 The report noted that in 2015–16 the department changed its program structure in the Portfolio Budget Statements to align its programs with a set of strategic objectives. The report presented 13 programs against eight objectives, with results assessed on a range of performance measures under each objective.<sup>5</sup> For strategic objective three—expanding agricultural, fisheries and forestry exports—the report noted rural exports were valued significantly higher (\$49.4 billion) than the ten year average (\$41.4 billion).<sup>6</sup>

2.6 In relation to external scrutiny, there were 21 parliamentary committee reports of relevance to Agriculture tabled over the review period. The Government responded to five parliamentary committee reports relevant to the department, including four of the Rural and Regional Affairs and Transport Legislation and References Committees.<sup>7</sup>

2.7 During the reporting period, the department received 72 requests for access under the *Freedom of Information Act 1982* (FOI Act), including five requests for internal review and two for external review. Two decisions of the department are currently before the Administrative Appeals Tribunal.<sup>8</sup>

2.8 The committee notes the department's inclusion of a correction to its previous 2014–15 annual report. The 2014–15 report referred to the reporting period as 30 June 2014 instead of 30 June 2015.<sup>9</sup>

2.9 The committee considers Agriculture's 2015–16 annual report to be well presented and concise and compliant with the reporting requirements.

### ***Australian Pesticides and Veterinary Medicines Authority—Annual Report 2015–16***

2.10 The Australian Pesticides and Veterinary Medicines Authority (APVMA) 2015–16 report provides details of the performance and operations of the agency. The Chief Executive Officer's review noted a range of activities undertaken including:

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3 Department of Agriculture and Water Resources, *Annual Report 2015–16*, pp. 89–92.

4 Department of Agriculture and Water Resources, *Annual Report 2015–16*, pp. 3, 63 and 74.

5 Department of Agriculture and Water Resources, *Annual Report 2015–16*, pp. 15–99.

6 Department of Agriculture and Water Resources, *Annual Report 2015–16*, p. 35.

7 Department of Agriculture and Water Resources, *Annual Report 2015–16*, pp. 110–113.

8 Department of Agriculture and Water Resources, *Annual Report 2015–16*, p. 113.

9 Department of Agriculture and Water Resources, *Annual Report 2015–2016*, p. 240.

- development of a risk assessment model in collaboration with the University of Melbourne's Centre of Excellence for Biosecurity Risk Analysis to reduce the regulatory burden for industry;
- improvements in assessment times;
- contribution to global harmonisation in agricultural and veterinary chemical regulation; and
- initiation of over 60 consultations with a range of stakeholders on matters related to APVMA's statutory requirements and standard setting policies.<sup>10</sup>

2.11 In relation to staffing matters, the report noted a total of 198 staff, including 182 full-time and part-time ongoing staff and 16 non-ongoing or casual staff. Of the 198 staff, 122 were female and 76 male, with no staff identified as Indigenous. All staff members except one were located in Canberra. The separation rate for ongoing staff increased from 8.8 per cent in 2014–15 to 18.7 per cent for the 2015–16 reporting period.<sup>11</sup>

2.12 In relation to performance against key performance indicators (KPIs), the APVMA's timeframe performance for applications for products, actives and permits finalised was 68 per cent within timeframe. Of 2545 applications finalised, 90.5 per cent were granted, approximately 2.8 per cent were refused and 6.7 per cent were withdrawn by applicants.<sup>12</sup> The report noted the percentage of applications completed within timeframes for 2015–16 was negatively affected by higher than expected unplanned staff leave. This contributed to backlogs for subsequent quarters.<sup>13</sup>

2.13 Regarding its compliance and monitoring performance, APVMA undertook all risk assessments on time. Of these risk assessments relating to allegations of non-compliance, 79 per cent of non-compliance cases were found to be low-risk, with resolution achieved through education and negotiated compliance.<sup>14</sup>

2.14 In 2015–16, APVMA reported an income of \$30.546 million, an increase of \$8.805 million from the previous year. The report noted APVMA's total expenses for 2015–16 were \$33.855 million, an increase of \$0.651 million from 2014–15. Its equity dropped to \$7.312 million in 2015–16, which was \$0.312 million above the nominal reserve of \$7 million.<sup>15</sup>

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10 Australian Pesticides and Veterinary Medicines Authority, *Annual Report 2015–16*, pp. ix–xi.

11 Australian Pesticides and Veterinary Medicines Authority, *Annual Report 2015–16*, p. 8.

12 Australian Pesticides and Veterinary Medicines Authority, *Annual Report 2015–16*, pp. 26–27.

13 Australian Pesticides and Veterinary Medicines Authority, *Annual Report 2015–16*, pp. 26–27.

14 Australian Pesticides and Veterinary Medicines Authority, *Annual Report 2015–16*, p. 41.

15 Australian Pesticides and Veterinary Medicines Authority, *Annual Report 2015–16*, pp. 4 and 52–53.

2.15 The committee considers the APVMA's 2015–16 report to be comprehensive and compliant with the reporting requirements.

## **Infrastructure and Regional Development Portfolio**

### ***Department of Infrastructure and Regional Development—Annual Report 2015–16***

2.16 The annual report of the Department of Infrastructure and Regional Development (Infrastructure) provided a comprehensive review of the department's work over the period 2015–16. Some of the department's activities included:

- collaboration with Qantas Airways and Virgin Australia to progress the introduction of biometric technology to security schemes in Australia;
- the development of policy and advice to the Australian Government on infrastructure and transport demands through the work of the Bureau of Infrastructure, Transport and Regional Economics; and
- administration of approximately \$5.4 billion in direct and indirect grants for construction and maintenance of land transport infrastructure (4932 projects completed during the reporting period).<sup>16</sup>

2.17 In regard to departmental finances, Infrastructure reported a surplus on continuing operations of \$8.9 million in 2015–16, which is slightly less than the \$9.9 million reported in the previous year. Total expenses decreased by \$5.2 million largely due to increased write-offs of assets in 2014–15. The total administered expenditure in 2015–16 amounted to \$7.3 billion. Of this, \$3.3 billion was appropriated directly to the department for grants, subsidies and other administered expenses.<sup>17</sup> The department noted that major expense items included the Infrastructure Investment Program, Local Government Financial Assistant Grants, the Infrastructure Growth Package, the Tasmanian Freight Equalisation Scheme, payments to corporate Commonwealth entities, Community Development Grants Fund, and Services to Indian Ocean Territories.<sup>18</sup>

2.18 The report contained 46 KPIs spread across eight programs. Of the 46, 43 were listed as 'achieved' meaning all milestones were 'met or exceeded' and three were listed as 'substantially achieved', meaning milestones were mostly met and any issues were being managed.<sup>19</sup> The three KPIs not fully achieved related to Outcome 3, Program 3.1 Regional Development;<sup>20</sup> Outcome 2, Program 2.4 Air Transport,<sup>21</sup> and Program 2.3 Road Safety.<sup>22</sup>

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16 Department of Infrastructure and Regional Development, *Annual Report 2015–16*, pp. 5–6.

17 Department of Infrastructure and Regional Development, *Annual Report 2015–16*, p. 7.

18 Department of Infrastructure and Regional Development, *Annual Report 2015–16*, p. 8.

19 Department of Infrastructure and Regional Development, *Annual Report 2015–16*, pp. 22–67.

20 Department of Infrastructure and Regional Development, *Annual Report 2015–16*, p. 58.

21 Department of Infrastructure and Regional Development, *Annual Report 2015–16*, p. 40.

22 Department of Infrastructure and Regional Development, *Annual Report 2015–16*, p. 38.

2.19 The committee commends Infrastructure on its annual report. The report provides a comprehensive overview of the department's purpose, program, outcome and divisional structure for each of the four portfolio areas—infrastructure, transport, regional development, and territories. Accordingly, information about performance, as measured against KPIs, was transparent and accessible.<sup>23</sup>

2.20 The committee considers Infrastructure's 2015–16 annual report to be well-presented and compliant with the reporting requirements.

### ***Australian Transport Safety Bureau – Annual Report 2015–16***

2.21 During the review period, the work of the Australian Transport Safety Bureau (ATSB) was conducted in an environment of continuing growth with ongoing changes to the aviation, rail and marine transport sectors. In light of successive reductions to ATSB's base appropriations, the Chief Commissioner and Chief Executive Officer reiterated the difficult environment in which ATSB operated. As a consequence of decreased funding, ATSB has reduced its core staffing by approximately 25 per cent since its establishment as an independent statutory authority in 2009.<sup>24</sup>

2.22 Notwithstanding these financial constraints, ATSB reported that it has continued to meet its targets in terms of the quality and quantity of investigation reports completed and published each year, although not within the published prescribed timeframes.<sup>25</sup>

2.23 In regards to ATSB's financial performance, the report noted a deficit of \$2.5 million for 2015–16, compared to a surplus of \$14.0 million for 2014–15. When depreciation and amortisation were excluded, ATSB reported an underlying deficit of \$1.6 million compared to a \$14.9 million surplus in 2014–15. In the absence of revenue for depreciation and amortisation, it is anticipated that ATSB (and other non-corporate entities) are more likely to deliver a deficit that will accumulate without adequate government capital injections. Accordingly, this will affect ATSB's underlying equity and asset capability going forward.<sup>26</sup>

2.24 The report contained a comprehensive assessment of ATSB's performance against the corporate plan and KPIs set out in the Portfolio Budget Statements 2015–16. Of the six KPIs, most had not been met, with only 29 per cent of complex investigation reports published within 12 months, which is well short of the 90 per cent benchmark. The 70 per cent benchmark for safety action undertaken by stakeholders to address safety concerns identified in confidential reports was not met with an outcome of 52 per cent.

2.25 ATSB attributed the late report completion times to fewer investigators having to take on a greater workload. To address the situation, ATSB noted that it would adopt the following steps: initially undertake fewer investigations; carefully

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23 Department of Infrastructure and Regional Development, *Annual Report 2015–16*, pp. 12–13.

24 Australian Transport Safety Bureau, *Annual Report 2015–16*, p. 2.

25 Australian Transport Safety Bureau, *Annual Report 2015–16*, p. 2.

26 Australian Transport Safety Bureau, *Annual Report 2015–16*, p. 46.

consider and constrain the scope of investigations initiated; and strengthen its management techniques for planning investigations, assigning resources and tracking resource commitment.<sup>27</sup>

2.26 The committee considers the ATSB's 2015–16 annual report to be a detailed account of the organisation's performance and is compliant with reporting requirements.

### ***Airservices Australia – Annual Report 2015–16***

2.27 The annual report of Airservices Australia (Airservices) outlined the agency's key activities, including:

- its transition to the use of satellites as the primary means of navigation;<sup>28</sup>
- implementation of the next generation of Automatic Dependent Surveillance Broadcast technology;<sup>29</sup>
- ongoing collaboration with the Department of Defence on the OneSky Australia Program;<sup>30</sup> and
- implementation of a new operating model under the Accelerate program.<sup>31</sup>

2.28 Both the Chair and Chief Executive Officer noted that 2015–16 was a financially challenging period for the agency. This was due to a difficult operating environment characterised by weak traffic growth and a slow domestic market following contraction in air traffic in 2014–15. Airservices also acknowledged it was slow to react in the aftermath of the mining boom which saw future growth flattened.<sup>32</sup>

2.29 The OneSKY Australia Program is an air traffic management system that aims to unify both civil and military airspaces under one management system. One benefit of the program is increased flexibility in airspace usage. In 2015–16 as part of OneSKY, contractual arrangements were initiated, including for the design and build of a software system.<sup>33</sup>

2.30 According to Airservices, the Accelerate Program will work alongside OneSKY to modernise Airservices' systems. Work that has already progressed on OneSky includes construction of equipment rooms in Melbourne and Brisbane, the

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27 Australian Transport Safety Bureau, *Annual Report 2015–16*, pp. 26–27.

28 Australian Transport Safety Bureau, *Annual Report 2015–16*, p. 25.

29 Airservices Australia, *Annual Report 2015–16*, p. ix

30 Airservices Australia, *Annual Report 2015–16*, pp. 98, 100 and 107.

31 Airservices Australia, *Annual Report 2015–16*, pp. vii–ix, 19, 28–29, 34, and 40.

32 Airservices Australia, *Annual Report 2015–16*, pp. vi–ix.

33 Airservices Australia, *Annual Report 2015–16*, pp. viii–ix, 34–35.

installation of digital tower technology in the Cold Coast control tower, and integration work on Adelaide and Cairns Terminal Control Units.<sup>34</sup>

2.31 The Accelerate program is part of Airservices' new operating model which commenced on 1 July 2016. Accelerate reduces costs through a combination of job cuts, a new operating model, and by overhauling technology systems and infrastructure.<sup>35</sup>

2.32 As part of implementing a new operating model, Airservices will reduce staffing numbers by 900 full-time equivalent staff. At the end of September 2016, 580 people had left Airservices and just over 700 were expected to depart by the end of 2016. By 30 June 2017, 900 staff will be gone, reducing total Airservices staff by 20 per cent.<sup>36</sup>

2.33 Airservices is expected to spend \$185 million on the Accelerate program of which \$105 million has been set aside for voluntary redundancies. The remainder will be spent on project implementation costs (\$35 million) and new technology (\$45 million).<sup>37</sup> In the 2015-16 financial year, \$151 million was spent on one off restructure costs and 'associated impairment of assets' of which \$126 million was spent on redundancies and other direct costs associated with Accelerate.<sup>38</sup>

2.34 The Accelerate program has been implemented in the context of poor financial performance. Airservices' profitability fell by 90 per cent, from \$45.5 million in 2013 to \$4.5 million in 2015.<sup>39</sup> For the financial year ending 30 June 2016, this figure reduced further to an underlying profit of \$1.8 million, with an overall after tax loss of \$127.3 million, the first financial loss for the organisation in nearly two decades.<sup>40</sup>

2.35 In its annual report, Airservices noted that the changes delivered under Accelerate will return Airservices to profitability in 2016–17. It is estimated that Accelerate will deliver \$155 million in annual savings from 1 July 2017.<sup>41</sup>

2.36 The committee considers Airservices Australia's 2015–16 annual report to be compliant with the reporting requirements.

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34 Airservices Australia, *Annual Report 2015–16*, p. 34.

35 'Airservices to cut 50 IT jobs, itnews, 31 October 2016, <http://www.itnews.com.au/news/airservices-to-cut-50-it-jobs-440455> (accessed 3 November 2016).

36 Address by Jason Harfield, CEO, Airservices Australia, RAAA, 21 October 2016, 'The new Airservices – supporting regional aviation', p. 7.

37 Mitchell Bingemann, 'Airservices Australia to slash staff by 20 per cent', *The Australian*, 26 August 2016.

38 Airservices Australia, *Annual Report 2015–16*, pp. 19 and 53.

39 Henry Belot, 'Staff at Airservices Australia fight for 600 voluntary redundancies in major restructure', *Canberra Times*, 4 July 2016.

40 Airservices Australia, *2015-16 Annual Report 2015–16*, pp. ix, 49 and 54.

41 Airservices, *Annual Report 2015–16*, pp. vii and 19.

2.37 It should be noted that the committee has closely followed the implementation of Accelerate since its inception.

2.38 The committee has raised its concerns about the potential long-term impact of Accelerate on air traffic operations and management directly with Airservices. While the committee acknowledges that front line services (including air traffic control and aviation rescue and firefighting services) are not directly affected by Accelerate, it is concerned about the cumulative effect of these changes on the culture of Airservices and its potential impact on public safety.<sup>42</sup>

2.39 The committee expects to continue its examination of the Accelerate program as part of its ongoing oversight of Airservices.

**Senator Barry O'Sullivan**

**Chair**

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42 Mr Jason Harfield, Airservices Australia, *Estimates Hansard*, 17 October 2016, p. 89.